

5416: TESORO PET. CORP. for
AGREEMENT, San Juan County

CASE No.

5416

Application,

Transcripts,

Small Exhibits

ETC.

Unit Name COAL CREEK UNIT (EXPLORATORY)
Operator TESORO PETROLEUM CORPORATION
County SAN JUAN

DATE	OCC CASE NO. 5416	EFFECTIVE DATE	TOTAL ACREAGE	STATE	FEDERAL	INDIAN-FEE	SEGREGATION CLAUSE	TERM
APPROVED	OCC ORDER NO. R-4966	DATE						
COMMISSIONER	2-15-75	2-27-75	11,225.31	1,280.00	9,945.31	-0-	Yes	5 yrs.
2-27-75								

UNIT AREA

TOWNSHIP 23 North, Range 12 West, NMPM

Section 18: S/2

Sections 19 and 20: All

Sections 28 through 33: All

TOWNSHIP 23 NORTH, RANGE 13 WEST, NMPM

Section 13: S/2

Section 14: S/2

Section 23 through 27: All

Sections 34 through 36: All

TERMINATED
30.10.1.15

Unit Name COAL CREEK UNIT (EXPLORATORY)
 Operator TESORO PETROLEUM CORPORATION
 County SAN JUAN

STATE TRACT NO.	LEASE NO.	INST-TUTION	SEC.	TWP.	RGE.	SUBSECTION	RATIFIED DATE	ACRES	ACREAGE NOT RATIFIED	LESSEE
22	K-4940-1	C.S.	32	23N	12W	A11	2-21-75	640.00		Delaware-Apache Corp.
23	K-4941-5	C.S.	36	23N	13W	NE/4, N/2NW/4, SE/4NW/4, SW/4, W/2SE/4	2-13-75 2-12-75	520.00		McKnight Pet. Trust McAlister Fuel Co.
24	L-3564	C.S.	36	23N	13W	E/2SE/4, SW/4NW/4	<u>NOT COMMITTED</u>		<u>120.00</u>	Kenneth McJers

TERMINATED
 10-1-73



PHIL R. LUCERO
Commissioner

State of New Mexico



Commissioner of Public Lands
October 15, 1975

TELEPHONE
505-827-2748

P. O. BOX 1000
SANTA FE, NEW MEXICO 87501

McKnight Petroleum Trust
Suite 425- One Greenway Plaza East
Houston, Texas 77046

Re: Coal Creek Unit
San Juan County,
New Mexico

ATTENTION: Mr. W. E. Belt, Jr.

Gentlemen:

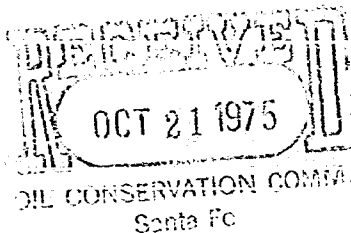
The terms of the captioned unit agreement is contingent upon the unit operator drilling one well at a time, allowing not more than six months time between the completion of one well and the beginning of the next, until a well capable of producing unitized substances in paying quantities is completed.

Your first test well was plugged and abandoned on April 1, 1975, therefore, your second test well was due to be commenced October 1, 1975.

Since the second test well was not commenced, the Coal Creek unit agreement has terminated automatically as of October 1, 1975.

Please notify 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

PHL/RDG/s
cc:

USGS-Roswell, New Mexico
OCC- Santa Fe, New Mexico

Unit Name COAL CREEK UNIT (EXPLORATORY)
Operator TESORO PETROLEUM CORPORATION
County SAN JUAN

DATE	OCC CASE NO. 5416	EFFECTIVE DATE	TOTAL ACREAGE	STATE	FEDERAL	INDIAN-FEE	SEGREGATION CLAUSE	TERM
APPROVED	OCC ORDER NO. R-4966	DATE	ACREAGE	STATE	FEDERAL	INDIAN-FEE	SEGREGATION CLAUSE	TERM
COMMISSIONER	2-25-75	2-27-75	11,225.31	1,280.00	9,945.31	-0-	Yes	5 yrs.
2-27-75								

UNIT AREA

TOWNSHIP 23 North, Range 12 West, N34E
Section 18: S/2
Sections 19 and 20: All
Sections 28 through 33: All
TOWNSHIP 23 NORTH, RANGE 13 WEST, N34E
Section 13: S/2
Section 14: S/2
Sections 23 through 27: All
Sections 34 through 36: All

Unit Name COAL CREEK UNIT (EXPLORATORY)
 Operator TESORO PETROLEUM CORPORATION
 County SAN JUAN

STATE TRACT NO.	LEASE NO.	INST-TUTION	SEC.	TWP.	RGE.	SUBSECTION	RATIFIED DATE	ACRES	ACREAGE NOT RATIFIED	LESSEE
22	K-4940-1	C.S.	32	23N	12W	A11	2-21-75	640.00		Delaware-Apache Corp.
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24	L-3564	C.S.	36	23N	13W	E/2SE/4, SW/4NW/4			120.00	Kenneth McPeters

NOT COMMITTED

State of New Mexico

TELEPHONE
505-827-2748



Commissioner of Public Lands

March 31, 1975

P. O. BOX 1148
SANTA FE, NEW MEXICO 87501

PHIL R. LUCERO
COMMISSIONER

Randolph M. Richardson
P. O. Box 819
Roswell, New Mexico 88201

Re: DESIGNATION AND RESIGNATION
OF UNIT OPERATOR
COAL CREEK UNIT AREA
SAN JUAN COUNTY, NEW MEXICO

Dear Mr. Richardson:

This will acknowledge receipt of your letter dated March 27, 1975, together with one executed original and one xerox copy of an instrument entitled "Designation of Successor Unit Operator". Also, five copies of an approval page.

The Commissioner of Public Lands has this date approved the resignation of Tesoro Petroleum Corporation, and has accepted McKnight A/E/A/ Macpet as the Successor Unit Operator, for the Coal Creek Unit Agreement.

Enclosed is one (1) approved copy of the instrument as well as five approved signature pages for your files. Please submit one approved copy to this office after the USGS has given their approval.

Very truly yours,

PHIL R. LUCERO
COMMISSIONER OF PUBLIC LANDS

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

PRL/RDG/s
encls.
cc:

USGS-Roswell, New Mexico
OCC- Santa Fe, New Mexico

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. 5416
Order No. R-4966

APPLICATION OF TESORO PETROLEUM
CORPORATION FOR APPROVAL OF THE
COAL CREEK UNIT AGREEMENT, SAN
JUAN COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on February 19, 1975, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 25th day of February, 1975, 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, Tesoro Petroleum Corporation, seeks approval of the Coal Creek Unit Agreement covering 11,225.11 acres, more or less, of State and Federal lands described as follows:

SAN JUAN COUNTY, NEW MEXICO
TOWNSHIP 23 NORTH, RANGE 12 WEST, NMPM
Section 18: S/2
Sections 19 and 20: All
Sections 28 through 33: All

TOWNSHIP 23 NORTH, RANGE 13 WEST, NMPM
Section 13: S/2
Section 14: S/2
Sections 23 through 27: All
Sections 34 through 36: 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.

-2-
Case No. 5416
Order No. R-4966

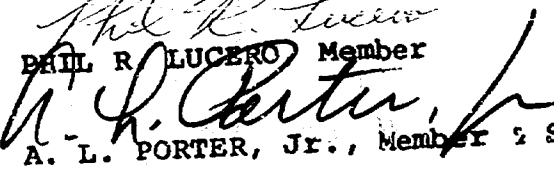
IT IS THEREFORE ORDERED:

- (1) That the Coal Creek 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.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

I. R. TRUJILLO, Chairman


PHIL R. LUCERO, Member


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

S E A L

jr/

TESORO PETROLEUM CORPORATION
SUITE 2000 FIRST OF DENVER PLAZA BUILDING
633 SEVENTEENTH STREET
DENVER, COLORADO 80202

RECEIVED
MAR 24 1975
OIL CONSERVATION COMM.
Santa Fe

Rocky Mountain District
303-825-2000

March 20, 1975

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

ATTENTION: Mrs. Ida Rodriguez

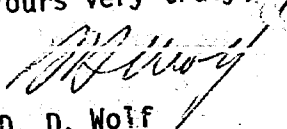
Re: Unit Agreement
Coal Creek Unit
San Juan County, New Mexico

Dear Madam:

Pursuant to Article 3 of the Order of the Commission (No. R-4966)
I am enclosing for your files a copy of the captioned agreement fully
executed by the Federal and State Governments and by the working interest
owners.

Should you have further requirements in this regard, kindly
advise at your convenience.

Yours very truly,


D. D. Wolf
Land Manager
Rocky Mountain and Canadian Districts

DDW:gl
Attachment



United States Department of the Interior

GEOLOGICAL SURVEY

Drawer 1857
Roswell, New Mexico 88201

February 27, 1975

Randolph M. Richardson, III
P.O. Box 819
Roswell, New Mexico 88201

Dear Mr. Richardson:

Three copies of a Certificate-Determination instrument approving the Coal Creek unit agreement, San Juan County, New Mexico, with Tesoro Petroleum Corporation as unit operator, are enclosed herewith. Such agreement has been assigned No. 14-08-C001-14178, and is effective as of February 27, 1975, the date of approval.

You are requested to furnish the New Mexico Oil Conservation Commission and all other interested principals with evidence of this approval.

Sincerely yours,

CARL C. TRAYWICK
Acting Area Oil and Gas Supervisor

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 Oil and Gas Supervisors of the Geological Survey (33 F.R. 5812), I do hereby:

A. Approve the attached agreement for the development and operation of the Coal Creek Unit Area, State of New Mexico, County of San Juan.

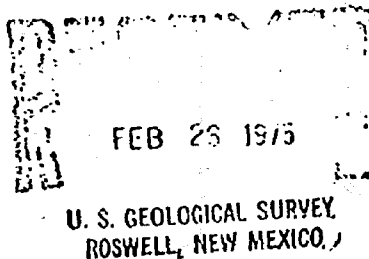
B. Certify and determine that the unit plan of development and operation contemplated in the attached agreement is necessary and advisable in the public interest for the purpose of more properly conserving the natural resources.

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 FEB 27 1975.

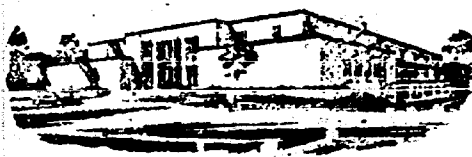
Charles R. Tomlinson
ACTING Oil and Gas Supervisor, United States Geological Survey

Contract Number 14-08-0001-14178





State of New Mexico



TELEPHONE
505-827-2748

Commissioner of Public Lands

PHIL R. LUCERO
COMMISSIONER

February 27, 1975

P. O. BOX 1148
SANTA FE, NEW MEXICO 87501

Randolph M. Richardson
P. O. Box 819
Roswell, New Mexico 88201

Re: Coal Creek Unit
T-23-N, R-12, 13-E, NMPM
San Juan County, New Mexico

Dear Mr. Richardson:

The Commissioner of Public Lands has this date approved the Coal Creek Unit agreement, San Juan County, New Mexico, which you submitted on behalf of Tesoro Petroleum Corporation. This approval is subject to like approval by the United States Geological Survey.

Enclosed are four (4) Certificates of approval. We are furnishing the USGS with a copy of the Certificate of approval as well as a copy of this letter.

Please advise this office when the USGS approves the agreement so that we may finish processing same.

Very truly yours,

PHIL R. LUCERO
COMMISSIONER OF PUBLIC LANDS

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

PRI./RDG/s
encls.
cc:

USGS-Roswell, New Mexico
OCC- Santa Fe, New Mexico



NEW MEXICO STATE LAND OFFICE

CERTIFICATE OF APPROVAL

COMMISSIONER OF PUBLIC LANDS, STATE OF NEW MEXICO

COAL CREEK UNIT

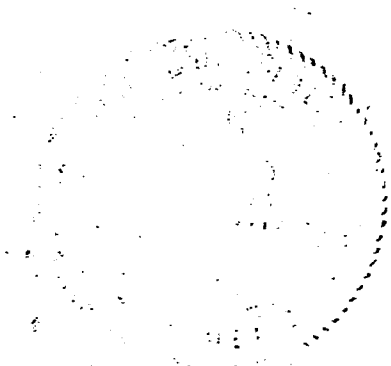
SAN JUAN COUNTY, NEW MEXICO

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 January 22, 1975, 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, 1, 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 27th day of February, 19 75.


Phil R. Lucas

COMMISSIONER OF PUBLIC LANDS
of the State of New Mexico



OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO
P. O. BOX 2088 - SANTA FE
87501

I. R. TRUJILLO
CHAIRMAN

LAND COMMISSIONER
PHIL R. LUCERO
MEMBER

STATE GEOLOGIST
A. L. PORTER, JR.
SECRETARY - DIRECTOR

February 25, 1975

Mr. Randolph Richardsch
Attorney at Law
Post Office Box 819
Roswell, New Mexico 88201

Re: CASE NO. 5416
ORDER NO. R-4966

Applicant:

Tesoro Petroleum

Dear Sir:

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

Very truly yours,

A. L. PORTER, Jr.
Secretary-Director

ALP/ir

Copy of order also sent to:

Robbs OCC X
Artesia OCC
Aztec OCC X

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:

CASE NO. 5416
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ORDER OF THE COMMISSION

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NOW, on this 25th day of February, 1975, 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:

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(2) That the applicant, Tesoro Petroleum Corporation, seeks approval of the Coal Creek Unit Agreement covering 11,225.11 acres, more or less, of State and Federal lands described as follows:

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Sections 19 and 20: All
Sections 28 through 33: All

TOWNSHIP 23 NORTH, RANGE 13 WEST, NMPM
Section 13: S/2
Section 14: S/2
Sections 23 through 27: All
Sections 34 through 36: 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.

-2-

Case No. 5416
Order No. R-4966

IT IS THEREFORE ORDERED:

- (1) That the Coal Creek 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 herein-above designated.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

I. R. TRUJILLO, Chairman

Phil R. Lucero
PHIL R. LUCERO, Member

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

S E A L

jr/

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
COAL CREEK UNIT AREA
COUNTY OF SAN JUAN
STATE OF NEW MEXICO

NO. _____

THIS AGREEMENT, entered into as of the 22nd day of January,
1975, by and between the parties subscribing, ratifying, or consenting hereto,
and herein referred to as the "parties hereto,"

W I T N E S S E T H :

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

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

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is
authorized by an Act of the Legislature (Sec. 7-11-29 N.M. Statutes 1953 Annotated)
to consent to or approve this agreement on behalf of the State of New Mexico, insofar
as it covers and includes lands and mineral interest of the State of New Mexico; and,

WHEREAS, the Oil Conservation Commission of the State of New Mexico is author-
ized by an Act of the Legislature (Chapter 72, Laws of 1935, as amended by Chapter
193, Laws of 1937; Chapter 166, Laws of 1941; and Chapter 168, Laws of 1949) to ap-
prove this agreement and the conservation provisions hereof; and,

WHEREAS, the parties hereto hold sufficient interests in the _____
Coal Creek Unit Area covering the land hereinafter des-
cribed to give reasonably effective control of operations therein; and

WHEREAS, it is the purpose of the parties hereto to conserve natural resources,
prevent waste, and secure other benefits obtainable through development and operation
of the area subject to this agreement under the terms, conditions, and limitations

herein set forth:

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

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

2. UNIT AREA. The following described land is hereby designated and recognized as constituting the unit area:

<u>T-23-N, R-12-W, NMPM</u>	
Section 13:	S $\frac{1}{2}$
Section 19, 20:	All
Sections 28, 29, 30:	All
Sections 31, 32, 33:	All

<u>T-23-N, R-13-W, NMPM</u>	
Section 13:	S $\frac{1}{2}$
Section 14:	S $\frac{1}{2}$
Sections 23, 24:	All
Sections 25, 26, 27:	All
Sections 34, 35, 36:	All

Containing 11,225.11 acres MOL

Exhibit "A" attached hereto is a map showing the unit area and the boundaries and indentities of tracts and leases in said area to the extent known to the Unit Operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the Unit Operator the acreage, percentage, and kind of ownership of oil and gas interests in all land in the unit area. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in said map or schedule as owned by such party. Exhibits "A" and "B" shall be revised by the Unit Operator whenever changes in the unit area render such revision necessary when requested by the Oil and Gas Supervisor, hereinafter referred to as "Supervisor," or when requested by the Commissioner of Public Lands of the State of New Mexico,

hereinafter referred to as "Land Commissioner," and not less than five (5) copies of the revised Exhibits shall be filed with the Supervisor and one (1) copy thereof shall be filed with the Land Commissioner, and one (1) copy with the New Mexico Oil Conservation Commission, hereinafter referred to as "State Commission."

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

(a) Unit Operator, on its own motion or on demand of the Director of the Geological Survey, hereinafter referred to as "Director," or on demand of the Land Commissioner, after preliminary concurrence by the Director, shall prepare a notice of proposed expansion or contraction describing the contemplated changes in the boundaries of the unit area, the reasons therefor, and the proposed effective date thereof, preferably, the first day of a month subsequent to the date of notice.

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

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

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

(e) All legal subdivisions of lands (i.e., 40 acres by Government survey or its nearest lot or tract equivalent; in instances of irregular surveys unusually large lots or tracts shall be considered in multiples of 40 acres or the nearest aliquot equivalent thereof), no parts of which are entitled to be in a participating area on or before the fifth anniversary of the effective date of the first initial participating area established under this unit agreement, shall be eliminated automatically from this agreement, effective as of said fifth anniversary, and such lands

shall no longer be a part of the unit area and shall no longer be subject to this agreement, unless diligent drilling operations are in progress on unitized lands not entitled to participation on said fifth anniversary, in which event all such lands shall remain subject hereto for so long as such drilling operations are continued diligently, with not more than 90 days' time elapsing between the completion of one such well and the commencement of the next such well. All legal subdivisions of lands not entitled to be in a participating area within 10 years after the effective date of the first initial participating area approved under this agreement shall be automatically eliminated from this agreement as of said tenth anniversary. All lands proved productive by diligent drilling operations after the aforesaid five-year period shall become participating in the same manner as during said five-year period. However, when such diligent drilling operations cease, all non-participating lands shall be automatically eliminated effective as of the 91st day thereafter. The unit operator shall within 90 days after the effective date of any elimination hereunder, describe the area so eliminated to the satisfaction of the Supervisor and the Land Commissioner and promptly notify all parties in interest.

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

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

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

4. UNIT OPERATOR. Tesoro Petroleum Corporation
is hereby designated as Unit Operator and by signature hereto as Unit Operator

agrees and consents to accept the duties and obligations of Unit Operator for the discovery, development, and production of unitized substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in the capacity and not as an owner of interest in unitized substances, and the term "working-interest owner" when used shall include or refer to Unit Operator as the owner of a working interest when such an interest is owned by it.

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

Unit Operator shall have the right to resign in like manner and subject to like limitations as above provided at any time a participating area established hereunder is in existence, but, in all instances of resignation or removal, until a successor unit operator is selected and approved as hereinafter provided, the working-interest owners shall be jointly responsible for performance of the duties of unit operator, and shall not later than 30 days before such resignation or removal becomes effective appoint a common agent to represent them in any action to be taken hereunder.

The resignation of Unit Operator shall not release Unit Operator from any liability for any default by it hereunder occurring prior to the effective date of its resignation.

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

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

6. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall tender his or its resignation as Unit Operator or shall be removed as hereinabove provided, or a change of Unit Operator is negotiated by working-interest owners, the owners of the working interests in the participating area or areas according to their respective acreage interests in such participating area or areas, or until a participating area shall have been established, the owners of the working interests according to their respective acreage interests in all unitized land, shall by majority vote select a successor Unit Operator: Provided, That, if a majority but less than 75 per cent of the working interests qualified to vote are owned by one party to this agreement, a concurring vote of one or more additional working interest owners shall be required to select a new operator. Such selection shall not become effective until

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

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

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

7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. If the Unit Operator is not the sole owner of working interests, costs, and expenses incurred by Unit Operator in conducting unit operations hereunder shall be paid and apportioned among and borne by the owners of working interests, all in accordance with the agreement or agreements entered into by and between the Unit Operator and the owners of working interests, whether one or more, separately or collectively. Any agreement or agreements entered into between the working-interest owners and the

Unit Operator as provided in this section, whether one or more, are herein referred to as the "unit operating agreement." Such unit operating agreement shall also provide the manner in which the working-interest owners shall be entitled to receive their respective proportionate and allocated share of the benefits accruing hereto in conformity with their underlying operating agreements, leases, or other independent contracts, and such other rights and obligations as between Unit Operator and the working-interest owners as may be agreed upon by Unit Operator and the working-interest owners; however, no such unit operating agreement shall be deemed either to modify any of the terms and conditions of this unit agreement or to relieve the Unit Operator of any right or obligation established under this unit agreement, and in case of any inconsistency or conflict between this unit agreement and the unit operating agreement, this unit agreement shall govern. Three true copies of any unit operating agreement executed pursuant to this section should be filed with the Supervisor and one true copy with the Land Commissioner, prior to approval of this unit agreement.

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

9. DRILLING TO DISCOVERY. Within six (6) months after the effective date hereof, the Unit Operator shall begin to drill an adequate test well at a location approved by the Supervisor, if on Federal land, or by the Land Commissioner, if on State land, unless on such effective date a well is being drilled conformably with the terms hereof, and thereafter continue such drilling diligently until the Dakota Formation has been tested

_____, or until at a lesser depth unitized substances shall be discovered which can be produced in paying

quantities (to-wit: quantities sufficient to repay the costs of drilling, completing and producing operations, with a reasonable profit) or the Unit Operator shall, at any time, establish to the satisfaction of the Supervisor if on Federal land, or the Land Commissioner if on State land, that further drilling of said well would be unwarranted or impracticable; provided, however, that Unit Operator shall not, in any event, be required to drill said well to a depth in excess of 4,700 feet. Until the discovery of a deposit of unitized substances capable of being produced in paying quantities, the Unit Operator shall continue drilling diligently one well at a time, allowing not more than six (6) months between the completion of one well and the beginning of the next well, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of said Supervisor if it be on Federal land or of the Land Commissioner if on State land, or until it is reasonably proved that the unitized land is incapable of producing unitized substances in paying quantities in the formations drilled hereunder.

Nothing in this section shall be deemed to limit the right of the Unit Operator to resign as provided in Section 5 hereof, or as requiring Unit Operator to commence or continue any drilling during the period pending such resignation becoming effective in order to comply with the requirements of this section. The Director and Land Commissioner may modify the drilling requirements of this section by granting reasonable extensions of time when, in their opinion, such action is warranted.

Upon failure to commence any well provided for in this section within the time allowed, including any extension of time granted by the Supervisor and the Land Commissioner, this agreement will automatically terminate; upon failure to continue drilling diligently any well commenced hereunder, the Supervisor and the Land Commissioner may, after 15-days notice to the Unit Operator, declare this unit agreement terminated.

10. PLAN OF FURTHER DEVELOPMENT AND OPERATION. Within six (6) months after completion of a well capable of producing unitized substances in paying quantities, the Unit Operator shall submit for the approval of the Supervisor and the Land Commissioner an acceptable plan of development and operation for the unitized land which, when approved by the Supervisor and the Land Commissioner, shall constitute the further drilling and operating obligations of the Unit Operator under this agreement for the period specified therein. Thereafter, from time to time before the expiration of any existing plan, the Unit Operator shall submit

for the approval of the Supervisor and the Land Commissioner a plan for an additional specified period for the development and operation of the unitized land.

Any plan submitted pursuant to this section shall provide for the exploration of the unitized area and for the diligent drilling necessary for determination of the area or areas thereof capable of producing unitized substances in paying quantities in each and every productive formation and shall be as complete and adequate as the Supervisor and the Land Commissioner may determine to be necessary for timely development and proper conservation of the oil and gas resources of the unitized area and shall:

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

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

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

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

11. PARTICIPATION AFTER DISCOVERY. Upon completion of a well capable of producing unitized substances in paying quantities or as soon thereafter as required by the Supervisor or the Land Commissioner, the Unit Operator shall submit for approval by the Supervisor and the Land Commissioner a schedule, based on subdivisions of the public-land survey or aliquot parts thereof, of all land then regarded as reasonably proved to be productive in paying quantities; all lands in said schedule on approval of the Supervisor and the Land Commissioner to constitute a participating area, effective as of the date of completion of such well or the

effective date of this unit agreement, whichever is later. The acreages of both Federal and non-Federal lands shall be based upon appropriate computations from the courses and distances shown on the last approved public-land survey as of the effective date of each initial participating area. Said schedule shall also set forth the percentage of unitized substances to be allocated as herein provided to each tract in the participating area so established, and shall govern the allocation of production commencing with the effective date of the participating area. A separate participating area shall be established for each separate pool or deposit of unitized substances or for any group thereof which is produced as a single pool or zone, and any two or more participating areas so established may be combined into one, on approval of the Supervisor and the Land Commissioner. When production from two or more participating areas, so established, is subsequently found to be from a common pool or deposit said participating areas shall be combined into one effective as of such appropriate date as may be approved or prescribed by the Supervisor and the Land Commissioner. The participating area or areas so established shall be revised from time to time, subject to like approval, to include additional land then regarded as reasonably proved to be productive in paying quantities or necessary for unit operations, or to exclude land then regarded as reasonably proved not to be productive in paying quantities and the schedule of allocation percentages shall be revised accordingly. The effective date of any revision shall be the first of the month in which is obtained the knowledge or information on which such revision is predicated, provided, however, that a more appropriate effective date may be used if justified by the Unit Operator and approved by the Supervisor and the Land Commissioner. No land shall be excluded from a participating area on account of depletion of the unitized substances, except that any participating area established under the provisions of this unit agreement shall terminate automatically whenever all completions in the formation on which the participating area is based are abandoned.

