



June 26, 2007

**HAND-DELIVERED**

Mark E. Fesmire, P. E.  
Director  
Oil Conservation Division  
New Mexico Department of Energy,  
Minerals and Natural Resources  
1220 Saint Francis Drive  
Santa Fe, New Mexico 87505

*Case 13961*

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Re: Application of Chevron USA Inc. for amendment of Division Order No. R-4442, as amended, to authorize a tertiary recovery project by the injection of carbon dioxide in its Vacuum Grayburg-San Andres Unit Area, approval of amendment of the Cooperative Water Injection Agreement between the Central Vacuum Unit and the Vacuum Grayburg-San Andres Unit, and qualification of the project for the Recovered Oil Tax Rate Pursuant to the Enhanced Oil Recovery Act, Lea County, New Mexico.

Dear Mr. Fesmire:

Enclosed in triplicate is the Application of Chevron, USA Inc. in the above-referenced case as well as a copy of a legal advertisement. Texaco requests that this matter be set for hearing before a Division Examiner on July 26, 2007.

Very truly yours,

William F. Carr

Enclosures

cc: Paul R. Owen, Esq. (w/enclosures)  
Counsel, MidContinent Business Unit  
Chevron USA, Inc.  
11111 South Wilcrest  
Houston, Texas 77099

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

**IN THE MATTER OF THE APPLICATION OF CHEVRON USA, INC. FOR AMENDMENT OF DIVISION ORDER NO. R-4442, AS AMENDED, TO AUTHORIZE A TERTIARY RECOVERY PROJECT BY THE INJECTION OF CARBON DIOXIDE IN ITS VACUUM GRAYBURG-SAN ANDRES UNIT PRESSURE MAINTENANCE PROJECT AREA, APPROVAL OF AMENDMENT OF THE COOPERATIVE WATER INJECTION AGREEMENT BETWEEN THE CENTRAL VACUUM UNIT AND THE VACUUM GRAYBURG-SAN ANDRES UNIT, AND QUALIFICATION OF THE PROJECT FOR THE RECOVERED OIL TAX RATE PURSUANT TO THE ENHANCED OIL RECOVERY ACT, LEA COUNTY, NEW MEXICO.**

CASE NO. 1382/

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**APPLICATION**

CHEVRON USA, INC. ("Chevron") through its attorneys, Holland & Hart, LLP, hereby makes application for an order amending Division Order Nos. R-4442, as amended, to authorize a tertiary recovery project by the injection of carbon dioxide into the Grayburg and San Andres formations in its Vacuum Grayburg-San Andres Unit Pressure Maintenance Project Area, Vacuum Grayburg-San Andres Pool, to increase the authorized pressure in this project area for Carbon Dioxide injection, to approve amendment of the Vacuum (Grayburg-San Andres) Cooperative Water Injection Agreement concerning CO2 injection operations to the common boundary between the Central Vacuum Unit and the Vacuum Grayburg-San Andres Unit and, to qualify this project for the Recovered Oil Tax Rate pursuant to the Enhanced Oil Recovery Act, and in support of its application states:

1. By Order No. R-4433, dated November 1, 1972, the Division granted the application of Texaco Exploration & Production Inc. for approval of the Vacuum Grayburg-San Andres Unit comprised of approximately 1486 acres, more or less. The unit boundaries include

the following acreage in Lea County, New Mexico:

**TOWNSHIP 17 SOUTH, RANGE 34 EAST, N.M.P.M.**

Section 35:           W/2 SW/4

**TOWNSHIP 18 SOUTH, RANGE 34 EAST, N.M.P.M.**

Sections 1 and 2:    All  
Section 11:         NE/4 NE/4  
Section 12:         N/2 NW/4

2. By Order No. R-4442-A, dated September 18, 2001, the Division (a) authorized the implementation of tertiary recovery operations in this project area by the injection of carbon dioxide into the Grayburg and San Andres formations (b) increased the injection pressure limitation for carbon dioxide to a surface injection pressure of 1850 pounds, and (3) approved amendments to the Vacuum Grayburg-San Andres Cooperative waterflood Injection Agreement with the Central Vacuum unit. However, the approved tertiary recovery operations were not commenced within the times allowed by Order No. R-4442-A and it expired of its own terms.

3. Chevron is the current operator of the Vacuum Grayburg-San Andres Pressure Maintenance Project in the Vacuum Grayburg-San Andres Unit for the injection of water into the Vacuum-Grayburg-San Andres Pool and seeks re-authorization by the Division to allow it to implement the tertiary recovery operations in this project area by the injection of carbon dioxide into the Grayburg and San Andres formations. Pursuant to the provisions of Division Rule 701, Chevron will file Oil Conservation Division Form C-108, Application for Authorization to Inject for the wells that are the subject of this application. Attached hereto as Exhibit A are lists of all wells within the Proposed CO2 Target Area identified as Producing Wells and Injector Wells.

4. Chevron also seeks authorization to increase the injection pressure limitation for

carbon dioxide in the project area to a surface injection pressure of 1850 pounds, and to amend the Vacuum (Grayburg-San Andres) Cooperative Water Injection Agreement to allow for the expansion of CO2 injection operations on the common boundary between the Central Vacuum Unit and the Vacuum Grayburg-San Andres Unit. A copy of this agreement and the amendment thereto is attached hereto as Exhibit B.

