



STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION



BRUCE KING
GOVERNOR
ANITA LOCKWOOD
CABINET SECRETARY

February 15, 1993

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87504
(505) 827-5800

Meridian Oil Inc.
P. O. Box 51810
Midland, Texas 79710-1810

Attn: Leslyn M. Swierc, CPL

Doyle Hartman - Oil Operator
P. O. Box 10426
Midland, Texas 79702

Attn: Patrick K. Worrell, Engineer

**RE: Rhodes Yates-Seven Rivers Gas Pool Development in
Sections 10 and 15, Township 26 South, Range 37 East,
NMPM, Lea County, New Mexico.**

Dear Ms. Swierc and Mr. Worrell:

Meridian's recent application for a non-standard 120-acre gas spacing and proration unit comprising the NE/4 NE/4 and S/2 NE/4 of said Section 15 to be dedicated to the proposed Gregory "B" Well No. 2 to be drilled in Unit A and all related correspondence to same has forced the Division to review past, current, and future development of the Rhodes Yates-Seven Rivers Gas Pool ("Rhodes Gas Pool") in both said Sections 10 and 15 quite extensively. Development in both sections are as follows:

- The 40-acre non-standard gas spacing unit comprising the SW/4 SW/4 (Unit M) of Section 10, approved by Division Administrative Order NSP-1292, is dedicated to Meridian's Rhodes GSU Well No. 9 in Unit M;
- the standard 160-acre unit comprising the NW/4 of Section 10 is dedicated to Meridian's Rhodes GSU Well No. 16 in Unit E;

- the N/2 S/2 of Section 10, being a non-standard 160-acre unit approved by Division Administrative Orders NSP-1292 and NSP-1292-A has been developed by Meridian's Bates Well No. 1 (well P&A'd February, 1988) in Unit L and Hartman attempted to develop the same acreage with its C. T. Bates Well No. 2 (well was P&A'd in January, 1991 after encountering a severe waterflow during drilling) also in Unit L;
- the standard 160-acre unit comprising the SW/4 of Section 15 is simultaneously dedicated to Meridian's Cagle "B" Well No. 1 in Unit L and Rhodes GSU Well No. 24 in Unit N (simultaneous dedication occurred prior to the Division's July 27, 1988 Memorandum);
- the standard 160-acre unit comprising the SE/4 of Section 15 is simultaneously dedicated (pre-1988 authorization) to Meridian's Rhodes GSU Well Nos. 8 and 25 in Units J and O, respectively; and,
- the 120-acre non-standard gas spacing unit comprising the NW/4 NW/4 and S/2 NW/4 of Section 15, approved by Division Administrative Order NSP-1292, is simultaneously dedicated (pre-1988 authorization) to Meridian's Gregory "B" Well No. 1 in Unit F and Rhodes GSU Well No. 7 in Unit F.

The Rhodes Yates-Seven Rivers Gas Pool is an unprorated gas pool spaced on standard statewide 160-acre units and is subject to the two Division Memorandums dated July 27, 1988 and August 3, 1990 (see attached), which disallows the simultaneous dedication in gas spacing units of more than one well in unprorated gas pools. It is the Division's opinion that said Memorandums reference to "proration units" equate to mean "standard gas proration units of standard size for the particular pool". The practice of operators forming non-standard spacing units in order to avoid the Division's simultaneous dedication policy is therefore prohibited. It should also be noted that forming non-standard spacing and proration units to avoid the compulsory pooling of acreage to form a standard sized unit, in most instances, is not considered just cause.

In this particular two section area, the undeveloped portions of the Rhodes Gas Pool consist of the NE/4 and NE/4 NW/4 of Section 15 and the NE/4, SE/4 SW/4, and S/2 SE/4 of Section 10. The NE/4 of Section 10 is a standard 160-acre unit and can therefore be developed without exception to the spacing rules, the remaining 320 acres comprising the SE/4 SW/4 and S/2 SE/4 of Section 10 and the NE/4 and NE/4 NW/4 of Section 15, however, will require a little ingenuity and jockeying of acreage to re-establish proper and prudent development of the Rhodes Gas Pool. The Division at this time will only consider authorization of the following:

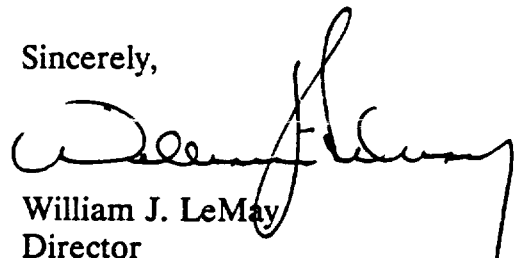
- the formation of a 160-acre non-standard gas spacing unit comprising the SE/4 SE/4 of Section 10 and the NE/4 NE/4 and S/2 NE/4 of Section 15 to be dedicated to Meridian's proposed Gregory "B" Well No. 2 to be drilled at a standard gas well location 990 feet from the South line and 660 feet from the East line (Unit A) of said Section 15; and,
- the remaining 160 acres, comprising the SE/4 SW/4 and SW/4 SE/4 of Section 10 and the NW/4 NE/4 and NE/4 NW/4 of Section 15, can be developed in the future by a single well to be drilled at a standard gas well location thereon.

Meridian's application for a non-standard 120-acre gas spacing and proration unit in the Rhodes Gas Pool comprising the NE/4 NE/4 and S/2 NE/4 of said Section 15 is therefore denied. Should Meridian choose to pursue this matter, an application for hearing must be filed with the Division requesting approval for the aforementioned 160-acre non-standard gas spacing and proration unit. Any such order from the Division will necessarily include a procedure of notification for the ensuing 160 acres to be authorized administratively.

Meridian will still be required to provide adequate notice pursuant to the provisions of General Rule 1207.A.(6).

Should you have any question or comments concerning this matter, please contact either Larry Van Ryan, Chief Engineer or Michael E. Stogner, Chief Hearing Officer in Santa Fe at (505) 827-5800.

Sincerely,



William J. LeMay
Director

cc: Oil Conservation Division - Hobbs
Larry Van Ryan - Santa Fe
Robert Stovall - Santa Fe
Michael Stogner - Santa Fe
U. S. Bureau of Land Management - Carlsbad
W. Thomas Kellahin - Santa Fe
File: NSP-1292

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

GARREY CARRUTHERS
GOVERNOR

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE NEW MEXICO 87504
505/827-5800

MEMORANDUM

TO: ALL OPERATORS
FROM: WILLIAM J. LEMAY, DIRECTOR *WJL*
SUBJECT: RULE 104 C II OF THE GENERAL RULES AND
REGULATIONS
DATE: AUGUST 3, 1990

On July 27, 1988, we sent a memorandum to all operators to explain the Division's procedures for ensuring compliance with the above rule in handling applications for additional wells on existing proration units. The procedures are primarily applicable in unprorated gas pools.

The final paragraph of the July 27 memo reads as follows:

"Applications for additional wells on existing proration units will be approved only on the understanding that upon completion of the well the operator shall elect which well will be produced and which will be abandoned. Application to produce both wells will be approved only after notice and hearing and upon compelling evidence that the applicant's correlative rights will be impaired unless both wells are produced."

Additional explanation of the intent of the above paragraph is set out below:

Application to produce both wells continuously and concurrently will be approved only after notice and hearing and upon compelling evidence that the applicant's correlative rights will be impaired unless both wells are produced.

Requests to produce the wells alternately (one well shut-in while the other produces) may be submitted for administrative handling. The request should set out the length of the producing and shut-in cycles for each well (a one month minimum is suggested), the proposed method for ensuring compliance with the proposed producing and shut-in schedules, and the reasons for the request. Notice should be provided to offset operators in the usual manner, allowing a 20-day waiting period. The application should be sent to Santa Fe with a copy to the appropriate District office.



ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

GARREY CARRUTHERS
GOVERNOR

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87501
(505) 827-5800

MEMORANDUM

TO: ALL OPERATORS

FROM: WILLIAM J. LEMAY, DIRECTOR *WJL*

SUBJECT: RULE 104 C II OF THE GENERAL RULES AND REGULATIONS

DATE: JULY 27, 1988

There has been some confusion about interpretation of the subject rule. In each paragraph of sections (a), (b) and (c) the rule states:

"Unless otherwise provided in special pool rules, each development well for a defined gas pool shall be located on a tract..."

My interpretation of this sentence is that each well is to be located on its own individual specified unit and an additional well is not authorized simply by meeting the set back requirements of the rule.

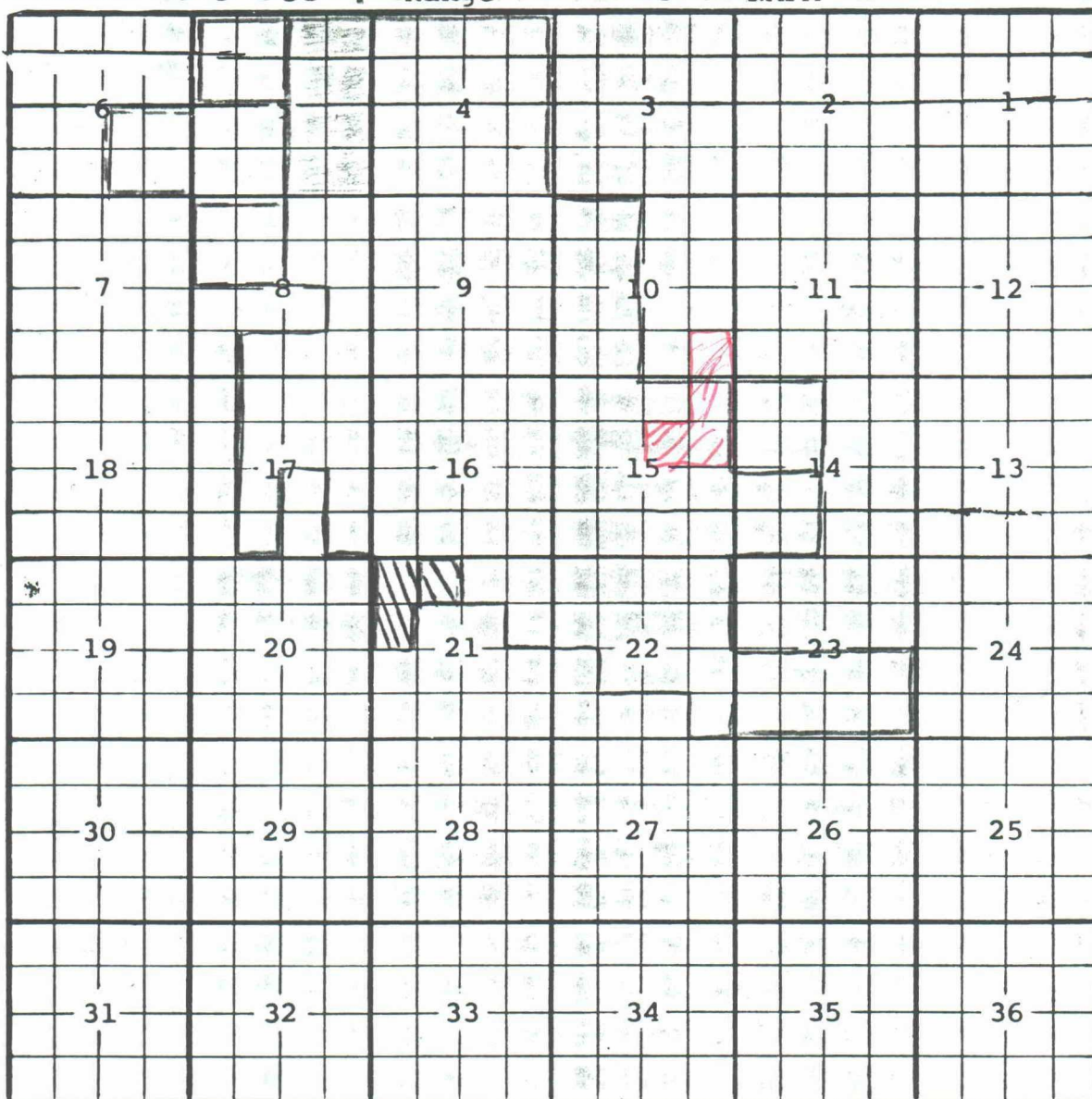
This interpretation is necessary to prevent waste from the drilling of unnecessary wells and to protect correlative rights of all parties in the pool. Since the prorated pools have special pool rules the subject rules have greater impact on unprorated gas. Unprorated does not mean unregulated. Allowables are not issued in unprorated pools and the only method available to protect correlative rights is the control of well density and locations. Added well density required because of special geological situations can be addressed by special pool rules after notice and hearing.

Applications for additional wells on existing proration units will be approved only on the understanding that upon completion of the well the operator shall elect which well will be produced and which will be abandoned. Application to produce both wells will be approved only after notice and hearing and upon compelling evidence that the applicant's correlative rights will be impaired unless both wells are produced.

dr/

County Lea Pool Rhodes-Yates-Seven Rivers Gas

TOWNSHIP *26 South* Range *37 East* NMPM



Desc: All sec 4, $E/2$ sec 5, $NE/4$, $E/2$ $SE/4$, $SW/4$ $SE/4$, $\frac{1}{2}$ $SE/4$ $SW/4$ sec 8,
All sec 9, $w/2$ sec 10, $SW/4$ sec 14, All sec 15, 16, $NE/4$, $E/2$ $w/2$, $\frac{1}{2}$
 $E/2$ $SE/4$ sec 17, $N/2$ $N/2$, $SE/4$ $NE/4$, $\frac{1}{2}$ $SW/4$ $NW/4$ sec 21, $N/2$,
 $N/2$ $SE/4$, $SE/4$ $SE/4$, $\frac{1}{2}$ $NE/4$ $SW/4$ sec 22, $S/2$ sec 23, (R-6891,
2-1-82)

Contract vertical limits from top of Yates formation to a point in Seven Rivers formation which is 100 feet above the top of the Queen formation in $\frac{E}{2}$ Sec. 5 (R-7322, 10-20-83)

Delete ^{NE}/₄ ^{NW}/₄ Sec. 21 (R-7554, 6-14-84) Delete ^W/₂ ^{NW}/₄ Sec. 21 (R-7858, 3-28-85)

Ext: NW/4 Sec. 14 (R-9585, 9-30-91) Ext: NW/4 Sec. 5 (R-9615, 12-3-91)

Ext: NW/4 Sec. 8 (R-9646, 3-11-92) Ext: SW/4 Sec. 5, SE/4 Sec. 6 (R-9223, 9-25-92)



STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION



BRUCE KING
GOVERNOR

ANITA LOCKWOOD
CABINET SECRETARY

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87504
(505) 827-5800

April 14, 1993

KELLAHIN AND KELLAHIN
Attorneys at Law
P. O. Drawer 2265
Santa Fe, New Mexico 87504

RE: CASE NO. 10683
ORDER NO. R-9870

Dear Sir:

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

Sincerely,

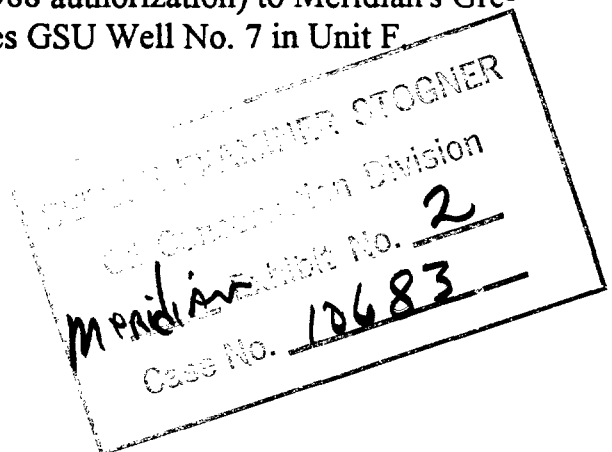
A handwritten signature in cursive script that reads "Sally Leichtle".

