

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

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

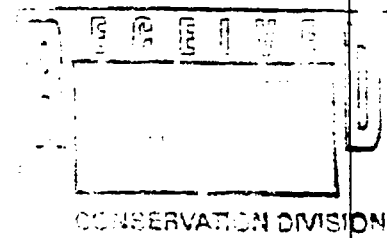
CASE NOS. 11,297

11,298

(Consolidated)

APPLICATION OF EXXON CORPORATION FOR A)
WATERFLOOD PROJECT, QUALIFICATION FOR)
THE RECOVERED OIL TAX RATE PURSUANT TO)
THE "NEW MEXICO ENHANCED OIL RECOVERY)
ACT" FOR SAID PROJECT, AND FOR 18)
NONSTANDARD OIL WELL LOCATIONS, EDDY)
COUNTY, NEW MEXICO)

APPLICATION OF EXXON CORPORATION FOR)
STATUTORY UNITIZATION, EDDY COUNTY,)
NEW MEXICO)



REPORTER'S TRANSCRIPT OF PROCEEDINGS

COMMISSION HEARING

BEFORE: WILLIAM J. LEMAY, CHAIRMAN
WILLIAM WEISS, COMMISSIONER
JAMI BAILEY, COMMISSIONER

Volume I
December 14th, 1995
Santa Fe, New Mexico

This matter came on for hearing before the Oil Conservation Commission on Thursday December 14th, 1995 (Volume I), at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

STEVEN T. BRENNER, CCR
(505) 989-9317

1 formation is described in the unit agreement.

2 Q. And would you explain for the Commissioners what
3 Exhibit 1 is?

4 A. Exhibit 1 is a land plat which outlines the
5 proposed unit area and identifies the separate tracts which
6 comprise the unit area.

7 These tracts are formed according to common
8 mineral ownership. There are 12 tracts in the unit area,
9 and prior to October 1st, 1995, Exxon operated five of the
10 tracts, Yates Petroleum Corporation operated five of the
11 tracts, MWJ operated one tract, and Premier operated one
12 tract.

13 Q. What is Exhibit 2, Mr. Thomas?

14 A. Exhibit 2 is a proposed unit agreement. The unit
15 agreement is a standard form except for a few minor
16 revisions regularly used by the BLM and the Commissioner of
17 Public Lands.

18 The unitized substances include all oil and gas
19 produced from the unitized formation. The designated unit
20 operator is Exxon Corporation.

21 Q. Would you briefly discuss the unit operating
22 agreement, which is Exhibit 3?

23 A. Exhibit 3 is the proposed unit operating
24 agreement, which sets forth the authorities and duties of
25 the unit operator, as well as the apportionment of expenses

1 between the working interest owners.

2 Q. Okay. Mr. Thomas, I believe the owners of the
3 unit are set forth in Exhibit B to Exhibit 2, Exhibit B to
4 the unit agreement; is that correct?

5 A. That's correct.

6 Q. How was that ownership determined?

7 A. Exhibit B of the unit agreement is a tract-by-
8 tract listing of the interest owners. These names and
9 interests were obtained from current Division order or
10 title opinion files on the tracts Exxon operates. On the
11 tracts operated by other parties, we based ownership based
12 on information obtained from the other operators' files.

13 Q. How many working and royalty interest owners are
14 there in total in the unit?

15 A. There are 43 working interest owners and 24
16 royalty or overriding royalty interest owners.

17 Q. Referring to your Exhibits 4 and 4A, could you
18 identify the working interest owners and which of the
19 interest owners you seek to statutorily unitize?

20 A. Exhibit 4 lists all working interest owners in
21 the unit and contains working interest owner ratifications.
22 The only working interest owners who have not yet ratified
23 are shown in Exhibit 4A. We seek to statutorily unitize
24 those owners.

25 Q. On Exhibit 4A?

**UNIT OPERATING AGREEMENT
OF THE AVALON (DELAWARE) UNIT
EDDY COUNTY, NEW MEXICO**

Exhibit No. 3
Exxon Corporation
Cases 11297 & 11298
Hearing Date: Dec. 14, 1995

1
2 **TABLE OF CONTENTS**

3 **Section**

4 Preliminary Recitals

5
6 **ARTICLE 1**

7 **CONFIRMATION OF UNIT AGREEMENT AND DEFINITIONS**

8
9 1.1 Confirmation of Unit Agreement

10 1.2 Definitions

11
12 **ARTICLE 2**

13 **EXHIBITS**

14 2.1 Exhibits

15 2.1.1 Exhibits A, B, C, and D of Unit Agreement

16 2.1.2 Exhibit E: Unit Participation

17 2.1.3 Exhibit F: Accounting Procedure

18 2.1.4 Exhibit G: Gas Balancing Agreement

19 2.1.5 Exhibit H: List of Well Bores

20 2.1.6 Exhibit I: Notice of Lien and Mortgage- Financing Statement

21 2.1.7 Exhibit J: Equal Opportunity Provisions

22
23 2.2 Revision of Exhibits

24 2.3 Reference to Exhibits

25
26 **ARTICLE 3**

27 **SUPERVISION OF OPERATIONS BY WORKING INTEREST OWNERS**

28
29 3.1 Overall Supervision

30 3.2 Specific Authorities and Duties

31 3.2.1 Method of Operation

32 3.2.2 Drilling of Wells

33 3.2.3 Well Recompletion and Change of Status

34 3.2.4 Expenditures

35 3.2.5 Disposition of Unit Equipment

36 3.2.6 Audits

37 3.2.7 Technical Services

38 3.2.8 Assignments to Committees

39 3.2.9 Removal of Unit Operator

40 3.2.10 Expansion of Unit Area

41 3.2.11 Termination of Unit Agreement

42 3.2.12 Contracts for Outside Substances

1
2 **ARTICLE 4**
3 **MANNER OF EXERCISING SUPERVISION**
4

- 5 4.1 Designation of Representatives
6 4.2 Meetings
7 4.3 Voting Procedure
8 4.3.1 Voting Interest
9 4.3.2 Vote Required-Generally
10 4.3.3 Vote Required for Drilling Well
11 4.3.4 Vote Required for Expenditures in Excess of One Million Dollars (\$1,000,000)
12 4.3.5 Vote Required to Proceed with CO₂ Injection
13 4.3.6 Vote Required to Amend Unit Operating Agreement
14 4.3.7 Overhead Rates
15 4.3.8 Vote at Meeting by Non-Attending Working Interest Owners
16 4.3.9 Poll Votes
17

18 **ARTICLE 5**
19 **INDIVIDUAL RIGHTS OF WORKING INTEREST OWNERS**
20

- 21 5.1 Reservation of Rights
22 5.2 Specific Rights
23 5.2.1 Access to Unit Area
24 5.2.2 Reports
25 5.3 Taking Unitized Substances in Kind
26 5.4 Failure to Take Production in Kind
27 5.5 Disposition of Gas
28 5.6 Taking Outside Substances in Kind
29 5.7 No Sharing of Market
30 5.8 Reversionary Interest
31

32 **ARTICLE 6**
33 **UNIT OPERATOR**
34

- 35 6.1 Initial Unit Operator
36

37 **ARTICLE 7**
38 **AUTHORITIES AND DUTIES OF UNIT OPERATOR**
39

- 40 7.1 Exclusive Right to Operate Unit
41 7.2 Workmanlike Conduct
42 7.3 Liens and Encumbrances
43 7.4 Employees
44 7.5 Records
45 7.6 Laws and Regulations
46 7.7 Financial Settlements, Billings, and Reports

- 7.8 Notification
- 7.9 Reports to Governmental Authorities
- 7.10 Engineering and Geological Information
- 7.11 Expenditures
- 7.12 Wells Drilled by Unit Operator
- 7.13 Exclusive Right to Contract for Outside Substances
- 7.14 Border Agreements
- 7.15 Appearance Before a Court or Regulatory Agency

ARTICLE 8 TAXES

- 8.1 Ad Valorem Taxes
- 8.2 Other Taxes

ARTICLE 9 INSURANCE

- 9.1 Insurance
 - 9.1.1 Workman's Compensation
 - 9.1.2 Employer's Liability Insurance
 - 9.1.3 Other Insurance

ARTICLE 10 PROPERTY TAKEN OVER

- 10.1 Personal Property Taken Over
 - 10.1.1 Wells and Well Equipment
 - 10.1.2 Lease and Operating Equipment
 - 10.1.3 Working Interest Owners Retain Responsibility for Wells
- 10.2 Records
- 10.3 Inventory and Evaluation of Personal Property
- 10.4 Inventory and Valuations
- 10.5 Investment Adjustments
- 10.6 General Facilities
- 10.7 Ownership of Personal Property and Facilities

ARTICLE 11 WELLBORES

- 11.1 Usable Wells
 - 11.1.1 Completion Interval
 - 11.1.2 Casing Integrity
 - 11.1.3 Isolation of Non-Unitized Formations
 - 11.1.4 Wellbore Condition
 - 11.1.5 Wellbore Size

- 11.1.6 Cement Integrity
- 11.1.7 Other Wells
- 11.2 Wellbores Made Usable
 - 11.2.1 Testing and Remedial Work Performed by Wellbore Owner
 - 11.2.2 Testing and Remedial Work Performed by Unit Operator
- 11.3 Wellbores Accepted as Usable
- 11.4 Wellbores Not Accepted as Usable
- 11.5 Pressure Test Defined

ARTICLE 12 NON-CONSENT PROVISION

- 12.1 Election
- 12.2 Non-Consent Penalty
- 12.3 Non-Consent as to Inventory Adjustment
- 12.4 Payoff of Non-Consent Party's Unpaid Balance

ARTICLE 13 UNIT EXPENSE

- 13.1 Discharge of Unit Expense
- 13.2 Budgets
- 13.3 Advance Billing
- 13.4 Commingling of Funds
- 13.5 Lien and Security Interest of Unit Operator
- 13.6 Unpaid Unit Expense
- 13.7 Penalty Provision
- 13.8 Carved-Out Interest

ARTICLE 14 ENVIRONMENTAL LIABILITY

- 14.1 Indemnity
- 14.2 Investigation

ARTICLE 15 NON-UNITIZED FORMATIONS

- 15.1 Right to Operate
- 15.2 Multiple Completions

ARTICLE 16 TITLES

- 16.1 Warranty and Indemnity
- 16.2 Failure Because of Unit Operations

1 16.3 Waiver of Rights to Partition

2
3 **ARTICLE 17**

4 **LIABILITY, CLAIMS, SUITS, AND FORCE MAJEURE**

5
6 17.1 Individual Liability

7 17.2 Liability for Claims and Judgments

8 17.3 Settlements

9 17.4 Notices of Damages, Claims and Suits by Unit Operator to Working Interest Owners

10 17.5 Force Majeure

11
12 **ARTICLE 18**

13 **INTERNAL REVENUE PROVISION**

14
15 18.1 Internal Revenue Provision

16
17 **ARTICLE 19**

18 **NOTICES**

19
20 19.1 Notices

21 19.2 Notice of Transfer of Title

22
23 **ARTICLE 20**

24 **WITHDRAWAL OF WORKING INTEREST OWNERS AND**
25 **RESTRICTION OF DISPOSITION**

26
27 20.1 Withdrawal

28 20.2 Restriction of Disposition and Withdrawal

29 20.3 Four or More Working Interest Owners

30
31 **ARTICLE 21**

32 **ABANDONMENT OF WELLS**

33
34 21.1 Rights of Former Owners

35 21.2 Plugging

36
37 **ARTICLE 22**

38 **EFFECTIVE DATE AND TERM**

39
40 22.1 Effective Date

41 22.2 Term

42
43 **ARTICLE 23**

44 **ABANDONMENT OF OPERATIONS**

45
46 23.1 Termination

- 23.1.1 Oil and Gas Rights
- 23.1.2 Right to Operate
- 23.1.3 Salvaging Wells
- 23.1.4 Cost of Salvaging

ARTICLE 24
SIGNING, RATIFICATION, OR APPROVAL

- 24.1 Original, Counterparts, or Ratification
- 24.2 Prior Agreements

ARTICLE 25
SUCCESSORS AND ASSIGNS

- 25.1 Successors and Assigns

- Exhibit "A"- Map of Unit Area
- Exhibit "B"- Schedule of Ownership
- Exhibit "C"- Tract Participation
- Exhibit "D"- Reserves by Tract
- Exhibit "E"- Unit Participation
- Exhibit "F"- Accounting Procedure
- Exhibit "G"- Gas Balancing Agreement
- Exhibit "H"- List of Well Bores
- Exhibit "I"- Notice of Lien and Mortgage-Financing Statement
- Exhibit "J"- Equal Opportunity Clause

1
2
3 **UNIT OPERATING AGREEMENT**
4 **OF THE AVALON (DELAWARE) UNIT**
5 **EDDY COUNTY, NEW MEXICO**

6 **THIS AGREEMENT**, entered into as of the _____ day of _____, 199_, by and
7 between the parties who have signed the original of this instrument, a counterpart thereof or other
8 instrument agreeing to be bound or who are otherwise bound by the provisions hereof;
9

10 **WITNESSETH:**
11

12 **WHEREAS**, the parties hereto as Working Interest Owners have executed, as of the date
13 hereof, an Agreement entitled, "Unit Agreement for the Development and Operation of the
14 Avalon (Delaware) Unit Area", Eddy County, New Mexico (the "Unit Agreement"), which,
15 among other things, provides for a separate Agreement to be entered into by Working Interest
16 Owners to provide for the development and operation of the Unit Area as therein defined;
17

18 **NOW THEREFORE**, in consideration of the mutual agreements herein set forth, it is
19 agreed as follows:
20

21 **ARTICLE 1**
22 **CONFIRMATION OF UNIT AGREEMENT AND DEFINITIONS**
23

24 1.1 **Confirmation of Unit Agreement.** The Unit Agreement is hereby confirmed and by
25 reference made a part of this Agreement. If there is any conflict between the Unit Agreement and
26 this Agreement, the Unit Agreement shall govern.
27

28 1.2 **Definitions.** The definitions contained in the Unit Agreement are adopted for all purposes
29 of this Agreement.
30

31 **ARTICLE 2**
32 **EXHIBITS**
33

34 2.1 **Exhibits.** The following exhibits are incorporated herein by reference:
35

36 2.1.1 **Exhibits "A", "B", "C", and "D"** of the Unit Agreement.
37

38 2.1.2 **Exhibit "E"** attached hereto, which is a schedule showing the total Unit
39 Participation of each Working Interest Owner. Exhibit "E", or a revision thereof,
40 shall not be conclusive as to the information therein, except it may be used as
41 showing the Unit participation of the Working Interest Owners for the purposes of
42 this Agreement until shown to be in error and revised as herein.
43

44 2.1.3 **Exhibit "F"**, attached hereto, which is the Accounting Procedure applicable to
45 the Unit Operations. If there is any conflict between this Agreement and
46 Exhibit "F", this Agreement shall govern.

2.1.4 **Exhibit "G"**, attached hereto, which is the Gas Balancing Agreement applicable to Unit Operations.

2.1.5 **Exhibit "H"**, attached hereto, which is the List of Well Bores.

2.1.6 **Exhibit "I"**, attached hereto, which is the Notice of Lien and Mortgage-Financing Statement.

2.1.7 **Exhibit "J"**, attached hereto, which contains Equal Opportunity provisions applicable to Unit Operations.

2.2 Revision of Exhibits. Should Exhibits "A", "B", "C", be revised in accordance with provisions of the Unit Agreement, Exhibit "E" shall be revised accordingly and be effective as of the same date. Unit Operator shall also revise Exhibit "E" from time to time as required to conform to changes in ownership of which Unit Operator has been notified as provided in the Unit Agreement.

2.3 Reference to Exhibits. When reference is made herein to an exhibit, it is to the exhibit as originally attached or, if revised, to the last revision.

ARTICLE 3

SUPERVISION OF OPERATIONS BY WORKING INTEREST OWNERS

3.1 Overall Supervision. Working Interest Owners shall exercise overall supervision and control of all matters pertaining to Unit Operations, to this Agreement and to the Unit Agreement. In the exercise of such authority, each Working Interest Owner shall act solely in its own behalf in the capacity of an individual owner and not on behalf of the owners as an entirety.

3.2 Specific Authorities and Duties. The matters with respect to which the Working Interest Owners shall decide and take action shall include, but not be limited to the following:

3.2.1 Method of Operation. The method of operation, including any type of Improved Recovery Project.

3.2.2 Drilling of Wells. The drilling of any well whether for production of Unitized Substances, for use as an injection well, or for other purposes.

3.2.3 Well Recompletion and Change of Status. The recompletion, abandonment or change of status of any well, or the use of any well for injection or other purposes.

3.2.4 Expenditures. The making of any single expenditure in excess of One Hundred Thousand Dollars (\$100,000); provided that approval by Working Interest Owners of the drilling, reworking, deepening or plugging back of any well shall include approval of all necessary expenditures required therefore, and for

1
2 8.2 **Other Taxes.** Each Working Interest Owner shall pay, or cause to be paid, all production,
3 severance, gathering and other taxes imposed upon, or with respect to, the production or handling
4 of its share of Unitized Substances.
5

6 **ARTICLE 9**
7 **INSURANCE**
8

9 9.1 **Insurance.** Unit Operator, with respect to Unit Operations, shall do the following:
10

11 9.1.1 **Workman's Compensation.** Comply with the Workman's Compensation laws of
12 the State of New Mexico.
13

14 9.1.2 **Employer's Liability Insurance.** Carry Employer's Liability and other insurance
15 as required by the laws of the State of New Mexico.
16

17 9.1.3 **Other Insurance.** Unit Operator shall not carry any other insurance on behalf of
18 the Unit.
19

20 **ARTICLE 10**
21 **PROPERTY TAKEN OVER**
22

23 10.1 **Personal Property Taken Over.** Upon the Effective Date of the Unit, the Working
24 Interest Owners shall deliver to Unit Operator all personal property and fixtures necessary or
25 useful for Unit Operations as follows:
26

27 10.1.1 **Wells and Well Equipment.** All wells listed on Exhibit "H" and associated well
28 equipment shall be delivered subject to the terms of Article 11 hereof, provided that: (i)
29 Exhibit "H" may be amended to add or delete wells by vote of the Working Interest
30 Owners as provided herein; and (ii) Within ten (10) days after the Effective Date, or after
31 a well has been added to Exhibit "H" by vote of the Working Interest Owners, whichever
32 is applicable, the owner of such well may elect, by written notification to Unit Operator,
33 to retain such well and its associated well equipment, subject to the requirements of
34 Section 11.4 hereof.
35

36 10.1.2 **Lease and Operating Equipment.** Subject to the procedures set out in Section
37 10.3, all lease and operating equipment, and all wells other than those covered by Section
38 10.1.1 and facility systems related to production from the Unitized Formation or which
39 may be useful for Unit Operations and which are located on the Unitized Area shall be
40 deemed to have been delivered to Unit Operator as of the Effective Date, provided that
41 within ten (10) days of such Effective Date the owner of any such equipment that does
42 not wish to contribute it to the Unit may, by written notification to Operator, elect to
43 retain such equipment.
44

45 10.1.3 **Working Interest Owners Retain Responsibility for Wells.** Notwithstanding
46 anything contained herein to the contrary, it is understood and agreed that the parties shall

1 retain the authority to conduct testing, evaluation and repair operations on the wells listed
2 on Exhibit "H" hereto, and the facilities associated therewith in order to establish and/or
3 render same useful for Unit Operations as provided in Article 10 & 11, and that, until
4 such time as said well(s) and well equipment have been accepted by the Unit as provided
5 herein, the owners thereof shall retain all liability and responsibility for such wells, and
6 shall be solely responsible for complying with all permitting and bonding requirements
7 applicable thereto.
8

9 **10.2 Records.** Within ten (10) days of the Effective Date, each Working Interest Owner shall
10 deliver to Unit Operator a copy of all production and well records pertaining to any well which
11 (i) has produced or is currently producing from the Unitized Formation; and/or (ii) is listed on
12 Exhibit "H".
13

14 **10.3 Inventory and Evaluation of Personal Property.** Working Interest Owners shall
15 appoint an inventory committee which shall, as of the Effective Date or as soon thereafter as is
16 feasible, cause to be taken, under the supervision of the Unit Operator and at Unit Expense, joint
17 physical inventories of the lease and well equipment described in Section 10.1.2, which
18 inventories shall be used as a basis for determining the items of equipment to be taken over by
19 the Unit Operator hereunder. Physical inventories conducted prior to the Effective Date hereof
20 may be used for this purpose with approval by Working Interest Owners. The Unit Operator shall
21 notify each Working Interest Owner within each separate Tract at least ten (10) days prior to the
22 taking of the inventory with respect to said Tract, so that each of said Working Interest Owners
23 may make arrangements to be represented at the taking of the inventory. Such inventories shall
24 include those items of equipment normally considered controllable as recommended in the
25 materials classification manual in Bulletin No. 6 dated June, 1982 or any amendments thereto,
26 published by the Council of Petroleum Accountants Societies, except that intangible drill and
27 complete costs will also be included and valued at \$225,000 per well for the purposes of the
28 inventory adjustment. Such inventories shall exclude all items not of use and value to the Unit
29 and not necessary to Unit Operations. Following completion of the inventories, such inventories
30 shall be priced in accordance with the provisions of Exhibit "F" hereto, and made a part hereof.
31 Such pricing shall be performed under the supervision of the Unit Operator, with Working
32 Interest Owners furnishing such additional assistance in valuation as may be available and
33 necessary.
34

35 **10.4 Inventory and Valuations.** After completion of the applicable inventory and evaluation
36 of property in accordance with the provisions of Section 10.3, Unit Operator shall submit to each
37 Working Interest Owner a copy of the inventory and valuations thereon together with a letter
38 ballot for approval of such inventory and valuations. Any item of equipment not listed on said
39 inventory shall be deemed excluded from the Unit. Within sixty (60) days after receipt of such
40 inventory and valuations each Working Interest Owner shall return such letter ballot to Unit
41 Operator indicating its approval or disapproval thereof. It is agreed that such inventory and
42 valuations shall be binding upon all parties if approved by Working Interest Owners owning as
43 much as sixty-five percent (65%) of the Working Interest in the Unit Area, except that if one
44 owner exceeds sixty five percent (65%), one other Working Interest Owner will be required to
45 approve such inventory and valuations for it to be binding. It is understood and agreed that,
46 notwithstanding anything contained herein to the contrary, Unit Operator shall submit the

1 inventory and evaluation for approval by Working Interest Owners only after all of the wellbores
2 to be included in the Unit have been declared to be either usable or not usable in accordance with
3 the terms of Article 11 hereof.

4
5 **10.5 Investment Adjustments.** As soon as practicable after approval by Working Interest
6 Owners of the inventory and valuations as provided in Section 10.4, each Working Interest
7 Owner shall be credited with the value of its interest in all personal property taken over by Unit
8 Operator under Section 10.1, and charged with an amount equal to that obtained by multiplying
9 the total value of all such personal property so taken over by Unit Operator under Section 10.1 by
10 such Working Interest Owner's Unit Participation, as shown on Exhibit "E", attached hereto. If
11 the charge against any Working Interest Owner is greater than the amount credited to such
12 Working Interest Owner, the resulting net charge shall be paid and in all other respects be treated
13 as any other item of Unit Expense chargeable against such Working Interest Owner subject to the
14 terms of Section 12.3. If the credit to any Working Interest Owner is greater than the amount
15 charged against such Working Interest Owner, the resulting net credit shall be paid to such
16 Working Interest Owner by Unit Operator out of funds received by it in settlement of the net
17 charges described above.

18
19 **10.6 General Facilities.** The acquisition of any warehouses, warehouse stocks, lease houses,
20 facility or facilities systems, and office buildings necessary for Unit Operations and not
21 contributed to the Unit under the terms hereof, shall be by negotiations by and between the
22 owners thereof and Unit Operator, subject to the requirements of Article 3.

23
24 **10.7 Ownership of Personal Property and Facilities.** Each Working Interest Owner,
25 individually, shall, by virtue hereof, own an undivided interest in all personal property and
26 facilities taken over or otherwise acquired by Unit Operator pursuant to this Agreement equal to
27 its Unit Participation, as shown on Exhibit "E" attached hereto.

28 29 **ARTICLE 11** 30 **WELLBORES**

31
32 **11.1 Usable Wells.** Whether currently active, shut-in, temporarily abandoned, plugged and
33 abandoned or completed in a non-Unitized interval, a well must meet all of the following
34 conditions to qualify as "Usable" for the purposes of this Agreement:

35
36 **11.1.1 Completion Interval.** The well must be completed in the Unitized Formation, and
37 not completed outside the Unitized Formation.

38
39 **11.1.2 Casing Integrity.** The well must demonstrate casing integrity by acceptably
40 completing a pressure test for depths above the top of the Unitized Formation,
41 said pressure test to be performed with water at a minimum surface pressure of
42 700 pounds per square inch for a minimum of thirty minutes, as documented
43 using a chart recorder. To recognize thermal effects and other conditions that
44 might affect pressure readings, a pressure change of 10% during the test period
45 will be accepted if, in the opinion of the Unit Operator, such change is not the
46 result of test fluid loss or gain.

1
2 11.1.3 **Isolation of Non-Unitized Formations.** If a well was ever previously completed
3 in an interval other than the Unitized Formation or if pressure communication into
4 such intervals is suspected for any reason, the source of the communication must
5 be repaired.

6
7 11.1.4 **Wellbore Condition.** The well must be free of scale, junk and debris to the base
8 of the productive zone of the Unitized Formation.

9
10 11.1.5 **Wellbore Size.** Any production casing and liner, if present, must be at least 4-1/2"
11 diameter.

12
13 11.1.6 **Cement Integrity.** The well must have cement integrity sufficient to protect the
14 Goat Seep Reef. The owner of the well must provide wellbore records sufficient
15 to demonstrate such cement integrity. If the Unit Operator, acting in its sole
16 discretion, determines that the records provided are not sufficient to demonstrate
17 such cement integrity, an injecting temperature tracer survey shall be run in
18 accordance with procedures established or approved by the Unit Operator.

19
20 11.1.7 **Other Wells.** Notwithstanding anything contained in this Section 11.1 to the
21 contrary, in the event that a well covered hereby is to be utilized as a source of
22 water from, or for disposal to, a formation other than the Unitized Formation, than
23 the zone to be used for water production or disposal shall be substituted for the
24 Unitized Formation in the application of this Section, provided, that, with regard
25 to Section 11.1.4, the criteria shall be that the well shall be sufficiently free of
26 scale, junk and debris for the wells intended purpose.

27
28 11.2 **Wellbores Made Usable.** After the Effective Date, but within the two (2) year
29 period described in Section 11.3 below, the Unit Operator shall determine which wells may be
30 accepted as Usable in accordance with the criteria set out in Section 11.1.

31
32 11.2.1 **Testing and Remedial Work Performed by Wellbore Owner.** The tests
33 required to demonstrate a wellbore's compliance with the requirements of Section
34 11.1 may be performed by the owners of the wellbore at their risk and expense,
35 provided that the procedures for such testing shall be approved in advance by Unit
36 Operator, Unit Operator shall have the right to witness such tests, and Unit
37 Operator shall make the final determination of whether a wellbore is Usable based
38 on the results of such tests. Within thirty (30) days of being notified by Unit
39 Operator that a wellbore has been determined not be Usable, the owners of such
40 wellbore may elect to perform workover operations, at their sole risk and expense,
41 to attempt to make a deficient well Usable, but the Unit Operator reserves the
42 right to review and approve any of the workover procedure(s). The Unit Operator
43 must be notified at least five (5) days prior to commencement of workover
44 operations and Unit Operator's representatives must be permitted to witness such
45 operations and such work must be completed within sixty (60) days of its
46 commencement, unless an extension of such sixty (60) day period is granted by

Unit Operator.

11.2.2 Testing and Remedial Work Performed by Unit Operator. At any time within six months after the Effective Date, any wellbore owner may request that any testing required under Section 11.1 and/or any remedial work required to make a wellbore Usable be performed by the Unit Operator. Following any such written request, the Unit Operator will review wellbore records to determine appropriate procedures and cost estimates. Should the Unit Operator determine that the required testing or remedial work is technically feasible and can be performed on a timely basis, then the Unit Operator may, at its sole discretion, agree to perform the required testing and/or remedial work. The wellbore owners shall bear the sole cost, risk, and expense of such testing and/or remedial work and the cost incurred by Unit Operator shall be reimbursed by the wellbore owners.

11.3 Wellbores Accepted as Usable. Any wellbore which is to be contributed to the Unit shall not be accepted as Usable until it can be assessed pursuant to Sections 11.1 and 11.2 hereof. Notwithstanding the foregoing any well not so assessed within two (2) years following the Effective Date of the Unit shall be deemed not Usable. Notwithstanding the foregoing, if, at any time prior to the two (2) year period provided for herein, a workover is to be performed for the benefit of the Unit on a wellbore that has not yet been determined to be Usable, Unit Operator shall notify the owners of such wellbore, and said owners shall have thirty (30) days to perform the testing required under Section 11.1, or request that Unit Operator perform such testing pursuant to Section 11.2.2, and the provisions of said Section 11.2 shall apply to any remedial work which may be required as a result of such testing.

11.4 Wellbores Not Accepted as Usable. Any wellbore that (1) is operated or owned by a Working Interest Owner, (2) is within the Unit area, (3) has previously been completed in the Unitized Formation or is suspected of being in pressure communication with the Unitized Formation, and (4) is not accepted as Usable by the Working Interest Owners pursuant to the terms hereof, must either be plugged and abandoned by the owner or isolated from the Unitized Formation and must pass a casing integrity pressure test as described in Section 11.1.2 to verify that isolation. Said test to be performed at the expense of the owner of the well provided that Unit Operator shall be given forty eight (48) hours notice of such test and shall have the opportunity to witness the test. In the event that any owner fails to comply with the pressure test request or to remedy any pressure communication conditions, the Unit Operator shall have the right to withhold production funds or credits from the non-complying owner(s) until such time as testing compliance is achieved, and any pressure communication is remedied.

ARTICLE 12 NON-CONSENT PROVISION

12.1 Election. It is understood and agreed that any Working Interest Owner may elect to be carried hereunder, subject to the following terms and conditions: When Unit Operator circulates the Unit Agreement and Unit Operating Agreement for execution, Unit Operator shall also circulate a ballot under which a party may elect: (a) whether it wishes to be carried; and (b) if it

EXHIBIT "H"			
LIST OF WELL BORES			
WELL			WELL
TRACT	OPERATOR	LEASE	NUMBER
2711	EXXON	BURTON FLAT SECTION 6 STATE	1
2709	EXXON	BURTON FLAT SECTION 6 STATE	3
1919	EXXON	HONDO A STATE	1
2119	EXXON	HONDO A STATE	2
2319	EXXON	HONDO A STATE	3
2519	EXXON	HONDO A STATE	4
2321	EXXON	HONDO FEE	2
2315	EXXON	YATES C FEDERAL	2
2313	EXXON	YATES C FEDERAL	10
	EXXON	YATES C FEDERAL	22
2515	EXXON	YATES C FEDERAL	11
2317	EXXON	YATES C FEDERAL	12
2311	EXXON	YATES C FEDERAL	13
2517	EXXON	YATES C FEDERAL	14
2511	EXXON	YATES C FEDERAL	15
1913	EXXON	YATES C FEDERAL	17
2315	EXXON	YATES C FEDERAL	18
1915	EXXON	YATES C FEDERAL	3
2719	EXXON	YATES C FEDERAL	35
2016	EXXON	YATES C FEDERAL	36
1917	EXXON	YATES C FEDERAL	4
1911	EXXON	YATES C FEDERAL	5
2113	EXXON	YATES C FEDERAL	6
2115	EXXON	YATES C FEDERAL	7
2111	EXXON	YATES C FEDERAL	8
2117	EXXON	YATES C FEDERAL	9
2309	MWJ	GWA STATE	1
2509	MWJ	GWA STATE	2
1709	PREMIER	EDDY FV STATE	3
1909	YATES	CITIDEL ZG	1
1311	YATES	STONEWALL EP ST	5
1111	YATES	STONEWALL EP ST	7
1313	YATES	STONEWALL EP ST	8
1715	YATES	STONEWALL WM ST	1
1717	YATES	STONEWALL WM ST	2
1713	YATES	STONEWALL WM ST	3
1711	YATES	STONEWALL WM ST	4
1513	YATES	STONEWALL WM ST	5
1511	YATES	STONEWALL WM ST	6
1515	YATES	STONEWALL YE STATE	1