

CASE 5127: Application of SKELLY
FOR APPROVAL OF THE SALT LAKE
SOUTH UNIT AGREEMENT.

CASE No.

5127

Application,

Transcripts,

Small Exhibits

ETC.

Unit Name SALT LAKE SOUTH UNIT (EXPLORATORY)
Operator SKELLY OIL COMPANY
County LEA

DATE	OCC CASE NO. 5127	EFFECTIVE DATE	TOTAL ACREAGE	STATE	FEDERAL	INDIAN-FEE	SEGREGATION CLAUSE	TERM
APPROVED	OCC ORDER NO. R-4687	<u>1-25-74</u>	7,080.12	640.00	6,440.12	-0-	Yes	5 yrs.
Commissioner 11-30-73								
1-24-74								

UNIT AREA

TOWNSHIP 21 SOUTH, RANGE 32 EAST, NMPM
Sections 15 through 22: A11
Sections 28 through 30: A11

TERMINATED
CH. 6-18-73

Unit Name SALT LAKE SOUTH UNIT (EXPLORATORY)
 Operator SKELLY OIL COMPANY
 County LEA

STATE TRACT NO.	LEASE NO.	INSTI- TUTION	SEC.	TWP.	RGE.	SUBSECTION	RATIFIED DATE	ACRES	ACREAGE NOT RATIFIED	LESSEE
14	L-3879-1	C.S.	16	21S	32E	A11	1-17-74	640.00		J. C. Barnes

TERMINATED
 6-18-75
 JH.



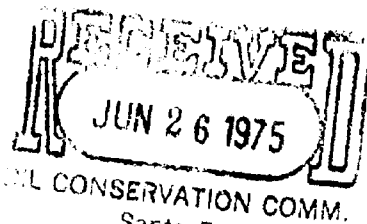
PHIL R. LUCERO
COMMISSIONER

State of New Mexico



Commissioner of Public Lands
June 23, 1975

TELEPHONE
505-827-2743



NEW MEXICO CONSERVATION COMM.
Santa Fe
P. O. BOX 1148
SANTA FE, NEW MEXICO 87501

Shelly Oil Company
P. O. Box 1331
Midland, Texas 79701

Re: Salt Lake South Unit
TERMINATION
Los Alamos County, New Mexico

ATTENTION: Mr. William Crossover
Gentlemen:

Our records reflect that your second test well on the Salt Lake South Unit was to be commenced June 18, 1975. Inasmuch as the second unit test well was not commenced, the Salt Lake South unit agreement has been terminated by the Commissioner of Public Lands effective as of June 18, 1975.

The United States Geological Survey advised you of the Termination June 19, 1975.

Please advise all interested parties of this action.

Very truly yours,

PHIL R. LUCERO
COMMISSIONER OF PUBLIC LANDS

BY:
RAY D. GRAHAM, Director
Oil and Gas Division

RLR/ML/s
cc:

WGS-Newell, New Mexico
OGC-Santa Fe, New Mexico

Unit Name SALT LAKE SOUTH UNIT (EXPLORATORY)
Operator SKELLY OIL COMPANY
County LEA

5127
acc

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Commissioner	11-30-73							
1-24-74								

UNIT AREA
TOWNSHIP 21 SOUTH, RANGE 32 EAST, NMPM
Sections 15 through 22: All
Sections 28 through 30: All

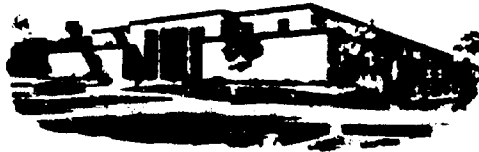
Unit Name SALT LAKE SOUTH UNIT (EXPLORATORY)
 Operator SKELLY OIL COMPANY
 County LEA

STATE TRACT NO.	LEASE NO.	INSTI- TUTION	SEC.	TWP.	RGE.	SUBSECTION	RATIFIED DATE	ACRES	ACREAGE NOT RATIFIED	LESSEE
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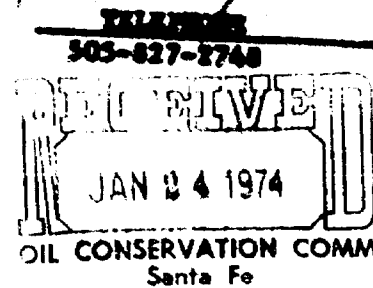
State of New Mexico



ALEX J. ARMIJO
COMMISSIONER



Commissioner of Public Lands
January 24, 1974



P. O. BOX 1148
SANTA FE, NEW MEXICO

Griffin, Ross & Burnett, Inc.
2102 Wilson Building
Midland, Texas 79701

Re: Proposed Salt Lake South Unit
Los County, New Mexico

ATTENTION: Mr. Kenneth E. Griffin

Gentlemen:

The Commissioner of Public Lands has this date approved Shelly's Salt Lake South Unit, Los County, New Mexico, subject to like approval by the United States Geological Survey.

Enclosed are Ten (10) Certificates of approval as per your request.

Please advise this office when the United States Geological Survey has approved this unit so that we may finish processing the unit and ascertain the effective date.

Very truly yours,

RAY D. GRAHAM, Director
Oil and Gas Division

AJA/EDS/e
encls.
cc:

WCC-Moswell, New Mexico
OCC-Santa Fe, New Mexico ✓

5127

Griffin, Ross & Burnett, Inc.

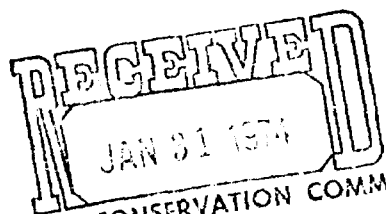
Oil Properties

KENNETH H. GRIFFIN
ROBERT B. ROSS
GARY G. BURNETT

2102 WILCO BUILDING
MIDLAND, TEXAS 79701
915 683-2705

January 29, 1974

Re: File No. 2211
Salt Lake South Unit
Lea County, New Mexico



NEW MEXICO OIL CONSERVATION COMMISSION
P. O. Box 2088
Santa Fe, New Mexico 87501

Gentlemen:

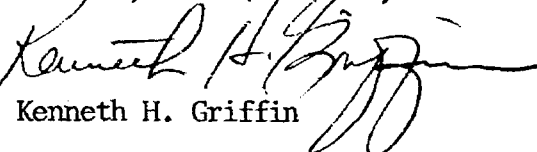
Reference is made to Case No. 5127, Order No. R-4687.

In accordance with the above referenced Order of the Commission we enclose herewith a copy of the Unit Agreement executed by Skelly Oil Company, together with copies of Ratifications executed by J. C. Barnes, Sr., Phillips Petroleum Company and Fluor Oil and Gas Corporation.

Should any additional information be required, please so advise.

Yours very truly,

GRIFFIN, ROSS & BURNETT, INC.


Kenneth H. Griffin

KHC:mw
Encl.

cc: Mr. W. B. Crownover
SKELLY OIL COMPANY
Well Towers West Bldg.
Midland, Texas

CERTIFICATION--DETERMINATION


Pursuant to the authority vested in the Secretary of Interior, under the act approved February 25, 1920, 41 Stat. 437, as amended, 30 U. S. C. secs. 181, et seq., and delegated to the Area Oil and Gas Supervisors of the Geological Survey, I do hereby:

A. Approve the attached agreement for the development and operation of the Salt Lake South Unit Area, State of New Mexico.

B. Certify and determine that the unit plan of development and operation contemplated in the attached agreement is necessary and advisable in the public interest for the purpose of more properly conserving the natural resources.

C. Certify and determine that the drilling, producing, rental, minimum royalty, and royalty requirements of all Federal leases committed to said agreement are hereby established, altered, changed, or revoked to conform with the terms and conditions of this agreement.

Dated January 25, 1974.


Acting Area Oil and Gas Supervisor
United States Geological Survey

Contract Number 14-08-0001-13616



NEW MEXICO STATE LAND OFFICE

CERTIFICATE OF APPROVAL

COMMISSIONER OF PUBLIC LANDS, STATE OF NEW MEXICO

SALT LAKE SOUTH UNIT


LEA COUNTY, NEW MEXICO

There having been presented to the undersigned Commissioner of Public Lands of the State of New Mexico for examination, the attached Agreement for the development and operation of acreage which is described within the attached Agreement, dated November 15, 1973, which said Agreement has been executed by parties owning and holding oil and gas leases and royalty interests in and under the property described, and upon examination of said Agreement, the Commissioner finds:

- (a) That such agreement will tend to promote the conservation of oil and gas and the better utilization of reservoir energy in said area.
- (b) That under the proposed agreement, the State of New Mexico will receive its fair share of the recoverable oil or gas in place under its lands in the area.
- (c) That each beneficiary Institution of the State of New Mexico will receive its fair and equitable share of the recoverable oil and gas under its lands within the area.
- (d) That such agreement is in other respects for the best interests of the state, with respect to state lands.

NOW, THEREFORE, by virtue of the authority conferred upon me under Sections 7-11-39, 7-11-40, 7-11-41, 7-11-47, and 7-11-48, New Mexico Statutes Annotated, 1953 Compilation, I, the undersigned Commissioner of Public Lands of the State of New Mexico, do hereby consent to and approve the said Agreement, however, such consent and approval being limited and restricted to such lands within the Unit Area, which are effectively committed to the Unit Agreement as of this date, and, further, that leases insofar as the lands covered thereby committed to this Unit Agreement shall be and the same are hereby amended to conform with the terms of such Unit Agreement, and said leases shall remain in full force and effect in accordance with the terms and conditions of said Agreement. This approval is subject to all of the provisions and requirements of the afore-said statutes.

IN WITNESS WHEREOF, this Certificate of Approval is executed, with seal affixed, this 24th. day of January, 19 74.


COMMISSIONER OF PUBLIC LANDS
of the State of New Mexico

UNIT AGREEMENT
SALT LAKE SOUTH UNIT AREA
LEA COUNTY, NEW MEXICO

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1 UNIT AGREEMENT
2 FOR THE DEVELOPMENT AND OPERATION
3 OF THE
4 SALT LAKE SOUTH UNIT AREA
5 COUNTY OF LEA
6 STATE OF NEW MEXICO
7 NO. _____

8 THIS AGREEMENT entered into as of the 15th day of November,
9 1973, by and between the parties subscribing, ratifying or consenting hereto,
10 and herein referred to as the "parties hereto".

11 WITNESSETH:

12 WHEREAS, the parties hereto are the owners of working, royalty, or
13 other oil and gas interests in the unit area subject to this agreement; and

14 WHEREAS, the Mineral Leasing Act of February 25, 1920, 41 Stat. 437, as
15 amended, 30 U.S.C. Secs. 181 et seq., authorizes Federal lessees and their
16 representatives to unite with each other, or jointly or separately with
17 others, in collectively adopting and operating a cooperative or unit plan
18 of development or operations of any oil or gas pool, field, or like area, or
19 any part thereof for the purpose of more properly conserving the natural
20 resources thereof whenever determined and certified by the Secretary of
21 the Interior to be necessary or advisable in the public interest; and

22 WHEREAS, the Commissioner of Public Lands of the State of New Mexico
23 is authorized by an Act of the Legislature (Sec. 7-11-39 N.M. Statutes 1953
24 Annotated) to consent to or approve this agreement on behalf of the State
25 of New Mexico, insofar as it covers and includes lands and mineral interests
26 of the State of New Mexico; and

27 WHEREAS, the Oil Conservation Commission of the State of New Mexico is
28 authorized by an Act of the Legislature (Article 3, Chapter 65, Vol. 9,
29 Part 2, 1953 Statutes) to approve this agreement and the conservation provisions
30 hereof; and

31 WHEREAS, the parties hereto hold sufficient interests in the Salt Lake
32 South Unit Area covering the land hereinafter described to give reasonably
33 effective control of operations therein; and

1 WHEREAS, it is the purpose of the parties hereto to conserve natural
2 resources, prevent waste, and secure other benefits obtainable through
3 development and operation of the area subject to this agreement under the
4 terms, conditions and limitations herein set forth;

5 NOW, THEREFORE, in consideration of the premises and the promises herein
6 contained, the parties hereto commit to this agreement their respective
7 interests in the below-defined unit area, and agree severally among them-
8 selves as follows:

9 1. ENABLING ACT AND REGULATIONS. The Mineral Leasing Act of February
10 25, 1920, as amended, supra, and all valid pertinent regulations, including
11 operating and unit plan regulations, heretofore issued thereunder or valid,
12 pertinent and reasonable regulations hereafter issued thereunder are accepted
13 and made a part of this agreement as to Federal lands, provided such regula-
14 tions are not inconsistent with the terms of this agreement; and as to non-
15 Federal lands, the oil and gas operating regulations in effect as of the
16 effective date hereof governing drilling and producing operations, not in-
17 consistent with the terms hereof or the laws of the State of which the non-
18 Federal land is located, are hereby accepted and made a part of this agreement.

19 2. UNIT AREA. The area specified on the map attached hereto marked
20 Exhibit "A" is hereby designated and recognized as constituting the unit area,
21 containing 7,080.12 acres, more or less.

22 Exhibit "A" shows, in addition to the boundary of the unit area, the
23 boundaries and identity of tracts and leases in said area to the extent known
24 to the Unit Operator. Exhibit "B" attached hereto is a schedule showing to
25 the extent known to the Unit Operator the acreage, percentage, and kind of
26 ownership of oil and gas interests in all land in the unit area. However,
27 nothing herein or in said schedule or map shall be construed as a representa-
28 tion by any party hereto as to the ownership of any interest other than such
29 interest or interests as are shown in said map or schedule as owned by such
30 party. Exhibits "A" and "B" shall be revised by the Unit Operator whenever
31 changes in the unit area render such revision necessary, or when requested
32 by the Oil and Gas Supervisor, hereinafter referred to as "Supervisor", or
33 when requested by the Commissioner of Public Lands of the State of New Mexico,

1 hereinafter referred to as "Commissioner", and not less than five copies
2 of the revised exhibits shall be filed with the Supervisor, and two copies
3 thereof shall be filed with the Commissioner, and one copy with the New
4 Mexico Oil Conservation Commission, hereinafter referred to as "Commission".

5 The above-described unit area shall when practicable be expanded to
6 include therein any additional lands or shall be contracted to exclude lands
7 whenever such expansion or contraction is deemed to be necessary or advis-
8 able to conform with the purposes of this agreement. Such expansion or
9 contraction shall be effected in the following manner:

10 (a) Unit Operator, on its own motion or on demand of the Director
11 of the Geological Survey, hereinafter referred to as "Director", or on de-
12 mand of the Commissioner, after preliminary concurrence by the Director
13 and the Commissioner, shall prepare a notice of proposed expansion or con-
14 traction describing the contemplated changes in the boundaries of the unit
15 area, the reasons therefor, and the proposed effective date thereof, pre-
16 ferably the first day of a month subsequent to the date of notice.

17 (b) Said notice shall be delivered to the Supervisor, the Commissioner
18 and the Commission and copies thereof mailed to the last known address of
19 each working interest owner, lessee, and lessor whose interests are affected,
20 advising that 30 days will be allowed for submission to the Unit Operator of
21 any objections.

22 (c) Upon expiration of the 30-day period provided in the preceding
23 item (b) hereof, Unit Operator shall file with the Supervisor, the Commis-
24 sioner and the Commission evidence of mailing of the notice of expansion
25 or contraction and a copy of any objections thereto which have been filed
26 with the Unit Operator, together with an application in sufficient number,
27 for approval of such expansion or contraction and with appropriate joinders.

28 (d) After due consideration of all pertinent information, the expansion
29 or contraction shall, upon approval by the Supervisor, the Commissioner and
30 the Commission, become effective as of the date prescribed in the notice
31 thereof.

32 (e) All legal subdivisions of lands (i.e., 40 acres by Government
33 survey or its nearest lot or tract equivalent; in instances of irregular

1 surveys unusually large lots or tracts shall be considered in multiples
2 of 40 acres or the nearest aliquot equivalent thereof), no parts of which
3 are entitled to be in a participating area on or before the fifth anniver-
4 sary of the effective date of the first initial participating area estab-
5 lished under this unit agreement, shall be eliminated automatically from
6 this agreement, effective as of said fifth anniversary, and such lands shall
7 no longer be a part of the unit area and shall no longer be subject to this
8 agreement, unless diligent drilling operations are in progress on unitized
9 lands not entitled to participation on said fifth anniversary, in which event
10 all such lands shall remain subject hereto so long as such drilling opera-
11 tions are continued diligently with not more than 90 days' time elapsing
12 between the completion of one well and the commencement of the next well.
13 All legal subdivisions of lands not entitled to be in a participating area
14 within 10 years after the effective date of the first initial participating
15 area approved under this agreement shall be automatically eliminated from
16 this agreement as of said tenth anniversary. All lands proved productive
17 by diligent drilling operations after the aforesaid 5-year period shall
18 become participating in the same manner as during said 5-year period. How-
19 ever, when such diligent drilling operations cease, all nonparticipating
20 lands shall be automatically eliminated effective as of the 91st day there-
21 after. The Unit Operator shall, within 90 days after the effective date of
22 any elimination hereunder, describe the area so eliminated to the satisfac-
23 tion of the Supervisor and the Commissioner, and promptly notify all parties
24 in interest.

25 If conditions warrant extension of the 10-year period specified in
26 this subsection 2(e), a single extension of not to exceed 2 years may be
27 accomplished by consent of the owners of 90% of the working interests in the
28 current nonparticipating unitized lands and the owners of 60% of the basic
29 royalty interests (exclusive of the basic royalty interests of the United
30 States) in nonparticipating unitized lands with approval of the Director and
31 Commissioner, provided such extension application is submitted to the Director
32 and Commissioner not later than 60 days prior to the expiration of said ten-year
33 period.

1 Any expansion of the unit area pursuant to this section which embraces
2 lands theretofore eliminated pursuant to this subsection 2(e) shall not be
3 considered automatic commitment or recommitment of such lands.

4 3. UNITIZED LAND AND UNITIZED SUBSTANCES. All land committed to this
5 agreement shall constitute land referred to herein as "unitized land" or
6 "land subject to this agreement". All oil and gas in any and all formations
7 of the unitized land are unitized under the terms of this agreement and herein
8 are called "unitized substances".

9 4. UNIT OPERATOR. Skelly Oil Company is hereby designated as Unit
10 Operator and by signature hereto as Unit Operator agrees and consents to
11 accept the duties and obligations of Unit Operator for the discovery,
12 development and production of unitized substances as herein provided. When-
13 ever reference is made herein to the Unit Operator, such reference means
14 the Unit Operator acting in that capacity and not as an owner of interest
15 in unitized substances, and the term "working interest owner" when used
16 herein shall include or refer to Unit Operator as the owner of a working
17 interest when such an interest is owned by it.

18 5. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Operator shall
19 have the right to resign at any time prior to the establishment of a
20 participating area or areas hereunder, but such resignation shall not
21 become effective so as to release Unit Operator from the duties and obliga-
22 tions of Unit Operator and terminate Unit Operator's rights as such for a
23 period of 6 months after notice of intention to resign has been served by
24 Unit Operator on all working interest owners and the Supervisor, the
25 Commissioner and the Commission, and until all wells then drilled here-
26 under are placed in a satisfactory condition for suspension or abandonment
27 whichever is required by the Supervisor as to Federal lands and by the
28 Commissioner as to State lands, unless a new Unit Operator shall
29 have been selected and approved and shall have taken over and assumed
30 the duties and obligations of Unit Operator prior to the expiration of said
31 period.

32 Unit Operator shall have the right to resign in like manner and subject
33 to like limitations as above provided at any time a participating area

1 established hereunder is in existence, but, in all instances of resignation
2 or removal, until a successor Unit Operator is selected and approved as
3 hereinafter provided, the working interest owners shall be jointly responsi-
4 ble for performance of the duties of Unit Operator, and shall, not later
5 than 30 days before such resignation or removal becomes effective, appoint
6 a common agent to represent them in any action to be taken hereunder.

7 The resignation of Unit Operator shall not release Unit Operator from
8 any liability for any default by it hereunder occurring prior to the effec-
9 tive date of its resignation.

10 The Unit Operator may, upon default or failure in the performance of
11 its duties or obligations hereunder, be subject to removal by the same
12 percentage vote of the owners of working interests as herein provided for
13 the selection of a new Unit Operator. Such removal shall be effective
14 upon notice thereof to the Supervisor and the Commissioner.

15 The resignation or removal of Unit Operator under this agreement shall
16 not terminate its right, title or interest as the owner of a working inter-
17 est or other interest in unitized substances, but upon the resignation or
18 removal of Unit Operator becoming effective, such Unit Operator shall
19 deliver possession of all wells, equipment, materials and appurtenances used
20 in conducting the unit operations to the new duly qualified successor Unit
21 Operator or to the common agent, if no such new Unit Operator is elected,
22 to be used for the purpose of conducting unit operations hereunder. Nothing
23 herein shall be construed as authorizing removal of any material, equipment
24 and appurtenances needed for the preservation of any wells.

25 6. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall tender
26 his or its resignation as Unit Operator or shall be removed as hereinabove
27 provided, or a change of Unit Operator is negotiated by working interest
28 owners, the owners of the working interests in the participating area or
29 areas according to their respective acreage interests in such participating
30 area or areas, or, until a participating area shall have been established,
31 the owners of the working interests according to their respective acreage
32 interests in all unitized land, shall by majority vote select a successor
33 Unit Operator: Provided, That, if a majority but less than 75 per cent of

1 the working interests qualified to vote are owned by one party to this
2 agreement, a concurring vote of one or more additional working interest
3 owners shall be required to select a new operator. Such selection shall
4 not become effective until

5 (a) a Unit Operator so selected shall accept in writing the duties
6 and responsibilities of Unit Operator, and

7 (b) the selection shall have been approved by the Supervisor and
8 the Commissioner.

9 If no successor Unit Operator is selected and qualified as herein
10 provided, the Director and Commissioner at their election may declare
11 this unit agreement terminated.

12 7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. If the
13 Unit Operator is not the sole owner of working interest, costs and expenses
14 incurred by Unit Operator in conducting unit operations hereunder shall be
15 paid and apportioned among and borne by the owners of working interests,
16 all in accordance with the agreement or agreements entered into by and
17 between the Unit Operator and the owners of working interests, whether one
18 or more, separately or collectively. Any agreement or agreements entered
19 into between the working interest owners and the Unit Operator as provided
20 in this section, whether one or more, are herein referred to as the "unit
21 operating agreement". Such unit operating agreement shall also provide
22 the manner in which the working interest owners shall be entitled to receive
23 their respective proportionate and allocated share of the benefits accruing
24 hereto in conformity with their underlying operating agreements, leases or
25 other independent contracts, and such other rights and obligations as be-
26 tween Unit Operator and the working interest owners as may be agreed upon
27 by Unit Operator and the working interest owners; however, no such unit
28 operating agreement shall be deemed either to modify any of the terms and
29 conditions of this unit agreement or to relieve the Unit Operator of any
30 right or obligation established under this unit agreement, and in case of any
31 inconsistency or conflict between this unit agreement and the unit operating
32 agreement, this unit agreement shall govern. Three true copies of any unit
33 operating agreement executed pursuant to this section should be filed with

1 the Supervisor and two true copies with the Commissioner and one true copy
2 with the Commission, prior to approval of this unit agreement.

3 8. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR. Except as otherwise
4 specifically provided herein, the exclusive right, privilege, and duty of
5 exercising any and all rights of the parties hereto which are necessary
6 or convenient for prospecting for, producing, storing, allocating, and
7 distributing the unitized substances are hereby delegated to and shall be
8 exercised by the Unit Operator as herein provided. Acceptable evidence of
9 title to said rights shall be deposited with said Unit Operator and, together
10 with this agreement, shall constitute and define the rights, privileges, and
11 obligations of Unit Operator. Nothing herein, however, shall be construed
12 to transfer title to any land or to any lease or operating agreement, it
13 being understood that under this agreement the Unit Operator, in its capacity
14 as Unit Operator, shall exercise the rights of possession and use vested in
15 the parties hereto only for the purposes herein specified.