It is the intent of this section that a participating area shall represent the area known or reasonably estimated to be productive in paying quantities; but regardless of any revision of the participating area, nothing herein contained shall be construed as requiring any retroactive adjustment for production obtained prior to the effective date of the revision of the participating area.

In the absence of agreement at any time between the Unit Operator and the Supervisor and the Land Commissioner as to the proper definition or redefinition

of a participating area, or until a participating area has, or arises here, been established as provided herein, the portion of all payments affected thereby shall be impounded in a manner mutually acceptable to the owners of working interests and the Supervisor and the Land Commissioner. Royalties due the United States shall be determined by the Supervisor for Federal lands and the Land Commissioner for the State lands and the amount thereof shall be deposited, as directed by the Supervisor and the Land Commissioner, to be held as unearned money until a participating area is finally approved and then applied as earned or returned in accordance with a determination of the sum due as Federal and State royalty on the basis of such approved participating area.

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

12. ALLOCATION OF PRODUCTION. All unitized substances produced from each participating area established under this agreement, except any part thereof used in conformity with good operating practices within the unitized area for drilling, operating, camp, and other production or development purposes, for repressuring or recycling in accordance with a plan of development approved by the Supervisor and Land Commissioner, or unavoidably lost, shall be deemed to be produced equally on an acreage basis from the several tracts of unitized land of the participating area established for such production and, for the purpose of determining any benefits accruing under this agreement, each such tract of unitized land shall have allocated to it such percentage of said production as the number of acres of such tract included in said participating area bears to the total acres of unitized land in said participating area, except that allocation of production hereunder for purposes other than for settlement of the royalty, overriding royalty, or payment out of production obligations of the respective working-interest owners, shall be on the basis prescribed in the unit operating agreement whether in conformity with the basis of allocation herein set forth or otherwise. It is hereby

agreed that production of unitized substances from a participating area shall be allocated as provided herein regardless of whether any wells are drilled on any particular part or tract of said participating area. If any gas produced from one participating area is used for repressuring or recycling purposes in another participating area, the first gas withdrawn from such last-mentioned participating area for sale during the life of this agreement shall be considered to be the gas so transferred until an amount equal to that transferred shall be so produced for sale and such gas shall be allocated to the participating area from which initially produced as such area was last defined at the time of such final production.

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

If any well drilled as aforesaid by a working-interest owner results in production such that the land upon which it is situated may properly be included in a participating area, such participating area shall be established or enlarged as provided in this agreement and the well shall thereafter be operated by the Unit Operator in accordance with the terms of this agreement and the unit operating agreement.

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

14. ROYALTY SETTLEMENT. The United States and any State and any royalty owner who is entitled to take in kind a share of the substances now unitized hereunder shall hereafter be entitled to the right to take in kind its share of the unitized substances, and the Unit Operator, or the working-interest owner in case

of the operation of a well by a working-interest owner as herein provided for in special cases, shall make deliveries of such royalty share taken in kind in conformity with the applicable contracts, laws, and regulations. Settlement for royalty interest not taken in kind shall be made by working-interest owners responsible therefor under existing contracts, laws, and regulations, or by the Unit Operator, on or before the last day of each month for unitized substances produced during the preceding calendar month; provided, however, that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any royalties due under their leases.

If gas obtained from lands not subject to this agreement is introduced into any participating area hereunder, for use in repressuring, stimulation of production, or increasing ultimate recovery, in conformity with a plan of operations approved by the Supervisor and the Land Commissioner, a like amount of gas, after settlement as herein provided for any gas transferred from any other participating area and with appropriate deduction for loss from any cause, may be withdrawn from the formation into which the gas is introduced, royalty free as to dry gas, but not as to any products which may be extracted therefrom; provided that such withdrawal shall be at such time as may be provided in the approved plan of operations or as may otherwise be consented to by the Supervisor and the Land Commissioner as conforming to good petroleum engineering practice; and provided further, that such right of withdrawal shall terminate on the termination of this unit agreement.

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

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

15. RENTAL SETTLEMENT. Rental or minimum royalties due on leases committed hereto shall be paid by working-interest owners responsible therefor under existing contracts, laws, and regulations, provided that nothing herein contained shall

operate to relieve the lessees of any land from their respective lease obligations for the payment of any rental or minimum royalty due under their leases. Rental or minimum royalty for lands of the United States subject to this agreement shall be paid at the rate specified in the respective leases from the United States unless such rental or minimum royalty is waived, suspended, or reduced by law or by approval of the Secretary or his duly authorized representative.

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

With respect to any lease on non-Federal land containing provisions which would terminate such lease unless drilling operations are commenced upon the land covered thereby within the time therein specified or rentals are paid for the privilege of deferring such drilling operations, the rentals required thereby shall, notwithstanding any other provision of this agreement, be deemed to accrue and become payable during the term thereof as extended by this agreement and until the required drilling operations are commenced upon the land covered thereby or until some portion of such land is included within a participating area.

16. CONSERVATION. Operations hereunder and production of unitized substances shall be conducted to provide for the most economical and efficient recovery of said substances without waste, as defined by or pursuant to State or Federal law or regulation.

17. DRAINAGE. The Unit Operator shall take such measures as the Supervisor and Land Commissioner deem appropriate and adequate to prevent drainage of unitized substances from unitized land by wells on land not subject to this agreement.

18. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, conditions, and provisions of all leases, subleases, and other contracts relating to exploration, drilling, development, or operation for oil or gas on lands committed to this agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect; and the parties hereto hereby consent that the Secretary, as to Federal leases and the Land Commissioner, as to State leases, shall and each by his approval hereof, or by the approval hereof by his duly authorized representative, does hereby establish, alter, change, or revoke the drilling, producing, rental, minimum royalty, and royalty requirements of Federal and State leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this agreement, and without limiting the generality of the foregoing,

all leases, subleases, and contracts are particularly modified in accordance with the following:

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

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

(c) Suspension of drilling or producing operations on all unitized lands pursuant to direction or consent of the Secretary and the Land Commissioner, or his duly authorized representative, shall be deemed to constitute such suspension pursuant to such direction or consent as to each and every tract of unitized land. A suspension of drilling or producing operations limited to specified lands shall be applicable only to such lands.

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

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

accordance with the provisions of the Mineral Leasing Act Revision of 1960.

(f) Each sublease or contract relating to the operation and development of unitized substances from lands of the United States committed to this agreement, which by its terms would expire prior to the time at which the underlying lease, as extended by the immediately preceding paragraph, will expire, is hereby extended beyond any such term so provided therein so that it shall be continued in full force and effect for and during the term of the underlying lease as such term is herein extended.

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

(h) In the event the Initial Test Well is commenced prior to the expiration date of the shortest term State Lease within the Unit Area, any lease embracing lands of the State of New Mexico which is made subject to this agreement, shall continue in force beyond the term provided therein as to the lands committed hereto until the termination hereof.

(i) Any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto, shall be segregated as to the portion committed and the portion not committed, and the terms of such lease shall apply separately to such segregated portions commencing as of the effective date hereof; provided, however, notwithstanding any of the provisions of this agreement to the contrary any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto shall continue in full force and effect beyond the term provided therein as to all lands embraced in such lease, if oil or gas is discovered and is capable of being produced in paying quantities from some part of the lands embraced in such lease at the expiration of the secondary term of such lease; or if, at the expiration of the secondary term, the leasee or the Unit Operator is then engaged in bona fide drilling or reworking operations on some part of the lands embraced in such lease, the same as to all lands embraced therein, shall

remain in full force and effect so long as such operations are being diligently prosecuted, and if they result in the production of oil or gas; said lease shall continue in full force and effect as to all of the lands embraced therein, so long thereafter as oil or gas in paying quantities is being produced from any portion of said lands.

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

20. EFFECTIVE DATE AND TERM. This agreement shall become effective upon approval by the Secretary and the Land Commissioner or his duly authorized representative, and shall terminate five (5) years from said effective date unless

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

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

(c) a valuable discovery of unitized substances has been made or accepted on unitized land during said initial term or any extension thereof, in which event the agreement shall remain in effect for such term and so long as unitized substances are produced in quantities sufficient to pay for the cost of producing same from wells on unitized land within any participating area established hereunder and, should production cease, so long thereafter as diligent operations are in progress for the restoration of production or discovery of new production and so long thereafter as unitized substances so discovered are produced as aforesaid, or

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

21. RATE OF PROSPECTING, DEVELOPMENT, AND PRODUCTION. The Director is hereby vested with authority to alter or modify from time to time in his discretion the quantity and rate of production under this agreement when such quantity and rate is not fixed pursuant to Federal or State law or does not conform to any state-wide voluntary conservation or allocation program, which is established, recognized, and generally adhered to by the majority of operators in such State, such authority being hereby limited to alteration or modification in the public interest, the purpose thereof and the public interest to be served thereby to be stated in the order of alteration or modification. Without regard to the foregoing, the Director is also hereby vested with authority to alter or modify from time to time in his discretion the rate of prospecting and development and the quantity and rate of production under this agreement when such alteration or modification is in the interest of attaining the conservation objectives stated in this agreement and is not in violation of any applicable Federal or State law.

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

22. APPEARANCES. Unit Operator shall, after notice to other parties affected, have the right to appear for and on behalf of any and all interests affected hereby before the Department of the Interior and the Commissioner of Public Lands and to appeal from orders issued under the regulations of said Department or Land Commissioner or to apply for relief from any of said regulations or in any proceedings relative to operations before the Department of the Interior or the Land Commissioner or any other legally constituted authority; provided, however, that any other interested party shall also have the right at his own expense to be heard in any such proceeding.

23. NOTICES. All notices, demands, or statements required hereunder to be given or rendered to the parties hereto shall be deemed fully given if given in writing and personally delivered to the party or sent by postpaid registered or certified mail, addressed to such party or parties at their respective addresses

set forth in connection with the signatures hereto or to the ratification or consent hereof or to such other address as any such party may have furnished in writing to party sending the notice, demand or statement.

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

25. UNAVOIDABLE DELAY. All obligations under this agreement requiring the Unit Operator to commence or continue drilling or to operate on or produce unitized substances from any of the lands covered by this agreement shall be suspended while the Unit Operator despite the exercise of due care and diligence, is prevented from complying with such obligations, in whole or in part, by strikes, acts of God, Federal, State, or municipal law or agencies, unavoidable accidents, uncontrollable delays in transportation, inability to obtain necessary materials in open market, or other matters beyond the reasonable control of the Unit Operator whether similar to matters herein enumerated or not. No unit obligation which is suspended under this section shall become due less than thirty (30) days after it has been determined that the suspension is no longer applicable. Determination of creditable "Unavoidable Delay" time shall be made by the unit operator subject to approval of the Supervisor and the Land Commissioner.

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

27. LOSS OF TITLE. In the event title to any tract of unitized land shall fail and the true owner cannot be induced to join in this unit agreement, such tract shall be automatically regarded as not committed hereto and there shall be such readjustment of future costs and benefits as may be required on account of the loss of such title. In the event of a dispute as to title as to any royalty, working interest, or other interests subject thereto, payment or delivery on account thereof may be withheld without liability for interest until the dispute is finally settled; provided, that, as to Federal and State land or leases, no payments of

funds due the United States or the State of New Mexico should be withheld, but such funds shall be deposited as directed by the Supervisor and such funds of the State of New Mexico shall be deposited as directed by the Land Commissioner, to be held as unearned money pending final settlement of the title dispute, and then applied as earned or returned in accordance with such final settlement.

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

28. NON-JOINDER AND SUBSEQUENT JOINDER. If the owner of any substantial interest in a tract within the unit area fails or refuses to subscribe or consent to this agreement, the owner of the working interest in that tract may withdraw said tract from this agreement by written notice delivered to the Supervisor and the Land Commissioner and the Unit Operator prior to the approval of this agreement by the Supervisor. Any oil or gas interests in lands within the unit area not committed hereto prior to submission of this agreement for final approval may thereafter be committed hereto by the owner or owners thereof subscribing or consenting to this agreement, and, if the interest is a working interest, by the owner of such interest also subscribing to the unit operating agreement. After operations are commenced hereunder, the right of subsequent joinder, as provided in this section, by a working-interest owner is subject to such requirements or approvals, if any, pertaining to such joinder, as may be provided for in the unit operating agreement. After final approval hereof, joinder by a non-working interest owner must be consented to in writing by the working-interest owner committed hereto and responsible for the payment of any benefits that may accrue hereunder in behalf of such non-working interest. A non-working interest may not be committed to this unit unless the corresponding working interest is committed hereto. Joinder to the unit agreement by a working-interest owner, at any time, must be accompanied by appropriate joinder to the unit operating agreement, if more than one committed working-interest owner is involved, in order for the interest to be regarded as committed to this unit agreement. Except as may otherwise herein be provided, subsequent joinders to this agreement shall be effective as of the first day of the month following the filing with the Supervisor and the Land Commissioner of duly executed counterparts of all or any papers necessary to establish effective commitment of any tract to this agreement unless objection to such joinder is duly made within sixty (60) days by the Supervisor and the Land Commissioner.

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

30. SURRENDER. Nothing in this agreement shall prohibit the exercise by any working-interest owner of the right to surrender vested in such party by any lease, sublease, or operating agreement as to all or any part of the lands covered thereby, provided that each party who will or might acquire such working interest by such surrender or by forfeiture as hereafter set forth, is bound by the terms of this agreement.

If, as a result of any such surrender, the working interest rights as to such lands become vested in any party other than the fee owner of the unitized substances, said party may forfeit such rights and further benefits from operation hereunder as to said land to the party next in the chain of title who shall be and become the owner of such working interest.

If, as the result of any such surrender or forfeiture, working interest rights become vested in the fee owner of the unitized substances, such owner may:

- (1) Accept those working-interests rights subject to this agreement and the unit operating agreement; or
- (2) Lease the portion of such land as is included in a participating area established hereunder subject to this agreement and the unit operating agreement.
- (3) Provide for the independent operation of any part of such land that are not then included within a participating area established hereunder.

If the fee owner of the unitized substances does not accept the working-interest rights subject to this agreement and the unit operating agreement or lease, such lands as above-provided within six (6) months after the surrendered or forfeited working-interest rights become vested in the fee owner, the benefits and obligations of operations accruing to such lands under this agreement and the unit operating agreement shall be shared by the remaining owners of unitized working interests in accordance with their respective working interest ownerships, and such owners of working interests shall compensate the fee owner of unitized sub-

stances in such lands by paying sums equal to the rentals, minimum royalties, and royalties applicable to such lands under the lease in effect when the lands were unitized.

An appropriate accounting and settlement shall be made, for all benefits accruing to or payments and expenditures made or incurred on behalf of such surrendered or forfeited working interest subsequent to the date of surrender or forfeiture, and payment of any moneys found to be owing by such an accounting shall be made as between the parties within thirty (30) days. In the event no unit operating agreement is in existence and a mutually acceptable agreement between the proper parties thereto cannot be consummated, the Supervisor may prescribe such reasonable and equitable agreement as he deems warranted under the circumstances.

The exercise of any right vested in a working-interest owner to reassign such working interest to the party from whom obtained shall be subject to the same conditions as set forth in this section in regard to the exercise of a right to surrender.

31. TAXES. The working-interest owners shall render and pay for their account and the account of the royalty owners all valid taxes on or measured by the unitized substances in and under or that may be produced, gathered, and sold from the land subject to this contract after the effective date of this agreement, or upon the proceeds derived therefrom. The working-interest owners on each tract shall and may charge the proper proportion of said taxes to the royalty owners having interests in said tract, and may currently retain and deduct sufficient of the unitized substances or derivative products, or net proceeds thereof from the allocated share of each royalty owner to secure reimbursement for the taxes so paid. No such taxes shall be charged to the United States or the State of New Mexico or to any lessor who has a contract with his lessor who has a contract with his lessee which requires the lessee to pay such taxes.

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

33. CONFLICT OF SUPERVISION. Neither the Unit Operator nor the working-interest owners, nor any of them, shall be subject to any forfeiture, termination, or expiration of any right hereunder or under any leases or contracts subject hereto,

or to any penalty or liability on account of delay or failure in whole or in part to comply with any applicable provisions thereof to the extent that the said Unit Operator or the working-interest owners, or any of them, are hindered, delayed, or prevented from complying therewith by reason of failure of the Unit Operator to obtain, in the exercise of due diligence, the concurrence of proper representatives of the United States and proper representatives of the State of New Mexico in and about any matters or things concerning which it is required herein that such concurrence be obtained. The parties hereto, including the State Commission, agree that all powers and authority vested in the State Commission in and by any provisions of this agreement are vested in the State Commission and shall be exercised by it pursuant to the provisions of the laws of the State of New Mexico and subject in any case to appeal or judicial review as may now or hereafter be provided by the laws of the State of New Mexico.

34. SURFACE AND ENVIRONMENTAL PROTECTION STIPULATIONS. Nothing in this agreement shall modify or change either the special Federal Lease stipulations relating to surface management or such special Federal Lease stipulations relating to surface and environmental protection, attached to and made a part of, Oil and Gas Leases covering lands within the Unit Area.

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

ATTEST:

TESORO PETROLEUM CORPORATION

BY: 
Assistant Secretary

BY: 
Richard M. Riggs, Vice President

Address: 8700 Tesoro Drive
San Antonio, Texas 78286

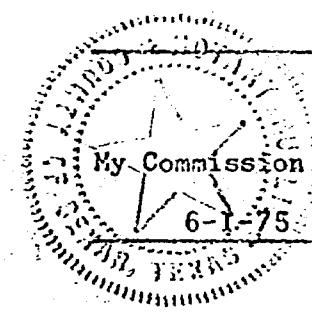
UNIT OPERATOR


3-4-9-10-11-12-21

STATE OF TEXAS)
COUNTY OF BEXAR) ss

The foregoing instrument was acknowledged before me this 18th day of February, 1975, by Richard M. Riggs who is

Vice President of Tesoro Petroleum Corporation, a Delaware (State of Incorp.) corporation, for and on behalf of said Corporation.

My Commission Expires: 
6-1-75


Notary Public

LINDA B. CONSTABLE
NOTARY PUBLIC, BEXAR COUNTY, TEXAS
COMMISSION EXPIRES: JUNE 1, 1975

EXHIBIT "B"
SCHEDULE OF LAND AND LEASES
COAL CREEK UNIT AREA
San Juan County, New Mexico

TRACT NO.	DESCRIPTION	ACRES	SERIAL NO. & EXP. DATE	BASIC ROYALTY	LESSEE OF RECORD		OVERRIDING ROYALTY AND PERCENTAGE		WORKING INTEREST AND PERCENTAGE	
1.	T-23-N, R-12-W, NMPM Sec. 18; SE 1/4 160.00		NM-055845 03-31-75	U.S.A. 12.5%	Raymond Chorney - 25.0% Kirby Petroleum Co. - 25.0% Aquitaine Oil Corp. - 25.0% Natural Gas Pipeline Co. - 25.0%	Stanley M. Edwards L. J. Driskell	2.5% 2.5%	Raymond Chorney Kirby Petroleum Company Aquitaine Oil Corp. Natural Gas Pipeline Co.	25.00% 25.00% 25.00%	
2.	T-23-N, R-12-W, NMPM Sec. 33; all 640.00		NM-055877-A 03-31-75	U.S.A. 12.5%	Delaware-Apache Corp. Casper College Foundation Raymond Chorney		3.0% 2.625%	Chorney Oil Company Natural Gas Pipeline Co. Aquitaine Oil Corp. Kirby Petroleum Corp. Tesoro Petroleum Corp.	18.75% 18.75% 18.75% 25.00%	
3.	T-23-N, R-13-W, NMPM Sec. 14; SE 1/4 480.00 Sec. 23; E 1/2		NM-055915-A 02-28-75	U.S.A. 12.5%	Chorney Oil Company - 11.75% Natural Gas Pipeline Co. - 18.75% Aquitaine Oil Corp. - 18.75% Kirby Petroleum Co. - 18.75% Tesoro Petroleum Corp. - 25.00%	Raymond Chorney				All
4.	T-23-N, R-13-W, NMPM Sec. 27; All 640.00		NM-055916 03-31-75	U.S.A. 12.5%	Tesoro Petroleum Corp. Casper College Foundation Raymond Chorney		2.625%			75.00% 25.00%
5.	T-23-N, R-13-W, NMPM Sec. 25; All 640.00		NM-055916-A 03-31-75	U.S.A. 12.5%	McKnight Pet. Trust - 75.00% McAlester Fuel Co. - 25.00%	Casper College Foundation Raymond Chorney William J. A. Johnson	8.75% 1.0%	McKnight Petroleum Trust McAlester Fuel Co.	75.00% 25.00%	
6.	T-23-N, R-13-W, NMPM Sec. 35; All 640.00		NM-055936 03-31-75	U.S.A. 12.5%	McKnight Pet. Trust - 75.00% McAlester Fuel Co. - 25.00%	Thomas D. Chase Dorothy Chorney	1.0% 2.0%	McKnight Petroleum Trust McAlester Fuel Co.	75.00% 25.00%	
7.	T-23-N, R-12-W, NMPM Sec. 18; Lots 3, 4, 485.42 E 1/2 SW 1/4 Sec. 19; Lots 5 thru 12		NM-055834 04-30-75	U.S.A. 12.5%	Raymond Chorney - 25.00% Aquitaine Oil Corp. - 25.00% Natural Gas Pipeline Co. - 25.00%	Stanley M. Edwards L. C. Driskell Jacqueline Anderson	2.0% 2.0% 1.0%	Raymond Chorney Aquitaine Oil Corp. Natural Gas Pipeline Co.	25.00% 25.00% 25.00%	

8.	T-23-N. R-12-W, NMPM Sec. 23; SE-SE-SE 40.00	NM-0556834-A 04-30-75	U.S.A. 12.5%	Delaware-Apache Corp.	Raymond Chorney Jacqueline Anderson	2.5% 1.0%	Delaware-Apache Corp.	ALL
9.	T-23-N. R-12-W, NMPM Sec. 23; All 640.00	NM-0556836 04-30-75	U.S.A. 12.5%	Tesoro Petroleum Corp.	Raymond Chorney W. H. McDermott	2.5% 1.0%	Tesoro Petroleum Corp.	ALL
10.	T-23-N. R-12-W, NMPM Sec. 14; SW 480.00 Sec. 23; W 1/2	NM-0558416 11-30-75	U.S.A. 12.5%	Chorney Oil Co. - 18.75% Natural Gas Pipeline Co. - 18.75% Aquitaine Oil Corp. - 18.75% Kirby Petroleum Co. - 18.75% Tesoro Petroleum Corp. - 25.00%	W. E. Tolan Raymond Chorney	2.0% 1.0%	Chorney Oil Co. Natural Gas Pipeline Co. Aquitaine Oil Corp. Kirby Petroleum Co. Tesoro Petroleum Corp.	18.75% 18.75% 18.75% 18.75% 25.00%
11.	T-23-N. R-12-W, NMPM Sec. 13; SW 160.00	NM-0558650 12-31-75	U.S.A. 12.5%	Chorney Oil Co. - 18.75% Natural Gas Pipeline Co. - 18.75% Aquitaine Oil Corp. - 18.75% Kirby Petroleum Co. - 18.75% Tesoro Petroleum Corp. - 25.00%	Raymond Chorney	3.0%	Chorney Oil Co. Natural Gas Pipeline Co. Aquitaine Oil Corp. Kirby Petroleum Co. Tesoro Petroleum Corp.	18.75% 18.75% 18.75% 18.75% 25.00%
12.	T-23-N. R-12-W, NMPM Sec. 34; All 640.00	NM-0559141 02-28-76	U.S.A.	Tesoro Petroleum Corp.	Es. of F. C. Grigsby	3.5%	Tesoro Petroleum Corp.	ALL
13.	T-23-N. R-12-W, NMPM Sec. 19; Lots 13 thru 20 326.99	NM-3034 08-31-77	U.S.A.	Hanlad Oil Corporation	NONE		Hanlad Oil Corporation	ALL
14.	T-23-N. R-12-W, NMPM Sec. 23; All 640.00	NM-4280 01-31-78	U.S.A. 12.5%	Delaware-Apache Corp.	L. C. Driskell W. D. Talan Esther Chorney	1.5% 0.5% 1.5%	Delaware-Apache Corp.	ALL