Sally E. Leichtle
Administrative Secretary

cc: BLM - Carlsbad
Monika Romero - OCD

SURROUNDING PRORATION UNITS TO THE PROPOSED GREGORY B NO. 2

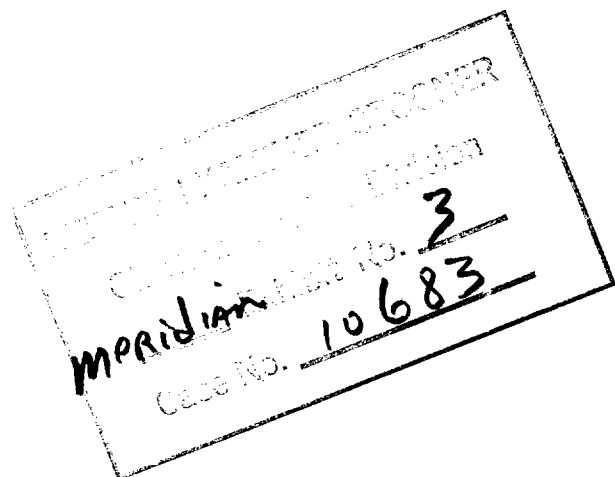
- The 40-acre non-standard gas spacing unit comprising the SW/4 SW/4 (Unit M) of Section 10, approved by Division Administrative Order NSP-1292, is dedicated to Meridian's Rhodes GSU Well No. 9 in Unit M;
- The standard 160-acre unit comprising the NW/4 of Section 10 is dedicated to Meridian's Rhodes GSU Well No. 16 in Unit E;
- The N/2 S/2 of Section 10, being a non-standard 160-acre unit approved by Division Administrative Orders NSP-1292 and NSP-1292-A has been developed by Meridian's Bates Well No. 1 (well P&A'd February, 1988) in Unit L and Hartman attempted to develop the same acreage with its C. T. Bates Well No. 2 (well was P&A'd in January, 1991 after encountering a severe water flow during drilling) also in Unit L;
- The standard 160-acre unit comprising the SW/4 of Section 15 is simultaneously dedicated to Meridian's Cagle "B" Well No. 1 in Unit L and Rhodes GSU Well No. 24 in Unit N (simultaneous dedication occurred prior to the Division's July 27, 1988 Memorandum);
- The standard 160-acre unit comprising the SE/4 of Section 15 is simultaneously dedicated (pre-1988 authorization) to Meridian's GSU Well Nos. 8 and 25 in Units J and O, respectively; and,
- The 120-acre non-standard gas spacing unit comprising the NW/4 NW/4 and S/2 NW/4 of Section 15, approved by Division administrative Order NSP-1292, is simultaneously dedicated (pre-1988 authorization) to Meridian's Gregory "B" Well No. 1 in Unit F and Rhodes GSU Well No. 7 in Unit F



OFFSET OPERATORS

Doyle Hartman
Attn: Patrick Worrell
P. O. Box 10426
Midland, TX 79702

United Gas Search, Inc.
Attn: Rodney Ratheal
1550 Wynn Joyce
Garland, TX 75043



DOYLE HARTMAN

Oil Operator

500 N. MAIN

P.O. BOX 10426

MIDLAND, TEXAS 79702

(915) 684-4011

December 18, 1992

CERTIFIED - RETURN RECEIPT REQUESTED

Mr. William J. Lemay
State of New Mexico
Oil Conservation Division
P. O. Box 2088
Santa Fe, NM 87504-2088

Re: Meridian Oil
Administrative Application for a
120-acre non-standard proration unit
Rhodes (Gas) Pool
SE/4 SE/4 Section 10, and the S/2 NE/4
and NE/4 NE/4 Section 15
T-26-S, R-37-E
Lea County, New Mexico

Gentlemen:

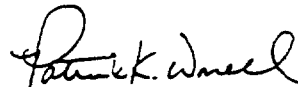
Reference is made to the attached notification from Meridian, dated December 3, 1992, and received by Hartman December 4, 1992, concerning Meridian's request for a 120-acre non-standard Rhodes (Gas) proration unit consisting of the SE/4 SE/4 of Section 10 and the S/2 NE/4 and NE/4 NE/4 of Section 15, T-26-S, R-37-E, Lea County, New Mexico. Meridian plans to drill the Gregory B Federal No. 2 well at a standard location of 990' FNL and 660' FEL, Section 15, T-26-S, R-37-E and dedicate it to this proposed 120-acre non-standard proration unit.

As an offset operator, Hartman hereby waives any objection to Meridian's application for a 120-acre non-standard Rhodes (Gas) proration unit consisting of the SE/4 SE/4 of Section 10 and the S/2 NE/4 and NE/4 NE/4 of Section 15, T-26-S, R-37-E, Lea County, New Mexico.

Thank you for your consideration in this matter, and please let me know if you need anything further.

Very truly yours,

DOYLE HARTMAN

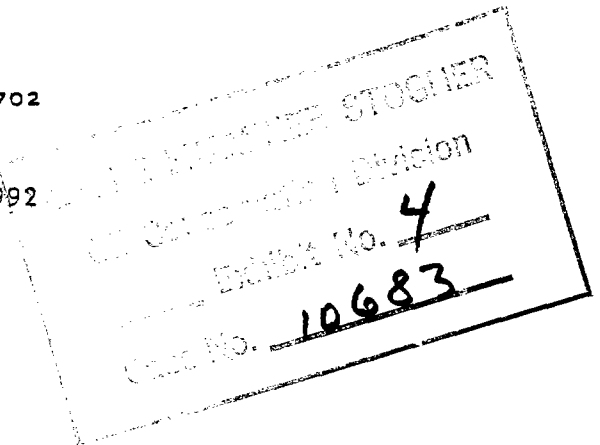


Patrick K. Worrell
Engineer

PKW/jg
Attachment

cc: Mr. Jerry Sexton
State of New Mexico
Oil Conservation Division
P. O. Box 1980
Hobbs, NM 88241-1980

Ms. Maria L. Perez
Meridian Oil
P. O. Box 51810
Midland, Texas 79710-1810



MERIDIAN OIL

December 3, 1992

Doyle Hartman
Attn: Patrick Worrell
P. O. Box 10426
Midland, Texas 79702

RE: Offset Operator Notification for
Application for a 120 acre non-standard
Gas Unit
Gregory B Federal No. 2
A, 990' FNL & 660' FEL
Section 15, T-26-S, R-37-E
Lea County, New Mexico
LC-032510-B

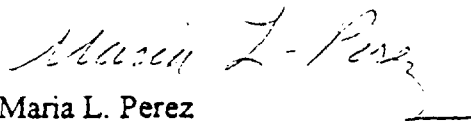
Dear Mr. Worrell:

Enclosed is a copy of a letter submitted to the ODC in Santa Fe, New Mexico requesting approval for a non-standard gas unit for the captioned well.

Also, attached is a plat showing the lease boundary, gas unit boundary and offset operators.

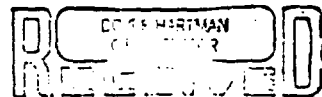
Should you have any questions, please contact Mr. Tom O'Donnell, Reservoir Engineer at 915-688-6829.

Sincerely,



Maria L. Perez
Production Assistant
915-688-6906

XC: Well File	Don McBee
Land Dept.	Joint Interest
Reservoir Eng.	Production Eng.
Geologist	Kermit Field Office
BLM - Carlsbad	OCD - Carlsbad
Regulatory File	Becky Kidd - NGPA - Houston Corp.



DEC 4 1992

MERIDIAN OIL

December 3, 1992

Mr. Michael Stogner
Oil Conservation Commission
P.O. Box 2088
Santa Fe, New Mexico 87504

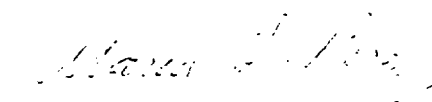
RE: Application for a Non-Standard
Gas Unit
Gregory B No. 2
Rhodes Yates -7 Rivers (Gas)
A, 990' FNL & 660' FEL
Section 15, T-26-S, R-37-E
Lea County, New Mexico
LC-032510-B

Dear Mr. Stogner:

Meridian Oil Inc. requests administrative approval for a 120 acre non-standard gas unit. The unorthodox shape of this unit is due to the shape of the lease. Enclosed is a plat showing the lease boundaries of the Gregory B Lease. Also, the offset operators are shown on the plat. Doyle Hartman and United Gas Search, Inc. are the offset operators and have been notified by certified return receipt mail on 12-3-92.

Should you require additional information, please call me at 915-688-6906.

Sincerely,



Maria L. Perez
Production Assistant

XC:	Well File	Don McBee
	Land Dept.	Joint Interest
	Reservoir Eng.	Production Eng.
	Geologist	Kermit Field Office
	BLM - Carlsbad	OCD - Hobbs
	Regulatory File	Becky Kidd - NGPA Dept. - Houston Corp.
	Richard Atchley - Prod. Serv.	

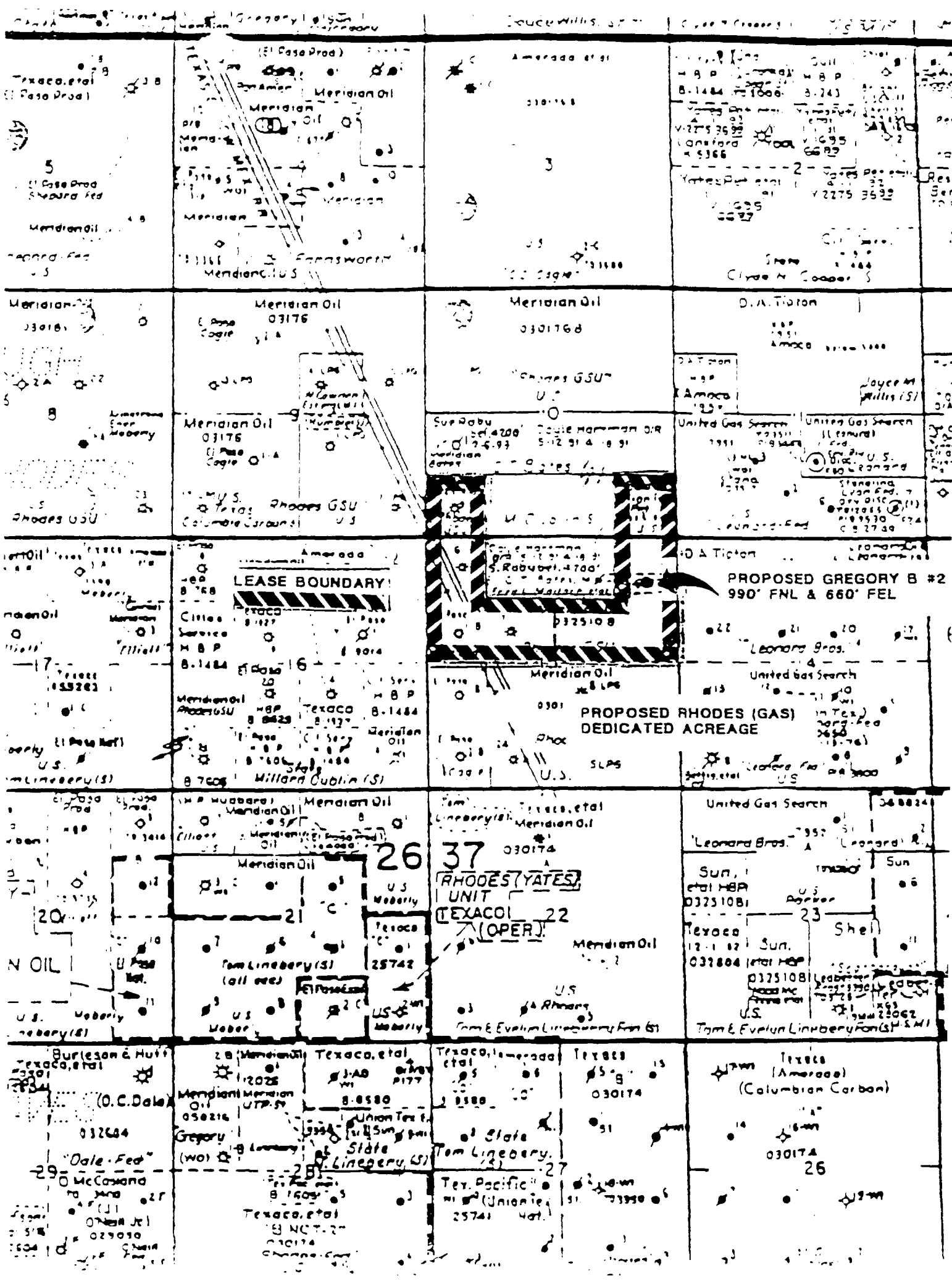
Gregory B No. 2
A, Section 15, T-26-S, R-37-E
Lea County, New Mexico

Rhodes Yates - 7 Rivers Gas Field

Offset Operators

Doyle Hartman
Attn: Mr. Patrick Worrell
P. O. Box 10426
Midland, Texas 79702

United Gas Search, Inc.
Attn: Rodney Ratheal - Agent
1550 Wynn Joyce
Garland, Texas 75043



Submit to Approprate
District Office
State Lease - 4 copies
Fee Lease - 3 copies

State of New Mexico
Energy, Minerals and Natural Resources Department

Form C-102
Revised 1-1-89

OIL CONSERVATION DIVISION

P.O. Box 2088
Santa Fe, New Mexico 87504-2088

DISTRICT I
P.O. Box 1980, Hobbs, NM 88240

DISTRICT II
P.O. Drawer DD, Arama, NM 88210

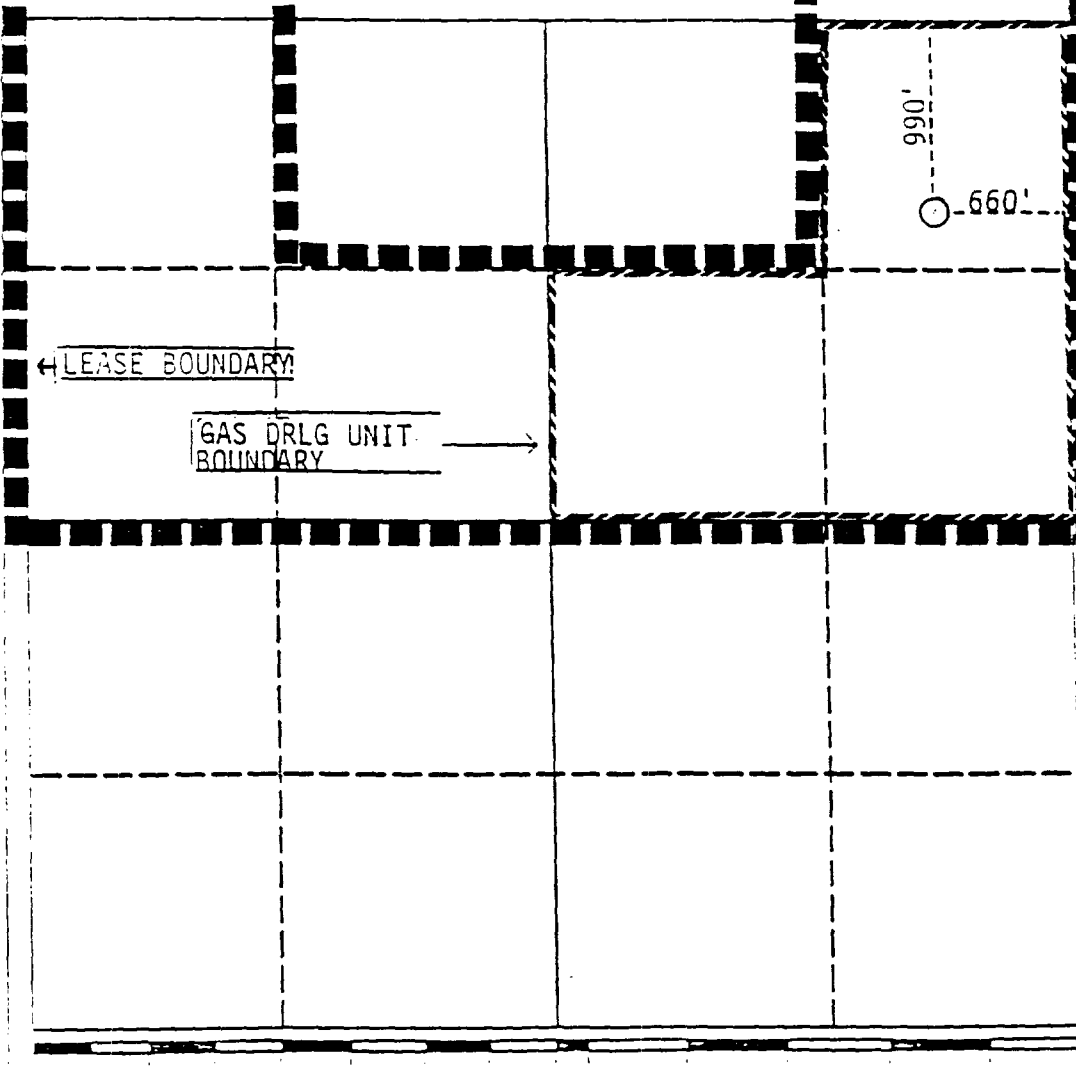
DISTRICT III
1000 Rio Brazos Rd., Aztec, NM 87410

WELL LOCATION AND ACREAGE DEDICATION PLAT

All Distances must be from the outer boundaries of the section

Operator MERIDIAN OIL INC.			Lease GREGORY R. FEDERAL		Well No. 2
Unit Letter A	Section 15	Township 26-S	Range 37-E	County SMPM	LEA
Actual Footage Location of Well:					
990 feet from the NORTH line and		660 feet from the EAST line			
Ground level Elev. 2986.5'	Producing Formation YATES (GAS)		Pool RHODES YATES-7 RIVERS (GAS)	Dedicated Acreage: 120 Acres	

- Outline the acreage dedicated to the subject well by colored pencil or hectare marks on the plat below.
- If more than one lease is dedicated to the well, outline each and identify the ownership thereof (both as to working interest and royalty).
- If more than one lease of different ownership is dedicated to the well, have the interest of all owners been consolidated by communitization, unitization, force-pooling, etc.?
☐ Yes ☐ No If answer is "yes" type of consolidation _____
If answer is "no" list the owners and tract descriptions which have actually been consolidated. (Use reverse side of this form if necessary).
No allowable will be assigned to the well until all interests have been consolidated (by communitization, unitization, forced-pooling, or otherwise) or until a non-standard unit, eliminating such interest, has been approved by the Division.

	OPERATOR CERTIFICATION I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief. Signature _____ Printed Name MARIA L. PEREZ Position PRODUCTION ASST. Company MERIDIAN OIL INC. Date 12-3-92
	SURVEYOR CERTIFICATION I hereby certify that the well location on this plat was plotted from field actual surveys made by me or my supervision, and that the same is correct to the best of my knowledge and belief. Date Surveyed _____ Signature & Seal of Professional Surveyor _____ Certificate No. _____

DOYLE HARTMAN

Oil Operator

500 N. MAIN

P.O. BOX 10426

MIDLAND, TEXAS 79702

(915) 684-4011

January 7, 1993

Leslyn Swierc
Meridian Oil Company
3300 North "A" Street, Building Six
P.O. Box 51810
Midland, TX 79705-5406

Re: 3,700' Oil Test
S/2NE/4 Section 15, T-26-S, R-37-E

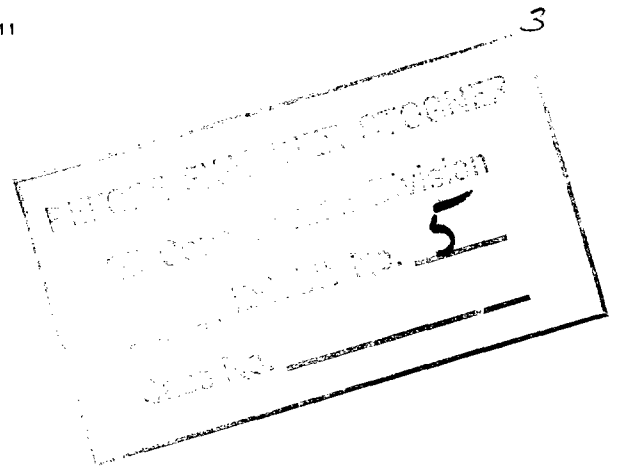
Dear Ms. Swierc:

Reference is made to your first well proposal to us of December 30, 1992 (received by us on December 31, 1992), corresponding to the drilling of a Rhodes Pool (Yates-Seven Rivers) well as to the presently undedicated 160 acres consisting of the NE/4 Section 15, T-26-S, R-37-E.