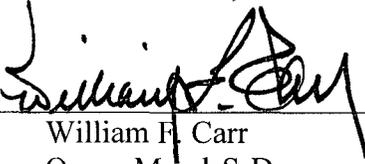
5. Chevron also seeks to qualify this project for the Recovered Oil Tax Rate pursuant to the New Mexico Enhanced Oil Recovery Act.

6. Attached hereto as Exhibit C is a list of the names and addresses of the persons entitled to notice of this application pursuant to Oil Conservation Division rules and regulations.

7. Approval of this application will afford Chevron the opportunity to produce its just and equitable share of the remaining reserves in the Vacuum Grayburg-San Andres Pressure Maintenance Project Area and will otherwise be in the best interest of the conservation, the protection of correlative rights and the prevention of waste.

WHEREFORE, Chevron USA Inc. requests that this matter be set for hearing before a duly appointed Examiner of the Oil Conservation Division on July 26, 2007 and after notice and hearing as required by law, the Division enter its Order granting this application.

Respectfully submitted,  
HOLLAND & HART, LLP

By:   
William F. Carr  
Ocean MundsS-Dry

Post Office Box 2208  
Santa Fe, New Mexico 87504  
Telephone: (505) 988-4421  
ATTORNEYS FOR CHEVRON USA INC.

**EXHIBIT A**  
**CASE NO. \_\_\_\_\_**  
**Chevron USA, INC.**  
**VACUUM GRAYBURG SAN ANDRES UNIT**

**WELLS WITHIN PROPOSED CO<sub>2</sub> TARGET AREAS**

WELL NO	FOOTAGE	U	SECTION	TOWNSHIP	RANGE	API NUMBERS
VGSAU #6	990 FSL; 990 FWL	P	2	18S	34E	30-025-21420
VGSAU #7	660 FSL; 1987 FWL	O	2	18S	34E	30-025-02277
VGSAU #8	660 FSL; 1980 FEL	N	2	18S	34E	30-025-02275
VGSAU #9	660 FSL; 660 FEL	M	2	18S	34E	30-025-02274
VGSAU #10	660 FSL; 660 FWL	P	1	18S	34E	30-025-02258
VGSAU #11	660 FSL; 1980 FWL	O	1	18S	34E	30-025-02257
VGSAU #12	660 FSL; 1980 FEL	N	1	18S	34E	30-025-02259
VGSAU #13	660 FSL; 660 FEL	M	1	18S	34E	30-025-02260
VGSAU #21	1980 FSL; 660 FWL	I	2	18S	34E	30-025-02276
VGSAU #22	1980 FSL; 1980 FWL	J	2	18S	34E	30-025-02273
VGSAU #23	1980 FSL; 1980 FEL	K	2	18S	34E	30-025-02272
VGSAU #24	1980 FSL; 660 FEL	L	2	18S	34E	30-025-02271
VGSAU #25	1980 FSL; 660 FWL	I	1	18S	34E	30-025-02256
VGSAU #26	1980 FSL; 1980 FWL	J	1	18S	34E	30-025-02255
VGSAU #27	1980 FSL; 1980 FEL	K	1	18S	34E	30-025-02254
VGSAU #28	2310 FSL; 330 FEL	L	1	18S	34E	30-025-02253
VGSAU #38	1980 FNL; 1980 FEL	F	2	18S	34E	30-025-02265
VGSAU #39	1980 FNL; 660 FEL	E	2	18S	34E	30-025-02264

VGSAU #40	1980 FNL; 660 FWL	H	1	18S	34E	30-025-02252
VGSAU #41	1980 FNL; 1980 FWL	G	1	18S	34E	30-025-02249
VGSAU #42	1980 FNL; 1980 FEL	F	1	18S	34E	30-025-02245
VGSAU #43	1980 FNL; 484 FEL	E	1	18S	34E	30-025-02247
VGSAU #52	660 FNL; 1980 FWL	B	2	18S	34E	30-025-02267
VGSAU #53	660 FNL; 1980 FEL	C	2	18S	34E	30-025-02262
VGSAU #54	660 FNL; 660 FEL	D	2	18S	34E	30-025-02263
VGSAU #55	660 FNL; 660 FWL	A	1	18S	34E	30-025-02250
VGSAU #56	660 FNL; 1980 FWL	B	1	18S	34E	30-025-02251
VGSAU #57	660 FNL; 1980 FEL	C	1	18S	34E	30-025-02248
VGSAU #159	907 FNL; 350 FEL	D	1	18S	34E	30-025-33464
VGSAU #126	1980 FSL; 1308 FWL	H	1	18S	34E	30-025-32026
VGSAU #127	1980 FSL; 2625 FWL	J	1	18S	34E	30-025-32027
VGSAU #128	1980 FSL; 1220 FEL	L	1	18S	34E	30-025-32028
VGSAU #139	1980 FNL; 1282 FEL	E	2	18S	34E	30-025-30755
VGSAU #140	1980 FNL; 10 FEL	E	2	18S	34E	30-025-30756
VGSAU #141	1980 FNL; 1309 FWL	H	1	18S	34E	30-025-30797
VGSAU #142	1980 FNL; 2628 FWL	G	1	18S	34E	30-025-30843
VGSAU #143	1980 FNL; 1250 FEL	E	1	18S	34E	30-025-30844
VGSAU #153	660 FNL; 2630 FWL	B	2	18S	34E	30-025-30802
VGSAU	660 FNL; 1331 FEL	C	2	18S	34E	30-025-30801

#154						
VGSAU #155	660 FNL; 10 FEL	D	2	18S	34E	30-025-30800
VGSAU #156	660 FNL; 1330 FWL	B	1	18S	34E	30-025-30851
VGSAU #157	710 FNL; 2530 FWL	B	1	18S	34E	30-025-30717
VGSAU #158	660 FNL; 1330 FEL	C	1	18S	34E	30-025-30718
VGSAU #212	660 FSL; 1850 FEL	N	1	18S	34E	30-025-32004
VGSAU #227	1980 FSL; 1755 FEL	K	1	18S	34E	30-025-31993
VGSAU #258	660 FNL; 570 FEL	D	1	18S	34E	30-025-32009
VGSAU #4	220 FSL; 100 FWL	P	1	18S	34E	30-025-24332
VGSAU #5	210 FSL; 1420 FWL	O	1	18S	34E	30-025-24333
VGSAU #14	1500 FSL; 1500 FWL	J	2	18S	34E	30-025-24359

VGSAU #15	1400 FSL; 2450 FEL	K	2	18S	34E	30-025-24378
VGSAU #16	1400 FSL; 1300 FEL	L	2	18S	34E	30-025-24308
VGSAU #17	1400 FSL; 10 FEL	L	2	18S	34E	30-025-24316
VGSAU #18	1330 FSL; 1330 FWL	J	1	18S	34E	30-025-24317
VGSAU #19	1310 FSL; 2540 FWL	O	1	18S	34E	30-025-24331
VGSAU #20	1330 FSL; 1330 FEL	K	1	18S	34E	30-025-24360
VGSAU #31	2630 FSL; 1330 FEL	K	2	18S	34E	30-025-24314
VGSAU #32	2630 FSL; 30 FWL	I	1	18S	34E	30-025-24330
VGSAU #33	2630 FNL; 1310 FWL	H	1	18S	34E	30-025-24323
VGSAU #34	2630 FSL; 2630 FEL	K	1	18S	34E	30-025-24312
VGSAU #35	2630 FNL; 1330 FEL	F	1	18S	34E	30-025-24361

VGSAU #46	1405 FNL; 1230 FEL	E	2	18S	34E	30-025-24364
VGSAU #47	1330 FNL; 10 FEL	E	2	18S	34E	30-025-24365
VGSAU #48	1330 FNL; 1330 FWL	G	1	18S	34E	30-025-24322
VGSAU #49	1390 FNL; 2580 FWL	G	1	18S	34E	30-025-24329
VGSAU #50	1330 FNL; 1330 FEL	F	1	18S	34E	30-025-24366
VGSAU #63	50 FNL; 2630 FEL	C	2	18S	34E	30-025-27974
VGSAU #122*	1336 FNL; 660 FEL	E	1	18S	34E	30-025-30721
VGSAU #146	1324 FNL; 1980 FEL	F	2	18S	34E	30-025-30846
VGSAU #147	1360 FNL; 660 FEL	E	2	18S	34E	30-025-30798
VGSAU #148	1330 FNL; 660 FWL	H	1	18S	34E	30-025-30799
VGSAU #149	1330 FNL; 1980 FWL	G	1	18S	34E	30-025-30847
VGSAU #150	1390 FNL; 1980 FEL	F	1	18S	34E	30-025-30917

### INJECTION WELL SUMMARY

ACTIVE WATER INJECTORS TO BE CONVERTED TO CO <sub>2</sub> INJECTION				
Ref. No.	Well No.	Permit Date	NMOC D Pressure Limit (Water)	Requested Pressure Limit for CO <sub>2</sub>
1	4	11/17/98	2150	1850
2	5	11/1/72	N/A	1850
3	14	11/17/98	1420	1770
4	15	11/1/72	N/A	1850
5	16	4/15/97	1480	1830
6	17	11/1/72	N/A	1850
7	18	4/15/97	1930	1850
8	19	11/1/72	N/A	1850
9	20	11/17/98	1680	1850
10	31	11/1/72	N/A	1850

11	32	4/15/97	1730	1850
12	33	<b>11/1/72</b>	<b>N/A</b>	1850
13	34	11/10/93	1395	1745
14	35	<b>11/1/72</b>	<b>N/A</b>	1850
15	46	5/24/91	1765	1850
16	47	<b>11/1/72</b>	<b>N/A</b>	1850
17	48	11/17/98	2210	1850
18	49	<b>11/1/72</b>	<b>N/A</b>	1850
19	50	11/10/93	1730	1850
20	63	4/15/97	2115	1850
21	146	4/15/97	1800	1850
22	147	4/15/97	2030	1850
23	148	11/17/98	2300	1850
24	149	2/8/95	1845	1850
25	150	2/9/95	1810	1850
<b>ACTIVE PRODUCING WELL TO BE CONVERTED TO CO<sub>2</sub> INJECTION</b>				
26	122	N/A	N/A	1210
			(initial request 860 PSIG)	

**AMENDMENT TO VACUUM (GRAYBURG-SAN ANDRES)  
COOPERATIVE WATER INJECTION AGREEMENT**

THIS AMENDMENT shall be effective as of January 1, 2001, by and between the Central Vacuum Unit, represented by Texaco Exploration and Production Inc. , as Unit Operator, hereinafter referred to as "Unit Operator", and the Vacuum Grayburg-San Andres Unit, represented by Texaco Exploration and Production Inc. , as Unit Operator, hereinafter referred to as "Texaco".

**WITNESSETH:**

WHEREAS, Unit Operator and Texaco are parties to that certain Vacuum (Grayburg-San Andres) Cooperative Water Injection Agreement, dated April 14, 1978, hereinafter referred to as "Agreement", providing for injection of water into the Grayburg-San Andres formation through various wells (Central Vacuum Unit Wells numbered 133 through 141) located in Townships 17 South and 18 South, Ranges 34 East and 35 East, Lea County, New Mexico. A copy of the Agreement is attached hereto.

WHEREAS, Unit Operator has initiated a project for the injection of CO<sub>2</sub>, produced gas, and water in the Central Vacuum Unit.

WHEREAS, Unit Operator and Texaco desire to inject CO<sub>2</sub> and/or produced gas through certain water injection wells subject to the Agreement.

WHEREAS, Unit Operator and Texaco have secured adequate CO<sub>2</sub> supply for their respective Units.

WHEREAS, Unit Operator has an existing agreement with the Buckeye CO<sub>2</sub> Processing Plant for the processing and redelivery of Central Vacuum Unit contaminated produced gas.

WHEREAS, Texaco intends to secure an agreement with the Buckeye CO<sub>2</sub> Processing Plant for the processing and redelivery of Vacuum Grayburg-San Andres Unit contaminated produced gas.

NOW THEREFORE, in consideration of the premises it is agreed that the Agreement is amended as follows:

CO<sub>2</sub>, produced gas, water, or any combination thereof, are acceptable injectants for all water injection wells identified in the Agreement.

When an injection well is on its water cycle, Unit Operator will continue to provide the necessary injection water from the Central Vacuum Injection System, as per the Agreement. When an injection well is on a gas (aka solvent) cycle, Unit Operator will deliver the necessary CO<sub>2</sub> and/or produced gas through the Central Vacuum Injection System. The respective working interest owners of the Central Vacuum Unit and the Vacuum Grayburg-San Andres Unit reserve the right to supply in-kind CO<sub>2</sub> and/or produced gas for their proportionate share of each well's volumes. Further, Unit Operator will coordinate the necessary volumes of in-kind CO<sub>2</sub> and/or produced gas to be delivered to the Central Vacuum Injection System. In-kind deliveries of CO<sub>2</sub> and/or produced gas into the Central Vacuum Injection System will only be allowed if pressures, rates, concentrations, temperatures and delivery point(s) are acceptable to Unit Operator.

Determination of the injected solvent volume allocated to the injection wells will be by the following procedure and formula:

Metering on the injection wells will be through common turbine meters, or future technologies as approved by both parties. Monthly solvent injection volume allocations will be factored to the injection wells based on a ratio of the Unit's total volume of solvent metered through the Llano Pipeline CVU CO2 Delivery Meter plus the Buckeye CO2 Processing Plant re-delivery volumes into the Central Vacuum Injection System to the aggregate of all individual Unit solvent well meters.

The fraction of purchased solvent will be calculated as follows:

$V_p / (V_r + V_p)$  = fraction of total solvent injection purchased

Where,  $V_r$  = Buckeye CO2 Processing Plant re-delivery meter volumes

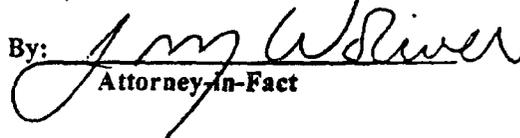
$V_p$  = Llano Pipeline's CO2 Delivery Meter volume

The fraction of recycled solvent will be the difference between one (1) and the previously calculated fraction of total solvent injection purchased.

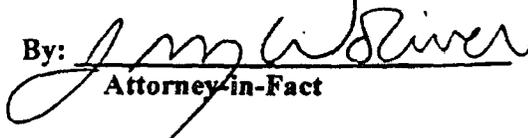
All Vacuum Grayburg-San Andres Unit volumes will be considered "purchased" until such time as the Vacuum Grayburg-San Andres Unit elects to allocate produced gas from the Buckeye CO2 Processing Plant to the Central Vacuum Injection System. It is intended that all Vacuum Grayburg-San Andres Unit volumes will be in-kind deliveries, either purchased CO2, produced gas, or any combination thereof.

Except as expressly herein amended the Agreement as originally written shall remain in full force and effect. In the event any conflict between the provisions of this Amendment and the provisions of the Agreement, the provisions of this Amendment shall govern.

**Texaco Exploration and Production Inc.**  
as Operator of the Central Vacuum Unit

By:   
Attorney-in-Fact

**Texaco Exploration and Production Inc.**  
as Operator of the Vacuum Grayburg-San Andres Unit

By:   
Attorney-in-Fact

COOPERATIVE WATER INJECTION AGREEMENT

THIS AGREEMENT, entered into effective as of the date of execution, to be known as the Vacuum (Grayburg-San Andres) Cooperative Water Injection Agreement, by and between the Central Vacuum Unit, represented by Texaco Inc. as Unit Operator, hereinafter referred to as "Unit Operator", and the Vacuum Grayburg-San Andres Unit, represented by Texaco Inc. as Unit Operator, hereinafter referred to as "Texaco".

W I T N E S S E T H:

WHEREAS, Unit Operator is the Operator of the Central Vacuum Unit covering certain leases and lands, located in Townships 17 South and 18 South, Ranges 34 East and 35 East, Lea County, New Mexico, as more particularly described in the Central Vacuum Unit Agreement to which reference is made for purposes of description; and

WHEREAS, Texaco is the Operator of the Vacuum Grayburg-San Andres Unit covering, among other lands, the following described land in Lea County, New Mexico:

Section 1, Township 18 South, Range 34 East, Lea County, New Mexico, as more particularly described in the Vacuum Grayburg-San Andres Unit Agreement to which reference is made for purposes of description;

and

WHEREAS, Unit Operator and Texaco desire to provide for the operation of water injection wells on or near the common boundary of the Central Vacuum Unit and the Vacuum Grayburg-San Andres Unit, and to provide for the injection of water into the underlying Grayburg-San Andres formation through said injection wells so that the leases and lands mentioned above will be benefited by an increase in the production of crude oil.

NOW, THEREFORE, in consideration of the premises it is agreed as follows:

1. Unit Operator, as soon as practical following the effective date of this agreement agrees to drill, complete and equip nine (9) water injection wells in the Grayburg-San Andres formation at the approximate locations shown on the plat attached hereto as Exhibit "A", and with location descriptions and Working Interest Ownership percentages tabulated on Exhibit "B", also attached and made a part hereof for all purposes.

The term "injection well" shall mean any and all injection wells described and identified herein. Unit Operator shall operate any and all water injection wells and furnish suitable water as required for injection through the Central Vacuum Unit

water injection system. Injection of water into any of the injection wells covered by this agreement in the Grayburg-San Andres formation shall be at such rates and at such pressures that will comply with the rules and regulations of the New Mexico Oil Conservation Commission.

2. Unit Operator agrees to advance all costs and expenses incurred in connection with drilling, completing and equipping the wells which they shall drill hereunder and shall charge Texaco with the ownership percentage shown for each well in Exhibit "B" of all such costs and expenses on the basis provided for herein.

3. Upon drilling, completing and equipping the wells provided for above, each injection well will be operated by Unit Operator with Texaco to be charged the percentage of all operating costs and expenses on the basis provided for herein and in accordance with the ownership percentage shown in Exhibit "B" for each well.

4. Unit Operator agrees to furnish water suitable for injection purposes through the Central Vacuum Injection System at the price and on the basis hereinafter set forth. The water delivered hereunder to the injection well by Unit Operator shall be measured by standard type water metering equipment installed and operated by Unit Operator.

5. For proration purposes, each party will be entitled to receive credit for all water injected, through the injection wells in accordance with their ownership in each of the individual injection wells covered by this agreement.

6. It is agreed by the parties hereto that the payments to be made for water delivered by Unit Operator to the injection wells are intended to reimburse Unit Operator as nearly as possible for Texaco's proportionate share of the costs and expense actually incurred by Unit Operator in acquiring, transporting and furnishing such water to the injection well site, it being intended that Unit Operator shall not make a profit from the operations conducted hereunder. The rate of \$0.02 per barrel shall be used in determining charges for injection water for the first year of operation. The first year of operation shall commence the first day of the month in which injection was initiated. At the end of the first year of operation, Unit Operator's actual costs and expenses of acquiring, transporting and delivering said water under the terms of this agreement shall be computed for the first year to determine the actual cost or rate per barrel, and Texaco's share of such costs shall, by mutual agreement, be retroactively adjusted so as to be based on the actual costs and expenses for such year. If Texaco's share of the actual costs and expenses is less than the estimated charge provided for the first year, then appropriate reimbursement shall be made by Unit Operator for the overpayment, but if Texaco's share exceeds the estimated charge provided for the first year, then Texaco agrees to reimburse Unit Operator for its applicable share of such costs and expenses as actually accrued for the first year. The actual rate per barrel determined in the manner provided then shall be the rate for the next ensuing year; provided that Unit Operator may make use of the experience base

developed hereunder to project costs and expenses and set a reasonable rate per barrel for ensuing year or period. It is further understood that Unit Operator may at any time recalculate its actual cost of acquiring, transporting and delivering water to the injection well sites for any subsequent year or twelve (12) months' period in the manner provided for the first year, and if it should occur that the rate for charges again should be adjusted, then Unit Operator shall so notify Texaco of such adjustment. Any new rate based upon the recalculation by Unit Operator shall become effective as of the first day of the calendar month following the date that Texaco is notified thereof, and there shall be a retroactive adjustment for such prior period. This same procedure shall be followed during the term of this agreement.

7. The term of this agreement shall commence as of the date hereof and shall continue for so long as oil and gas are produced from the leases which cover the above described lands. At any time that a party hereto shall be of the opinion that the water injection operation being conducted hereunder is no longer economically profitable to that party, then said party shall have the right to terminate its participation in the water injection operations upon giving thirty (30) days advance written notice to the other party of this intention to terminate participation. The other party hereto then shall have the option at its risk and expense to take over and operate the water injection wells. In such event, the party taking over the water injection wells is to be granted the right of ingress and egress to said injection wells, together with rights-of-way and easements necessary to continue operation of the water injection wells, but this grant is to be made without representation and any warranty whatsoever and only insofar as the terminating party then can legally make such a grant. The party taking over operations of the water injection wells shall pay the other party for its proportionate part of the equipment therein on the basis of the current salvage value thereof in place, and when said party wishes to discontinue the water injection operations, such party shall plug and abandon the water injection wells in compliance with all contractual obligations and rules and regulations of each governmental body having jurisdiction, at its sole cost, risk and expense. The party taking over said wells hereby shall indemnify and hold the other party hereto harmless from and against any and all claims, charges, suits and any liabilities arising out of or in any way associated with subsequent operations. The parties agree to execute and deliver, each to the other, such instruments or assurances as may be required to accomplish its intents and purposes of this article.

8. In the event that any party hereto is rendered unable, wholly or in part, by force majeure to carry out its obligations under this agreement, other than the obligation to make payments of amounts due hereunder, upon such party's giving notice and reasonably full particulars of such force majeure in writing or by telegraph to the other party or parties hereto within a reasonable time after the occurrence of the cause relied upon, the obligations of the party giving said notice, insofar as they are affected by such force majeure, shall be suspended during the continuance of any inability so caused, but for no longer period; and the cause of the force majeure so far as possible shall be remedied with all reasonable dispatch.

The term "force majeure" as employed herein shall mean an act of God, strike, lockout or other industrial disturbance, act of the public enemy, war, blockade, riot, lightning, fire, storm, flood, explosion, governmental restraint, failure of water supply, and any other cause, whether of the kind herein enumerated or otherwise, not reasonably within the control of the party claiming suspension.

The settlement of strikes, lockouts, and other labor difficulties shall be entirely within the discretion of the party having the difficulty. The above requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes, lockouts or other labor difficulty by acceding to the demands of opponents therein when such course is inadvisable in the discretion of the party having the difficulty.

9. The rights, duties, obligations and liabilities of the parties hereto shall be several, and not joint or collective, and nothing herein contained shall ever be construed as creating a partnership of any kind, joint venture, an association or a trust or as imposing upon any or all of the parties hereto a partnership duty, obligation or liability. Each party hereto shall be individually responsible only for its obligations, as set out in this agreement.

Each party hereby elects to be excluded from the application of Sub-chapter "K" of Chapter 1 of Subtitle "A" of the Internal Revenue Code of 1954, insofar as such Sub-chapter or any portion or portions thereof may be applicable to the parties in respect to the operations covered by this agreement. Operator is hereby authorized and directed to execute on behalf of each of the parties hereto such additional or further evidence of such election as may be required by regulations issued under such Sub-chapter "K", or should said regulations require each party to execute such further evidence, each party agrees to execute such evidence or to join in the execution thereof.

10. All of the wells described above are located on the Central Vacuum Unit. Subject to the terms hereof, it is intended that these wells are to be operated as Central Vacuum Unit wells. Both parties expressly recognize that to accomplish the intents and purposes of takeover as described by paragraph 7, Texaco must have, hold and be entitled to exercise the same rights of entry, occupancy, use and control of the Central Vacuum Unit as Unit Operator has, holds and would be entitled if it were to continue to operate said wells on its Unit under this agreement. Such rights include, but are not limited to, ingress and egress to the Unit premises so as to be able to equip and take over operation of the jointly-owned wells located thereon, the right to use and occupy so much of the surface of the Unit premises as is required for the well locations and access thereto by roads and other means so as to be able to move in a drilling and/or workover rig and related equipment and material, and to lay water lines and inject water into said wells hereunder. Unit Operator, subject to the terms and provisions of this agreement, hereby grants to Texaco such rights, specifically empowering Texaco to make use of such rights hereunder including, but not limited to, those which Unit Operator has and holds under any lease, easement, right-of-way

agreement, or other agreement. Unit Operator further agrees to execute and deliver to Texaco such a grant in recordable form if this becomes necessary or desirable and/or to join with Texaco in executing any such agreement of a similar nature which may be necessary or desirable in this connection. However, Unit Operator is and shall remain Operator of the Central Vacuum Unit in all respects except to the extent of the limited grant provided herein under which said jointly-owned wells on such Unit as a matter of operational convenience are to be equipped and operated by Unit Operator under the terms and provisions of this agreement.

11. The terms and provisions hereof shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors, legal representatives and assigns.

IN WITNESS WHEREOF, the parties hereto have executed this agreement this 14<sup>th</sup> day of April, 1978.

APPROVED AS TO:

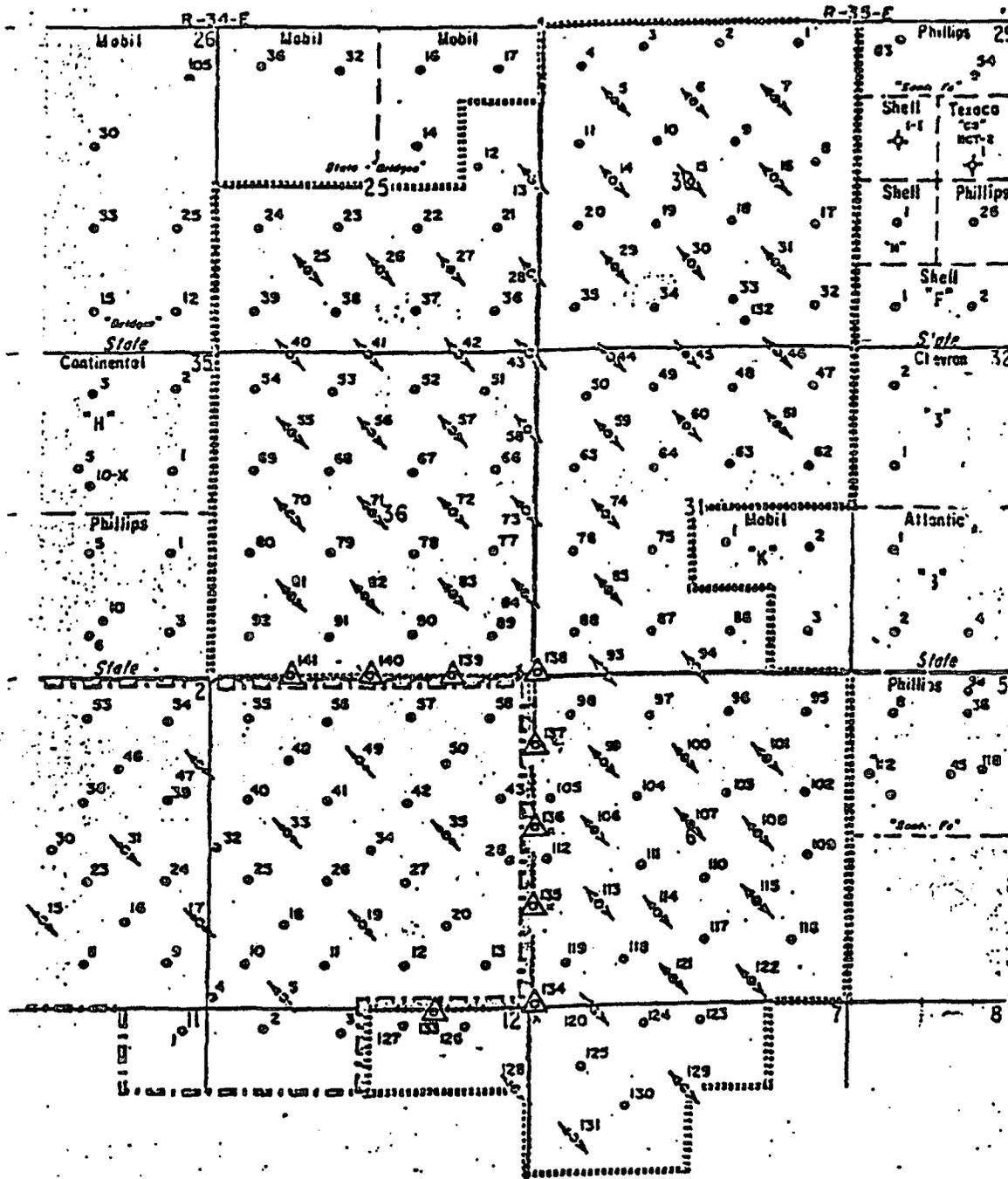
Contract: 611/10/11  
Terms: 201  
Form: 8/11/11  
Acctg: 12/11

TEXACO INC.  
as Operator of the Central  
Vacuum Unit

By A. F. Clarke  
Attorney-in-Fact

TEXACO INC.  
as Operator of the Vacuum  
Grayburg-San Andres Unit

By A. F. Clarke  
Attorney-in-Fact



COOPERATIVE WATER INJECTION WELLS  
TO BE DRILLED BY THE CENTRAL VACUUM UNIT

----- CENTRAL VACUUM UNIT BOUNDARY

==== VACUUM GRAYBURG-SAN ANDRES UNIT BOUNDARY

EXHIBIT "A"

COOPERATIVE WATER INJECTION AGREEMENT  
VACUUM GRAYBURG-SAN ANDRES UNIT  
& CENTRAL VACUUM UNIT  
VACUUM (GRAYBURG-SAN ANDRES) POOL  
LEA COUNTY, NEW MEXICO

**EXHIBIT "B"**

Vacuum (Grayburg-San Andres)  
Cooperative Water Injection Agreement  
between  
Central Vacuum Unit  
and  
Vacuum Grayburg-San Andres Unit  
Lea County, New Mexico

<u>Well No.</u>	<u>Well Location</u>	<u>Ownership</u>
133	10' FNL & 1550' FEL, Section 12 T18S - R34E	CVU - 50%, VGSAN - 50%
141	10' FSL & 1310' FWL, Section 36	CVU - 50%, VGSAN - 50%
140	10' FSL & 2630' FWL, Section 36	CVU - 50%, VGSAN - 50%
139	10' FSL & 1310' FEL, Section 36	CVU - 50%, VGSAN - 50%
	All in T17S - R34E	
138	10' FSL & 10' FWL, Section 31 T17S - R35E	CVU - 75%, VGSAN - 25%
137	10' FWL & 1100' FNL, Section 6	CVU - 50%, VGSAN - 50%
136	10' FWL & 2450' FNL, Section 6	CVU - 50%, VGSAN - 50%
135	10' FWL & 1600' FSL, Section 6	CVU - 50%, VGSAN - 50%
134	10' FWL & 10' FSL, Section 6	CVU - 75%, VGSAN - 25%
	All in T18S - R35E	

Note: CVU - Central Vacuum Unit  
VGSAN - Vacuum Grayburg-San Andres Unit

**EXHIBIT C**

**APPLICATION OF CHEVRON USA, INC.  
FOR AMENDMENT OF DIVISION ORDER NO. R-4442, AS AMENDED,  
TO AUTHORIZE A TERTIARY RECOVERY PROJECT BY THE  
INJECTION OF CARBON DIOXIDE IN ITS  
VACUUM GRAYBURG-SAN ANDRES UNIT PRESSURE MAINTENANCE  
PROJECT AREA, APPROVAL OF AMENDMENT OF THE  
COOPERATIVE WATER INJECTION AGREEMENT BETWEEN  
THE CENTRAL VACUUM UNIT AND THE  
VACUUM GRAYBURG-SAN ANDRES UNIT,  
AND QUALIFICATION OF THE PROJECT FOR  
THE RECOVERED OIL TAX RATE PURSUANT  
TO THE ENHANCED OIL RECOVERY ACT,  
LEA COUNTY, NEW MEXICO.**

Prize Energy Resources LP  
c/o Cimarex Energy Company  
Attn. OBO Department  
15 East 5<sup>th</sup> street, Suite 2000  
Tulsa, OK 74103-4346

Martha Leonard Trust 75-6356886  
c/o National Oil & Gas Operations  
Post Office Box 2050  
Fort Worth, Texas 76113-2050

Mary Leonard Childrens Trust 75-6412990  
c/o National Oil & Gas Operations  
Post Office Box 2050  
Fort Worth, Texas 76113-2050

Miranda Leonard Trust 75-6356894  
c/o National Oil & Gas Operations  
Post Office Box 2050  
Fort Worth, Texas 76113-2050

H. M. Bettis, Inc.  
Bettis, Boyle & Stovall  
Post Office Box 1240  
Graham, Texas 76450-1240

W. T. Boyle & Company  
Bettis, Boyle & Stovall  
Post Office Box 57  
Graham, Texas 76450-0057

Madelon L. Bradshaw  
2120 Ridgemar Blvd., Suite 12  
Fort Worth, Texas 76116

Ann McBee Buell  
11241 Russwood Circle  
Dallas, Texas 75229

Mobil Producing Texas & New Mexico  
c/o of ExxonMobil  
Attn.: Mr. Paul Allred  
Post Office Box 4707  
Houston, Texas 77210-4707

Frisco Energy LLC  
Attn.: Ms. Kathy B. McGuire  
2431 East 51st Street, Suite 300  
Tulsa, Oklahoma 74105

Larry O. Hulsey  
Post Office Box 1143  
Graham, Texas 76450-1143

Marathon Oil Company  
Attn.: Mr. Paul Tauscher, Joint Interest Department  
Post Office Box 22232  
Tulsa, OK 74121-2232

McBee Operating Co. LLC  
4311 Oak Lawn Avenue, Suite 310  
Dallas, Texas 75219

W. D. McBee Enterprises, Ltd.  
c/o Michael B. McBee  
5942 Averill Way  
Dallas, Texas 75225

McGowan Working Partners Incorporated  
1837 Crane Ridge Drive  
Jackson, MS 39216

ConocoPhillips Petroleum Company  
Attn.: Mr. Tom Scarbrough, Land Department  
1070 Plaza Office Building  
Bartlesville, OK 74004

S. B. Street & Company  
Attn.: Mr. Spencer Street  
Post Office Box 206  
Graham, Texas 79046-0206

Norman D. Stovall, Jr.  
Post Office Box 10  
Graham, Texas 76450-0010

Toreador Exploration and Production  
4809 Cole Avenue, Suite 108  
Dallas, Texas 75205

CASE 13961:

**Application of Chevron USA, Inc. for amendment of Division Order No. R-4442, as amended, to authorize a tertiary recovery project by the injection of carbon dioxide in its Vacuum Grayburg-San Andres Pressure Maintenance Project Area, approval of amendment if the cooperative water injection agreement between the Central Vacuum Unit and the Vacuum Grayburg-San Andres Unit, Lea County, New Mexico.** Applicant seeks approval to institute a tertiary recovery project in its Vacuum Grayburg-San Andres Unit Pressure Maintenance Project Area by the injection of carbon dioxide into the Grayburg and San Andres formations in the Vacuum-Grayburg-San Andres Pool. The Vacuum Grayburg-San Andres Pressure Maintenance Project encompasses portions of Section 35 of Township 17 South, Range 34 East and portions of Sections 1, 2, 11 and 12 of Township 18 South Range 35 East, N.M.P.M. Applicant also seeks to increase the approved surface injection pressure for carbon dioxide injection in this project area to 1850 pounds. Applicant further seeks to qualify the project area for the recovered oil tax rate pursuant to the "New Mexico Enhanced Oil Recovery Act" (Laws 1992, Chapter 38, Sections 1 through 5). Said unit is located approximately 22 miles northwest of Hobbs, New Mexico.