Section	Acres	Owner	Interest	Notes
15. T-23-N, R-12-W, NMPM Sec. 15; SE 1/4	160.00	NM-7020	U.S.A. 12.5%	Kirby Petroleum Co. - 25.00% Natural Gas Pipeline Co. - 25.00% Aquitaine Oil Corp. - 25.00% Chorney Oil Company - 25.00%
16. T-23-N, R-12-W, NMPM Sec. 20; Lots 3 thru 6, 11 thru 14	331.22	NM-8229	U.S.A. 12.5%	Raymond Chorney - 25.00% Kirby Petroleum Co. - 25.00% Aquitaine Oil Corp. - 25.00% Natural Gas Pipeline Co. - 25.00%
17. T-23-N, R-12-W, NMPM Sec. 28; NW 1/4	400.00	NM-15657	U.S.A. 12.5%	Aztec Oil & Gas Co.
18. T-23-N, R-12-W, NMPM Sec. 30; Lots 1 thru 4, E 1/2, E 1/4 NW 1/4	635.32	NM-17017	U.S.A. 12.5%	Husky Oil Company of Delaware Guy M. Willis Rilla M. Willis
19. T-23-N, R-12-W, NMPM Sec. 31; Lots 1 thru 4, E 1/2, E 1/4 NW 1/4	635.28	NM-18951	U.S.A. 12.5%	McAlester Fuel Co. - 25.00% Dorothy Langley McKnight Petroleum Trust - 75.00%
20. T-23-N, R-12-W, NMPM Sec. 24; All	640.00	NM-19572	U.S.A. 12.5%	McAlester Fuel Co. - 25.00% Ruth Ross McKnight Petroleum Trust - 75.00% Wm. J. A. Johnson 1.0%
21. T-23-N, R-12-W, NMPM Sec. 20; Lots 1, 2, 7 thru 10, 15, 16 Sec. 28; SW 1/4, SE 1/4	531.08	NM-23240	U.S.A. 12.5%	Tesoro Petroleum Corp. Josephine Frye
TOTAL: 9,945.31 acres Federal Lands				

STATE OF NEW MEXICO LANDS

T-23-W. E-12-W. NEPM Sec. 32; All 640.00		K-4940-1 04-20-75	State 12.5%	Delaware-Apache Corp.	Raymond Chorney	3.5%	Delaware-Apache Corp.	All
T-23-W. R-13-W. NEPM Sec. 33; NE, SE, SW, NW, S, W, SW, NW 520.00		K-4941-5 04-20-75	State 12.5%	McKnight Pet. Trust McAlester Fuel Co. - 25.00%	Raymond Chorney Wm. J. A. Johnson	3.5% 1.0%	McKnight Petroleum Trust McAlester Fuel Company	75.00% 25.00%
T-23-W. R-13-W. NEPM Sec. 36; E, SE, S, SW, NW 120.00		L-3564 09-16-79	State 12.5%	Kenneth McPeters	NONE		Kenneth McPeters	All
TOTAL: 1,280.00 acres State of New Mexico Lands								


Recapitulation

9,945.31 acres Federal Lands; 88.60% of Unit Area
1,280.00 acres State of New Mexico Lands; 11.40% of Unit Area
11,225.31 acres 100.00% of Unit Area

CONSENT AND RATIFICATION
COAL CREEK UNIT AGREEMENT
SAN JUAN COUNTY, NEW MEXICO

The undersigned, (whether one or more) hereby acknowledges receipt of a copy of the Unit Agreement for the Development and Operation of the Coal Creek Unit Area embracing lands situated in San Juan County, New Mexico, which said Agreement is dated the 22nd day of January, 1975, and acknowledge that they have read the same and are familiar with the terms and conditions thereof. The undersigned, also being the owners of the leasehold, royalty, or other interests in the lands or minerals embraced in said Unit Area, as indicated on the schedule attached to said Unit Agreement as Exhibit "B", do hereby commit all of their said interests to the Coal Creek Unit Agreement and do hereby consent thereto and ratify all of the terms and provisions thereof, exactly the same as if the undersigned had executed the original of said Unit Agreement or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.



Assistant Secretary

KIRBY PETROLEUM CO.

By: _____

Vice President

INDIVIDUAL

1-3-7-10-11-15-16

STATE OF _____

COUNTY OF _____

The foregoing instrument was acknowledged before me this _____ day of _____, 1975, by _____

MY COMMISSION EXPIRES: _____

Notary Public

CORPORATE

STATE OF TEXAS

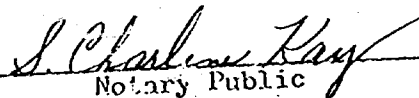
COUNTY OF HARRIS

The foregoing instrument was acknowledged before me this 12th day of February, 1975, by D.P. Ellsworth who is Vice President of Kirby Petroleum Co. a Nevada Corporation,

for and on behalf of said Corporation.

MY COMMISSION EXPIRES: _____

June 1, 1975


Notary Public

CONSENT AND RATIFICATION
COAL CREEK UNIT AGREEMENT
SAN JUAN COUNTY, NEW MEXICO

The undersigned, (whether one or more) hereby acknowledges receipt of a copy of the Unit Agreement for the Development and Operation of the Coal Creek Unit Area embracing lands situated in San Juan County, New Mexico, which said Agreement is dated the 22nd day of January, 1975, and acknowledge that they have read the same and are familiar with the terms and conditions thereof. The undersigned, also being the owners of the leasehold, royalty, or other interests in the lands or minerals embraced in said Unit Area, as indicated on the schedule attached to said Unit Agreement as Exhibit "B", do hereby commit all of their said interests to the Coal Creek Unit Agreement and do hereby consent thereto and ratify all of the terms and provisions thereof, exactly the same as if the undersigned had executed the original of said Unit Agreement or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.

ATTEST:

William G. Solomon
William G. Solomon, Secretary

AQUITAINE OIL CORPORATION

By: Pierre Chaloupy
Pierre Chaloupy, Executive Vice President

1900 Transco Tower
2700 S. Post Oak Road
Houston, Texas 77027

INDIVIDUAL

1-3-7-10-11-15-16

STATE OF _____

COUNTY OF _____

The foregoing instrument was acknowledged before me this _____ day of

_____, 1975, by _____

MY COMMISSION EXPIRES: _____

Notary Public

CORPORATE

STATE OF Texas

COUNTY OF Harris

The foregoing instrument was acknowledged before me this 14th day of February, 1975, by Pierre Chaloupy who is Executive Vice President of Aquitaine Oil Corporation a Delaware Corporation, for and on behalf of said Corporation.

MY COMMISSION EXPIRES:

June 1, 1975

Etzel L. Starnes
Notary Public ETHEL L. STARNES

CONSENT AND RATIFICATION
COAL CREEK UNIT AGREEMENT
SAN JUAN COUNTY, NEW MEXICO

The undersigned, (whether one or more) hereby acknowledges receipt of a copy of the Unit Agreement for the Development and Operation of the Coal Creek Unit Area embracing lands situated in San Juan County, New Mexico, which said Agreement is dated the 22nd day of January, 1975, and acknowledge that they have read the same and are familiar with the terms and conditions thereof. The undersigned, also being the owners of the leasehold, royalty, or other interests in the lands or minerals embraced in said Unit Area, as indicated on the schedule attached to said Unit Agreement as Exhibit "B", do hereby commit all of their said interests to the Coal Creek Unit Agreement and do hereby consent thereto and ratify all of the terms and provisions thereof, exactly the same as if the undersigned had executed the original of said Unit Agreement or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.

ATTEST: 1975 J. F. Hopkins
Assistant Secretary

NATURAL GAS PIPELINE COMPANY OF AMERICA
By Walter B. Verner
Vice President

INDIVIDUAL

1-3-7-10-11-15-16

STATE OF _____
COUNTY OF _____

The foregoing instrument was acknowledged before me this _____ day of _____, 1975, by _____

MY COMMISSION EXPIRES: _____

Notary Public

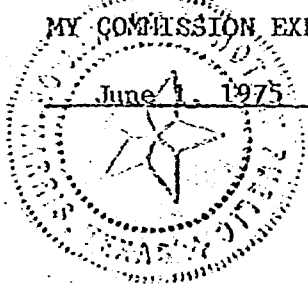
CORPORATE

STATE OF TEXAS
COUNTY OF HARRIS

The foregoing instrument was acknowledged before me this 21st day of February, 1975, by WALTER B. VERNER who is Vice President of NATURAL GAS PIPELINE COMPANY OF AMERICA a Delaware Corporation, for and on behalf of said Corporation.

MY COMMISSION EXPIRES: _____

Bette Chase BETTE CHASE
Notary Public
In and for Harris County, Texas



COAL CREEK UNIT AGREEMENT
COAL CREEK UNIT AREA
SAN JUAN COUNTY, NEW MEXICO

The undersigned, (whether singular or plural) hereby acknowledge receipt of a copy of the Unit Agreement for the Development and Operation of the Coal Creek Unit Area embracing lands situated in San Juan County, New Mexico, which said Agreement is dated the 22nd day of January, 1975, and acknowledge that they have read the same and are familiar with the terms and conditions thereof. The undersigned, also being the owners of the leasehold, royalty, or other interests in the lands or minerals embraced in said Unit Area, as indicated on the schedule attached to said Unit Agreement as Exhibit "B", do hereby commit all of their said interests to the Coal Creek Unit Agreement and do hereby consent thereto and ratify all of the terms and provisions thereof, exactly the same as if the undersigned had executed the original of said Unit Agreement or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.

ATTEST:

Ass'ty Sec.

CHORNEY OIL COMPANY

Vice President

3-10-11-15

Raymond Chorney

INDIVIDUAL

1-7-16

STATE OF COLORADO
CITY &
COUNTY OF DENVER

The foregoing instrument was acknowledged before me this 12th day of

February, 1975, by Raymond Chorney

MY COMMISSION EXPIRES: 9-21-77

Notary Public

CORPORATE

STATE OF COLORADO
CITY &
COUNTY OF DENVER

The foregoing instrument was acknowledged before me this 12th day of

February, 1975, by L. Stanley who is Vice President

of Chorney Oil Company a Wyoming Corporation

MY COMMISSION EXPIRES: 9-21-77

Notary Public

CONSENT AND RATIFICATION
COAL CREEK UNIT AGREEMENT
SAN JUAN COUNTY, NEW MEXICO

The undersigned, (whether one or more) hereby acknowledges receipt of a copy of the Unit Agreement for the Development and Operation of the Coal Creek Unit Area embracing lands situated in San Juan County, New Mexico, which said Agreement is dated the 22nd day of January, 1975, and acknowledge that they have read the same and are familiar with the terms and conditions thereof. The undersigned, also being the owners of the leasehold, royalty, or other interests in the lands or minerals embraced in said Unit Area, as indicated on the schedule attached to said Unit Agreement as Exhibit "B", do hereby commit all of their said interests to the Coal Creek Unit Agreement and do hereby consent thereto and ratify all of the terms and provisions thereof, exactly the same as if the undersigned had executed the original of said Unit Agreement or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.

DELAWARE APACHE CORPORATION

By: Harold Black

Attorney-in-Fact

INDIVIDUAL

2-8-14-22

STATE OF _____

COUNTY OF _____

The foregoing instrument was acknowledged before me this _____ day of

_____, 1975, by _____

MY COMMISSION EXPIRES: _____

Notary Public

CORPORATE

STATE OF Oklahoma

COUNTY OF Tulsa

The foregoing instrument was acknowledged before me this 21st day of

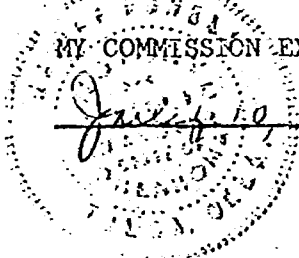
February, 1975, by John H. Black who is Attorney in Fact

of Delaware Apache Corporation a Delaware Corporation,

for and on behalf of said Corporation.

MY COMMISSION EXPIRES: _____

Madeline R. Rouse
Notary Public



CONSENT AND RATIFICATION
COAL CREEK UNIT AGREEMENT
SAN JUAN COUNTY, NEW MEXICO

The undersigned, (whether one or more) hereby acknowledges receipt of a copy of the Unit Agreement for the Development and Operation of the Coal Creek Unit Area embracing lands situated in San Juan County, New Mexico, which said Agreement is dated the 22nd day of January, 1975, and acknowledge that they have read the same and are familiar with the terms and conditions thereof. The undersigned, also being the owners of the leasehold, royalty, or other interests in the lands or minerals embraced in said Unit Area, as indicated on the schedule attached to said Unit Agreement as Exhibit "B", do hereby commit all of their said interests to the Coal Creek Unit Agreement and do hereby consent thereto and ratify all of the terms and provisions thereof, exactly the same as if the undersigned had executed the original of said Unit Agreement or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.

ATTEST:

By James W. Shaw
Assistant Secretary

McALESTER FUEL COMPANY

By M. C. Jones
Vice President

INDIVIDUAL

5-6-19-20-23

STATE OF _____
COUNTY OF _____

The foregoing instrument was acknowledged before me this _____ day of _____, 1975, by _____

MY COMMISSION EXPIRES:

Notary Public

CORPORATE

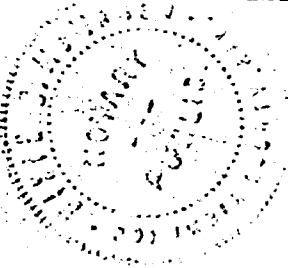
STATE OF ARKANSAS
COUNTY OF COLUMBIA

The foregoing instrument was acknowledged before me this 12th day of February, 1975, by M. C. Jones who is Vice President of McALESTER FUEL COMPANY a Delaware Corporation, for and on behalf of said Corporation.

MY COMMISSION EXPIRES:

8-21-78

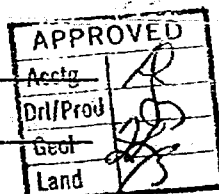
Philip G. M. Maher
Notary Public



CONSENT AND RATIFICATION
COAL CREEK UNIT AGREEMENT
SAN JUAN COUNTY, NEW MEXICO

The undersigned, (whether one or more) hereby acknowledges receipt of a copy of the Unit Agreement for the Development and Operation of the Coal Creek Unit Area embracing lands situated in San Juan County, New Mexico, which said Agreement is dated the 22nd day of January, 1975, and acknowledge that they have read the same and are familiar with the terms and conditions thereof. The undersigned, also being the owners of the leasehold, royalty, or other interests in the lands or minerals embraced in said Unit Area, as indicated on the schedule attached to said Unit Agreement as Exhibit "B", do hereby commit all of their said interests to the Coal Creek Unit Agreement and do hereby consent thereto and ratify all of the terms and provisions thereof, exactly the same as if the undersigned had executed the original of said Unit Agreement or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.



McKNIGHT PETROLEUM TRUST A/K/A MACPET

[Signature]

W. E. Belt, Jr. ATTORNEY-IN-FACT

INDIVIDUAL

5-6-19-20-23

McKNIGHT PETROLEUM TRUST A/K/A MACPET
SUITE 425, ONE GREENWAY PLAZA EAST
HOUSTON, TEXAS 77046

STATE OF _____

COUNTY OF _____

The foregoing instrument was acknowledged before me this _____ day of

_____, 1975, by _____

MY COMMISSION EXPIRES:

Notary Public

CORPORATE

STATE OF _____

COUNTY OF _____

The foregoing instrument was acknowledged before me this _____ day of

_____, 1975, by _____

who is _____

of _____ a _____ Corporation,

for and on behalf of said Corporation.

MY COMMISSION EXPIRES:

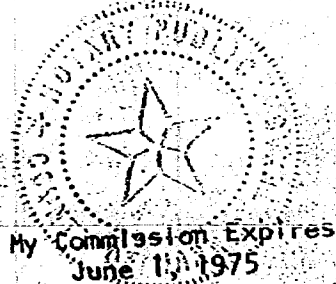
Notary Public

STATE OF TEXAS

COUNTY OF HARRIS

On this 13th day of February, 1975, before me personally appeared W. E. BELT, JR., to me known to be the person who executed the foregoing instrument in behalf of William L. McKnight, Walter N. Trenerry and Charles J. Hess, Trustees of the McKnight Petroleum Trust, a/k/a MACPET, and acknowledged that he executed the same as the free act and deed of said William L. McKnight, Walter N. Trenerry and Charles J. Hess, Trustees of the McKnight Petroleum Trust, a/k/a MACPET.

Witness my hand and official seal on the date set forth above.



Patricia L. Besheer
Patricia L. Besheer, Notary Public in
and for Harris County, Texas

CONSENT AND RATIFICATION
COAL CREEK UNIT AGREEMENT
SAN JUAN COUNTY, NEW MEXICO

The undersigned, (whether one or more) hereby acknowledges receipt of a copy of the Unit Agreement for the Development and Operation of the Coal Creek Unit Area embracing lands situated in San Juan County, New Mexico, which said Agreement is dated the 22nd day of January, 1975, and acknowledge that they have read the same and are familiar with the terms and conditions thereof. The undersigned, also being the owners of the leasehold, royalty, or other interests in the lands or minerals embraced in said Unit Area, as indicated on the schedule attached to said Unit Agreement as Exhibit "B", do hereby commit all of their said interests to the Coal Creek Unit Agreement and do hereby consent thereto and ratify all of the terms and provisions thereof, exactly the same as if the undersigned had executed the original of said Unit Agreement or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.

ATTEST:
BY: Leta J. Bieri
Assistant Secretary

AZTEC OIL & GAS COMPANY
by: Kenneth A. Swanson
Vice President

INDIVIDUAL

STATE OF _____
COUNTY OF _____

The foregoing instrument was acknowledged before me this _____ day of _____, 1975, by _____
MY COMMISSION EXPIRES: _____ Notary Public

CORPORATE

STATE OF Texas
COUNTY OF Dallas

The foregoing instrument was acknowledged before me this 21st day of February, 1975, by Kenneth A. Swanson who is Vice President of Aztec Oil & Gas Company a Delaware Corporation, for and on behalf of said Corporation.

MY COMMISSION EXPIRES:
June 1, 1975

Sue Ellen Perry
Notary Public
SUE ELLEN PERRY, Notary Public
In and for Dallas County, Texas
My Commission Expires June 1, 1975.

CONSENT AND RATIFICATION
COAL CREEK UNIT AGREEMENT
SAN JUAN COUNTY, NEW MEXICO

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IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.

HUSKY OIL COMPANY OF DELAWARE

A. V. Robertson Coe

A. V. R. Coe Attorney-in-Fact

INDIVIDUAL

STATE OF _____

COUNTY OF _____

The foregoing instrument was acknowledged before me this _____ day of

_____, 1975, by _____

MY COMMISSION EXPIRES: _____

Notary Public

CORPORATE

STATE OF Colorado

COUNTY OF Alamosa

The foregoing instrument was acknowledged before me this 21ST day of

February, 1975, by A. V. Robertson Coe who is Attorney in Fact of Husky Oil Co. a Delaware Corporation, for and on behalf of said Corporation.

MY COMMISSION EXPIRES: _____

My Commission Expires Dec. 31, 1973

Douglas J. Jones
Notary Public





OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO
P. O. BOX 2088 - SANTA FE
87501

I. R. TRUJILLO
CHAIRMAN
LAND COMMISSIONER
PHIL R. LUCERO
MEMBER

STATE GEOLOGIST
A. L. PORTER, JR.
SECRETARY - DIRECTOR

February 25, 1975

Mr. Randolph Richardson
Attorney at Law
Post Office Box 819
Roswell, New Mexico 88201

Re: CASE NO. 5416
ORDER NO. R-4966

Applicant:

Tesoro Petroleum

Dear Sir:

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

Very truly yours,

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 X

Other Unit Division - State Land Office

UNITED STATES DEPARTMENT OF THE INTERIOR

GEOLOGICAL SURVEY

Drawer 1857
Roswell, New Mexico 88201

February 27, 1975

Randolph M. Richardson, III
P.O. Box 819
Roswell, New Mexico 88201

Dear Mr. Richardson:

Three copies of a Certificate-Determination instrument approving the
Goel Creek unit agreement, Santa Juan County, New Mexico, with Tesoro
Petroleum Corporation as unit operator, are enclosed herewith. Such
agreement has been assigned No. 14-GS-0001-14178, and is effective as
of February 27, 1975, the date of approval.

You are requested to furnish the New Mexico Oil Conservation Commission
and all other interested principals with evidence of this approval.

Sincerely yours,

(ORIG. SGD.) CARL C. TRAYWICK

CARL C. TRAYWICK
Acting Area Oil and Gas Supervisor

cc:
NMOCC, Santa Fe (ltr only)
Com. Pub. Lands, Santa Fe (ltr only)
Area Geologist, Roswell (ltr only)
Farrington (w/cy agr.)

ARStall:ds

GEOLOGICAL REPORT

OF

PROPOSED COAL CREEK UNIT

SAN JUAN COUNTY, NEW MEXICO

BEFORE EXAMINER NUTTER

OIL CONSERVATION COMMISSION

EXHIBIT NO. 1

CASE NO. 5416

TABLE OF CONTENTS

Exhibits

- A. Regional Index Map
- B. Structure - Dakota B₂ Sand Isopachous Map
- C. Cross Section A-A'

GEOLOGICAL REPORT
OF
PROPOSED COAL CREEK UNIT
SAN JUAN COUNTY, NEW MEXICO

I. Purpose

This report is written for the purpose of briefly summarizing the geological reasons for forming a 17.5 section Federal Unit to drill a 4500' Morrison wildcat test in Section 24, Township 23 North, Range 13 West, San Juan County, New Mexico.

II. Location

The proposed Coal Creek Unit is located five miles north of Tsaya and eight miles west of Tanner Trading Post (Exhibit A). The tentative drillsite is located in the southwest-quarter of Section 24, Township 23 North, Range 13 West. Estimated ground level elevation is 5980'.

The proposed unit area contains 11,225.11 acres and includes the south half of Section 18 and all of Sections 19, 20, 28, 29, 30, 31, 32 and 33, Township 23 North, Range 12 West. It also contains the south half of Sections 13 and 14 and all of Sections 23, 24, 25, 26, 27, 34, 35 and 36, Township 23 North, Range 13 West. The terrain consists of arroyos dissecting mesas and buttes. The vegetation is sparse and of the semi-arid to arid type. The unit area is easily accessible by a gravel road from Bisti to Tsaya.

III. Geology - Dakota Formation

A. General Discussion.

The Coal Creek Unit is located on the south flank of the San Juan Basin in an area geographically known as the Chaco Slope. Approximately 10,500' of Cretaceous, Jurassic, Triassic, Permian, Mississippian and Devonian sediments are present in the area. The proposed wildcat well will penetrate

and test all of the Cretaceous sediments at a depth of 4500'. Anticipated formation tops are:

Lewis formation	Surface
Point Lookout	2061'
Mancos	2273'
Gallup	3117'
Greenhorn	4017'
Dakota "A"	4105'
Dakota "B"	4177'
Dakota "C"	4322'
Morrison	4353'

B. Stratigraphy.

The primary objective is the Dakota B₂ sands. Cross-section A-A' (Exhibit C) has been prepared using the top of the Graneros shale as a datum. This datum was used in interpreting the structural attitude of the Dakota formation in the Coal Creek Unit Area (Exhibit B). The structure map indicates generally an east-west strike and a dip gradient to the north of approximately 100' to the mile. In the area of the Coal Creek Unit there exists a structural nose plunging to the north.