In your letter to us of December 30, 1992, you stated that Meridian was the owner of 100% of the leasehold interest as to the S/2NE/4 Section 15, T-26-S, R-37-E. A check of the leasehold estate corresponding to the S/2NE/4 Section 15, T-26-S, R-37-E, shows the S/2NE/4 Section 15, T-26-S, R-37-E, from the surface to 3,500' subsurface, to be owned, as to oil and casinghead gas rights, by Doyle Hartman and James A. Davidson, et al (Hartman Group). As to the S/2NE/4 Section 15, from the surface to a depth of 3,500' subsurface, the operating rights that are owned by the Hartman Group (and as depicted in Book 487, Page 688 of the Lea County records) were created

"under and by virtue of that certain Operating Agreement dated November 30, 1944, between Stanolind Oil and Gas Company and R. Olsen Oil Company, and that certain Sub-Lease of Oil and Gas Lease and Operating Agreement dated June 1, 1955, between Anderson-Prichard Oil Corporation and R. Olsen Oil Company, insofar as said Sub-Lease of Oil and Gas Lease and Operating Agreement relates to the following described oil and gas lease:

Oil and Gas Lease, dated July 29, 1937, being a "b" lease, issued by the Secretary of the Interior of the United States to R. Olsen Oil Company and Anderson-Prichard Oil Corporation, recorded in Book 33, Page 587,



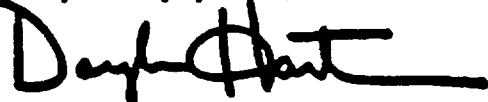
Leslyn M. Swierc, Petroleum Landman
Meridian Oil Company
January 7, 1993
Page 3

right (but not an obligation) to purchase any newly drilled Hartman well, for an amount equal to the actual drilling and completion cost incurred by Hartman, if the newly drilled Hartman well "is capable of producing gas only".

Also, in the event of a well "capable of producing gas only", we are agreeable to working out an arrangement whereby the entire 160 acres consisting of the NE/4 Section 15 can be dedicated to the newly drilled dry gas well. However, until we have had the opportunity to fully evaluate the oil and casinghead gas potential of the leasehold estate owned by Hartman and Davidson, et al, in the S/2NE/4 Section 15, we are not agreeable to contributing our ownership in the S/2NE/4 Section 15 nor in the NW/4NE/4 Section 15 to a 3,200' test to be drilled in the NE/4NE/4 Section 15.

So as to keep you fully informed as to our plans corresponding to the S/2NE/4 Section 15, we are enclosing for your review a copy of an AFE corresponding to our newly proposed well and we will also keep you informed as work corresponding to our proposed 3,700-foot oil test progresses. If you have any other questions at this time, please do not hesitate to promptly contact us.

Very truly yours,



Doyle Hartman

enclosures (3)

rcp
wp51\corresp.dh\rhodes.mer

cc: State of New Mexico
Energy, Mineral and Natural Resources Department
New Mexico Oil Conservation Division
State Land Office Building
Old Santa Fe Trail (87504)
P.O. Box 2088
Santa Fe, NM 87501
Attn: Jerry Sexton, Supervisor of District 1

State of New Mexico
Energy, Mineral and Natural Resources Department
New Mexico Oil Conservation Division
State Land Office Building
Old Santa Fe Trail (87504)
P.O. Box 2088
Santa Fe, NM 87501
Attn: Michael Stogner, Engineer

Midland Region
P.O. Box 51810
Midland, Texas 79710-1810
(915) 688-6800

Date: _____
AFE No.: _____

MERIDIAN OIL INC. AUTHORITY FOR EXPENDITURE

Lease/Well Name: _____ Gregory "B" No. 2 _____ DP No.: _____ 28813A
Field/Prospect: _____ Rhodes (Gas) _____ Lease No.: _____ 012851400
Location: 990' FNL & 660' FEL, Sec. 15, T26S-R37E _____ County: _____ Lea _____ State: _____ New Mexico
AFE Type: _____ Development (01) _____ Original ☒ Supplement _____ Addendum _____ Cost Center _____
API Well Type: _____ Development (06) _____ Operator: _____ Meridian Oil Inc.
Objective Formation: _____ Yates & Seven Rivers _____ Authorized Total Depth (Feet) _____ 3200
Project Description: _____ Drill and complete new gas well _____

Est. Start Date: _____ 07/15/92 _____
Est. Completion Date: _____ 07/29/92 _____

Prepared By: _____ Tom O'Donnell _____

GROSS WELL COST DATA

	DRILLING		WORKOVER	CONSTRUCTION	
	DRY HOLE	SUSPENDED	COMPLETION	OR FACILITY	TOTAL
DAYS:	6	6	6	2	14
THIS AFE:	95,200	122,800	114,000	47,000	283,800
PRIOR AFE's:					
TOTAL COSTS:	\$95,200	\$122,800	\$114,000	\$47,000	\$283,800

JOINT INTEREST OWNERS

COMPANY	WORKING INTEREST PERCENT %	NET \$ EXPENDITURES	
		DRYHOLE \$	COMPLETED \$
Doyle Hartman	25.00000	23,800	70,950
MERIDIAN OIL INC.:	75.00000	71,400	212,850
AFE TOTAL:	100.0000%	\$95,200	\$283,800

MERIDIAN OIL APPROVAL

Recommended: _____ Date: _____ Recommended: _____ Date: _____
Recommended: _____ Date: _____ Approved: _____ Date: _____
Recommended: _____ Date: _____ Title: _____

PARTNER APPROVAL

Company Name: _____ Authorized By: _____
Date: _____ Title: _____

Hartman Group Ownership
S/2 NE/4 Sec. 15, T-26-S, R-37-E
(Excerpt from that certain stipulation dated 1-2-86)

BOOK 487 PAGE 688

IN CT 59 - GREGORY LEASE

A-2

All operating rights under the

South Half of the Northeast Quarter (S/2 NE/4) and the Northwest Quarter of the Northwest Quarter (NW/4 NW/4) of Section 15, Township 26 South, Range 37 East, Lea County, New Mexico, to a depth of 3500 feet below the surface of the soil,

said operating rights being created under and by virtue of that certain Operating Agreement dated November 30, 1944, between Stanolind Oil and Gas Company and R. Olsen Oil Company, and that certain Sub-Lease of Oil and Gas Lease and Operating Agreement dated June 1, 1955, between Anderson-Prichard Oil Corporation and R. Olsen Oil Company, insofar as said Sub-Lease of Oil and Gas Lease and Operating Agreement relates to the following described oil and gas lease:

Oil and Gas Lease, dated July 29, 1937, being a "b" lease, issued by the Secretary of the Interior of the United States to R. Olsen Oil Company and Anderson-Prichard Oil Corporation, recorded in Book 33, Page 587, of the Oil and Gas Records of the Office of the County Clerk of Lea County, New Mexico, said lease bearing Serial No. Las Cruces 032510(b),

subject to the following:

- (1) Contract dated July 16, 1936, between Stanolind Oil and Gas Company, grantor, and Uscan Oil Company and Anderson-Prichard Oil Corporation, grantees, providing, among other things, for the payment to Stanolind Oil and Gas Company of \$500,000.00 payable from gross proceeds of the sale, disposal or utilization of 1/16th of the oil, casinghead gas and other hydrocarbon substances produced from the above described and other lands, as amended by Contract dated November 16, 1938, between Anderson-Prichard Oil Corporation, R. Olsen Oil Company and The W-K Royalty Company, parties of the first part, and Stanolind Oil and Gas Company, party of the second part.
- (2) An overriding royalty interest of 1/64th of the total production of oil, casinghead gas and similar hydrocarbons except dry gas and residue gas in favor of A. K. Barnes and assigns.
- (3) Contract dated May 31, 1939, between Anderson-Prichard Oil Corporation, R. Olsen Oil Company and The W-K Royalty Company, as oil operator and Stanolind Oil and Gas Company, as gas operator, which provides, among other things, that gas operator shall have the right to purchase and thereafter own and operate wells capable of producing gas only.

The fractional share of the oil, casinghead gas and other liquid hydrocarbons produced from the above described land above 3500 feet owned by Assignor is .796875.

* * * *

OWNERSHIP:

Hartman Group 100%

MERIDIAN OIL

First Notice to Participate
Gregory "B" No. 2 Well
NE/4 NE/4 Sec. 15
T-26-S, R-37-E

December 30, 1992

Ms. Carolyn Sebastian
Doyle Hartman Oil Operator
500 N. Main St.
Midland, Texas 79701

Doyle Hartman

Re: Well Proposal/Farmout Request
Gregory B #2
990' FNL & 660' FEL Section 15
T26S, R37E
Lea County, New Mexico

Dear Carolyn:

Meridian Oil Inc. is proposing the drilling of the captioned well to be located in the NE/4 NE/4 Section 15 which will require a 160 acre proration unit. El Paso Production Company (Meridian) owns 100% of the leasehold in the NE/4 NE/4 and S/2 NE/4 Section 15. A cursory examination of the county records indicate that Doyle Hartman owns 100% of the leasehold in the NW/4 NE/4 Section 15 from the surface to 4200 feet.

In order to comply with the standard 160 acre proration as prescribed by the NMOCD, Meridian requests that Doyle Hartman join in the drilling of this 3200' Yates & Seven Rivers development well by committing his 40 acres to a 160 acre drilling unit. An AFE is enclosed for your review and execution. Upon receipt of an approved AFE, a Joint Operating Agreement will be prepared to govern operations of said well.

In the alternative to participating in the Gregory B #2, Meridian requests that Doyle Hartman farmout his 100% working interest in the NW/4 NE/4 Section 15, delivering an 80% net revenue interest.

RECEIVED
MIDLAND
TX
DEC 31 1992

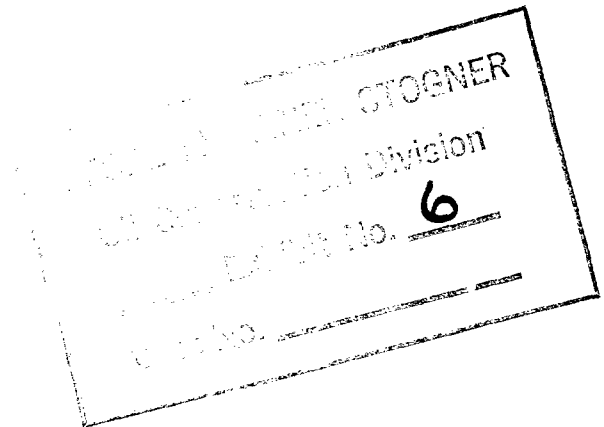
DEC 31 1992

MERIDIAN OIL

January 15, 1993

Doyle Hartman
Oil Operator
P. O. Box 10426
Midland, Texas 79702

Re: T26S, R37E
NE/4 NE/4 and S/2 NE/4 Section 15
Lea County, New Mexico



Dear Mr. Hartman:

Reference is made to your response of January 7, 1993 to Meridian Oil's (Meridian) proposal to drill the Gregory B #2, located 990' FNL & 660 FEL Section 15, T26S, R37E, Lea County, New Mexico. This letter should clarify Meridian's position regarding its gas rights and the privileges it acquired in the captioned lands under various contracts.

El Paso Natural Gas (El Paso) acquired its rights by virtue of an assignment dated July 1, 1942 (recorded in Volume 27, Page 585, Lea County Records) from Stanolind Oil and Gas Company. Under the terms of the assignment, El Paso acquired the gas operating rights between the surface of the earth and 3500 feet beneath the surface (later amended to extend to 4000 feet beneath the surface) in Oil & Gas Lease LC-032510(b). The rights acquired were subject to several outstanding agreements including contract dated November 16, 1938 between Anderson-Prichard Oil Corporation, R. Olsen Oil Company and the W-K Royalty Company, as oil operators and Stanolind Oil & Gas Company, as gas operator. Under the terms of this contract, Stanolind acquired the gas rights in and under the above described lands. This contract also granted the gas operator the "right to operate and develop" the captioned lands (among others) "for gas" and the "gas rights therein."

On February 6, 1987, but effective July 16, 1986 El Paso Natural Gas Company transferred 100% of all its right, title and interest in Oil and Gas Lease LC-032510(b) to El Paso Production Company insofar as said lease covers the gas operating rights from the surface to 4000 feet. El Paso Production Company is a wholly owned subsidiary of Burlington Resources (BR) operating under the name of Meridian Oil, also owned by BR.

Your letter states that, as to the S/2 NE/4 Section 15 from the surface to 3500 feet, the operating rights that are owned by the Hartman Group were created "under and by virtue of that certain Operating Agreement dated November 30, 1944, between Stanolind Oil & Gas Company and R. Olsen Oil Company." The rights created under this Operating Agreement covered portions of Section 23 and 24, T26S, R37E, Lea County, New Mexico. Pursuant to Article II therein,

Letter to Doyle Hartman

Page 2


Stanolind further conveyed to Olsen "the oil rights and all rights and privileges of the oil operator" under the aforementioned contract of November 16, 1938 which includes the S/2 NE/4 Section 15, T26S, R37E. Stanolind was named as the Gas Operator under the November 16, 1938 contract and had no oil rights to convey to Olsen, insofar as the S/2 NE/4 Section 15 was concerned.

You also stated that Oil & Gas Lease LC-032510(b) was subject (in part) to "Contract dated May 31, 1939, between Anderson-Prichard Oil Corporation, R. Olsen Oil Company and the W-K Royalty Company, as oil operator and Stanolind Oil & Gas Company, as gas operator, which provides, among other things, that gas operator shall have the right to purchase and thereafter own and operate wells capable of producing gas only." The instrument dated May 31, 1939 is an Amendment to the November 16, 1938 Contract which, as stated earlier, gives the gas operator the right to operate and develop for gas. No where is it mentioned that oil & casinghead rights are "dominant" over gas rights.

Meridian has conducted numerous studies in this area, and based upon its findings, proposed a 3200' gas well within the limits of a gas pool. Meridian is confident that the proposed Gregory B #2 will be gas productive and feels its proposal is justified.

Very truly yours,

MERIDIAN OIL INC.



Leslyn M. Swierc, CPL

Petroleum Landman

LMS/lg

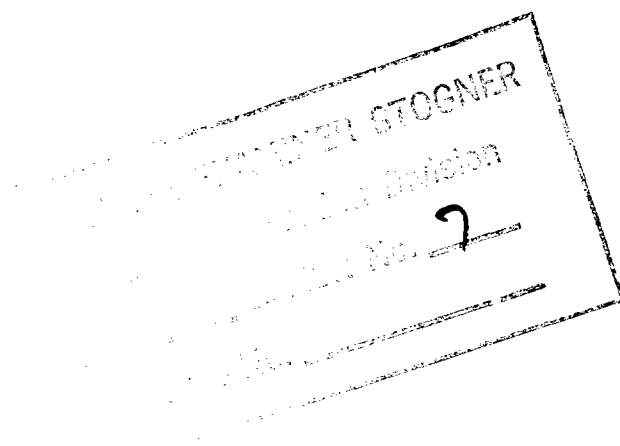
cc: State of New Mexico
Energy, Mineral and Natural Resources Department
New Mexico Oil Conservation Division
P. O. Box 2088
Santa Fe, NM 87501
Attn: Michael Stogner, Engineer

Tom O'Donnell / Dennis Sledge

MERIDIAN OIL

January 18, 1993

Mr. Michael Stogner, Engineer
State of New Mexico
Energy, Mineral and Natural Resources Dept.
New Mexico Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico



Re: 120 Acre Non-Standard Proration Unit
Gregory B #2
T26S, R37E
NE/4 NE/4 & S/2 NE/4 Section 15
Yates-Seven Rivers Gas Pool
Lea County, New Mexico

Dear Mr. Stogner:

Reference is made to your letter of December 10, 1992 addressed to Ms. Maria Perez of Meridian Oil's Regulatory Group concerning administrative application for a 120 acre non-standard gas spacing and proration unit for the proposed Gregory B #2. Please be advised that El Paso Production Company (Meridian Oil) owns 100% of the gas operating rights from the surface to 4000 feet beneath the surface. Mr. Hartman challenged Meridian's rights in his letter addressed to me dated January 7, 1993. This ownership is more completely set out in my letter addressed to Doyle Hartman, a copy of which is enclosed for your perusal. Mr. Hartman also stated that he would not be in agreement to farm-out his interest in the NW/4 NE/4 of Section 15 to Meridian, nor would he contribute his 40 acre tract to the drilling of the Gregory B #2 which would allow for a 160 acre proration unit if pooled with Meridian's 120 acres.

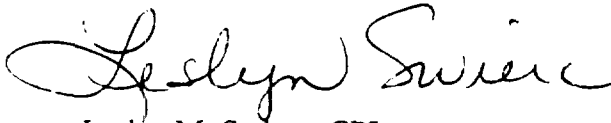
Therefore, Meridian Oil respectfully requests administrative approval of a non-standard gas proration unit encompassing 120 acres, being the NE/4 NE/4 & S/2 NE/4 Section 15, T26S, R37E, Lea County, New Mexico. Per letter of December 18, 1992, Patrick R. Worrell, Engineer for Doyle Hartman waived any objection to Meridian's application for a 120 acre non-standard gas proration unit.

