

CASE 5608: NORTHERN NATURAL GAS  
COMPANY FOR APPROVAL OF THE  
MACGRUDER HILL AGREEMENT, EDDY  
COUNTY, NEW MEXICO

CASE NO. —

5608

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APPLICATION,  
TRANSCRIPTS,  
SMALL EXHIBITS,

ETC.

Unit Name McGRUDER HILL UNIT (EXPLORATORY)  
 Operator Northern Natural Gas Company  
 County Eddy

000

DATE	OCC CASE NO.	EFFECTIVE DATE	TOTAL ACREAGE	STATE	FEDERAL	SEGREGATION	TERM
APPROVED	5608					CLAUSE	
	OCC ORDER NO. R-5150					Yes	So long as
Commissioner	Commission: 1-14-76	4-13-76	2,257.94	40.00	2,057.94	160.00	
4-12-76							

UNIT AREA

TOWNSHIP 22 SOUTH, RANGE 25 EAST, NMPM  
 Section 12: S/2  
 Section 13: All

TOWNSHIP 22 SOUTH, RANGE 26 EAST, NMPM  
 Section 18: All  
 Section 19: All

Unit Name THE McGRUDER HILL UNIT (EXPLORATORY)  
 Operator Northern Natural Gas Company  
 County Eddy

STATE TRACT NO.	LEASE NO.	INSTI- TUTION	SEC.	TWP.	RGE.	SUBSECTION	RATIFIED		ACREAGE	NOT RATIFIED	LESSEE
							DATE	ACRES			
9	L-2475-3	C.S.	12	22S	25E	NW/4SE/4	3-9-76	40.00			Inexco Oil Company



NMOCC Santa Fe, NM

IN REPLY REFER TO:



JAN - 9 1976

UNITED STATES  
DEPARTMENT OF THE INTERIOR  
GEOLOGICAL SURVEY  
FEDERAL CENTER, DENVER, COLORADO 80225

CONSERVATION COMM.  
Santa Fe

JAN 07 1976

Mr. Kenneth H. Griffin, Inc.  
Griffin & Burnett  
501 Petroleum Building  
Midland, Texas 79701

Dear Mr. Griffin

Your application filed on behalf of Northern Natural Gas Company with the Oil and Gas Supervisor, Roswell, New Mexico, requests the designation of the McGruder Hill unit area embracing 2,257.94 acres, more or less, Eddy County, New Mexico, as logically subject to exploration and development under the unitization provisions of the Mineral Leasing Act as amended.

Pursuant to unit plan regulations 30 CFR 226, the land requested as outlined on your plat marked "McGruder Hill unit Eddy County, New Mexico" is hereby designated as a logical unit area.

The unit agreement submitted for the area designated should provide for a well to test the Morrow formation of Pennsylvanian age or to a depth of 11,400 feet. Your proposed use of the Form of Agreement for Unproved Areas will be accepted with the modifications requested in your application provided it is further modified as follows:

1. Add the words "as amended" after (30 F.R. 12319) in Section 26, Nondiscrimination.

If conditions are such that further modification of said standard form is deemed necessary, three copies of the proposed modifications with appropriate justification must be submitted to this office through the Oil and Gas Supervisor for preliminary approval.

In the absence of any other type of land requiring special provisions or of any objections not now apparent, a duly executed agreement identical with said form, modified as outlined above, will be approved if submitted in approvable status within a reasonable period of time. However, notice is hereby given that the right is reserved to deny approval of any executed agreement submitted which, in our opinion, does not have the full commitment of sufficient lands to afford effective control of operations in the unit area.

When the executed agreement is transmitted to the Supervisor for Approval include the latest status of all acreage. In preparation of Exhibits "A" and "B", follow closely the format of the sample exhibits attached to the 1968 reprint of the aforementioned form.

Inasmuch as this unit agreement involves State land, we are sending a copy of the letter to The Commissioner of Public Lands in Santa Fe. Please contact the State of New Mexico before soliciting joinders regardless of prior contacts or clearances from the State.

Sincerely yours

*George W. Horn*

Regional Conservation Manager  
For the Director

cc: CD Reading File  
Area Office (2)  
File  
Com. Public Lands, Santa Fe  
NMOCC, Santa Fe

Unit Name McGRUDER HILL UNIT (EXPLORATORY)  
 Operator Northern Natural Gas Company  
 County Eddy

DATE	OCC CASE NO.	OCC ORDER NO.	EFFECTIVE DATE	TOTAL ACREAGE	STATE	FEDERAL	SEGREGATION		
							SEPARATION-FEE	CLAUSE	TERM
APPROVED	5608	R-5150	4-13-76	2,257.94	40.00	2,057.94	160.00	Yes	So long as
Commissioner	Commission: 1-14-76								
4-12-76									

UNIT AREA

TOWNSHIP 22 SOUTH, RANGE 25 EAST, NMPM

Section 12: S/2  
 Section 13: All

TOWNSHIP 22 SOUTH, RANGE 26 EAST, NMPM

Section 18: All  
 Section 19: All

**TERMINATED**  
 6-18-76  
 E.H.

Unit Name THE McGRUDER HILL UNIT (EXPLORATORY)  
 Operator Northern Natural Gas Company  
 County Eddy

STATE TRACT NO.	LEASE NO.	INSTITUTION	SEC.	TWP.	RGE.	SUBSECTION	RATIFIED		ACREAGE NOT RATIFIED	LESSEE
							DATE	ACRES		

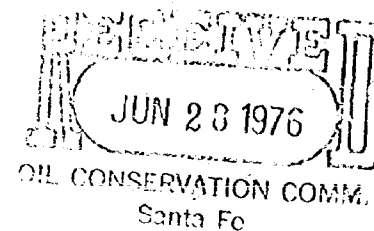
9	L-2475-3	C.S.	12	22S	25E	NW/4SE/4	3-9-76	40.00		Inexco Oil Company
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**TERMINATED**  
 9-18-76

# GRIFFIN & BURNETT, INC.

*Oil Properties*

KENNETH H. GRIFFIN  
GARY G. BURNETT



501 PETROLEUM BUILDING  
MIDLAND, TEXAS 79701  
915 683-2705

June 24, 1976

Re: File No. 3002  
McGRUDER HILL UNIT  
Eddy County, New Mexico

5608

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

Attention: Mr. Joe D. Ramey  
Secretary Director

Gentlemen:

Please find a copy of the letter from the U. S. G. S.  
dated June 18, 1976 terminating the captioned unit  
effective June 18, 1976.

Yours very truly, -

  
Kenneth H. Griffin

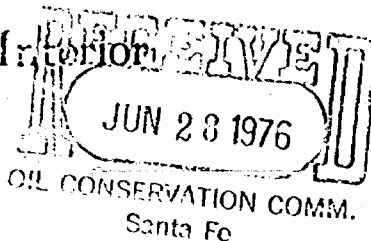
KHG/gp  
Enclosure

cc: Northern Natural Gas Company  
403 Wall Towers West  
Midland, Texas 79701  
Attention: Mr. C. F. Keller



United States Department of the Interior

GEOLOGICAL SURVEY  
Drawer 1857  
Roswell, New Mexico 88201



June 18, 1976

Northern Natural Gas Company  
Attention: Mr. C. F. Keller  
401 Wall Towers West  
Midland, Texas 79701

Gentlemen:

Termination of the McGruder Hill unit agreement, Eddy County, New Mexico, pursuant to section 20 (d) thereof, was approved effective as of June 18, 1976, the same date as approved.

Copies of the termination are being distributed to the Federal offices concerned and one copy is returned herewith. It is requested that you furnish notice of this approval to each party in interest.

Sincerely yours,

J. A. GILLHAM  
Acting Area Oil and Gas Supervisor

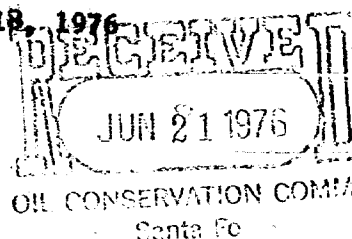




United States Department of the Interior

GEOLOGICAL SURVEY  
Drawer 1857  
Roswell, New Mexico 88201

June 18, 1976



Northern Natural Gas Company  
Attention: Mr. C. F. Keller  
401 Wall Towers West  
Midland, Texas 79701

Gentlemen:

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Copies of the termination are being distributed to the Federal offices concerned and one copy is returned herewith. It is requested that you furnish notice of this approval to each party in interest.

Sincerely yours,

((ORIG. SGD.)) J. A. GILLHAM

J. A. GILLHAM  
Acting Area Oil and Gas Supervisor

cc: BLM, Santa Fe (w/cy appin)  
Artesia (w/cy appin)  
NMCC, Santa Fe (ltr. only)  
Com. of Pub. Lands (ltr. only)  
Area Geologist (ltr. only)  
Accounts (ltr. only)

NOTE TO BLM: All committed Federal leases within the McGruder Hill unit area should be considered for 2-year extensions pursuant to 43 CFR 3107.5, as applicable.

RDLindau:dap



PHIL R. LUCERO  
COMMISSIONER

State of New Mexico



Commissioner of Public Lands

June 15, 1976

TELEPHONE  
505-827-2748

P. O. BOX 1149  
SANTA FE, NEW MEXICO 87501

Northern Natural Gas Company  
401 Wall Towers West  
Midland, Texas 79701

Re: McGruder Hill Unit  
TERMINATION  
Eddy County, New Mexico

ATTENTION: Mr. C. F. Keller

Gentlemen:

This letter acknowledges receipt of your letter of June 11, 1976, advising of the termination of the McGruder Hill Unit, Eddy County, New Mexico.

The Commissioner of Public Lands has this date terminated the McGruder Hill Unit. This is subject to like termination by the United States Geological Survey. Please advise when the USGS terminates the agreement so that we may establish the effective date.

Very truly yours,

PHIL R. LUCERO  
COMMISSIONER OF PUBLIC LANDS

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

PHL/RDK/s  
cc:

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

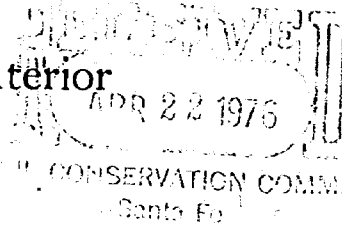
5608





United States Department of the Interior

GEOLOGICAL SURVEY  
P. O. Drawer 1857  
Roswell, New Mexico 88201



April 13, 1976

5608

Griffin & Bugnett, Inc.  
Attention: Mr. Kenneth H. Griffin  
501 Petroleum Building  
Midland, Texas 79701

Gentlemen:

One approved copy of the McGruder Hill unit agreement, Eddy County, New Mexico, with Northern Natural Gas Company as unit operator, is enclosed. Such agreement has been assigned No. 14-08-0001-14274 and is effective April 13, 1976, the same date as approved.

You are requested to furnish all principals with appropriate evidence of this approval.

Sincerely yours,

(ORIG. SGD.) CARL C. TRAYWICK

CARL C. TRAYWICK  
Acting Area Oil & Gas Supervisor

cc:  
NMOCC, Santa Fe (ltr only) ← This Copy for  
Com. Pub. Lands, Santa Fe (ltr only)  
Area Geologist, Roswell (Ltr only)  
Artesia (w/cy appln)

RLindau:dlk

(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 Magruder Hill 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.

DRAFT

dr/

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. 5608

Order No. R- 5150

APPLICATION OF NORTHERN NATURAL GAS COMPANY  
FOR APPROVAL OF THE MAGRUDER HILL  
UNIT AGREEMENT, EDDY, COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 o'clock a.m. on  
January 7, 1966, at Santa Fe, New Mexico, before Examiner  
Richard L. Stamets.

NOW, on this \_\_\_\_\_ day of January, 1966, 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, Northern Natural Gas Company,  
seeks approval of the Magruder Hill Unit Agreement  
covering 2,257.94 acres, more or less, of State Federal lands  
2,258 and Fee  
described as follows:

EDDY COUNTY, NEW MEXICO  
TOWNSHIP 22 South, RANGE 25 East NMPM

Section 12: 5/2

Section 13: 11/1

Township 22 South, Range 26 East, NMPM

Section 18: 17/1

Section 19: 17/1



BEFORE THE  
NEW MEXICO OIL CONSERVATION COMMISSION  
Santa Fe, New Mexico  
January 7, 1976

EXAMINER HEARING

IN THE MATTER OF:

Application of Northern Natural Gas  
Company for a unit agreement, Eddy  
County, New Mexico.