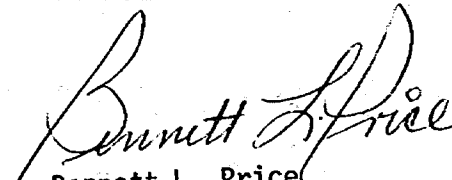
Cross-section A-A' (Exhibit C) illustrates the lack of reservoir quality sands in the Dakota B₂ interval both to the north and south of the Apache #1 Ashcroft well in Section 26, Township 23 North, Range 12 West. As depicted on the attached Structure - Isopachous map (Exhibit B) the Dakota B₂ sand is an elongated marine bar deposited parallel to the structural strike with an east-west trending permeability barrier updip and downdip from the bar deposit. In the Apache #1 Ashcroft there was 14 feet of Dakota B₂ sand developed with 9 feet of good porosity. A drill stem test recovered gas to surface in 18 minutes. The volume was too small to measure. Fluid recovery was 186 feet of oil and 3069 feet of salt water. A completion was not attempted. Tesoro Petroleum drilled up-dip from the Apache #1 Ashcroft in the SE/4 SE/4 of Section 28, Township 23 North, Range 12 West and encountered 9 feet of sand in the Dakota B₂ zone and 4 feet of porosity. A drill stem test of the sand interval recovered gas to surface in 24 minutes at a gauged rate of 11 MCFGPD. Fluid recovery was 440 feet of gas cut mud, 900 feet of mud and gas cut oil and 180 feet water. Tesoro Petroleum attempted a completion of the B₂

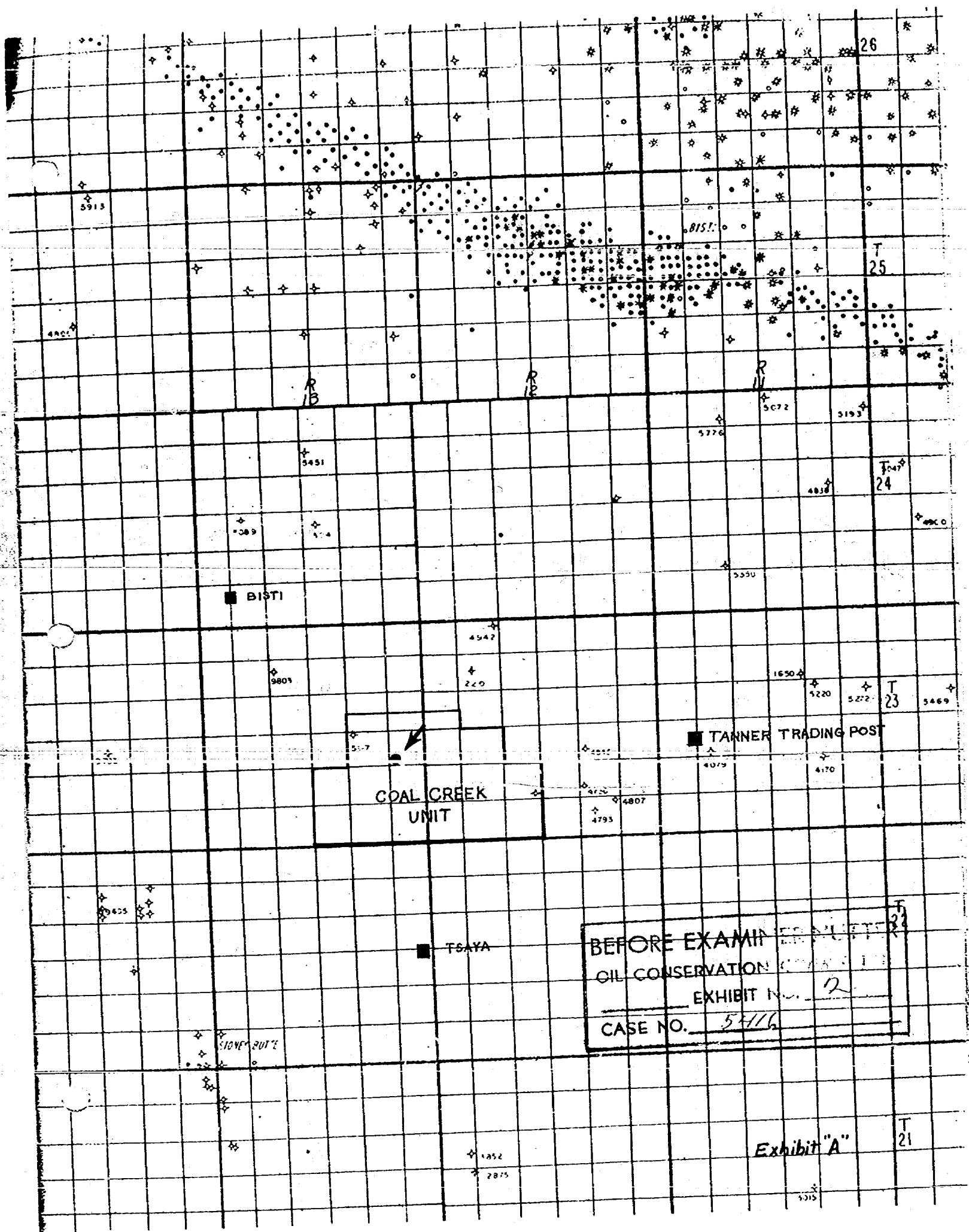
sand. After 5 days of swabbing, the water cut increased to 85%. It was felt that the water was coming from 5 feet of lower B₂ sand and could not be shut off. The well was plugged and abandoned. The Coal Creek Unit location is projected to be above the oil/water contact in the Dakota B₂ sand and should be structurally 210 feet higher than the Tesoro Petroleum well in Section 28. The majority of the prospective producing area will be contained within the proposed Coal Creek Unit.

Summary

The Coal Creek Unit is a Dakota B₂ oil prospect. The unit is located where an elongated marine sand bar crosses a north plunging structural nose. This sand bar is limited to the south (up-dip) by marine shale.

The primary objective of this unit is to encounter clean Dakota B₂ sand structurally high to the Tesoro Petroleum Coal Creek Federal #1 well in Section 28 and the Apache Ashcroft #1 in Section 26, Township 23 North, Range 12 West.


Bennett L. Price
Geologist



BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
February 19, 1975

EXAMINER HEARING

IN THE MATTER OF:

Application of Tesoro Petroleum
Corporation for a unit agreement,
San Juan County, New Mexico.

Case No.
5416

BEFORE: Daniel S. Nutter, Examiner.

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the New Mexico Oil
Conservation Commission:

Thomas Derryberry, Esq.
Legal Counsel for the
Commission
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant:

Randolph M. Richardson, Esq.
Tesoro Petroleum Corporation
Roswell, New Mexico

PRICE

CASE 5416
2

I N D E X

PAGE

BENNETT L. PRICE

3

Direct Examination by Mr. Richardson

E X H I B I T S

Marked

Admitted

Tesoro's Exhibits Nos. 1 through 4

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PRICE-DIRECT

CASE 5416

3

MR. NUTTER: We call the next case, No. 5416.

MR. DERRYBERRY: Case 5416. Application of Tesoro Petroleum Corporation for a unit agreement, San Juan County, New Mexico.

MR. RICHARDSON: Randolph M. Richardson, Roswell, New Mexico, appearing on behalf of Applicant. We have one witness.

(Witness sworn.)

BENNETT L. PRICE

called as a witness, having been first duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. RICHARDSON:

Q Mr. Price, would you please state your name and present occupation?

A I'm Bennett L. Price, Manager of the Western District for Tesoro Petroleum Corporation.

Q Would you please state your educational and professional background which would enable you to testify as a witness in this Case?

A I have a Bachelor of Science Degree from Texas Tech University in Lubbock, Texas; I have been a geologist for 13 years.

Q Are you familiar with the Coal Creek Unit Area and the matters contained in the Application to the Commission for approval of the unit agreement?

A Yes, I am.

MR. RICHARDSON: Are the qualifications acceptable?

MR. NUTTER: Yes, they are.

BY MR. RICHARDSON:

Q Is the form of unit agreement that prescribed by federal regulations?

A Yes, it is.

Q Has the unit area been designated by the United States Geological Survey as an area logically suitable for development under unit plan of operation?

A It has been through the Roswell District USGS Office.

Q It is now in Denver for final designation. Could you please tell the Commission the total number of acres within the unit area and the number and percentages of Federal and State lands?

A There are 11,245.11 acres in the unit area of which 9945.31 acres is Federal acreage and 1280 acres would be State acreage.

Q Could you please tell the Commission the township

PRICE-DIRECT

CASE 5416

5

and range in which the unit is located and the approximate location in reference to the nearest town?

A Okay. The unit is encompassed in Township 23 North, Range 12 and 13 West, San Juan County.

Q Now, would you please refer to the Geological Report which has been handed to the Examiner and refer to Exhibits 1 through 4. Was this report prepared by you or under your direct control and supervision?

A This report was prepared by me.

Q Would you please briefly review the report, referring to the maps by name, and indicating the significance of such maps and their offsets?

A Okay. The report has been designated as Item 1 and I have there Item 2 would be a regional geographic map showing the location of the Coal Creek Unit in respect to geographic areas. Item 3 would be a structure map which is a geological map again showing the unit area and designating the objection formation that we would be looking for in reference to a subsea datum graneros shell. Item 4 would be a cross section of the log that I have used to geologically interpret the Coal Creek Unit. I believe that's all of my Exhibits.

Q Would you please tell the Commission the conclusions

as to the formations likely to be encountered in the prospective zones as to which you're shooting for.

A The prospective zones for the Coal Creek Unit is the Dakota; I've designated it as a B2 sand on the cross section Item 4, and the Dakota Formation would be fully tested with a 4700-foot test. This would penetrate the Dakota Formation and be to the Morrison Formation.

Q Could you give the Commission the projected depth, which you have already done as 4700 feet, and the location for the initial test well.

A The location of the initial test well would be in the southwest southwest of 24, Township 23 North, 13 West.

Q Have the other working-interest owners within the Unit been contacted?

A Yes, they all have been contacted.

Q In your opinion, what percentage of the working interest will be committed?

A By all indications, 95 percent of the working interest participants within the unit area will commit to the unit and I believe that this will all be in by the end of this week.

Q And the royalty will be approximately what percent

committed?

A Approximately 90 percent.

Q In your opinion will the operation of this area under the proposed unit plan of operation be in the interests of conservation and the prevention of waste?

A Yes, it will.

Q In the event of the production will the correlative rights of all parties to the unit be protected?

A Yes, they will be protected.

MR. RICHARDSON: I might add that the unit area, Mr. Examiner, was cut down to some extent due to a lot of Indian allotted land. The yellow structure outlined goes outside the unit area, but most of that is Indian allotted land and we do not have time, we have a Federal lease expiring February 28th, so we have got until February 28th to get the thing approved, which is one reason the unit outline was cut down even though it's overlapping some.

MR. PRICE: I might also add that the -- even though the yellow outline that you see on Exhibit 3 does go outside the unit area, structurally I feel that the 90 percent or 95 percent of the producing area from this Dakota B2 sand would be contained within the unit area.

PRICE-DIRECT

CASE 5416

8

MR. NUTTER: Is there provision made in the unit agreement for expansion of the unit area in the event that it should become desirable?

MR. PRICE: Yes.

MR. RICHARDSON: We would now like to enter Exhibits 1 through 4 into evidence.

MR. NUTTER: Tesoro's Exhibits 1 through 4 will be admitted in evidence.

(Whereupon, Tesoro's Exhibits

Nos. 1 through 4 were admitted into evidence.)

MR. NUTTER: Are there any questions of this witness? If not he may be excused. Do you have anything further, Mr. Richardson?

MR. RICHARDSON: No, sir.


MR. NUTTER: Does anyone have anything they wish to offer in Case No. 5416? We will take the case under advisement.

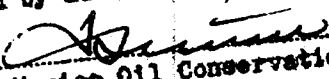
CASE 5416
9

PRICE

STATE OF NEW MEXICO)
COUNTY OF SANTA FE) SS.

I, RICHARD L. NYE, Court Reporter, do hereby certify that the foregoing and attached Transcript of Hearing before the New Mexico Oil Conservation Commission was reported by me, and the same is a true and correct record of the said proceedings, to the best of my knowledge, skill and ability.


RICHARD L. NYE, Court Reporter

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 5416, heard by me on 2/19, 1925.

Examiner
New Mexico Oil Conservation Commission

BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
February 19, 1975

EXAMINER HEARING

IN THE MATTER OF:

Application of Tesoro Petroleum
Corporation for a unit agreement,
San Juan County, New Mexico.

Case No.
5416

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TRANSCRIPT OF HEARING

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Conservation Commission:

Thomas Derryberry, Esq.
Legal Counsel for the
Commission
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant:

Randolph M. Richardson, Esq.
Tesoro Petroleum Corporation
Roswell, New Mexico

PRICE

CASE 5416
2

I N D E X

PAGE

BENNETT L. PRICE

Direct Examination by Mr. Richardson

3

E X H I B I T S

Marked

Admitted

Tesoro's Exhibits Nos. 1 through 4

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8

PRICE-DIRECT

CASE 5416

3

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(Witness sworn.)

BENNETT L. PRICE

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PRICE-DIRECT

CASE 5416
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PRICE-DIRECT

CASE 5416

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PRICE-DIRECT

CASE 5416

7

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PRICE-DIRECT

CASE 5416
8

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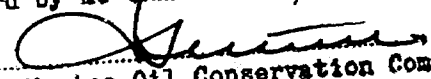
PRICE

CASE 5416
9

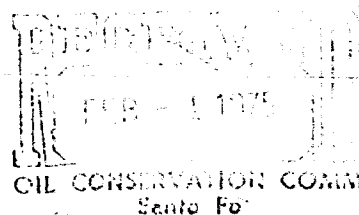
STATE OF NEW MEXICO)
)
COUNTY OF SANTA FE) SS.

I, RICHARD L. NYE, Court Reporter, do hereby certify that the foregoing and attached Transcript of Hearing before the New Mexico Oil Conservation Commission was reported by me, and the same is a true and correct record of the said proceedings, to the best of my knowledge, skill and ability.

RICHARD L. NYE, Court Reporter

I hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 5416 heard by me on 2/19, 1975.
 Examiner
New Mexico Oil Conservation Commission

RANDOLPH M. RICHARDSON
OIL AND GAS LAND AND UNIT CONSULTANT
FEDERAL - STATE - FEE
P. O. BOX 819
ROSWELL, NEW MEXICO 88201



OFFICE 505 622-8801
HOME 505 622-7985

January 31, 1975

Van 5416

Re: Coal Creek Unit Area
T-23-N, R-12, 13-W, NMPM
San Juan County, New Mexico

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

Dear Ida:

I am enclosing three copies of Application for Approval of the Coal Creek Unit Agreement, together with one copy of Unit Agreement.

This Application was prepared, dated, and mailed January 23, 1975. I do not know where it is lost; however, I hope that this reaches you in time. I will check with you Monday, and if nothing else I will send another copy of the Application by someone going to the hearing on the 5th. Thank you very much.

Yours very truly,

A handwritten signature in cursive script, appearing to read "R. M. Richardson".

R. M. Richardson

RMR:gr

Enc.

DOCKET MAILED

Date 2-7-75

BEFORE THE OIL CONSERVATION COMMISSION
STATE OF NEW MEXICO

APPLICATION FOR APPROVAL OF
COAL CREEK UNIT AGREEMENT
SAN JUAN COUNTY, NEW MEXICO

New Mexico Oil Conservation Commission
Santa Fe, New Mexico 87501

Page 5-416

Comes the undersigned Tesoro Petroleum Corporation with the offices at Denver, Colorado, and files herewith one (1) copy of the proposed Unit Agreement for the development and operation of the Coal Creek Unit Area, San Juan County, New Mexico, and hereby makes application for the approval of said Unit Agreement as provided by law, and in support thereof, states:

1. That the proposed Unit Area covered by said Agreement embraces 11,225.11 acres of land, more or less, more particularly described as follows:

T-23-N, R-12-W, NMPM		T-23-N, R-13-W, NMPM	
Section 18:	S½	Section 13:	S½
Section 19, 20:	All	Section 14:	S½
Sections 28, 29, 30:	All	Sections 23, 24:	All
Sections 31, 32, 33:	All	Sections 25, 26, 27:	All
		Sections 34, 35, 36:	All

San Juan County, New Mexico

2. That of the lands embraced within the proposed Unit, 9,945.11 acres are lands of the United States, being 88.60% of the Area and 1,280.00 acres are State of New Mexico lands being 11.40% of the Area.

3. That Applicant is informed and believes, and upon such information and belief states, that the proposed unit area covers all or substantially all of the geological features involved, and that in the event of a discovery of oil or gas thereon, that said Unit Agreement will permit the producing area to be developed and operated in the interest of conservation and the prevention of waste of the unitized substances.

4. That Tesoro Petroleum Corporation is designated as the Unit Operator in said Unit Agreement, and, as such, is given authority under the terms thereof to carry on all operations necessary for the development and operation of the Unit Area for oil and gas subject to all applicable laws and regulations. That said Unit Agreement provides for the drilling of an Initial Test Well to a depth sufficient to test the Dakota Formation, but applicant is not obligated to drill said well in any event to a depth in excess of 4,700 feet.

5. That applicant believes that in the event oil or gas is discovered in paying quantities on lands within the Unit Area, that the field or area can be developed more economically and efficiently under the terms of said Unit Agreement, to the end that maximum recovery will be obtained of unitized substances and that said Unit Agreement is in the interest of conservation of prevention of waste as contemplated by the New Mexico Oil Conservation rules and regulations.

6. That Application for Approval of said Unit Agreement is being filed with the Commissioner of Public Lands.

7. That upon an order being entered by the New Mexico Oil Conservation Commission approving said Unit Agreement, and after approval by the United States Department of Interior, an approved copy will be filed with the New Mexico Oil Conservation Commission.

WHEREFORE, the undersigned applicant respectfully requests that a hearing be held before an examiner of the matter of said Unit Agreement, and that upon said hearing, said Unit Agreement be approved by the New Mexico Oil Conservation Commission as being in the interest of conservation and the prevention of waste. Applicant respectfully requests that this matter be heard at the first available hearing following this date.

DATED this 23rd day of January, 1975.

TESORO PETROLEUM CORPORATION

BY

Randolph M. Richardson
Randolph M. Richardson
Attorney at Law
P. O. Box 819
Roswell, New Mexico 88201

BEFORE THE OIL CONSERVATION COMMISSION
STATE OF NEW MEXICO

APPLICATION FOR APPROVAL OF
COAL CREEK UNIT AGREEMENT
SAN JUAN COUNTY, NEW MEXICO

New Mexico Oil Conservation Commission
Santa Fe, New Mexico 87501

Case 5416

Comes the undersigned Tesoro Petroleum Corporation with the offices at Denver, Colorado, and files herewith one (1) copy of the proposed Unit Agreement for the development and operation of the Coal Creek Unit Area, San Juan County, New Mexico, and hereby makes application for the approval of said Unit Agreement as provided by law, and in support thereof, states:

1. That the proposed Unit Area covered by said Agreement embraces 11,225.11 acres of land, more or less, more particularly described as follows:

<u>T-23-N, R-12-W, NMPM</u>		<u>T-23-N, R-13-W, NMPM</u>	
Section 18:	S½	Section 13:	S½
Section 19, 20:	All	Section 14:	S½
Sections 28, 29, 30:	All	Sections 23, 24:	All
Sections 31, 32, 33:	All	Sections 25, 26, 27:	All
		Sections 34, 35, 36:	All

San Juan County, New Mexico

2. That of the lands embraced within the proposed Unit, 9,945.11 acres are lands of the United States, being 88.60% of the Area and 1,280.00 acres are State of New Mexico lands being 11.40% of the Area.

3. That Applicant is informed and believes, and upon such information and belief states, that the proposed unit area covers all or substantially all of the geological features involved, and that in the event of a discovery of oil or gas thereon, that said Unit Agreement will permit the producing area to be developed and operated in the interest of conservation and the prevention of waste of the unitized substances.

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BEFORE THE OIL CONSERVATION COMMISSION
STATE OF NEW MEXICO

APPLICATION FOR APPROVAL OF
COAL CREEK UNIT AGREEMENT
SAN JUAN COUNTY, NEW MEXICO

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New Mexico Oil Conservation Commission
Santa Fe, New Mexico 87501

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Section 19, 20:	All	Section 14:	S½
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San Juan County, New Mexico

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DATED this 23rd day of January, 1975.

TESORO PETROLEUM CORPORATION

BY 
Randolph M. Richardson

STATE OF NEW MEXICO LANDS

22.	T-23-N, R-12-W, NMPM Sec. 32; All	640.00	K-4940-1 04-20-75	State 12.5%	Delaware-Apache Corp.	Raymond Chorney	3.5%	Delaware-Apache Corp.	All
23.	T-23-N, R-13-W, NMPM Sec. 36; NE 1/4, SE 1/4, SW 1/4, W 1/2 SW 1/4	520.00	K-4941-5 04-20-75	State 12.5%	McKnight Pet. Trust McAlester Fuel Co. - 25.00%	Raymond Chorney J. A. Johnson	3.5% 1.0%	McKnight Petroleum Trust McAlester Fuel Company	75.00% 25.00%
24.	T-23-N, R-13-W, NMPM Sec. 36; E 1/2 SW 1/4, SW 1/4	120.00	L-3564 09-16-79	State 12.5%	Kenneth McPeters	NONE		Kenneth McPeters	All
TOTAL: 1,280.00 acres State of New Mexico Lands									

Recapitulation

9,945.11 acres Federal Lands; 88.60% of Unit Area
 1,280.00 acres State of New Mexico Lands; 11.40% of Unit Area
 11,225.11 acres 100.00% of Unit Area

Examiner Hearing - Wednesday - February 19, 1975

Docket No. 5-75
-4-

CASE 5428: Application of Amax Chemical Corporation for the extension of the Potash-Oil Area, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks the extension of the Potash-Oil Area in Eddy County, New Mexico, as defined by Order No. R-11-A, as amended, by the addition of the following described lands:

TOWNSHIP 19 SOUTH, RANGE 29 EAST

Section 13: S/2 SE/4
Section 14: W/2 SW/4
Section 23: N/2 NW/4, SE/4 NW/4, S/2 NE/4
Section 24: NW/4, W/2 NE/4, NE/4 NE/4

TOWNSHIP 19 SOUTH, RANGE 30 EAST

Section 14: W/2 NE/4
Section 18: SW/4

9945.11 Fed
1280.00 St
11.225
11.225.11
88.60 Fed
11.40 State
99.453 Fed

- CASE 5423: Application of Cities Service Oil Company for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in formations of Pennsylvanian age or older underlying the W/2 of Section 29, Township 21 South, Range 27 East, Eddy County, New Mexico, to be dedicated to a well to be drilled at an orthodox location within the spacing unit. Also to be considered will be the cost of drilling and completing said well and the allocation of such costs, as well as actual operating costs and charges for supervision. Also to be considered is the designation of the applicant as the operator of the well and a charge for the risk involved in drilling said well.
- CASE 5424: Application of Cities Service Oil Company for a unit agreement, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the Dark Canyon Unit Area, comprising 2560 acres, more or less, of State lands in Township 23 South, Range 25 East, Eddy County, New Mexico.
- CASE 5425: Application of Continental Oil Company for an unorthodox location and simultaneous dedication, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the simultaneous dedication of a non-standard 480-acre gas proration unit comprising the W/2 of Section 13 and the E/2 E/2 of Section 14, Township 21 South, Range 36 East, Eumont Gas Pool, Lea County, New Mexico, to its Lockhart B Wells Nos. 4 and 8, located at unorthodox locations in Units H and P, respectively, of Section 13, and to its Lockhart B Well No. 7, at an unorthodox location in Unit D of said Section 14. Applicant further seeks approval for the simultaneous dedication of a 320-acre non-standard gas proration unit comprising the S/2 of Section 12, Township 19 South, Range 36 East, Eumont Gas Pool, Lea County, New Mexico, to its State KN-12 Wells Nos. 1 and 2, located at unorthodox locations in Units P and N, respectively, of said Section 12.
- CASE 5426: Application of Continental Oil Company for an unorthodox gas well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of its Bell Lake Unit Well No. 16 to be drilled 660 feet from the North and East lines of Section 7, Township 24 South, Range 34 East, South Bell Lake-Morrow Gas Pool, Lea County, New Mexico, the N/2 of said Section 7 to be dedicated to said well.
- CASE 5427: Application of Penroc Oil Corporation for a dual completion, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the dual completion (conventional) of its Allied B Com Well No. 1, located in Unit K of Section 27, Township 20 South, Range 27 East, Eddy County, New Mexico, in such a manner as to produce oil from the Bone Springs formation through tubing and gas from the Morrow formation through the casing-tubing annulus by means of a cross-over assembly.