Letter to Mr. Michael Stogner
Page 2

If further information is needed, you may contact me directly at (915) 688-6928, or Mr. Tom O'Donnell, Reservoir Engineer at (915) 688-6829. Thank you for your assistance concerning this matter.

Very truly yours,

MERIDIAN OIL INC.

A handwritten signature in cursive script, reading "Leslyn Swierc". The signature is written in black ink and is positioned above the printed name.

Leslyn M. Swierc, CPL
Petroleum Landman

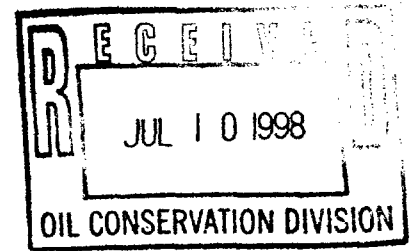
LMS/lg

cc: Tom O'Donnell
Dennis Sledge

DOYLE HARTMAN

Oil Operator
500 NORTH MAIN
P.O. BOX 10426
MIDLAND, TEXAS 79702

(915) 684-4011
(915) 682-7616 FAX



Via FedEx

July 9, 1998

Richard R. Frazier, President & Chief Operating Officer
Gruy Petroleum Management Company
600 E. Las Colinas Blvd., Suite 1200 (75039)
P.O. Box 140907
Irving, TX 75014-0907

Lori Wrotenbery, Director
New Mexico Oil Conservation Division
2040 S. Pacheco
Santa Fe, NM 87505

Armando Lopez, Assistant District Manager, Minerals
Bureau of Land Management
1717 W. Second
Roswell, NM 88201

Re: NMOCD Memorandum of August 3, 1990
Restricting Concurrent Well Production from Unprorated Gas SPUs

Dear Sirs and Madam:

Reference is made to our letters to Gruy Petroleum Management Company of May 21, 1998 and June 29, 1998, both of which pertained to the NMOCD's "**Memorandum to All Operators**" of August 3, 1990 (copy enclosed), which 1990 memorandum places certain production restrictions upon multi-well spacing and proration units in unprorated New Mexico gas pools (a pool classification that includes the Rhodes Gas Pool of T-26-S, R-37-E, Lea County, New Mexico).

Reference is also made to Byrom's New Mexico Statehouse Reporter dated July 6, 1998 (copy enclosed), which publication announces Gruy's Rhodes State Nos. 5 and 6 wells in Unit C and Unit N, respectively, of Section 16, T-26-S, R-37-E.

Richard R. Frazier, President & Chief Operating Officer
Gruy Petroleum Management Company, et al
July 9, 1998
Page 2

Finally, reference is made to NMOCD Order R-9870 dated April 14, 1993, that created a 160-acre non-standard Rhodes SPU corresponding to the Meridian-operated Gregory "B" No. 2 well (A-15-26S-37E), which order further confirms that the "...Said pool is also governed by the two Division Memorandums dated July 27, 1988 and August 3, 1990, which disallow the simultaneous dedication in gas spacing units of more than one well in unprorated gas pools..."

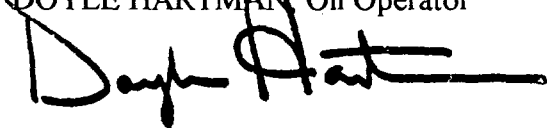
It is our interpretation of the NMOCD's August 3, 1990 memorandum that concurrent production of more than one well on an unprorated gas SPU can only be approved "...after notice and hearing and upon compelling evidence that the applicant's correlative rights will be impaired unless both wells are produced..." As of this date, we are unaware of Gruy giving notice, or of hearings being held to obtain approval for an exception to the NMOCD's August 3, 1990 "Memorandum to All Operators".

Moreover, the Statehouse Reporter also shows that Gruy's State "Com" No. 6 well is filed as a Jalmat Tansill-Yates-7R well. Enclosed, please find a copy of NMOCD Order R-6891, which clearly reveals that Section 16, T-26-S, R-37-E has not been a part of the Jalmat Pool since January 1, 1982, at which time it was removed from the Jalmat Gas Pool and included as a part of the newly created Rhodes Gas Pool. Therefore, if the State "Com" No. 6 well has indeed been filed as a Jalmat well, we believe that the State "Com" No. 6 application needs to be promptly amended, with the State "Com" No. 6 well being properly shown to be in the Rhodes Gas Pool as per NMOCD Order R-6891.

Since Doyle Hartman is an owner of acreage within the boundaries of the Rhodes Gas Pool, we respectfully request that Gruy promptly inform us as to whether or not it intends to abide by existing NMOCD regulations regarding multi-well SPUs in the unprorated Rhodes Gas Pool. Since Gruy, to this date, has not provided a written response to our letters of May 21, 1998 and June 29, 1998, we are highly concerned that Gruy may be attempting to ignore the NMOCD's memorandums of July 27, 1988 and August 3, 1990.

Very truly yours,

DOYLE HARTMAN, Oil Operator

A handwritten signature in black ink, appearing to read "Doyle Hartman", with a long horizontal stroke extending to the right.

Doyle Hartman

enclosures

Richard R. Frazier, President & Chief Operating Officer
Gruy Petroleum Management Company, et al
July 9, 1998
Page 3

rcp
wpdocs\corresp.dh\gruy.3

cc: New Mexico Oil Conservation Division
2040 S. Pacheco
Santa Fe, NM 87505
Attn: Michael Stogner, Chief Hearing Officer

New Mexico Oil Conservation Division
2040 S. Pacheco
Santa Fe, NM 87505
Attn: David R. Catanach, Petroleum Engineer Specialist

New Mexico Oil Conservation Division
1000 W. Broadway (88240)
P.O. Box 1980
Hobbs, NM 88241
Attn: Chris Williams, District Supervisor

Bureau of Land Management
620 E. Green (88220)
P.O. Box 1778
Carlsbad, NM 88221-1778
Attn: Richard L. Manus, Area Manager

Bureau of Land Management
414 W. Taylor
Hobbs, NM 88240
Attn: Vince Balderaz, Lead Oil & Gas Inspector

Gruy Petroleum Management Company
600 E. Las Colinas Blvd., Suite 1200 (75039)
P.O. Box 140907
Irving, TX 75014-0907
Attn: Greg Jessup, Vice President Land

Richard R. Frazier, President & Chief Operating Officer
Gruy Petroleum Management Company, et al
July 9, 1998
Page 4

Gruy Petroleum Management Company
600 E. Las Colinas Blvd., Suite 1200 (75039)
P.O. Box 140907
Irving, TX 75014-0907
Attn: Bill Mann, Operations Manager

Gruy Petroleum Management Company
600 E. Las Colinas Blvd., Suite 1200 (75039)
P.O. Box 140907
Irving, TX 75014-0907
Attn: Zeno Farris, Manager of Operation Administration

Gruy Petroleum Management Company
600 E. Las Colinas Blvd., Suite 1200 (75039)
P.O. Box 140907
Irving, TX 75014-0907
Attn: Joe T. Janica, Agent

Reggie Resten, Production Supervisor
Gruy Petroleum Management Company
814 W. Marland (88240)
P.O. Box 416
Hobbs, NM 88240

James A. Davidson
214 W. Texas, Suite 710
Midland, TX 79701



STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

GARREY CARRUTHERS
GOVERNOR

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87504
(505) 827-6300

MEMORANDUM

TO: ALL OPERATORS
FROM: WILLIAM J. LEMAY, DIRECTOR *WJL*
SUBJECT: RULE 104 C II OF THE GENERAL RULES AND
REGULATIONS
DATE: AUGUST 3, 1990

On July 27, 1988, we sent a memorandum to all operators to explain the Division's procedures for ensuring compliance with the above rule in handling applications for additional wells on existing proration units. The procedures are primarily applicable in unprorated gas pools.

The final paragraph of the July 27 memo reads as follows:

"Applications for additional wells on existing proration units will be approved only on the understanding that upon completion of the well the operator shall elect which well will be produced and which will be abandoned. Application to produce both wells will be approved only after notice and hearing and upon compelling evidence that the applicant's correlative rights will be impaired unless both wells are produced."

Additional explanation of the intent of the above paragraph is set out below:

Application to produce both wells continuously and concurrently will be approved only after notice and hearing and upon compelling evidence that the applicant's correlative rights will be impaired unless both wells are produced.

Requests to produce the wells alternately (one well shut-in while the other produces) may be submitted for administrative handling. The request should set out the length of the producing and shut-in cycles for each well (a one month minimum is suggested), the proposed method for ensuring compliance with the proposed producing and shut-in schedules, and the reasons for the request. Notice should be provided to offset operators in the usual manner, allowing a 20-day waiting period. The application should be sent to Santa Fe with a copy to the appropriate District office.

New Mexico

Statehouse Reporting Service

Published by

R. W. BYRAM & COMPANY OF NEW MEXICO
P.O. DRAWER 1867 AUSTIN, TEXAS 78767

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July 6, 1998
Vol. 35 - No. 13

IMPORTANT NOTICE: Examiner hearings have tentatively been scheduled for July 23 and August 6, 1998.
Applications for hearing must be filed at least 23 days in advance of hearing date.

EXAMINER HEARING SET - JULY 9 - SANTA FE

Michael E. Stogner or David R. Catanach - Examiner

SAN JUAN COUNTY

Compulsory Pooling (Case 11988 - Continued from June 11)

Merrion Oil & Gas Corporation seeks an order pooling all mineral interests in the Basin-Dakota Pool underlying Lots 1 through 4 and the S/2 N/2 (N/2 equivalent) of Sec. 5, T-29-N, R-11-W, San Juan County, thereby forming a standard 293.68-acre gas spacing and proration unit for said pool. Said unit is to be dedicated to its proposed No. 1-E Fifield Com Well, to be drilled at a standard gas well location in the NW/4 equivalent of said Sec. 5. Also to be considered will be allocation of well costs, charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling the well. Said unit area is located approximately 4 miles south of Aztec, New Mexico.

SAN JUAN COUNTY

Compulsory Pooling (Case 11997)

Merrion Oil & Gas Corporation seeks an order pooling all mineral interests in the Basin-Fruitland Coal Gas Pool underlying the S/2 of Sec. 10, T-26-N, R-12-W, San Juan County. Applicant proposes to dedicate this pooled unit to its No. 3 Hickman "A" Well to be drilled at a standard location in the SW/4 SW/4 of Sec. 10. Also to be considered will be allocation of well costs, charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling the well. The area is located approximately 20 miles northwest of Nageezi, New Mexico.

EDDY COUNTY

Compulsory Pooling (Case 11998)

Costilla Energy, Inc. seeks an order pooling all mineral interests from the surface to the base of the Chester series or formation underlying the following described acreage in Sec. 33, T-16-S, R-26-E, Eddy County, and in the following manner: the N/2 of Sec. 33 to form a standard 320-acre gas spacing and proration unit for any formations and/or pools developed on 320-acre spacing within that vertical extent, including the POW-Morrow Gas Pool and Undesignated P.O.W.-Strawn Gas Pool; the NW/4 of Sec. 33 to form a standard 160-acre gas spacing and proration unit for any formations and/or pools developed on 160-acre spacing within that vertical extent; and the SE/4 NW/4 of Sec. 33 to form a standard 40-acre oil spacing and proration unit for any formations and/or pools developed on 40-acre spacing within that vertical extent. The units are to be dedicated to its No. 2 Funk "45" Well, located at an orthodox location 1980 feet from the South line and 1680 feet from the West line (Unit K) of Sec. 33. Also to be considered will be allocation of well costs, charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling the well. Said units are located approximately 3 miles north-northeast of Artesia, New Mexico.

EDDY COUNTY

Compulsory Pooling and an Unorthodox Well Location (Case 11999)

Costilla Energy, Inc. seeks an order pooling all mineral interests from the surface to the base of the Chester series or formation underlying the following described acreage in Sec. 33, T-16-S, R-26-E, Eddy County, and in the following manner: the S/2 of Sec. 33 to form a standard 320-acre gas spacing and proration unit for any formations and/or pools developed on 320-acre spacing within that vertical extent, including the POW-Morrow Gas Pool, Undesignated Diamond Mound-Atoka Gas Pool, and Undesignated P.O.W.-Strawn Gas Pool; Pool; the SW/4 of Sec. 33 to form a standard 160-acre gas spacing and proration unit for any formations and/or pools developed on 160-acre spacing within that vertical extent; and the NW/4 SW/4 of Sec. 33 to form a standard 40-acre oil spacing and proration unit for any formations and/or pools developed on 40-acre spacing within that vertical extent. The units are to be dedicated to its No. 1 Funk "45" Well, located at an unorthodox location 1650 feet from the South line and 1080 feet from the West line (Unit L) of Sec. 33. Also to be considered will be allocation of well costs, charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling the well. The units are located approximately 2.5 miles north-northeast of Artesia, New Mexico.

COPIES
FORWARDED
TO
STATEWIDE

SOUTHEASTERN NEW MEXICO, continued:**HOBBS AREA, continued:**

<u>Operator & Well No.</u>	<u>Location</u>	<u>Remarks</u>
------------------------------------	-----------------	----------------

NEW LOCATIONS, continued:**LEA COUNTY, continued:**

Apache Corp. #619 Northeast Drkd. Ut	15-21S-37E 1300/N; 155/E	North Eunice-Blinebry-Tubb-Drinkard.
Gruy Pet. Management Co. #6 Rhodes State	16-26S-37E 330/S; 2310/W	Jalmat Tansill-Yates-SR.
Gruy Pet. Management Co. #5 Rhodes State Com	16-26S-37E 660/N; 1980/W	Rhodes Yates-SR.

PLUGGED AND ABANDONED WELLS:**LEA COUNTY**

Yates Pet. Corp. #1 Simmons Witt ANB Com	11-16S-35E 2310/S; 2080/E	Townsend-Morrow.
Yates Pet. Corp. #1 Runnels ASP	11-16S-35E 1980/N & E	Townsend-Morrow.
Yates Pet. Corp. #1 Runnels ASP	11-16S-35E 1980/N & E	Townsend-Morrow.
Great Western Drlg. Co. #701 S. Carter SA Ut	5-18S-39E 1650/S; 990/W	SWD-San Andres.

ZONE ABANDONMENTS:**LEA COUNTY**

Siete Oil & Gas Corp. #8 Inca Federal	17-18S-32E 1980/N; 1943/W	Young-Grayburg.
Conoco Inc. #1 Deck Estate 7	7-21S-37E 1930/S; 990/W	North Eunice-McKee.
Burlington Res. O&G Co. #7 Mule Deer 36 State	36-22S-32E 330/S; 660/E	West Red Tank-Delaware.
John H. Hendrix Corp. #4 Brunson C	3-22S-37E 1980/S & E	Blinebry Oil & Gas.

COMPLETIONS:**EDDY COUNTY**

Devon Energy Corp. #5 Friess Federal	19-17S-31E 2220/S; 1434/E	GB-Jackson; Spd. 12/6/97; Compl. 1/27/98; Elev. 3604 GL; TD 3440; PBTD 3390; Top Pay (GB/SA) 2720; Perfs 2720-3251; Treat Acidize w/7000 gals. 15% HCL, frac. w/27,143 gals. Spectra 30 & 30# gel. + 44,000# 16/30 sd.; IP: WIW; Csg. 8-5/8 @ 419 w/350; 5-1/2 @ 3439 w/1050; 2-3/8 @ 2633; Tops: Rustler 390, Salado 516, Tansill 1211, Yates 1368, SR 1703, Qu. 2327, GB 2712, SA 3118.
Wiser Oil Co. #10 Lea "D"	26-17S-31E 1303/N; 1306/E	GB-Jackson; Spd. 7/31/97; Compl. 8/23/97; Elev. 3761 GL; TD 4200; PBTD 4156; Top Pay (GB-SA) 3467; Perfs 3467-3612, 3731-3758, 3967-4056; Treat Acidize w/8800 gals. 15% NEFE & 850# rock salt, frac. w/14,000 gals. gel. wtr., 50,000 gals. Delta frac. & 103,800# 16/30 sd.; IP 9/6/97; Pump, 24 hrs., 18 BO, 140 BW, 8 MCF, GOR 444/1, Grav. 37.2; Csg. 8-5/8 @ 462 w/300; 5-1/2 @ 4200 w/950; 2-7/8 @ 3400; Tops: Anhy 602, X 758, BX 1752, Yates 1944, SR 2248, Qu. 2925, GB 3303, SA 3699.

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. 7416
Order No. R-6891

APPLICATION OF EL PASO NATURAL GAS
COMPANY FOR POOL CREATION AND REDELINEATION,
LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on November 19, 1981, at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 1st day of February, 1982, 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, El Paso Natural Gas Company, seeks to contract the horizontal limits of the Jalmat Gas Pool by deleting therefrom most of the lands in Township 26 South, Range 37 East, NMPM, Lea County, New Mexico.

(3) That the applicant additionally seeks to redefine the Rhodes Yates-Seven Rivers Oil Pool as two separate pools, an oil pool and a gas pool, and to extend the horizontal limits of the Scarborough-Yates Seven Rivers Pool to take in two certain wells.

(4) Applicant further seeks to contract the horizontal boundaries of the Rhodes Gas Storage Unit to delete certain lands and wells not participating in the Rhodes Gas Storage Project and to withdraw without restriction all gas remaining in the newly redefined Rhodes Yates-Seven Rivers Gas Pool.

(5) That the aforesaid Jalmat Gas Pool and Rhodes Yates-Seven Rivers Oil Pool have substantially the same vertical limits and overlap, horizontally, to a great degree in Township 26 South, Range 37 East, Lea County, New Mexico.