16 9. DRILLING TO DISCOVERY. Within 6 months after the effective date
17 hereof, the Unit Operator shall begin to drill an adequate test well at a
18 location approved by the Supervisor, if on Federal land, or by the Commissioner
19 if on State land, unless on such effective date a well is being drilled
20 conformably with the terms hereof, and thereafter continue such drilling
21 diligently until such test well is drilled to the base of the Morrow clastic section
22 or until at a lesser depth unitized substances shall be discovered which can
23 be produced in paying quantities (to-wit: quantities sufficient to repay the
24 costs of drilling, completing, and producing operations, with a reasonable
25 profit) or the Unit Operator shall at any time establish to the satisfaction
26 of the Supervisor if located on Federal lands, or the Commissioner if located
27 on State lands, or the Commission if located on fee lands, that further drill-
28 ing of said well would be unwarranted or impracticable, provided, however,
29 that Unit Operator shall not in any event be required to drill said well to
30 a depth in excess of 14,000 feet. Until the discovery of a deposit of unitized
31 substances capable of being produced in paying quantities, the Unit Operator
32 shall continue drilling one well at a time, allowing not more than 6 months
33 between the completion of one well and the beginning of the next well, until

1 a well capable of producing unitized substances in paying
2 quantities is completed to the satisfaction of said Supervisor
3 if on Federal land, or the Commissioner if on State land, or
4 until it is reasonable proved that the unitized land is incapable of
5 producing unitized substances in paying quantities in the formations drilled
6 hereunder. Nothing in this section shall be deemed to limit the right of
7 the Unit Operator to resign as provided in Section 5 hereof, or as requir-
8 ing Unit Operator to commence or continue any drilling during the period
9 pending such resignation becoming effective in order to comply with the
10 requirements of this section. The Supervisor and Commissioner may modify
11 the drilling requirements of this section by granting reasonable extensions
12 of time when, in their opinion, such action is warranted. Upon failure
13 to commence any well provided for in this section within the time allowed,
14 including any extension of time granted by the Supervisor and the Com-
15 missioner, this agreement will automatically terminate; upon failure to
16 continue drilling diligently any well commenced hereunder, the Supervisor
17 and Commissioner may, after 15 days notice to the Unit Operator, declare
18 this unit agreement terminated.

19 10. PLAN OF FURTHER DEVELOPMENT AND OPERATION. Within 6 months after
20 completion of a well capable of producing unitized substances in paying
21 quantities, the Unit Operator shall submit for the approval of the Supervisor
22 and the Commissioner an acceptable plan of development and operation for the
23 unitized land which, when approved by the Supervisor and the Commissioner,
24 shall constitute the further drilling and operating obligations of the Unit
25 Operator under this agreement for the period specified therein. Thereafter,
26 from time to time before the expiration of any existing plan, the Unit Operator
27 shall submit for the approval of the Supervisor and the Commissioner a plan
28 for an additional specified period for the development and operation of the
29 unitized land.

30 Any plan submitted pursuant to this section shall provide for the
31 exploration of the unitized area and for the diligent drilling necessary
32 for determination of the area or areas thereof capable of producing unitized
33 substances in paying quantities in each and every productive formation and

1 shall be as complete and adequate as the Supervisor, the Commissioner
2 and Commission may determine to be necessary for timely development and
3 proper conservation of the oil and gas resources of the unitized area
4 and shall:

5 (a) specify the number and locations of any wells to be drilled and
6 the proposed order and time for such drilling; and

7 (b) to the extent practicable, specify the operating practices regarded
8 as necessary and advisable for proper conservation of natural
9 resources.

10 Separate plans may be submitted for separate productive zones, subject to
11 the approval of the Supervisor, the Commissioner and the Commission.

12 Plans shall be modified or supplemented when necessary to meet changed
13 conditions or to protect the interests of all parties to this agreement.
14 Reasonable diligence shall be exercised in complying with the obligations
15 of the approved plan of development. The Supervisor and Commissioner are
16 authorized to grant a reasonable extension of the 6-month period herein
17 prescribed for submission of an initial plan of development where such
18 action is justified because of unusual conditions or circumstances. After
19 completion hereunder of a well capable of producing any unitized substances
20 in paying quantities, no further wells, except such as may be necessary to
21 afford protection against operations not under this agreement and such as may
22 be specifically approved by the Supervisor and the Commissioner, shall be
23 drilled except in accordance with a plan of development approved as herein
24 provided.

25 11. PARTICIPATION AFTER DISCOVERY. Upon completion of a well capable
26 of producing unitized substances in paying quantities or as soon thereafter
27 as required by the Supervisor and Commissioner, the Unit Operator shall sub-
28 mit for approval by the Supervisor and Commissioner a schedule, based on
29 subdivisions of the public land survey or aliquot parts thereof, of all land
30 then regarded as reasonably proved to be productive in paying quantities;
31 all lands in said schedule on approval of the Supervisor and Commissioner to
32 constitute a participating area, effective as of the date of completion of
33 such well or the effective date of this unit agreement, whichever is later.

1 The acreages of both Federal and non-Federal lands shall be based upon
2 appropriate computations from the courses and distances shown on the
3 last approved public land survey as of the effective date of each initial
4 participating area. Said schedule shall also set forth the percentage of
5 unitized substances to be allocated as herein provided to each tract in
6 the participating area so established, and shall govern the allocation
7 of production commencing with the effective date of the participating area.
8 A separate participating area shall be established for each separate pool
9 or deposit of unitized substances or for any group thereof which is pro-
10 duced as a single pool or zone, and any two or more participating areas
11 so established may be combined into one, on approval of the Supervisor
12 and Commissioner. When production from two or more participating areas,
13 so established, is subsequently found to be from a common pool or deposit
14 said participating areas shall be combined into one effective as of such
15 appropriate date as may be approved or prescribed by the Supervisor and
16 Commissioner. The participating area or areas so established shall be revised
17 from time to time, subject to like approval, to include additional land then
18 regarded as reasonably proved to be productive in paying quantities or neces-
19 sary for unit operations, or to exclude land then regarded as reasonably
20 proved not to be productive in paying quantities and the schedule of allo-
21 cation percentages shall be revised accordingly. The effective date of any
22 revision shall be the first day of the month in which is obtained the know-
23 ledge or information on which such revision is predicated, provided, however,
24 that a more appropriate effective date may be used if justified by the Unit
25 Operator and approved by the Supervisor and Commissioner. No land shall be
26 excluded from a participating area on account of depletion of the unitized
27 substances, except that any participating area established under the provisions
28 of this unit agreement shall terminate automatically whenever all completions
29 in the formation on which the participating area is based are abandoned.

30 It is the intent of this section that a participating area shall repre-
31 sent the area known or reasonably estimated to be productive in paying quanti-
32 ties, but, regardless of any revision of the participating area, nothing herein
33 contained shall be construed as requiring any retroactive adjustment for

1 production obtained prior to the effective date of the revision of the
2 participating area.

3 In the absence of agreement at any time between the Unit Operator
4 and the Supervisor and Commissioner as to the proper definition or rede-
5 finition of a participating area, or until a participating area has, or
6 areas have, been established as provided herein, the portion of all pay-
7 ments affected thereby shall be impounded in a manner mutually acceptable
8 to the owners of working interests and the Supervisor and Commissioner.
9 Royalties due the United States and the State of New Mexico, which shall
10 be determined by the Supervisor for Federal land and the Commissioner for
11 State land and the amount thereof shall be deposited, as directed by the
12 Supervisor and Commissioner respectively, to be held as unearned money
13 until a participating area is finally approved and then applied as earned
14 or returned in accordance with a determination of the sum due as Federal
15 and State royalty on the basis of such approved participating area.

16 Whenever it is determined, subject to the approval of the Supervisor
17 as to wells drilled on Federal land and of the Commissioner as to wells
18 drilled on State land, that a well drilled under this agreement is not
19 capable of production in paying quantities and inclusion of the land on
20 which it is situated in a participating area is unwarranted, production
21 from such well shall, for the purposes of settlement among all parties
22 other than working interest owners, be allocated to the land on which the
23 well is located unless such land is already within the participating area
24 established for the pool or deposit from which such production is obtained.
25 Settlement for working interest benefits from such a well shall be made as
26 provided in the unit operating agreement.

27 12. ALLOCATION OF PRODUCTION. All unitized substances produced from
28 each participating area established under this agreement, except any part
29 thereof used in conformity with good operating practices within the unitized
30 area for drilling, operating, camp and other production or development pur-
31 poses, for repressuring or recycling in accordance with a plan of development
32 approved by the Supervisor and Commissioner, or unavoidably lost, shall be
33 deemed to be produced equally on an acreage basis from the several tracts

1 of unitized land of the participating area established for such production
2 and, for the purpose of determining any benefits accruing under this agree-
3 ment, each such tract of unitized land shall have allocated to it such per-
4 centage of said production as the number of acres of such tract included
5 in said participating area bears to the total acres of unitized land in
6 said participating area, except that allocation of production hereunder for
7 purposes other than for settlement of the royalty, overriding royalty, or
8 payment out of production obligations of the respective working interest
9 owners, shall be on the basis prescribed in the unit operating agreement
10 whether in conformity with the basis of allocation herein set forth or other-
11 wise. It is hereby agreed that production of unitized substances from a
12 participating area shall be allocated as provided herein regardless of
13 whether any wells are drilled on any particular part or tract of said part-
14 icipating area. If any gas produced from one participating area is used for
15 repressuring or recycling purposes in another participating area, the first
16 gas withdrawn from such last mentioned participating area for sale during
17 the life of this agreement shall be considered to be the gas so transferred
18 until an amount equal to that transferred shall be so produced for sale and
19 such gas shall be allocated to the participating area from which initially
20 produced as such area was last defined at the time of such final production.

21 13. DEVELOPMENT OR OPERATION OF NON-PARTICIPATING LAND OR FORMATIONS.
22 Any party hereto owning or controlling the working interest in any unitized
23 land having thereon a regular well location may with the approval of the
24 Supervisor as to Federal land, the Commissioner as to State land
25 and the Commission, at such party's sole risk, cost and
26 expense, drill a well to test any formation for which a participating area
27 has not been established or to test any formation for which a participating
28 area has been established if such location is not within said participating
29 area, unless within 90 days of receipt of notice from said party of his in-
30 tention to drill the well the Unit Operator elects and commences to drill such
31 a well in like manner as other wells are drilled by the Unit Operator under
32 this agreement.

33 If any well drilled as aforesaid by a working interest owner results

1 In production such that the land upon which it is situated may properly be
2 included in a participating area, such participating area shall be established
3 or enlarged as provided in this agreement and the well shall thereafter be
4 operated by the Unit Operator in accordance with the terms of this agreement
5 and the unit operating agreement.

6 If any well drilled as aforesaid by a working interest owner obtains
7 production in quantities insufficient to justify the inclusion of the land
8 upon which such well is situated in a participating area, such well may be
9 operated and produced by the party drilling the same subject to the conserva-
10 tion requirements of this agreement. The royalties in amount or value of
11 production from any such well shall be paid as specified in the underlying
12 lease and agreements affected.

13 14. ROYALTY SETTLEMENT. The United States and any State and any
14 royalty owner who is entitled to take in kind a share of the substances
15 now unitized hereunder shall hereafter be entitled to the right to take in
16 kind its share of the unitized substances, and the Unit Operator, or the
17 working interest owner in case of the operation of a well by a working inter-
18 est owner as herein provided for in special cases, shall make deliveries of
19 such royalty share taken in kind in conformity with the applicable contracts,
20 laws and regulations. Settlement for royalty interest not taken in kind shall
21 be made by working interest owners responsible therefor under existing con-
22 tracts, laws and regulations, or by the Unit Operator, on or before the last
23 day of each month for unitized substances produced during the preceding cal-
24 endar month; provided, however, that nothing herein contained shall operate
25 to relieve the lessees of any land from their respective lease obligations
26 for the payment of any royalties due under their leases.

27 If gas obtained from lands not subject to this agreement is introduced
28 into any participating area hereunder, for use in repressuring, stimulation
29 of production, or increasing ultimate recovery, in conformity with a plan of
30 operations approved by the Supervisor, the Commissioner, and Commission, a
31 like amount of gas, after settlement as herein provided for any gas transferred
32 from any other participating area and with appropriate deduction for loss from
33 any cause, may be withdrawn from the formation in which the gas is introduced,

1 royalty free as to dry gas, but not as to any products which may be extracted
2 therefrom; provided that such withdrawal shall be at such time as may be
3 provided in the approved plan of operations or as may otherwise be consented
4 to by the Supervisor, the Commissioner and Commission as conforming to good
5 petroleum engineering practice; and provided further, that such right of
6 withdrawal shall terminate on the termination of this unit agreement.

7 Royalty due the United States shall be computed as provided in the
8 operating regulations and paid in value or delivered in kind as to all unitized
9 substances on the basis of the amounts thereof allocated to unitized Federal
10 land as provided herein at the rate specified in the respective Federal leases,
11 or at such lower rate or rates as may be authorized by law or regulation;
12 provided, that for leases on which the royalty rate depends on the daily aver-
13 age production per well, said average production shall be determined in accor-
14 dance with the operating regulations as though each participating area were a
15 single consolidated lease.

16 Royalty due on account of State lands shall be computed and paid on the
17 basis of all unitized substances allocated to such lands.

18 15. RENTAL SETTLEMENT. Rental or minimum royalties due on leases com-
19 mitted hereto shall be paid by working interest owners responsible therefor
20 under existing contracts, laws and regulations, provided that nothing herein
21 contained shall operate to relieve the lessees of any land from their respec-
22 tive lease obligations for the payment of any rental or minimum royalty due
23 under their leases. Rental or minimum royalty for lands of the United States
24 subject to this agreement shall be paid at the rate specified in the respective
25 leases from the United States unless such rental or minimum royalty is waived,
26 suspended or reduced by law or by approval of the Secretary or his duly auth-
27 orized representative.

28 Rentals on State of New Mexico lands subject to this agreement shall be
29 paid at the rates specified in the respective leases.

30 With respect to any lease on non-Federal land containing provisions which
31 would terminate such lease unless drilling operations are commenced upon the
32 land covered thereby within the time therein specified or rentals are paid for
33 the privilege of deferring such drilling operations, the rentals required

1 thereby shall, notwithstanding any other provisions of this agreement, be
2 deemed to accrue and become payable during the term thereof as extended by
3 this agreement and until the required drilling operations are commenced
4 upon the land covered thereby or until some portion of such land is included
5 within a participating area.

6 16. CONSERVATION. Operations hereunder and production of unitized
7 substances shall be conducted to provide for the most economical and effi-
8 cient recovery of said substances without waste, as defined by or pursuant
9 to State or Federal laws or regulations.

10 17. DRAINAGE. The Unit Operator shall take such measures as the
11 Supervisor and Commissioner deem appropriate and adequate to prevent drain-
12 age of unitized substances from unitized land by wells on land not subject
13 to this agreement.

14 18. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, conditions
15 and provisions of all leases, subleases and other contracts relating to ex-
16 ploration, drilling, development or operations for oil or gas on lands com-
17 mitted to this agreement are hereby expressly modified and amended to the
18 extent necessary to make the same conform to the provisions hereof, but
19 otherwise to remain in full force and effect; and the parties hereto hereby
20 consent that the Secretary as to Federal leases and the Commissioner as to
21 State leases shall and each by his approval hereof, or by the approval hereof
22 by their duly authorized representatives, do hereby establish, alter, change
23 or revoke the drilling, producing, rental, minimum royalty and royalty re-
24 quirements of Federal and State leases committed hereto and the regulations
25 in respect thereto to conform said requirements to the provisions of this
26 agreement, and, without limiting the generality of the foregoing, all leases,
27 subleases, and contracts are particularly modified in accordance with the
28 following:

29 (a) The development and operation of lands subject to this agreement
30 under the terms hereof shall be deemed full performance of all obligations
31 for development and operation with respect to each and every separately
32 owned tract subject to this agreement, regardless of whether there is
33 any development of any particular tract of the unit area.

1 (b) Drilling and producing operations performed hereunder upon any
2 tract of unitized land will be accepted and deemed to be performed
3 upon and for the benefit of each and every tract of unitized land, and
4 no lease shall be deemed to expire by reason of failure to drill or
5 produce wells situated on the land therein embraced.

6 (c) Suspension of drilling or producing operations on all unitized
7 lands pursuant to direction or consent of the Secretary and Commissioner
8 or their duly authorized representatives shall be deemed to constitute
9 such suspension pursuant to such direction or consent as to each and every
10 tract of unitized land. A suspension of drilling or producing operations
11 limited to specified lands shall be applicable only to such lands.

12 (d) Each lease, sublease or contract relating to the exploration, drill-
13 ing, development or operation for oil or gas of lands other than those
14 of the United States or State of New Mexico committed to this agreement,
15 which, by its terms might expire prior to the termination of this agree-
16 ment, is hereby extended beyond any such term so provided therein so
17 that it shall be continued in full force and effect for and during
18 the term of this agreement.

19 (e) Any Federal lease for a fixed term of twenty (20) years or any
20 renewal thereof or any part of such lease which is made subject to
21 this agreement shall continue in force beyond the term provided therein
22 until the termination hereof. Any other Federal lease committed hereto
23 shall continue in force beyond the term so provided therein or by law
24 as to the land committed so long as such lease remains subject hereto,
25 provided that production is had in paying quantities under this unit
26 agreement prior to the expiration date of the term of such lease, or in
27 the event actual drilling operations are commenced on unitized lands,
28 in accordance with the provisions of this agreement, prior to the end
29 of the primary term of such lease and are being diligently prosecuted
30 at that time, such lease shall be extended for two years and so long
31 thereafter as oil or gas is produced in paying quantities in accordance
32 with the provisions of the Mineral Leasing Act Revision of 1960.

33 (f) Each sublease or contract relating to the operation and development

1 of unitized substances from lands of the United States committed
2 to this agreement, which by its terms would expire prior to the
3 time at which the underlying lease, as extended by the immediately
4 preceding paragraph, will expire, is hereby extended beyond any such
5 term so provided therein so that it shall be continued in full force
6 and effect for and during the term of the underlying lease as such
7 term is herein extended.

8 (g) Any lease embracing lands of the State of New Mexico which is
9 made subject to this agreement, shall continue in force beyond the
10 term provided therein as to the lands committed hereto until the
11 termination hereof, subject to the provisions of subsection (e) of
12 Section 2 and subsection (i) of this Section 18.

13 (h) The segregation of any Federal lease committed to this agree-
14 ment is governed by the following provisions in the fourth paragraph
15 of Sec. 17(j) of the Mineral Leasing Act, as amended by the Act of
16 September 2, 1960 (74 Stat. 781-784): "Any (Federal) lease heretofore
17 or hereafter committed to any such (unit) plan embracing lands that
18 are in part within and in part outside of the area covered by any such
19 plan shall be segregated into separate leases as to the lands committed
20 and the lands not committed as of the effective date of unitization:
21 Provided, however, That any such lease as to the nonunitized portion
22 shall continue in force and effect for the term thereof but for not
23 less than two years from the date of such segregation and so long
24 thereafter as oil or gas is produced in paying quantities."

25 (i) Any lease embracing lands of the State of New Mexico having only
26 a portion of its lands committed hereto, shall be segregated as to the
27 portion committed and the portion not committed, and the provisions of
28 such lease shall apply separately to such segregated portions commencing
29 as of the effective date hereof; provided, however, notwithstanding any
30 of the provisions of this agreement to the contrary any lease embracing
31 lands of the State of New Mexico having only a portion of its lands
32 committed hereto shall continue in full force and effect beyond the term
33 provided therein as to all lands embraced in such lease, if oil or gas

1 is discovered and is capable of being produced in paying quantities
2 from some part of the lands embraced in such lease at the expiration
3 of the secondary term of such lease; or if, at the expiration of the
4 secondary term, the lessee or Unit Operator is then engaged in bona fide
5 drilling or reworking operations on some part of the lands embraced in
6 such lease, the same, as to all lands embraced therein, shall remain in
7 full force and effect so long as such operations are being diligently
8 prosecuted, and if they result in the production of oil or gas, said
9 lease shall continue in full force and effect as to all of the lands
10 embraced therein, so long thereafter as oil or gas in paying quantities
11 is being produced from any portion of said lands.

12 (j) Any lease, other than a Federal lease, having only a portion of its
13 lands committed hereto shall be segregated as to the portion committed
14 and the portion not committed, and the provisions of such lease shall
15 apply separately to such segregated portions commencing as of the effective
16 date hereof. In the event any such lease provides for a lump sum
17 rental payment, such payment shall be prorated between the portions so
18 segregated in proportion to the acreage of the respective tracts.

19 19. COVENANTS RUN WITH LAND. The covenants herein shall be construed
20 to be covenants running with the land with respect to the interest of the
21 parties hereto and their successors in interest until this agreement terminates,
22 and any grant, transfer, or conveyance of interest in land or leases subject
23 hereto shall be and hereby is conditioned upon the assumption of all privileges
24 and obligations hereunder by the grantee, transferee or other successor in
25 interest. No assignment or transfer of any working interest, royalty, or
26 other interest subject hereto shall be binding upon Unit Operator until the
27 first day of the calendar month after Unit Operator is furnished with the
28 original, photostatic, or certified copy of the instrument of transfer.

29 20. EFFECTIVE DATE AND TERM. This agreement shall become effective
30 upon approval by the Secretary and Commissioner, or their duly authorized
31 representatives and shall terminate five (5) years from said effective date
32 unless:

33 (a) such date of expiration is extended by the Director and Commissioner, or

1 (b) it is reasonably determined prior to the expiration of the fixed
2 term or any extension thereof that the unitized land is incapable of
3 production of unitized substances in paying quantities in the formations
4 tested hereunder and after notice of intention to terminate the agreement
5 on such ground is given by the Unit Operator to all parties in interest
6 at their last known addresses, the agreement is terminated with the ap-
7 proval of the Supervisor and the Commissioner, or

8 (c) a valuable discovery of unitized substances has been made or
9 accepted on unitized land during said initial term or any extension
10 thereof, in which event the agreement shall remain in effect for such
11 term and so long as unitized substances can be produced in quantities
12 sufficient to pay for the cost of producing same from wells on unitized
13 land within any participating area established hereunder and, should
14 production cease, so long thereafter as diligent operations are in pro-
15 gress for the restoration of production or discovery of new production
16 and so long thereafter as unitized substances so discovered can be pro-
17 duced as aforesaid, or

18 (d) it is terminated as heretofore provided in this agreement. This
19 agreement may be terminated at any time by not less than 75 per centum,
20 on an acreage basis, of the working interest owners signatory hereto,
21 with the approval of the Supervisor and Commissioner; notice of any such
22 approval to be given by the Unit Operator to all parties hereto.

23 21. RATE OF PROSPECTING, DEVELOPMENT AND PRODUCTION. The Director is
24 hereby vested with authority to alter or modify from time to time in his dis-
25 cretion the quantity and rate of production under this agreement when such
26 quantity and rate is not fixed pursuant to Federal or State law or does not
27 conform to any statewide voluntary conservation or allocation program, which
28 is established, recognized and generally adhered to by the majority of oper-
29 ators in such State, such authority being hereby limited to alteration or mod-
30 ification in the public interest, the purpose thereof and the public interest
31 to be served thereby to be stated in the order of alteration or modification.
32 Without regard to the foregoing, the Director is also hereby vested with
33 authority to alter or modify from time to time in his discretion the rate of

1 prospecting and development and the quantity and rate of production under
2 this agreement when such alteration or modification is in the interest of
3 attaining the conservation objectives stated in this agreement and is not
4 in violation of any applicable Federal or State law; provided, further, that
5 no such alteration or modification shall be effective as to any land of the
6 State of New Mexico, as to the rate of prospecting and developing in the
7 absence of the specific written approval thereof by the Commissioner and
8 as to any lands of the State of New Mexico subject to this agreement as to
9 the quantity and rate of production in the absence of specific written
10 approval thereof by the Commission.

11 Powers in this section vested in the Director shall only be exercised
12 after notice to Unit Operator and opportunity for hearing to be held not
13 less than 15 days from notice.

14 22. CONFLICT OF SUPERVISION. Neither the Unit Operator nor the work-
15 ing interest owners nor any of them shall be subject to any forfeiture, termin-
16 ation or expiration of any rights hereunder or under any leases or contracts
17 subject hereto, or to any penalty or liability on account of delay or failure
18 in whole or in part to comply with any applicable provision thereof to the
19 extent that the Unit Operator, working interest owners or any of them are
20 hindered, delayed or prevented from complying therewith by reason of failure
21 of the Unit Operator to obtain in the exercise of due diligence, the concur-
22 rence of proper representatives of the United States and proper representatives
23 of the State of New Mexico in and about any matters or things concerning which
24 it is required herein that such concurrence be obtained. The parties hereto,
25 including the Commission, agree that all powers and authority vested in the
26 Commission in and by any provisions of this agreement are vested in the Com-
27 mission and shall be exercised by it pursuant to the provisions of the laws
28 of the State of New Mexico and subject in any case to appeal or judicial re-
29 view as may now or hereafter be provided by the laws of the State of New Mexico.