- CASE 5417: Application of Atlantic Richfield Company for a non-standard gas proration unit, two unorthodox locations, and simultaneous dedication, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for a 640-acre non-standard gas proration unit comprising the S/2 of Section 24 and the N/2 of Section 25, both in Township 22 South, Range 36 East, Jalmat Gas Pool, Lea County, New Mexico, to be simultaneously dedicated to its McDonald State WN Wells Nos. 12 and 24, located, respectively, at unorthodox locations in Unit M of Section 24, and in Unit E of Section 25.
- CASE 5418: Application of Joel B. Burr, Jr. and William J. Cooley for permission to flare casinghead gas, McKinley County, New Mexico. Applicants, in the above-styled cause, seek an exception to Order No. R-4070, to permit the flaring of casinghead gas produced by their Coleman Well No. 2, located in Unit C of Section 8, Township 17 North, Range 8 West, Lone Pine Dakota D Oil Pool, McKinley County, New Mexico.
- CASE 5419: Application of J. Gregory Merrión & Robert L. Bayless for downhole commingling, Rio Arriba County, New Mexico. Applicants, in the above-styled cause, seek authority to commingle Gavilan-Pictured Cliffs and Blanco-Mesaverde production in the wellbore of their North Lindrith Unit Com Well No. 1, located in Unit M of Section 20, Township 26 North, Range 2 West, Rio Arriba County, New Mexico.
- CASE 5420: Application of Texaco, Inc., for salt water disposal, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to convert its New Mexico "DM" State (NCT-1) Well No. 1, located in Unit N of Section 21, Township 13 South, Range 33 East, Lazy J Pennsylvanian Pool, Lea County, New Mexico, to dispose of produced salt water into the Pennsylvanian formation through the perforated interval from approximately 9742 to 9792 feet.
- CASE 5421: Application of Texaco, Inc., for downhole commingling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to commingle Justis Tubb-Drinkard and North Justis-Fusselman production in the wellbore of its G. L. Erwin "B" Federal Well No. 3, located in Unit I of Section 35, Township 24 South, Range 37 East, Lea County, New Mexico.
- CASE 5422: Application of Hilliard Oil and Gas, Inc., for special pool rules, Lea County, New Mexico. Applicant, in the above-styled cause, seeks the promulgation of temporary special rules for the EK-Bone Springs Pool, in Township 18 South, Range 34 East, Lea County, New Mexico, including a provision for 80-acre spacing and proration units.
- CASE 5122: (Reopened) (Continued from the January 22, 1975, Examiner Hearing)
- In the matter of Case 5122 being reopened pursuant to the provisions of Order No. R-4693, which order established temporary special pool rules for the East Lusk-Wolfcamp Oil Pool, Lea County, New Mexico, including a provision for 160-acre spacing and proration units and a limiting gas-oil ratio of 4000 to 1. All interested parties may appear and show cause why said pool should not be developed on 40-acre spacing and proration units with a limiting gas-oil ratio of 2000 to 1.

Dockets Nos. 6-75 and 7-75 are tentatively set for hearing on March 5 and March 19, 1975. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - WEDNESDAY - FEBRUARY 19, 1975

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 March, 1975, from seventeen prorated pools in Lea, Eddy, Chaves and Roosevelt Counties, New Mexico.
 - (2) Consideration of the allowable production of gas for March, 1975, from five prorated pools in San Juan, Rio Arriba, and Sandoval Counties, New Mexico.
 - (3) Consideration of purchaser's nominations for the one-year period beginning April 1, 1975, for both of the above areas.

CASE 5402: (Continued from the January 22, 1975 Examiner Hearing)

In the matter of the hearing called by the Oil Conservation Commission on its own motion to permit Tyra & Tyra, Fidelity and Deposit Company of Maryland and all other interested parties to appear and show cause why the Tyra & Tyra BTA Lulu Well No. 1 located in Unit C of Section 22, Township 9 South, Range 35 East, Lea County, New Mexico, should not be plugged and abandoned in accordance with a Commission-approved plugging program.

CASE 5415: Application of Burk Royalty Co. for a unit agreement, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks approval for the Double L Queen Unit Area, comprising 2670 acres, more or less, of Federal, State, and fee lands in Townships 14 and 15 South, Ranges 29 and 30 East, Chaves County, New Mexico.

CASE 5416: Application of Tesoro Petroleum Corporation for a unit agreement, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval for the Coal Creek Unit Area comprising 11,225 acres, more or less, of State and Federal lands in Township 23 North, Ranges 12 and 13 West, San Juan County, New Mexico.

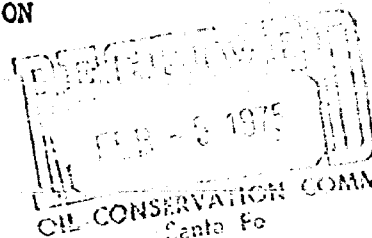
CASE 5409: (Continued from the February 5, 1975, Examiner Hearing)

Application of Atlantic Richfield Company for a non-standard gas proration unit, an unorthodox gas well location, and simultaneous dedication, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval of a 320-acre non-standard gas proration unit comprising the SE/4 of Section 12 and the NE/4 of Section 13, both in Township 24 South, Range 36 East, Jalmat Gas Pool, Lea County, New Mexico, to be simultaneously dedicated to its George W. Toby WN Wells Nos. 4, 1, and 1-A, located, respectively, in Units A and H of said Section 12 and in Unit A of said Section 13.

*2nd Appli.
sent in*

BEFORE THE OIL CONSERVATION COMMISSION
STATE OF NEW MEXICO

APPLICATION FOR APPROVAL OF
COAL CREEK UNIT AGREEMENT
SAN JUAN COUNTY, NEW MEXICO



New Mexico Oil Conservation Commission
Santa Fe, New Mexico 87501

Comes the undersigned Tesoro Petroleum Corporation with the offices at Denver, Colorado, and files herewith one (1) copy of the proposed Unit Agreement for the development and operation of the Coal Creek Unit Area, San Juan County, New Mexico, and hereby makes application for the approval of said Unit Agreement as provided by law, and in support thereof, states:

1. That the proposed Unit Area covered by said Agreement embraces 11,225.11 acres of land, more or less, more particularly described as follows:

<u>T-23-N, R-12-W, NMPM</u>		<u>T-23-N, R-13-W, NMPM</u>	
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San Juan County, New Mexico

2. That of the lands embraced within the proposed Unit, 9,945.11 acres are lands of the United States, being 88.60% of the Area and 1,280.00 acres are State of New Mexico lands being 11.40% of the Area.

3. That Applicant is informed and believes, and upon such information and belief states, that the proposed unit area covers all or substantially all of the geological features involved, and that in the event of a discovery of oil or gas thereon, that said Unit Agreement will permit the producing area to be developed and operated in the interest of conservation and the prevention of waste of the unitized substances.

4. That Tesoro Petroleum Corporation is designated as the Unit Operator in said Unit Agreement, and, as such, is given authority under the terms thereof to carry on all operations necessary for the development and operation of the Unit Area for oil and gas subject to all applicable laws and regulations. That said Unit Agreement provides for the drilling of an Initial Test Well to a depth sufficient to test the Dakota Formation, but applicant is not obligated to drill said well in any event to a depth in excess of 4,700 feet.

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6. That Application for Approval of said Unit Agreement is being filed with the Commissioner of Public Lands.

7. That upon an order being entered by the New Mexico Oil Conservation Commission approving said Unit Agreement, and after approval by the United States Department of Interior, an approved copy will be filed with the New Mexico Oil Conservation Commission.

WHEREFORE, the undersigned applicant respectfully requests that a hearing be held before an examiner of the matter of said Unit Agreement, and that upon said hearing, said Unit Agreement be approved by the New Mexico Oil Conservation Commission as being in the interest of conservation and the prevention of waste. Applicant respectfully requests that this matter be heard at the first available hearing following this date.

DATED this 23rd day of January, 1975.

TESORO PETROLEUM CORP.

BY:

Randolph M. Richards
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Attorney at Law
P. O. Box 819

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STATE OF NEW MEXICO

APPLICATION FOR APPROVAL OF
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New Mexico Oil Conservation Commission
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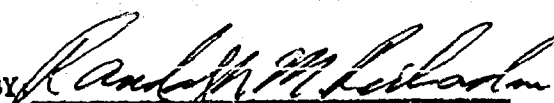
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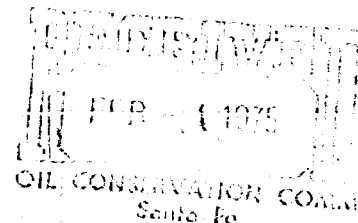
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DATED this 23rd day of January, 1975.

TESORO PETROLEUM CORPORATION

BY 
Randolph B. Richardson
Attorney at Law

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
COAL CREEK UNIT AREA
COUNTY OF SAN JUAN
STATE OF NEW MEXICO
NO. 5-416



THIS AGREEMENT, entered into as of the 22nd day of January,
1975, by and between the parties subscribing, ratifying, or consenting hereto,
and herein referred to as the "parties hereto,"

W I T N E S S E T H :

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

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

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is
authorized by an Act of the Legislature (Sec. 7-11-29 N.M. Statutes 1953 Annotated)
to consent to or approve this agreement on behalf of the State of New Mexico, insofar
as it covers and includes lands and mineral interest of the State of New Mexico; and,

WHEREAS, the Oil Conservation Commission of the State of New Mexico is author-
ized by an Act of the Legislature (Chapter 72, Laws of 1935, as amended by Chapter
193, Laws of 1937; Chapter 166, Laws of 1941; and Chapter 168, Laws of 1949) to ap-
prove this agreement and the conservation provisions hereof; and,

WHEREAS, the parties hereto hold sufficient interests in the _____
Coal Creek Unit Area covering the land hereinafter des-
cribed to give reasonably effective control of operations therein; and

WHEREAS, it is the purpose of the parties hereto to conserve natural resources,
prevent waste, and secure other benefits obtainable through development and operation
of the area subject to this agreement under the terms, conditions, and limitations

herein set forth;

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

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

2. UNIT AREA. The following described land is hereby designated and recognized as constituting the unit area:

<u>T-23-N, R-12-W, NMPM</u>	
Section 18:	S $\frac{1}{2}$
Section 19, 20:	All
Sections 28, 29, 30:	All
Sections 31, 32, 33:	All

<u>T-23-N, R-13-W, NMPM</u>	
Section 13:	S $\frac{1}{2}$
Section 14:	S $\frac{1}{2}$
Sections 23, 24:	All
Sections 25, 26, 27:	All
Sections 34, 35, 36:	All

Containing 11,225.11 acres MOL

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

hereinafter referred to as "Land Commissioner," and not less than five (5) copies of the revised Exhibits shall be filed with the Supervisor and one (1) copy thereof shall be filed with the Land Commissioner, and one (1) copy with the New Mexico Oil Conservation Commission, hereinafter referred to as "State Commission."

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

(a) Unit Operator, on its own motion or on demand of the Director of the Geological Survey, hereinafter referred to as "Director," or on demand of the Land Commissioner, after preliminary concurrence by the Director, shall prepare a notice of proposed expansion or contraction describing the contemplated changes in the boundaries of the unit area, the reasons therefor, and the proposed effective date thereof, preferably, the first day of a month subsequent to the date of notice.

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

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

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

(e) All legal subdivisions of lands (i.e., 40 acres by Government survey or its nearest lot or tract equivalent; in instances of irregular surveys unusually large lots or tracts shall be considered in multiples of 40 acres or the nearest aliquot equivalent thereof), no parts of which are entitled to be in a participating area on or before the fifth anniversary of the effective date of the first initial participating area established under this unit agreement, shall be eliminated automatically from this agreement, effective as of said fifth anniversary, and such lands

shall no longer be a part of the unit area and shall no longer be subject to this agreement, unless diligent drilling operations are in progress on unitized lands not entitled to participation on said fifth anniversary, in which event all such lands shall remain subject hereto for so long as such drilling operations are continued diligently, with not more than 90 days' time elapsing between the completion of one such well and the commencement of the next such well. All legal subdivisions of lands not entitled to be in a participating area within 10 years after the effective date of the first initial participating area approved under this agreement shall be automatically eliminated from this agreement as of said tenth anniversary. All lands proved productive by diligent drilling operations after the aforesaid five-year period shall become participating in the same manner as during said five-year period. However, when such diligent drilling operations cease, all non-participating lands shall be automatically eliminated effective as of the 91st day thereafter. The unit operator shall within 90 days after the effective date of any elimination hereunder, describe the area so eliminated to the satisfaction of the Supervisor and the Land Commissioner and promptly notify all parties in interest.

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

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

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

4. UNIT OPERATOR. Tesoro Petroleum Corporation
is hereby designated as Unit Operator and by signature hereto as Unit Operator

agrees and consents to accept the duties and obligations of Unit Operator for the discovery, development, and production of unitized substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in the capacity and not as an owner of interest in unitized substances, and the term "working-interest owner" when used shall include or refer to Unit Operator as the owner of a working interest when such an interest is owned by it.

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

Unit Operator shall have the right to resign in like manner and subject to like limitations as above provided at any time a participating area established hereunder is in existence, but, in all instances of resignation or removal, until a successor unit operator is selected and approved as hereinafter provided, the working-interest owners shall be jointly responsible for performance of the duties of unit operator, and shall not later than 30 days before such resignation or removal becomes effective appoint a common agent to represent them in any action to be taken hereunder.

The resignation of Unit Operator shall not release Unit Operator from any liability for any default by it hereunder occurring prior to the effective date of its resignation.

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

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

6. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall tender his or its resignation as Unit Operator or shall be removed as hereinabove provided, or a change of Unit Operator is negotiated by working-interest owners, the owners of the working interests in the participating area or areas according to their respective acreage interests in such participating area or areas, or until a participating area shall have been established, the owners of the working interests according to their respective acreage interests in all unitized land, shall by majority vote select a successor Unit Operator: Provided, That, if a majority but less than 75 per cent of the working interests qualified to vote are owned by one party to this agreement, a concurring vote of one or more additional working interest owners shall be required to select a new operator. Such selection shall not become effective until

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

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

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

7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. If the Unit Operator is not the sole owner of working interests, costs, and expenses incurred by Unit Operator in conducting unit operations hereunder shall be paid and apportioned among and borne by the owners of working interests, all in accordance with the agreement or agreements entered into by and between the Unit Operator and the owners of working interests, whether one or more, separately or collectively. Any agreement or agreements entered into between the working-interest owners and the

Unit Operator as provided in this section, whether one or more, are herein referred to as the "unit operating agreement." Such unit operating agreement shall also provide the manner in which the working-interest owners shall be entitled to receive their respective proportionate and allocated share of the benefits accruing hereto in conformity with their underlying operating agreements, leases, or other independent contracts, and such other rights and obligations as between Unit Operator and the working-interest owners as may be agreed upon by Unit Operator and the working-interest owners; however, no such unit operating agreement shall be deemed either to modify any of the terms and conditions of this unit agreement or to relieve the Unit Operator of any right or obligation established under this unit agreement, and in case of any inconsistency or conflict between this unit agreement and the unit operating agreement, this unit agreement shall govern. Three true copies of any unit operating agreement executed pursuant to this section should be filed with the Supervisor and one true copy with the Land Commissioner, prior to approval of this unit agreement.

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

9. DRILLING TO DISCOVERY. Within six (6) months after the effective date hereof, the Unit Operator shall begin to drill an adequate test well at a location approved by the Supervisor, if on Federal land, or by the Land Commissioner, if on State land, ~~unless on such effective date a well is being drilled conformably with the terms hereof, and thereafter continue such drilling diligently until the~~ Dakota Formation has been tested, or until at a lesser

depth unitized substances shall be discovered which can be produced in paying

quantities (to-wit: quantities sufficient to repay the costs of drilling, completing and producing operations, with a reasonable profit) or the Unit Operator shall, at any time, establish to the satisfaction of the Supervisor if on Federal land, or the Land Commissioner if on State land, that further drilling of said well would be unwarranted or impracticable; provided, however, that Unit Operator shall not, in any event, be required to drill said well to a depth in excess of 4,700 feet. Until the discovery of a deposit of unitized substances capable of being produced in paying quantities, the Unit Operator shall continue drilling diligently one well at a time, allowing not more than six (6) months between the completion of one well and the beginning of the next well, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of said Supervisor if it be on Federal land or of the Land Commissioner if on State land, or until it is reasonably proved that the unitized land is incapable of producing unitized substances in paying quantities in the formations drilled hereunder. Nothing in this section shall be deemed to limit the right of the Unit Operator to resign as provided in Section 5 hereof, or as requiring Unit Operator to commence or continue any drilling during the period pending such resignation becoming effective in order to comply with the requirements of this section. The Director and Land Commissioner may modify the drilling requirements of this section by granting reasonable extensions of time when, in their opinion, such action is warranted.

Upon failure to commence any well provided for in this section within the time allowed, including any extension of time granted by the Supervisor and the Land Commissioner, this agreement will automatically terminate; upon failure to continue drilling diligently any well commenced hereunder, the Supervisor and the Land Commissioner may, after 15-days notice to the Unit Operator, declare this unit agreement terminated.

10. PLAN OF FURTHER DEVELOPMENT AND OPERATION. Within six (6) months after completion of a well capable of producing unitized substances in paying quantities, the Unit Operator shall submit for the approval of the Supervisor and the Land Commissioner an acceptable plan of development and operation for the unitized land which, when approved by the Supervisor and the Land Commissioner, shall constitute the further drilling and operating obligations of the Unit Operator under this agreement for the period specified therein. Thereafter, from time to time before the expiration of any existing plan, the Unit Operator shall submit

for the approval of the Supervisor and the Land Commissioner a plan for an additional specified period for the development and operation of the unitized land.

Any plan submitted pursuant to this section shall provide for the exploration of the unitized area and for the diligent drilling necessary for determination of the area or areas thereof capable of producing unitized substances in paying quantities in each and every productive formation and shall be as complete and adequate as the Supervisor and the Land Commissioner may determine to be necessary for timely development and proper conservation of the oil and gas resources of the unitized area and shall:

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

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

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

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

11. PARTICIPATION AFTER DISCOVERY. Upon completion of a well capable of producing unitized substances in paying quantities or as soon thereafter as required by the Supervisor or the Land Commissioner, the Unit Operator shall submit for approval by the Supervisor and the Land Commissioner a schedule, based on subdivisions of the public-land survey or aliquot parts thereof, of all land then regarded as reasonably proved to be productive in paying quantities; all lands in said schedule on approval of the Supervisor and the Land Commissioner to constitute a participating area, effective as of the date of completion of such well or the

effective date of this unit agreement, whichever is later. The acreages of both Federal and non-Federal lands shall be based upon appropriate computations from the courses and distances shown on the last approved public-land survey as of the effective date of each initial participating area. Said schedule shall also set forth the percentage of unitized substances to be allocated as herein provided to each tract in the participating area so established, and shall govern the allocation of production commencing with the effective date of the participating area. A separate participating area shall be established for each separate pool or deposit of unitized substances or for any group thereof which is produced as a single pool or zone, and any two or more participating areas so established may be combined into one, on approval of the Supervisor and the Land Commissioner. When production from two or more participating areas, so established, is subsequently found to be from a common pool or deposit said participating areas shall be combined into one effective as of such appropriate date as may be approved or prescribed by the Supervisor and the Land Commissioner. The participating area or areas so established shall be revised from time to time, subject to like approval, to include additional land then regarded as reasonably proved to be productive in paying quantities or necessary for unit operations, or to exclude land then regarded as reasonably proved not to be productive in paying quantities and the schedule of allocation percentages shall be revised accordingly. The effective date of any revision shall be the first of the month in which is obtained the knowledge or information on which such revision is predicated, provided, however, that a more appropriate effective date may be used if justified by the Unit Operator and approved by the Supervisor and the Land Commissioner. No land shall be excluded from a participating area on account of depletion of the unitized substances, except that any participating area established under the provisions of this unit agreement shall terminate automatically whenever all completions in the formation on which the participating area is based are abandoned.

It is the intent of this section that a participating area shall represent the area known or reasonably estimated to be productive in paying quantities; but regardless of any revision of the participating area, nothing herein contained shall be construed as requiring any retroactive adjustment for production obtained prior to the effective date of the revision of the participating area.

In the absence of agreement at any time between the Unit Operator and the Supervisor and the Land Commissioner as to the proper definition or redefinition

of a participating area, or until a participating area has, or areas have, been established as provided herein, the portion of all payments affected thereby shall be impounded in a manner mutually acceptable to the owners of working interests and the Supervisor and the Land Commissioner. Royalties due the United States shall be determined by the Supervisor for Federal lands and the Land Commissioner for the State lands and the amount thereof shall be deposited, as directed by the Supervisor and the Land Commissioner, to be held as unearned money until a participating area is finally approved and then applied as earned or returned in accordance with a determination of the sum due as Federal and State royalty on the basis of such approved participating area.

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

12. ALLOCATION OF PRODUCTION. All unitized substances produced from each participating area established under this agreement, except any part thereof used in conformity with good operating practices within the unitized area for drilling, operating, camp, and other production or development purposes, for repressuring or recycling in accordance with a plan of development approved by the Supervisor and Land Commissioner, or unavoidably lost, shall be deemed to be produced equally on an acreage basis from the several tracts of unitized land of the participating area established for such production and, for the purpose of determining any benefits accruing under this agreement, each such tract of unitized land shall have allocated to it such percentage of said production as the number of acres of such tract included in said participating area bears to the total acres of unitized land in said participating area, except that allocation of production hereunder for purposes other than for settlement of the royalty, overriding royalty, or payment out of production obligations of the respective working-interest owners, shall be on the basis prescribed in the unit operating agreement whether in conformity with the basis of allocation herein set forth or otherwise. It is hereby

agreed that production of unitized substances from a participating area shall be allocated as provided herein regardless of whether any wells are drilled on any particular part or tract of said participating area. If any gas produced from one participating area is used for repressuring or recycling purposes in another participating area, the first gas withdrawn from such last-mentioned participating area for sale during the life of this agreement shall be considered to be the gas so transferred until an amount equal to that transferred shall be so produced for sale and such gas shall be allocated to the participating area from which initially produced as such area was last defined at the time of such final production.

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

If any well drilled as aforesaid by a working-interest owner results in production such that the land upon which it is situated may properly be included in a participating area, such participating area shall be established or enlarged as provided in this agreement and the well shall thereafter be operated by the Unit Operator in accordance with the terms of this agreement and the unit operating agreement.

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

14. ROYALTY SETTLEMENT. The United States and any State and any royalty owner who is entitled to take in kind a share of the substances now unitized hereunder shall hereafter be entitled to the right to take in kind its share of the unitized substances, and the Unit Operator, or the working-interest owner in case

of the operation of a well by a working-interest owner as herein provided for in special cases, shall make deliveries of such royalty share taken in kind in conformity with the applicable contracts, laws, and regulations. Settlement for royalty interest not taken in kind shall be made by working-interest owners responsible therefor under existing contracts, laws, and regulations, or by the Unit Operator, on or before the last day of each month for unitized substances produced during the preceding calendar month; provided, however, that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any royalties due under their leases.

If gas obtained from lands not subject to this agreement is introduced into any participating area hereunder, for use in repressuring, stimulation of production, or increasing ultimate recovery, in conformity with a plan of operations approved by the Supervisor and the Land Commissioner, a like amount of gas, after settlement as herein provided for any gas transferred from any other participating area and with appropriate deduction for loss from any cause, may be withdrawn from the formation into which the gas is introduced, royalty free as to dry gas, but not as to any products which may be extracted therefrom; provided that such withdrawal shall be at such time as may be provided in the approved plan of operations or as may otherwise be consented to by the Supervisor and the Land Commissioner as conforming to good petroleum engineering practice; and provided further, that such right of withdrawal shall terminate on the termination of this unit agreement.

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

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

15. RENTAL SETTLEMENT. Rental or minimum royalties due on leases committed hereto shall be paid by working-interest owners responsible therefor under existing contracts, laws, and regulations, provided that nothing herein contained shall

of the operation of a well by a working-interest owner as herein provided for in special cases, shall make deliveries of such royalty share taken in kind in conformity with the applicable contracts, laws, and regulations. Settlement for royalty interest not taken in kind shall be made by working-interest owners responsible therefor under existing contracts, laws, and regulations, or by the Unit Operator, on or before the last day of each month for unitized substances produced during the preceding calendar month; provided, however, that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any royalties due under their leases.

If gas obtained from lands not subject to this agreement is introduced into any participating area hereunder, for use in repressuring, stimulation of production, or increasing ultimate recovery, in conformity with a plan of operations approved by the Supervisor and the Land Commissioner, a like amount of gas, after settlement as herein provided for any gas transferred from any other participating area and with appropriate deduction for loss from any cause, may be withdrawn from the formation into which the gas is introduced, royalty free as to dry gas, but not as to any products which may be extracted therefrom; provided that such withdrawal shall be at such time as may be provided in the approved plan of operations or as may otherwise be consented to by the Supervisor and the Land Commissioner as conforming to good petroleum engineering practice; and provided further, that such right of withdrawal shall terminate on the termination of this unit agreement.

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

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

15. RENTAL SETTLEMENT. Rental or minimum royalties due on leases committed hereto shall be paid by working-interest owners responsible therefor under existing contracts, laws, and regulations, provided that nothing herein contained shall

operate to relieve the lessees of any land from their respective lease obligations for the payment of any rental or minimum royalty due under their leases. Rental or minimum royalty for lands of the United States subject to this agreement shall be paid at the rate specified in the respective leases from the United States unless such rental or minimum royalty is waived, suspended, or reduced by law or by approval of the Secretary or his duly authorized representative.

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

With respect to any lease on non-Federal land containing provisions which would terminate such lease unless drilling operations are commenced upon the land covered thereby within the time therein specified or rentals are paid for the privilege of deferring such drilling operations, the rentals required thereby shall, notwithstanding any other provision of this agreement, be deemed to accrue and become payable during the term thereof as extended by this agreement and until the required drilling operations are commenced upon the land covered thereby or until some portion of such land is included within a participating area.

16. CONSERVATION. Operations hereunder and production of unitized substances shall be conducted to provide for the most economical and efficient recovery of said substances without waste, as defined by or pursuant to State or Federal law or regulation.

17. DRAINAGE. The Unit Operator shall take such measures as the Supervisor and Land Commissioner deem appropriate and adequate to prevent drainage of unitized substances from unitized land by wells on land not subject to this agreement.

18. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, conditions, and provisions of all leases, subleases, and other contracts relating to exploration, drilling, development, or operation for oil or gas on lands committed to this agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect; and the parties hereto hereby consent that the Secretary, as to Federal leases and the Land Commissioner, as to State leases, shall and each by his approval hereof, or by the approval hereof by his duly authorized representative, does hereby establish, alter, change, or revoke the drilling, producing, rental, minimum royalty, and royalty requirements of Federal and State leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this agreement, and without limiting the generality of the foregoing,

all leases, subleases, and contracts are particularly modified in accordance with the following:

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

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

(c) Suspension of drilling or producing operations on all unitized lands pursuant to direction or consent of the Secretary and the Land Commissioner, or his duly authorized representative, shall be deemed to constitute such suspension pursuant to such direction or consent as to each and every tract of unitized land. A suspension of drilling or producing operations limited to specified lands shall be applicable only to such lands.

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

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

accordance with the provisions of the Mineral Leasing Act Revision of 1960.

(f) Each sublease or contract relating to the operation and development of unitized ~~stances~~ from lands of the United States committed to this agreement, which by its terms would expire prior to the time at which the underlying lease, as extended by the immediately preceding paragraph, will expire, is hereby extended beyond any such term so provided therein so that it shall be continued in full force and effect for and during the term of the underlying lease as such term is herein extended.

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

(h) In the event the Initial Test Well is commenced prior to the expiration date of the shortest term State Lease within the Unit Area, any lease embracing lands of the State of New Mexico which is made subject to this agreement, shall continue in force beyond the term provided therein as to the lands committed hereto until the termination hereof.

(i) Any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto, shall be segregated as to the portion committed and the portion not committed, and the terms of such lease shall apply separately to such segregated portions commencing as of the effective date hereof; provided, however, notwithstanding any of the provisions of this agreement to the contrary any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto shall continue in full force and effect beyond the term provided therein as to all lands embraced in such lease, if oil or gas is discovered and is capable of being produced in paying quantities from some part of the lands embraced in such lease at the expiration of the secondary term of such lease; or if, at the expiration of the secondary term, the leasee or the Unit Operator is then engaged in bona fide drilling or reworking operations on some part of the lands embraced in such lease, the same as to all lands embraced therein, shall

remain in full force and effect so long as such operations are being diligently prosecuted, and if they result in the production of oil or gas; said lease shall continue in full force and effect as to all of the lands embraced therein, so long thereafter as oil or gas in paying quantities is being produced from any portion of said lands.

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

20. EFFECTIVE DATE AND TERM. This agreement shall become effective upon approval by the Secretary and the Land Commissioner or his duly authorized representative, and shall terminate five (5) years from said effective date unless

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

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

(c) a valuable discovery of unitized substances has been made or accepted on unitized land during said initial term or any extension thereof, in which event the agreement shall remain in effect for such term and so long as unitized substances are produced in quantities sufficient to pay for the cost of producing same from wells on unitized land within any participating area established hereunder and, should production cease, so long thereafter as diligent operations are in progress for the restoration of production or discovery of new production and so long thereafter as unitized substances so discovered are produced as aforesaid, or

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

21. RATE OF PROSPECTING, DEVELOPMENT, AND PRODUCTION. The Director is hereby vested with authority to alter or modify from time to time in his discretion the quantity and rate of production under this agreement when such quantity and rate is not fixed pursuant to Federal or State law or does not conform to any statewide voluntary conservation or allocation program, which is established, recognized, and generally adhered to by the majority of operators in such State, such authority being hereby limited to alteration or modification in the public interest, the purpose thereof and the public interest to be served thereby to be stated in the order of alteration or modification. Without regard to the foregoing, the Director is also hereby vested with authority to alter or modify from time to time in his discretion the rate of prospecting and development and the quantity and rate of production under this agreement when such alteration or modification is in the interest of attaining the conservation objectives stated in this agreement and is not in violation of any applicable Federal or State law.

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

22. APPEARANCES. Unit Operator shall, after notice to other parties affected, have the right to appear for and on behalf of any and all interests affected hereby before the Department of the Interior and the Commissioner of Public Lands and to appeal from orders issued under the regulations of said Department or Land Commissioner or to apply for relief from any of said regulations or in any proceedings relative to operations before the Department of the Interior or the Land Commissioner or any other legally constituted authority; provided, however, that any other interested party shall also have the right at his own expense to be heard in any such proceeding.

23. NOTICES. All notices, demands, or statements required hereunder to be given or rendered to the parties hereto shall be deemed fully given if given in writing and personally delivered to the party or sent by postpaid registered or certified mail, addressed to such party or parties at their respective addresses

set forth in connection with the signatures hereto or to the ratification or consent hereof or to such other address as any such party may have furnished in writing to party sending the notice, demand or statement.

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

25. UNAVOIDABLE DELAY. All obligations under this agreement requiring the Unit Operator to commence or continue drilling or to operate on or produce unitized substances from any of the lands covered by this agreement shall be suspended while the Unit Operator despite the exercise of due care and diligence, is prevented from complying with such obligations, in whole or in part, by strikes, acts of God, Federal, State, or municipal law or agencies, unavoidable accidents, uncontrollable delays in transportation, inability to obtain necessary materials in open market, or other matters beyond the reasonable control of the Unit Operator whether similar to matters herein enumerated or not. No unit obligation which is suspended under this section shall become due less than thirty (30) days after it has been determined that the suspension is no longer applicable. Determination of creditable "Unavoidable Delay" time shall be made by the unit operator subject to approval of the Supervisor and the Land Commissioner.

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

27. LOSS OF TITLE. In the event title to any tract of unitized land shall fail and the true owner cannot be induced to join in this unit agreement, such tract shall be automatically regarded as not committed hereto and there shall be such readjustment of future costs and benefits as may be required on account of the loss of such title. In the event of a dispute as to title as to any royalty, working interest, or other interests subject thereto, payment or delivery on account thereof may be withheld without liability for interest until the dispute is finally settled; provided, that, as to Federal and State land or leases, no payments of

funds due the United States or the State of New Mexico should be withheld, but such funds shall be deposited as directed by the Supervisor and such funds of the State of New Mexico shall be deposited as directed by the Land Commissioner, to be held as unearned money pending final settlement of the title dispute, and then applied as earned or returned in accordance with such final settlement.

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

28. NON-JOINDER AND SUBSEQUENT JOINDER. If the owner of any substantial interest in a tract within the unit area fails or refuses to subscribe or consent to this agreement, the owner of the working interest in that tract may withdraw said tract from this agreement by written notice delivered to the Supervisor and the Land Commissioner and the Unit Operator prior to the approval of this agreement by the Supervisor. Any oil or gas interests in lands within the unit area not committed hereto prior to submission of this agreement for final approval may thereafter be committed hereto by the owner or owners thereof subscribing or consenting to this agreement, and, if the interest is a working interest, by the owner of such interest also subscribing to the unit operating agreement. After operations are commenced hereunder, the right of subsequent joinder, as provided in this section, by a working-interest owner is subject to such requirements or approvals, if any, pertaining to such joinder, as may be provided for in the unit operating agreement. After final approval hereof, joinder by a non-working interest owner must be consented to in writing by the working-interest owner committed hereto and responsible for the payment of any benefits that may accrue hereunder in behalf of such non-working interest. A non-working interest may not be committed to this unit unless the corresponding working interest is committed hereto. Joinder to the unit agreement by a working-interest owner, at any time, must be accompanied by appropriate joinder to the unit operating agreement, if more than one committed working-interest owner is involved, in order for the interest to be regarded as committed to this unit agreement. Except as may otherwise herein be provided, subsequent joinders to this agreement shall be effective as of the first day of the month following the filing with the Supervisor and the Land Commissioner of duly executed counterparts of all or any papers necessary to establish effective commitment of any tract to this agreement unless objection to such joinder is duly made within sixty (60) days by the Supervisor and the Land Commissioner.

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

30. SURRENDER. Nothing in this agreement shall prohibit the exercise by any working-interest owner of the right to surrender vested in such party by any lease, sublease, or operating agreement as to all or any part of the lands covered thereby, provided that each party who will or might acquire such working interest by such surrender or by forfeiture as hereafter set forth, is bound by the terms of this agreement.

If, as a result of any such surrender, the working interest rights as to such lands become vested in any party other than the fee owner of the unitized substances, said party may forfeit such rights and further benefits from operation hereunder as to said land to the party next in the chain of title who shall be and become the owner of such working interest.

If, as the result of any such surrender or forfeiture, working interest rights become vested in the fee owner of the unitized substances, such owner may:

- (1) Accept those working-interests rights subject to this agreement and the unit operating agreement; or
- (2) Lease the portion of such land as is included in a participating area established hereunder subject to this agreement and the unit operating agreement.
- (3) Provide for the independent operation of any part of such land that are not then included within a participating area established hereunder.

If the fee owner of the unitized substances does not accept the working-interest rights subject to this agreement and the unit operating agreement or lease, such lands as above-provided within six (6) months after the surrendered or forfeited working-interest rights become vested in the fee owner, the benefits and obligations of operations accruing to such lands under this agreement and the unit operating agreement shall be shared by the remaining owners of unitized working interests in accordance with their respective working interest ownerships, and such owners or working interests shall compensate the fee owner of unitized sub-

stances in such lands by paying sums equal to the rentals, minimum royalties, and royalties applicable to such lands under the lease in effect when the lands were unitized.

An appropriate accounting and settlement shall be made, for all benefits accruing to or payments and expenditures made or incurred on behalf of such surrendered or forfeited working interest subsequent to the date of surrender or forfeiture, and payment of any moneys found to be owing by such an accounting shall be made as between the parties within thirty (30) days. In the event no unit operating agreement is in existence and a mutually acceptable agreement between the proper parties thereto cannot be consummated, the Supervisor may prescribe such reasonable and equitable agreement as he deems warranted under the circumstances.

The exercise of any right vested in a working-interest owner to reassign such working interest to the party from whom obtained shall be subject to the same conditions as set forth in this section in regard to the exercise of a right to surrender.

31. TAXES. The working-interest owners shall render and pay for their account and the account of the royalty owners all valid taxes on or measured by the unitized substances in and under or that may be produced, gathered, and sold from the land subject to this contract after the effective date of this agreement, or upon the proceeds derived therefrom. The working-interest owners on each tract shall and may charge the proper proportion of said taxes to the royalty owners having interests in said tract, and may currently retain and deduct sufficient of the unitized substances or derivative products, or net proceeds thereof from the allocated share of each royalty owner to secure reimbursement for the taxes so paid. No such taxes shall be charged to the United States or the State of New Mexico or to any lessor who has a contract with his lessor who has a contract with his lessee which requires the lessee to pay such taxes.

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

33. CONFLICT OF SUPERVISION. Neither the Unit Operator nor the working-interest owners, nor any of them, shall be subject to any forfeiture, termination, or expiration of any right hereunder or under any leases or contracts subject hereto,

or to any penalty or liability on account of delay or failure in whole or in part to comply with any applicable provisions thereof to the extent that the said Unit Operator or the working-interest owners, or any of them, are hindered, delayed, or prevented from complying therewith by reason of failure of the Unit Operator to obtain, in the exercise of due diligence, the concurrence of proper representatives of the United States and proper representatives of the State of New Mexico in and about any matters or things concerning which it is required herein that such concurrence be obtained. The parties hereto, including the State Commission, agree that all powers and authority vested in the State Commission in and by any provisions of this agreement are vested in the State Commission and shall be exercised by it pursuant to the provisions of the laws of the State of New Mexico and subject in any case to appeal or judicial review as may now or hereafter be provided by the laws of the State of New Mexico.

34. SURFACE AND ENVIRONMENTAL PROTECTION STIPULATIONS. Nothing in this agreement shall modify or change either the special Federal Lease stipulations relating to surface management or such special Federal Lease stipulations relating to surface and environmental protection, attached to and made a part of, Oil and Gas Leases covering lands within the Unit Area.

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

ATTEST:

TESORO PETROLEUM CORPORATION

BY: _____

BY: _____

Address:

UNIT OPERATOR

STATE OF _____)
COUNTY OF _____) ss

The foregoing instrument was acknowledged before me this _____ day of _____, 1974, by _____ who is _____ of _____ (State of Incorp.) corporation, for and on behalf of said Corporation.

My Commission Expires: _____

Notary Public

EXHIBIT "A"

COAL CREEK UNIT

SAN JUAN COUNTY, NEW MEXICO

② **Tract Number**

STAFF OF THE MEXICO
LANDS. 1280.00 Acres
11.40 %



NO
EN



SCHEDULE OF LAND AND LEASES
COAL CREEK UNIT AREA

TRACT NO.	DESCRIPTION	ACRES	SERIAL NO. & EXP. DATE	BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE
1.	T-23-N, R-12-W, NMPM Sec. 28; SE $\frac{1}{4}$ -SE $\frac{1}{4}$ 40.00		NM-0555834-A 04-30-75	U.S.A. 12.5%	Delaware-Apache Corp	Raymond Chorney 2.5% Jacqueline Anderson 1.0%	Delaware-Apache Corp. All
2.	T-23-N, R-12-W, NMPM Sec. 18; SE $\frac{1}{4}$ 160.00		NM-0555848 03-31-75	U.S.A. 12.5%	Raymond Chorney - 25.0% Kirby Petroleum Co. - 25.0% Aquitaine Oil Corp. - 25.0% Natural Gas Pipeline Co. - 25.0%	Stanley M. Edwards 2.5% L. C. Driskell 2.5%	Raymond Chorney 25.00% Kirby Petroleum Company 25.00% Aquitaine Oil Corp. 25.00% Natural Gas Pipeline Co. 25.00%
3.	T-23-N, R-12-W, NMPM Sec. 33; All 640.00		NM-0555877-A 03-31-75	U.S.A. 12.5%	Delaware-Apache Corp.	Casper College Foundation .875% Raymond Chorney 2.625%	Delaware-Apache Corp. All
4.	T-23-N, R-13-W, NMPM Sec. 14; SE $\frac{1}{4}$ 480.00 Sec. 23; E $\frac{1}{2}$		NM-0555815-A 02-28-75	U.S.A. 12.5%	Chorney Oil Company - 18.75% Natural Gas Pipeline Co. - 18.75% Aquitaine Oil Corp. - 18.75% Kirby Petroleum Co. - 18.75% Tesoro Petroleum Corp. - 25.00%	Raymond Chorney 3.0%	Chorney Oil Company 18.75% Natural Gas Pipeline Co. 18.75% Aquitaine Oil Corp. 18.75% Kirby Petroleum Co. 18.75% Tesoro Petroleum Corp. 25.00%
5.	T-23-N, R-13-W, NMPM Sec. 27; All 640.00		NM-0555916 03-31-75	U.S.A. 12.5%	Tesoro Petroleum Corp.	Casper College Foundation .875% Raymond Chorney 2.625%	Tesoro Petroleum Corp. All
6.	T-23-N, R-13-W, NMPM Sec. 25; All 640.00		NM-0555916-A 03-31-75	U.S.A. 12.5%	McKnight Pet. Trust - 75.00% McAlester Fuel Co. - 25.00%	Casper College Foundation .875% Raymond Chorney 2.625% William J. A. Johnson 1.0%	McKnight Petroleum Trust 75.00% McAlester Fuel Co. 25.00%
7.	T-23-N, R-13-W, NMPM Sec. 35; All 640.00		NM-0556326 03-01-75	U.S.A. 12.5%	McKnight Pet. Trust - 75.00% McAlester Fuel Co. - 25.00%	Thomas D. Chase 1.0% Dorothy Chorney 2.0%	McKnight Petroleum Trust 75.00% McAlester Fuel Co. 25.00%

8.	<u>T-23-N, R-12-W, NMEP</u> Sec. 18; Lots 3, 4, E&SW $\frac{1}{4}$ 485.22 Sec. 19; Lots 5 thru 12	NM-0556834 04-30-75	U.S.A. 12.5%	Raymond Chorney - 25.00% Stanley M. Edwards 2.0% Aquitaine Oil Corp. - 25.00% L. C. Driskell 2.0% Natural Gas Pipeline Co. - 25.00% Jacqueline Anderson 1.0% Kirby Petroleum Co. - 25.00%	Raymond Chorney Aquitaine Oil Corp. Natural Gas Pipeline Co. Kirby Petroleum Co.	25.00% 25.00% 25.00% 25.00%
9.	<u>T-23-N, R-13-W, NMEP</u> Sec 26; All 640.00	NM-0556836 04-30-75	U.S.A. 12.5%	Tesoro Petroleum Corp. Raymond Chorney W. H. McDermott	Tesoro Petroleum Corp.	All
10.	<u>T-23-N, R-13-W, NMEP</u> Sec. 14; SW $\frac{1}{4}$ 480.00 Sec. 23; W $\frac{1}{2}$	NM-0558416 11-30-75	U.S.A. 12.5%	Chorney Oil Co. - 18.75% W. D. Tolan 2.0% Natural Gas Pipeline Co. - 18.75% Raymond Chorney 1.0% Aquitaine Oil Corp. - 18.75% Kirby Petroleum Co. - 18.75% Tesoro Petroleum Corp. - 25.00%	Chorney Oil Co. Natural Gas Pipeline Co. Aquitaine Oil Corp. Kirby Petroleum Co. Tesoro Petroleum Corp.	18.75% 18.75% 18.75% 18.75% 25.00%
11.	<u>T-23-N, R-13-W, NMEP</u> Sec. 13; SW $\frac{1}{4}$ 150.00	NM-0558650 12-31-75	U.S.A. 12.5%	Chorney Oil Company - 18.75% Raymond Chorney 3.0% Natural Gas Pipeline Co. - 18.75% Aquitaine Oil Corp. - 18.75% Kirby Petroleum Co. - 18.75% Tesoro Petroleum Corp. - 25.00%	Chorney Oil Company Natural Gas Pipeline Co. Aquitaine Oil Corp. Kirby Petroleum Co. Tesoro Petroleum Corp.	18.75% 18.75% 18.75% 18.75% 25.00%
12.	<u>T-23-N, R-13-W, NMEP</u> Sec. 34; All 640.00	NM-0559141 02-28-76	U.S.A. 12.5%	Tesoro Petroleum Corp. Est. of F. C. Grigsby 3.5%	Tesoro Petroleum Corp.	All
13.	<u>T-23-N, R-12-W, NMEP</u> Sec. 19; Lots 13 thru 20 326.99	NM-3034 03-31-77	U.S.A. 12.5%	Hanland Oil Corporation NONE	Hanland Oil Corporation	All
14.	<u>T-23-N, R-12-W, NMEP</u> Sec. 29; All 640.00	NM-4280 01-31-78	U.S.A. 12.5%	Delaware-Apache Corp. L. C. Driskell 1.5% W. D. Tolan 0.5% Esther Chorney 1.5%	Delaware-Apache Corp.	All

15.	<u>T-23-N, R-13-W, NMPM</u> Sec. 13; SE $\frac{1}{4}$ 160.00	NM-7020 07-31-78	U.S.A. 12.5%	Kirby Oil Company - 25.00% Natural Gas Pipeline Co. - 25.00% Aquitaine Oil Corp. - 25.00% Chorney Oil Company - 25.00%	NONE		Kirby Oil Company Natural Gas Pipeline Co. Aquitaine Oil Corp. Chorney Oil Company	25.00% 25.00% 25.00% 25.00%
16.	<u>T-23-N, R-12-W, NMPM</u> Sec. 20; Lots 3 thru 6, 11 thru 4 331.22	NM-8229 11-30-78	U.S.A. 12.5%	Raymond Chorney - 25.00% Kirby Petroleum Co. - 25.00% Aquitaine Oil Corp. - 25.00% Natural Gas Pipeline Co. - 25.00%	H. A. Rich, Jr. John Oakason Stanley M. Edwards L. C. Driskell	.25% .75% 2.0% 2.0%	Raymond Chorney Kirby Petroleum Co. Aquitaine Oil Corp. Natural Gas Pipeline Co.	25.00% 25.00% 25.00% 25.00%
17.	<u>T-23-N, R-12-W, NMPM</u> Sec. 28; NW $\frac{1}{4}$, NWSE $\frac{1}{4}$ 400.00	NM-15657 07-31-82	U.S.A. 12.5%	Aztec Oil & Gas Co.	NONE		Above 4,820 ft. Aztec Oil & Gas Co. Tesoro Petroleum Corp. Below 4,820 ft. Aztec Oil & Gas Co.	40.00% 60.00% All
18.	<u>T-23-N, R-12-W, NMPM</u> Sec. 30; Lots 1 thru 4, E $\frac{1}{2}$, E $\frac{1}{4}$ W $\frac{1}{2}$ 635.32	NM-17017 01-30-82	U.S.A. 12.5%	Husky Oil Company of Delaware Guy M. Willis Rilla M. Willis		1.5% 1.5%	Husky Oil Company of Del.	All
19.	<u>T-23-N, R-12-W, NMPM</u> Sec. 31; Lots 1 thru 4, E $\frac{1}{2}$, E $\frac{1}{4}$ W $\frac{1}{2}$ 635.28	NM-18951 08-31-83	U.S.A. 12.5%	McAlester Fuel Co. - 25.00% McKnight Petroleum Trust - 75.00%	Dorothy Langley	5.0%	McAlester Fuel Co. McKnight Petroleum Trust	25.00% 75.00%
20.	<u>T-23-N, R-13-W, NMPM</u> Sec. 24; All 640.00	NM-19572 11-30-83	U.S.A. 12.5%	McAlester Fuel Co. - 25.00% McKnight Petroleum Trust - 75.00%	Ruth Ross	2.0%	McAlester Fuel Co. McKnight Petroleum Trust	25.00% 75.00%
21.	<u>T-23-N, R-12-W, NMPM</u> Sec. 20; Lots 1,2, 7 thru 10, 15, 16 Sec. 28; SW $\frac{1}{4}$, SWSE $\frac{1}{4}$ 531.08	NM-23240 12-31-84	U.S.A. 12.5%	Tesoro Petroleum Corp.	NONE		Tesoro Petroleum Corp.	All

TOTAL: 9,945.11 acres Federal Lands

BEFORE THE OIL CONSERVATION COMMISSION
STATE OF NEW MEXICO

APPLICATION FOR APPROVAL OF
COAL CREEK UNIT AGREEMENT
SAN JUAN COUNTY, NEW MEXICO

RECEIVED
JAN 24 10 34 AM '75

Case 5416

New Mexico Oil Conservation Commission
Santa Fe, New Mexico 87501

Comes the undersigned Tesoro Petroleum Corporation with the offices at Denver, Colorado, and files herewith one (1) copy of the proposed Unit Agreement for the development and operation of the Coal Creek Unit Area, San Juan County, New Mexico, and hereby makes application for the approval of said Unit Agreement as provided by law, and in support thereof, states:

1. That the proposed Unit Area covered by said Agreement embraces 11,225.11 acres of land, more or less, more particularly described as follows:

<u>T-23-N, R-12-W, NMPM</u>		<u>T-23-N, R-13-W, NMPM</u>	
Section 18:	S½	Section 13:	S½
Section 19, 20:	All	Section 14:	S½
Sections 28, 29, 30:	All	Sections 23, 24:	All
Sections 31, 32, 33:	All	Sections 25, 26, 27:	All
		Sections 34, 35, 36:	All

San Juan County, New Mexico

2. That of the lands embraced within the proposed Unit, 9,945.11 acres are lands of the United States, being 88.60% of the Area and 1,280.00 acres are State of New Mexico lands being 11.4 % of the Area.

3. That Applicant is informed and believes, and upon such information and belief states, that the proposed unit area covers all or substantially all of the geological features involved, and that in the event of a discovery of oil or gas thereon, that said Unit Agreement will permit the producing area to be developed and operated in the interest of conservation and the prevention of waste of the unitized substances.

4. That Tesoro Petroleum Corporation is designated as the Unit Operator in said Unit Agreement, and, as such, is given authority under the terms thereof to carry on all operations necessary for the development and operation of the Unit Area for oil and gas subject to all applicable laws and regulations. That said Unit Agreement provides for the drilling of an Initial Test Well to a depth sufficient to test the Dakota Formation, but applicant is not obligated to drill said well in any event to a depth in excess of 4,700 feet.

5. That applicant believes that in the event oil or gas is discovered in paying quantities on lands within the Unit Area, that the field or area can be developed more economically and efficiently under the terms of said Unit Agreement, to the end that maximum recovery will be obtained of unitized substances and that said Unit Agreement is in the interest of conservation of prevention of waste as contemplated by the New Mexico Oil Conservation rules and regulations.

6. That Application for Approval of said Unit Agreement is being filed with the Commissioner of Public Lands.

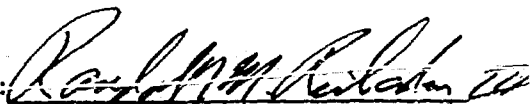
7. That upon an order being entered by the New Mexico Oil Conservation Commission approving said Unit Agreement, and after approval by the United States Department of Interior, an approved copy will be filed with the New Mexico Oil Conservation Commission.

WHEREFORE, the undersigned applicant respectfully requests that a hearing be held before an examiner of the matter of said Unit Agreement, and that upon said hearing, said Unit Agreement be approved by the New Mexico Oil Conservation Commission as being in the interest of conservation and the prevention of waste. Applicant respectfully requests that this matter be heard at the first available hearing following this date.

DATED this 23rd day of January, 1975.

TESORO PETROLEUM CORPORATION

BY:


Randolph M. Richardson
Attorney at Law
P. O. Box 819
Roswell, New Mexico 88201

BEFORE THE OIL CONSERVATION COMMISSION
STATE OF NEW MEXICO

APPLICATION FOR APPROVAL OF
COAL CREEK UNIT AGREEMENT
SAN JUAN COUNTY, NEW MEXICO

New Mexico Oil Conservation Commission
Santa Fe, New Mexico 87501

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1. That the proposed Unit Area covered by said Agreement embraces 11,225.11 acres of land, more or less, more particularly described as follows:

<u>T-23-N, R-12-W, NMPM</u>		<u>T-23-N, R-13-W, NMPM</u>	
Section 18:	S½	Section 13:	S½
Section 19, 20:	All	Section 14:	S½
Sections 28, 29, 30:	All	Sections 23, 24:	All
Sections 31, 32, 33:	All	Sections 25, 26, 27:	All
		Sections 34, 35, 36:	All

San Juan County, New Mexico

2. That of the lands embraced within the proposed Unit, 9,945.11 acres are lands of the United States, being 88.60% of the Area and 1,280.00 acres are State of New Mexico lands being 11.40% of the Area.

3. That Applicant is informed and believes, and upon such information and belief states, that the proposed unit area covers all or substantially all of the geological features involved, and that in the event of a discovery of oil or gas thereon, that said Unit Agreement will permit the producing area to be developed and operated in the interest of conservation and the prevention of waste of the unitized substances.

4. That Tesoro Petroleum Corporation is designated as the Unit Operator in said Unit Agreement, and, as such, is given authority under the terms thereof to carry on all operations necessary for the development and operation of the Unit Area for oil and gas subject to all applicable laws and regulations. That said Unit Agreement provides for the drilling of an Initial Test Well to a depth sufficient to test the Dakota Formation, but applicant is not obligated to drill said well in any event to a depth in excess of 4,700 feet.

5. That applicant believes that in the event oil or gas is discovered in paying quantities on lands within the Unit Area, that the field or area can be developed more economically and efficiently under the terms of said Unit Agreement, to the end that maximum recovery will be obtained of unitized substances and that said Unit Agreement is in the interest of conservation of prevention of waste as contemplated by the New Mexico Oil Conservation rules and regulations.

6. That Application for Approval of said Unit Agreement is being filed with the Commissioner of Public Lands.

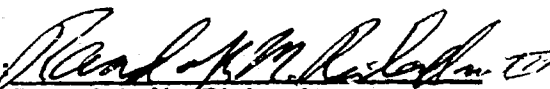
7. That upon an order being entered by the New Mexico Oil Conservation Commission approving said Unit Agreement, and after approval by the United States Department of Interior, an approved copy will be filed with the New Mexico Oil Conservation Commission.

WHEREFORE, the undersigned applicant respectfully requests that a hearing be held before an examiner of the matter of said Unit Agreement, and that upon said hearing, said Unit Agreement be approved by the New Mexico Oil Conservation Commission as being in the interest of conservation and the prevention of waste. Applicant respectfully requests that this matter be heard at the first available hearing following this date.

DATED this 23rd day of January, 1975.

TESORO PETROLEUM CORPORATION

BY:


Randolph M. Richardson
Attorney at Law
P. O. Box 819
Roswell, New Mexico 88201

BEFORE THE OIL CONSERVATION COMMISSION
STATE OF NEW MEXICO

APPLICATION FOR APPROVAL OF
COAL CREEK UNIT AGREEMENT
SAN JUAN COUNTY, NEW MEXICO

RECEIVED
JAN 24 10 55 AM '75
STATE OF NEW MEXICO
SANTA FE, N.M.

New Mexico Oil Conservation Commission
Santa Fe, New Mexico 87501

Comes the undersigned Tesoro Petroleum Corporation with the offices at Denver, Colorado, and files herewith one (1) copy of the proposed Unit Agreement for the development and operation of the Coal Creek Unit Area, San Juan County, New Mexico, and hereby makes application for the approval of said Unit Agreement as provided by law, and in support thereof, states:

1. That the proposed Unit Area covered by said Agreement embraces 11,225.11 acres of land, more or less, more particularly described as follows:

<u>T-23-N, R-12-W, NMPM</u>		<u>T-27-N, R-13-W, NMPM</u>	
Section 18:	S $\frac{1}{2}$	Section 13:	S $\frac{1}{2}$
Section 19, 20:	All	Section 14:	S $\frac{1}{2}$
Sections 28, 29, 30:	All	Sections 23, 24:	All
Sections 31, 32, 33:	All	Sections 25, 26, 27:	All
		Sections 34, 35, 36:	All

San Juan County, New Mexico

2. That of the lands embraced within the proposed Unit, 9,945.11 acres are lands of the United States, being 88.60% of the Area and 1,280.00 acres are State of New Mexico lands being 11.40% of the Area.

3. That Applicant is informed and believes, and upon such information and belief states, that the proposed unit area covers all or substantially all of the geological features involved, and that in the event of a discovery of oil or gas thereon, that said Unit Agreement will permit the producing area to be developed and operated in the interest of conservation and the prevention of waste of the unitized substances.

4. That Tesoro Petroleum Corporation is designated as the Unit Operator in said Unit Agreement, and, as such, is given authority under the terms thereof to carry on all operations necessary for the development and operation of the Unit Area for oil and gas subject to all applicable laws and regulations. That said Unit Agreement provides for the drilling of an Initial Test Well to a depth sufficient to test the Dakota Formation, but applicant is not obligated to drill said well in any event to a depth in excess of 4,700 feet.

5. That applicant believes that in the event oil or gas is discovered in paying quantities on lands within the Unit Area, that the field or area can be developed more economically and efficiently under the terms of said Unit Agreement, to the end that maximum recovery will be obtained of unitized substances and that said Unit Agreement is in the interest of conservation of prevention of waste as contemplated by the New Mexico Oil Conservation rules and regulations.

6. That Application for Approval of said Unit Agreement is being filed with the Commissioner of Public Lands.

7. That upon an order being entered by the New Mexico Oil Conservation Commission approving said Unit Agreement, and after approval by the United States Department of Interior, an approved copy will be filed with the New Mexico Oil Conservation Commission.

WHEREFORE, the undersigned applicant respectfully requests that a hearing be held before an examiner of the matter of said Unit Agreement, and that upon said hearing, said Unit Agreement be approved by the New Mexico Oil Conservation Commission as being in the interest of conservation and the prevention of waste. Applicant respectfully requests that this matter be heard at the first available hearing following this date.

DATED this 23rd day of January, 1975. TESORO PETROLEUM CORPORATION

BY:

Randolph M. Richardson
Randolph M. Richardson
Attorney at Law
P. O. Box 819
Roswell, New Mexico 88201

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
COAL CREEK UNIT AREA
COUNTY OF SAN JUAN
STATE OF NEW MEXICO
NO. _____

THIS AGREEMENT, entered into as of the 22nd day of January,
1975, by and between the parties subscribing, ratifying, or consenting hereto,
and herein referred to as the "parties hereto,"

W I T N E S S E T H :

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

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

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is
authorized by an Act of the Legislature (Sec. 7-11-29 N.M. Statutes 1953 Annotated)
to consent to or approve this agreement on behalf of the State of New Mexico, insofar
as it covers and includes lands and mineral interest of the State of New Mexico; and,

WHEREAS, the Oil Conservation Commission of the State of New Mexico is author-
ized by an Act of the Legislature (Chapter 72, Laws of 1935, as amended by Chapter
193, Laws of 1937; Chapter 166, Laws of 1941; and Chapter 168, Laws of 1949) to ap-
prove this agreement and the conservation provisions hereof; and,

WHEREAS, the parties hereto hold sufficient interests in the _____
Coal Creek Unit Area covering the land hereinafter des-
cribed to give reasonably effective control of operations therein; and

WHEREAS, it is the purpose of the parties hereto to conserve natural resources,
prevent waste, and secure other benefits obtainable through development and operation
of the area subject to this agreement under the terms, conditions, and limitations

herein set forth;

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

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

2. UNIT AREA. The following described land is hereby designated and recognized as constituting the unit area:

<u>T-23-N, R-12-W, NMPM</u>	
Section 18:	S½
Section 19, 20:	All
Sections 28, 29, 30:	All
Sections 31, 32, 33:	All

<u>T-23-N, R-13-W, NMPM</u>	
Section 13:	S½
Section 14:	S½
Sections 23, 24:	All
Sections 25, 26, 27:	All
Sections 34, 35, 36:	All

Containing 11,225.11 acres MOL

Exhibit "A" attached hereto is a map showing the unit area and the boundaries and indentify of tracts and leases in said area to the extent known to the Unit Operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the Unit Operator the acreage, percentage, and kind of ownership of oil and gas interests in all land in the unit area. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in said map or schedule as owned by such party. Exhibits "A" and "B" shall be revised by the Unit Operator whenever changes in the unit area render such revision necessary when requested by the Oil and Gas Supervisor, hereinafter referred to as "Supervisor," or when requested by the Commissioner of Public Lands of the State of New Mexico,

hereinafter referred to as "Land Commissioner," and not less than five (5) copies of the revised Exhibits shall be filed with the Supervisor and one (1) copy thereof shall be filed with the Land Commissioner, and one (1) copy with the New Mexico Oil Conservation Commission, hereinafter referred to as "State Commission."

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

(a) Unit Operator, on its own motion or on demand of the Director of the Geological Survey, hereinafter referred to as "Director," or on demand of the Land Commissioner, after preliminary concurrence by the Director, shall prepare a notice of proposed expansion or contraction describing the contemplated changes in the boundaries of the unit area, the reasons therefor, and the proposed effective date thereof, preferably, the first day of a month subsequent to the date of notice.

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

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

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

(e) All legal subdivisions of lands (i.e., 40 acres by Government survey or its nearest lot or tract equivalent; in instances of irregular surveys unusually large lots or tracts shall be considered in multiples of 40 acres or the nearest aliquot equivalent thereof), no parts of which are entitled to be in a participating area on or before the fifth anniversary of the effective date of the first initial participating area established under this unit agreement, shall be eliminated automatically from this agreement, effective as of said fifth anniversary, and such lands

shall no longer be a part of the unit area and shall no longer be subject to this agreement, unless diligent drilling operations are in progress on unitized lands not entitled to participation on said fifth anniversary, in which event all such lands shall remain subject hereto for so long as such drilling operations are continued diligently, with not more than 90 days' time elapsing between the completion of one such well and the commencement of the next such well. All legal subdivisions of lands not entitled to be in a participating area within 10 years after the effective date of the first initial participating area approved under this agreement shall be automatically eliminated from this agreement as of said tenth anniversary. All lands proved productive by diligent drilling operations after the aforesaid five-year period shall become participating in the same manner as during said five-year period. However, when such diligent drilling operations cease, all non-participating lands shall be automatically eliminated effective as of the 91st day thereafter. The unit operator shall within 90 days after the effective date of any elimination hereunder, describe the area so eliminated to the satisfaction of the Supervisor and the Land Commissioner and promptly notify all parties in interest.

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

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

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

4. UNIT OPERATOR. Tesoro Petroleum Corporation
is hereby designated as Unit Operator and by signature hereto as Unit Operator

agrees and consents to accept the duties and obligations of Unit Operator for the discovery, development, and production of unitized substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in the capacity and not as an owner of interest in unitized substances, and the term "working-interest owner" when used shall include or refer to Unit Operator as the owner of a working interest when such an interest is owned by it.

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

Unit Operator shall have the right to resign in like manner and subject to like limitations as above provided at any time a participating area established hereunder is in existence, but, in all instances of resignation or removal, until a successor unit operator is selected and approved as hereinafter provided, the working-interest owners shall be jointly responsible for performance of the duties of unit operator, and shall not later than 30 days before such resignation or removal becomes effective appoint a common agent to represent them in any action to be taken hereunder.

The resignation of Unit Operator shall not release Unit Operator from any liability for any default by it hereunder occurring prior to the effective date of its resignation.

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

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

6. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall tender his or its resignation as Unit Operator or shall be removed as hereinabove provided, or a change of Unit Operator is negotiated by working-interest owners, the owners of the working interests in the participating area or areas according to their respective acreage interests in such participating area or areas, or until a participating area shall have been established, the owners of the working interests according to their respective acreage interests in all unitized land, shall by majority vote select a successor Unit Operator: Provided, That, if a majority but less than 75 per cent of the working interests qualified to vote are owned by one party to this agreement, a concurring vote of one or more additional working interest owners shall be required to select a new operator. Such selection shall not become effective until

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

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

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

7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. If the Unit Operator is not the sole owner of working interests, costs, and expenses incurred by Unit Operator in conducting unit operations hereunder shall be paid and apportioned among and borne by the owners of working interests, all in accordance with the agreement or agreements entered into by and between the Unit Operator and the owners of working interests, whether one or more, separately or collectively. Any agreement or agreements entered into between the working-interest owners and the

Unit Operator as provided in this section, whether one or more, are herein referred to as the "unit operating agreement." Such unit operating agreement shall also provide the manner in which the working-interest owners shall be entitled to receive their respective proportionate and allocated share of the benefits accruing hereto in conformity with their underlying operating agreements, leases, or other independent contracts, and such other rights and obligations as between Unit Operator and the working-interest owners as may be agreed upon by Unit Operator and the working-interest owners; however, no such unit operating agreement shall be deemed either to modify any of the terms and conditions of this unit agreement or to relieve the Unit Operator of any right or obligation established under this unit agreement, and in case of any inconsistency or conflict between this unit agreement and the unit operating agreement, this unit agreement shall govern. Three true copies of any unit operating agreement executed pursuant to this section should be filed with the Supervisor and one true copy with the Land Commissioner, prior to approval of this unit agreement.

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

9. DRILLING TO DISCOVERY. Within six (6) months after the effective date hereof, the Unit Operator shall begin to drill an adequate test well at a location approved by the Supervisor, if on Federal land, or by the Land Commissioner, if on State land, unless on such effective date a well is being drilled conformably with the terms hereof, and thereafter continue such drilling diligently until the Dakota Formation has been tested

_____, or until at a lesser depth unitized substances shall be discovered which can be produced in paying

quantities (to-wit: quantities sufficient to repay the costs of drilling, completing and producing operations, with a reasonable profit) or the Unit Operator shall, at any time, establish to the satisfaction of the Supervisor if on Federal land, or the Land Commissioner if on State land, that further drilling of said well would be unwarranted or impracticable; provided, however, that Unit Operator shall not, in any event, be required to drill said well to a depth in excess of 4,700 feet. Until the discovery of a deposit of unitized substances capable of being produced in paying quantities, the Unit Operator shall continue drilling diligently one well at a time, allowing not more than six (6) months between the completion of one well and the beginning of the next well, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of said Supervisor if it be on Federal land or of the Land Commissioner if on State land, or until it is reasonably proved that the unitized land is incapable of producing unitized substances in paying quantities in the formations drilled hereunder. Nothing in this section shall be deemed to limit the right of the Unit Operator to resign as provided in Section 5 hereof, or as requiring Unit Operator to commence or continue any drilling during the period pending such resignation becoming effective in order to comply with the requirements of this section. The Director and Land Commissioner may modify the drilling requirements of this section by granting reasonable extensions of time when, in their opinion, such action is warranted.

Upon failure to commence any well provided for in this section within the time allowed, including any extension of time granted by the Supervisor and the Land Commissioner, this agreement will automatically terminate; upon failure to continue drilling diligently any well commenced hereunder, the Supervisor and the Land Commissioner may, after 15-days notice to the Unit Operator, declare this unit agreement terminated.

10. PLAN OF FURTHER DEVELOPMENT AND OPERATION. Within six (6) months after completion of a well capable of producing unitized substances in paying quantities, the Unit Operator shall submit for the approval of the Supervisor and the Land Commissioner an acceptable plan of development and operation for the unitized land which, when approved by the Supervisor and the Land Commissioner, shall constitute the further drilling and operating obligations of the Unit Operator under this agreement for the period specified therein. Thereafter, from time to time before the expiration of any existing plan, the Unit Operator shall submit

for the approval of the Supervisor and the Land Commissioner a plan for an additional specified period for the development and operation of the unitized land.

Any plan submitted pursuant to this section shall provide for the exploration of the unitized area and for the diligent drilling necessary for determination of the area or areas thereof capable of producing unitized substances in paying quantities in each and every productive formation and shall be as complete and adequate as the Supervisor and the Land Commissioner may determine to be necessary for timely development and proper conservation of the oil and gas resources of the unitized area and shall:

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

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

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

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

11. PARTICIPATION AFTER DISCOVERY. Upon completion of a well capable of producing unitized substances in paying quantities or as soon thereafter as required by the Supervisor or the Land Commissioner, the Unit Operator shall submit for approval by the Supervisor and the Land Commissioner a schedule, based on subdivisions of the public-land survey or aliquot parts thereof, of all land then regarded as reasonably proved to be productive in paying quantities; all lands in said schedule on approval of the Supervisor and the Land Commissioner to constitute a participating area, effective as of the date of completion of such well or the

effective date of this unit agreement, whichever is later. The acreages of both Federal and non-Federal lands shall be based upon appropriate computations from the courses and distances shown on the last approved public-land survey as of the effective date of each initial participating area. Said schedule shall also set forth the percentage of unitized substances to be allocated as herein provided to each tract in the participating area so established, and shall govern the allocation of production commencing with the effective date of the participating area. A separate participating area shall be established for each separate pool or deposit of unitized substances or for any group thereof which is produced as a single pool or zone, and any two or more participating areas so established may be combined into one, on approval of the Supervisor and the Land Commissioner. When production from two or more participating areas, so established, is subsequently found to be from a common pool or deposit said participating areas shall be combined into one effective as of such appropriate date as may be approved or prescribed by the Supervisor and the Land Commissioner. The participating area or areas so established shall be revised from time to time, subject to like approval, to include additional land then regarded as reasonably proved to be productive in paying quantities or necessary for unit operations, or to exclude land then regarded as reasonably proved not to be productive in paying quantities and the schedule of allocation percentages shall be revised accordingly. The effective date of any revision shall be the first of the month in which is obtained the knowledge or information on which such revision is predicated, provided, however, that a more appropriate effective date may be used if justified by the Unit Operator and approved by the Supervisor and the Land Commissioner. No land shall be excluded from a participating area on account of depletion of the unitized substances, except that any participating area established under the provisions of this unit agreement shall terminate automatically whenever all completions in the formation on which the participating area is based are abandoned.

It is the intent of this section that a participating area shall represent the area known or reasonably estimated to be productive in paying quantities; but regardless of any revision of the participating area, nothing herein contained shall be construed as requiring any retroactive adjustment for production obtained prior to the effective date of the revision of the participating area.

In the absence of agreement at any time between the Unit Operator and the Supervisor and the Land Commissioner as to the proper definition or redefinition

of a participating area, or until a participating area has, or areas have, been established as provided herein, the portion of all payments affected thereby shall be impounded in a manner mutually acceptable to the owners of working interests and the Supervisor and the Land Commissioner. Royalties due the United States shall be determined by the Supervisor for Federal lands and the Land Commissioner for the State lands and the amount thereof shall be deposited, as directed by the Supervisor and the Land Commissioner, to be held as unearned money until a participating area is finally approved and then applied as earned or returned in accordance with a determination of the sum due as Federal and State royalty on the basis of such approved participating area.

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

12. ALLOCATION OF PRODUCTION. All unitized substances produced from each participating area established under this agreement, except any part thereof used in conformity with good operating practices within the unitized area for drilling, operating, camp, and other production or development purposes, for repressuring or recycling in accordance with a plan of development approved by the Supervisor and Land Commissioner, or unavoidably lost, shall be deemed to be produced equally on an acreage basis from the several tracts of unitized land of the participating area established for such production and, for the purpose of determining any benefits accruing under this agreement, each such tract of unitized land shall have allocated to it such percentage of said production as the number of acres of such tract included in said participating area bears to the total acres of unitized land in said participating area, except that allocation of production hereunder for purposes other than for settlement of the royalty, overriding royalty, or payment out of production obligations of the respective working-interest owners, shall be on the basis prescribed in the unit operating agreement whether in conformity with the basis of allocation herein set forth or otherwise. It is hereby

agreed that production of unitized substances from a participating area shall be allocated as provided herein regardless of whether any wells are drilled on any particular part or tract of said participating area. If any gas produced from one participating area is used for repressuring or recycling purposes in another participating area, the first gas withdrawn from such last-mentioned participating area for sale during the life of this agreement shall be considered to be the gas so transferred until an amount equal to that transferred shall be so produced for sale and such gas shall be allocated to the participating area from which initially produced as such area was last defined at the time of such final production.

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

If any well drilled as aforesaid by a working-interest owner results in production such that the land upon which it is situated may properly be included in a participating area, such participating area shall be established or enlarged as provided in this agreement and the well shall thereafter be operated by the Unit Operator in accordance with the terms of this agreement and the unit operating agreement.

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

14. ROYALTY SETTLEMENT. The United States and any State and any royalty owner who is entitled to take in kind a share of the substances now unitized hereunder shall hereafter be entitled to the right to take in kind its share of the unitized substances, and the Unit Operator, or the working-interest owner in case

of the operation of a well by a working-interest owner as herein provided for in special cases, shall make deliveries of such royalty share taken in kind in conformity with the applicable contracts, laws, and regulations. Settlement for royalty interest not taken in kind shall be made by working-interest owners responsible therefor under existing contracts, laws, and regulations, or by the Unit Operator, on or before the last day of each month for unitized substances produced during the preceding calendar month; provided, however, that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any royalties due under their leases.

If gas obtained from lands not subject to this agreement is introduced into any participating area hereunder, for use in repressuring, stimulation of production, or increasing ultimate recovery, in conformity with a plan of operations approved by the Supervisor and the Land Commissioner, a like amount of gas, after settlement as herein provided for any gas transferred from any other participating area and with appropriate deduction for loss from any cause, may be withdrawn from the formation into which the gas is introduced, royalty free as to dry gas, but not as to any products which may be extracted therefrom; provided that such withdrawal shall be at such time as may be provided in the approved plan of operations or as may otherwise be consented to by the Supervisor and the Land Commissioner as conforming to good petroleum engineering practice; and provided further, that such right of withdrawal shall terminate on the termination of this unit agreement.

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

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

15. RENTAL SETTLEMENT. Rental or minimum royalties due on leases committed hereto shall be paid by working-interest owners responsible therefor under existing contracts, laws, and regulations, provided that nothing herein contained shall

of the operation of a well by a working-interest owner as herein provided for in special cases, shall make deliveries of such royalty share taken in kind in conformity with the applicable contracts, laws, and regulations. Settlement for royalty interest not taken in kind shall be made by working-interest owners responsible therefor under existing contracts, laws, and regulations, or by the Unit Operator, on or before the last day of each month for unitized substances produced during the preceding calendar month; provided, however, that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any royalties due under their leases.

If gas obtained from lands not subject to this agreement is introduced into any participating area hereunder, for use in repressuring, stimulation of production, or increasing ultimate recovery, in conformity with a plan of operations approved by the Supervisor and the Land Commissioner, a like amount of gas, after settlement as herein provided for any gas transferred from any other participating area and with appropriate deduction for loss from any cause, may be withdrawn from the formation into which the gas is introduced, royalty free as to dry gas, but not as to any products which may be extracted therefrom; provided that such withdrawal shall be at such time as may be provided in the approved plan of operations or as may otherwise be consented to by the Supervisor and the Land Commissioner as conforming to good petroleum engineering practice; and provided further, that such right of withdrawal shall terminate on the termination of this unit agreement.

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

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

15. RENTAL SETTLEMENT. Rental or minimum royalties due on leases committed hereto shall be paid by working-interest owners responsible therefor under existing contracts, laws, and regulations, provided that nothing herein contained shall

operate to relieve the lessees of any land from their respective lease obligations for the payment of any rental or minimum royalty due under their leases. Rental or minimum royalty for lands of the United States subject to this agreement shall be paid at the rate specified in the respective leases from the United States unless such rental or minimum royalty is waived, suspended, or reduced by law or by approval of the Secretary or his duly authorized representative.

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

With respect to any lease on non-Federal land containing provisions which would terminate such lease unless drilling operations are commenced upon the land covered thereby within the time therein specified or rentals are paid for the privilege of deferring such drilling operations, the rentals required thereby shall, notwithstanding any other provision of this agreement, be deemed to accrue and become payable during the term thereof as extended by this agreement and until the required drilling operations are commenced upon the land covered thereby or until some portion of such land is included within a participating area.

16. CONSERVATION. Operations hereunder and production of unitized substances shall be conducted to provide for the most economical and efficient recovery of said substances without waste, as defined by or pursuant to State or Federal law or regulation.

17. DRAINAGE. The Unit Operator shall take such measures as the Supervisor and Land Commissioner deem appropriate and adequate to prevent drainage of unitized substances from unitized land by wells on land not subject to this agreement.

18. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, conditions, and provisions of all leases, subleases, and other contracts relating to exploration, drilling, development, or operation for oil or gas on lands committed to this agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect; and the parties hereto hereby consent that the Secretary, as to Federal leases and the Land Commissioner, as to State leases, shall and each by his approval hereof, or by the approval hereof by his duly authorized representative, does hereby establish, alter, change, or revoke the drilling, producing, rental, minimum royalty, and royalty requirements of Federal and State leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this agreement, and without limiting the generality of the foregoing,

all leases, subleases, and contracts are particularly modified in accordance with the following:

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

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

(c) Suspension of drilling or producing operations on all unitized lands pursuant to direction or consent of the Secretary and the Land Commissioner, or his duly authorized representative, shall be deemed to constitute such suspension pursuant to such direction or consent as to each and every tract of unitized land. A suspension of drilling or producing operations limited to specified lands shall be applicable only to such lands.

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

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

accordance with the provisions of the Mineral Leasing Act Revision of 1960.

(f) Each sublease or contract relating to the operation and development of unitized substances from lands of the United States committed to this agreement, which by its terms would expire prior to the time at which the underlying lease, as extended by the immediately preceding paragraph, will expire, is hereby extended beyond any such term so provided therein so that it shall be continued in full force and effect for and during the term of the underlying lease as such term is herein extended.

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

(h) In the event the Initial Test Well is commenced prior to the expiration date of the shortest term State Lease within the Unit Area, any lease embracing lands of the State of New Mexico which is made subject to this agreement, shall continue in force beyond the term provided therein as to the lands committed hereto until the termination hereof.

(i) Any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto, shall be segregated as to the portion committed and the portion not committed, and the terms of such lease shall apply separately to such segregated portions commencing as of the effective date hereof; provided, however, notwithstanding any of the provisions of this agreement to the contrary any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto shall continue in full force and effect beyond the term provided therein as to all lands embraced in such lease, if oil or gas is discovered and is capable of being produced in paying quantities from some part of the lands embraced in such lease at the expiration of the secondary term of such lease; or if, at the expiration of the secondary term, the leasee or the Unit Operator is then engaged in bona fide drilling or reworking operations on some part of the lands embraced in such lease, the same as to all lands embraced therein, shall

remain in full force and effect so long as such operations are being diligently prosecuted, and if they result in the production of oil or gas; said lease shall continue in full force and effect as to all of the lands embraced therein, so long thereafter as oil or gas in paying quantities is being produced from any portion of said lands.

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

20. EFFECTIVE DATE AND TERM. This agreement shall become effective upon approval by the Secretary and the Land Commissioner or his duly authorized representative, and shall terminate five (5) years from said effective date unless

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

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

(c) a valuable discovery of unitized substances has been made or accepted on unitized land during said initial term or any extension thereof, in which event the agreement shall remain in effect for such term and so long as unitized substances are produced in quantities sufficient to pay for the cost of producing same from wells on unitized land within any participating area established hereunder and, should production cease, so long thereafter as diligent operations are in progress for the restoration of production or discovery of new production and so long thereafter as unitized substances so discovered are produced as aforesaid, or

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

21. RATE OF PROSPECTING, DEVELOPMENT, AND PRODUCTION. The Director is hereby vested with authority to alter or modify from time to time in his discretion the quantity and rate of production under this agreement when such quantity and rate is not fixed pursuant to Federal or State law or does not conform to any statewide voluntary conservation or allocation program, which is established, recognized, and generally adhered to by the majority of operators in such State, such authority being hereby limited to alteration or modification in the public interest, the purpose thereof and the public interest to be served thereby to be stated in the order of alteration or modification. Without regard to the foregoing, the Director is also hereby vested with authority to alter or modify from time to time in his discretion the rate of prospecting and development and the quantity and rate of production under this agreement when such alteration or modification is in the interest of attaining the conservation objectives stated in this agreement and is not in violation of any applicable Federal or State law.

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

22. APPEARANCES. Unit Operator shall, after notice to other parties affected, have the right to appear for and on behalf of any and all interests affected hereby before the Department of the Interior and the Commissioner of Public Lands and to appeal from orders issued under the regulations of said Department or Land Commissioner or to apply for relief from any of said regulations or in any proceedings relative to operations before the Department of the Interior or the Land Commissioner or any other legally constituted authority; provided, however, that any other interested party shall also have the right at his own expense to be heard in any such proceeding.

23. NOTICES. All notices, demands, or statements required hereunder to be given or rendered to the parties hereto shall be deemed fully given if given in writing and personally delivered to the party or sent by postpaid registered or certified mail, addressed to such party or parties at their respective addresses

set forth in connection with the signatures hereto or to the ratification or consent hereof or to such other address as any such party may have furnished in writing to party sending the notice, demand or statement.

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

25. UNAVOIDABLE DELAY. All obligations under this agreement requiring the Unit Operator to commence or continue drilling or to operate on or produce unitized substances from any of the lands covered by this agreement shall be suspended while the Unit Operator despite the exercise of due care and diligence, is prevented from complying with such obligations, in whole or in part, by strikes, acts of God, Federal, State, or municipal law or agencies, unavoidable accidents, uncontrollable delays in transportation, inability to obtain necessary materials in open market, or other matters beyond the reasonable control of the Unit Operator whether similar to matters herein enumerated or not. No unit obligation which is suspended under this section shall become due less than thirty (30) days after it has been determined that the suspension is no longer applicable. Determination of creditable "Unavoidable Delay" time shall be made by the unit operator subject to approval of the Supervisor and the Land Commissioner.

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

27. LOSS OF TITLE. In the event title to any tract of unitized land shall fail and the true owner cannot be induced to join in this unit agreement, such tract shall be automatically regarded as not committed hereto and there shall be such readjustment of future costs and benefits as may be required on account of the loss of such title. In the event of a dispute as to title as to any royalty, working interest, or other interests subject thereto, payment or delivery on account thereof may be withheld without liability for interest until the dispute is finally settled; provided, that, as to Federal and State land or leases, no payments of

funds due the United States or the State of New Mexico should be withheld, but such funds shall be deposited as directed by the Supervisor and such funds of the State of New Mexico shall be deposited as directed by the Land Commissioner, to be held as unearned money pending final settlement of the title dispute, and then applied as earned or returned in accordance with such final settlement.

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

28. NON-JOINDER AND SUBSEQUENT JOINDER. If the owner of any substantial interest in a tract within the unit area fails or refuses to subscribe or consent to this agreement, the owner of the working interest in that tract may withdraw said tract from this agreement by written notice delivered to the Supervisor and the Land Commissioner and the Unit Operator prior to the approval of this agreement by the Supervisor. Any oil or gas interests in lands within the unit area not committed hereto prior to submission of this agreement for final approval may thereafter be committed hereto by the owner or owners thereof subscribing or consenting to this agreement, and, if the interest is a working interest, by the owner of such interest also subscribing to the unit operating agreement. After operations are commenced hereunder, the right of subsequent joinder, as provided in this section, by a working-interest owner is subject to such requirements or approvals, if any, pertaining to such joinder, as may be provided for in the unit operating agreement. After final approval hereof, joinder by a non-working interest owner must be consented to in writing by the working-interest owner committed hereto and responsible for the payment of any benefits that may accrue hereunder in behalf of such non-working interest. A non-working interest may not be committed to this unit unless the corresponding working interest is committed hereto. Joinder to the unit agreement by a working-interest owner, at any time, must be accompanied by appropriate joinder to the unit operating agreement, if more than one committed working-interest owner is involved, in order for the interest to be regarded as committed to this unit agreement. Except as may otherwise herein be provided, subsequent joinders to this agreement shall be effective as of the first day of the month following the filing with the Supervisor and the Land Commissioner of duly executed counterparts of all or any papers necessary to establish effective commitment of any tract to this agreement unless objection to such joinder is duly made within sixty (60) days by the Supervisor and the Land Commissioner.

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SANTA FE, N.M.

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

30. SURRENDER. Nothing in this agreement shall prohibit the exercise by any working-interest owner of the right to surrender vested in such party by any lease, sublease, or operating agreement as to all or any part of the lands covered thereby, provided that each party who will or might acquire such working interest by such surrender or by forfeiture as hereafter set forth, is bound by the terms of this agreement.

If, as a result of any such surrender, the working interest rights as to such lands become vested in any party other than the fee owner of the unitized substances, said party may forfeit such rights and further benefits from operation hereunder as to said land to the party next in the chain of title who shall be and become the owner of such working interest.

If, as the result of any such surrender or forfeiture, working interest rights become vested in the fee owner of the unitized substances, such owner may:

- (1) Accept those working-interests rights subject to this agreement and the unit operating agreement; or
- (2) Lease the portion of such land as is included in a participating area established hereunder subject to this agreement and the unit operating agreement.
- (3) Provide for the independent operation of any part of such land that are not then included within a participating area established hereunder.

If the fee owner of the unitized substances does not accept the working-interest rights subject to this agreement and the unit operating agreement or lease, such lands as above-provided within six (6) months after the surrendered or forfeited working-interest rights become vested in the fee owner, the benefits and obligations of operations accruing to such lands under this agreement and the unit operating agreement shall be shared by the remaining owners of unitized working interests in accordance with their respective working interest ownerships, and such owners or working interests shall compensate the fee owner of unitized sub-

stances in such lands by paying sums equal to the rentals, minimum royalties, and royalties applicable to such lands under the lease in effect when the lands were unitized.

An appropriate accounting and settlement shall be made, for all benefits accruing to or payments and expenditures made or incurred on behalf of such surrendered or forfeited working interest subsequent to the date of surrender or forfeiture, and payment of any moneys found to be owing by such an accounting shall be made as between the parties within thirty (30) days. In the event no unit operating agreement is in existence and a mutually acceptable agreement between the proper parties thereto cannot be consummated, the Supervisor may prescribe such reasonable and equitable agreement as he deems warranted under the circumstances.

The exercise of any right vested in a working-interest owner to reassign such working interest to the party from whom obtained shall be subject to the same conditions as set forth in this section in regard to the exercise of a right to surrender.

31. TAXES. The working-interest owners shall render and pay for their account and the account of the royalty owners all valid taxes on or measured by the unitized substances in and under or that may be produced, gathered, and sold from the land subject to this contract after the effective date of this agreement, or upon the proceeds derived therefrom. The working-interest owners on each tract shall and may charge the proper proportion of said taxes to the royalty owners having interests in said tract, and may currently retain and deduct sufficient of the unitized substances or derivative products, or net proceeds thereof from the allocated share of each royalty owner to secure reimbursement for the taxes so paid. No such taxes shall be charged to the United States or the State of New Mexico or to any lessor who has a contract with his lessor who has a contract with his lessee which requires the lessee to pay such taxes.

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

33. CONFLICT OF SUPERVISION. Neither the Unit Operator nor the working-interest owners, nor any of them, shall be subject to any forfeiture, termination, or expiration of any right hereunder or under any leases or contracts subject hereto,

or to any penalty or liability on account of delay or failure in whole or in part to comply with any applicable provisions thereof to the extent that the said Unit Operator or the working-interest owners, or any of them, are hindered, delayed, or prevented from complying therewith by reason of failure of the Unit Operator to obtain, in the exercise of due diligence, the concurrence of proper representatives of the United States and proper representatives of the State of New Mexico in and about any matters or things concerning which it is required herein that such concurrence be obtained. The parties hereto, including the State Commission, agree that all powers and authority vested in the State Commission in and by any provisions of this agreement are vested in the State Commission and shall be exercised by it pursuant to the provisions of the laws of the State of New Mexico and subject in any case to appeal or judicial review as may now or hereafter be provided by the laws of the State of New Mexico.

34. SURFACE AND ENVIRONMENTAL PROTECTION STIPULATIONS. Nothing in this agreement shall modify or change either the special Federal Lease stipulations relating to surface management or such special Federal Lease stipulations relating to surface and environmental protection, attached to and made a part of, Oil and Gas Leases covering lands within the Unit Area.

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

ATTEST:

TESORO PETROLEUM CORPORATION

BY: _____

BY: _____

Address: _____

UNIT OPERATOR

STATE OF _____)

COUNTY OF _____)

ss

The foregoing instrument was acknowledged before me this _____ day of _____, 1974, by _____ who is

_____ of _____

(State of Incorp.)

_____ corporation, for and on behalf of said Corporation.

My Commission Expires: _____

Notary Public

EXHIBIT "B"
SCHEDULE OF LAND AND LEASES
COAL CREEK UNIT AREA
San Juan County, New Mexico

TRACT NO.	DESCRIPTION	ACRES	SERIAL NO. & EXP. DATE	BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE
1.	T-23-N, R-12-W, NMPM Sec. 28; SE $\frac{1}{4}$ SE $\frac{1}{4}$ 40.00		NM-0555834-A 04-30-75	U.S.A. 12.5%	Delaware-Apache Corp	Raymond Chorney 2.5% Jacqueline Anderson 1.0%	Delaware-Apache Corp. A1
2.	T-23-N, R-12-W, NMPM Sec. 18; SE $\frac{1}{4}$ 160.00		NM-0555848 03-31-75	U.S.A. 12.5%	Raymond Chorney - 25.0% Kirby Petroleum Co. - 25.0% Aquitaine Oil Corp. - 25.0% Natural Gas Pipeline Co. - 25.0%	Stanley M. Edwards 2.5% L. C. Driskell 2.5%	Raymond Chorney 25.0% Kirby Petroleum Company 25.0% Aquitaine Oil Corp. 25.0% Natural Gas Pipeline Co. 25.0%
3.	T-23-N, R-12-W, NMPM Sec. 33; All 640.00		NM-0555877-A 03-31-75	U.S.A. 12.5%	Delaware-Apache Corp.	Casper College Foundation .875% Raymond Chorney 2.625%	Delaware-Apache Corp. A1
4.	T-23-N, R-13-W, NMPM Sec. 14; SE $\frac{1}{4}$ 480.00 Sec. 23; E $\frac{1}{2}$		NM-0555815-A 02-28-75	U.S.A. 12.5%	Chorney Oil Company - 18.75% Natural Gas Pipeline Co. - 18.75% Aquitaine Oil Corp. - 18.75% Kirby Petroleum Co. - 18.75% Tesoro Petroleum Corp. - 25.00%	Raymond Chorney 3.0%	Chorney Oil Company 18.0% Natural Gas Pipeline Co. 18.0% Aquitaine Oil Corp. 18.0% Kirby Petroleum Co. 18.0% Tesoro Petroleum Corp. 25.0%
5.	T-23-N, R-13-W, NMPM Sec. 27; All 640.00		NM-0555916 03-31-75	U.S.A. 12.5%	Tesoro Petroleum Corp.	Casper College Foundation .875% Raymond Chorney 2.625%	Tesoro Petroleum Corp. A1
6.	T-23-N, R-13-W, NMPM Sec. 25; All 640.00		NM-0555916-A 03-31-75	U.S.A. 12.5%	Sknight Pet. Trust - 75.00% McAlester Fuel Co. - 25.00%	Casper College Foundation .875% Raymond Chorney 2.625% William J. A. Johnson 1.0%	McKnight Petroleum Trust 75.0% McAlester Fuel Co. 25.0%
7.	T-23-N, R-13-W, NMPM Sec. 35; All 640.00		NM-0556326 03-01-75	U.S.A. 12.5%	McKnight Pet. Trust - 75.00% McAlester Fuel Co. - 25.00%	Thomas D. Chase 1.0% Dorothy Chorney 2.0%	McKnight Petroleum Trust 75.0% McAlester Fuel Co. 25.0%

8.	<u>T-23-N, R-12-W, NMPM</u> Sec. 18; Lots 3, 4, 485.22 E/SW 1/4 Sec. 19; Lots 5 thru 12	NM-0556834 04-30-75	U.S.A. 12.5%	Raymond Chorney - 25.00% Aquitaine Oil Corp. - 25.00% Natural Gas Pipeline Co. - 25.00% Kirby Petroleum Co. - 25.00%	Stanley M. Edwards 2.0% L. C. Driskell 2.0% Jacqueline Anderson 1.0%	Raymond Chorney 25.00% Aquitaine Oil Corp. 25.00% Natural Gas Pipeline Co. 25.00% Kirby Petroleum Co. 25.00%
9.	<u>T-23-N, R-13-W, NMPM</u> Sec 20; All	NM-0556836 04-30-75	U.S.A. 12.5%	Tesoro Petroleum Corp.	Raymond Chorney 2.5% W. H. McDermott 1.0%	Tesoro Petroleum Corp. All
10.	<u>T-23-N, R-13-W, NMPM</u> Sec. 14; S.W. 1/4 Sec. 23; W/2	NM-0558416 11-30-75	U.S.A. 12.5%	Chorney Oil Co. - 18.75% Natural Gas Pipeline Co. - 18.75% Aquitaine Oil Corp. - 18.75% Kirby Petroleum Co. - 18.75% Tesoro Petroleum Corp. - 25.00%	W. D. Tolan Raymond Chorney 2.0% 1.0%	Chorney Oil Co. 18.75% Natural Gas Pipeline Co. 18.75% Aquitaine Oil Corp. 18.75% Kirby Petroleum Co. 18.75% Tesoro Petroleum Corp. 25.00%
11.	<u>T-23-N, R-13-W, NMPM</u> Sec. 13; S.W. 1/4	NM-0558650 12-31-75	U.S.A. 12.5%	Chorney Oil Company - 18.75% Natural Gas Pipeline Co. - 18.75% Aquitaine Oil Corp. - 18.75% Kirby Petroleum Co. - 18.75% Tesoro Petroleum Corp. - 25.00%	Raymond Chorney 3.0%	Chorney Oil Company 18.75% Natural Gas Pipeline Co. 18.75% Aquitaine Oil Corp. 18.75% Kirby Petroleum Co. 18.75% Tesoro Petroleum Corp. 25.00%
12.	<u>T-23-N, R-13-W, NMPM</u> Sec. 34; All	NM-0559141 02-28-76	U.S.A. 12.5%	Tesoro Petroleum Corp.	Est. of F. C. Grigsby 3.5%	Tesoro Petroleum Corp. All
13.	<u>T-23-N, R-12-W, NMPM</u> Sec. 19; Lots 13 thru 20	NM-3034 08-31-77	U.S.A. 12.5%	Hanland Oil Corporation	NONE	Hanland Oil Corporation All
14.	<u>T-23-N, R-12-W, NMPM</u> Sec. 29; All	NM-4280 01-31-78	U.S.A. 12.5%	Delaware-Apache Corp.	L. C. Driskell 1.5% W. D. Talan 0.5% Esther Chorney 1.5%	Delaware-Apache Corp. All

15.	<u>T-23-N, R-13-W, NMPM</u> Sec. 13; SE 1/4 160.00	NM-7020 07-31-78	U.S.A. 12.5%	Kirby Oil Company - 25.00% Natural Gas Pipeline Co. - 25.00% Aquitaine Oil Corp. - 25.00% Chorney Oil Company - 25.00%	NONE	Kirby Oil Company Natural Gas Pipeline Co. Aquitaine Oil Corp. Chorney Oil Company	25.00% 25.00% 25.00% 25.00%
16.	<u>T-23-N, R-12-W, NMPM</u> Sec. 20; Lots 3 thru 6, 11 thru 4 331.22	NM-8229 11-30-78	U.S.A. 12.5%	Raymond Chorney - 25.00% Kirby Petroleum Co. - 25.00% Aquitaine Oil Corp. - 25.00% Natural Gas Pipeline Co. - 25.00%	H. A. Rich, Jr. John Oakason Stanley M. Edwards L. C. Driskell	Raymond Chorney Kirby Petroleum Co. Aquitaine Oil Corp. Natural Gas Pipeline Co.	25.00% 25.00% 25.00% 25.00%
17.	<u>T-23-N, R-12-W, NMPM</u> Sec. 28; NW 1/4 NWSE 1/4 400.00	NM-15657 07-31-82	U.S.A. 12.5%	Aztec Oil & Gas Co.	NONE	Above 4,820 ft. Aztec Oil & Gas Co. Tesoro Petroleum Corp. Below 4,820 ft. Aztec Oil & Gas Co.	40.00% 60.00% All
18.	<u>T-23-N, R-12-W, NMPM</u> Sec. 30; Lots 1 thru 4, 3 1/2, E 1/2 NW 1/4 635.32	NM-17017 01-30-82	U.S.A. 12.5%	Husky Oil Company of Delaware Guy M. Willis Rilla M. Willis	1.5% 1.5%	Husky Oil Company of Del.	All
19.	<u>T-23-N, R-12-W, NMPM</u> Sec. 31; Lots 1 thru 4, E 1/2, E 1/2 NW 1/4 635.28	NM-18951 08-31-83	U.S.A. 12.5%	McAlester Fuel Co. - 25.00% Dorothy Langley McKnight Petroleum Trust - 75.00%	5.0%	McAlester Fuel Co. McKnight Petroleum Trust	25.00% 75.00%
20.	<u>T-23-N, R-13-W, NMPM</u> Sec. 24; All 640.00	NM-19572 11-30-83	U.S.A. 12.5%	McAlester Fuel Co. - 25.00% Ruth Ross McKnight Petroleum Trust - 75.00%	2.0%	McAlester Fuel Co. McKnight Petroleum Trust	25.00% 75.00%
21.	<u>T-23-N, R-12-W, NMPM</u> Sec. 20; Lots 1, 2, 7 thru 10, 15, 16 Sec. 28; SW 1/4, SWSE 1/4 SWSE 1/4 531.08	NM-23240 12-31-84	U.S.A. 12.5%	Tesoro Petroleum Corp.	NONE	Tesoro Petroleum Corp.	All
TOTAL: 9,945.11 acres Federal Lands							

STATE OF NEW MEXICO LANDS

22.	<u>T-23-N, R-12-W, NMPM</u> Sec. 32; All	640.00	K-4940-1 04-20-75	State 12.5%	Delaware-Apache Corp.	Raymond Chorney	3.5%	Delaware-Apache Corp.	All
23.	<u>T-23-N, R-13-W, NMPM</u> Sec. 36; NE $\frac{1}{4}$, SE $\frac{1}{4}$, SW $\frac{1}{4}$, W $\frac{1}{2}$ SE $\frac{1}{4}$	520.00	K-4941-5 04-20-75	State 12.5%	McKnight Pet. Trust McAlester Fuel Co. - 25.00%	Raymond Chorney J. A. Johnson	3.5% 1.0%	McKnight Petroleum Trust McAlester Fuel Company	75.00% 25.00%
24.	<u>T-23-N, R-13-W, NMPM</u> Sec. 36; E $\frac{1}{2}$ SE $\frac{1}{4}$, SW $\frac{1}{4}$ NW $\frac{1}{4}$	120.00	L-3564 09-16-79	State 12.5%	Kenneth McPeters	NONE		Kenneth McPeters	All
TOTAL: 1,280.00 acres State of New Mexico Lands									

Recapitulation

9,945.11 acres Federal Lands; 88.6% of Unit Area
1,280.00 acres State of New Mexico Lands; 11.4% of Unit Area
 11,225.11 acres 100.00% of Unit Area

DRAFT
jr/

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. 5416

Order No. R-4966

APPLICATION OF TESORO PETROLEUM CORPORATION
FOR APPROVAL OF THE COAL CREEK
UNIT AGREEMENT, SAN JUAN, COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 o'clock a.m. on
February 19, 1967, at Santa Fe, New Mexico, before Examiner
Daniel S. Nutter.

NOW, on this _____ day of February, 1967, 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, Tesoro Petroleum Corporation,
seeks approval of the Coal Creek Unit Agreement
covering 11,225.11 acres, more or less, of State and
Federal lands
described as follows:

SAN JUAN COUNTY, NEW MEXICO
TOWNSHIP 23 NORTH, RANGE 12 WEST, NMPM

Section 16: ~~1/2~~ S/2 ✓
Sections 19, 20: All ✓
Sections 28, through ~~33~~ 33: All ✓
~~Sections 29, 30, 31, 32~~

Township 23 North, Range 13 West
Section 13: S/2 ✓
Section 14: S/2 ✓
Sections 23, 24, ~~25~~ through 27: All ✓
Sections 34, through 36: 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 Coal Creek 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.