(6) That to clarify the Division's pool nomenclature and eliminate said overlap, and to permit gas wells and oil wells within the overlap area to receive their proper allowable or authority to produce, the following action should be taken:

- (a) the horizontal limits of the Jalmat Tansill-Yates-Seven Rivers Gas Pool should be contracted by deletion therefrom of the acreage shown in paragraph (a) of Exhibit "A" attached to this order;
- (b) the horizontal limits of the Rhodes Yates-Seven Rivers Oil Pool should be contracted by deletion therefrom of the acreage shown in paragraph (b) of said Exhibit "A";
- (c) the horizontal limits of the Scarborough Yates-Seven Rivers Pool should be extended to include therein the acreage shown in paragraph (c) of said Exhibit "A";
- (d) That a new gas pool for Yates-Seven Rivers production should be created and designated the Rhodes Yates-Seven Rivers Gas Pool consisting of the acreage shown in paragraph (d) of said Exhibit "A".

(7) That no testimony was received relative to contraction of the Rhodes Gas Storage Unit and that portion of this application should be dismissed.

(8) That the newly created Rhodes Yates-Seven Rivers Gas Pool will be a non-prorated Gas Pool.

(9) That the effective date of this order should be January 1, 1982.

(10) That approval of the subject application and all the pool contractions, extensions, and creation included therein will not result in waste and will not violate correlative rights.

IT IS THEREFORE ORDERED:

(1) That the Jalmat Tansill Yates-Seven Rivers Gas Pool as previously defined and described in Lea County, New Mexico, is hereby contracted as shown in paragraph (a) of Exhibit "A" attached to this order.

(2) That the Rhodes Yates-Seven Rivers Oil Pool as previously defined and described in Lea County, New Mexico, is hereby contracted as shown in paragraph (b) of Exhibit "A" attached to this order.

(3) That the Scarborough Yates-Seven Rivers Pool as previously defined and described in Lea County, New Mexico, is hereby extended as shown in paragraph (c) of Exhibit "A" attached to this order.

(4) That a new pool for Yates-Seven Rivers gas production is hereby created and designated the Rhodes Yates-Seven Rivers Gas Pool with vertical limits consisting of the Yates and Seven Rivers formations and horizontal limits as shown in paragraph (d) of Exhibit "A" attached to this order, provided however, that the vertical limits of said pool in Section 4, Township 26 South, Range 37 East, NMPM, shall be the Yates formation and all of the Seven Rivers formation except the lowermost 100 feet thereof.

(5) That the portion of this case seeking deletion of certain lands from the Rhodes Gas Storage Unit is hereby dismissed.

(6) That the effective date of this order and of the pool contractions, extensions and creation and the dismissal contained herein shall be January 1, 1982.

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

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

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


JOE D. RAMEY,
Director

S E A L

(a)

TOWNSHIP 26 SOUTH, RANGE 37 EAST, NMPM
Sections 4, 5, and 6: All
Section 7: E/2 E/2
Sections 8 and 9: All
Section 10: W/2
Section 14: SW/4
Section 15, 16, and 17: All
Section 18: E/2 E/2
Section 19: E/2 NE/4
Sections 20, 21, and 22: All
Sections 27 and 28: All
Section 29: NE/4
Section 33: E/2 E/2
Section 34: All

- (b) Contraction of the Rhodes Yates-Seven Rivers Oil Pool,
Lea County, New Mexico:

TOWNSHIP 26 SOUTH, RANGE 37 EAST, NMPM
Sections 4, 5, and 6: All
Section 7: E/2
Section 8: N/2, E/2 SE/4, SW/4 SE/4, and SE/4 SW/4
Section 9: All
Section 10: S/2
Sections 15 and 16: All
Section 17: NE/4, E/2 SE/4, and E/2 W/2
Section 21: N/2 N/2, SW/4 NW/4, and SE/4 NE/4
Section 22: N/2, N/2 SE/4, SE/4 SE/4, and NE/4 SW/4
Section 23: S/2

- (c) Extension of the Scarborough-Yates-Seven Rivers Pool, Lea
County, New Mexico:

TOWNSHIP 26 SOUTH, RANGE 37 EAST, NMPM
Section 6: SW/4 SW/4
Section 29: NE/4

- (d) Creation of the Rhodes-Yates-Seven Rivers Gas Pool, Lea
County, New Mexico:

TOWNSHIP 26 SOUTH, RANGE 37 EAST, NMPM

Section 4: All
Section 5: E/2
Section 8: NE/4, E/2 SE/4, SW/4 SE/4, and
SE/4 SW/4
Section 9: All
Section 10: W/2
Section 14: SW/4
Section 15 and 16: All
Section 17: NE/4, E/2 W/2, and E/2 SE/4
Section 21: N/2 N/2, SE/4 NE/4, and SW/4 NW/4
Section 22: N/2, N/2 SE/4, SE/4 SE/4, and NE/4 SW/4
Section 23: S/2

Operator EL PASO NATURAL GAS COMPANY			Lease Rhodes Gas Storage Unit		Well No. 18
Unit Letter D	Section 16	Township 26 S	Range 37 E	County LEA	
Actual Footage Location of Well:					
660		feet from the North		line and 860 feet from the West line	
Ground Level Elev. 2948.6	Producing Formation YATES - 7 RIVERS		Pool RHODES YATES - 7 RIVERS		Dedicated Acreage: 160 Acres

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

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

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

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

CERTIFICATION

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

John S. Delk

Signature

JOHN S. DELK

Position

SUPERVISOR PROD. SVCS.

Company

EL PASO NATURAL GAS CO.

Date

MARCH 2, 1982

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

Date Surveyed

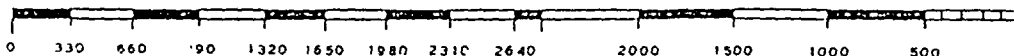
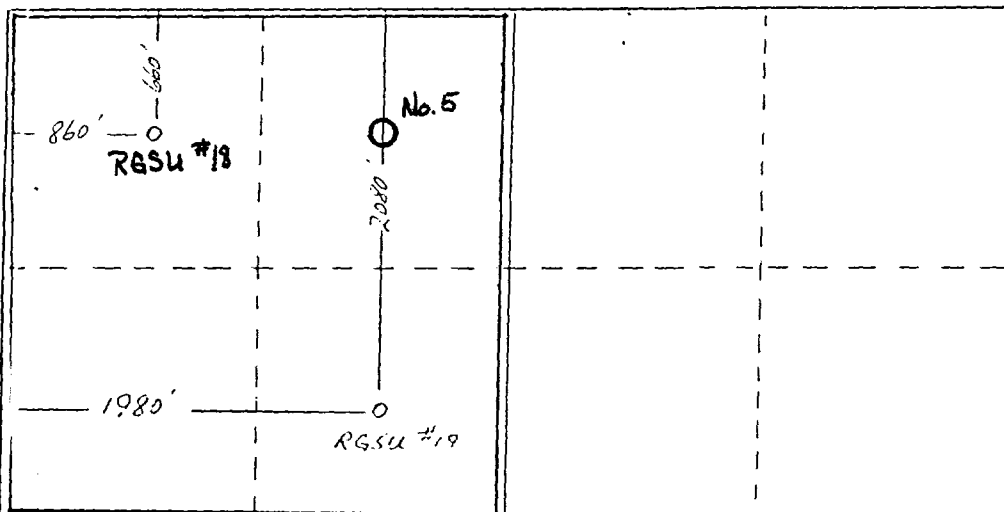
August 18, 1973

Registered Professional Engineer
and/or Land Surveyor

Truman Gaskin

Certificate No.

2126



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

Operator: EL PASO NATURAL GAS COMPANY			Lease Rhodes Gas Storage Unit		Well No. 19
Unit Letter F	Section 16	Township 26 S	Range 37 E	County LEA	

Actual Footage Location of Well:

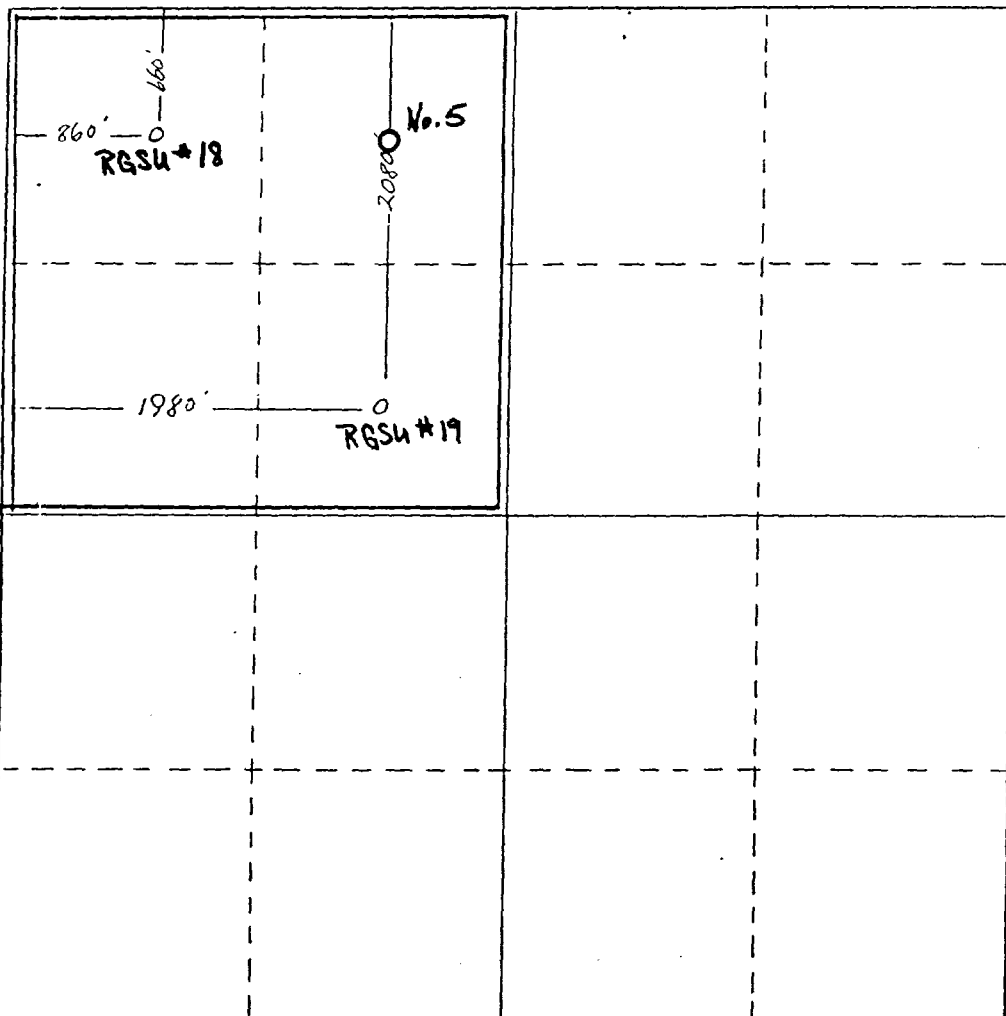
1980	feet from the	West	line and	2080	feet from the	North	line
Ground Level Elev. 2991.8	Producing Formation YATES - 7 RIVERS		Pool RHODES YATES - 7 RIVERS		Dedicated Acreage: 160		Acres

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

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

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

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



CERTIFICATION

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

John S. Delk
Name

JOHN S. DELK

Position

SUPERVISOR PROD. SVCS.

Company

EL PASO NATURAL GAS CO.

Date

MARCH 2, 1982

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

Date Surveyed

August 18, 1973

Registered Professional Engineer
and/or Land Surveyor

Truman Gaskin

Certificate No.

2126

0 330 660 990 1320 1650 1980 2310 2640 2000 1500 1000 500 0

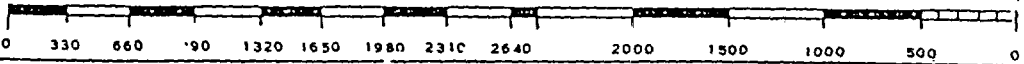
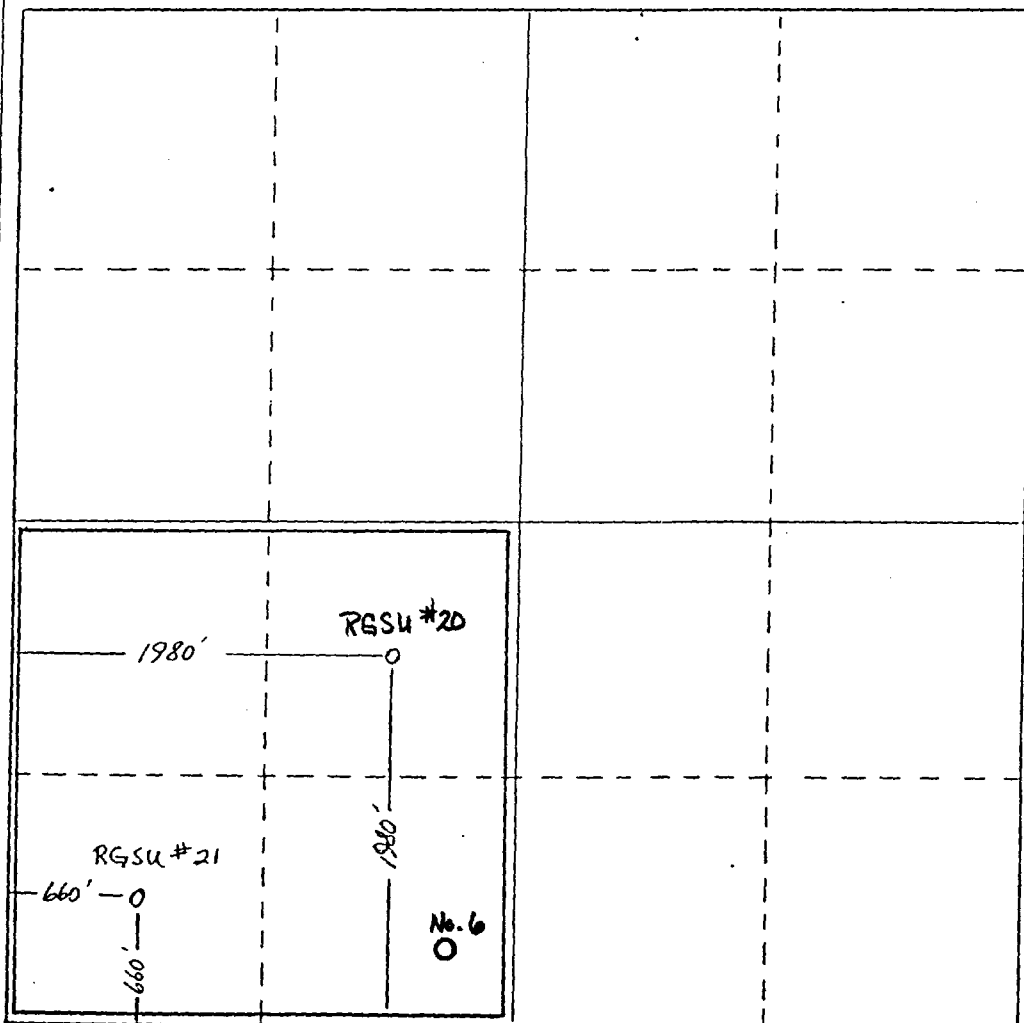
Operator EL PASO NATURAL GAS COMPANY			Lease Rhodes Gas Storage Unit		Well No. 20
Unit Letter K	Section 16	Township 26 S	Range 37 E	County LEA	
Actual Footage Location of Well:					
1980 feet from the West line and		1980 feet from the South line			
Ground Level Elev. 2992.2	Producing Formation YATES - 7 RIVERS	Pool RHODES YATES - 7 RIVERS	Dedicated Acreage: 160 Acres		

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

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

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

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



CERTIFICATION

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

John S. Delk
Name
JOHN S. DELK

Position
SUPERVISOR PROD. SVCS.

Company
EL PASO NATURAL GAS CO

Date
MARCH 2, 1982

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

Date Surveyed
August 19, 1973
Registered Professional Engineer and/or Land Surveyor

Truman Gaskin
Certificate No.
2126

All distances must be from the outer boundaries of section.

Operator EL PASO NATURAL GAS COMPANY			Lease Rhodes Gas Storage Unit		Well No. 21
Unit Letter M	Section 16	Township 26 S	Range 37 E	County LEA	
Actual Footage Location of Well: 660 feet from the West line and 660 feet from the South line					
Ground Level Elev. 2984.8	Producing Formation YATES - 7 RIVERS		Pool RHODES YATES - 7 RIVERS	Dedicated Acreage 160 Acres	

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

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

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

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

CERTIFICATION

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

John S. Delk

Name

JOHN S. DELK

Position

SUPERVISOR PROD. SVCS.

Company

EL PASO NATURAL GAS CO.