CASE  
5608

BEFORE: Richard L. Stamets, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the New Mexico Oil  
Conservation Commission:

William F. Carr, Esq.  
Legal Counsel for the Commission  
State Land Office Building  
Santa Fe, New Mexico

For the Applicant:

Harold L. Hensley, Jr., Esq.  
HINKLE, BONDURANT, COX & EATON  
Attorneys at Law  
Hinkle Building  
Roswell, New Mexico

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General Court Reporting Service  
825 Calle Mejia, No. 122, Santa Fe, New Mexico 87501  
Phone (505) 982-9212

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General Court Reporting Service  
825 Calle Mejia, No. 122, Santa Fe, New Mexico 87501  
Phone (505) 982-9212

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I N D E X

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4 Direct Examination by Mr. Hensley	3
6 <u>MARK SCHWEINFURTH</u>	
7 Direct Examination by Mr. Hensley	7

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14 Applicant's Exhibit Number Two, Geological Study	11

1 MR. STAMETS: We will call the next Case, 5608.

2 MR. CARR: Case 5608, application of Northern  
3 Natural Gas Company for a unit agreement, Eddy County,  
4 New Mexico.

5 MR. STAMETS: Call for appearances in this case.

6 MR. HENSLEY: If the Examiner please, Harold L.  
7 Hensley, Jr. of the firm of Hinkle, Bondurant, Cox and Eaton,  
8 Roswell, New Mexico for the applicant, Northern Natural Gas  
9 Company. We will have two witnesses, Mr. Ken Griffin and  
10 Mr. Mark Schweinfurth.

11 MR. STAMETS: They will stand and be sworn, please.

12 (THEREUPON, the witnesses were duly sworn.)

13 K. H. GRIFFIN

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

16 DIRECT EXAMINATION

17 BY MR. HENSLEY:

18 Q Would you state your name, please?

19 A My name is K. H. Griffin.

20 Q What is your occupation, Mr. Griffin?

21 A I'm an independent landman, Midland, Texas, represent-  
22 ing Northern Natural Gas.

23 Q Have you previously testified before this Commission?

24 A Yes, I have.  
25

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1 Q And are those qualifications a matter of record  
2 before the Commission?

3 A Yes.

4 MR. HENSLEY: Mr. Examiner, are the qualifications  
5 of the witness acceptable?

6 MR. STAMETS: They are.

7 Q (Mr. Hensley continuing.) I will ask you, Mr.  
8 Griffin, to please refer to what has been marked for  
9 identification, sir, as Exhibit One and identify that exhibit  
10 if you will?

11 A Exhibit One is the proposed unit agreement for the  
12 Magruder Hill Unit Area, Eddy County, New Mexico.

13 Q Are there two separate attachments in addition to  
14 the Unit Agreement itself?

15 A Yes, to the Unit Agreement will be attached Exhibit  
16 A which is a plat showing the ownership and the outline of  
17 the Unit area. The remaining attachment is Exhibit B which  
18 at this time has not been prepared but will be a complete  
19 rundown, break down of the ownership, including royalties.

20 Exhibit A at this point does show all of the  
21 ownership, acreage content, nature of acreage.

22 Q Including a break down of the Federal, State and  
23 fee acreage in the Unit?

24 A Correct. The Unit covers two thousand, two hundred  
25 and fifty-seven point nine four acres, being two thousand and

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1 fifty-seven point nine, four acres of Federal land, forty  
2 acres of State land and four hundred and sixty acres of  
3 patented land. The Federal land being ninety-one point one,  
4 four, two percent, State being one point seven, seven, two  
5 percent and the patented land seven point oh, eight, six  
6 percent.

7 Q Sir, has the proposed Unit Area been designated by  
8 the USGS as logically subject to exploration and development  
9 under the unitization provisions of the minerals leasing act?

10 A We have had our meeting with the USGS in Roswell,  
11 we have their tentative approval, the formal designation  
12 has been requested and is being processed through their  
13 Denver office now.

14 Q Has the proposed Unit area been informally approved  
15 by the Commissioner of Public Lands?

16 A It has.

17 Q Has the form of unit agreement which is marked as  
18 Exhibit Number One been previously approved by the USGS, the  
19 Commissioner of Public Lands and this Commission?

20 A Yes, it has. It essentially is a 1968 reprint  
21 that is standardly used for this type unit.

22 Q All right, sir, who is the designated unit operator?

23 A Northern Natural Gas Company.

24 Q Are all formations to be unitized?

25 A Yes, all formations will be unitized.

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Phone (505) 982-9212

1 Q What are the provisions with respect to the initial  
2 test well?

3 A The unit agreement provides for the commencement  
4 of initial wells within six months of approval and we will  
5 drill an eleven thousand, four hundred foot Morrow test at an  
6 approved location.

7 Q What is the plan for unit development subsequent  
8 to the test well?

9 A The 1968 reprint provisions essentially provide for  
10 a six months plan of development to be filed and approved by  
11 the Supervisor, the Commissioner and the Commission.

12 Q Mr. Griffin, what is the present status of the  
13 commitment to the unit agreement of the working interest in  
14 the proposed unit area?

15 A We anticipate an excess of ninety percent sign up  
16 and participation in the unit.

17 Q I assume that ninety percent commitment would afford  
18 effective control of operations?

19 A Correct. Actually we will have effective control  
20 of every potential proration unit and the effective sign up  
21 should actually be in excess of ninety-five percent.

22 Q In your opinion, sir, is the unit agreement in the  
23 interest of conservation and will it prevent waste and protect  
24 correlative rights?

25 A Yes, sir.

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Phone (505) 982-9212

1 Q Was Exhibit One prepared by you or under your  
2 direct supervision?

3 A Yes.

4 MR. HENSLEY: Mr. Examiner, we move the introduction  
5 of Exhibit One at this time.

6 MR. STAMETS: Exhibit One will be admitted.

7 (THEREUPON, Applicant's Exhibit One was  
8 admitted into evidence.)

9 MR. STAMETS: Are there any questions of the  
10 witness? He may be excused.

11 (THEREUPON, the witness was excused.)

12 MARK SCHWEINFURTH

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

15  
16 DIRECT EXAMINATION

17 BY MR. HENSLEY:

18 Q Would you state your name, occupation and by whom  
19 you are employed, sir?

20 A My name is Mark Schweinfurth, I'm a geologist and  
21 I'm employed by Northern Natural Gas Company in Midland,  
22 Texas.

23 Q Have you ever testified before this Commission prior  
24 to this appearance?

25 A No, I have not.

**sid morriss reporting service**

General Court Reporting Service  
825 Calle Mejia, No. 122, Santa Fe, New Mexico 87501  
Phone (505) 982-9212

1 Q For the benefit of the Examiner, sir, would you  
2 please state your educational background?

3 A I received a Bachelor's degree and a Master's degree  
4 in science from the University of Cincinnati. The Master's  
5 degree was in 1958. From there I worked as a geologist for  
6 California Company in New Orleans, Tidewater and Getty Oil  
7 Companies in Midland, Texas and now Northern Natural Gas  
8 Company.

9 Q You have been gainfully employed then as a practicing  
10 geologist since your graduation?

11 A That is correct.

12 MR. HENSLEY: Are the qualifications of the witness  
13 acceptable, Mr. Examiner?

14 MR. STAMETS: They are.

15 Q (Mr. Hensley continuing.) Have you caused a  
16 geological study of the proposed Unit Area, Mr. Schweinfurth?

17 A I have.

18 Q What were the results of the study and what data  
19 did you consider in connection with that study?

20 A Structural and stratigraphic studies were both  
21 undertaken. The structural study was done by seismograph and  
22 it indicates a northwest-southeast trending structural  
23 anticline in the area of the Unit.

24 The stratigraphic studies indicate that the Morrow  
25 sand, which is the primary reservoir in this area, is present

1 under the Unit and will be productive from studies in the  
2 Catclaw Draw field to the north and from log analysis of  
3 several wells in the area around the Unit which are designated  
4 with red triangles.

5 Q Are the results of your study indicated by Exhibit  
6 Two which has been marked for identification?

7 A They are.

8 Q What conclusions do you draw from this exhibit, Mr.  
9 Schweinfurth?

10 A From the exhibit it indicates that there is a  
11 structure in the area of the Unit, it also indicates that from  
12 log analysis the well to the north of the Unit known as the  
13 Gulf Oil Company Number 1 Hackberry Hills Unit, is productive  
14 in the Strawn formation. It has produced to date approximately  
15 two and three quarter billion cubic feet. The Morrow section  
16 in this well was not tested but log analysis indicates that  
17 it is productive.

18 The well to the southwest of the proposed Unit, known  
19 as the Coquina FAF Number 1, was completed in 1975 as a  
20 Cisco Canyon discovery.

21 The well to the south of the Unit on the plat shown  
22 as the Honolulu Number 1 McKettrick Canyon Unit.

23 Q That's in Section 25?

24 A In Section 25. It was completed as a shut-in Morrow  
25 gas well in 1961. Subsequent to that time Western Oil Company

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1 attempted to complete the well as a Morrow discovery but were  
2 unsuccessful.

3 At the time of Honolulu's completion the well flowed  
4 approximately a million cubic feet of gas per day.

5 Another pertinent well is the well in Section 29 to  
6 the southeast of the Unit which was completed in 1975 as Cherry  
7 Canyon discovery for five point four million cubic feet per  
8 day.

9 These studies indicate that the chances of Morrow,  
10 Cisco Canyon, Strawn and perhaps Cherry Canyon gas are very  
11 good.

12 Q Is your primary objective the Morrow?

13 A Yes.

14 Q When will the test well be commenced?

15 A As soon as the administrative paper work is completed,  
16 hopefully within sixty days.

17 Q Approximately how long will it take to drill the  
18 initial well?

19 A Approximately sixty days.

20 Q What have you calculated the approximate or estimated  
21 cost of that test well to be?

22 A Between six hundred and fifty and seven thousand  
23 dollars.

24 Q In your opinion, Mr. Schweinfurth, do you feel that  
25 the proposed Unit area contains recoverable oil and gas reserves?

**sid morrish reporting service**  
General Court Reporting Service  
825 Calle Mejia, No. 122, Santa Fe, New Mexico 87501  
Phone (505) 982-9212

1 A. Yes.

2 Q Will the proposed unit promote the prevention of  
3 waste and the protection of correlative rights within the  
4 Unit area?

5 A. Yes.

6 Q Was Exhibit Two prepared by you or under your direct  
7 supervision?

8 A. Yes, it was.

9 MR. HENSLEY: Mr. Examiner, we offer Exhibit Number  
10 Two, please.

11 MR. STAMETS: Exhibit Two will be admitted.

12 (THEREUPON, Applicant's Exhibit Number Two  
13 was admitted into evidence.)

14 MR. STAMETS: Any questions of the witness? He  
15 may be excused.

16 (THEREUPON, the witness was excused.)

17 MR. STAMETS: Anything further in this case?


18 MR. HENSLEY: Nothing further.

19 MR. STAMETS: We will take the case under advisement  
20  
21  
22  
23  
24  
25

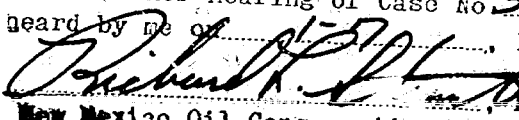
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General Court Reporting Service  
825 Calle Mejia, No. 122, Santa Fe, New Mexico 87501  
Phone (505) 982-9212

REPORTER'S CERTIFICATE

I, SIDNEY F. MORRISH, a Certified Shorthand 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.

  
Sidney F. Morrish, C.S.R.

sid morrish reporting service  
General Court Reporting Service  
825 Calle Mejia, No. 122, Santa Fe, New Mexico 87501  
Phone (505) 982-9212

I do hereby certify that the foregoing is  
a complete record of the proceedings in  
the Examiner hearing of Case No. 5608  
heard by me on 1-31-76, 1976.  
  
Examiner  
New Mexico Oil Conservation Commission



BEFORE THE  
NEW MEXICO OIL CONSERVATION COMMISSION  
Santa Fe, New Mexico  
January 7, 1976

EXAMINER HEARING

IN THE MATTER OF:

Application of Northern Natural Gas  
Company for a unit agreement, Eddy  
County, New Mexico.

CASE  
5608

BEFORE: Richard L. Stamets, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the New Mexico Oil  
Conservation Commission:

William F. Carr, Esq.  
Legal Counsel for the Commission  
State Land Office Building  
Santa Fe, New Mexico

For the Applicant:

Harold L. Hensley, Jr., Esq.  
HINKLE, BONDURANT, COX & EATON  
Attorneys at Law  
Hinkle Building  
Roswell, New Mexico

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K. H. GRIFFIN

Direct Examination by Mr. Hensley

3

MARK SCHWEINFURTH

Direct Examination by Mr. Hensley

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EXHIBIT INDEX

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Applicant's Exhibit Number One, Proposed Unit Agree.

7

Applicant's Exhibit Number Two, Geological Study

11

1 MR. STAMETS: We will call the next Case, 5608.

2 MR. CARR: Case 5608, application of Northern  
3 Natural Gas Company for a unit agreement, Eddy County,  
4 New Mexico.

5 MR. STAMETS: Call for appearances in this case.

6 MR. HENSLEY: If the Examiner please, Harold L.  
7 Hensley, Jr. of the firm of Hinkle, Bondurant, Cox and Eaton,  
8 Roswell, New Mexico for the applicant, Northern Natural Gas  
9 Company. We will have two witnesses, Mr. Ken Griffin and  
10 Mr. Mark Schweinfurth.