30 23. APPEARANCES. Unit Operator shall, after notice to other parties
31 affected, have the right to appear for and on behalf of any and all interests
32 affected hereby before the Department of the Interior, the Commissioner of
33 Public Lands of the State of New Mexico and the New Mexico Oil Conservation

1 Commission and to appeal from orders issued under the regulations of said
2 Department, the Commission or Commissioner or to apply for relief from any
3 of said regulations or in any proceedings relative to operations before the
4 Department of the Interior, the Commissioner, or Commission, or any other
5 legally constituted authority; provided, however, that any other interested
6 party shall also have the right at his own expense to be heard in any such
7 proceeding.

8 24. NOTICES. All notices, demands or statements required hereunder
9 to be given or rendered to the parties hereto shall be deemed fully given if
10 given in writing and personally delivered to the party or sent by postpaid
11 registered or certified mail, addressed to such party or parties at their
12 respective addresses set forth in connection with the signatures hereto or
13 to the ratification or consent hereof or to such other address as any such
14 party may have furnished in writing to party sending the notice, demand or
15 statement.

16 25. NO WAIVER OF CERTAIN RIGHTS. Nothing in this agreement contained
17 shall be construed as a waiver by any party hereto of the right to assert
18 any legal or constitutional right or defense as to the validity or invalidity
19 of any law of the State wherein said unitized lands are located, or of the
20 United States, or regulations issued thereunder in any way affecting such
21 party, or as a waiver by any such party of any right beyond his or its
22 authority to waive.

23 26. UNAVOIDABLE DELAY. All obligations under this agreement requiring
24 the Unit Operator to commence or continue drilling or to operate on or pro-
25 duce unitized substances from any of the lands covered by this agreement shall
26 be suspended while the Unit Operator, despite the exercise of due care and
27 diligence, is prevented from complying with such obligations, in whole or in
28 part, by strikes, acts of God, Federal, State or municipal law or agencies,
29 unavoidable accidents, uncontrollable delays in transportation, inability
30 to obtain necessary materials in open market, or other matters beyond the
31 reasonable control of the Unit Operator whether similar to matters herein
32 enumerated or not. No unit obligation which is suspended under this section
33 shall become due less than thirty (30) days after it has been determined that

1 the suspension is no longer applicable. Determination of creditable
2 "Unavoidable Delay" time shall be made by the Unit Operator subject to
3 approval of the Supervisor and Commissioner.

4 27. NONDISCRIMINATION. In connection with the performance of work
5 under this agreement, the operator agrees to comply with all of the pro-
6 visions of section 202 (1) to (7) inclusive of Executive Order 11246 (30 F.R.
7 12319), as amended, which are hereby incorporated by reference in this agreement.

8 28. LOSS OF TITLE. In the event title to any tract of unitized land
9 shall fail and the true owner cannot be induced to join in this unit agree-
10 ment, such tract shall be automatically regarded as not committed hereto
11 and there shall be such readjustment of future costs and benefits as may
12 be required on account of the loss of such title. In the event of a dis-
13 pute as to title to any royalty, working interest or other interests subject
14 thereto, payment or delivery or account thereof may be withheld without
15 liability for interest until the dispute is finally settled; provided, that,
16 as to Federal and State land or leases, no payments of funds due the United
17 States or State of New Mexico should be withheld, but such funds of the
18 United States shall be deposited as directed by the Supervisor and such
19 funds of the State of New Mexico shall be deposited as directed by the
20 Commissioner to be held as unearned money pending final settlement of the
21 title dispute, and then applied as earned or returned in accordance with
22 such final settlement.

23 Unit Operator as such is relieved from any responsibility for any
24 defect or failure of any title hereunder.

25 29. NON-JOINDER AND SUBSEQUENT JOINDER. If the owner of any sub-
26 stantial interest in a tract within the unit area fails or refuses to sub-
27 scribe or consent to this agreement, the owner of the working interest in
28 that tract may withdraw said tract from this agreement by written notice
29 delivered to the Supervisor and the Commissioner and the Unit Operator
30 prior to the approval of this agreement by the Supervisor and Commissioner.
31 Any oil or gas interests in lands within the unit area not committed hereto
32 prior to submission of this agreement for final approval may thereafter be
33 committed hereto by the owner or owners thereof subscribing or consenting

1 to this agreement, and, if the interest is a working interest, by the owner
2 of such interest also subscribing to the unit operating agreement. After
3 operations are commenced hereunder, the right of subsequent joinder, as
4 provided in this section, by a working interest owner is subject to such
5 requirements or approvals, if any, pertaining to such joinder, as may be
6 provided for in the unit operating agreement. After final approval hereof,
7 joinder by a non-working interest owner must be consented to in writing by
8 the working interest owner committed hereto and responsible for the payment
9 of any benefits that may accrue hereunder in behalf of such non-working
10 interest. A non-working interest may not be committed to this unit agree-
11 ment unless the corresponding working interest is committed hereto. Joinder
12 to the unit agreement by a working interest owner, at any time, must be
13 accompanied by appropriate joinder to the unit operating agreement, if more
14 than one committed working interest owner is involved, in order for the
15 interest to be regarded as committed to this unit agreement. Except as
16 may otherwise herein be provided, subsequent joinders to this agreement shall
17 be effective as of the first day of the month following the filing with the
18 Supervisor and the Commissioner of duly executed counterparts of all or any
19 papers necessary to establish effective commitment of any tract to this
20 agreement unless objection to such joinder is duly made within 60 days by
21 the Supervisor, provided, however, that as to State lands all subsequent
22 joinders must be approved by the Commissioner.

23 30. PROTECTION OF POTASH DEPOSITS. No wells will be drilled for oil
24 or gas at a location on Federal lands which in the opinion of the Supervisor
25 or at a location on State lands which in the opinion of the Commissioner would
26 result in undue waste of potash deposits or constitute a hazard to or unduly
27 interfere with mining operations being conducted for the extraction of potash
28 deposits.

29 The drilling or abandonment of any well on unitized land shall be done
30 in accordance with applicable oil and gas operating regulations, including
31 such requirements as to Federal lands as may be prescribed by the Supervisor
32 and as to State lands by the Commissioner, as necessary to prevent the infil-
33 tration of oil, gas or water into formations containing potash deposits or

1 into mines or workings being utilized in the extraction of such deposits.
2 Well records and survey plats that an oil and gas lessee of Federal
3 lands must file pursuant to applicable operating regulations (30 CFR Part 221)
4 shall be available for inspection at the Office of the Supervisor to any
5 party holding a potash permit or lease on the Federal land on which the well
6 is situated insofar as such records are pertinent to the mining and protection
7 of potash deposits.

8 31. COUNTERPARTS. This agreement may be executed in any number of
9 counterparts no one of which needs to be executed by all parties or may be
10 ratified or consented to by separate instrument in writing specifically
11 referring hereto and shall be binding upon all those parties who have exe-
12 cuted such a counterpart, ratification, or consent hereto with the same force
13 and effect as if all such parties had signed the same document and regardless
14 of whether or not it is executed by all other parties owning or claiming an
15 interest in the lands within the above described unit area.

16 32. NO PARTNERSHIP. It is expressly agreed that the relation of the
17 parties hereto is that of independent contractors and nothing in this agree-
18 ment contained, expressed or implied, nor any operations conducted hereunder,
19 shall create or be deemed to have created a partnership or association between
20 the parties hereto or any of them.

21 IN WITNESS WHEREOF, the parties hereto have caused this agreement to be
22 executed and have set opposite their respective names the date of execution.

UNIT OPERATOR AND WORKING INTEREST OWNER

DATE: 1-15-74
ADDRESS: P. O. Box 1351
Midland, Texas 79701

SKELLY OIL COMPANY

BY: Judd H. Oualine
JUDD H. OUALINE ATTORNEY-IN-FACT

ME
OK
Feb 13

WORKING INTEREST OWNERS

ATTEST:

BY: _____

Date: _____
Address: _____

THE STATE OF OKLAHOMA X
COUNTY OF TULSA X

The foregoing instrument was acknowledged before me this 15th
day of January, 1974, ~~1973~~ by Judd H. Oualine,
Attorney-in-Fact for SKELLY OIL COMPANY, a Delaware Corporation, on
behalf of said corporation.

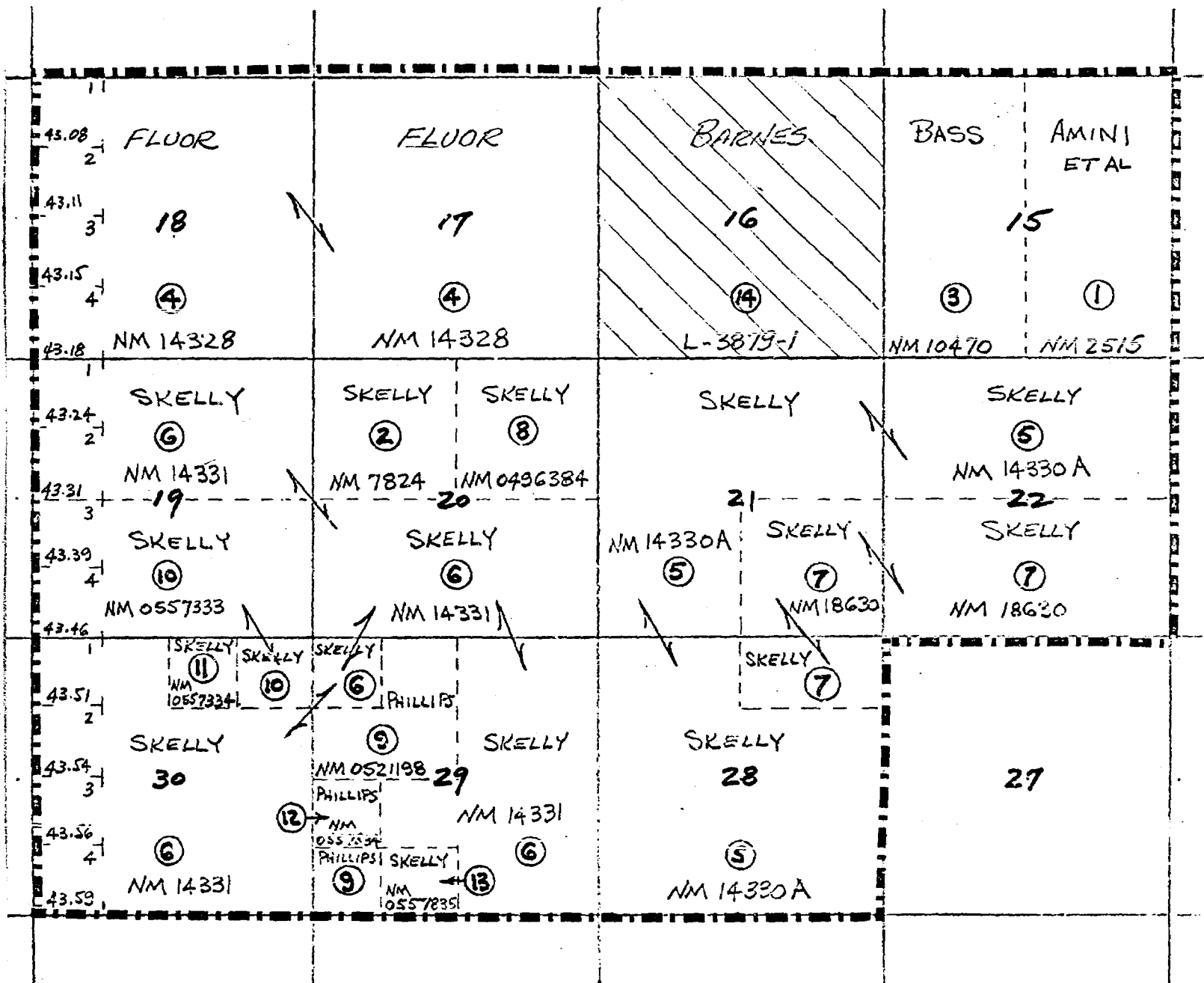
Biruta Sherwood
Notary Public in and for Tulsa
County, Oklahoma

My Commission Expires:

12-23-74

EXHIBIT "A"

SALT LAKE SOUTH UNIT AREA
T-21-S, R-32-E, N.M.P.M.
Lea County, New Mexico



UNIT OUTLINE

FEDERAL LAND

STATE LAND

① DENOTES TRACT NUMBER ON EXHIBIT "B"

EXHIBIT "B"

SALT LAKE SOUTH UNIT AREA
T-21-S, R-32-E, N.M.P.M.
Lea County, New Mexico

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NO. & EXP. DATE OF LEASES (New Mexico Serials)		BASIC ROYALTY OWNERSHIP PERCENTAGE		LESSEE OF RECORD	OVERRIDING ROYALTY AND PERCENTAGE		WORKING INTEREST AND PERCENTAGE	
1	Section 15: E/2	320.00	NM 2515 HBP		USA	All-12.5	Amini Oil Company & Southern Union Gas Company	Walter L. Morrison: 5%		Southern Union: 25% Amini: 75%	
2	Section 20: NW/4	160.00	NM 7824 11-30-78		USA	All-12.5	Skelly Oil Company	R. James Smith - \$750/ac. P.P. out of: 5%		Skelly: All	
3	Section 15: W/2	320.00	NM 10470 10-31-79		USA	All-12.5	Perry R. Bass	Bert B. Wolfe 2.5% Doreen Smith 1.5% *Ralph L. Cormany 1.0%		Bass: All	
4	Section 17: All Section 18: Lots 1,2, 3,4,E/2 W/2, E/2	1,292.52	NM 14328 7-31-81		USA	All-12.5	Fluor Oil and Gas Corporation	Clem L. Ware: 1%		Fluor: All	
5	Section 21: N/2 & SW/4 Section 22: N/2 Section 28: W/2, S/2 NE/4 & SE/4	1,360.00	NM 14330-A 1-31-83		USA	All-12.5	Skelly Oil Company	Opal Chapman: 3% G. W. Allen: 1% R. B. Adams, Jr: 1%		Skelly: All	
6	Section 19: Lots 1 & 2, E/2 NW/4, NE/4 Section 20: S/2 Section 29: NW/4 NW/4, NE/4 SW/4 & E/2 Section 30: Lots 1,2,3,4,E/2 W/2, S/2 NE/4, SE/4	1,620.75	NM 14331 3-31-83		USA	All-12.5	Skelly Oil Company	Central Southwest Oil Corp: 4% Fred Eble: 1%		Skelly: All	
7	Section 21: SE/4 Section 22: S/2 Section 28: N/2 NE/4	560.00	NM 18630 6-30-83		USA	All-12.5	Skelly Oil Company	K. W. Bumgarner: 6.25%		Skelly: All	

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NO. & EXP. DATE OF LEASES (New Mexico Serials)		BASIC ROYALTY OWNERSHIP PERCENTAGE		LESSEE OF RECORD	OVERRIDING ROYALTY AND PERCENTAGE		WORKING INTEREST AND PERCENTAGE	
8	Section 20: NE/4	160.00	NM 0496384 3-31-74	USA	All-12.5		Skelly Oil Company	Elsie G. Gorman:	5%	Skelly:	All
9	Section 29: SW/4 NW/4, E/2 NW/4, SW/4 SW/4	160.00	NM 0521198 5-31-74	USA	All-12.5		Phillips Petroleum Company	Katherine Johnson:	5%	Phillips:	All
10	Section 19: Lots 3, 4, E/2 SW/4, SE/4	366.85	NM 0557333 8-31-75	USA	All-12.5		Skelly Oil Company	Caroline W. Law:	5%	Skelly:	All
11	Section 30: NE/4 NE/4	40.00	NM 0557334 8-31-75	USA	All-12.5		Skelly Oil Company	320 Minerals, Ltd.:	5%	Skelly:	All
12	Section 29: NW/4 SW/4	40.00	NM 0557834 9-30-75	USA	All-12.5		Phillips Petroleum Company	Curtis Little: Borica Oil, Inc.:	4% 1%	Phillips:	All
13	Section 29: SE/4 SW/4	40.00	NM 0557835 11-30-75	USA	All-12.5		Skelly Oil Company	F. J. Bradshaw:	5%	Skelly:	All
13 Federal Tracts:		6,440.12 acres, or 90.96% of Unit Area									
14	Section 16: All	640.00	L-3879-1 12-16-79	State	All-12.5		J. C. Barnes	Royce E. Lawson:	3.125%	Barnes:	All
1 State Tract:		640.00 acres, or 9.04% of Unit Area									

TOTAL: 14 Tracts: 7,080.12 acres in entire Unit Area

*NOTE: The BIM files in Santa Fe indicate that while Ralph L. Cormany is the record owner of this 1% overriding royalty, the beneficial ownership is actually: 1/4 of 1% - Ralph L. Cormany; 1/4 of 1% - Ben E. Nordman; 1/4 of 1% - Mary M. Tash; and 1/4 of 1% - Chris J. Cooluris.

RATIFICATION

KNOW ALL MEN BY THESE PRESENTS; THAT:

WHEREAS, certain instruments entitled UNIT AGREEMENT FOR THE DEVELOPMENT AND OPERATION OF THE SALT LAKE SOUTH UNIT, LEA COUNTY, NEW MEXICO, and UNIT OPERATING AGREEMENT, SALT LAKE SOUTH UNIT, LEA COUNTY, NEW MEXICO, have been executed as of the 15th day of November, 1973, by various persons conducting operations with respect to the SALT LAKE SOUTH UNIT AREA located in Lea County, New Mexico, as more particularly described in said agreement; and

WHEREAS, the Unit Agreement, by Exhibit "A", shows on a map the boundary lines of the Unit Area and the Tracts therein and, by Exhibit "B" describes each tract within the Unit Area; and

WHEREAS, the Unit Agreement and Unit Operating Agreement each provides that a person may become a party thereto by signing the original of said instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions thereof; and

WHEREAS, the undersigned (whether one or more), is, or claims to be, the owner of a royalty, overriding royalty and/or working interest in one or more of the Tracts described in Exhibit "B" of the Unit Agreement:

NOW, THEREFORE, the undersigned (whether one or more), for and in consideration of the premises and the benefits anticipated to accrue under each of said agreements, does hereby agree to become a party to, and to be bound by the provisions of, the said Unit Agreement, and also the said Unit Operating Agreement, if the undersigned is a Working Interest Owner, and the undersigned does hereby agree that the parties to said agreements are those persons signing the originals of said instruments, counterparts thereof, or other instruments agreeing to be bound by the provisions thereof. The undersigned does also hereby acknowledge receipt of a true copy of the said Unit Agreement, and also the said Unit Operating Agreement, if the undersigned is a Working Interest Owner.

IN WITNESS WHEREOF, the undersigned has executed this instrument on the date set forth below opposite the undersigned's signature.

Date: 1-17-74 J. C. Barnes Sr.
J. C. BARNES

P. O. Box 505, Midland, Texas 79701
Address:

THE STATE OF Texas
COUNTY OF Midland

The foregoing instrument was acknowledged before me this 17th day of January, 1974, by J. C. Barnes, Sr.

C. J. Vandenberg
Notary Public in and for Midland
County, Texas

My Commission Expires:
June 1, 1975

RATIFICATION

KNOW ALL MEN BY THESE PRESENTS; THAT:

WHEREAS, certain instruments entitled UNIT AGREEMENT FOR THE DEVELOPMENT AND OPERATION OF THE SALT LAKE SOUTH UNIT, LEA COUNTY, NEW MEXICO, and UNIT OPERATING AGREEMENT, SALT LAKE SOUTH UNIT, LEA COUNTY, NEW MEXICO, have been executed as of the 15th day of November, 1973, by various persons conducting operations with respect to the SALT LAKE SOUTH UNIT AREA located in Lea County, New Mexico, as more particularly described in said agreement; and

WHEREAS, the Unit Agreement, by Exhibit "A", shows on a map the boundary lines of the Unit Area and the Tracts therein and, by Exhibit "B" describes each tract within the Unit Area; and

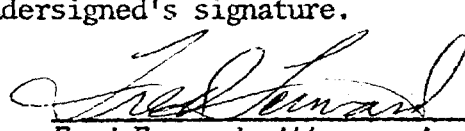
WHEREAS, the Unit Agreement and Unit Operating Agreement each provides that a person may become a party thereto by signing the original of said instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions thereof; and

WHEREAS, the undersigned (whether one or more), is, or claims to be, the owner of a royalty, overriding royalty and/or working interest in one or more of the Tracts described in Exhibit "B" of the Unit Agreement.

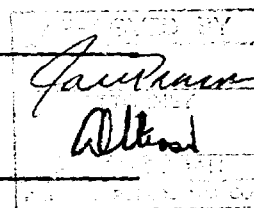
NOW, THEREFORE, the undersigned (whether one or more), for and in consideration of the premises and the benefits anticipated to accrue under each of said agreements, does hereby agree to become a party to, and to be bound by the provisions of, the said Unit Agreement, and also the said Unit Operating Agreement, if the undersigned is a Working Interest Owner, and the undersigned does hereby agree that the parties to said agreements are those persons signing the originals of said instruments, counterparts thereof, or other instruments agreeing to be bound by the provisions thereof. The undersigned does also hereby acknowledge receipt of a true copy of the said Unit Agreement, and also the said Unit Operating Agreement, if the undersigned is a Working Interest Owner.

IN WITNESS WHEREOF, the undersigned has executed this instrument on the date set forth below opposite the undersigned's signature.

Date: January 4, 1974

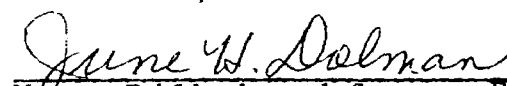

Fred Forward, Attorney-in-Fact

503 Phillips Building
Odessa, Texas 79761
Address:



THE STATE OF TEXAS I
COUNTY OF ECTOR I

The foregoing instrument was acknowledged before me this 4th day of January, 1974, by FRED FORWARD, Attorney-in-Fact for Phillips Petroleum Company, a Delaware corporation, on behalf of said corporation.

 (June H. Dolman)
Notary Public in and for Ector
County, Texas

My Commission Expires:
June 1, 1975

RATIFICATION

KNOW ALL MEN BY THESE PRESENTS, THAT:

WHEREAS, certain instruments entitled UNIT AGREEMENT FOR THE DEVELOPMENT AND OPERATION OF THE SALT LAKE SOUTH UNIT, LEA COUNTY, NEW MEXICO, AND UNIT OPERATING AGREEMENT, SALT LAKE SOUTH UNIT, LEA COUNTY, NEW MEXICO, have been executed as of the 15th day of November, 1973, by various persons conducting operations with respect to the SALT LAKE SOUTH UNIT AREA located in Lea County, New Mexico, as more particularly described in said agreement; and

WHEREAS, the Unit Agreement, by Exhibit "A", shows on a map the boundary lines of the Unit Area and the Tracts therein and, by Exhibit "B", describes each Tract within the Unit Area; and

WHEREAS, the Unit Agreement and Unit Operating Agreement each provides that a person may become a party thereto by signing the original of said instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions thereof; and

WHEREAS, the undersigned (whether one or more) is, or claims to be, the owner of a royalty, overriding royalty and/or working interest in one or more of the Tracts described in Exhibit "B" of the Unit Agreement.

NOW, THEREFORE, the undersigned (whether one or more), for and in consideration of the premises and the benefits anticipated to accrue under each of said agreements, does hereby agree to become a party to, and to be bound by the provisions of, the said Unit Agreement, and also the said Unit Operating Agreement, if the undersigned is a Working Interest Owner, and the undersigned does hereby agree that the parties to said agreements are those persons signing the originals of said instruments, counterparts thereof, or other instruments agreeing to be bound by the provisions thereof. The undersigned does also hereby acknowledge receipt of a true copy of the said Unit Agreement, and also the said Unit Operating Agreement, if the undersigned is a Working Interest Owner. This ratification is expressly subject to all the terms and provisions of that certain ACREAGE ACQUISITION AGREEMENT covering Sections 17 and 18, T-21-S, R-32-E, Lea County, New Mexico, dated November 15, 1973, between Fluor Oil and Gas Corporation and Skelly Oil Company, an executed copy of which is in the possession of both parties and to which reference is here fully made for all purposes. Anything contained herein to the contrary notwithstanding unless final approval of said Unit Agreement is obtained from the necessary governmental agencies and the Initial Test Well provided for in said Acreage Acquisition Agreement is commenced on or before March 1, 1974, this Ratification will not be effective as to the interest of Fluor Oil and Gas Corporation.