Date

MARCH 2, 1982

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

Date Surveyed

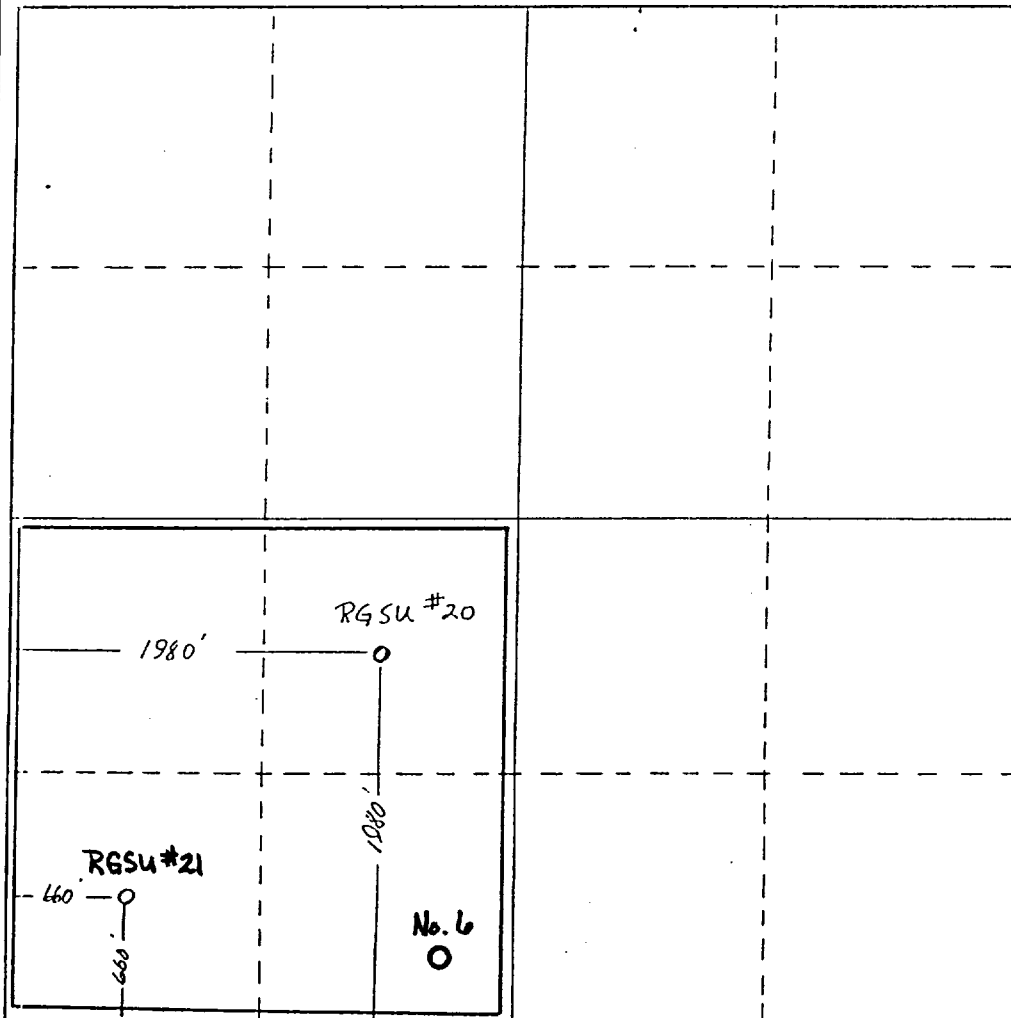
August 19, 1973

Registered Professional Engineer
and/or Land Surveyor

Truman Gaskin

Certificate No.

2126



0 330 660 990 1320 1650 1980 2310 2640 2000 1500 1000 500 0

DOYLE HARTMAN

Oil Operator

March 25, 1996

VIA FEDERAL EXPRESS

Ms. Leslyn M. Swierc, Senior Landman
Meridian Oil Production, Inc.
3300 North "A" Street
Building 6
Midland, TX 79705-5406

RE: Requested Accounting
Group 1 Unitized Production
Rhodes Unit
T-26-S, R-37-E
(5480 Acres)

Dear Ms. Swierc:

Reference is made to Meridian's letter to Mr. William LeMay of the New Mexico Oil Conservation Division dated February 20, 1996 (copy enclosed), and to that certain Rhodes Unit Agreement dated January 1, 1944, and "...approved by Oscar L. Chapman, **Assistant Secretary of the Interior**, on June 29, 1944..." (copy enclosed).

A review of the January 1, 1944 Rhodes Unit Agreement (enclosed as Attachment F with Meridian's February 20, 1996 letter to Mr. William LeMay) has revealed that 160 acres of the "...5480 acres of Group 1 unitized substances initially committed to [the] agreement..." consists of the following lands:

T-26-S, R-37-E
Lea County, New Mexico
Section 10: SW/4 SW/4
Section 15: S/2 NE/4; NW/4 NW/4
(160 Acres)

As to the definition of unitized substances, the January 1, 1944 Rhodes Unit Agreement defines unitized substances as follows:

UNITIZED
SUBSTANCES

4. All oil, gas, natural gasoline, and associated fluid hydrocarbons in lands subject to this agreement in any and all sands or horizons are unitized under the terms of this agreement and are hereinafter called "unitized substances"

Letter to Ms. Leslyn M. Swierc
March 25, 1996
Page 2

The January 1, 1944 Rhodes Unit Agreement further categorizes unitized substances into three separate groups, with Group 1 unitized substance being defined as "... Gas (including casinghead gas) in any and all sands above a depth of 4000 feet..."

Concerning the allocation of Group 1 unitized substances, paragraph 11 of the Rhodes Unit Agreement reads as follows:

ALLOCATION
OF GROUP 1
UNITIZED
SUBSTANCES

11. Group 1 unitized substances, as and when produced, will be deemed to be produced equally on an acreage basis from all the lands subject to this agreement and will be allocated to the several tracts in the ratio that the total acreage of each bears to the total acreage subject to this agreement.

In regard to the foregoing, please find enclosed a two-page excerpt from that certain assignment from Sun Limited Partnerships to Doyle Hartman dated January 2, 1986, which assignment is recorded in Oil and Gas Book 394 of the Lea County, New Mexico records and, on pages 658 and 659, conveyed to Doyle Hartman 79.6875% BPO and 85.9375% APO of the oil, casinghead gas, and other liquid hydrocarbons produced from above 3500 feet as to:

T-26-S, R-37-E
Lea County, New Mexico
Section 10: SW/4 SW/4
Section 15: S/2 NE/4; NW/4 NW/4
(160 acres)

Although Meridian, as designated operator of Group 1 unitized substances, was assigned the duty of "...prospecting for, producing, storing, and disposing of Group 1 unitized substances...", and recognizing that the subject 160 acres consisting of SW/4 SW/4 Section 10 and S/2 NE/4, NW/4 NW/4 Section 15, T-26-S, R-37-E have been owned by Doyle Hartman, et.al. for more than 10 years, and is part of the "...5480 acres of Group 1 substances initially committed to [the] agreement..." that is entitled to a proportional allocation of applicable unitized Group 1 hydrocarbon substances, to date, we have received no allocation or accounting whatsoever from Meridian pertaining to our proportional share of applicable Group 1 unitized hydrocarbon substances that have been recovered from Group 1 unitized lands.

Letter to Ms. Leslyn M. Swierc

March 25, 1996

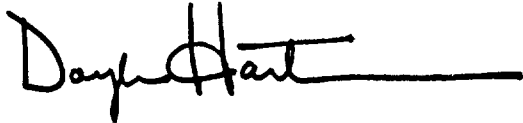
Page 3

Because of the considerable period of time that has already elapsed without Meridian having accounted for our proportional share of applicable recovered Group 1 unitized hydrocarbon substances, time is of the essence. We therefore ask that Meridian promptly inform us as to how, and in what time frame, it proposes to initiate and perform the necessary audit and accounting process that will be required to accurately quantify Doyle Hartman's and James A. Davidson's share of applicable recovered Group 1 hydrocarbon substances that is presently owing by virtue of the herein referenced ownership and the terms the January 1, 1944 Rhodes Unit Agreement.

Your immediate reply is respectfully requested.

Very truly yours,

DOYLE HARTMAN, Oil Operator

A handwritten signature in black ink, appearing to read "Doyle Hartman", followed by a long horizontal line extending to the right.

Doyle Hartman

DH/mkc

Letter to Ms. Leslyn M. Swierc
March 25, 1996
Page 4

CC: Mr. William LeMay, Director
Energy & Minerals Department
Oil Conservation Division
P.O. Box 2088
Santa Fe, NM 87504-2088

Mr. Jim Buchanan
Sr. VP, Operations
Meridian Oil Production, Inc.
5051 Westheimer, Suite 1400
Houston, TX 77056

Mr. James A. Davidson
P.O. Box 494
Midland, TX 79702

Mr. Randy Mundt
Executive VP, Land
Meridian Oil Production, Inc.
5051 Westheimer, Suite 1400
Houston, TX 77056

Mr. Dennis E. Sledge
Regional Land Manager
Meridian Oil Production, Inc.
3300 North "A" Street
Building Six
Midland, TX 79705

Mr. William F. Carr
Campbell, Carr, Berge & Sheridan
110 North Guadalupe, Suite 1
Santa Fe, NM 87504

DOYLE HARTMAN, Oil Operator:
Mr. Steve Hartman
Mr. Don Mashburn
Ms. Carolyn Sebastian
Ms. Cindy Brooks
Mr. Jefferson Massey
Ms. Linda Land
500 North Main
Midland, TX 79702

MERIDIAN OIL

February 20, 1996

Mr. William J. LeMay, Director
New Mexico Oil Conservation Division
2040 South Pacheco Street
Santa Fe, New Mexico 87505

Re: Administrative Applications of Meridian Oil Inc for Administrative Approval of an Unorthodox Well Locations for its Rhodes B Federal Well No. 4 and No. 7
Lea County, New Mexico

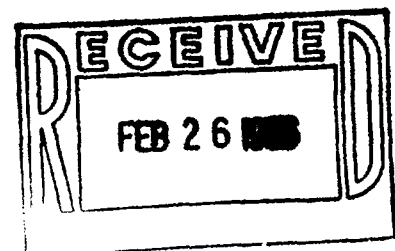
Dear Mr. LeMay:

On December 21, 1995, Meridian Oil Inc. ("Meridian") filed an administrative application with the NMOCD requesting approval of the two referenced wells. Although Texaco Exploration & Production Inc. ("Texaco") is an offset interest owner, no notification is required because, by prior agreements, Texaco has consented to the "unorthodox locations" of these wells and has waived its right to object.

Despite Texaco's agreement to the contrary, by letter dated February 2, 1996, William F. Carr, attorney for Texaco, submitted an objection to the location of the referenced wells and requested these cases be docketed for hearing. Meridian hereby responds to the objections raised by Texaco by offering the following information:

The Rhodes B Federal Wells No. 4 and No. 7 (the "Wells") are gas wells drilled within the boundaries of both the Rhodes Unit and the Rhodes Oil Pool. The Rhodes Unit Agreement dated January 1, 1944 (the "Agreement") was entered into and accepted by The Texas Company, now "Texaco", Columbian Carbon Company, now "Oxy", Amerada Petroleum Corporation, now "Amerada" and El Paso Natural Gas Company, now "Meridian" (all hereinafter collectively referred to as the "Parties").

The Agreement specifically states that "it is the purpose of the Parties to conserve the natural resources, prevent avoidable waste, and obtain the other benefits obtainable through development and operation of said unit area...under and pursuant to the provisions of sections 17, 27 and 32 of the Act of Congress...entitled 'An act to promote the mining of coal, phosphate, oil, oil shale, gas and sodium on the public domain,' 41 Stat. 443, 448, 450 as amended..." "All oil, gas, natural gasoline, and associated fluid hydrocarbons in lands subject to [the Agreement] in any and all sands or horizons are unitized...and are hereinafter called 'unitized substances.'" (See Attachment A for outline of unit area.)



The Agreement further states that "It is the intent...of [the Parties] that the unitized substances shall be subject to development and operation in separate groups..."

"Group 1. Gas (including casinghead gas) in any and all sands at or above a depth of 4,000 feet..."

"Group 2. Oil in any and all sands at or above a depth of 4,000 feet..."

"Group 3. All unitized substances below a depth of 4,000 feet..."

No operator was appointed for Group 2 and Group 3 substances. The Agreement states that "conditions for the development and operation of unitized substances in Group 2 and/or Group 3 shall...be deemed to be the terms and conditions of the leases, contracts and other agreements...except insofar as said leases, contracts or other agreements may require adjustment or modification to conform with the herein provided terms and conditions."

El Paso Natural Gas Company (Meridian) was designated as operator for Group 1 substances. The Group 1 operator was granted the "exclusive right, privilege and duty of exercising any and all rights of the Parties...which are necessary or convenient for prospecting for, producing, storing and disposing of Group 1 unitized substances..." "The Group 1 unit operator is authorized to shut-in or produce the unitized substances in Group 1...according to a plan of development and/or operations which shall be submitted by said Unit Operator for approval by the Oil and Gas Supervisor within 30 days after approval of this agreement..."

Attached to and made a part of the Rhodes Unit Agreement is a "Side Agreement" dated March 13, 1944, but effective January 1, 1944 between the Parties. The Side Agreement granted to El Paso Natural Gas Company "the exclusive right to drill for and produce gas to a depth of 4,000 feet...[in] all the leases described in Exhibit 'A.'" (See Attachment B for an outline of the leases described in Exhibit 'A' of the Side Agreement.) The Side Agreement states further that "Either party (The Texas Company, Columbian Carbon Company & Amerada Petroleum Corporation - collectively called "Seller" and El Paso Natural Gas Company - "Buyer") shall have the right to drill a well on any **forty (40) acre tract**...on said lands (provided however Buyer [El Paso] may not drill to a depth in excess of 4,000 feet) but, except upon demand of the Oil and Gas Supervisor, neither party shall have the right to drill a well for the purpose of producing from the presently-known producing horizons above 4,000 feet...on any **forty (40) acre tract**...on which there is an existing oil or gas well which is producing from a horizon above 4,000 feet..."

Both the Rhodes Unit Agreement and the Side Agreement were approved by Oscar L. Chapman, **Assistant Secretary of the Interior** on June 29, 1944. In Mr. Chapman's approval, it is certified "that each and every lease heretofore or hereafter issued for lands of the United States and made subject as to all or any part of the leased lands to said agreement...**shall be modified** as to the drilling, producing, and royalty provisions of such lease **to conform with said agreement**..." (See Attachment C for a copy of the Assistant Secretary's approval.)

Mr. William LeMay
February 20, 1996
Page 3

Texaco has recognized and accepted the "existing well on a forty acre tract" rule by requesting waivers from Meridian in 1992 and again in 1993 which allowed Texaco to drill 7 oil wells within forty acre tracts on which a Meridian gas well currently existed. Texaco reciprocated by granting waivers to Meridian in September 1995 which allowed Meridian to drill its Rhodes B Federal No.1 & 2 gas wells within forty acre tracts on which Texaco's oil wells currently existed. (See Attachments D for copies of waivers from both Texaco and Meridian.)

To carry this concept a step further, in 1982 the Rhodes Oil Pool and Rhodes Gas Pool were delineated by the New Mexico Oil Conservation Division. (See Attachment E for the acreage included in the Rhodes Oil Pool and Rhodes Gas Pool and the Order approving same.) Rule 104.C allows the drilling of oil wells within the Rhodes Oil Pool on forty (40) contiguous surface acres with spacing of 330' from the governmental quarter-quarter section or lot and 330' from the offset lease and/or nearest drilling well capable of producing from the same pool. Texaco, by agreement (the Rhodes Unit Agreement and the Side Agreement), has consented that gas wells in either pool will be drilled using forty (40) acre oil well locations. In addition, this gas and oil well spacing program, including how gas wells and oil wells are defined for these Rhodes pools, has been authorized by the Department of the Interior and approved by the NMOCD. Meridian has complied with the spacing program of *each* pool, irrespective of whether the well was drilled in the Oil Pool or Gas Pool. (i.e. - The Rhodes A Federal No. 2 is located in the Rhodes Gas Pool and is subject to the spacing rules of the Rhodes *Gas* Pool. The Rhodes B Federal No. 1 is located in the Rhodes Oil Pool and is subject to the spacing rules of the Rhodes *Oil* Pool)

The Rhodes B Federal No. 4 is located 553' FEL & 2418' FSL Section 27, T-26-S, R-37-E, Lea County, New Mexico (within the oil pool). The location from the East line (offset lease) is more than 330' and the location to the quarter-quarter line is 220'. This quarter-quarter encroachment is on Meridian's own gas rights which are covered under the Rhodes Unit Agreement and the Side Agreement described above.

The Rhodes B Federal No. 7 is located 330' FNL & 1470' FEL Section 26, T-26-S, R-37-E, Lea County, New Mexico (within the oil pool). The location from the North line (offset lease) is 330' and the location to the quarter-quarter line is 150', which is, again, encroaching on Meridian's own gas rights covered under the Rhodes Unit Agreement and the Side Agreement.

Texaco was aware of the above locations at the time the Wells were staked and permitted. Further, Texaco personnel assisted Meridian personnel in the staking of the Wells by identifying Texaco pipelines and facilities, and in moving the Well locations so as not to interfere with Texaco's operations.

Meridian's notification to Texaco concerning the Rhodes B Federal No. 4 and No. 7 was done out of courtesy and not necessity, as per the Rhodes Unit Agreement. (A copy of the Rhodes Unit Agreement and the Side Agreement are enclosed as Attachment F & G, respectively, for your perusal.) As previously stated, Meridian was granted the right by the Parties with the approval of the Secretary of the Interior to develop the **gas on forty (40) acre tracts** using oil well spacing within the unit area (refer to Attachment A). This development program has been an ongoing project for a number of years, and further, the gas wells drilled in the Rhodes Oil Pool have been consistent with that program. (See permits for the Rhodes B Federal No. 4 and No. 7 as Attachment H.) Precedent has set the development of gas wells in the oil pool due to the distinct separation of the respective gas and oil zones.

Mr. William LeMay
February 20, 1996
Page 4

Regarding the concerns addressed by Doyle Hartman in his letter of January 24, 1996, Mr. Hartman questioned the location of the Rhodes B Fed. #7 at its 330' FNL location. As stated above, in accordance with the Rhodes Unit Agreement and the Side Agreement, the 330' location to the offset lease is a legal location. Consequently, Meridian is not encroaching on Mr. Harman's "Dublin" lease.

Meridian respectfully requests the objections raised by Texaco and Doyle Hartman be denied and that Meridian's administrative applications for non-standard locations regarding the Wells be approved.

Very Truly Yours,

MERIDIAN OIL INC.