11 MR. STAMETS: They will stand and be sworn, please.

12 (THEREUPON, the witnesses were duly sworn.)

13 K. H. GRIFFIN

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

17 DIRECT EXAMINATION

18 BY MR. HENSLEY:

19 Q Would you state your name, please?

20 A My name is K. H. Griffin.

21 Q What is your occupation, Mr. Griffin?

22 A I'm an independent landman, Midland, Texas, represent-  
23 ing Northern Natural Gas.

24 Q Have you previously testified before this Commission?

25 A Yes, I have.

1 Q And are those qualifications a matter of record  
2 before the Commission?

3 A Yes.

4 MR. HENSLEY: Mr. Examiner, are the qualifications  
5 of the witness acceptable?

6 MR. STAMETS: They are.

7 Q (Mr. Hensley continuing.) I will ask you, Mr.  
8 Griffin, to please refer to what has been marked for  
9 identification, sir, as Exhibit One and identify that exhibit  
10 if you will?

11 A Exhibit One is the proposed unit agreement for the  
12 Magruder Hill Unit Area, Eddy County, New Mexico.

13 Q Are there two separate attachments in addition to  
14 the Unit Agreement itself?

15 A Yes, to the Unit Agreement will be attached Exhibit  
16 A which is a plat showing the ownership and the outline of  
17 the Unit area. The remaining attachment is Exhibit B which  
18 at this time has not been prepared but will be a complete  
19 rundown, break down of the ownership, including royalties.

20 Exhibit A at this point does show all of the  
21 ownership, acreage content, nature of acreage.

22 Q Including a break down of the Federal, State and  
23 fee acreage in the Unit?

24 A Correct. The Unit covers two thousand, two hundred  
25 and fifty-seven point nine four acres, being two thousand and

1 fifty-seven point nine, four acres of Federal land, forty  
2 acres of State land and four hundred and sixty acres of  
3 patented land. The Federal land being ninety-one point one,  
4 four, two percent, State being one point seven, seven, two  
5 percent and the patented land seven point oh, eight, six  
6 percent.

7 Q Sir, has the proposed Unit Area been designated by  
8 the USGS as logically subject to exploration and development  
9 under the unitization provisions of the minerals leasing act?

10 A We have had our meeting with the USGS in Roswell,  
11 we have their tentative approval, the formal designation  
12 has been requested and is being processed through their  
13 Denver office now.

14 Q Has the proposed Unit area been informally approved  
15 by the Commissioner of Public Lands?

16 A It has.

17 Q Has the form of unit agreement which is marked as  
18 Exhibit Number One been previously approved by the USGS, the  
19 Commissioner of Public Lands and this Commission?

20 A Yes, it has. It essentially is a 1968 reprint  
21 that is standardly used for this type unit.

22 Q All right, sir, who is the designated unit operator?

23 A Northern Natural Gas Company.

24 Q Are all formations to be unitized?

25 A Yes, all formations will be unitized.

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1 Q What are the provisions with respect to the initial  
2 test well?

3 A The unit agreement provides for the commencement  
4 of initial wells within six months of approval and we will  
5 drill an eleven thousand, four hundred foot Morrow test at an  
6 approved location.

7 Q What is the plan for unit development subsequent  
8 to the test well?

9 A The 1968 reprint provisions essentially provide for  
10 a six months plan of development to be filed and approved by  
11 the Supervisor, the Commissioner and the Commission.

12 Q Mr. Griffin, what is the present status of the  
13 commitment to the unit agreement of the working interest in  
14 the proposed unit area?

15 A We anticipate an excess of ninety percent sign up  
16 and participation in the unit.

17 Q I assume that ninety percent commitment would afford  
18 effective control of operations?

19 A Correct. Actually we will have effective control  
20 of every potential proration unit and the effective sign up  
21 should actually be in excess of ninety-five percent.

22 Q In your opinion, sir, is the unit agreement in the  
23 interest of conservation and will it prevent waste and protect  
24 correlative rights?

25 A Yes, sir.

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1 Q Was Exhibit One prepared by you or under your  
2 direct supervision?

3 A Yes.

4 MR. HENSLEY: Mr. Examiner, we move the introduction  
5 of Exhibit One at this time.

6 MR. STAMETS: Exhibit One will be admitted.  
7 (THEREUPON, Applicant's Exhibit One was  
8 admitted into evidence.)

9 MR. STAMETS: Are there any questions of the  
10 witness? He may be excused.

11 (THEREUPON, the witness was excused.)

12 MARK SCHWEINFURTH

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

15 DIRECT EXAMINATION

16 BY MR. HENSLEY:

17 Q Would you state your name, occupation and by whom  
18 you are employed, sir?

19 A My name is Mark Schweinfurth, I'm a geologist and  
20 I'm employed by Northern Natural Gas Company in Midland,  
21 Texas.

22 Q Have you ever testified before this Commission prior  
23 to this appearance?

24 A No, I have not.  
25

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1 Q For the benefit of the Examiner, sir, would you  
2 please state your educational background?

3 A I received a Bachelor's degree and a Master's degree  
4 in science from the University of Cincinnati. The Master's  
5 degree was in 1958. From there I worked as a geologist for  
6 California Company in New Orleans, Tidewater and Getty Oil  
7 Companies in Midland, Texas and now Northern Natural Gas  
8 Company.

9 Q You have been gainfully employed then as a practicing  
10 geologist since your graduation?

11 A That is correct.

12 MR. HENSLEY: Are the qualifications of the witness  
13 acceptable, Mr. Examiner?

14 MR. STAMETS: They are.

15 Q (Mr. Hensley continuing.) Have you caused a  
16 geological study of the proposed Unit Area, Mr. Schweinfurth?

17 A I have.

18 Q What were the results of the study and what data  
19 did you consider in connection with that study?

20 A Structural and stratigraphic studies were both  
21 undertaken. The structural study was done by seismograph and  
22 it indicates a northwest-southeast trending structural  
23 anticline in the area of the Unit.

24 The stratigraphic studies indicate that the Morrow  
25 sand, which is the primary reservoir in this area, is present

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1 under the Unit and will be productive from studies in the  
2 Catclaw Draw field to the north and from log analysis of  
3 several wells in the area around the Unit which are designated  
4 with red triangles.

5 Q Are the results of your study indicated by Exhibit  
6 Two which has been marked for identification?

7 A They are.

8 Q What conclusions do you draw from this exhibit, Mr.  
9 Schweinfurth?

10 A From the exhibit it indicates that there is a  
11 structure in the area of the Unit, it also indicates that from  
12 log analysis the well to the north of the Unit known as the  
13 Gulf Oil Company Number 1 Hackberry Hills Unit, is productive  
14 in the Strawn formation. It has produced to date approximately  
15 two and three quarter billion cubic feet. The Morrow section  
16 in this well was not tested but log analysis indicates that  
17 it is productive.

18 The well to the southwest of the proposed Unit, known  
19 as the Coquina FAF Number 1, was completed in 1975 as a  
20 Cisco Canyon discovery.

21 The well to the south of the Unit on the plat shown  
22 as the Honolulu Number 1 McKettrick Canyon Unit.

23 Q That's in Section 25?

24 A In Section 25. It was completed as a shut-in Morrow  
25 gas well in 1961. Subsequent to that time Western Oil Company

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1 attempted to complete the well as a Morrow discovery but were  
2 unsuccessful.

3 At the time of Honolulu's completion the well flowed  
4 approximately a million cubic feet of gas per day.

5 Another pertinent well is the well in Section 29 to  
6 the southeast of the Unit which was completed in 1975 as Cherry  
7 Canyon discovery for five point four million cubic feet per  
8 day.

9 These studies indicate that the chances of Morrow,  
10 Cisco Canyon, Strawn and perhaps Cherry Canyon gas are very  
11 good.

12 Q Is your primary objective the Morrow?

13 A Yes.

14 Q When will the test well be commenced?

15 A As soon as the administrative paper work is completed,  
16 hopefully within sixty days.

17 Q Approximately how long will it take to drill the  
18 initial well?

19 A Approximately sixty days.

20 Q What have you calculated the approximate or estimated  
21 cost of that test well to be?

22 A Between six hundred and fifty and seven thousand  
23 dollars.

24 Q In your opinion, Mr. Schweinfurth, do you feel that  
25 the proposed Unit area contains recoverable oil and gas reserves?

1 A Yes.

2 Q Will the proposed unit promote the prevention of  
3 waste and the protection of correlative rights within the  
4 Unit area?

5 A Yes.

6 Q Was Exhibit Two prepared by you or under your direct  
7 supervision?

8 A Yes, it was.

9 MR. HENSLEY: Mr. Examiner, we offer Exhibit Number  
10 Two, please.

11 MR. STAMETS: Exhibit Two will be admitted.

12 (THEREUPON, Applicant's Exhibit Number Two  
13 was admitted into evidence.)

14 MR. STAMETS: Any questions of the witness? He  
15 may be excused.

16 (THEREUPON, the witness was excused.)

17 MR. STAMETS: Anything further in this case?

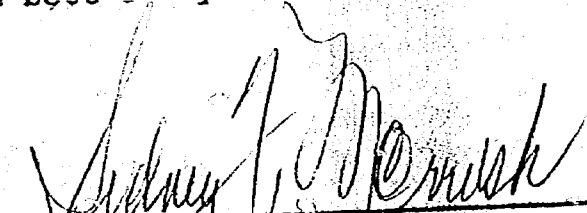
18 MR. HENSLEY: Nothing further.

19 MR. STAMETS: We will take the case under advisement.  
20  
21  
22  
23  
24  
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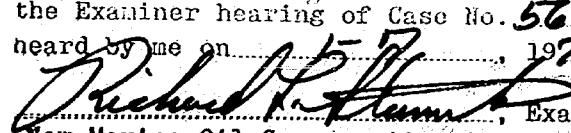
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REPORTER'S CERTIFICATE

I, SIDNEY F. MORRISH, a Certified Shorthand 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.

  
Sidney F. Morrish, C.S.R.

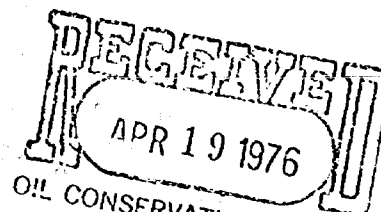
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I do hereby certify that the foregoing is  
a complete record of the proceedings in  
the Examiner hearing of Case No. 5608  
heard by me on 5-17-76.  
  
Richard H. Hamm, Examiner  
New Mexico Oil Conservation Commission

# GRIFFIN & BURNETT, INC,

*Oil Properties*

KENNETH H. GRIFFIN  
GARY G. BURNETT



OIL CONSERVATION COMM.  
Santa Fe  
501 PETROLEUM BUILDING  
MIDLAND, TEXAS 79701  
915 683.2705

April 15, 1976

Re: File #3002  
McGRUDER HILL UNIT  
Eddy County, New Mexico  
Case No. 5608  
Order No. R-5150

OIL CONSERVATION COMMISSION  
State Land Office Building  
Santa Fe, New Mexico 87501

Gentlemen:

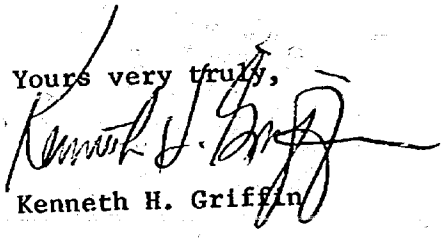
In accordance with Order No. R-5150 we enclose herewith an executed copy of the Unit Agreement for the subject unit. You will note that this instrument includes copies of The Certification-Determination by the U.S.G.S. and The Certificate of Approval by the Commissioner of Public Lands. The ratifications attached reflect that in addition to Northern Natural Gas Company, Operator, the following companies are also subject to this agreement.

Union Oil Company of California  
Inexco Oil Company  
J.M. Huber Corporation  
Robert N. Enfield, et ux

Tom Brown, Inc.  
James P. Riggs, et ux  
Atlantic Richfield Company  
Gulf Oil Corporation

Please let us know if you need any additional information relative to this unit.

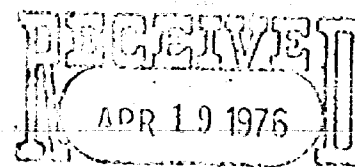
Yours very truly,

  
Kenneth H. Griffin

KHG/js  
Enclosures

cc: Mr. C. F. Keller  
NORTHERN NATURAL GAS COMPANY  
Wall Towers West  
Midland, Texas 79701

CERTIFICATION--DETERMINATION



OIL CONSERVATION COMM.

Santa Fe

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

A. Approve the attached agreement for the development and  
operation of the McGruder Hill Unit Area,  
State of New Mexico.

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

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

Dated April 13, 1976.