IN WITNESS WHEREOF, the undersigned has executed this instrument on the date set forth below opposite the undersigned's signature.

Date: DEC 10 1973

ATTEST:

FLUOR OIL AND GAS CORPORATION

J. Miller
Assistant Secretary

BY: *Leroy Esterak*
Leroy Esterak, Vice President

THE STATE OF TEXAS I
COUNTY OF MIDLAND I



The foregoing instrument was acknowledged before me this 10th day of December, 1973, by LEROY ESTERAK, Vice President for FLUOR OIL AND GAS CORPORATION, on behalf of said corporation.

My Commission Expires
June 1, 1975

C. L. Ware
Notary Public in and for Midland County,
Texas

C. L. Ware
Notary Public, Midland County, Tex.
Commission Expires June 1, 1975

ACREAGE ACQUISITION AGREEMENT

THIS AGREEMENT, made and entered into this 15th day of November, 1973, by and between FLUOR OIL AND GAS CORPORATION, hereinafter sometimes called "FIRST PARTY", and SKELLY OIL COMPANY, a Delaware Corporation, whose address is 2nd Floor, Wall Towers West Building, Midland, Texas 79701, hereinafter sometimes referred to as "SECOND PARTY".

W I T N E S S E T H T H A T:

WHEREAS, FIRST PARTY is the holder of valid and subsisting Oil and Gas Leases covering the lands described in the exhibit which is attached hereto, marked Exhibit "A" and made a part hereof for all purposes; and

WHEREAS, SECOND PARTY desires to earn an assignment of certain of FIRST PARTY's interest in and to said leases;

NOW, THEREFORE, for and in consideration of the mutual covenants and agreements hereinafter contained and for the benefits to be derived therefrom, the parties hereto do covenant, contract and agree as follows:

I.

SALT LAKE SOUTH UNIT

A. The parties hereto acknowledge that the lands described in Exhibit "A" hereof are subject to the Salt Lake South Unit Agreement, hereinafter called the "Unit Agreement" and the Salt Lake South Unit Operating Agreement, hereinafter called the "Unit Operating Agreement". The lands included within the unit area are hereinafter called the "Unit Area".

B. If SECOND PARTY is unable, for any reason, to secure the required approvals and agreements from the necessary parties so as to commence the drilling of the Test Well hereinafter specified under Article II hereof, on or before March 1, 1974, this agreement shall become null and void, in which event all rights, duties, liabilities, and obligations of the parties hereto and hereunder shall cease and terminate.

II.

TEST WELL

Subject to the other terms, provisions and conditions of this agreement, SECOND PARTY agrees to commence, or cause to be commenced, on or before March 1, 1974, operations for the drilling of a well in search of oil or gas at a location in the North-west Quarter (NW/4) of Section 21, T-21-S, R-32-E, N.M.P.M., Lea County, New Mexico, and to thereafter drill said well with due diligence and in a workmanlike manner to the base of the Morrow clastic section, or to a depth of 14,000 feet, whichever is the lesser depth. The depth to which said well is to be drilled is hereinafter referred to as "Contract Depth". Said well is hereinafter sometimes referred to as "Test Well".

III.

SUBSTITUTE WELL

If, in the drilling of the Test Well provided for hereinabove, SECOND PARTY encounters a drilling condition or substance before reaching Contract Depth which cannot be overcome by means or methods customarily used by prudent operators in the

area, then and in such event, the Test Well may be plugged and abandoned at the depth at which such substance or condition is encountered. SECOND PARTY shall have and is hereby given and granted the right to drill a substitute well for said well. Operations for the drilling of any substitute well shall be commenced within thirty (30) days from the date that said well is plugged and abandoned pursuant to this Article III. Any substitute well shall be located at a location mutually acceptable to both parties hereto. Any substitute well shall be drilled to the same depth and under the same terms and conditions as are applicable to the Test Well.

IV.

GEOLOGICAL REQUIREMENTS

FIRST PARTY agrees to furnish SECOND PARTY, on or before December 15, 1973 a list of the geological data and other information which FIRST PARTY shall reasonably require in connection with the Test Well.

V.

ACCESS TO PREMISES AND NOTICES

A. FIRST PARTY's representatives shall at all times have access to the premises, at FIRST PARTY's sole risk, for the purpose of observing all operations conducted under this agreement.

B. ALL notices, information and data required hereunder to be furnished to FIRST PARTY shall be furnished as follows:

Company Name	: FLUOR OIL AND GAS CORPORATION
Address	: 615 Midland Tower Bldg. Midland, Texas 79701
Attention	: Leroy Esterak
Office Telephone:	(915) 683-2731
Home Telephone	: (915) 694-2023

C. All notices, information and data required to be furnished to SECOND PARTY hereunder shall be furnished as follows:

SKELLY OIL COMPANY	
2nd Floor, Wall Towers West	
Midland, Texas 79701	
Attention: M. E. Robinson	
Office Telephone:	683-4881, Ext. 289
Home Telephon	694-4079

D. Either party may change its address or the designation of its representatives by so notifying the other party hereto in writing of any such change.

VI.

ASSIGNMENTS

A. In the event SECOND PARTY drills, completes and equips the Test Well as a commercial producer of oil and/or gas in paying quantities within the time and manner hereinbefore provided, FIRST PARTY agrees to execute and deliver to SECOND PARTY an assignment of operating rights covering 50% of FIRST PARTY's right, title and interest in and to the oil and gas lease covering the lands described in Exhibit "A" from the surface of the ground down to but not below a depth of 50 feet below the depth drilled in the said Test Well.

B. There shall be excepted from the foregoing assignment and reserved to FIRST PARTY an overriding royalty equal to one-sixteenth of eight-eighths (1/16th of 8/8ths) of all of the oil, gas and associated minerals produced and sold from the assigned premises, which shall be the total overriding royalty to which the assigned interest will be subject.

C. The overriding royalty to be excepted and reserved unto FIRST PARTY pursuant to this Article VI shall be reduced in proportion to the 50% interest covered by such assignment.

D. The overriding royalty to be excepted and reserved unto FIRST PARTY shall be free of all costs and expenses of operation but shall pay and bear its proportionate part of all pipeline charges and taxes measured by production. Said excepted and reserved overriding royalty shall not be computed on a unit basis, but rather on a lease basis and payment for the proceeds of production attributable thereto shall be computed and paid on a lease basis.

E. In the event the Test Well is not completed as a commercial producer or is plugged and abandoned, which ever occurs first, SECOND PARTY will have the option for a period of six (6) months from that date, at its sole election and at no cost to FIRST PARTY, to commence or cause to be commenced an additional test well within an area comprised of the W/2 of Section 16, all of Section 17, all of Section 18, the N/2 of Section 19 and the N/2 of Section 20, T-21-S, R-32-E, N.M.P.M. If such additional well is completed as a commercial producer of oil and/or gas in paying quantities, SECOND PARTY shall earn the identical rights as provided above in connection with the Test Well, except as hereinafter provided in Paragraph F of this Article VI.

F. If the additional well provided in E above is drilled on Section 17 or 18, T-21-S, R-32-E, N.M.P.M.; and is completed as a commercial producer of oil and/or gas, then, and in that event as to the proration unit assigned to such well only, FIRST PARTY shall receive in lieu of the overriding royalty provided above, a 1/16th of 8/8th overriding royalty in such proration unit, which shall be the total overriding royalty to which such proration unit shall be subject, with the option to convert one-half of such override to a 50% working interest in such proration unit after SECOND PARTY has recovered the cost of drilling, completing, equipping and operating the well on said proration unit from the production from such well, or the proceeds therefrom, after first deducting the royalty due the lessors, all overriding royalties, payments out of production and other such encumbrances affecting such production including, but not limited to, the overriding royalty reserved unto FIRST PARTY. Any additional wells drilled on said Sections 17 or 18 will be drilled under the terms of the Unit Operating Agreement and will give effect to the overriding royalty reserved by FIRST PARTY in Paragraph B of this Article VI, with the risk, cost and expense of such additional wells being as set-out in Exhibit "E" attached to the Unit Operating Agreement and the production being shared as set-out in Exhibit "C" thereto.

VII

NO LIABILITY

Notwithstanding anything contained in this agreement to the contrary, it is understood and agreed that the only liability to which SECOND PARTY shall be subject for failure to drill the Test Well will be the waiver of the Assignments provided for in Article VI hereof.

VIII

DELAY RENTALS

A. From and after the date of this agreement and during the term hereof and during the term of any assignment which may be executed by FIRST PARTY pursuant

to the terms hereof, FIRST PARTY agrees to pay any and all delay rentals which may become due and payable under any lease covering the lands described in Exhibit "A". FIRST PARTY will never be liable for any inadvertent failure to pay any such rentals or for any improper payment thereof. SECOND PARTY agrees to reimburse FIRST PARTY for fifty percent (50%) of all rentals so paid insofar as such rentals cover and apply to the lands described in Exhibit "A" upon being billed therefor by FIRST PARTY.

B. In the event either party hereto intends to relinquish, surrender, abandon, allow to terminate, cancel for non-payment of any payment necessary to extend any of the leases covering the lands described in Exhibit "A", or any part of such lands, the party desiring to relinquish, surrender, abandon, terminate or cancel (Hereinafter called "Abandoning Party") shall give the other party hereto written notice of such intention not less than ninety (90) days before making any such relinquishment, surrender, release, abandonment or other act or omission which may result in the termination or cancellation of any lease subject hereto. The party receiving such notice shall have thirty (30) days from its receipt of such notice in which to notify the Abandoning Party whether or not the party receiving such notice desires an assignment of all or any part of the premises described in the aforesaid notice. If such party desired to receive an assignment of all or any part of the premises described in said notice, the Abandoning Party shall, promptly upon being so notified by the other party, assign to the other party all of the Abandoning Party's right, title, and interest in and to the premises desired to be acquired by such other party. If the Abandoning Party owns any interest in any well or wells located on the premises to be assigned pursuant to this Paragraph B, the party receiving such assignment shall have the right to acquire the Abandoning Party's interest in such well or wells by paying to the Abandoning Party the salvage value of the Abandoning Party's share of the salvable material and equipment. From and after the date of any such assignment, the interest covered thereby shall no longer be subject to the terms, provisions and conditions of this agreement.

IX

INSURANCE

A. All operations conducted by SECOND PARTY in and on any well pursuant to this agreement shall be conducted at no risk, cost or expense to FIRST PARTY.

B. During the term of this agreement, SECOND PARTY shall carry the insurance required by the Unit Operating Agreement under the conditions and at the cost of the parties as more particularly set forth in said Agreement.

C. The cost of all insurance which is paid by SECOND PARTY pursuant to this Article IX shall be deemed to be part of the operating costs to which SECOND PARTY is entitled to recover pursuant to Article VI hereof.

X.

TAXES

Any taxes which may accrue or which may be assessed against the lands described in Exhibit "A" at any time prior to the execution of the assignment provided for in Paragraph A of Article VI hereof, shall be paid and borne solely by FIRST PARTY. If FIRST PARTY executes the assignment provided for in Paragraph A of Article VI above any taxes which may accrue or be assessed against the interests covered by said assignment from and after the date thereof shall be paid and borne proportionately by the parties hereto.

XI.

TITLE PAPERS

FIRST PARTY agrees to furnish to SECOND PARTY, promptly upon the execution of this agreement by both parties hereto, all abstracts, and copies of all title papers presently contained in FIRST PARTY's file affecting the lease (s) covering the lands described in Exhibit "A". SECOND PARTY shall conduct such title examination as it deems necessary of the lease(s) covering the proration unit on which the Test Well is located. The cost and expenses incurred in connection with any such examination and the obtaining of any curative which may be necessary in connection therewith, shall be deemed to be a part of the cost of drilling of the Test Well. All costs relating to all subsequent title examinations shall be borne and paid as provided in the Unit Operating Agreement.

XII.

LAWS, RULES AND REGULATIONS

A. All of the provisions of this agreement are expressly subject to all applicable laws, orders, rules and regulations of any duly constituted Federal, State or local authority having jurisdiction of the premises and all operations contemplated hereby shall be conducted in conformity therewith. Any provision of this agreement which is inconsistent with any such laws, orders, rules or regulations is hereby modified so as to conform therewith and this agreement, as so modified, shall continue in full force and effect.

B. In connection with the performance of any work under this agreement, SECOND PARTY agrees to comply with all of the provisions of Section 202, (1) to (7) inclusive of Executive Order 11246 (30 F. R. 12319), which are incorporated by reference in this agreement.

XIII.

RELATIONSHIP OF THE PARTIES

No partnership, agency, joint venture or mining partnership or other entity is intended or created by this agreement and no act by either party hereunder shall operate to create such a relationship, nor shall any of the provisions of this agreement be construed or implied as creating any such relationship whatsoever. The liability of the parties hereto shall be several and not joint or collective.

XIV

COVENANTS RUN WITH THE LAND

All of the terms, provisions and conditions of this agreement shall be deemed to be covenants running with the lands described in Exhibit "A" and the leasehold estates which are subject hereto, and the same shall be binding upon and inure to the benefit of the parties hereto, their respective successors and assigns.

XV.

HEADINGS

The headings set forth above the Articles of this agreement are for convenience only and shall in no manner be used in construing or interpreting any provision hereof.

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

SKELLY OIL COMPANY

BY: [Signature]
JUDD H OUALLINE ATTORNEY-IN-FACT jm

ATTEST:

FLUOR OIL AND GAS CORPORATION

[Signature]
Assistant Secretary

BY: [Signature]
Leroy Esterak, Vice President ok

THE STATE OF Oklahoma
COUNTY OF Tulsa I



The foregoing instrument was acknowledged before me this 21 day of January, 1974, by JUDD H OUALLINE Attorney-in-Fact for SKELLY OIL COMPANY, a Delaware Corporation, on behalf of said corporation.

[Signature]
Notary Public in and for Tulsa County, Oklahoma

My Commission Expires:
12-23-74

THE STATE OF TEXAS I
COUNTY OF MIDLAND I

The foregoing instrument was acknowledged before me this 10th day of December, 1973, by LEROY ESTERAK Vice President for FLUOR OIL AND GAS CORPORATION, on behalf of said corporation.

[Signature]
Notary Public in and for Midland County, Texas

My Commission Expires:
6-1-75

C. L. Ware
Notary Public, Midland County, Tex.
Commission Expires June 1, 1975

EXHIBIT "A"

Attached to and made a part of that certain Acreage
Acquisition Agreement dated the 15th day of November,
1973, by and between FLUOR OIL AND GAS CORPORATION and
SKELLY OIL COMPANY

Township 2 South, Range 32 East, N.M.P.M., Lea County, New Mexico

Section 17: All, containing 640 acres, more or less;

Section 18: All, containing 652.52 acres, more or less;

Containing in all 1292.52 acres, more or less



OIL CONSERVATION COMMISSION
STATE OF NEW MEXICO

STATE OF NEW MEXICO
P. O. BOX 2098 - SANTA FE
87501

December 3, 1973

**GOVERNOR
BRUCE KING
CHAIRMAN
LAND COMMISSIONER
ALEX J. ARMijo
MEMBER
STATE GEOLOGIST
A. L. PORTER, JR.
SECRETARY - DIRECTOR**

Mr. Chester E. Blodget
Skelly Oil Company
Post Office Box 1650
Tulsa, Oklahoma 74102

Re: Case No. 5127
Order No. R-4687
Applicant:
Skelly Oil Company

Dear Sir:

Dear Sir:

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

Yours,

Very truly yours,

Very truly,
A. L. Porter, Jr.
A. L. PORTER, JR.
Secretary-Director

ALP/ir

copy of order also sent to:

Hobbs OCC _____ x
Artesia OCC _____
Aztec OCC _____

Aztec CCC _____
 Other _____ Unit Division - State Land Office

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONSIDERING:

APPLICATION OF SKELLY OIL COMPANY
FOR APPROVAL OF THE SALT LAKE SOUTH
UNIT AGREEMENT, LEA COUNTY, NEW MEXICO.

CASE NO. 5127
Order No. R-4687

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on November 28, 1973, at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 30th day of November, 1973, the Commission, a quorum being present, 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 Commission has jurisdiction of this cause and the subject matter thereof.

(2) That the applicant, Skelly Oil Company, seeks approval of the Salt Lake South Unit Agreement covering 7080.12 acres, more or less, of State and Federal lands described as follows:

LEA COUNTY, NEW MEXICO
TOWNSHIP 21 SOUTH, RANGE 32 EAST, NMPM
Sections 15 through 22: All
Sections 28 through 30: All

(3) That approval of the proposed unit agreement should promote the prevention of waste and the protection of correlative rights within the unit area.

IT IS THEREFORE ORDERED:

(1) That the Salt Lake South Unit Agreement is hereby approved.

(2) That the plan contained in said unit agreement for the development and operation of the unit area is hereby approved in principle as a proper conservation measure; provided, however, that notwithstanding any of the provisions contained in said unit agreement, this approval shall not be considered as waiving or relinquishing, in any manner, any right, duty, or obligation which is now, or may hereafter be, vested in the Commission to supervise and control operations for the

-2-

CASE NO. 5127
Order No. R-4687

exploration and development of any lands committed to the unit and production of oil or gas therefrom.

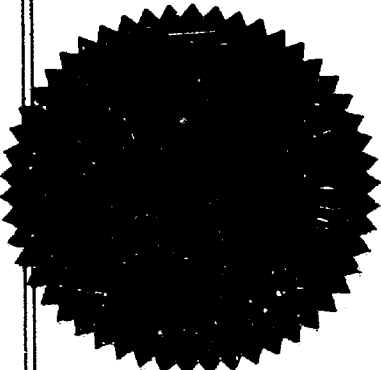
(3) That the unit operator shall file with the Commission an executed original or executed counterpart of the unit agreement within 30 days after the effective date thereof; that in the event of subsequent joinder by any party or expansion or contraction of the unit area, the unit operator shall file with the Commission within 30 days thereafter counterparts of the unit agreement reflecting the subscription of those interests having joined or ratified.

(4) That this order shall become effective upon the approval of said unit agreement by the Commissioner of Public Lands for the State of New Mexico and the Director of the United States Geological Survey; that this order shall terminate ipso facto upon the termination of said unit agreement; and that the last unit operator shall notify the Commission immediately in writing of such termination.

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

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION



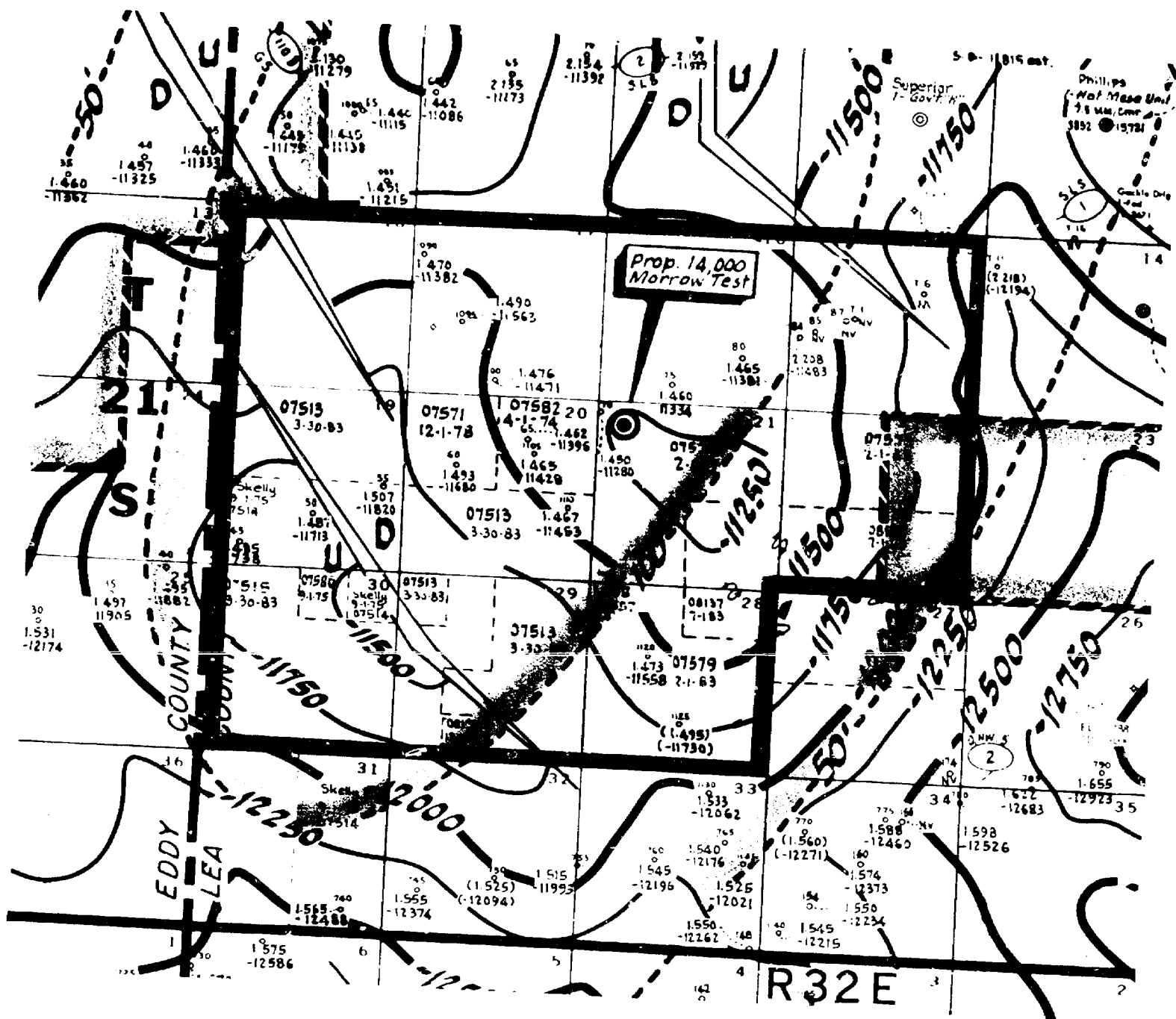
I. R. Trujillo
I. R. TRUJILLO, Chairman

ALEX J. ARMIJO, Member

A. L. Porter, Jr.
A. L. PORTER, JR., Member & Secretary

S E A L

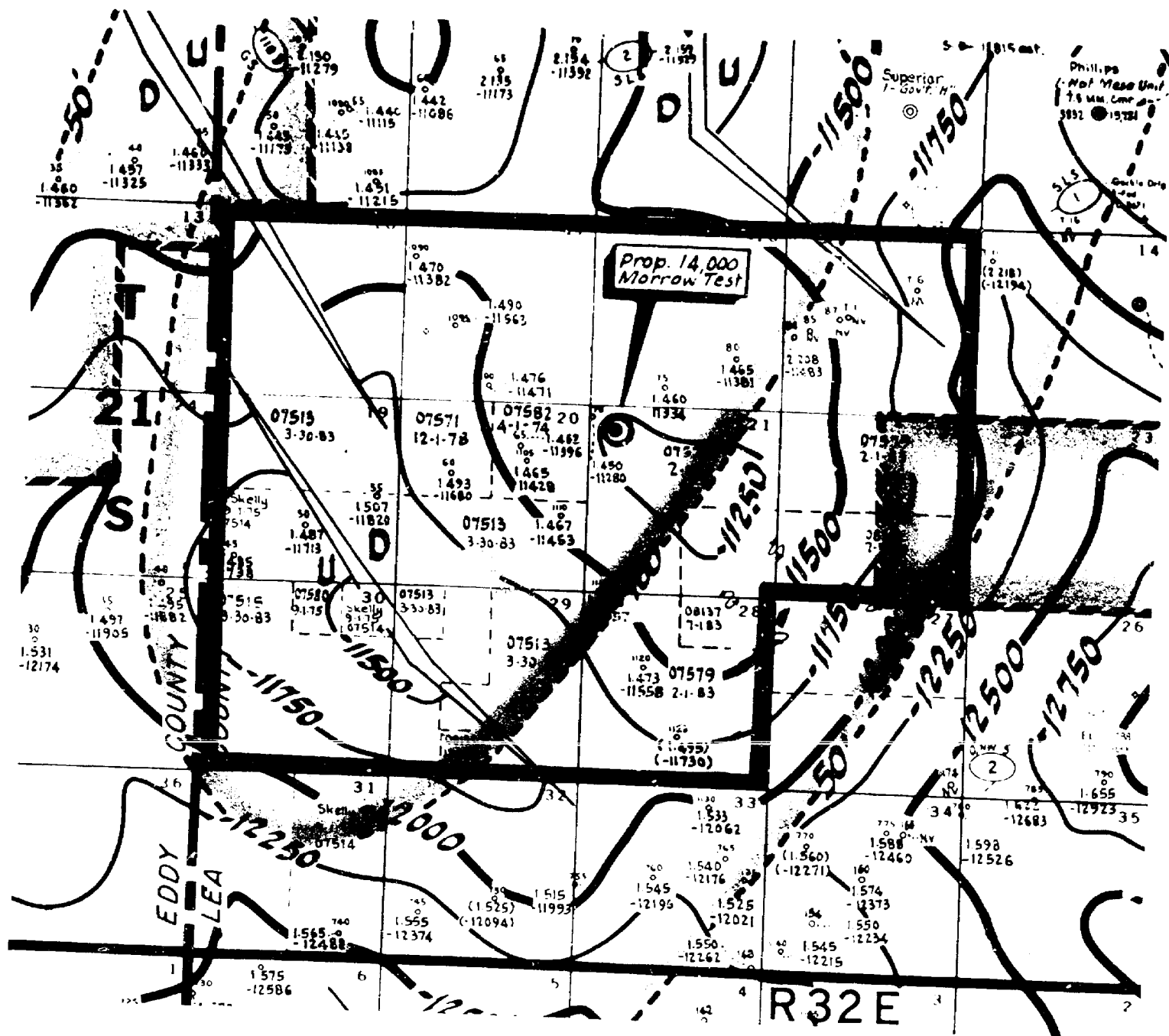
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OIL - POTASH AREA
MOCC ORDER NO. R-111-A AS REVISED THRU R-111-H

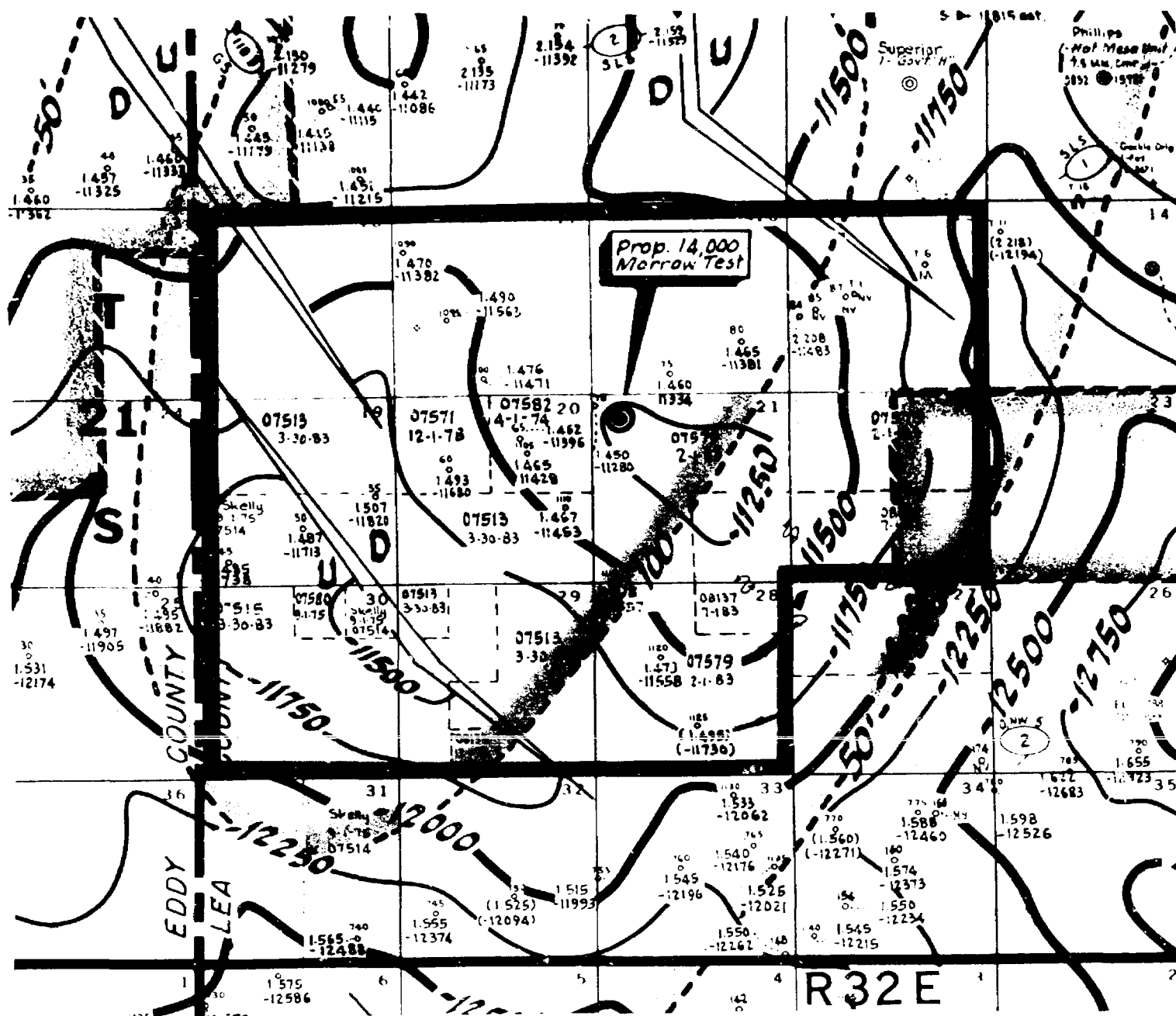
BEFORE EXAMINER STAMETS
OIL CONSERVATION COMMISSION
Skelly EXHIBIT NO. 2
CASE NO. 5127
Submitted by J. T. Edmonson
Hearing Date 11-28-73

SKELLY OIL COMPANY
WEST CENTRAL DISTRICT
SALT LAKE SOUTH UNIT
Eddy and Lea Counties, New Mexico
Scale
0 2000 4000 8000 12000
Contoured Datum: Sil-Devonian C.I. 250'
Total Gross Clean Morrow Sand C.I. 50'
Geologist: Jon T. Edmonson Date: 2-13-74
Geophysicist: R. M. Hall
Proposed Unit Outline



Oil - POTASH AREA
 INOCC ORDER NO. R-111-A AS REVISED THRU R-111-N

BEFORE EXAMINER STAMETS OIL CONSERVATION COMMISSION Skelly EXHIBIT NO. <u>2</u> CASE NO. <u>5127</u> Submitted by <u>J. T. Edmonson</u> Hearing Date <u>11-28-73</u>		SKELLY OIL COMPANY WEST CENTRAL DISTRICT SALT LAKE SOUTH UNIT Eddy and Lea Counties, New Mexico Scale 0 2000 4000 8000 12000 Contoured Datum: Sil-Devonian C.I. 250' Total Gross Clean Morrow Sand C.I. 50' Geologist: Jon T. Edmonson Date: 2-13-74 Geophysicist: R. M. Hall [] Proposed Unit Outline
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Oil - POTASH AREA
 NOCC ORDER NO. R-111-A AS REVISED THRU R-111-M

**BEFORE EXAMINER STAMETS
 OIL CONSERVATION COMMISSION**

Skelly EXHIBIT NO. 2

CASE NO. 5127


Submitted by J. T. Edmonson

Hearing Date 11-28-73

SKELLY OIL COMPANY
 WEST CENTRAL DISTRICT
 SALT LAKE SOUTH UNIT
 Eddy and Lea Counties, New Mexico
 Scale



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BEFORE THE NEW MEXICO
OIL CONSERVATION COMMISSION

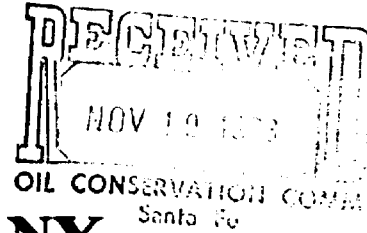
APPLICATION OF SKELLY OIL COMPANY
FOR APPROVAL OF THE SALT LAKE SOUTH
UNIT AGREEMENT, LEA COUNTY, NEW
MEXICO

ENTRY OF APPEARANCE

Comes now L. C. White, of White, Koch, Kelly & McCarthy, P. O.
Box 787, Santa Fe, New Mexico, and herewith enters their
appearance as local counsel for and on behalf of the applicant
Skelly Oil Company in the above entitled matter.

WHITE, KOCH, KELLY & MCCARTHY

By _____



SKELLY OIL COMPANY

P. O. BOX 1650

TULSA, OKLAHOMA 74102

November 14, 1973

LAW DEPARTMENT
CHESTER E. BLODGET
SENIOR ATTORNEY

Re: Application of Skelly Oil Company
for Approval of the Salt Lake South
Unit Agreement, Lea County, New Mexico

New Mexico Oil Conservation Commission
P. O. Box 2088
Santa Fe, New Mexico 87501

Gentlemen:

We are enclosing herewith the original and two copies of the above-referenced application for approval of a unit agreement.

It is our understanding that Kenneth H. Griffin has heretofore contacted you and that this matter has been set down for hearing on the November 28, 1973 Examiner Docket as Case No. 5127.

Yours very truly,


Chester E. Blodget

CEB:br
Encl.

BEFORE THE NEW MEXICO OIL CONSERVATION COMMISSION

IN THE MATTER OF THE APPLICATION OF)
SKELLY OIL COMPANY FOR APPROVAL OF)
THE SALT LAKE SOUTH UNIT AGREEMENT,)
LEA COUNTY, NEW MEXICO)

CASE NO. 5127

FILED _____

HEARING November 28, 1973

A P P L I C A T I O N

Comes now Skelly Oil Company on behalf of itself and others and respectfully states as follows:

1. That it is the owner and operator of leases in the hereinafter described unit area, Lea County, New Mexico.

2. That it seeks approval of the Salt Lake South Unit Agreement covering 7080.12 acres, more or less, of State and Federal lands described as follows:

Lea County, New Mexico
Township 21 South, Range 32 East, NMPM
Sections 15 through 22: All
Sections 28 through 30: All

3. That approval of the proposed Unit Agreement should promote the prevention of waste and the protection of correlative rights within the unit area.

WHEREFORE, PREMISES CONSIDERED, Applicant prays that this Commission, after the giving of notice as required by law, set this application down for hearing, and that at the conclusion of said hearing based on the evidence adduced approve the Unit Agreement for the Salt Lake South Unit, and for such other orders, rules and regulations as may be necessary in the premises.

Respectfully submitted,

SKELLY OIL COMPANY

By *Chester E. Blodget*
Chester E. Blodget
Attorney

Of Counsel:
L. C. White, Attorney
White, Koch, Kelly & McCarthy
P. O. Box 787
Santa Fe, New Mexico 87501

BEFORE THE NEW MEXICO OIL CONSERVATION COMMISSION

IN THE MATTER OF THE APPLICATION OF)
SKELLY OIL COMPANY FOR APPROVAL OF)
THE SALT LAKE SOUTH UNIT AGREEMENT,)
LEA COUNTY, NEW MEXICO)

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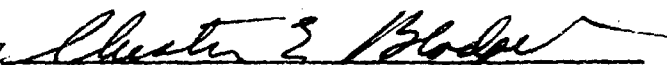
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SKELLY OIL COMPANY

By 
Chester E. Blodget
Attorney

Of Counsel:
L. C. White, Attorney
White, Koch, Kelly & McCarthy
P. O. Box 787
Santa Fe, New Mexico 87501

BEFORE THE NEW MEXICO OIL CONSERVATION COMMISSION

IN THE MATTER OF THE APPLICATION OF)
SKELLY OIL COMPANY FOR APPROVAL OF)
THE SALT LAKE SOUTH UNIT AGREEMENT,)
LEA COUNTY, NEW MEXICO)

CASE NO. 5127

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Respectfully submitted,

SKELLY OIL COMPANY

By *Chester E. Blodget*
Chester E. Blodget
Attorney

Of Counsel:
L. C. White, Attorney
White, Koch, Kelly & McCarthy
P. O. Box 787
Santa Fe, New Mexico 87501

BEFORE EXAMINER STAMETS
OIL CONSERVATION COMMISSION

EXHIBIT NO. 1

CASE NO. 5127

Submitted by Skelly Oil Company

Hearing Date 11-28-73

UNIT AGREEMENT
SALT LAKE SOUTH UNIT AREA
LEA COUNTY, NEW MEXICO

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1 UNIT AGREEMENT
2 FOR THE DEVELOPMENT AND OPERATION
3 OF THE
4 SALT LAKE SOUTH UNIT AREA
5 COUNTY OF LEA
6 STATE OF NEW MEXICO
7 NO. _____

8 THIS AGREEMENT entered into as of the 15th day of November,
9 1973, by and between the parties subscribing, ratifying or consenting hereto,
10 and herein referred to as the "parties hereto".

11 WITNESSETH:

12 WHEREAS, the parties hereto are the owners of working, royalty, or
13 other oil and gas interests in the unit area subject to this agreement; and

14 WHEREAS, the Mineral Leasing Act of February 25, 1920, 41 Stat. 437, as
15 amended, 30 U.S.C. Secs. 181 et seq., authorizes Federal lessees and their
16 representatives to unite with each other, or jointly or separately with
17 others, in collectively adopting and operating a cooperative or unit plan
18 of development or operations of any oil or gas pool, field, or like area, or
19 any part thereof for the purpose of more properly conserving the natural
20 resources thereof whenever determined and certified by the Secretary of
21 the Interior to be necessary or advisable in the public interest; and

22 WHEREAS, the Commissioner of Public Lands of the State of New Mexico
23 is authorized by an Act of the Legislature (Sec. 7-11-39 N.M. Statutes 1953
24 Annotated) to consent to or approve this agreement on behalf of the State
25 of New Mexico, insofar as it covers and includes lands and mineral interests
26 of the State of New Mexico; and

27 WHEREAS, the Oil Conservation Commission of the State of New Mexico is
28 authorized by an Act of the Legislature (Article 3, Chapter 65, Vol. 9,
29 Part 2, 1953 Statutes) to approve this agreement and the conservation provisions
30 hereof; and

31 WHEREAS, the parties hereto hold sufficient interests in the Salt Lake
32 South Unit Area covering the land hereinafter described to give reasonably
33 effective control of operations therein; and

1 WHEREAS, it is the purpose of the parties hereto to conserve natural
2 resources, prevent waste, and secure other benefits obtainable through
3 development and operation of the area subject to this agreement under the
4 terms, conditions and limitations herein set forth;

5 NOW, THEREFORE, in consideration of the premises and the promises herein
6 contained, the parties hereto commit to this agreement their respective
7 interests in the below-defined unit area, and agree severally among them-
8 selves as follows:

9 1. ENABLING ACT AND REGULATIONS. The Mineral Leasing Act of February
10 25, 1920, as amended, supra, and all valid pertinent regulations, including
11 operating and unit plan regulations, heretofore issued thereunder or valid,
12 pertinent and reasonable regulations hereafter issued thereunder are accepted
13 and made a part of this agreement as to Federal lands, provided such regula-
14 tions are not inconsistent with the terms of this agreement; and as to non-
15 Federal lands, the oil and gas operating regulations in effect as of the
16 effective date hereof governing drilling and producing operations, not in-
17 consistent with the terms hereof or the laws of the State of which the non-
18 Federal land is located, are hereby accepted and made a part of this agreement.

19 2. UNIT AREA. The area specified on the map attached hereto marked
20 Exhibit "A" is hereby designated and recognized as constituting the unit area,
21 containing 7,080.12 acres, more or less.

22 Exhibit "A" shows, in addition to the boundary of the unit area, the
23 boundaries and identity of tracts and leases in said area to the extent known
24 to the Unit Operator. Exhibit "B" attached hereto is a schedule showing to
25 the extent known to the Unit Operator the acreage, percentage, and kind of
26 ownership of oil and gas interests in all land in the unit area. However,
27 nothing herein or in said schedule or map shall be construed as a representa-
28 tion by any party hereto as to the ownership of any interest other than such
29 interest or interests as are shown in said map or schedule as owned by such
30 party. Exhibits "A" and "B" shall be revised by the Unit Operator whenever
31 changes in the unit area render such revision necessary, or when requested
32 by the Oil and Gas Supervisor, hereinafter referred to as "Supervisor", or
33 when requested by the Commissioner of Public Lands of the State of New Mexico,

1 hereinafter referred to as "Commissioner", and not less than five copies
2 of the revised exhibits shall be filed with the Supervisor, and two copies
3 thereof shall be filed with the Commissioner, and one copy with the New
4 Mexico Oil Conservation Commission, hereinafter referred to as "Commission".

5 The above-described unit area shall when practicable be expanded to
6 include therein any additional lands or shall be contracted to exclude lands
7 whenever such expansion or contraction is deemed to be necessary or advis-
8 able to conform with the purposes of this agreement. Such expansion or
9 contraction shall be effected in the following manner:

10 (a) Unit Operator, on its own motion or on demand of the Director
11 of the Geological Survey, hereinafter referred to as "Director", or on de-
12 mand of the Commissioner, after preliminary concurrence by the Director
13 and the Commissioner, shall prepare a notice of proposed expansion or con-
14 traction describing the contemplated changes in the boundaries of the unit
15 area, the reasons therefor, and the proposed effective date thereof, pre-
16 ferably the first day of a month subsequent to the date of notice.

17 (b) Said notice shall be delivered to the Supervisor, the Commissioner
18 and the Commission and copies thereof mailed to the last known address of
19 each working interest owner, lessee, and lessor whose interests are affected,
20 advising that 30 days will be allowed for submission to the Unit Operator of
21 any objections.

22 (c) Upon expiration of the 30-day period provided in the preceding
23 item (b) hereof, Unit Operator shall file with the Supervisor, the Commis-
24 sioner and the Commission evidence of mailing of the notice of expansion
25 or contraction and a copy of any objections thereto which have been filed
26 with the Unit Operator, together with an application in sufficient number,
27 for approval of such expansion or contraction and with appropriate joinders.

28 (d) After due consideration of all pertinent information, the expansion
29 or contraction shall, upon approval by the Supervisor, the Commissioner and
30 the Commission, become effective as of the date prescribed in the notice
31 thereof.

32 (e) All legal subdivisions of lands (i.e., 40 acres by Government
33 survey or its nearest lot or tract equivalent; in instances of irregular

1 surveys unusually large lots or tracts shall be considered in multiples
2 of 40 acres or the nearest aliquot equivalent thereof), no parts of which
3 are entitled to be in a participating area on or before the fifth anniver-
4 sary of the effective date of the first initial participating area estab-
5 lished under this unit agreement, shall be eliminated automatically from
6 this agreement, effective as of said fifth anniversary, and such lands shall
7 no longer be a part of the unit area and shall no longer be subject to this
8 agreement, unless diligent drilling operations are in progress on unitized
9 lands not entitled to participation on said fifth anniversary, in which event
10 all such lands shall remain subject hereto so long as such drilling opera-
11 tions are continued diligently with not more than 90 days' time elapsing
12 between the completion of one well and the commencement of the next well.
13 All legal subdivisions of lands not entitled to be in a participating area
14 within 10 years after the effective date of the first initial participating
15 area approved under this agreement shall be automatically eliminated from
16 this agreement as of said tenth anniversary. All lands proved productive
17 by diligent drilling operations after the aforesaid 5-year period shall
18 become participating in the same manner as during said 5-year period. How-
19 ever, when such diligent drilling operations cease, all nonparticipating
20 lands shall be automatically eliminated effective as of the 91st day there-
21 after. The Unit Operator shall, within 90 days after the effective date of
22 any elimination hereunder, describe the area so eliminated to the satisfac-
23 tion of the Supervisor and the Commissioner, and promptly notify all parties
24 in interest.

25 If conditions warrant extension of the 10-year period specified in
26 this subsection 2(e), a single extension of not to exceed 2 years may be
27 accomplished by consent of the owners of 90% of the working interests in the
28 current nonparticipating unitized lands and the owners of 60% of the basic
29 royalty interests (exclusive of the basic royalty interests of the United
30 States) in nonparticipating unitized lands with approval of the Director and
31 Commissioner, provided such extension application is submitted to the Director
32 and Commissioner not later than 60 days prior to the expiration of said ten-year
33 period.

1 Any expansion of the unit area pursuant to this section which embraces
2 lands theretofore eliminated pursuant to this subsection 2(e) shall not be
3 considered automatic commitment or recommitment of such lands.

4 3. UNITIZED LAND AND UNITIZED SUBSTANCES. All land committed to this
5 agreement shall constitute land referred to herein as "unitized land" or
6 "land subject to this agreement". All oil and gas in any and all formations
7 of the unitized land are unitized under the terms of this agreement and herein
8 are called "unitized substances".

9 4. UNIT OPERATOR. Skelly Oil Company is hereby designated as Unit
10 Operator and by signature hereto as Unit Operator agrees and consents to
11 accept the duties and obligations of Unit Operator for the discovery,
12 development and production of unitized substances as herein provided. When-
13 ever reference is made herein to the Unit Operator, such reference means
14 the Unit Operator acting in that capacity and not as an owner of interest
15 in unitized substances, and the term "working interest owner" when used
16 herein shall include or refer to Unit Operator as the owner of a working
17 interest when such an interest is owned by it.

18 5. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Operator shall
19 have the right to resign at any time prior to the establishment of a
20 participating area or areas hereunder, but such resignation shall not
21 become effective so as to release Unit Operator from the duties and obliga-
22 tions of Unit Operator and terminate Unit Operator's rights as such for a
23 period of 6 months after notice of intention to resign has been served by
24 Unit Operator on all working interest owners and the Supervisor, the
25 Commissioner and the Commission, and until all wells then drilled here-
26 under are placed in a satisfactory condition for suspension or abandonment
27 whichever is required by the Supervisor as to Federal lands and by the
28 Commissioner as to State lands, unless a new Unit Operator shall
29 have been selected and approved and shall have taken over and assumed
30 the duties and obligations of Unit Operator prior to the expiration of said
31 period.

32 Unit Operator shall have the right to resign in like manner and subject
33 to like limitations as above provided at any time a participating area

1 established hereunder is in existence, but, in all instances of resignation
2 or removal, until a successor Unit Operator is selected and approved as
3 hereinafter provided, the working interest owners shall be jointly responsi-
4 ble for performance of the duties of Unit Operator, and shall, not later
5 than 30 days before such resignation or removal becomes effective, appoint
6 a common agent to represent them in any action to be taken hereunder.

7 The resignation of Unit Operator shall not release Unit Operator from
8 any liability for any default by it hereunder occurring prior to the effec-
9 tive date of its resignation.

10 The Unit Operator may, upon default or failure in the performance of
11 its duties or obligations hereunder, be subject to removal by the same
12 percentage vote of the owners of working interests as herein provided for
13 the selection of a new Unit Operator. Such removal shall be effective
14 upon notice thereof to the Supervisor and the Commissioner.

15 The resignation or removal of Unit Operator under this agreement shall
16 not terminate its right, title or interest as the owner of a working inter-
17 est or other interest in unitized substances, but upon the resignation or
18 removal of Unit Operator becoming effective, such Unit Operator shall
19 deliver possession of all wells, equipment, materials and appurtenances used
20 in conducting the unit operations to the new duly qualified successor Unit
21 Operator or to the common agent, if no such new Unit Operator is elected,
22 to be used for the purpose of conducting unit operations hereunder. Nothing
23 herein shall be construed as authorizing removal of any material, equipment
24 and appurtenances needed for the preservation of any wells.

25 6. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall tender
26 his or its resignation as Unit Operator or shall be removed as hereinabove
27 provided, or a change of Unit Operator is negotiated by working interest
28 owners, the owners of the working interests in the participating area or
29 areas according to their respective acreage interests in such participating
30 area or areas, or, until a participating area shall have been established,
31 the owners of the working interests according to their respective acreage
32 interests in all unitized land, shall by majority vote select a successor
33 Unit Operator: Provided, That, if a majority but less than 75 per cent of

1 the working interests qualified to vote are owned by one party to this
2 agreement, a concurring vote of one or more additional working interest
3 owners shall be required to select a new operator. Such selection shall
4 not become effective until

5 (a) a Unit Operator so selected shall accept in writing the duties
6 and responsibilities of Unit Operator, and

7 (b) the selection shall have been approved by the Supervisor and
8 the Commissioner.

9 If no successor Unit Operator is selected and qualified as herein
10 provided, the Director and Commissioner at their election may declare
11 this unit agreement terminated.

12 7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. If the
13 Unit Operator is not the sole owner of working interest, costs and expenses
14 incurred by Unit Operator in conducting unit operations hereunder shall be
15 paid and apportioned among and borne by the owners of working interests,
16 all in accordance with the agreement or agreements entered into by and
17 between the Unit Operator and the owners of working interests, whether one
18 or more, separately or collectively. Any agreement or agreements entered
19 into between the working interest owners and the Unit Operator as provided
20 in this section, whether one or more, are herein referred to as the "unit
21 operating agreement". Such unit operating agreement shall also provide
22 the manner in which the working interest owners shall be entitled to receive
23 their respective proportionate and allocated share of the benefits accruing
24 hereto in conformity with their underlying operating agreements, leases or
25 other independent contracts, and such other rights and obligations as be-
26 tween Unit Operator and the working interest owners as may be agreed upon
27 by Unit Operator and the working interest owners; however, no such unit
28 operating agreement shall be deemed either to modify any of the terms and
29 conditions of this unit agreement or to relieve the Unit Operator of any
30 right or obligation established under this unit agreement, and in case of any
31 inconsistency or conflict between this unit agreement and the unit operating
32 agreement, this unit agreement shall govern. Three true copies of any unit
33 operating agreement executed pursuant to this section should be filed with

1 the Supervisor and two truecopies with the Commissioner and one true copy
2 with the Commission, prior to approval of this unit agreement.

3 8. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR. Except as otherwise
4 specifically provided herein, the exclusive right, privilege, and duty of
5 exercising any and all rights of the parties hereto which are necessary
6 or convenient for prospecting for, producing, storing, allocating, and
7 distributing the unitized substances are hereby delegated to and shall be
8 exercised by the Unit Operator as herein provided. Acceptable evidence of
9 title to said rights shall be deposited with said Unit Operator and, together
10 with this agreement, shall constitute and define the rights, privileges, and
11 obligations of Unit Operator. Nothing herein, however, shall be construed
12 to transfer title to any land or to any lease or operating agreement, it
13 being understood that under this agreement the Unit Operator, in its capacity
14 as Unit Operator, shall exercise the rights of possession and use vested in
15 the parties hereto only for the purposes herein specified.

16 9. DRILLING TO DISCOVERY. Within 6 months after the effective date
17 hereof, the Unit Operator shall begin to drill an adequate test well at a
18 location approved by the Supervisor, if on Federal land, or by the Commissioner
19 if on State land, unless on such effective date a well is being drilled
20 conformably with the terms hereof, and thereafter continue such drilling
21 diligently until such test well is drilled to the base of the Morrow clastic section
22 or until at a lesser depth unitized substances shall be discovered which can
23 be produced in paying quantities (to-wit: quantities sufficient to repay the
24 costs of drilling, completing, and producing operations, with a reasonable
25 profit) or the Unit Operator shall at any time establish to the satisfaction
26 of the Supervisor if located on Federal lands, or the Commissioner if located
27 on State lands, or the Commission if located on fee lands, that further drill-
28 ing of said well would be unwarranted or impracticable, provided, however,
29 that Unit Operator shall not in any event be required to drill said well to
30 a depth in excess of 14,000 feet. Until the discovery of a deposit of unitized
31 substances capable of being produced in paying quantities, the Unit Operator
32 shall continue drilling one well at a time, allowing not more than 6 months
33 between the completion of one well and the beginning of the next well, until

1 a well capable of producing unitized substances in paying
2 quantities is completed to the satisfaction of said Supervisor
3 if on Federal land, or the Commissioner if on State land, or
4 until it is reasonable proved that the unitized land is incapable of
5 producing unitized substances in paying quantities in the formations drilled
6 hereunder. Nothing in this section shall be deemed to limit the right of
7 the Unit Operator to resign as provided in Section 5 hereof, or as requir-
8 ing Unit Operator to commence or continue any drilling during the period
9 pending such resignation becoming effective in order to comply with the
10 requirements of this section. The Supervisor and Commissioner may modify
11 the drilling requirements of this section by granting reasonable extensions
12 of time when, in their opinion, such action is warranted. Upon failure
13 to commence any well provided for in this section within the time allowed,
14 including any extension of time granted by the Supervisor and the Com-
15 missioner, this agreement will automatically terminate; upon failure to
16 continue drilling diligently any well commenced hereunder, the Supervisor
17 and Commissioner may, after 15 days notice to the Unit Operator, declare
18 this unit agreement terminated.

19 10. PLAN OF FURTHER DEVELOPMENT AND OPERATION. Within 6 months after
20 completion of a well capable of producing unitized substances in paying
21 quantities, the Unit Operator shall submit for the approval of the Supervisor
22 and the Commissioner an acceptable plan of development and operation for the
23 unitized land which, when approved by the Supervisor and the Commissioner,
24 shall constitute the further drilling and operating obligations of the Unit
25 Operator under this agreement for the period specified therein. Thereafter,
26 from time to time before the expiration of any existing plan, the Unit Operator
27 shall submit for the approval of the Supervisor and the Commissioner a plan
28 for an additional specified period for the development and operation of the
29 unitized land.

30 Any plan submitted pursuant to this section shall provide for the
31 exploration of the unitized area and for the diligent drilling necessary
32 for determination of the area or areas thereof capable of producing unitized
33 substances in paying quantities in each and every productive formation and

1 shall be as complete and adequate as the Supervisor, the Commissioner
2 and Commission may determine to be necessary for timely development and
3 proper conservation of the oil and gas resources of the unitized area
4 and shall:

5 (a) specify the number and locations of any wells to be drilled and
6 the proposed order and time for such drilling; and

7 (b) to the extent practicable, specify the operating practices regarded
8 as necessary and advisable for proper conservation of natural
9 resources.

10 Separate plans may be submitted for separate productive zones, subject to
11 the approval of the Supervisor, the Commissioner and the Commission.

12 Plans shall be modified or supplemented when necessary to meet changed
13 conditions or to protect the interests of all parties to this agreement.
14 Reasonable diligence shall be exercised in complying with the obligations
15 of the approved plan of development. The Supervisor and Commissioner are
16 authorized to grant a reasonable extension of the 6-month period herein
17 prescribed for submission of an initial plan of development where such
18 action is justified because of unusual conditions or circumstances. After
19 completion hereunder of a well capable of producing any unitized substances
20 in paying quantities, no further wells, except such as may be necessary to
21 afford protection against operations not under this agreement and such as may
22 be specifically approved by the Supervisor and the Commissioner, shall be
23 drilled except in accordance with a plan of development approved as herein
24 provided.

25 11. PARTICIPATION AFTER DISCOVERY. Upon completion of a well capable
26 of producing unitized substances in paying quantities or as soon thereafter
27 as required by the Supervisor and Commissioner, the Unit Operator shall sub-
28 mit for approval by the Supervisor and Commissioner a schedule, based on
29 subdivisions of the public land survey or aliquot parts thereof, of all land
30 then regarded as reasonably proved to be productive in paying quantities;
31 all lands in said schedule on approval of the Supervisor and Commissioner to
32 constitute a participating area, effective as of the date of completion of
33 such well or the effective date of this unit agreement, whichever is later.

1 The acreages of both Federal and non-Federal lands shall be based upon
2 appropriate computations from the courses and distances shown on the
3 last approved public land survey as of the effective date of each initial
4 participating area. Said schedule shall also set forth the percentage of
5 unitized substances to be allocated as herein provided to each tract in
6 the participating area so established, and shall govern the allocation
7 of production commencing with the effective date of the participating area.
8 A separate participating area shall be established for each separate pool
9 or deposit of unitized substances or for any group thereof which is pro-
10 duced as a single pool or zone, and any two or more participating areas
11 so established may be combined into one, on approval of the Supervisor
12 and Commissioner. When production from two or more participating areas,
13 so established, is subsequently found to be from a common pool or deposit
14 said participating areas shall be combined into one effective as of such
15 appropriate date as may be approved or prescribed by the Supervisor and
16 Commissioner. The participating area or areas so established shall be revised
17 from time to time, subject to like approval, to include additional land then
18 regarded as reasonably proved to be productive in paying quantities or neces-
19 sary for unit operations, or to exclude land then regarded as reasonably
20 proved not to be productive in paying quantities and the schedule of allo-
21 cation percentages shall be revised accordingly. The effective date of any
22 revision shall be the first day of the month in which is obtained the know-
23 ledge or information on which such revision is predicated, provided, however,
24 that a more appropriate effective date may be used if justified by the Unit
25 Operator and approved by the Supervisor and Commissioner. No land shall be
26 excluded from a participating area on account of depletion of the unitized
27 substances, except that any participating area established under the provisions
28 of this unit agreement shall terminate automatically whenever all completions
29 in the formation on which the participating area is based are abandoned.

30 It is the intent of this section that a participating area shall repre-
31 sent the area known or reasonably estimated to be productive in paying quanti-
32 ties, but, regardless of any revision of the participating area, nothing herein
33 contained shall be construed as requiring any retroactive adjustment for

1 production obtained prior to the effective date of the revision of the
2 participating area.

3 In the absence of agreement at any time between the Unit Operator
4 and the Supervisor and Commissioner as to the proper definition or rede-
5 finition of a participating area, or until a participating area has, or
6 areas have, been established as provided herein, the portion of all pay-
7 ments affected thereby shall be impounded in a manner mutually acceptable
8 to the owners of working interests and the Supervisor and Commissioner.
9 Royalties due the United States and the State of New Mexico, which shall
10 be determined by the Supervisor for Federal land and the Commissioner for
11 State land and the amount thereof shall be deposited, as directed by the
12 Supervisor and Commissioner respectively, to be held as unearned money
13 until a participating area is finally approved and then applied as earned
14 or returned in accordance with a determination of the sum due as Federal
15 and State royalty on the basis of such approved participating area.

16 Whenever it is determined, subject to the approval of the Supervisor
17 as to wells drilled on Federal land and of the Commissioner as to wells
18 drilled on State land, that a well drilled under this agreement is not
19 capable of production in paying quantities and inclusion of the land on
20 which it is situated in a participating area is unwarranted, production
21 from such well shall, for the purposes of settlement among all parties
22 other than working interest owners, be allocated to the land on which the
23 well is located unless such land is already within the participating area
24 established for the pool or deposit from which such production is obtained.
25 Settlement for working interest benefits from such a well shall be made as
26 provided in the unit operating agreement.

27 12. ALLOCATION OF PRODUCTION. All unitized substances produced from
28 each participating area established under this agreement, except any part
29 thereof used in conformity with good operating practices within the unitized
30 area for drilling, operating, camp and other production or development pur-
31 poses, for repressuring or recycling in accordance with a plan of development
32 approved by the Supervisor and Commissioner, or unavoidably lost, shall be
33 deemed to be produced equally on an acreage basis from the several tracts

1 of unitized land of the participating area established for such production
2 and, for the purpose of determining any benefits accruing under this agree-
3 ment, each such tract of unitized land shall have allocated to it such per-
4 centage of said production as the number of acres of such tract included
5 in said participating area bears to the total acres of unitized land in
6 said participating area, except that allocation of production hereunder for
7 purposes other than for settlement of the royalty, overriding royalty, or
8 payment out of production obligations of the respective working interest
9 owners, shall be on the basis prescribed in the unit operating agreement
10 whether in conformity with the basis of allocation herein set forth or other-
11 wise. It is hereby agreed that production of unitized substances from a
12 participating area shall be allocated as provided herein regardless of
13 whether any wells are drilled on any particular part or tract of said part-
14 icipating area. If any gas produced from one participating area is used for
15 repressuring or recycling purposes in another participating area, the first
16 gas withdrawn from such last mentioned participating area for sale during
17 the life of this agreement shall be considered to be the gas so transferred
18 until an amount equal to that transferred shall be so produced for sale and
19 such gas shall be allocated to the participating area from which initially
20 produced as such area was last defined at the time of such final production.

21 13. DEVELOPMENT OR OPERATION OF NON-PARTICIPATING LAND OR FORMATIONS.

22 Any party hereto owning or controlling the working interest in any unitized
23 land having thereon a regular well location may with the approval of the
24 Supervisor as to Federal land, the Commissioner as to State land
25 and the Commission, at such party's sole risk, cost and
26 expense, drill a well to test any formation for which a participating area
27 has not been established or to test any formation for which a participating
28 area has been established if such location is not within said participating
29 area, unless within 90 days of receipt of notice from said party of his in-
30 tention to drill the well the Unit Operator elects and commences to drill such
31 a well in like manner as other wells are drilled by the Unit Operator under
32 this agreement.

33 If any well drilled as aforesaid by a working interest owner results

1 in production such that the land upon which it is situated may properly be
2 included in a participating area, such participating area shall be established
3 or enlarged as provided in this agreement and the well shall thereafter be
4 operated by the Unit Operator in accordance with the terms of this agreement
5 and the unit operating agreement.

6 If any well drilled as aforesaid by a working interest owner obtains
7 production in quantities insufficient to justify the inclusion of the land
8 upon which such well is situated in a participating area, such well may be
9 operated and produced by the party drilling the same subject to the conserva-
10 tion requirements of this agreement. The royalties in amount or value of
11 production from any such well shall be paid as specified in the underlying
12 lease and agreements affected.

13 14. ROYALTY SETTLEMENT. The United States and any State and any
14 royalty owner who is entitled to take in kind a share of the substances
15 now unitized hereunder shall hereafter be entitled to the right to take in
16 kind its share of the unitized substances, and the Unit Operator, or the
17 working interest owner in case of the operation of a well by a working inter-
18 est owner as herein provided for in special cases, shall make deliveries of
19 such royalty share taken in kind in conformity with the applicable contracts,
20 laws and regulations. Settlement for royalty interest not taken in kind shall
21 be made by working interest owners responsible therefor under existing con-
22 tracts, laws and regulations, or by the Unit Operator, on or before the last
23 day of each month for unitized substances produced during the preceding cal-
24 endar month; provided, however, that nothing herein contained shall operate
25 to relieve the lessees of any land from their respective lease obligations
26 for the payment of any royalties due under their leases.

27 If gas obtained from lands not subject to this agreement is introduced
28 into any participating area hereunder, for use in repressuring, stimulation
29 of production, or increasing ultimate recovery, in conformity with a plan of
30 operations approved by the Supervisor, the Commissioner, and Commission, a
31 like amount of gas, after settlement as herein provided for any gas transferred
32 from any other participating area and with appropriate deduction for loss from
33 any cause, may be withdrawn from the formation in which the gas is introduced,

1 royalty free as to dry gas, but not as to any products which may be extracted
2 therefrom; provided that such withdrawal shall be at such time as may be
3 provided in the approved plan of operations or as may otherwise be consented
4 to by the Supervisor, the Commissioner and Commission as conforming to good
5 petroleum engineering practice; and provided further, that such right of
6 withdrawal shall terminate on the termination of this unit agreement.

7 Royalty due the United States shall be computed as provided in the
8 operating regulations and paid in value or delivered in kind as to all unitized
9 substances on the basis of the amounts thereof allocated to unitized Federal
10 land as provided herein at the rate specified in the respective Federal leases,
11 or at such lower rate or rates as may be authorized by law or regulation;
12 provided, that for leases on which the royalty rate depends on the daily aver-
13 age production per well, said average production shall be determined in accor-
14 dance with the operating regulations as though each participating area were a
15 single consolidated lease.

16 Royalty due on account of State lands shall be computed and paid on the
17 basis of all unitized substances allocated to such lands.

18 15. RENTAL SETTLEMENT. Rental or minimum royalties due on leases com-
19 mitted hereto shall be paid by working interest owners responsible therefor
20 under existing contracts, laws and regulations, provided that nothing herein
21 contained shall operate to relieve the lessees of any land from their respec-
22 tive lease obligations for the payment of any rental or minimum royalty due
23 under their leases. Rental or minimum royalty for lands of the United States
24 subject to this agreement shall be paid at the rate specified in the respective
25 leases from the United States unless such rental or minimum royalty is waived,
26 suspended or reduced by law or by approval of the Secretary or his duly auth-
27 orized representative.

28 Rentals on State of New Mexico lands subject to this agreement shall be
29 paid at the rates specified in the respective leases.

30 With respect to any lease on non-Federal land containing provisions which
31 would terminate such lease unless drilling operations are commenced upon the
32 land covered thereby within the time therein specified or rentals are paid for
33 the privilege of deferring such drilling operations, the rentals required

1 thereby shall, notwithstanding any other provisions of this agreement, be
2 deemed to accrue and become payable during the term thereof as extended by
3 this agreement and until the required drilling operations are commenced
4 upon the land covered thereby or until some portion of such land is included
5 within a participating area.

6 16. CONSERVATION. Operations hereunder and production of unitized
7 substances shall be conducted to provide for the most economical and effi-
8 cient recovery of said substances without waste, as defined by or pursuant
9 to State or Federal laws or regulations.

10 17. DRAINAGE. The Unit Operator shall take such measures as the
11 Supervisor and Commissioner deem appropriate and adequate to prevent drain-
12 age of unitized substances from unitized land by wells on land not subject
13 to this agreement.

14 18. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, conditions
15 and provisions of all leases, subleases and other contracts relating to ex-
16 ploration, drilling, development or operations for oil or gas on lands com-
17 mitted to this agreement are hereby expressly modified and amended to the
18 extent necessary to make the same conform to the provisions hereof, but
19 otherwise to remain in full force and effect; and the parties hereto hereby
20 consent that the Secretary as to Federal leases and the Commissioner as to
21 State leases shall and each by his approval hereof, or by the approval hereof
22 by their duly authorized representatives, do hereby establish, alter, change
23 or revoke the drilling, producing, rental, minimum royalty and royalty re-
24 quirements of Federal and State leases committed hereto and the regulations
25 in respect thereto to conform said requirements to the provisions of this
26 agreement, and, without limiting the generality of the foregoing, all leases,
27 subleases, and contracts are particularly modified in accordance with the
28 following:

29 (a) The development and operation of lands subject to this agreement
30 under the terms hereof shall be deemed full performance of all obligations
31 for development and operation with respect to each and every separately
32 owned tract subject to this agreement, regardless of whether there is
33 any development of any particular tract of the unit area.

1 (b) Drilling and producing operations performed hereunder upon any
2 tract of unitized land will be accepted and deemed to be performed
3 upon and for the benefit of each and every tract of unitized land, and
4 no lease shall be deemed to expire by reason of failure to drill or
5 produce wells situated on the land therein embraced.

6 (c) Suspension of drilling or producing operations on all unitized
7 lands pursuant to direction or consent of the Secretary and Commissioner
8 or their duly authorized representatives shall be deemed to constitute
9 such suspension pursuant to such direction or consent as to each and every
10 tract of unitized land. A suspension of drilling or producing operations
11 limited to specified lands shall be applicable only to such lands.

12 (d) Each lease, sublease or contract relating to the exploration, drill-
13 ing, development or operation for oil or gas of lands other than those
14 of the United States or State of New Mexico committed to this agreement,
15 which, by its terms might expire prior to the termination of this agree-
16 ment, is hereby extended beyond any such term so provided therein so
17 that it shall be continued in full force and effect for and during
18 the term of this agreement.

19 (e) Any Federal lease for a fixed term of twenty (20) years or any
20 renewal thereof or any part of such lease which is made subject to
21 this agreement shall continue in force beyond the term provided therein
22 until the termination hereof. Any other Federal lease committed hereto
23 shall continue in force beyond the term so provided therein or by law
24 as to the land committed so long as such lease remains subject hereto,
25 provided that production is had in paying quantities under this unit
26 agreement prior to the expiration date of the term of such lease, or in
27 the event actual drilling operations are commenced on unitized lands,
28 in accordance with the provisions of this agreement, prior to the end
29 of the primary term of such lease and are being diligently prosecuted
30 at that time, such lease shall be extended for two years and so long
31 thereafter as oil or gas is produced in paying quantities in accordance
32 with the provisions of the Mineral Leasing Act Revision of 1960.

33 (f) Each sublease or contract relating to the operation and development

1 of unitized substances from lands of the United States committed
2 to this agreement, which by its terms would expire prior to the
3 time at which the underlying lease, as extended by the immediately
4 preceding paragraph, will expire, is hereby extended beyond any such
5 term so provided therein so that it shall be continued in full force
6 and effect for and during the term of the underlying lease as such
7 term is herein extended.

8 (g) Any lease embracing lands of the State of New Mexico which is
9 made subject to this agreement, shall continue in force beyond the
10 term provided therein as to the lands committed hereto until the
11 termination hereof, subject to the provisions of subsection (e) of
12 Section 2 and subsection (i) of this Section 18.

13 (h) The segregation of any Federal lease committed to this agree-
14 ment is governed by the following provisions in the fourth paragraph
15 of Sec. 17(j) of the Mineral Leasing Act, as amended by the Act of
16 September 2, 1960 (74 Stat. 781-784): "Any (Federal) lease heretofore
17 or hereafter committed to any such (unit) plan embracing lands that
18 are in part within and in part outside of the area covered by any such
19 plan shall be segregated into separate leases as to the lands committed
20 and the lands not committed as of the effective date of unitization:
21 Provided, however, That any such lease as to the nonunitized portion
22 shall continue in force and effect for the term thereof but for not
23 less than two years from the date of such segregation and so long
24 thereafter as oil or gas is produced in paying quantities."

25 (i) Any lease embracing lands of the State of New Mexico having only
26 a portion of its lands committed hereto, shall be segregated as to the
27 portion committed and the portion not committed, and the provisions of
28 such lease shall apply separately to such segregated portions commencing
29 as of the effective date hereof; provided, however, notwithstanding any
30 of the provisions of this agreement to the contrary any lease embracing
31 lands of the State of New Mexico having only a portion of its lands
32 committed hereto shall continue in full force and effect beyond the term
33 provided therein as to all lands embraced in such lease, if oil or gas

1 is discovered and is capable of being produced in paying quantities
2 from some part of the lands embraced in such lease at the expiration
3 of the secondary term of such lease; or if, at the expiration of the
4 secondary term, the lessee or Unit Operator is then engaged in bona fide
5 drilling or reworking operations on some part of the lands embraced in
6 such lease, the same, as to all lands embraced therein, shall remain in
7 full force and effect so long as such operations are being diligently
8 prosecuted, and if they result in the production of oil or gas, said
9 lease shall continue in full force and effect as to all of the lands
10 embraced therein, so long thereafter as oil or gas in paying quantities
11 is being produced from any portion of said lands.

12 (j) Any lease, other than a Federal lease, having only a portion of its
13 lands committed hereto shall be segregated as to the portion committed
14 and the portion not committed, and the provisions of such lease shall
15 apply separately to such segregated portions commencing as of the effective
16 date hereof. In the event any such lease provides for a lump sum
17 rental payment, such payment shall be prorated between the portions so
18 segregated in proportion to the acreage of the respective tracts.

19 19. COVENANTS RUN WITH LAND. The covenants herein shall be construed
20 to be covenants running with the land with respect to the interest of the
21 parties hereto and their successors in interest until this agreement terminates,
22 and any grant, transfer, or conveyance of interest in land or leases subject
23 hereto shall be and hereby is conditioned upon the assumption of all privileges
24 and obligations hereunder by the grantee, transferee or other successor in
25 interest. No assignment or transfer of any working interest, royalty, or
26 other interest subject hereto shall be binding upon Unit Operator until the
27 first day of the calendar month after Unit Operator is furnished with the
28 original, photostatic, or certified copy of the instrument of transfer.

29 20. EFFECTIVE DATE AND TERM. This agreement shall become effective
30 upon approval by the Secretary and Commissioner, or their duly authorized
31 representatives and shall terminate five (5) years from said effective date
32 unless:

33 (a) such date of expiration is extended by the Director and Commissioner, or

1 (b) it is reasonably determined prior to the expiration of the fixed
2 term or any extension thereof that the unitized land is incapable of
3 production of unitized substances in paying quantities in the formations
4 tested hereunder and after notice of intention to terminate the agreement
5 on such ground is given by the Unit Operator to all parties in interest
6 at their last known addresses, the agreement is terminated with the ap-
7 proval of the Supervisor and the Commissioner, or

8 (c) a valuable discovery of unitized substances has been made or
9 accepted on unitized land during said initial term or any extension
10 thereof, in which event the agreement shall remain in effect for such
11 term and so long as unitized substances can be produced in quantities
12 sufficient to pay for the cost of producing same from wells on unitized
13 land within any participating area established hereunder and, should
14 production cease, so long thereafter as diligent operations are in pro-
15 gress for the restoration of production or discovery of new production
16 and so long thereafter as unitized substances so discovered can be pro-
17 duced as aforesaid, or

18 (d) it is terminated as heretofore provided in this agreement. This
19 agreement may be terminated at any time by not less than 75 per centum,
20 on an acreage basis, of the working interest owners signatory hereto,
21 with the approval of the Supervisor and Commissioner; notice of any such
22 approval to be given by the Unit Operator to all parties hereto.

23 21. RATE OF PROSPECTING, DEVELOPMENT AND PRODUCTION. The Director is
24 hereby vested with authority to alter or modify from time to time in his dis-
25 cretion the quantity and rate of production under this agreement when such
26 quantity and rate is not fixed pursuant to Federal or State law or does not
27 conform to any statewide voluntary conservation or allocation program, which
28 is established, recognized and generally adhered to by the majority of oper-
29 ators in such State, such authority being hereby limited to alteration or mod-
30 ification in the public interest, the purpose thereof and the public interest
31 to be served thereby to be stated in the order of alteration or modification.
32 Without regard to the foregoing, the Director is also hereby vested with
33 authority to alter or modify from time to time in his discretion the rate of

1 prospecting and development and the quantity and rate of production under
2 this agreement when such alteration or modification is in the interest of
3 attaining the conservation objectives stated in this agreement and is not
4 in violation of any applicable Federal or State law; provided, further, that
5 no such alteration or modification shall be effective as to any land of the
6 State of New Mexico, as to the rate of prospecting and developing in the
7 absence of the specific written approval thereof by the Commissioner and
8 as to any lands of the State of New Mexico subject to this agreement as to
9 the quantity and rate of production in the absence of specific written
10 approval thereof by the Commission.

11 Powers in this section vested in the Director shall only be exercised
12 after notice to Unit Operator and opportunity for hearing to be held not
13 less than 15 days from notice.

14 22. CONFLICT OF SUPERVISION. Neither the Unit Operator nor the work-
15 ing interest owners nor any of them shall be subject to any forfeiture, termin-
16 ation or expiration of any rights hereunder or under any leases or contracts
17 subject hereto, or to any penalty or liability on account of delay or failure
18 in whole or in part to comply with any applicable provision thereof to the
19 extent that the Unit Operator, working interest owners or any of them are
20 hindered, delayed or prevented from complying therewith by reason of failure
21 of the Unit Operator to obtain in the exercise of due diligence, the concur-
22 rence of proper representatives of the United States and proper representatives
23 of the State of New Mexico in and about any matters or things concerning which
24 it is required herein that such concurrence be obtained. The parties hereto,
25 including the Commission, agree that all powers and authority vested in the
26 Commission in and by any provisions of this agreement are vested in the Com-
27 mission and shall be exercised by it pursuant to the provisions of the laws
28 of the State of New Mexico and subject in any case to appeal or judicial re-
29 view as may now or hereafter be provided by the laws of the State of New Mexico.

30 23. APPEARANCES. Unit Operator shall, after notice to other parties
31 affected, have the right to appear for and on behalf of any and all interests
32 affected hereby before the Department of the Interior, the Commissioner of
33 Public Lands of the State of New Mexico and the New Mexico Oil Conservation

1 Commission and to appeal from orders issued under the regulations of said
2 Department, the Commission or Commissioner or to apply for relief from any
3 of said regulations or in any proceedings relative to operations before the
4 Department of the Interior, the Commissioner, or Commission, or any other
5 legally constituted authority; provided, however, that any other interested
6 party shall also have the right at his own expense to be heard in any such
7 proceeding.

8 24. NOTICES. All notices, demands or statements required hereunder
9 to be given or rendered to the parties hereto shall be deemed fully given if
10 given in writing and personally delivered to the party or sent by postpaid
11 registered or certified mail, addressed to such party or parties at their
12 respective addresses set forth in connection with the signatures hereto or
13 to the ratification or consent hereof or to such other address as any such
14 party may have furnished in writing to party sending the notice, demand or
15 statement.

16 25. NO WAIVER OF CERTAIN RIGHTS. Nothing in this agreement contained
17 shall be construed as a waiver by any party hereto of the right to assert
18 any legal or constitutional right or defense as to the validity or invalidity
19 of any law of the State wherein said unitized lands are located, or of the
20 United States, or regulations issued thereunder in any way affecting such
21 party, or as a waiver by any such party of any right beyond his or its
22 authority to waive.

23 26. UNAVOIDABLE DELAY. All obligations under this agreement requiring
24 the Unit Operator to commence or continue drilling or to operate on or pro-
25 duce unitized substances from any of the lands covered by this agreement shall
26 be suspended while the Unit Operator, despite the exercise of due care and
27 diligence, is prevented from complying with such obligations, in whole or in
28 part, by strikes, acts of God, Federal, State or municipal law or agencies,
29 unavoidable accidents, uncontrollable delays in transportation, inability
30 to obtain necessary materials in open market, or other matters beyond the
31 reasonable control of the Unit Operator whether similar to matters herein
32 enumerated or not. No unit obligation which is suspended under this section
33 shall become due less than thirty (30) days after it has been determined that

1 the suspension is no longer applicable. Determination of creditable
2 "Unavoidable Delay" time shall be made by the Unit Operator subject to
3 approval of the Supervisor and Commissioner.

4 27. NONDISCRIMINATION. In connection with the performance of work
5 under this agreement, the operator agrees to comply with all of the pro-
6 visions of section 202 (1) to (7) inclusive of Executive Order 11246 (30 F.R.
7 12319), as amended, which are hereby incorporated by reference in this agreement.

8 28. LOSS OF TITLE. In the event title to any tract of unitized land
9 shall fail and the true owner cannot be induced to join in this unit agree-
10 ment, such tract shall be automatically regarded as not committed hereto
11 and there shall be such readjustment of future costs and benefits as may
12 be required on account of the loss of such title. In the event of a dis-
13 pute as to title to any royalty, working interest or other interests subject
14 thereto, payment or delivery on account thereof may be withheld without
15 liability for interest until the dispute is finally settled; provided, that,
16 as to Federal and State land or leases, no payments of funds due the United
17 States or State of New Mexico should be withheld, but such funds of the
18 United States shall be deposited as directed by the Supervisor and such
19 funds of the State of New Mexico shall be deposited as directed by the
20 Commissioner to be held as unearned money pending final settlement of the
21 title dispute, and then applied as earned or returned in accordance with
22 such final settlement.

23 Unit Operator as such is relieved from any responsibility for any
24 defect or failure of any title hereunder.

25 29. NON-JOINDER AND SUBSEQUENT JOINDER. If the owner of any sub-
26 stantial interest in a tract within the unit area fails or refuses to sub-
27 scribe or consent to this agreement, the owner of the working interest in
28 that tract may withdraw said tract from this agreement by written notice
29 delivered to the Supervisor and the Commissioner and the Unit Operator
30 prior to the approval of this agreement by the Supervisor and Commissioner.
31 Any oil or gas interests in lands within the unit area not committed hereto
32 prior to submission of this agreement for final approval may thereafter be
33 committed hereto by the owner or owners thereof subscribing or consenting

1 to this agreement, and, if the interest is a working interest, by the owner
2 of such interest also subscribing to the unit operating agreement. After
3 operations are commenced hereunder, the right of subsequent joinder, as
4 provided in this section, by a working interest owner is subject to such
5 requirements or approvals, if any, pertaining to such joinder, as may be
6 provided for in the unit operating agreement. After final approval hereof,
7 joinder by a non-working interest owner must be consented to in writing by
8 the working interest owner committed hereto and responsible for the payment
9 of any benefits that may accrue hereunder in behalf of such non-working
10 interest. A non-working interest may not be committed to this unit agree-
11 ment unless the corresponding working interest is committed hereto. Joinder
12 to the unit agreement by a working interest owner, at any time, must be
13 accompanied by appropriate joinder to the unit operating agreement, if more
14 than one committed working interest owner is involved, in order for the
15 interest to be regarded as committed to this unit agreement. Except as
16 may otherwise herein be provided, subsequent joinders to this agreement shall
17 be effective as of the first day of the month following the filing with the
18 Supervisor and the Commissioner of duly executed counterparts of all or any
19 papers necessary to establish effective commitment of any tract to this
20 agreement unless objection to such joinder is duly made within 60 days by
21 the Supervisor, provided, however, that as to State lands all subsequent
22 joinders must be approved by the Commissioner.

23 30. PROTECTION OF POTASH DEPOSITS. No wells will be drilled for oil
24 or gas at a location on Federal lands which in the opinion of the Supervisor
25 or at a location on State lands which in the opinion of the Commissioner would
26 result in undue waste of potash deposits or constitute a hazard to or unduly
27 interfere with mining operations being conducted for the extraction of potash
28 deposits.

29 The drilling or abandonment of any well on unitized land shall be done
30 in accordance with applicable oil and gas operating regulations, including
31 such requirements as to Federal lands as may be prescribed by the Supervisor
32 and as to State lands by the Commissioner, as necessary to prevent the infil-
33 tration of oil, gas or water into formations containing potash deposits or

1 into mines or workings being utilized in the extraction of such deposits.
2 Well records and survey plats that an oil and gas lessee of Federal
3 lands must file pursuant to applicable operating regulations (30 CFR Part 221)
4 shall be available for inspection at the Office of the Supervisor to any
5 party holding a potash permit or lease on the Federal land on which the well
6 is situated insofar as such records are pertinent to the mining and protection
7 of potash deposits.

8 31. COUNTERPARTS. This agreement may be executed in any number of
9 counterparts no one of which needs to be executed by all parties or may be
10 ratified or consented to by separate instrument in writing specifically
11 referring hereto and shall be binding upon all those parties who have exe-
12 cuted such a counterpart, ratification, or consent hereto with the same force
13 and effect as if all such parties had signed the same document and regardless
14 of whether or not it is executed by all other parties owning or claiming an
15 interest in the lands within the above described unit area.

16 32. NO PARTNERSHIP. It is expressly agreed that the relation of the
17 parties hereto is that of independent contractors and nothing in this agree-
18 ment contained, expressed or implied, nor any operations conducted hereunder,
19 shall create or be deemed to have created a partnership or association between
20 the parties hereto or any of them.

21 IN WITNESS WHEREOF, the parties hereto have caused this agreement to be
22 executed and have set opposite their respective names the date of execution.

UNIT OPERATOR AND WORKING INTEREST OWNER

DATE: _____

SKELLY OIL COMPANY

ADDRESS: _____

BY: _____

WORKING INTEREST OWNERS

ATTEST: _____

BY: _____

Date: _____

Address: _____

THE STATE OF X
COUNTY OF X

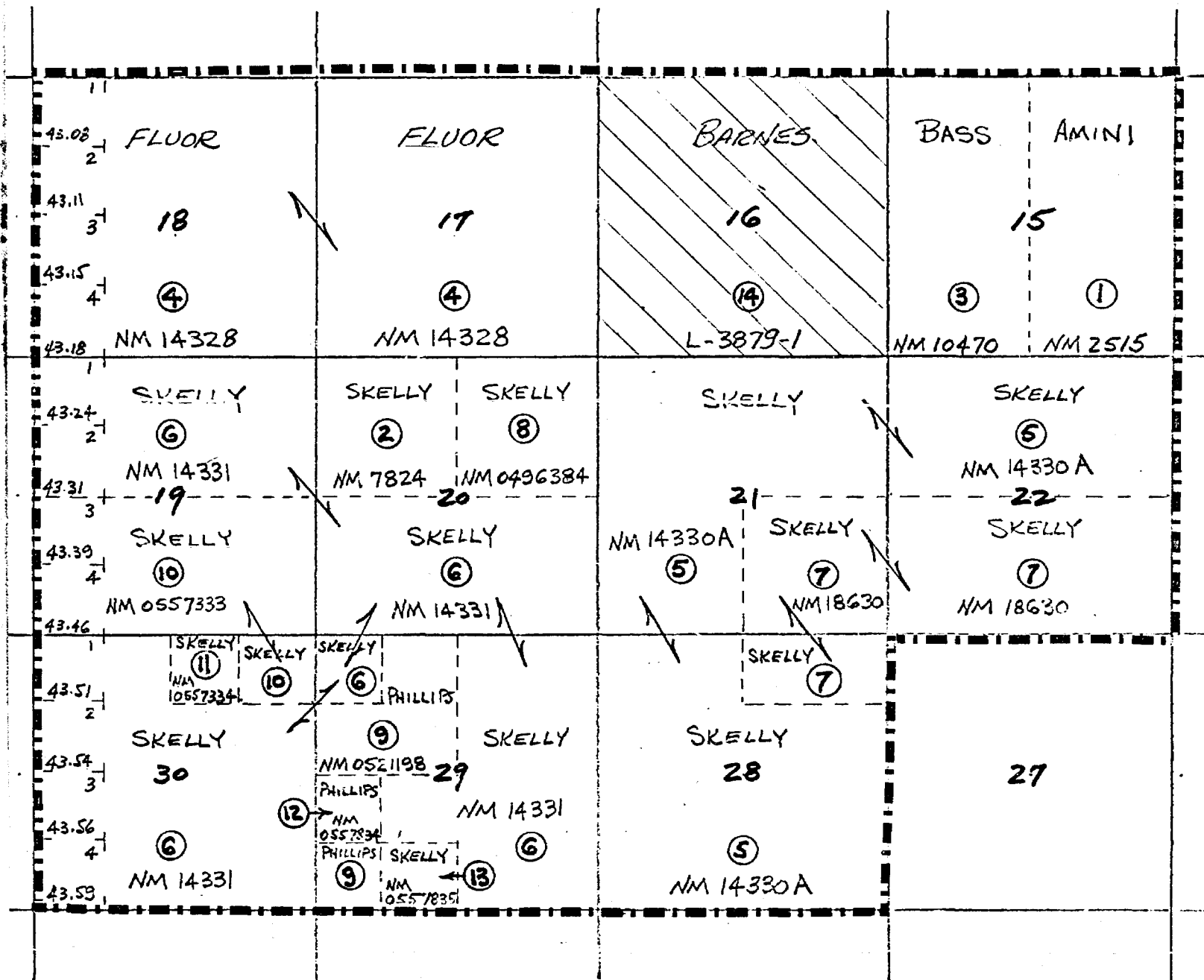
The foregoing instrument was acknowledged before me this _____
day of _____, 1973, by _____,
Attorney-in-Fact for SKELLY OIL COMPANY, a Delaware Corporation, on
behalf of said corporation.

Notary Public in and for _____
County, _____

My Commission Expires:

EXHIBIT "A"

SALT LAKE SOUTH UNIT AREA
T-21-S, R-32-E, N.M.P.M.
Lea County, New Mexico



--- UNIT OUTLINE

□ PUBLIC LAND

▨ STATE LAND

① DENOTES TRACT NUMBER ON EXHIBIT "B"

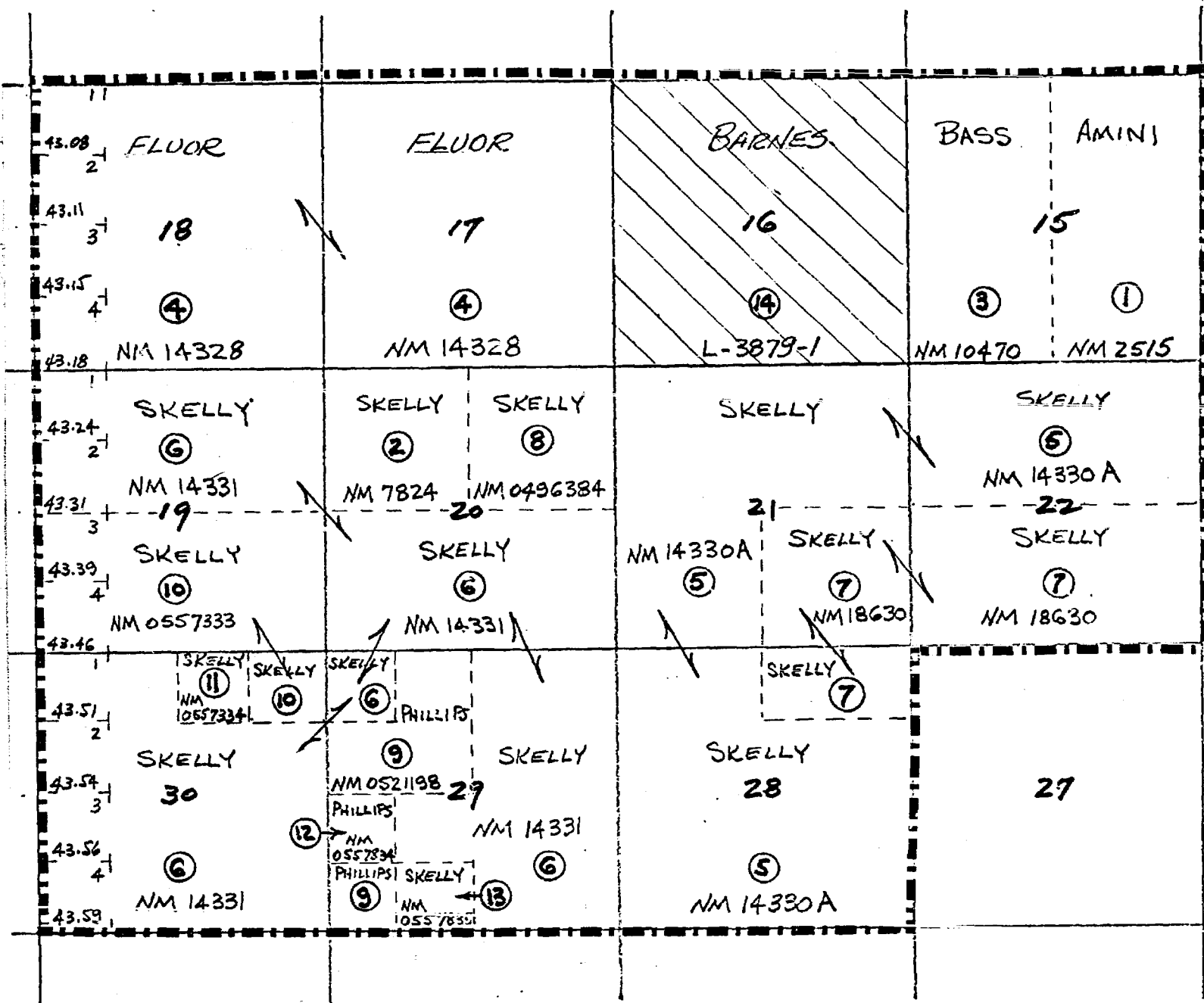
EXHIBIT "B"
SALT LAKE SOUTH UNIT AREA
T-21-S, R-32-E, N.M.P.M.
Lea County, New Mexico

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NO. & EXP. DATE OF LEASES (New Mexico Serials)	BASIC ROYALTY OWNERSHIP PERCENTAGE	LESSEE OF RECORD	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE
1	Section 15: E/2	320.00	NM 2515 HBP	USA	12.5	Amini Oil Company	Amini: All
2	Section 20: NW/4	160.00	NM 7824 11-30-78	USA	12.5	Skelly Oil Company R. James Smith - \$750/ac. P.P. out of: 5%	Skelly: All
3	Section 15: W/2	320.00	NM 10470 10-31-79	USA	12.5	Perry R. Bass	Bass: All
4	Section 17: All Section 18: Lots 1, 2, 3, 4, E/2 W/2, E/2	1,292.52	NM 14328 7-31-81	USA	12.5	Fluor Oil and Gas Corporation Clem L. Ware: 1%	Fluor: All
5	Section 21: N/2 & SW/4 Section 22: N/2 Section 28: W/2, S/2 NE/4 & SE/4	1,360.00	NM 14330-A 1-31-83	USA	12.5	Skelly Oil Company Opel Chapman: 3% G. W. Allen: 1% R. B. Adams, Jr: 1%	Skelly: All
6	Section 19: Lots 1 & 2, E/2 NW/4 Section 20: S/2 Section 29: NW/4 NW/4, NE/4 SW/4 & E/2 Section 30: Lots 1, 2, 3, 4, E/2 W/2, S/2 NE/4, SE/4	1,620.75	NM 14331 3-31-83	USA	12.5	Skelly Oil Company Central Southwest Oil Corp: 4% Fred Ebler: 1%	Skelly: All
7	Section 21: SE/4 Section 22: S/2 Section 28: N/2 NE/4	560.00	NM 18630 6-30-83	USA	12.5	Skelly Oil Company K. W. Bungarner: 6.25%	Skelly: All

[illegible]

EXHIBIT "A"

SALT LAKE SOUTH UNIT AREA
T-21-S, R-32-E, N.M.P.M.
Lea County, New Mexico



UNIT OUTLINE

PUBLIC LAND

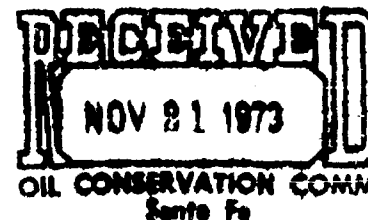
STATE LAND

9.04%

① DENOTES TRACT NUMBER ON EXHIBIT "B"

WHITE,
KOCH, KELLY
&
McCARTHY

November 20, 1973



New Mexico Oil Conservation Commission
State Land Office
Santa Fe, New Mexico 87501

Re: Applications of Skelly Oil Company for

- (a) Approval of the Salt Lake South Unit Agreement, Lea County, New Mexico
- (b) An Order Authorizing a Waterflood Project in the Grayburg-Jackson Pool by Injection Into its Lea "C" Lease Well Nos. 4, 7 and 9, Located in Section 11, Township 17 South, Range 31 East, Eddy County, New Mexico
- (c) An Order Authorizing the Drilling of Two Wells at Unorthodox Locations in the Grayburg-Jackson Skelly Unit Waterflood Project, Eddy County, New Mexico
- (d) An Order Authorizing a Waterflood Project in the Fren Seven-Rivers Pool Underlying the Skelly Unit Area, Eddy County, New Mexico

Gentlemen:

I have enclosed an original entry of appearance in each of the above captioned matters on behalf of Skelly Oil Company.

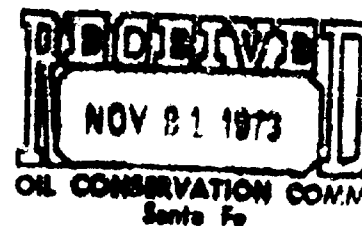
Sincerely,

L. C. White

L. C. White

LCW:m
enclosure as indicated

L.C. White
Sumner S. Koch
William Booker Kelly
John F. McCarthy, Jr.
Kenneth Bateman
Executive Director



BEFORE THE NEW MEXICO
OIL CONSERVATION COMMISSION

APPLICATION OF SKELLY OIL COMPANY
FOR APPROVAL OF THE SALT LAKE SOUTH
UNIT AGREEMENT, LEA COUNTY, NEW
MEXICO

ENTRY OF APPEARANCE

Comes now L. C. White, of White, Koch, Kelly & McCarthy, P. O.
Box 787, Santa Fe, New Mexico, and herewith enters their
appearance as local counsel for and on behalf of the applicant
Skelly Oil Company in the above entitled matter.

WHITE, KOCH, KELLY & MCCARTHY

By L.C. White

DOCKET: COMMISSION HEARING - TUESDAY - NOVEMBER 27, 1973

OIL CONSERVATION COMMISSION - 9 A.M. - MORGAN HALL,
STATE LAND OFFICE BUILDING - SANTA FE, NEW MEXICO

CASE 5063: (De Novo)

Application of Shell Oil Company for an unorthodox oil well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval of an unorthodox location for its Sanger Well No. 6Y to be located 1220 feet from the North line and 180 feet from the West line of Section 27, Township 18 South, Range 38 East, Hobbs Pool, Lea County, New Mexico.

Upon application of Samedan Oil Corporation, this case will be heard De Novo pursuant to the provisions of Rule 1220.

Docket No. 36-73

DOCKET: EXAMINER HEARING - TUESDAY - DECEMBER 11, 1973

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

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

- ALLOWABLE: (1) Consideration of the allowable production of gas for January, 1974, from fifteen prorated pools in Lea, Eddy, Roosevelt and Chaves Counties, New Mexico;
- (2) Consideration of the allowable production of gas from nine prorated pools in San Juan, Rio Arriba, and Sandoval Counties, New Mexico, for January, 1974.

CASE 5127: Application of Skelly Oil Company for a unit agreement, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval of the Salt Lake South Unit Area comprising 7080.12 acres, more or less, of State and Federal lands in Township 21 South, Range 32 East, Lea County, New Mexico.

CASE 5125: Northwestern nomenclature case calling for the creation and extension of certain pools in McKinley, San Juan, Rio Arriba and Sandoval Counties, New Mexico:

(a) Create a new pool in McKinley County, New Mexico, classified as an oil pool for Mesaverde production and designated as the Blackeye-Mesaverde Oil Pool. The discovery well is the K & W Oil Co. #55-Y Jaco located in Unit D of Section 32, Township 20 North, Range 9 West, NMPM. Said pool would comprise:

TOWNSHIP 20 NORTH, RANGE 9 WEST, NMPM

Section 29: W/2 SW/4

Section 30: SE/4 NE/4 and NE/4 SE/4

Section 32: NW/4 NW/4

(b) Create a new pool in McKinley County, New Mexico, classified as an oil pool for Dakota production and designated as the Blackeye-Dakota Oil Pool. The discovery well is the Colorado Plateau Geological Services, Inc. #1 Blackeye located in Unit M of Section 29, Township 20 North, Range 9 West, NMPM. Said pool would comprise:

TOWNSHIP 20 NORTH, RANGE 9 WEST, NMPM

Section 29: SW/4 SW/4

(c) Create a new pool in McKinley County, New Mexico, classified as a gas pool for Dakota A production and designated as the Lone Pine-Dakota A Pool. The discovery well is the Tenneco Oil Co. #2 SFPRR located in Unit L of Section 13, Township 17 North, Range 9 West, NMPM. Said pool would comprise:

TOWNSHIP 17 NORTH, RANGE 9 WEST, NMPM

Section 13: SW/4

Section 23: NE/4

Section 24: NW/4

(d) Create a new pool in San Juan County, New Mexico, classified as a gas pool for Fruitland production and designated as the Mt. Nebo-Fruitland Pool. The discovery well is the Amoco Production Co. #1 Keys Gas Com E located in Unit D of Section 27, Township 32 North, Range 10 West, NMPM. Said pool would comprise:

TOWNSHIP 32 NORTH, RANGE 10 WEST, NMPM

Section 27: NW/4

Section 28: NE/4

(e) Extend the Angels Peak-Gallup Pool in San Juan County, New Mexico, to include therein:

TOWNSHIP 26 NORTH, RANGE 9 WEST, NMPM

Section 6: N/2
Section 7: SW/4
Section 8: All
Section 9: W/2
Section 18: W/2 & SE/4
Section 23: W/2

TOWNSHIP 26 NORTH, RANGE 10 WEST, NMPM

Section 3: SW/4 & S/2 SE/4
Section 11: S/2
Section 12: All
Section 13: N/2

(f) Extend the Aztec-Pictured Cliffs Pool in San Juan County, New Mexico, to include therein:

TOWNSHIP 28 NORTH, RANGE 8 WEST, NMPM

Section 18: W/2

TOWNSHIP 29 NORTH, RANGE 9 WEST, NMPM

Section 18: S/2
Section 20: SW/4

TOWNSHIP 29 NORTH, RANGE 10 WEST, NMPM

Section 12: SW/4

TOWNSHIP 31 NORTH, RANGE 11 WEST, NMPM

Section 18: SE/4
Section 21: SW/4
Section 28: SE/4
Section 31: E/2
Section 32: SW/4

TOWNSHIP 31 NORTH, RANGE 12 WEST, NMPM

Section 2: N/2
Section 3: NE/4

(g) Extend the Ballard-Pictured Cliffs Pool in Rio Arriba, Sandoval and San Juan Counties, New Mexico, to include therein:

TOWNSHIP 22 NORTH, RANGE 2 WEST, NMPM

Section 6: N/2 & SE/4
Section 7: NE/4
Section 8: W/2

TOWNSHIP 23 NORTH, RANGE 3 WEST, NMPM

Section 15: S/2
Section 16: S/2
Section 21: All
Section 22: All
Section 23: All
Section 26: N/2
Section 27: N/2 & SE/4
Section 28: NE/4

TOWNSHIP 23 NORTH, RANGE 4 WEST, NMPM

Section 24: NE/4

TOWNSHIP 23 NORTH, RANGE 5 WEST, NMPM

Section 14: NW/4

TOWNSHIP 24 NORTH, RANGE 6 WEST, NMPM

Section 17: SW/4
Section 20: N/2

(h) Extend the Blanco-Mesaverde Pool in Rio Arriba and San Juan Counties, New Mexico, to include therein:

TOWNSHIP 26 NORTH, RANGE 5 WEST, NMPM

Section 8: E/2
Section 9: All
Section 10: W/2
Section 14: N/2

TOWNSHIP 27 NORTH, RANGE 9 WEST, NMPM

Section 9: SE/4
Section 34: S/2

TOWNSHIP 28 NORTH, RANGE 9 WEST, NMPM

Section 7: All (Partial)
Section 18: All
Section 19: All
Section 31: W/2

TOWNSHIP 28 NORTH, RANGE 10 WEST, NMPM

Section 13: E/2

(i) Extend the Blanco-Pictured Cliffs Pool in San Juan County, New Mexico, to include therein:

TOWNSHIP 29 NORTH, RANGE 7 WEST, NMPM

Section 30: SW/4
Section 31: W/2

TOWNSHIP 29 NORTH, RANGE 8 WEST, NMPM

Section 5: SE/4	Section 25: W/2 & SE/4
Section 8: S/2	Section 26: E/2
Section 14: N/2	Section 33: W/2
Section 15: S/2	Section 34: NE/4
Section 16: S/2	Section 35: N/2
Section 17: S/2 & NE/4	Section 36: N/2
Section 23: SE/4	

TOWNSHIP 29 NORTH, RANGE 9 WEST, NMPM

Section 6: S/2
Section 7: All
Section 18: NE/4

TOWNSHIP 30 NORTH, RANGE 9 WEST, NMPM

Section 14: NE/4

TOWNSHIP 30 NORTH, RANGE 10 WEST, NMPM

Section 2: All	Section 14: NE/4
Section 5: SE/4	Section 15: SW/4
Section 6: NE/4	Section 16: N/2 & SE/4
Section 9: NE/4	Section 22: SE/4
Section 10: N/2	Section 23: S/2
Section 11: All	Section 24: SW/4
Section 12: SW/4	Section 25: All
Section 13: All	Section 26: NE/4

TOWNSHIP 31 NORTH, RANGE 9 WEST, NMPM

Section 31: S/2

TOWNSHIP 31 NORTH, RANGE 10 WEST, NMPM

Section 18: SW/4	Section 32: E/2
Section 29: SE/4	Section 35: S/2
Section 31: S/2	Section 36: S/2

TOWNSHIP 31 NORTH, RANGE 11 WEST, NMPM

Section 3: All	Section 12: All
Section 4: All	Section 13: E/2
Section 5: N/2 & SE/4	Section 14: N/2
Section 8: SW/4	Section 17: N/2
Section 9: N/2	Section 23: W/2
Section 10: N/2	Section 25: SW/4
Section 11: All	

TOWNSHIP 32 NORTH, RANGE 11 WEST, NMPM

Section 21: E/2	Section 32: All
Section 22: SW/4	Section 33: All
Section 27: All	Section 34: All
Section 28: All	Section 35: S/2
Section 29: N/2 & SE/4	

(j) Extend the South Blanco-Pictured Cliffs Pool in Rio Arriba, Sandoval and San Juan Counties, New Mexico, to include therein:

TOWNSHIP 23 NORTH, RANGE 1 WEST, NMPM
Section 8: SE/4

TOWNSHIP 25 NORTH, RANGE 6 WEST, NMPM
Section 9: E/2 Section 16: NE/4

TOWNSHIP 27 NORTH, RANGE 6 WEST, NMPM
Section 17: NE/4

TOWNSHIP 28 NORTH, RANGE 6 WEST, NMPM
Section 26: SW/4 Section 35: W/2
Section 27: E/2 Section 36: NW/4

TOWNSHIP 28 NORTH, RANGE 7 WEST, NMPM
Section 16: E/2

TOWNSHIP 28 NORTH, RANGE 8 WEST, NMPM
Section 8: All (Partial) Section 18: E/2
Section 9: All (Partial) Section 19: NE/4
Section 14: W/2 & SE/4 Section 20: NW/4
Section 15: N/2 Section 23: NE/4
Section 16: NE/4 Section 24: W/2 & SE/4
Section 17: All Section 25: N/2

(k) Extend the Choza Mesa-Pictured Cliffs Pool in Rio Arriba County, New Mexico, to include therein:

TOWNSHIP 28 NORTH, RANGE 4 WEST, NMPM
Section 23: W/2

(l) Extend the Flora Vista-Fruitland Pool in San Juan County, New Mexico, to include therein:

TOWNSHIP 30 NORTH, RANGE 12 WEST, NMPM
Section 1: SW/4
Section 2: S/2
Section 3: SE/4

(m) Extend the South Gallegos-Fruitland Pool in San Juan County, New Mexico, to include therein:

TOWNSHIP 26 NORTH, RANGE 12 WEST, NMPM
Section 1: SW/4

(n) Extend the Gonzales-Mesaverde Pool in Rio Arriba County, New Mexico, to include therein:

TOWNSHIP 25 NORTH, RANGE 5 WEST, NMPM
Section 4: SW/4 Section 9: NW/4
Section 5: SE/4

TOWNSHIP 26 NORTH, RANGE 5 WEST, NMPM

Section 29: SW/4 Section 32: W/2
Section 31: S/2

(o) Extend the Hospah-Dakota Oil Pool in McKinley County, New Mexico, to include therein:

TOWNSHIP 17 NORTH, RANGE 8 WEST, NMPM

Section 5: SW/4 SW/4 Section 7: N/2 NE/4
Section 6: SE/4 SE/4

(p) Extend the Kutz-Fruitland Pool in San Juan County, New Mexico, to include therein:

TOWNSHIP 28 NORTH, RANGE 11 WEST, NMPM

Section 13: W/2

(q) Extend the Largo-Chacra Pool in Rio Arriba & San Juan Counties, New Mexico, to include therein:

TOWNSHIP 27 NORTH, RANGE 8 WEST, NMPM

Section 10: NE/4	Section 16: S/2
Section 11: All	Section 17: SE/4
Section 13: W/2 & SE/4	Section 23: N/2
Section 14: All	Section 25: W/2
Section 15: S/2	Section 26: E/2

(r) Extend the South Lindrith-Gallup Dakota Oil Pool in Rio Arriba County, New Mexico, to include therein:

TOWNSHIP 24 NORTH, RANGE 4 WEST, NMPM

Section 21: SE/4 Section 28: N/2 & SW/4

(s) Extend the Lone Pine-Dakota D Oil Pool in McKinley County, New Mexico, to include therein:

TOWNSHIP 17 NORTH, RANGE 8 WEST, NMPM

Section 7: S/2 NE/4 Section 8: W/2 NW/4

(t) Extend the North Los Pinos-Fruitland Pool in San Juan County, New Mexico, to include therein:

TOWNSHIP 32 NORTH, RANGE 8 WEST, NMPM

Section 13: SE/4

(u) Extend the Otero-Chacra Pool in Rio Arriba County, New Mexico, to include therein:

TOWNSHIP 25 NORTH, RANGE 5 WEST, NMPM

Section 2: SW/4	Section 12: W/2
Section 3: SE/4	Section 14: NW/4
Section 10: SE/4	Section 15: NE/4
Section 11: S/2 & NE/4	

TOWNSHIP 26 NORTH, RANGE 5 WEST, NMPM
Section 31: W/2 Section 32: SW/4

TOWNSHIP 26 NORTH, RANGE 6 WEST, NMPM
Section 21: SW/4 Section 33: E/2
Section 26: NW/4 & SE/4 Section 34: All
Section 27: All Section 36: S/2

TOWNSHIP 26 NORTH, RANGE 7 WEST, NMPM
Section 11: N/2

(v) Extend the Pinon-Fruitland Pool in San Juan County, New Mexico, to include therein:

TOWNSHIP 28 NORTH, RANGE 11 WEST, NMPM
Section 8: All (Partial)
Section 9: All (Partial)

(w) Extend the Tapacito-Pictured Cliffs Pool in Rio Arriba County, New Mexico, to include therein:

TOWNSHIP 26 NORTH, RANGE 3 WEST, NMPM
Section 21: NE/4

TOWNSHIP 27 NORTH, RANGE 5 WEST, NMPM
Section 6: SE/4 Section 27: N/2
Section 15: SE/4

(x) Extend the Tocito Dome-Pennsylvanian D Oil Pool in San Juan County, New Mexico, to include therein:

TOWNSHIP 26 NORTH, RANGE 18 WEST, NMPM
Section 26: NW/4 Section 27: NE/4

(y) Extend the Ute Dome-Dakota Pool in San Juan County, New Mexico, to include therein:

TOWNSHIP 31 NORTH, RANGE 14 WEST, NMPM
Section 10: All Section 11: All

TOWNSHIP 32 NORTH, RANGE 14 WEST, NMPM
Section 25: E/2

(z) Extend the Ute Dome-Paradox Pool in San Juan County, New Mexico, to include therein:

TOWNSHIP 31 NORTH, RANGE 14 WEST, NMPM
Section 10: All

TOWNSHIP 32 NORTH, RANGE 14 WEST, NMPM
Section 25: All

DRAFT

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONSIDERING:

CASE No. 5127

Order No. R-4681

APPLICATION OF SKELLY OIL COMPANY
FOR APPROVAL OF THE SALT LAKE SOUTH
UNIT AGREEMENT, LEA, COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 o'clock a.m. on
November 28, 1963, at Santa Fe, New Mexico, before Examiner
Daniel S. Nutter.

NOW, on this _____ day of November, 1963, the Commission,
a quorum being present, 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 Commission has jurisdiction of this cause and the subject
matter thereof.

(2) That the applicant, Skelly Oil Company,
seeks approval of the Salt Lake South Unit Agreement
covering 7080.12 acres, more or less, of State and
Federal lands
described as follows:

LEA COUNTY, NEW MEXICO
TOWNSHIP 21 SOUTH, RANGE 32 EAST, NMPM

Sections 15 through 22: All
Sections 23 through 30: All

(3) That approval of the proposed unit agreement should promote the prevention of waste and the protection of correlative rights within the unit area.

IT IS THEREFORE ORDERED:

(1) That the Salt Lake South Unit Agreement is hereby approved.

(2) That the plan contained in said unit agreement for the development and operation of the unit area is hereby approved in principle as a proper conservation measure; provided, however, that notwithstanding any of the provisions contained in said unit agreement, this approval shall not be considered as waiving or relinquishing, in any manner, any right, duty, or obligation which is now, or may hereafter be, vested in the Commission to supervise and control operations for the exploration and development of any lands committed to the unit and production of oil or gas therefrom.

(3) That the unit operator shall file with the Commission an executed original or executed counterpart of the unit agreement within 30 days after the effective date thereof; that in the event of subsequent joinder by any party or expansion or contraction of the unit area, the unit operator shall file with the Commission within 30 days thereafter counterparts of the unit agreement reflecting the subscription of those interests having joined or ratified.

(4) That this order shall become effective upon the approval of said unit agreement by the Commissioner of Public Lands for the State of New Mexico and the Director of the United States Geological Survey; that this order shall terminate ipso facto upon the termination of said unit agreement; and that the last unit operator shall notify the Commission immediately in writing of such termination.

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

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

dearnley, rneier & associates

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BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION
CONFERENCE ROOM, STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO

Wednesday, November 28, 1973

IN THE MATTER OF:

Application of Skelly Oil
Company for a unit
agreement, Lea County, New
Mexico.

Case No. 5127

BEFORE: Richard L. Stamets,
Examiner

TRANSCRIPT OF HEARING

1 MR. STAMETS: Case 5127.

2 MR. CARR: Case 5127: Application of Skelly Oil
3 Company for a unit agreement, Lea County, New Mexico.

4 MR. STAMETS: I will call for appearances in this
5 case.

6 MR. BLODGETT: Chester Blodgett, representing
7 Skelly Oil Company, and Louis C. Witt, of Santa Fe is
8 here, and has entered his appearance as our resident
9 counsel. I will give you a copy of that notice. We have
10 two witnesses that have to be sworn.

11 (Whereupon two witnesses were sworn by Mr. Carr.)

12 * * * *

13 KENNETH H. GRIFFIN,

14 was called as a witness, and having been already duly sworn,
15 testified as follows:

16 DIRECT EXAMINATION

17 BY MR. BLODGETT:

18 Q Would you state your name?

19 A Kenneth H. Griffin.

20 Q What is your occupation?

21 A Independent petroleum landman.

22 Q Have you heretofore testified before this Commission and
23 had your qualifications accepted?

24 A I have.

25 Q I will call your attention to what has been marked as

1 Skelly Exhibit Number One. Would you identify that,
2 please?

3 A Exhibit One is the proposed unit operating agreement to
4 be used in connection with the Salt Lake South Unit Area.
5 This area comprises a total of 7080.12 acres containing
6 6440.12 acres of Federal land, or 90.96 percent; and
7 640 acres of State land, being 9.04 percent. The form
8 of the unit agreement is the prescribed form in the
9 State of New Mexico properly amended to take into account
10 the State land and its use by the Commissioner's office.

11 We do have the preliminary approval of both the
12 USGS and the State Land Commission Office saying that
13 this area is suitable for unitization.

14 Q Was this instrument or this unit agreement prepared by
15 you or under your supervision?

16 A It was prepared by me, yes.

17 Q Who will be the operator of this unit?

18 A Skelly Oil Company will be the operator.

19 Q What sort of control will the working interest owners
20 have over the operation?

21 A The standard provisions are in this particular form.

22 Q Will the royalty owners pay---

23 A Our royalty owners are all either State or Federal.

24 Q And they won't pay any part of the development cost?

25 A No costs at all.

1 Q When will the agreement become effective if the Commission
2 issues an order approving it?

3 A On its final approval by the USGS, which is subsequent to
4 the approval by the State Land Commission.

5 Q Does the unit provide a method by which the unit may be
6 dissolved?

7 A Yes, it is an automatic contraction agreement.

8 Q In your opinion, would this unit agreement and the
9 operations contemplated thereunder tend to protect
10 correlative rights and tend to prevent waste?

11 A Definitely.

12 Q By increasing ultimate recovery?

13 A Yes, definitely.

14 MR. BLODGETT: We move for the admission of Exhibit
15 One, and pass the witness.

16 MR. STAMETS: It will be so admitted.

17 (Whereupon Applicant's Exhibit One was admitted in
18 evidence.)

19 MR. STAMETS: Are there any questions of the witness?

20 (No response)

21 MR. STAMETS: He may be excused.

22 (Witness excused.)

23 MR. STAMETS: You may call your next witness.

24 * * * *

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dearnley, rneier & associates

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1 JON T. EDMUNDSON,
2 was called as a witness, and having been already duly sworn,
3 testified as follows:

4 MR. BLODGETT: Mr. Examiner, the contour maps based
5 on the seismic work that we have done we hope to keep
6 confidential. You can handle them now so that you can
7 look at them, and we would like to follow the same
8 procedure that was heretofore followed today that we can
9 withdraw them and then perhaps re-introduce them later
10 after we have proven that they are right by our wells.

11 MR. STAMETS: That will be fine.

12 DIRECT EXAMINATION

13 BY MR. BLODGETT:

14 Q Please state your name.

15 A Jon T. Edmundson.

16 Q By whom are you employed and in what occupation?

17 A I am employed by Skelly Oil Company in Midland, Texas
18 as a senior geologist.

19 Q Have you heretofore testified before this Commission and
20 had your qualifications accepted?

21 A I have.

22 Q Are you familiar with the application now being heard?

23 A I am.

24 Q Have you prepared any exhibits in connection therewith?

25 A Yes, the one presented.

dearnley, meir & associates

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1 Q And would you describe that, please?

2 A Well, back in the early part of 1972, I came up with a
3 prospective area which I felt had potential for Morrow
4 production. We then proceeded to do detailed seismic
5 work in the area, and the Salt Lake South prospect was
6 issued.

7 This was done also in conjunction with the original
8 Morrow isopack work which is indicated by the blue
9 isopack lines superimposed over the Saluro-Devonian
10 contours on the elevations. I think I have established
11 by the wells which have previously been drilled in the
12 area that there is a sand bar complex running through
13 the area, which is the mode of production in the Salt
14 Lake South Area, which is producing at present from the
15 Morrow.

16 Subsequent to this, others came in and drilled
17 numerous wells immediately north of our area where we
18 were doing extensive work, and this made me feel pretty
19 good when their wells upheld my previous interpretation
20 of the area.

21 The prospect, as it is presented and the way we see
22 it now, does not have adequate Saluro-Devonian potential
23 from a structural viewpoint to warrant drilling to that
24 horizon. We, at present, see about 100 to 150 feet of
25 critical northwest dip into the Salt Lake field structure

1 on the north end of the map. So we do not propose at
2 this time to drill a Devonian well. We do feel however
3 that the Morrow is the prime production potential in
4 the area.

5 I think from previous testimony today with everybody
6 talking about the Salt Lake Field No. 1 "CM" Well, Texaco's
7 well in Section 31. This well has produced approximately
8 5.5 million MCF, and 67,000 barrels of condensate, and
9 is still producing at a rate of a half a billion a year.
10 This well is immediately north of our prospective area.

11 To the east of our area is the Phillips Mesa Unit
12 "N" Well in Section 11 of 21 South, 32 East. It was
13 completed in 1967 for 7.5 million. It was only recently,
14 in the latter part of 1972 in approximately October,
15 hooked up to the pipe line, and it has been producing
16 into that, and its present production is about a million
17 and a half.

18 Q The secondary consideration in the area would be the
19 Atoka?

20 A That's correct. The Strawn also is a good secondary
21 possibility. It produces to the west of us.

22 All in all, some of the prospects that we feel have
23 good potential are the Morrow for primary production, the
24 Atoka and Strawn as possible secondary production.

25 Q Where is the prospect to be located?

1 A In the Northwest quarter of Section 21, Township 21 South,
2 Range 32 East.

3 Q In your opinion, would the granting of this application
4 protect the correlative rights of others and help prevent
5 waste?

6 A Yes, sir.

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8 pass the witness.

9 MR. STAMETS: Are there any questions of this witness?
10 (No response)

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12 (Witness excused.)

13 MR. STAMETS: Mr. Blodgett, I presume you will
14 submit these exhibits for our records within 120 days
15 after the day of the order?

16 MR. BLODGETT: That would be fine.

17 MR. STAMETS: Is there anything further in this case?
18 (No response)

19 MR. STAMETS: Case 5127 will be taken under
20 advisement.

21 This hearing is adjourned.

22 * * * *

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C E R T I F I C A T E

I, RICHARD E. McCORMICK, Certified Shorthand Reporter, in and for the County of Bernalillo, State of New Mexico, do hereby certify that the foregoing and attached Transcript of Hearing before the New Mexico Oil Conservation Commission was reported by me; and that the same is a true and correct record of the proceedings to the best of my knowledge, skill and ability.

Richard E. McCormick
CERTIFIED SHORTHAND REPORTER

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 5127 heard by me on Nov 28, 1973.
Richard L. Smith
Examiner
New Mexico Oil Conservation Commission

dearnley, meier & associates

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I N D E XWITNESSPAGE

KENNETH H. GRIFFIN

Direct Examination by Mr. Blodgett

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JON T. EDMUNDSON

Direct Examination by Mr. Blodgett

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E X H I B I T SEXHIBITADMITTED OFFERED

Applicant's #1 Unit agreement

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Applicant's #2 Seismic work

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dearnley, meier & associates

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dearnley, meier & associates

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Richard E. McCormick
CERTIFIED SHORTHAND REPORTER

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 5127 heard by me on Nov 28, 1973.

Richard L. Stamm Examiner
New Mexico Oil Conservation Commission

dearnley, meier & associates

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I N D E X

WITNESS

PAGE

KENNETH H. GRIFFIN

Direct Examination by Mr. Blodgett

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JON T. EDMUNDSON

Direct Examination by Mr. Blodgett

5

E X H I B I T S

EXHIBIT

ADMITTED OFFERED

Applicant's #1

Test agreement

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Applicant's #2

Seismic work

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