A handwritten signature in cursive script, reading "Leslyn M. Swierc".

Leslyn M. Swierc, CPL
Senior Landman

LMS/cs
Enclosures

cc: Mr. W. Thomas Kellahin
Santa Fe, New Mexico
Mr. William F. Carr
Santa Fe, New Mexico
Doyle Hartman
Dallas, Texas

Don Davis
Chris Settle
Albert Billman
Mike Metcalf
Donna Williams

U N I T A G R E E M E N T
FOR THE DEVELOPMENT AND OPERATION OF THE RHODES AREA

This agreement, entered into as of the 1st day of January, 1944, by and between the parties subscribing or consenting hereto,

WITNESSETH:

WHEREAS, the parties subscribing or consenting hereto are the owners of operating, royalty, or other oil or gas interests in the Rhodes unit area hereinafter defined;

WHEREAS, it is the purpose of the parties hereto to conserve the natural resources, prevent avoidable waste, and obtain the other benefits obtainable through development and operation of said unit area (or the part thereof made subject to this agreement) under the terms, conditions, and limitations hereinafter set forth, under and pursuant to the provisions of sections 17, 27 and 32 of the act of Congress, approved February 25, 1920, entitled "An act to promote the mining of coal, phosphate, oil, oil shale, gas and sodium on the public domain," 41 Stat. 443, 448, 450, as amended or supplemented by the acts of March 4, 1931, 46 Stat. 1525, and August 21, 1935, 49 Stat. 677, 678; 30 U. S. C. 226, 184 and 189;

NOW, THEREFORE, in consideration of the premises and the promises hereinafter contained, the parties hereto and the parties consenting hereto agree among themselves and with the

Secretary of the Interior as follows:

ENABLING ACT
AND
REGULATIONS

1. The act of February 25, 1920, supra,
as amended, and all pertinent regulations heretofore and all pertinent and reasonable regulations hereafter issued thereunder, including operating regulations, are accepted and made a part of this agreement.

UNIT AREA

2. The following described lands shown on the map attached hereto are hereby designated and recognized as constituting the Rhodes unit area:

Section 4: W/2 W/2; E/2 SW/4; W/2 SE/4; SE/4 SE/4

Section 5: All

Section 6: NE/4 NW/4; NE/4; N/2 SE/4; SE/4 SE/4

Section 7: NE/4 NE/4

Section 8: NW/4; N/2 SW/4; SE/4 SW/4; E/2

Section 9: All

Section 10: NW/4 NW/4; S/2 NW/4; S/2

Section 15: All

Section 16: All

Section 17: E/2; E/2 NW/4

Section 20: E/2

Section 21: All

Section 22: All

Section 23: SW/4 NW/4; SW/4

Section 26: All

Section 27: All

Section 28: All

Section 29: E/2 NE/4

All in Township 26 South, Range 37 East, N. M. Meridian.

The above described unit area may be modified upon application by the Group 1 Unit Operator hereinafter referred to and by the unit operator or operators for the unitized substances in Group 2 and Group 3, or, if there be no unit operator for the unitized substances in both or either of said Groups, then the owners of the operating rights as to unitized substances in the Group for which there is no unit operator upon the majority of the lands then subject to this agreement, and with the approval of the Secretary of the Interior, to include additional land reasonably regarded as necessary or desirable for the purposes of this agreement or to exclude land reasonably proved to be unnecessary for such purposes. Such increase or decrease shall be effective as of the first of the month following approval.

LANDS SUBJECT
TO
THIS AGREEMENT

3. All tracts within the unit area as to which the oil and gas operating rights are committed to this agreement constitute the lands subject to this agreement. Signature hereof or consent hereto by any person commits to this agreement the interests (whether operating rights or other interests) specified opposite such person's signature hereof or specified in such person's consent hereto:

UNITIZED
SUBSTANCES

4. All oil, gas, natural gasoline, and associated fluid hydrocarbons in lands subject to this agreement in any and all sands or horizons are unitized under the terms of this agreement and are hereinafter called "unitized substances".

SEGREGATION
OF UNITIZED
SUBSTANCES

5. It is the intent and purpose of the parties to this agreement that the unitized substances shall be subject to development and operation in separate groups as follows:

Group 1. Gas (including casinghead gas) in any and all sands at or above a depth of 4,000 feet from the ground surface, whether such gas is now in place or is hereafter injected.

Group 2. Oil in any and all sands at or above a depth of 4,000 feet from the ground surface.

Group 3. All unitized substances below a depth of 4,000 feet from the ground surface.

GROUP 2
AND/OR
GROUP 3
UNIT OPERATOR
OR OPERATORS

6. No Unit Operator has been appointed for the unitized substances in Group 2 and/or Group 3, nor need be unless the appointment of such a Unit Operator be demanded by the Secretary.

The terms and conditions for the development and operation of unitized substances in Group 2 and/or Group 3 shall (unless and until a plan for their development be established as below provided) be deemed to be the terms and conditions of the leases, contracts, and other agreements under which said unitized substances are now being developed and operated, except insofar as said leases, contracts or other agreements may require adjustment or modification to conform with the herein provided terms and conditions.

The holders of the operating rights as to the unitized substances in Group 2 and Group 3, or either, may at any

time select, and they agree upon demand of the Secretary promptly to select, a Unit Operator for the unitized substances in Group 2 and Group 3, or either, and in either such case they shall also submit a schedule showing a method of allocation of benefits and costs of operations as to said unitized substances and the ratio of apportionment thereof among the parties entitled to such benefits or chargeable with such costs. After approval by the Secretary of the Unit Operator so selected, and of the schedule so submitted, and within 30 days after demand by the Supervisor, said Unit Operator shall submit for the approval of the Supervisor a plan of development and/or operation for the unitized substances in Groups 2 and/or 3, which plan or plans, when so approved, shall constitute the further drilling and operating obligations of said Unit Operator for the unitized substances involved. Said plan or plans shall be as nearly complete and adequate as the Supervisor may determine to be necessary and advisable to conserve properly the unitized substances covered by such plan or plans. Said plan or plans may be modified from time to time upon approval of said Supervisor, or at the direction of said Supervisor, to meet changed conditions, and the further obligations of the Unit Operator or Operators involved shall be conformed thereto.

GROUP 1
UNIT
OPERATOR

7. El Paso Natural Gas Company is hereby designated as unit operator for Group 1 unitized substances, hereinafter designated as Group 1 Unit Operator, and by signature hereof commits to this agreement all interests vested in it in lands within the unit area and agrees

to accept the duties and obligations of such unit operator to conduct and manage the operation of the lands subject to this agreement for the development, storage and production of Group 1 unitized substances as herein provided.

SUCCESSOR
UNIT
OPERATOR

8. Whenever a Unit Operator for a Group or groups of unitized substances designated under this agreement shall be removed or shall relinquish his rights as Unit Operator under this agreement, the owners of the majority of operating rights as to such group or groups of unitized substances according to their total acreage interests in the lands subject to this agreement as to such group or groups shall select a new unit operator for such group or groups of unitized substances. Such selection shall not become effective until (a) the unit operator so selected shall accept the duties and responsibilities of such unit operator and (b) the selection shall have been approved by the Secretary. Any unit operator shall be subject to removal for failure to perform effectively his duties and obligations as Unit Operator hereunder on notice by the Secretary, such notice to be given only after reasonable opportunity has been given to correct any specified default in performance.

The right to relinquish all rights as a unit operator may be exercised whenever said operator is not in default under this agreement but no Unit Operator shall be relieved from his duties and obligations as Unit Operator for a period of six months after notice of intention to relinquish such duties and obligations has been served by him on all other parties hereto

holding operating rights in respect to the unitized substances involved and the Secretary, unless a new operator shall have been selected and shall have taken over and assumed the duties and obligations of such Unit Operator prior to the expiration of said period. At any time prior to the date on which relinquishment by or removal of a Unit Operator becomes effective, the owners of operating rights as to the unitized substances involved or a duly qualified new Unit Operator may elect to purchase on reasonable terms all or any part of the preceding Unit Operator's equipment, material, and appurtenances in or upon the lands subject to this agreement, provided that, no such equipment, material, or appurtenances so selected for purchase shall be removed pending determination of reasonable terms of purchase. Any equipment, material, and appurtenances not so purchased and not so necessary for the preservation of wells may be removed by the retiring Unit Operator at any time within six (6) months after the relinquishment or removal becomes effective, but if not so removed shall become the joint property of the owners of the operating rights as to the unitized substances involved.

Acquisition or assignment of operating rights pertaining to Federal lands subject to this agreement and the consideration therefor shall be subject to approval by the Secretary.

RIGHTS AND
OBIGATIONS
OF GROUP 1
UNIT OPERATOR

9. The exclusive right, privilege, and duty of exercising any and all rights of the parties signatory hereto which are necessary or convenient for prospecting for, producing,

storing and disposing of the Group 1 unitized substances is hereby vested in the Group 1 Unit Operator and shall be exercised by said Unit Operator as provided in this agreement. Acceptable evidence of title to said rights shall be deposited with said Unit Operator, and, together with this agreement, shall constitute and define said Unit Operator's rights, privileges, and obligations in the premises; provided, that nothing herein shall be construed to transfer title to any lands, leases, or operating agreements, it being understood that the Group 1 Unit Operator shall have rights of possession and use merely for the purposes herein specified, and for any and all other purposes all existing agreements in respect to Group 1 unitized substances remain in force and effect. Like provisions shall be applicable to Group 2 and/or Group 3 unitized substances if and when a unit operator or operators for those substances are selected as herein provided.

The Group 1 Unit Operator shall pay all costs and expenses of operations with respect to the development, storage and recovery of Group 1 unitized substances.

PLAN OF
OPERATION
AS TO GROUP 1
UNITIZED
SUBSTANCES

10. The Group 1 Unit Operator is authorized to shut-in or produce the unitized substances in Group 1, or supplement such substances by injection of gas, according to a plan of development and/or operations which shall be submitted by said Unit Operator for approval by the Oil and Gas Supervisor within 30 days after approval of this agreement and when

so approved shall constitute the obligations of said Unit Operator for development and operation of such unitized substances; provided that said plan shall be subject to modification from time to time at the option of said Unit Operator subject to like approval; and provided further that the Oil and Gas Supervisor may require that a new plan of development and/or operations shall be submitted when, in his opinion, such action is necessary and advisable in the public interest.

ALLOCATION
OF GROUP 1
UNITIZED
SUBSTANCES

11. Group 1 unitized substances, as and when produced, will be deemed to be produced equally on an acreage basis from all the lands subject to this agreement and will be allocated to the several tracts in the ratio that the total acreage of each bears to the total acreage subject to this agreement.

PAYMENTS OF
ROYALTIES
ON GROUP 1
UNITIZED
SUBSTANCES

12. Group 1 Unit Operator, on behalf of the respective lessees, shall pay all royalties due the United States, the State of New Mexico, and others entitled thereto, on account of Group 1 unitized substances; provided, that if said Unit Operator defaults in any such payments and no bond has been posted by said Unit Operator which is adequate to cover such default, or when there is no Group 1 Unit Operator, the obligation to pay royalties on Group 1 Unitized Substances shall rest upon the respective lessees.

ROYALTIES
AND RENTALS

13. (a) Royalties on Group 1 unitized substances payable to the United States shall be:

(1) A royalty of 3.79 per cent on the value of the gas as to production thereof allocated to Federal lands for a period of 25 years subject to the provisions of the following paragraphs of this section, regardless of whether the production was originally in place or was injected by Group 1 Unit Operator, and thereafter the lease rates shall prevail unless a modification of such rates is agreed upon by the Secretary of the Interior and Group 1 Unit Operator.

(2) Royalties on gasoline or other liquid hydrocarbons allocated to Federal lands shall be paid at the lease rates.

(3) If for any reason Group 1 Unit Operator does not inject into sands or horizons containing Group 1 unitized substances a total of 65,000,000 M.c.f. of gas within 15 years from the effective date hereof or if, upon the permanent discontinuance of the injection of gas, Group 1 Unit Operator has failed to inject 65,000,000 M.c.f., the rate of royalty due the United States on the gas recovered from the production of Group 1 unitized substances shall be 3.79 per cent plus that percentage of 6.54 per cent which the difference between 65,000,000 M.c.f. and the amount of such gas injected bears to 65,000,000 M.c.f.

(4) If the total volume of gas produced per acre equals the amount injected per acre plus 4,136 M.c.f. per acre at 15.025# pressure base, the rate of Federal royalty on all subsequent production shall be at the lease rates.

13.(b) Royalties for Groups 2 and 3
unitized substances payable to the United States shall be paid

at the rates specified in the respective leases subject to this agreement. If and when such substances are produced under a plan of development and/or operation approved pursuant to this agreement, said royalties shall be computed on the basis of the amount or value of production allocated to said leases.

13.(c) Rental for lands of the United States subject to this agreement shall be paid at the rates specified in the leases, except that, as to leaseholds determined by the Secretary of the Interior to be valuable only for storage or production of Group 1 unitized substances, the rental shall be paid at an annual rate of 25 cents an acre during the first 25 years following the effective date of this agreement. In any and all events, the leases shall be deemed to be in a status of operating leases while being used for storage of Group 1 unitized substances.

CONSERVATION

14. All operations shall be conducted so as to provide for the most economical and efficient recovery of unitized substances to the end that maximum ultimate yield may be obtained without waste, and for the purpose of more properly conserving the natural resources, the production of unitized substances at all times shall be without waste as defined by State or Federal law; and production from gas wells shall be limited to such quantity as can be put to beneficial use with adequate realization of fuel values; and, in the discretion of the Secretary of the Interior, production of unitized substances shall be limited by the beneficial demand as determined by said Secretary.

DRAINAGE

15. Any Unit Operator shall take appropriate and adequate measures to prevent drainage of the unitized substances as to which he is Unit Operator from the unitized lands by wells not on the lands subject to this agreement, or, with approval of the Secretary of the Interior, pay a fair and reasonable compensatory royalty as determined by the Supervisor.

LEASES AND
CONTRACTS
CONFORMED
TO AGREEMENT

16. The parties hereto or consenting hereto holding Federal leases subject to this agreement, consent that the Secretary shall, and said Secretary, by his approval of this agreement, does, establish, alter, change or revoke the drilling, producing, royalty and rental requirements of such leases and the regulations in respect thereof, to conform said requirements to the provisions of this agreement.

The Secretary further agrees, consents and determines that during the effective life of this agreement, the prospecting, drilling, and producing operations performed upon any lands subject hereto will be accepted and deemed to be operations under and for the benefit of all such leases; that suspension of operations or production on any such lease shall be deemed not to have occurred if there be operations or production on any part of the lands subject hereto; and that suspension of all operations and production on said lands pursuant to any approved plan of development and/or operation or to the direction or consent of said Secretary, shall be deemed to constitute such suspension with respect to each such lease; and no such lease

shall be deemed to expire by reason of such approved suspension.

All agreements by and between the parties hereto or consenting hereto are hereby modified or amended to the extent that such agreements are not consistent herewith and in case of any conflict the terms of this unit agreement shall prevail.

The parties hereto owning rights in any Federal oil and gas lease which covers lands part of which are within, and part of which are outside, the Rhodes Unit Area described in this agreement, by their signature hereto hereby consent and agree that lands covered by any such lease located outside said Rhodes Unit Area will, upon request of the Secretary of the Interior, be made subject to any future unit agreement approved or prescribed by the Secretary.

COVENANTS
RUN
WITH LAND

17. The covenants herein run with the land until this agreement terminates, and any grant, transfer, or lease of interest in lands or leases subject hereto shall be conditioned on the assumption of all privileges and obligations hereunder by the grantee, transferee, lessee, or other successor in interest and as to Federal land shall be subject to approval by the Secretary.

EFFECTIVE DATE
AND TERM

18. This agreement upon approval by the Secretary shall be deemed to have become effective as of January 1, 1944, and shall terminate two (2) years after said effective date unless (1) gas has been or is being injected into the horizons containing Group 1 unitized substances, as herein provided, or (2) a plan for the development and operation of Group 2 or Group 3 unitized substances has been established, pursuant to section (6) hereof,

provided that this agreement may be terminated by the Secretary of the Interior upon request of Group 1 Unit Operator and the unit operator or operators for unitized substances in Groups 2 and 3, or, if there be no unit operator for unitized substances in said Groups or either of them, then the owners of the operating interests as to unitized substances as to which there is no unit operator upon the majority of the lands then subject to this agreement, after notice of intention to request such termination has been served on all parties in interest who are not parties to the request for such termination.

REGULATION
OF DEVELOPMENT
AND PRODUCTION

19. All production and the disposal thereof shall be in conformity with allocations, allotments, and quotas made or fixed by any duly authorized person or regulatory body under any Federal or State statute; provided that the Secretary is vested with authority, pursuant to the mineral leasing act, to alter or modify from time to time in his discretion, the rate of prospecting and development and the quantity and rate of production under this agreement, such authority being hereby limited to alteration or modification in the public interest, the purpose thereof and the public interest to be served thereby to be stated in the order of alteration or modification.

DETERMINATIONS
BY OPERATOR AND
REVIEW THEREOF

20. Operator shall determine all matters involved in this agreement for which a different method of determination is not herein established; provided that Operator shall give timely notice of all such

determinations to all interested parties, including the Secretary; provided further, that all such determinations may be reviewed by the Secretary on his own initiative or on written request of any interested party, notice of any such review to be given to all interested parties, including Operator, within 60 days after receipt of notice of Operator's determination; and provided further, that any matters so reviewed, on request or consent of Operator, may be submitted to a committee of three competent persons appointed by said Secretary, one on nomination of Operator, one on nomination of the other interested parties, and the third on nomination of the first two, the cost of such committee to be a cost of operation and its report (which shall be binding on the committee when concurred in by any two of its members) shall be submitted to said Secretary, the Operator, and other interested parties; and provided further, that opportunity shall be given in said review for all interested parties to present their contentions and supporting evidence by written or oral communication to said committee or said Secretary, and that after consideration of all credible evidence, said Secretary shall render a reasonable decision based thereon and in conformity therewith, which decision, so made and rendered, shall be final and binding on all parties hereto or consenting hereto.