Acting *C. M. C. T. HICK*  
Area Oil and Gas Supervisor  
United States Geological Survey

Contract Number 14-08-0001-14274



# NEW MEXICO STATE LAND OFFICE

## CERTIFICATE OF APPROVAL

COMMISSIONER OF PUBLIC LANDS, STATE OF NEW MEXICO

McGRUDER HILL UNIT

EDDY 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 5, 1976, which said Agreement has been executed by parties owning and holding oil and gas leases and royalty interests in and under the property described, and upon examination of said Agreement, the Commissioner finds:

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

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

IN WITNESS WHEREOF, this Certificate of Approval is executed, with seal affixed, this 12th day of April, 19 76.

Phil R. Soren  
COMMISSIONER OF PUBLIC LANDS  
of the State of New Mexico

UNIT AGREEMENT  
McGRUDER HILL UNIT AREA  
EDDY COUNTY, NEW MEXICO

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NO.

WITNESSETH:

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 representatives to unite with each other, or jointly or separately with others, in collectively adopting and operating a cooperative or unit plan of development or operations 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. 7-11-39 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 interests of the State of New Mexico; and

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

WHEREAS, the parties hereto hold sufficient interests in the McGruder Hill Unit Area covering the land hereinafter described to give reasonably effective control of operations therein; and

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

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

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

19 2. UNIT AREA. The area specified on the map attached hereto marked  
20 Exhibit "A" is hereby designated and recognized as constituting the unit area,  
21 containing 2,257.94 acres, more or less.

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

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

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

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

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

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

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

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

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

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

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. NORTHERN NATURAL GAS COMPANY 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 that capacity and not as an owner of interest in unitized substances, and the term "working interest owner" when used herein 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 6 months after notice of intention to resign has been served by Unit Operator on all working interest owners and the Supervisor, the Commissioner and the Commission, 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 by the Commissioner as to State and privately owned 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

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

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

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

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

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

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

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

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

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

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



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

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

16 9. DRILLING TO DISCOVERY. Within 6 months after the effective date  
17 hereof, the Unit Operator shall begin to drill an adequate test well at a  
18 location approved by the Supervisor, if on Federal land, or by the Commissioner  
19 if on State land, or by the Commission if on fee land, unless on such effective  
20 date a well is being drilled conformably with the terms hereof, and thereafter  
21 continue such drilling diligently until the Morrow formation has been tested  
22 or until at a lesser depth unitized substances shall be discovered which can  
23 be produced in paying quantities (to-wit: quantities sufficient to repay the  
24 costs of drilling, completing, and producing operations, with a reasonable  
25 profit) or the Unit Operator shall at any time establish to the satisfaction  
26 of the Supervisor if located on Federal lands, or the Commissioner if located  
27 on State lands, or the Commission if located on fee lands, that further drill-  
28 ing of said well would be unwarranted or impracticable, provided, however,  
29 that Unit Operator shall not in any event be required to drill said well to  
30 a depth in excess of 11,400 feet. Until the discovery of a deposit of unitized  
31 substances capable of being produced in paying quantities, the Unit Operator  
32 shall continue drilling one well at a time, allowing not more than 6 months  
33 between the completion of one well and the beginning of the next well, until

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

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

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

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

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

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

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

12 Plans shall be modified or supplemented when necessary to meet changed  
13 conditions or to protect the interests of all parties to this agreement.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

31. 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.

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

UNIT OPERATOR AND WORKING INTEREST OWNER

ATTEST:

BY: [Signature]

Assistant Secretary

DATE: FEB 25 1976

ADDRESS: 403 Wall Towers West  
Midland, Texas 79701

NORTHERN NATURAL GAS COMPANY

BY: [Signature]

DAN L. GARDNER, Vice President

WORKING INTEREST OWNERS

ATTEST:

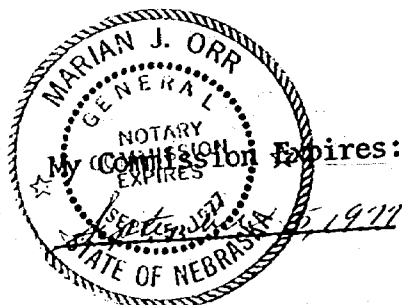
BY: \_\_\_\_\_

DATE: \_\_\_\_\_

ADDRESS: \_\_\_\_\_

THE STATE OF NEBRASKA I  
COUNTY OF DOUGLAS I

The foregoing instrument was acknowledged before me this 25th day of February, 1976, by DAN L. GARDNER, Vice President of NORTHERN NATURAL GAS COMPANY, on behalf of said corporation.



[Signature]  
Notary Public in and for Douglas  
County, Nebraska

R-25-E

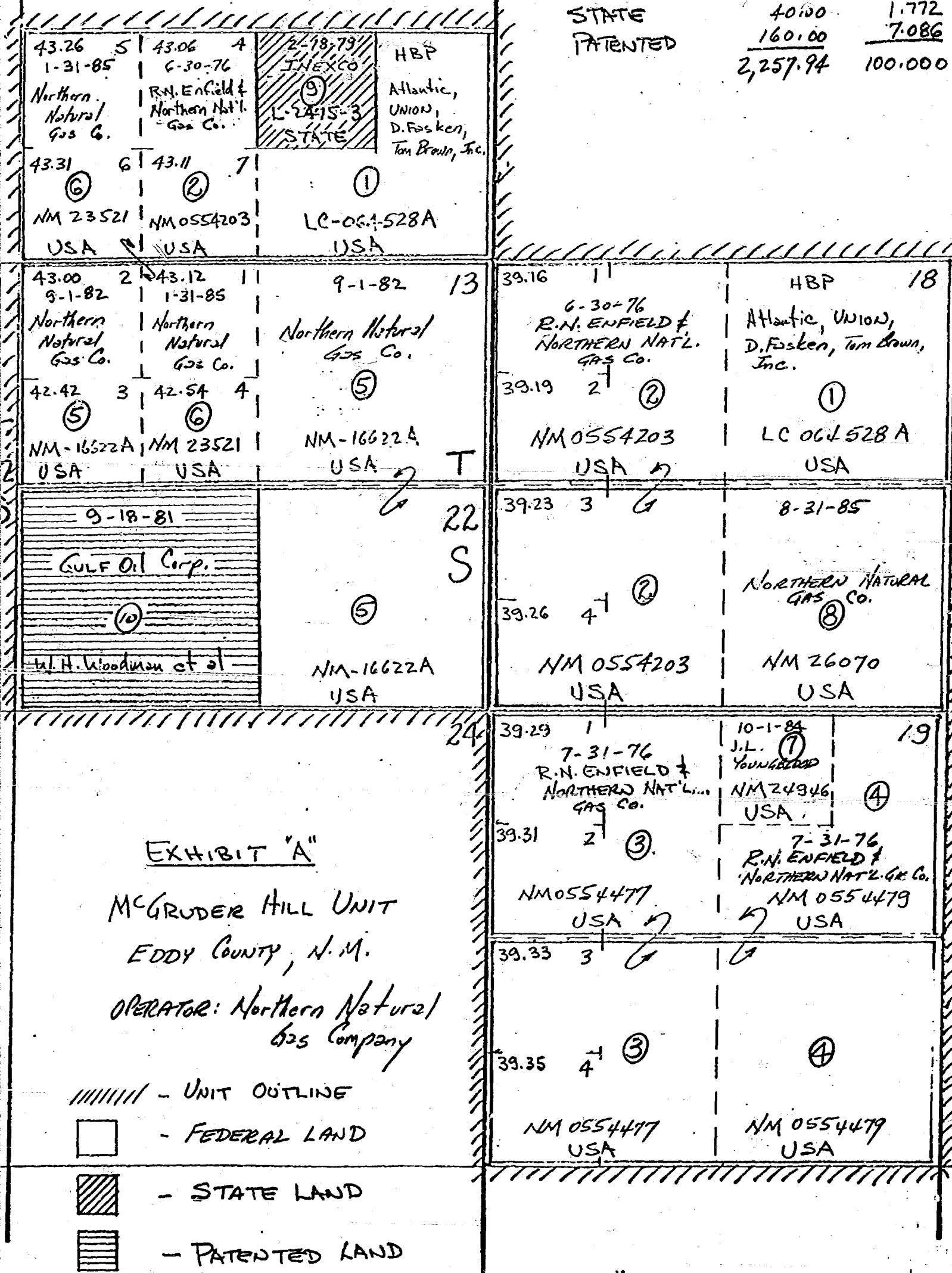
R-26-E

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## EXHIBIT "A"

TYPE	ACRES	PERCENT
FEDERAL	2,057.94	91.142
STATE	40.00	1.772
PATENTED	160.00	7.086
	2,257.94	100.000



# EXHIBIT "B"

McGRUDER HILL UNIT AREA  
T-22-S, R-25-E & R-26-E, N.M.P.M.  
EDDY COUNTY, NEW MEXICO

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NO. & EXP. DATE OF LEASES (New Mexico Serials)	BASIC ROYALTY OWNERSHIP PERCENTAGE	LESSEE OF RECORD	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE
1	T-22-S, R-25-E Sec. 12: S/2 SE/4, NE/4 SE/4	280.00	LC-064528-A HBP	USA	All-12.5	Atlantic Richfield Company; Tom Brown, Inc.; Union Oil Company of California; David Fasken	NONE  Atlantic: 25.000 Brown : 3.261 Union : 52.173 Fasken : 19.566
2	T-22-S, R-26-E Sec. 18: NE/4  T-22-S, R-25-E Sec. 12: Lots 4, 7  T-22-S, R-26-E Sec. 18: Lots 1, 2, 3, 4 E/2 W/2	403.01	NM-0554203 6-30-76	USA	All-12.5	R. N. Enfield & Northern Natural Gas Company (1)	I. H. Kemper, III & Neale W. Kemper: 5.000  Enfield : 25.000 Northern: 75.000  R. N. Enfield: \$500/Acre Production Payment out of 0.9375
3	T-22-S, R-26-E Sec. 19: Lots 1, 2, 3, 4, E/2 W/2	317.28	NM-0554477 7-31-76	USA	All-12.5	R. N. Enfield & Northern Natural Gas Company (1)	R. N. Enfield: \$1500/Acre Production Payment out of 4.6875  Enfield: 25.000 Northern: 75.000
4	T-22-S, R-26-E Sec. 19: NE/4 NE/4, S/2 NE/4, SE/4	280.00	NM-0554479 7-31-76	USA	All-12.5	R. N. Enfield & Northern Natural Gas Company (1)	M. K. Whitehead: \$750/Acre Production Payment out of 5.000  R. N. Enfield: \$1500/Acre Production Payment out of 4.6875 (2)

[illegible]

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NO. & EXP. DATE OF LEASES (New Mexico Serials)	BASIC ROYALTY		LESSEE OF RECORD	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE
				OWNERSHIP PERCENTAGE				

TOTAL: 10 Tracts 2,257.94 acres in entire Unit Area.

(1) R. N. Enfield is now in process of assigning 75% interest in Tracts 2, 3, and 4 to Northern Natural Gas Company. Such assignments will be filed with the BLM for approval in the near future.

(2) This production payment subject to its proportionate part of production payment reserved by M. K. Whitehead.

(3) J. M. Huber Corporation, the present lessee of record, is now in process of assigning its working interest in Tract 5 to Northern Natural Gas Company. Such assignment will be filed with the BLM for approval in the near future.

(4) The breakdown of the ownership of this 5% override is as follows:

0.41668	- Roy G. Barton, Jr.
0.25000	- Roy G. Barton, Sr.
2.50000	- David J. Sorenson
0.33333	- E. L. Latham, Jr.
0.33333	- Cecil L. Brown
0.25000	- Paul F. Zahn
0.12500	- Daniel E. Gonzales
0.44444	- Robert P. Byron
0.23611	- Tom C. Benson
0.11111	- Fred G. Middleton

5.00000%

(5) James P. Riggs is now in process of assigning his working interest in Tract 8 to Northern Natural Gas Company. Such assignment will be filed with the BLM for approval in the near future.

RATIFICATION - McGRUDER HILL UNIT  
EDDY COUNTY, NEW MEXICO

KNOW ALL MEN BY THESE PRESENTS, THAT:

WHEREAS, certain instruments entitled UNIT AGREEMENT FOR THE DEVELOPMENT AND OPERATION OF THE McGRUDER HILL UNIT, EDDY COUNTY, NEW MEXICO, AND UNIT OPERATING AGREEMENT, McGRUDER HILL UNIT, EDDY COUNTY, NEW MEXICO, have been executed as of the 5th day of January, 1976, by various persons conducting operations with respect to the McGruder Hill Unit Area, located in Eddy County, New Mexico, as more particularly described in said Agreement; and

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

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

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

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

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

UNION OIL COMPANY OF CALIFORNIA

Date: March 8, 1976

By Samuel C. Terry  
Attorney-in-Fact

Address: P. O. Box 3100

Midland, Texas 79701

THE STATE OF TEXAS

COUNTY OF MIDLAND

The foregoing instrument was acknowledged before me this 8th day of March, 1976, by SAMUEL C. TERRY, Attorney-in-Fact of UNION OIL COMPANY OF CALIFORNIA, a corporation, on behalf of said corporation.  
California

My Commission Expires:

June 1, 1977

THE STATE OF I

COUNTY OF I

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1976, by \_\_\_\_\_.

Alice Monroe ALICE MONROE  
Notary Public in and for Midland  
County, Texas

My Commission Expires:

Notary Public in and for \_\_\_\_\_  
County, \_\_\_\_\_

RATIFICATION - McGRUDER HILL UNIT  
EDDY COUNTY, NEW MEXICO

KNOW ALL MEN BY THESE PRESENTS, THAT:

WHEREAS, certain instruments entitled UNIT AGREEMENT FOR THE DEVELOPMENT AND OPERATION OF THE McGRUDER HILL UNIT, EDDY COUNTY, NEW MEXICO, AND UNIT OPERATING AGREEMENT, McGRUDER HILL UNIT, EDDY COUNTY, NEW MEXICO, have been executed as of the 5th day of January, 1976, by various persons conducting operations with respect to the McGruder Hill Unit Area, located in Eddy County, New Mexico, as more particularly described in said Agreement; and

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

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

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

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

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

TOM BROWN, INC.

Date: March 4, 1976

R. J. DePaul  
R. J. DePaul

Address: P. O. Box 2608

Midland, Texas 79701

ATTEST:

Regina Neill  
Regina Neill - Assistant Secretary

THE STATE OF TEXAS I

COUNTY OF MIDLAND I

The foregoing instrument was acknowledged before me this 4th day of March, 1976, by R. J. DePaul of TOM BROWN, INC. a corporation, on behalf of said corporation.

My Commission Expires:

June 1, 1977

THE STATE OF I

COUNTY OF I

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1976, by \_\_\_\_\_

Bette Helster  
Notary Public in and for Midland  
County, Texas

Notary Public in and for \_\_\_\_\_  
County, \_\_\_\_\_

My Commission Expires:



RATIFICATION - McGRUDER HILL UNIT  
EDDY COUNTY, NEW MEXICO

KNOW ALL MEN BY THESE PRESENTS, THAT:

WHEREAS, certain instruments entitled UNIT AGREEMENT FOR THE DEVELOPMENT AND OPERATION OF THE McGRUDER HILL UNIT, EDDY COUNTY, NEW MEXICO, AND UNIT OPERATING AGREEMENT, McGRUDER HILL UNIT, EDDY COUNTY, NEW MEXICO, have been executed as of the 5th day of January, 1976, by various persons conducting operations with respect to the McGruder Hill Unit Area, located in Eddy County, New Mexico, as more particularly described in said Agreement; and

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

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

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

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

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

Date: March 9, 1976

ATTEST:

*Robert M. [Signature]*  
Assistant Secretary

THE STATE OF TEXAS }

COUNTY OF HARRIS }

The foregoing instrument was acknowledged before me this 9 day of March, 1976, by W.G. Goodwin, Vice President of INEXCO OIL COMPANY a corporation, on behalf of said corporation.

My Commission Expires:

June 1, 1977

THE STATE OF }

COUNTY OF }

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1976, by \_\_\_\_\_.

My Commission Expires:

INEXCO OIL COMPANY

*W.G. Goodwin*  
W. G. GOODWIN, Vice President

Address: Suite 1900 - 1100 Milam Bldg.

Houston, TX 77002

*James C. Fausel*  
Notary Public in and for Harris  
County, Texas

Notary Public in and for \_\_\_\_\_  
County, \_\_\_\_\_

RATIFICATION - McGRUDER HILL UNIT  
EDDY COUNTY, NEW MEXICO

KNOW ALL MEN BY THESE PRESENTS, THAT:

WHEREAS, certain instruments entitled UNIT AGREEMENT FOR THE DEVELOPMENT AND OPERATION OF THE McGRUDER HILL UNIT, EDDY COUNTY, NEW MEXICO, AND UNIT OPERATING AGREEMENT, McGRUDER HILL UNIT, EDDY COUNTY, NEW MEXICO, have been executed as of the 5th day of January, 1976, by various persons conducting operations with respect to the McGruder Hill Unit Area, located in Eddy County, New Mexico, as more particularly described in said Agreement; and

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

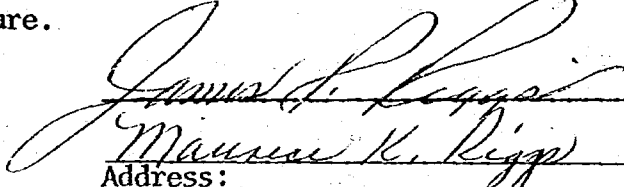
WHEREAS, the Unit Agreement and Unit Operating Agreement each provides that a person may become a party thereto by signing the original of said instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions thereof; and

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

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

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

Date: March 17, 1976

  
Address: \_\_\_\_\_

JAMES P. RIGGS  
Post Office Box 33  
Fredericksburg, Texas 78624

THE STATE OF I

COUNTY OF I

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1976, by \_\_\_\_\_ of \_\_\_\_\_ a corporation, on behalf of said corporation.

My Commission Expires: \_\_\_\_\_

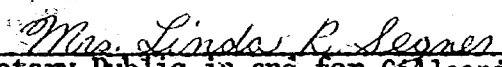
Notary Public in and for \_\_\_\_\_  
County, \_\_\_\_\_

THE STATE OF TEXAS I

COUNTY OF GILLESPIE I

The foregoing instrument was acknowledged before me this 17th day of March, 1976, by JAMES P. RIGGS and wife, MAURECE K. RIGGS

My Commission Expires: \_\_\_\_\_

  
Notary Public in and for Gillespie  
County, Texas

09/17/77

RATIFICATION - McGRUDER HILL UNIT  
EDDY COUNTY, NEW MEXICO

KNOW ALL MEN BY THESE PRESENTS, THAT:

WHEREAS, certain instruments entitled UNIT AGREEMENT FOR THE DEVELOPMENT AND OPERATION OF THE McGRUDER HILL UNIT, EDDY COUNTY, NEW MEXICO, AND UNIT OPERATING AGREEMENT, McGRUDER HILL UNIT, EDDY COUNTY, NEW MEXICO, have been executed as of the 5th day of January, 1976, by various persons conducting operations with respect to the McGruder Hill Unit Area, located in Eddy County, New Mexico, as more particularly described in said Agreement; and

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

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

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

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

IN WITNESS WHEREOF, the undersigned has executed this instrument on the date set forth opposite the undersigned's signature. J. M. HUBER CORPORATION

Date: March 12, 1976

ATTEST:

*J. S. Collins*  
Assistant Secretary

By

*J. S. Collins*  
J. S. Collins, Vice President

Address: 2000 West Loop South

Houston, Texas 77027

THE STATE OF TEXAS }

COUNTY OF HARRIS }

The foregoing instrument was acknowledged before me this 12 day of March, 1976, by J. S. COLLINS of J. M. HUBER CORPORATION a corporation, on behalf of said corporation.

My Commission Expires:

June 1, 1977

THE STATE OF }

COUNTY OF }

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1976, by \_\_\_\_\_.

*Mary J. Ligert*  
Notary Public in and for Harris  
County, Texas

Notary Public in and for \_\_\_\_\_  
County, \_\_\_\_\_

My Commission Expires:

RATIFICATION - McGRUDER HILL UNIT  
EDDY COUNTY, NEW MEXICO

KNOW ALL MEN BY THESE PRESENTS, THAT:

WHEREAS, certain instruments entitled UNIT AGREEMENT FOR THE DEVELOPMENT AND OPERATION OF THE McGRUDER HILL UNIT, EDDY COUNTY, NEW MEXICO, AND UNIT OPERATING AGREEMENT, McGRUDER HILL UNIT, EDDY COUNTY, NEW MEXICO, have been executed as of the 5th day of January, 1976, by various persons conducting operations with respect to the McGruder Hill Unit Area, located in Eddy County, New Mexico, as more particularly described in said Agreement; and

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

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

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

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

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

Date: March 25, 1976

ATLANTIC RICHFIELD COMPANY  
By: S. L. Smith  
S.L. Smith, Attorney-In-Fact  
Address: P.O. Box 1610 Power of Attorney  
Filed NM 0538400  
Midland, Texas 79701

*for B.  
WBE  
CK  
Chas.*

THE STATE OF Texas }  
COUNTY OF Midland }

The foregoing instrument was acknowledged before me this 25th day of March, 1976, by S.L. Smith, Attorney-In-Fact of Atlantic Richfield Company a corporation, on behalf of said corporation.

My Commission Expires:

June 1, 1977

THE STATE OF }  
COUNTY OF }

THE foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1976, by \_\_\_\_\_.

Yvonne Brooks  
Notary Public in and for Midland  
County, Texas

My Commission Expires:

Notary Public in and for \_\_\_\_\_  
County, \_\_\_\_\_

RATIFICATION - McGRUDER HILL UNIT  
EDDY COUNTY, NEW MEXICO

KNOW ALL MEN BY THESE PRESENTS, THAT:

WHEREAS, certain instruments entitled UNIT AGREEMENT FOR THE DEVELOPMENT AND OPERATION OF THE McGRUDER HILL UNIT, EDDY COUNTY, NEW MEXICO, AND UNIT OPERATING AGREEMENT, McGRUDER HILL UNIT, EDDY COUNTY, NEW MEXICO, have been executed as of the 5th day of January, 1976, by various persons conducting operations with respect to the McGruder Hill Unit Area, located in Eddy County, New Mexico, as more particularly described in said Agreement; and

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

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

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

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

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

Date: April 1, 1976

*Mona L. Enfield*

*Robert N. Enfield*

Address: P. O. Box 2431

Santa Fe, New Mexico 87501

THE STATE OF I

COUNTY OF I

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1976, by \_\_\_\_\_ of \_\_\_\_\_ a corporation, on behalf of said corporation.

My Commission Expires:

Notary Public in and for \_\_\_\_\_  
County, \_\_\_\_\_

THE STATE OF NEW MEXICO

COUNTY OF SANTA FE I

The foregoing instrument was acknowledged before me this 1st day of April, 1976, by Robert N. Enfield and wife, Mona L. Enfield

My Commission Expires:

May 10, 1978

*Robert N. Enfield*  
Notary Public in and for Santa Fe  
County, New Mexico

RATIFICATION - McGRUDER HILL UNIT  
EDDY COUNTY, NEW MEXICO

KNOW ALL MEN BY THESE PRESENTS, THAT:

WHEREAS, certain instruments, entitled UNIT AGREEMENT FOR THE DEVELOPMENT AND OPERATION OF THE McGRUDER HILL UNIT, EDDY COUNTY, NEW MEXICO, AND UNIT OPERATING AGREEMENT, McGRUDER HILL UNIT, EDDY COUNTY, NEW MEXICO, have been executed as of the 5th day of January, 1976, by various persons conducting operations with respect to the McGruder Hill Unit Area, located in Eddy County, New Mexico, as more particularly described in said Agreement; and

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

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

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

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

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

Date: 4-13-76

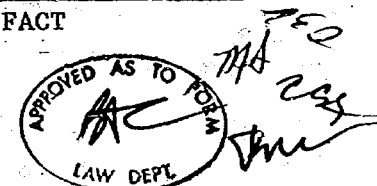
GULF OIL CORPORATION

ATTEST:

By [Signature]  
ASSISTANT-SECRETARY

By [Signature]  
ATTORNEY-IN-FACT

THE STATE OF Texas  
COUNTY OF Midland



The foregoing instrument was acknowledged before me this 13th day of April, 1976, by [Signature] of Gulf Oil Corporation a corporation, on behalf of said corporation.

My Commission Expires:  
JOAN LAWSON - Notary Public  
In And For Midland County, Texas  
My Commission Expires June 1, 19 77

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

THE STATE OF I  
COUNTY OF I

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1976, by \_\_\_\_\_.

Notary Public in and for \_\_\_\_\_  
County, \_\_\_\_\_

My Commission Expires:

BEFORE EXAMINER STAMETS  
OIL CONSERVATION COMMISSION

EXHIBIT NO. 1  
CASE NO. 5208

Submitted by Northern Natural Gas  
Hearing Date 1-7-76 Company

UNIT AGREEMENT  
McGRUDER HILL UNIT AREA  
EDDY COUNTY, NEW MEXICO

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1 UNIT AGREEMENT  
2 FOR THE DEVELOPMENT AND OPERATION  
3 OF THE  
4 McGRUDER HILL UNIT AREA  
5 COUNTY OF EDDY  
6 STATE OF NEW MEXICO  
7 NO. \_\_\_\_\_

8 THIS AGREEMENT entered into as of the 5th day of January  
9 1976, by and between the parties subscribing, ratifying or consenting hereto,  
10 and herein referred to as the "parties hereto".

11 WITNESSETH: ○

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

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

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

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

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

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

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

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

19 2. UNIT AREA. The area specified on the map attached hereto marked  
20 Exhibit "A" is hereby designated and recognized as constituting the unit area,  
21 containing 2,257.94 acres, more or less.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

16 9. DRILLING TO DISCOVERY. Within 6 months after the effective date  
17 hereof, the Unit Operator shall begin to drill an adequate test well at a  
18 location approved by the Supervisor, if on Federal land, or by the Commissioner  
19 if on State land, or by the Commission if on fee land, unless on such effective  
20 date a well is being drilled conformably with the terms hereof, and thereafter  
21 continue such drilling diligently until the Morrow formation has been tested  
22 or until at a lesser depth unitized substances shall be discovered which can  
23 be produced in paying quantities (to-wit: quantities sufficient to repay the  
24 costs of drilling, completing, and producing operations, with a reasonable  
25 profit) or the Unit Operator shall at any time establish to the satisfaction  
26 of the Supervisor if located on Federal lands, or the Commissioner if located  
27 on State lands, or the Commission if located on fee lands, that further drill-  
28 ing of said well would be unwarranted or impracticable, provided, however,  
29 that Unit Operator shall not in any event be required to drill said well to  
30 a depth in excess of 11,400 feet. Until the discovery of a deposit of unitized  
31 substances capable of being produced in paying quantities, the Unit Operator  
32 shall continue drilling one well at a time, allowing not more than 6 months  
33 between the completion of one well and the beginning of the next well, until



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

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

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

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

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

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

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

12 Plans shall be modified or supplemented when necessary to meet changed  
13 conditions or to protect the interests of all parties to this agreement.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



31. 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.

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

UNIT OPERATOR AND WORKING INTEREST OWNER

ATTEST: NORTHERN NATURAL GAS COMPANY

BY: \_\_\_\_\_ BY: \_\_\_\_\_

DATE: \_\_\_\_\_

ADDRESS: 403 Wall Towers West  
Midland, Texas 79701

WORKING INTEREST OWNERS

ATTEST: \_\_\_\_\_

\_\_\_\_\_ BY: \_\_\_\_\_

DATE: \_\_\_\_\_

ADDRESS: \_\_\_\_\_  
\_\_\_\_\_

THE STATE OF \_\_\_\_\_ I

COUNTY OF \_\_\_\_\_ I

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1976, by \_\_\_\_\_ of NORTHERN NATURAL GAS COMPANY, on behalf of said corporation.

Notary Public in and for \_\_\_\_\_  
County, \_\_\_\_\_

My Commission Expires: \_\_\_\_\_

R-25-E

R-26-E

12

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## EXHIBIT "A"

TYPE	ACRES	PERCENT
FEDERAL	2,057.94	91.142
STATE	40.00	1.772
PATENTED	160.00	7.086
	2,257.94	100.000

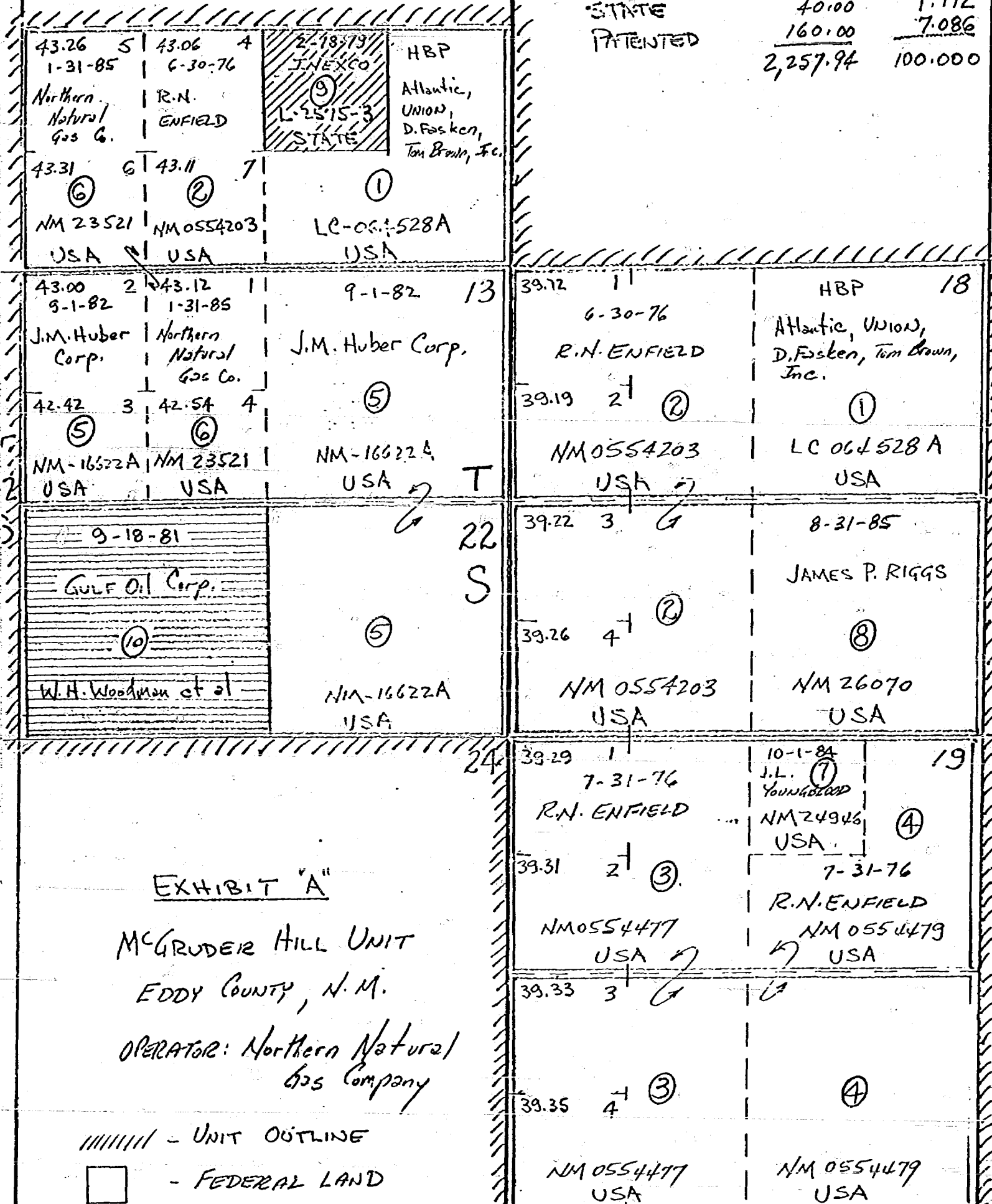
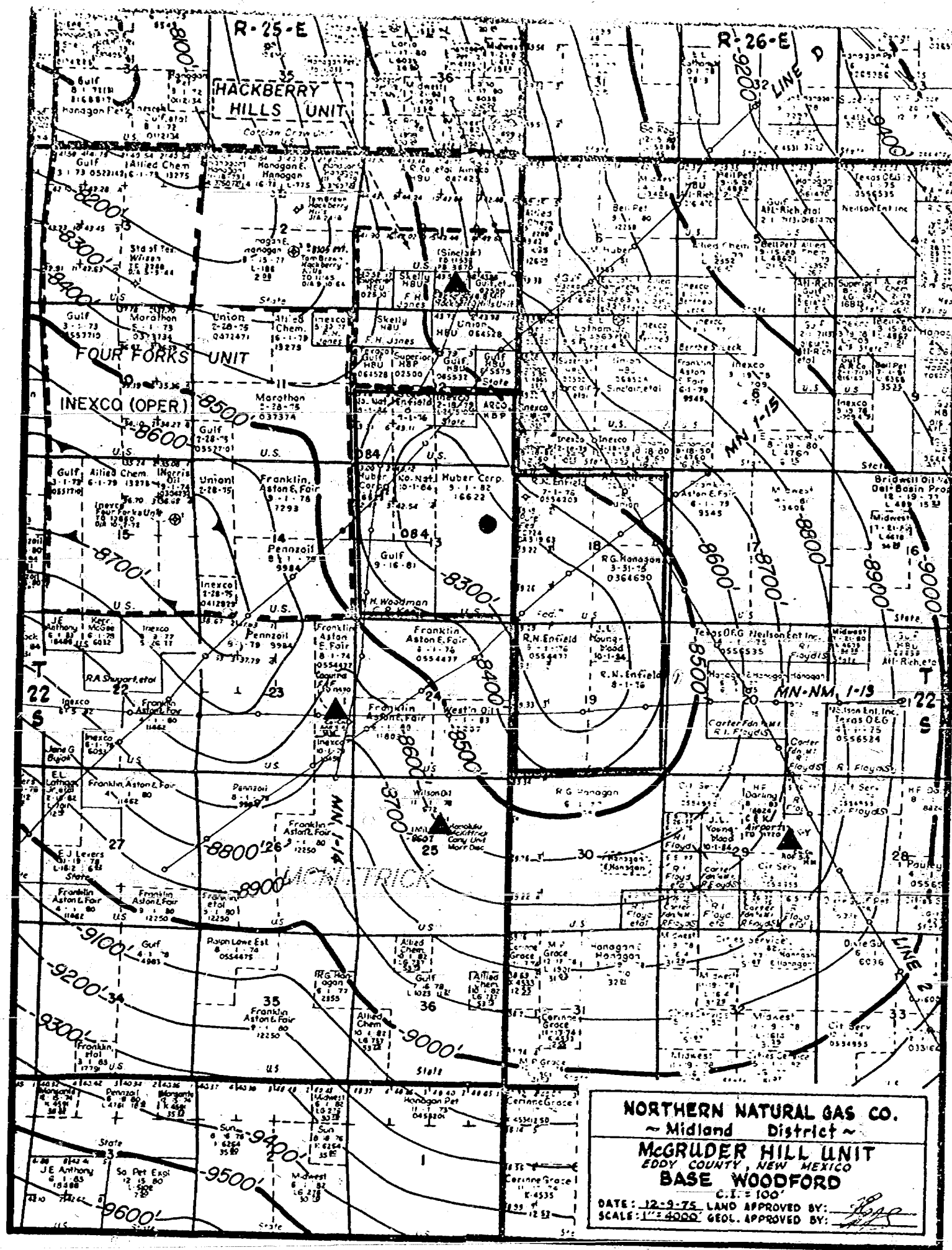


EXHIBIT "B"

Exhibit "B" will be prepared to reflect ownership  
as shown on Exhibit "A" and will include Royalty  
and Overriding Royalty Ownership Information



BEFORE EXAMINER STAMETS  
OIL CONSERVATION COMMISSION

EXHIBIT NO. 1  
CASE NO. 5608  
Submitted by Northern Natural Gas  
Hearing Date 1-7-76 Company

UNIT AGREEMENT  
McGRUDER HILL UNIT AREA  
EDDY COUNTY, NEW MEXICO

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

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

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

19 2. UNIT AREA. The area specified on the map attached hereto marked  
20 Exhibit "A" is hereby designated and recognized as constituting the unit area,  
21 containing 2,257.94 acres, more or less.

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

16 9. DRILLING TO DISCOVERY. Within 6 months after the effective date  
17 hereof, the Unit Operator shall begin to drill an adequate test well at a  
18 location approved by the Supervisor, if on Federal land, or by the Commissioner  
19 if on State land, or by the Commission if on fee land, unless on such effective  
20 date a well is being drilled conformably with the terms hereof, and thereafter  
21 continue such drilling diligently until the Morrow formation has been tested  
22 or until at a lesser depth unitized substances shall be discovered which can  
23 be produced in paying quantities (to-wit: quantities sufficient to repay the  
24 costs of drilling, completing, and producing operations, with a reasonable  
25 profit) or the Unit Operator shall at any time establish to the satisfaction  
26 of the Supervisor if located on Federal lands, or the Commissioner if located  
27 on State lands, or the Commission if located on fee lands, that further drill-  
28 ing of said well would be unwarranted or impracticable, provided, however,  
29 that Unit Operator shall not in any event be required to drill said well to  
30 a depth in excess of 11,400 feet. Until the discovery of a deposit of unitized  
31 substances capable of being produced in paying quantities, the Unit Operator  
32 shall continue drilling one well at a time, allowing not more than 6 months  
33 between the completion of one well and the beginning of the next well, until

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

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

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

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

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

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

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

12 Plans shall be modified or supplemented when necessary to meet changed  
13 conditions or to protect the interests of all parties to this agreement.

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

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



1 The acreages of both Federal and non-Federal lands shall be based upon  
2 appropriate computations from the courses and distances shown on the  
3 last approved public land survey as of the effective date of each initial  
4 participating area. Said schedule shall also set forth the percentage of  
5 unitized substances to be allocated as herein provided to each tract in  
6 the participating area so established, and shall govern the allocation  
7 of production commencing with the effective date of the participating area.  
8 A separate participating area shall be established for each separate pool  
9 or deposit of unitized substances or for any group thereof which is pro-  
10 duced as a single pool or zone, and any two or more participating areas  
11 so established may be combined into one, on approval of the Supervisor  
12 and Commissioner. When production from two or more participating areas,  
13 so established, is subsequently found to be from a common pool or deposit  
14 said participating areas shall be combined into one effective as of such  
15 appropriate date as may be approved or prescribed by the Supervisor and  
16 Commissioner. The participating area or areas so established shall be revised  
17 from time to time, subject to like approval, to include additional land then  
18 regarded as reasonably proved to be productive in paying quantities or neces-  
19 sary for unit operations, or to exclude land then regarded as reasonably  
20 proved not to be productive in paying quantities and the schedule of allo-  
21 cation percentages shall be revised accordingly. The effective date of any  
22 revision shall be the first day of the month in which is obtained the know-  
23 ledge or information on which such revision is predicated, provided, however,  
24 that a more appropriate effective date may be used if justified by the Unit  
25 Operator and approved by the Supervisor and Commissioner. No land shall be  
26 excluded from a participating area on account of depletion of the unitized  
27 substances, except that any participating area established under the provisions  
28 of this unit agreement shall terminate automatically whenever all completions  
29 in the formation on which the participating area is based are abandoned.  
30 It is the intent of this section that a participating area shall repre-  
31 sent the area known or reasonably estimated to be productive in paying quanti-  
32 ties, but, regardless of any revision of the participating area, nothing herein  
33 contained shall be construed as requiring any retroactive adjustment for

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

31. 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.

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

UNIT OPERATOR AND WORKING INTEREST OWNER

ATTEST: \_\_\_\_\_ NORTHERN NATURAL GAS COMPANY

BY: \_\_\_\_\_ BY: \_\_\_\_\_

DATE: \_\_\_\_\_

ADDRESS: 403 Wall Towers West  
Midland, Texas 79701

WORKING INTEREST OWNERS

ATTEST: \_\_\_\_\_

BY: \_\_\_\_\_

DATE: \_\_\_\_\_

ADDRESS: \_\_\_\_\_  
\_\_\_\_\_

THE STATE OF \_\_\_\_\_ I

COUNTY OF \_\_\_\_\_ I

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1976, by \_\_\_\_\_ of NORTHERN NATURAL GAS COMPANY, on behalf of said corporation.

Notary Public in and for \_\_\_\_\_  
County, \_\_\_\_\_

My Commission Expires: \_\_\_\_\_

R-25-E

R-26-E

EXHIBIT "A"

TYPE	ACRES	PERCENT
FEDERAL	2,057.94	91.142
STATE	40.00	1.772
PATENTED	160.00	7.086
	2,257.94	100.000

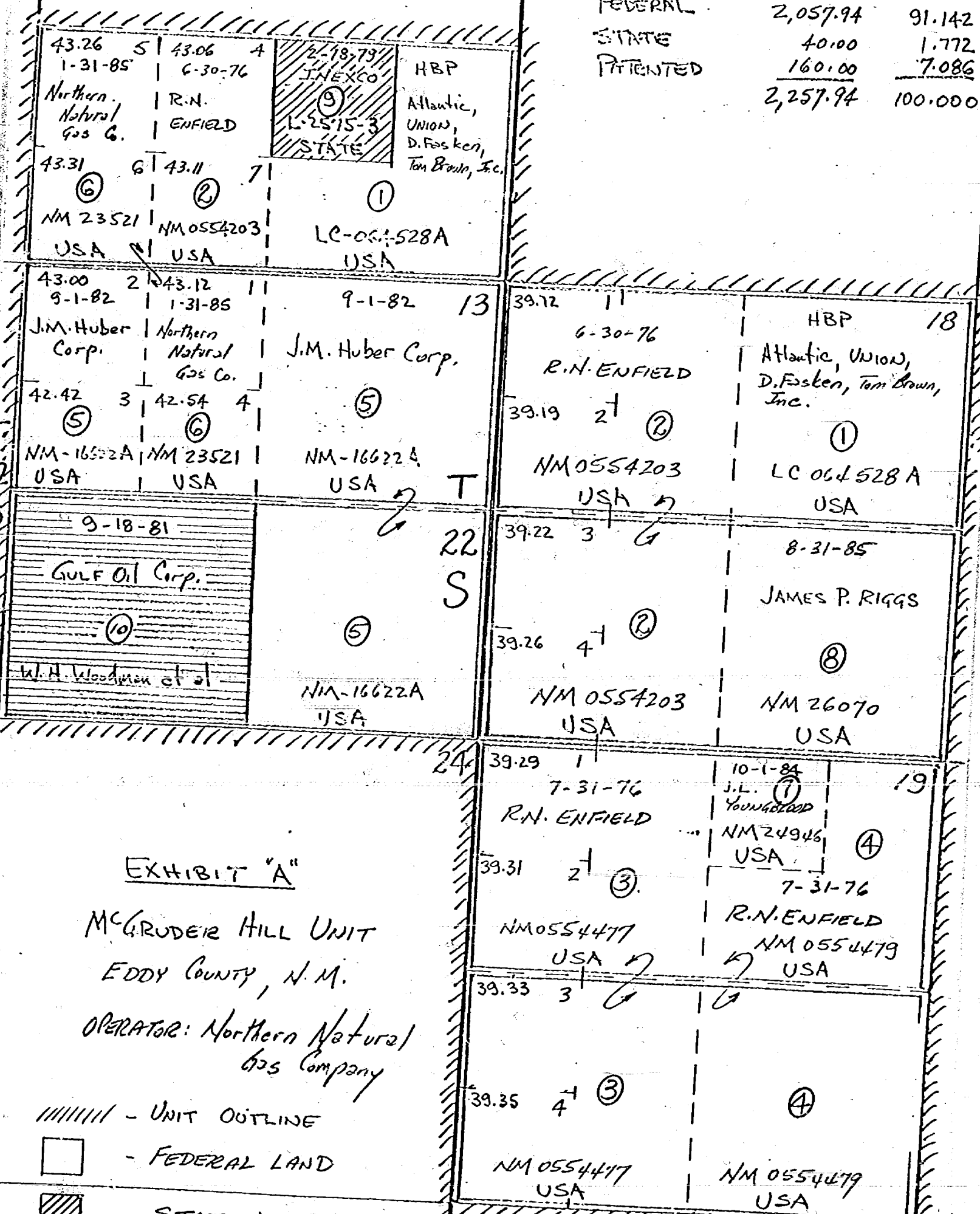
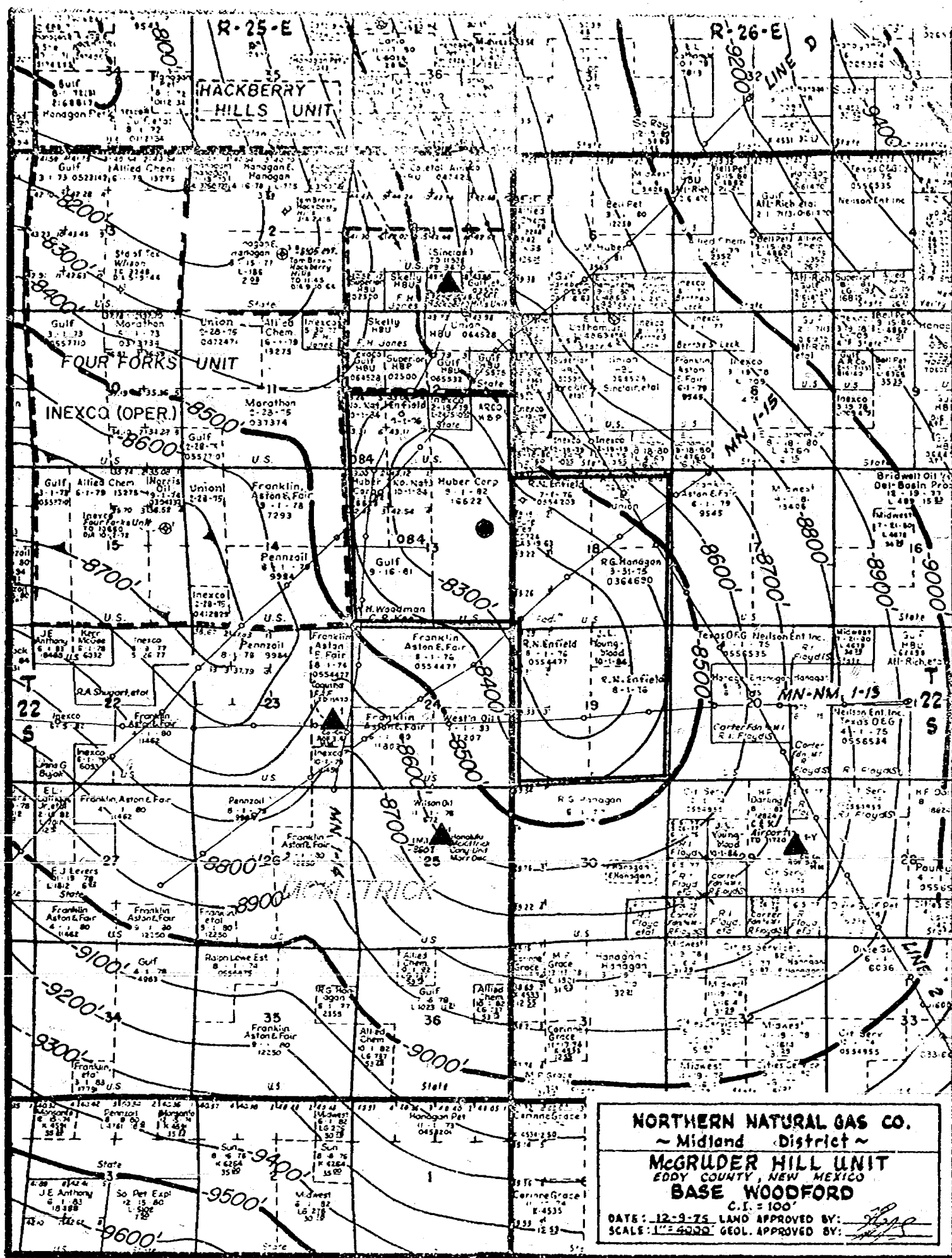




EXHIBIT "B"

Exhibit "B" will be prepared to reflect ownership  
as shown on Exhibit "A" and will include Royalty  
and Overriding Royalty Ownership Information



Dockets Nos. 2-76 and 3-76 are tentatively set for hearing on January 14 and January 21, 1976. Applications for hearing must be filed at least 22 days in advance of hearing date.

Docket No. 1-76

DOCKET: EXAMINER HEARING - WEDNESDAY - JANUARY 7, 1976

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

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

- CASE 5600:** Application of Champlin Petroleum Company for special pool rules, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks the promulgation of special pool rules for the East Carlsbad-Wolfcamp Gas Pool, Eddy County, New Mexico, including a provision for 320-acre spacing.
- CASE 5601:** Application of Consolidated Oil & Gas, Inc. for downhole commingling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks approval to commingle Tapacito-Pictured Cliffs and Basin-Dakota gas production in the wellbore of its Tribal "C" Well No. 10-7, located in Unit J of Section 7, Township 26 North, Range 3 West, Rio Arriba County, New Mexico.
- CASE 5602:** Application of Consolidated Oil & Gas, Inc. for downhole commingling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks authority to commingle Fulcher Kutz-Pictured Cliffs and Aztec-Fruitland gas production in the wellbore of its Collins Well No. 1, Manley Well No. 1, and Walz Well No. 1, located, respectively, in Units E, P, and L of Section 31, Township 29 North, Range 10 West, San Juan County, New Mexico.
- CASE 5603:** Application of Burleson and Huff for compulsory pooling, a non-standard gas proration unit, and an unorthodox location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Jalmat Gas Pool underlying the NW/4 of Section 35, Township 25 South, Range 37 East, Lea County, New Mexico, to form a non-standard 160-acre proration unit; applicant further seeks the pooling of all mineral interests in the Langlie-Mattix Pool underlying each of the following tracts in said Section 35 to form three standard 40-acre proration units: the NE/4 NW/4, to be dedicated to applicant's Dabbs Well No. 1, located 330 feet from the North line and 2310 feet from the West line of said Section 35; the SE/4 NW/4, to be dedicated to applicant's Dabbs Well No. 3, located 1980 feet from the North and West lines of said Section 35; and the SW/4 NW/4, to be dedicated to a well to be drilled on said tract at a standard Langlie Mattix Pool location. In the event re-entry into either the Dabbs Well No. 1 or No. 3 is unsuccessful, applicant proposes to drill a replacement well at a standard location on its tract. Applicant further proposes to dedicate the 160-acre Jalmat proration unit to one of the three above-described wells; and in the event it should be the Dabbs Well No. 1, applicant seeks approval for the unorthodox Jalmat location for said well. Also to be considered will be the cost of re-entering, drilling, and completing said wells and the allocation of such costs as well as actual operating costs and charges for supervision. Also to be considered will be the designation of the applicant as operator of the wells and a charge for the risk involved in re-entering, drilling, and completing said wells.
- CASE 5604:** Application of Burleson & Huff for a waterflood project, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to institute a waterflood project in the Querecho Plains-Queen Pool by the injection of water into the Queen formation through its Anadarko Federal Well No. 6 to be drilled at an unorthodox location in the approximate center of the SW/4 of Section 27, Township 18 South, Range 32 East, Lea County, New Mexico. Applicant further seeks an administrative procedure for approval of additional wells at standard and non-standard locations within the project area.

Examiner Hearing - Wednesday - January 7, 1976

Docket No. 1-76

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- CASE 5605:** Application of Saguaro Oil Company for special pool rules, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks the promulgation of special pool rules for the Table Mesa-Dakota Oil Pool, San Juan County, New Mexico, including a provision for 2 1/2-acre spacing.
- CASE 5606:** Application of Cities Service Oil Company for downhole commingling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval to commingle Tubb and Drinkard production in the wellbore of its Brunson B Well No. 3, located in Unit M of Section 3, Township 22 South, Range 27 East, Lea County, New Mexico.
- CASE 5607:** Application of Black River Corporation for an unorthodox oil well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to drill an undesignated Canyon formation well at an unorthodox location 280 feet from the South line and 150 feet from the West line of Section 33, Township 25 South, Range 24 East, Eddy County, New Mexico.
- CASE 5608:** Application of Northern Natural Gas Company for a unit agreement, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the Magruder Hill Unit Area comprising 2,258 acres, more or less, of Federal, State, and fee lands in Township 22 South, Range 25 and 26 East, Eddy County, New Mexico.
- CASE 5609:** Application of Yates Petroleum Corporation for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of its Nellor "D" Well to be drilled at a point 1980 feet from the North line and 660 feet from the West line or in the alternative, 660 feet from the North and West lines of Section 30, Township 17 South, Range 26 East, Eddy County, New Mexico, the N/2 of said Section 30 to be dedicated to the well.
- CASE 5610:** Application of Yates Petroleum Corporation for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of its Caskey "EV" Well to be drilled at a point 660 feet from the South line and 1400 feet from the West line of Section 30, Township 17 South, Range 26 East, Eddy County, New Mexico, the S/3 of said Section 30 to be dedicated to the well.
- CASE 5611:** Application of David C. Collier for an unorthodox oil well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of his Welch State No. 7 Well located 1330 feet from the South and West lines of Section 17, Township 18 South, Range 28 East, Artesia Pool, Eddy County, New Mexico, said well having formerly been a water injection well.
- CASE 5612:** Application of Dalport Oil Corporation for exception to the provisions of Order No. R-3221, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an exception to the provisions of Commission Order No. R-3221 permission to dispose of produced salt water from its State C Wells Nos. 1, 2, and 3, located in Units D, E, and L, respectively, of Section 16, Township 15 South, Range 30 East, Double L Queen Associated Pool, Chaves County, New Mexico, in an unlined surface pit located in Unit E of said Section 16.
- CASE 5596: (Reopened & Readvertised)**  
Application of Burk Royalty Company for statutory unitization, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an order unitizing, for the purpose of secondary recovery, all mineral interests in the Queen formation underlying the following-described lands, Double L-Queen Pool, Chaves County, New Mexico:

TOWNSHIP 14 SOUTH, RANGE 29 EAST, NMPM

Section 23: E/2 SE/4

Section 24: W/2 SW/4

Section 25: NW/4, SW/4 NE/4, N/2 SW/4, SE/4 SW/4, W/2 SE/4, &amp; SE/4 SE/4

Section 36: NE/4 NW/4, NE/4, N/2 SE/4, &amp; SE/4 SE/4

TOWNSHIP 14 SOUTH, RANGE 30 EAST, NMPM

Section 31: W/2, W/2 SE/4, &amp; SE/4 SE/4

TOWNSHIP 15 SOUTH, RANGE 29 EAST, NMPM

Section 1: E/2 E/2

Section 12: NE/4 &amp; E/2 SE/4

Section 13: NE/4 NE/4

TOWNSHIP 15 SOUTH, RANGE 30 EAST, NMPM

Section 6: N/2, SW/4, &amp; NW/4 SE/4

Section 7: W/2 W/2 &amp; NE/4 NW/4

Section 18: NW/4

Among the matters to be considered at the hearing will be the necessity of unit operations and the feasibility of the proposed secondary recovery program; the designation of a unit operator; the determination of the horizontal and vertical limits of the unit area; the determination of a fair, reasonable, and equitable allocation of production and costs of production, including capital investment, to each of the various tracts in the unit area; the determination of credits and charges to be made among the various owners in the unit area for their investment in wells and equipment; and such other matters as may be necessary and appropriate for carrying on efficient unit operations, including, but not necessarily limited to, unit voting procedures, selection, removal, or substitution of unit operator, and time of commencement and termination of unit operations.

CASE 5613:

Southeastern New Mexico nomenclature case calling for an order for the creation and extension of certain pools in Lea, Eddy, and Chaves Counties, New Mexico.

(a) Create a new pool in Lea County, New Mexico, classified as an oil pool for Bone Springs production and designated as the West Grana Ridge-Bone Springs Pool. The discovery well is Southern Union Production Company Barbara Federal Well No. 1 located in Unit I of Section 6, Township 22 South, Range 34 East, NMPM. Said pool would comprise:

TOWNSHIP 22 SOUTH, RANGE 34 EAST, NMPM

Section 6: SE/4

(b) Create a new pool in Eddy County, New Mexico, classified as a gas pool for Strawn production and designated as the Hay Hollow-Strawn Gas Pool. The discovery well is Great Western Drilling Company Hay Hollow Unit Well No. 1 located in Unit J of Section 11, Township 26 South, Range 27 East, NMPM. Said pool would comprise:

TOWNSHIP 26 SOUTH, RANGE 27 EAST, NMPM

Section 11: E/2

(c) Create a new pool in Eddy County, New Mexico, classified as a gas pool for Delaware production and designated as the Ross-Draw-Delaware Gas Pool. The discovery well is J. C. Williamson Ross Draw Unit Well No. 1 located in Unit K of Section 27, Township 26 South, Range 30 East, NMPM. Said pool would comprise:

TOWNSHIP 26 SOUTH, RANGE 30 EAST, NMPM

Section 27: W/2 Section 34: NW/4

(d) Create a new pool in Chaves County, New Mexico, classified as an oil pool for San Andres production and designated as the Sulmar-San

Andres Pool. The discovery well is McClellan Oil Corporation Lisa A Federal Well No. 1Y located in Unit K of Section 13, Township 15 South, Range 29 East, NMPM. Said pool would comprise:

TOWNSHIP 15 SOUTH, RANGE 29 EAST, NMPM

Section 13: SW/4

(e) Extend the vertical limits of the Legg-Morrow Gas Pool in Lea County, New Mexico, to include the Atoka formation; and redesignate the pool as the Legg Atoka-Morrow Gas Pool.

(f) Extend the Antelope Ridge-Morrow Gas Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 23 SOUTH, RANGE 34 EAST, NMPM

Section 26: S/2 Section 35: N/2

(g) Extend the Bar-U-Pennsylvanian Pool in Chaves County, New Mexico, to include therein:

TOWNSHIP 8 SOUTH, RANGE 33 EAST, NMPM

Section 31: S/2

(h) Extend the North Burton Flats-Wolfcamp Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 20 SOUTH, RANGE 28 EAST, NMPM

Section 19: S/2 Section 30: W/2

(i) Extend the Chaveroo-San Andres Pool in Chaves County, New Mexico, to include therein:

TOWNSHIP 8 SOUTH, RANGE 33 EAST, NMPM

Section 17: NW/4 Section 18: NE/4

(j) Extend the East Chisum-San Andres Pool in Chaves County, New Mexico, to include therein:

TOWNSHIP 11 SOUTH, RANGE 28 EAST, NMPM

Section 9: E/2 SE/4 and S/2 SW/4

(k) Extend the High Plains-Pennsylvanian Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 14 SOUTH, RANGE 34 EAST, NMPM

Section 26: SW/4

(l) Extend the Jainat Gas Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 26 SOUTH, RANGE 37 EAST, NMPM

Section 2: NW/4

(m) Extend the South Lucky Lake-Queen Pool in Chaves County, New Mexico, to include therein:

TOWNSHIP 15 SOUTH, RANGE 29 EAST, NMPM

Section 22: W/2 NW/4

(n) Extend the Fecos-Delaware Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 26 SOUTH, RANGE 29 EAST, NMPM

Section 27: SW/4 NE/4 and W/2 SE/4

(o) Extend the North Vacuum-Abo Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 17 SOUTH, RANGE 35 EAST, NMPM

Section 6: SW/4

(p) Extend the Vacuum-Queen Gas Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 17 SOUTH, RANGE 34 EAST, NMPM

Section 11: SW/4

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. 5608  
Order No. R-5150

APPLICATION OF NORTHERN NATURAL GAS  
COMPANY FOR APPROVAL OF THE MAGRUDER  
HILL UNIT AGREEMENT, EDDY COUNTY,  
NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9:00 a.m. on January 7,  
1976, at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 14th day of January, 1976, 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, Northern Natural Gas Company,  
seeks approval of the Magruder Hill Unit Agreement covering  
2,257.94 acres, more or less, of State, Federal and Fee lands  
described as follows:

EDDY COUNTY, NEW MEXICO  
TOWNSHIP 22 SOUTH, RANGE 25 EAST, NMPM  
Section 12: S/2  
Section 13: All

TOWNSHIP 22 SOUTH, RANGE 26 EAST, NMPM  
Section 18: All  
Section 19: All

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

IT IS THEREFORE ORDERED:

(1) That the Magruder Hill Unit Agreement is hereby  
approved.

-2-

Case No. 5608  
Order No. R-5150

(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

PHIL R. LUCERO, Chairman

  
EMERY C. ARNOLD, Member

  
JOE D. RAMEY, Member & Secretary

SEAL

jr/

Case 5608

LAW OFFICES

HINKLE, BONDURANT, COX & EATON

800 HINKLE BUILDING

POST OFFICE BOX 10

ROSWELL, NEW MEXICO 88201

December 12, 1975

TELEPHONE (505) 622-6510

MR. ISBELL LICENSED  
IN TEXAS ONLY

MIDLAND, TEXAS OFFICE  
521 MIDLAND TOWER  
(915) 683-4691

CLARENCE E. HINKLE  
W. E. BONDURANT, JR. (914 1973)  
LEWIS C. COX, JR.  
PAUL W. EATON, JR.  
CONRAD E. COFFIELD  
HAROLD L. HENSLEY, JR.  
STUART D. SHAFER  
C. D. MARTIN  
PAUL J. KELLY, JR.

JAMES H. BOZARTH  
RONALD G. HARRIS  
JAMES H. ISBELL  
DOUGLAS L. LUNSFORD

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

Re: Northern Natural Gas Company

Gentlemen:

We enclose triplicate copies of Application of Northern Natural Gas Company for Approval of its Magruder Hill Unit. We ask that the matter be set for hearing before the Examiner on January 7, 1976.

Yours very truly,

HINKLE, BONDURANT, COX & EATON

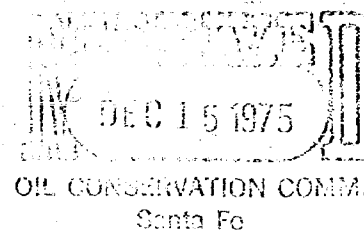
*Paul W. Eaton, Jr.*  
Paul W. Eaton, Jr.

PWE/jw  
Enclosure

cc: Mr. Kenneth Griffin  
501 Petroleum Building  
Midland, Texas 79701

DOCKET

Date 12/29/75



BEFORE THE OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO

APPLICATION OF NORTHERN NATURAL GAS )  
COMPANY FOR APPROVAL OF THE MAGRUDER )  
HILL UNIT AGREEMENT, EDDY COUNTY, )  
NEW MEXICO. )

Case No. 5608

APPLICATION

COMES NOW Northern Natural Gas Company (Applicant) and states:

1. Applicant requests approval of the Magruder Hill Unit Agreement covering 2,257.94 acres of state, federal and fee lands located in Eddy County, New Mexico and described as follows:

Township 22 South, Range 25 East, N.M.P.M.

Section 12: Lots 4, 5, 6, 7, SE $\frac{1}{4}$  (S $\frac{1}{4}$ )

Section 13: Lots 1, 2, 3, 4, SW $\frac{1}{4}$ , E $\frac{1}{2}$  (All)

Township 22 South, Range 26 East, N.M.P.M.

Section 18: Lots 1, 2, 3, 4, E $\frac{1}{2}$ W $\frac{1}{2}$ , E $\frac{1}{2}$  (All)

Section 19: Lots 1, 2, 3, 4, E $\frac{1}{2}$ W $\frac{1}{2}$ , E $\frac{1}{2}$  (All)

2. The Unit Agreement extends to all formations and names Northern Natural Gas Company as operator.

3. Approval of the proposed Unit Agreement will promote the prevention of waste and the protection of correlative rights within the unit area.

4. Applicant requests that this case be set for hearing on the Examiner's docket for January 7, 1976.

HINKLE, BONDURANT, COX & EATON

By

Paul W. Eaton Jr.  
P. O. Box 10  
Roswell, New Mexico 88201  
Attorneys for Applicant



BEFORE THE OIL CONSERVATION COMMISSION  
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