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RECOGNIZED SPECIALIST IN THE AREA OF
NATURAL RESOURCES-OIL AND GAS LAW

JASON KELLAHIN (RETIRED 1991)

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July 29, 1997

HAND DELIVERED

Mr. William J. LeMay, Director
Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico 87505

RECEIVED

JUL 29 1997

Oil Conservation Division

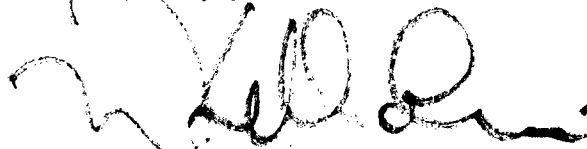
11838

**Re: Application of Premier Oil & Gas Inc.
to have the Division order Exxon Company USA to Appear and
Show Cause why its Avalon (Delaware) Unit Operating
Agreement should not be amended to conform to the
requirements of the Statutory Unitization Act.
Eddy County, New Mexico**

Dear Mr. LeMay:

On behalf of Premier Oil & Gas, Inc., please find enclosed our referenced application which we request be set for hearing on the Examiner's docket now scheduled for August 21, 1997. Also enclosed is our proposed advertisement of this case for the NMOCD docket.

Very truly yours,



W. Thomas Kellahin

cc: Premier Oil & Gas, Inc.
Attn: Ken Jones

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PROPOSED ADVERTISEMENT FOR NMOCD DOCKET Oil Conservation Division

CASE 11838: Application of Premier Oil & Gas Inc. to have the Division order Exxon Company USA to Appear and Show Cause why its Avalon (Delaware) Unit Operating Agreement should not be amended to conform to the requirements of the Statutory Unitization Act, Eddy County, New Mexico. Applicant seeks an order requiring Exxon Company, U.S.A. to appear before the Division and show cause why Premier Oil & Gas, Inc.'s FV-1 Well located 1980 feet from the North line and 990 feet from the East line (Unit H) Section 25, Township 20 South, Range 27 East, NMPM, Eddy County, New Mexico, should not be ordered by the Division to be included in the Avalon (Delaware) Unit in compliance with the Statutory Unitization Act ("the Act"), Section 70-7-1 NMSA (1978), including but not limited to amending Exhibit H of the Unit Operating Agreement to include said wellbore and to qualify said wellbore a useable wellbore committed to the Avalon (Delaware) Unit. Said Unit is located approximately 7 miles southeast from Lakewood, New Mexico

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Oil Conservation Division

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

**IN THE MATTER OF THE HEARING CALLED
BY THE OIL CONSERVATION DIVISION FOR
THE PURPOSE OF CONSIDERING:**

**APPLICATION OF PREMIER OIL & GAS, INC.
TO HAVE THE DIVISION ORDER EXXON
COMPANY, U.S.A. TO APPEAR AND SHOW
CAUSE WHY ITS AVALON (DELAWARE)
UNIT OPERATING AGREEMENT SHOULD
NOT BE AMENDED TO CONFORM TO THE
REQUIREMENTS OF THE STATUTORY
UNITIZATION ACT,
EDDY COUNTY, NEW MEXICO.**

CASE NO. 11838

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Oil Conservation Division

**APPLICATION
OF
PREMIER OIL & GAS, INC.**

Comes now PREMIER OIL & GAS, INC., ("Premier") by and through its attorney's, Kellahin & Kellahin, and petitions the New Mexico Oil Conservation Division ("Division") to order Exxon Company, U.S.A. ("Exxon") to appear before the Division and show cause why Premier Oil & Gas, Inc.'s FV-1 Well located 1980 feet from the North line and 990 feet from the East line (Unit H) Section 25, Township 20 South, Range 27 East, NMPM, Eddy County, New Mexico should not be ordered by the Division to be included in the Avalon (Delaware) Unit in compliance with the Statutory Unitization Act ("the Act"), Section 70-7-1 NMSA (1978), including but not limited to amending Exhibit H of the Unit Operating Agreement to include said wellbore and to qualify said wellbore a useable wellbore committed to its Avalon (Delaware) Unit.

And in Support States:

Relief Requested:

(1) Exxon has refused to include Premier's FV-1 Well located in Tract 1309 (SE/4NE/4) of Section 25, Township 20 South, Range 27 East, as a wellbore committed to Exxon's Avalon (Delaware) Unit as of October 1, 1997, despite the fact that the Tract 1309 was involuntarily committed into Exxon's Unit by Commission Order R-10460-B.

(2) Order R-10460-B Paragraph 25 retained continuing jurisdiction for the entry of such further orders as may be deemed necessary.

(3) Premier Oil & Gas, Inc.'s FV-1 Well located 1980 feet from the North line and 990 feet from the East line (Unit H) Section 25, Township 20 South, Range 27 East, NMPM, Eddy County, New Mexico should be ordered by the Division to be included in the Avalon (Delaware) Unit in compliance with the Statutory Unitization Act ("the Act"), Section 70-7-1 NMSA (1978), including but not limited to amending Exhibit H of the Unit Operating Agreement to include said wellbore and to qualify said wellbore a useable wellbore committed to its Avalon (Delaware) Unit prior to October 1, 1997.

(4) Section 70-7-7 NMSA (1979) of the "Statutory Unitization Act" requires:

"the order providing for unitization and unit operations of a pool or portion of a pool shall be upon terms and conditions that are fair, reasonable and equitable and shall approve **or prescribe** a plan or unit agreement for unit operation which **shall include**:

J. such additional provision as are found to be appropriate for carrying on the unit operations and for the protection of correlative rights and the prevention of waste." (emphasis added).

(5) In violation of Section 70-7-6 NMSA (1979), Exxon failed to submit any evidence in Case 11298 to show "by the evidence" that **including** Well Tract 1309 in the Unit while **excluding** that tract's wellbore (FV-1) from the Unit "to be fair,

reasonable, equitable and which are necessary or proper to protect and safeguard the respective rights and obligations of the working interest owners and royalty owners."

(6) Premier contends that a supplemental order must be issued pursuant to the Division's "continuing jurisdiction" and in accordance with Section 70-7-7 and Section 70-7-6 NMSA (1979) to require Exxon to include Premier's FV-1 Wellbore in the Unit.

Basis Upon Which Relief Should Be Granted:

(7) Commission Order R-10460-B, issued March 12, 1996, (Case 11298) approved an statutory unitization application by Exxon Corporation ("Exxon") to involuntarily commit all four Premier tracts in Exxon's Avalon-Delaware Unit Waterflood Project in Eddy County, New Mexico.

(8) The Commission entered Order R-10460-B which accepted Premier's geologic interpretation but then "affirmed" the Division's decision to include Premier's Tract 6 in the unit and denied all of Premier's arguments.

(9) In July, 1990, Premier purchased a State of New Mexico oil and gas lease covering 480 acres in Section 25, T20S, R27E, which included the E/2E/2 collectively referred to by Exxon as Avalon-Delaware Unit Tract 6 but consisting of the following four (4) 40-acre well tracts:

Well Tract 1109: NE/4NE/4 (no well)
Well Tract 1309: SE/4NE/4 Premier's FV-1 Well
Well Tract 1509: NE/4SE/4 (no well)
Well Tract 1709: SE/4SE/4 Premier's FV-3 Well

(10) On May 21, 1991, Exxon commenced plans for its proposed Avalon-Delaware Unit and commenced efforts to consolidate five tracts operated by Exxon, five tracts operated by Yates and one tract operated by Premier into this unit (including Tracts 1309 and 1709 each containing a wellbore). **See Exhibits "A" and "B" attached.**

(11) Once Exxon commenced its unitization study in 1991, no operator including Exxon, Yates or Premier, drilled any further wells pending the outcome of this unitization plan.

(12) In September, 1992, Exxon issued its Second Technical Report for the Unit in which it **relied upon** Premier's FV-1 Well to define geologic markers for the unit from which to generate gross thickness, net thickness, water saturation and hydrocarbon pore volumes. **See Exxon Technical Report, E-5, E-6 and maps 1-22.**

(13) In the Spring, 1993, Exxon asked for wellbore information and the right to conduct a pre-inspection search of Premier's FV-1 and FV-3 wellbores. Subsequent conversation with Exxon confirmed that Exxon wanted both the FV-1 and FV-3 wellbores as unit wellbores.

(14) Exxon's reason for forming the Avalon-Delaware Unit was for a Secondary Recovery Project ("waterflooding"), while the Tertiary Recovery Project ("CO2") has only some probability of happening.

(15) Exxon's project is an attempt to recover three main categories of oil: primary oil reserves by using existing reservoir energy to produce that oil; secondary and workover reserves by adding additional perforations in existing wells and by injecting water into the reservoir to recover more oil; and CO2 oil reserves by injecting a combination of carbon dioxide and water into the reservoir. Exxon believed that only a portion of the Delaware formation within the Avalon-Delaware Oil Pool was suitable for waterflooding operations. That portion was confined to the Upper Cherry Canyon ("UCC") and the Upper Brushy Canyon ("UBC") reservoirs.

(16) Exxon proposed to include Premier's Tract 6 within the western boundary of the Avalon-Delaware Unit **but did not** intend to attempt to recover from Unit Tract 6 any remaining primary oil, any workover oil or any secondary oil by waterflooding.

(17) Exxon's waterflood plan was to attempt to recover more oil from the Exxon and Yates's wells in part of this pool by injecting water into an interior portion of the unit containing 27 existing producing wells and using 19 injection wells all of which would be surrounded by an outer ring of 40-acre tracts "**buffer zone**" (including Premier's Tract 6 on the western unit boundary) which during waterflooding would not contain producing wells nor contain or be offset by water injection wells.

(18) Instead, Exxon and Yates wanted Premier's Tract 6 as a "buffer zone" so that if CO2 flooding was ever determined to be feasible, then they would use part of Premier's Tract 6 for four (4) producing wells and to locate four (4) CO2 injection wells immediately adjacent to the eastern boundary of Premier's Tract 6 to obtain **partial** recovery of Premier's oil but more importantly to improve recovery from the Yates' tracts. Exxon proposed to extend the CO2 injection in such a pattern so as to flood only 25 % of Tract 1109 and 50 % of the balance of Premier's tracts thereby reducing Premier's share of tertiary ("CO2 target") oil recovery by a factor of 25 % to 50 %. **See Exhibit "C" attached.**

(19) Oddly, and without explanation or evidence presented in Case 11298, while Premier has two wells in Tract 6, Exxon included only the FV-3 Wellbore and excluded the FV-1 Wellbore. **See Exhibit "D" attached.**

(20) Exxon was required to determine each tract's share of the Upper Cherry Canyon ("UCC") and Upper Brushy Canyon ("UBC") reservoir in the Avalon-Delaware Oil Pool. Dr. Boneau testifying for Yates stated, "It was only late in the negotiation process that I realized that if Premier was removed that Exxon would reduce our [Yates'] CO2 reserves and it would hurt us [Yates] in the unit."

(21) Thus, by January 18, 1995, Yates had convinced Exxon to put Premier's Tract 6 into the unit. On January 18, 1995, Exxon and Yates finally agreed to a final **participation formula** which was supposed to allow each unit tract to receive 25 % of its share of primary oil, 50 % of its share of secondary/workover oil and

25 % of its share of CO2 oil. This revised participation formula resulted in Exxon receiving 64.79 % of unit production, Yates receiving 34.07 % of unit production and Premier receiving 1.02 % of unit production.

(22) On January 18, 1995, Exxon and Yates finally agreed to a revised **participation formula** which resulted in Exxon receiving 64.79 % of unit production, Yates receiving 34.07 % of unit production and **Premier receiving 1.0192 %** of unit production.

(23) Premier sought to be **credit with 4.52 %** of all unit production, because its Tract 6 had 7.6 % of the unit acreage, 6.14 % of the original oil in place, 6.19 % of the CO2 reserves and 5.17 % of the total remaining reserves as established by Premier's petroleum engineering report.

(24) On May 9, 1995, Exxon filed its application before the New Mexico Oil Conservation Division seeking to confiscate Premier's property (Tract 6) for both the waterflood project and the CO2 project by resorting to statutory unitization, pursuant to the "Statutory Unitization Act". Sections 70-7-1 through 70-7-21, N.M.S.A. (1978).

(25) Issues addressed by the Commission:

(a) The first issue was the geological pick of the base of the UCC reservoir in Premier's FV3 Well. By mis-locating the base of the UCC reservoir and deleting some 82 feet of net UCC reservoir from Premier's FV3 Well, Exxon reduced the net UCC reservoir thickness credited to Premier's FV3 Well and thereby reduced Premier's share of recoverable oil.

(b) The second issue was the proposed unit boundary which also stems from the "mispick" of the reservoir thickness in Premier's FV3 Well. Exxon believed that the UCC reservoir was ending on Premier's Tract 6 and that the reservoir did not extend further into Premier's Section 25. Premier's geologic model showed the reservoir continuing farther westward beyond Premier's Tract 6 and therefore was significantly larger than shown by Exxon.

(c) The third issue was the amount of water contained in the reservoir ("water saturation") underlying Premier Tract 6. By exaggerating the amount of water contained in the reservoir at the FV3 Well so that it was greater than 60 %, Exxon was able to argue that the productive limits of the UCC reservoir "ended" at Premier's Tract 6 and that Premier's Tract 6 had no waterflood target oil instead of having the 2,950,000 barrels of waterflood target oil originally calculated by Exxon.

(d) The fourth issue was Premier's contention that Exxon's Report discriminated against Premier by not giving the same primary, workover, waterflood or CO2 flood reserve credits to the Premier acreage as it did to the equivalent Yates' tracts.

(26) The Commission in Case 11298 (upon which Order R-10460-B is based) did not address the issue of the exclusion of the FV-1 Wellbore from the Unit nor did Exxon provide any evidence in the record upon which to support excluding FV-1 Wellbore while including FV-3 Wellbore in the list of wellbores to be contributed to the Unit.

(27) Order R-10460-B retained continuing jurisdiction to enter such orders as are deemed necessary.

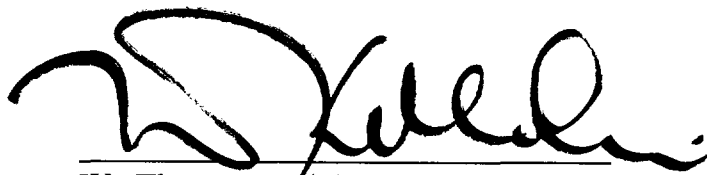
(28) In violation of Section 70-7-6 NMSA (1979), Exxon failed to submit any evidence in Case 11298 to show "by the evidence" that **including** Well Tract 1309 in the Unit while **excluding** that tract's wellbore (FV-1) from the Unit "to be fair, reasonable, equitable and which are necessary or proper to protect and safeguard the respective rights and obligations of the working interest owners and royalty owners."

(29) In accordance with Order R-10460-B and Section 70-7-7 NMSA (1979), it is necessary for the Division to address the arbitrary exclusion of the FV-1 Wellbore from this Unit which is an issue not addressed by the Commission in the prior case.

(30) In addition, it is necessary for the Division to take action in this matter prior to October 1, 1997 which is the last date provided for in the Unit Operating Agreement in which to commit wellbores to the unit.

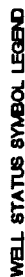
Wherefore, Applicant requests that this matter be set for hearing before the Division's Examiner and that after notice and hearing, the application be granted as requested.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', written over a horizontal line.

W. Thomas Kellahin
KELLAHIN & KELLAHIN
P. O. Box 2265
Santa Fe, New Mexico 87504
(505) 982-4285

AVALON (DELAWARE) FIELD BASEMAP



- [illegible]

④

Map 1

EXXON COMPANY USA
PRODUCTION DEPARTMENT - SOUTHWESTERN DIVISION
KANSAS CITY TECHNOLOGY GROUP

BASE MAP

UPON METHOD, WELLER AND NEWELL, IN MATTERS
GOODMAN, "LUNTED ADRI
GREAT (OVERVIEW) NOTED

[illegible]

ATTACHMENT "C"
PROPOSED AVALON (DELAWARE) UNIT
WELL-TRACT DEFINITION MAP

EXXON COMPANY USA

PRODUCTION DEPARTMENT - SOUTHWESTERN DIVISION

PROPOSED UNIT AREA

AVALON (DELAWARE) UNIT

EDDY COUNTY, NEW MEXICO

XPMFZV.AVALON.JOBS(ACRES2) 7:52

FEBRUARY 7, 1992

UNITIZATION AREA

LEGEND

TOP LINE = OPERATOR
 SECOND LINE = WELL TRACT NUMBER
 THIRD LINE = TOWNSHIP
 FOURTH LINE = RANGE
 FIFTH LINE = SECTION NUMBER
 SIXTH LINE = QUARTER-QUARTER OR LOT NUMBER

EXHIBIT

B

PREMIER 1109 T_20_S R_27_E 25 NE4 OF NE4		YATES 1111 T_20_S R_28_E 30 NW4 OF NW4		YATES 1113 T_20_S R_28_E 30 NE4 OF NW4			
PREMIER 1309 T_20_S R_27_E 25 SE4 OF NE4		YATES 1311 T_20_S R_28_E 30 SW4 OF NW4		YATES 1313 T_20_S R_28_E 30 SE4 OF NW4		YATES 1315 T_20_S R_28_E 30 SW4 OF NE4	
PREMIER 1509 T_20_S R_27_E 25 NE4 OF SE4		YATES 1511 T_20_S R_28_E 30 NW4 OF SW4		YATES 1513 T_20_S R_28_E 30 NE4 OF SW4		YATES 1515 T_20_S R_28_E 30 NW4 OF SE4	
PREMIER 1709 T_20_S R_27_E 25 SE4 OF SE4		YATES 1711 T_20_S R_28_E 30 SW4 OF SW4		YATES 1713 T_20_S R_28_E 30 SE4 OF SW4		YATES 1715 T_20_S R_28_E 30 SW4 OF SE4	
YATES 1909 T_20_S R_27_E 36 NE4 OF NE4		EXXON 1911 T_20_S R_28_E 31 NW4 OF NW4		EXXON 1913 T_20_S R_28_E 31 NE4 OF NW4		EXXON 1915 T_20_S R_28_E 31 NW4 OF NE4	
YATES 2109 T_20_S R_27_E 36 SE4 OF NE4		EXXON 2111 T_20_S R_28_E 31 SW4 OF NW4		EXXON 2113 T_20_S R_28_E 31 SE4 OF NW4		EXXON 2115 T_20_S R_28_E 31 SW4 OF NE4	
MWJ 2309 T_20_S R_27_E 36 NE4 OF SE4		EXXON 2311 T_20_S R_28_E 31 NW4 OF SW4		EXXON 2313 T_20_S R_28_E 31 NE4 OF SW4		EXXON 2315 T_20_S R_28_E 31 NW4 OF SE4	
MWJ 2509 T_20_S R_27_E 36 SE4 OF SE4		EXXON 2511 T_20_S R_28_E 31 SW4 OF SW4		EXXON 2513 T_20_S R_28_E 31 SE4 OF SW4		EXXON 2515 T_20_S R_28_E 31 SW4 OF SE4	
MERIT 2709 T_21_S R_27_E 6 LOT 2		MERIT 2711 T_21_S R_27_E 6 LOT 1		EXXON 2717 T_21_S R_27_E 5 LOT 2		EXXON 2719 T_21_S R_27_E 5 LOT 1	
				EXXON 2721 T_21_S R_27_E 4 LOT 4			

FEBRUARY 7, 1992

LEGEND
TOP LINE = OPERATOR
SECOND LINE = WELL TRACT NUMBER
THIRD LINE = TOWNSHIP
FOURTH LINE = RANGE
FIFTH LINE = SECTION NUMBER
SIXTH LINE = QUARTER-QUARTER OR LOT NUMBER

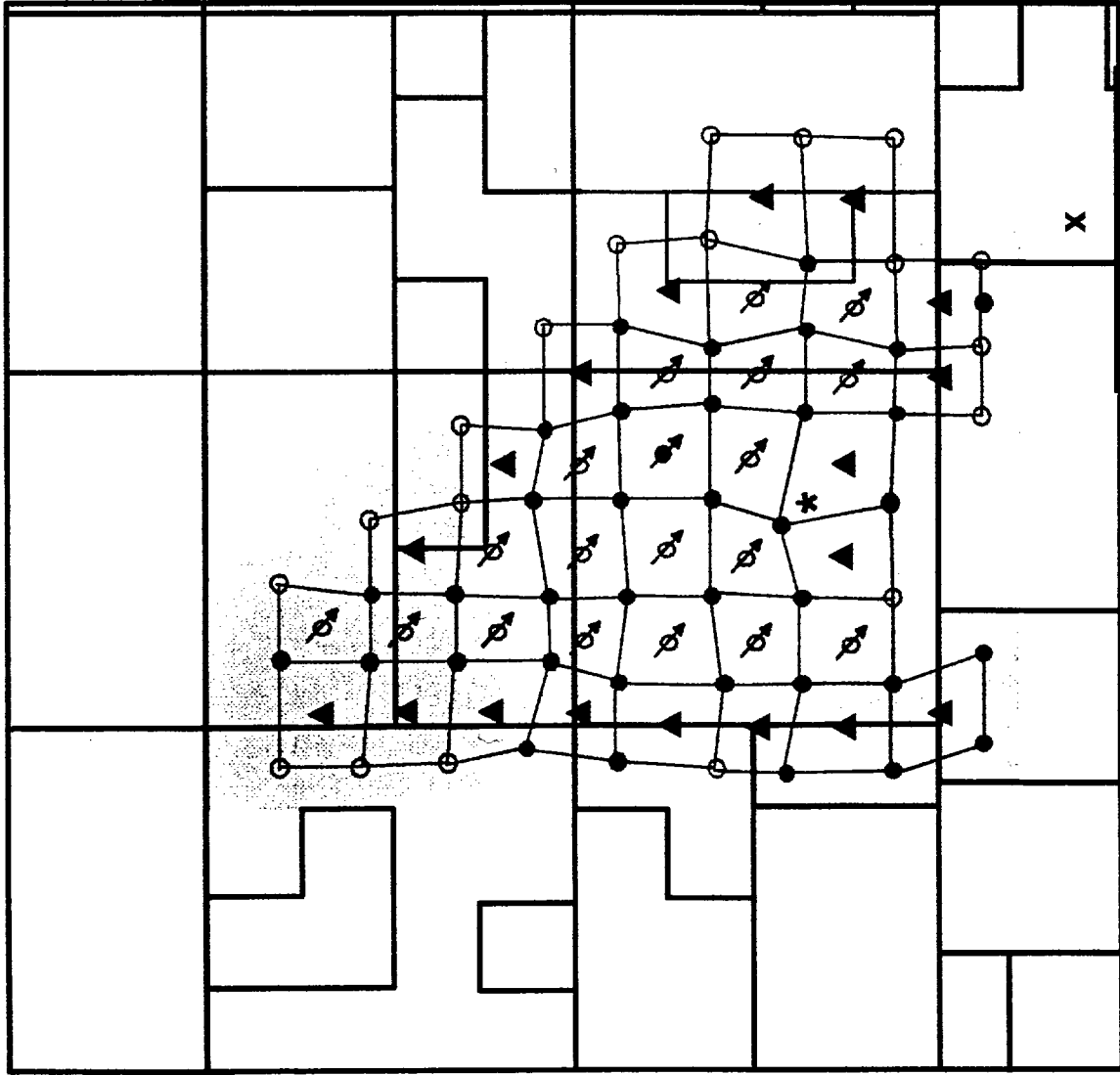
EXHIBIT
B

POTENTIAL DEVELOPMENT PLAN: CO₂ FLOOD

- **Scope**
 - 37 patterns, 2100 acres expanding into outer ring
 - Earliest start 1999
- **Issues**
 - Attain miscibility pressure and reduce gas saturation: 3+ years
 - CO₂ injectivity test
 - Oil price

WELL SYMBOL LEGEND

- Oil Well
- Oil Well (Proposed for CO₂ Flood)
- ⊗ Water Phase Injector (Conversion)
- ⊗ Water Phase Injector (Proposed)
- ▲ CO₂ Phase Injector (Proposed for CO₂ Flood)
- x Water Source Well
- * Disposal Well



EXHIBIT

C

**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 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