"Operator", as used in this Section 20, means (a) where unitized substances in Group 1 are concerned, the Group 1 Unit Operator; (b) where unitized substances in Groups 2 and 3 are involved, the unit operator or operators for such substances, or, if there be no unit operator for the unitized substances

in both or either of said groups, then the owners of the operating interests as to the unitized substances for which there is no unit operator upon the majority of the lands then subject to this agreement; and (c) where unitized substances in Groups 1, 2 and 3 are involved, the Group 1 Unit Operator and the unit operator or operators for unitized substances in Groups 2 and 3, or if there be no such unit operator for the unitized substances in Groups 2 and 3 or either of them, the owners of the operating interests as to the unitized substances in said groups or group upon the majority of the lands then subject to this agreement.

BOND

21. Any Unit Operator shall furnish within 30 days after approval hereof by the Secretary of the Interior or after his selection and maintain at all times thereafter a bond in the penal sum of \$5,000.00 with approved corporate surety, or with deposit of United States bonds as surety therefor, conditioned upon compliance with the terms of this agreement applicable to him, provided that additional bond may be required at any time deemed necessary by the Secretary of the Interior.

22. It is understood and agreed that the calculations upon which the royalty percentages mentioned in paragraphs 1 and 3 of Section 13(a) and the M.c.f. per acre mentioned in paragraph 4 of said Section 13(a) are based on 5,480 acres of Group 1 unitized substances, initially committed to this agreement. If at any time it is mutually agreed to change the number of acres initially included within Group 1 unitized

substances, then the aforesaid royalty percentages and M. c. f. per acre shall be recalculated on the basis of the new acreage and facts appertaining thereto. No change shall be made in the aforesaid royalty percentages and M.c.f. per acre until such changes are mutually agreed upon by the Secretary of the Interior and Group 1 Unit Operator.

COUNTERPARTS

23. This agreement may be executed in any number of counterparts with the same force and effect as if all parties had signed the same document.

IN WITNESS WHEREOF, the parties hereto have caused this agreement to be executed and set opposite their respective names the date of execution and a list of the lands or interests made subject to this agreement. (Note: When any person executes this agreement in a representative capacity of any type, there should be attached thereto a duly certified or photostatic copy of the instrument(s) setting forth his authority to execute this agreement.)

Date March 13th, 1944.

EL PASO NATURAL GAS COMPANY

By C. C. CRAGIN (sgd)
Vice President

Attest: J. E. FRANEY (sgd)
Secretary

Sec. 7: NE $\frac{1}{4}$ NE $\frac{1}{4}$

Oil rights only above 4000' and
all gas rights in:

Sec. 9: SW $\frac{1}{4}$ NE $\frac{1}{4}$

Gas rights only to 4000' depth in:

✓ Sec. 4: W $\frac{1}{4}$ NW $\frac{1}{4}$; SW $\frac{1}{4}$; W $\frac{1}{2}$ SE $\frac{1}{4}$; SE $\frac{1}{4}$ SE $\frac{1}{4}$

✓ Sec. 10: SW $\frac{1}{4}$ SW $\frac{1}{4}$; SE $\frac{1}{4}$ SE $\frac{1}{4}$

✓ Sec. 15: NE $\frac{1}{4}$ NE $\frac{1}{4}$; NW $\frac{1}{4}$ NW $\frac{1}{4}$; S $\frac{1}{2}$ N $\frac{1}{2}$

✓ Sec. 5: All

✓ Sec. 6: NE $\frac{1}{4}$ NW $\frac{1}{4}$; NE $\frac{1}{4}$; N $\frac{1}{2}$ SE $\frac{1}{4}$; SE $\frac{1}{4}$ SE $\frac{1}{4}$

✓ Sec. 8: NW $\frac{1}{4}$; N $\frac{1}{2}$ SW $\frac{1}{4}$; SE $\frac{1}{4}$ SW $\frac{1}{4}$; E $\frac{1}{2}$

✓ Sec. 9: E $\frac{1}{2}$ NE $\frac{1}{4}$; NW $\frac{1}{4}$ NE $\frac{1}{4}$; W $\frac{1}{2}$; SE $\frac{1}{4}$

✓ Sec. 10: W $\frac{1}{4}$ NW $\frac{1}{4}$; SE $\frac{1}{4}$ NW $\frac{1}{4}$

✓ Sec. 15: S $\frac{1}{2}$

✓ Sec. 17: N $\frac{1}{2}$ NE $\frac{1}{4}$

✓ Sec. 21: E $\frac{1}{2}$ NE $\frac{1}{4}$; NW $\frac{1}{4}$ NE $\frac{1}{4}$

Sec. 22: All

Sec. 26: All

Sec. 27: E $\frac{1}{2}$

Sec. 28: S $\frac{1}{2}$

All in Township 26 South, Range 37
East, N.M.P. Meridian.

Date March 22, 1944, 1944.

THE TEXAS COMPANY

By J. S. LEACH (sgd)
J. S. LEACH Vice President

Attest: J. B. DUKE (sgd)
SEAL J. B. Duke
Assistant Secretary

Sec. 5: All

Sec. 6: NE $\frac{1}{4}$ NW $\frac{1}{4}$; NE $\frac{1}{4}$; N $\frac{1}{2}$ SE $\frac{1}{4}$; SE $\frac{1}{4}$ SE $\frac{1}{4}$

Sec. 8: NW $\frac{1}{4}$; N $\frac{1}{2}$ SW $\frac{1}{4}$; SE $\frac{1}{4}$ SW $\frac{1}{4}$; E $\frac{1}{2}$

Sec. 9: E $\frac{1}{2}$ NE $\frac{1}{4}$; NW $\frac{1}{4}$ NE $\frac{1}{4}$; W $\frac{1}{2}$; SE $\frac{1}{4}$

Sec. 10: W $\frac{1}{4}$ NW $\frac{1}{4}$; SE $\frac{1}{4}$ NW $\frac{1}{4}$

Sec. 15: S $\frac{1}{2}$

Sec. 17: N $\frac{1}{2}$ NE $\frac{1}{4}$

Sec. 21: E $\frac{1}{2}$ NE $\frac{1}{4}$; NW $\frac{1}{4}$ NE $\frac{1}{4}$

Sec. 22: All

Sec. 26: All

Sec. 27: E $\frac{1}{2}$

Sec. 28: S $\frac{1}{2}$

All in Township 26 South, Range 37
East, N.M.P. Meridian.

Date March 31, 1944.

COLUMBIAN CARBON COMPANY

By REID L. CARR (sgd)
President

Attest: GEO. L. BUBB (sgd)
SEAL Geo. L. Bubb
Asst. Secretary

Date April 6, 1944.

AMERADA PETROLEUM CORPORATION

By ALLMAND M. BLOW (sgd)
Vice-Pres.

Attest: L. G. ECHISON (sgd)
SEAL L. G. Echison
Asst. Secy.

Approved as to terms:

1? 3/16/44 C. B. WILLIAMS (sgd)

Date March 13th, 1944.

EL PASO NATURAL GAS COMPANY

By C. G. GRAGIN (SGD)

Vice President

Attest: J. E. FRANEY (SGD)

Secretary

GROUP 1
UNITIZED
SUBSTANCES
5480 AC.

Sec. 7: NE $\frac{1}{4}$ NE $\frac{1}{4}$

Oil rights only above 4000' and
all gas rights in:

Sec. 9: SW $\frac{1}{4}$ NE $\frac{1}{4}$

Gas rights only to 4000' depth in:

✓ Sec. 4: W $\frac{1}{2}$ NW $\frac{1}{4}$; SW $\frac{1}{4}$; W $\frac{1}{2}$ SE $\frac{1}{4}$; SE $\frac{1}{4}$ SE $\frac{1}{4}$

✓ Sec. 10: SW $\frac{1}{4}$ SW $\frac{1}{4}$; SE $\frac{1}{4}$ SE $\frac{1}{4}$

✓ Sec. 15: NE $\frac{1}{4}$ NE $\frac{1}{4}$; NW $\frac{1}{4}$ NW $\frac{1}{4}$; S $\frac{1}{2}$ N $\frac{1}{2}$

✓ Sec. 5: All

✓ Sec. 6: NE $\frac{1}{4}$ NW $\frac{1}{4}$; NE $\frac{1}{4}$; N $\frac{1}{2}$ SE $\frac{1}{4}$; SE $\frac{1}{4}$ SE $\frac{1}{4}$

✓ Sec. 8: NW $\frac{1}{4}$; N $\frac{1}{2}$ SW $\frac{1}{4}$; SE $\frac{1}{4}$ SW $\frac{1}{4}$; E $\frac{1}{2}$

✓ Sec. 9: E $\frac{1}{2}$ NE $\frac{1}{4}$; NW $\frac{1}{4}$ NE $\frac{1}{4}$; W $\frac{1}{2}$; SE $\frac{1}{4}$

✓ Sec. 10: W $\frac{1}{2}$ NW $\frac{1}{4}$; SE $\frac{1}{4}$ NW $\frac{1}{4}$

✓ Sec. 15: S $\frac{1}{2}$

✓ Sec. 17: N $\frac{1}{2}$ NE $\frac{1}{4}$

✓ Sec. 21: E $\frac{1}{2}$ NE $\frac{1}{4}$; NW $\frac{1}{4}$ NE $\frac{1}{4}$

✓ Sec. 22: All

✓ Sec. 26: All

✓ Sec. 27: E $\frac{1}{2}$

✓ Sec. 28: S $\frac{1}{2}$

All in Township 26 South, Range 37
East, N.M.P. Meridian.

(40)

(360)

(80)

(240)

(640)

(360)

(600)

(600)

(120)

(320)

(80)

(120)

(640)

(640)

(320)

(320)

5480.

Date March 22, 1944, 1944.

THE TEXAS COMPANY

By J. S. LEACH (sgd)

J. S. LEACH Vice President

Attest: J. B. DUKE (sgd)

SEAL J. B. Duke

Assistant Secretary

Date March 31, 1944.

COLUMBIAN CARBON COMPANY

By REID L. CARR (sgd)

President

Attest: GEO. L. BUDB (sgd)

SEAL GEO. L. BUDB
Asst. Secretary

Date April 6, 1944.

AMERADA PETROLEUM CORPORATION

By ALLMAND M. BLOW (sgd)

Vice-Pres.

Attest: L. G. ETCHISON (SGD)

SEAL L. G. ETCHISON
Asst. Secy.

Sec. 5: All

Sec. 6: NE $\frac{1}{4}$ NW $\frac{1}{4}$; NE $\frac{1}{4}$; N $\frac{1}{2}$ SE $\frac{1}{4}$; SE $\frac{1}{4}$ SE $\frac{1}{4}$

Sec. 8: NW $\frac{1}{4}$; N $\frac{1}{2}$ SW $\frac{1}{4}$; SE $\frac{1}{4}$ SW $\frac{1}{4}$; E $\frac{1}{2}$

Sec. 9: E $\frac{1}{2}$ NE $\frac{1}{4}$; NW $\frac{1}{4}$ NE $\frac{1}{4}$; W $\frac{1}{2}$; SE $\frac{1}{4}$

Sec. 10: W $\frac{1}{2}$ NW $\frac{1}{4}$; SE $\frac{1}{4}$ NW $\frac{1}{4}$

Sec. 15: S $\frac{1}{2}$

Sec. 17: N $\frac{1}{2}$ NE $\frac{1}{4}$

Sec. 21: E $\frac{1}{2}$ NE $\frac{1}{4}$; NW $\frac{1}{4}$ NE $\frac{1}{4}$

Sec. 22: All

Sec. 26: All

Sec. 27: E $\frac{1}{2}$

Sec. 28: S $\frac{1}{2}$

All in Township 26 South, Range 37
East, N.M.P. Meridian.

Approved as to terms:

?? 3/16/44 C. B. WILLIAMS (sgd)

dated November 16, 1938, between Anderson-Prichard Oil Corporation, R. Olsen Oil Company and The W-K Royalty Company, as parties of the first part, and Stanolind Oil and Gas Company, as party of the second part.

- (2) An overriding royalty interest of 1/64th of oil, casinghead gas and similar hydrocarbons except dry gas and residue gas from total production of the oil, gas and other minerals in favor of A. K. Barnes and assigns.

The fractional share of the gross oil, gas and other hydrocarbons produced from the above described land owned by Assignor is .796875.

TRACT 58 - GREGORY LEASE

All operating rights under the

Southwest Quarter of the Southwest Quarter (SW/4 SW/4) of Section 10, Township 26 South, Range 37 East, Lea County, New Mexico to a depth of 3500 feet below the surface of the soil,

said operating rights being created under and by virtue of that certain Operating Agreement dated November 30, 1944, between Stanolind Oil and Gas Company and R. Olsen Oil Company and that certain Sub-Lease of Oil and Gas Lease and Operating Agreement, dated June 1, 1955, between Anderson-Prichard Oil Corporation and R. Olsen Oil Company, insofar as said Sub-Lease of Oil and Gas Lease and Operating Agreement relates to the following described lease:

Oil and Gas Lease dated July 29, 1937, being a "b" lease, issued by the Secretary of the Interior of the United States to R. Olsen Oil Company and Anderson-Prichard Oil Corporation, recorded in Book 33, Page 587, of the Oil and Gas Records of the office of the County Clerk of Lea County, New Mexico, said lease bearing Serial No. Las Cruces 032510(b),

subject to the following:

- (1) Contract dated July 16, 1936, between Stanolind Oil and Gas Company, grantor, and Uscon Oil Company and Anderson-Prichard Oil Corporation, grantees, providing, among other things, for the payment to Stanolind Oil and Gas Company of \$500,000.00, payable from gross proceeds of the sale, disposal or utilization of 1/16th of the oil, casinghead gas and other hydrocarbon substances produced from the above described and other lands, as amended by contract dated November 16, 1938, between Anderson-Prichard Oil Corporation, R. Olsen Oil Company and The W-K Royalty Company, parties of the first part, and Stanolind Oil and Gas Company, party of the second part, as amended by Amendment to Contract dated May 31, 1939, between the same parties.
- (2) An overriding royalty interest of 1/64th of the total production of oil, casinghead gas and similar hydrocarbons except dry gas and residue gas in favor of A. K. Barnes and assigns.
- (3) Contract dated May 31, 1939, between Anderson-Prichard Oil Corporation, R. Olsen Oil Company and The W-K Royalty Company, as oil operators, and Stanolind Oil and Gas Company, as gas operator, which provides, among other things, that gas operator shall have the right to purchase and thereafter own and operate wells capable of producing gas only.

The fractional share of the oil, casinghead gas and other liquid hydrocarbons produced from the above described land above 3500 feet owned by Assignor is .796875.

TRACT 59 - GREGORY LEASE

All operating rights under the

BOOK 394 PAGE 659

South Half of the Northeast Quarter (S/2 NE/4) and the Northwest Quarter of the Northwest Quarter (NW/4 NW/4) of Section 15, Township 26 South, Range 37 East, Lea County, New Mexico, to a depth of 3500 feet below the surface of the soil,

said operating rights being created under and by virtue of that certain Operating Agreement dated November 30, 1944, between Stanolind Oil and Gas Company and R. Olsen Oil Company, and that certain Sub-Lease of Oil and Gas Lease and Operating Agreement dated June 1, 1955, between Anderson-Prichard Oil Corporation and R. Olsen Oil Company, insofar as said Sub-Lease of Oil and Gas Lease and Operating Agreement relates to the following described oil and gas lease:

Oil and Gas Lease, dated July 29, 1937, being a "b" lease, issued by the Secretary of the Interior of the United States to R. Olsen Oil Company and Anderson-Prichard Oil Corporation, recorded in Book 33, Page 587, of the Oil and Gas Records of the Office of the County Clerk of Lea County, New Mexico, said lease bearing Serial No. Las Cruces 032510(b),

subject to the following:

- (1) Contract dated July 16, 1936, between Stanolind Oil and Gas Company, grantor, and Uscon Oil Company and Anderson-Prichard Oil Corporation, grantees, providing, among other things, for the payment to Stanolind Oil and Gas Company of \$500,000.00 payable from gross proceeds of the sale, disposal or utilization of 1/16th of the oil, casinghead gas and other hydrocarbon substances produced from the above described and other lands, as amended by Contract dated November 16, 1938, between Anderson-Prichard Oil Corporation, R. Olsen Oil Company and The W-K Royalty Company, parties of the first part, and Stanolind Oil and Gas Company, party of the second part.
- (2) An overriding royalty interest of 1/64th of the total production of oil, casinghead gas and similar hydrocarbons except dry gas and residue gas in favor of A. K. Barnes and assigns.
- (3) Contract dated May 31, 1939, between Anderson-Prichard Oil Corporation, R. Olsen Oil Company and The W-K Royalty Company, as oil operator and Stanolind Oil and Gas Company, as gas operator, which provides, among other things, that gas operator shall have the right to purchase and thereafter own and operate wells capable of producing gas only.

The fractional share of the oil, casinghead gas and other liquid hydrocarbons produced from the above described land above 3500 feet owned by Assignor is .796875.

TRACT 60 - GREGORY LEASE

An undivided one-half (1/2) of the operating rights under the

Southeast Quarter (SE/4) of Section 34, Township 25 South, Range 37 East, Lea County, New Mexico, to a depth of 3500 feet below the surface of the soil,

said operating rights being created under and by virtue of that certain Operating Agreement, dated November 30, 1944, between Stanolind Oil and Gas Company and R. Olsen Oil Company, insofar as said Operating Agreement relates to the following described lease: