

LINE WELL AGREEMENT

BEFORE EXAMINER NUTTER	
OIL CONSERVATION COMMISSION	
EXHIBIT NO. <u>3</u>	
CASE NO. <u>2769</u>	

THIS AGREEMENT, made and entered into this _____ day of _____, 19____, by and between CITIES SERVICE OIL COMPANY, a corporation with offices in the Cities Service Building, Bartlesville, Oklahoma, as Operator of the Drickey Queen Sand Unit, hereinafter referred to as "Cities"; and PHILLIPS PETROLEUM COMPANY, whose address is Bartlesville, Oklahoma, as Operator of the West Cap Queen Sand Unit, hereinafter referred to as "Phillips".

WITNESSETH: THAT

WHEREAS, Cities is the Operator of the Drickey Queen Sand Unit, covering among other lands, all of Section 16 except the Southwest Quarter Southwest Quarter (SW/4 SW/4), 14S-31E, Chaves County, New Mexico.

WHEREAS, Phillips is the Operator of the West Cap Queen Sand Unit, covering among other lands, the Southwest Quarter Southwest Quarter (SW/4 SW/4) Section 16; East Half (E/2) Section 17; Northeast Quarter (NE/4) Section 21; and the North Half (N/2) Section 22, 14S-31E, Chaves County, New Mexico.

WHEREAS, the above described leaseholds are currently producing from the Queen Sand Formation at a depth of approximately 2940 feet and the parties hereto mutually desire to make an effort to increase substantially the ultimate recovery of oil from the Queen Sand.

NOW, THEREFORE, in consideration of the mutual covenants and agreements hereinafter contained to be completed and performed by the parties hereto, it is agreed as follows:

1. Cities shall convert, at its sole cost, risk and expense the following wells for the injection of water into the Queen Sand Formation.
 - A. Approximate Center of the Northwest Quarter Northwest Quarter (C NW/4 NW/4) of Section 16-14S-31E, Chaves County, New Mexico.
 - B. Approximate Center of the Southeast Quarter Southeast Quarter (C SE/4 SE/4) of Section 16-14S-31E, Chaves County, New Mexico.
2. Cities agrees to drill, at its sole cost, risk and expense, the following well for the injection of water into the Queen Sand Formation:
 - C. Approximately Thirteen Hundred and Twenty Feet (1320') from the South Line and Thirteen Hundred and Twenty Feet (1320') from the West Line of Section 16-14S-31E, Chaves County, New Mexico.
3. Phillips shall convert, at its sole cost, risk and expense, the following wells for the injection of water into the Queen Sand Formation:
 - D. Approximate Center of the Southeast Quarter Northeast Quarter (C SE/4 NE/4) Section 17-14S-31E, Chaves County, New Mexico.
 - E. Approximate Center of the Northwest Quarter Northeast Quarter (C NW/4 NE/4) Section 21-14S-31E, Chaves County, New Mexico.

The locations of the above wells are also shown on the plat attached hereto as Exhibit "A" and made a part hereof.

4. It is agreed that Phillips shall have full and complete access to the water injection well at location "C" and the records thereof at all times and shall have the right to receive a copy of any engineering reports made in connection with same.

5. Each party shall own, operate and maintain its respective injection wells and shall advance all costs of converting and equipping said water injection wells.

6. Upon completion of the water injection well at location "C" and within fifteen (15) days from receipt of a detailed statement of cost of said well, Phillips agrees to reimburse Cities for one-fourth ($1/4$) of the cost and expense incurred in drilling, completing and equipping (including one-fourth ($1/4$) of all costs attributable to any well which Cities commenced but was unable to satisfactorily complete at or near said location) said well. It is understood that said well is to be wholly owned by Cities. Cities shall install and maintain a meter at or near said well to record the volume of water injected into the Queen Sand Formation. It is agreed that initially, four producing oil wells will be served by the injection well at location "C". As long as all four wells continue to produce, Phillips shall pay Cities monthly as billed for one-fourth ($1/4$) of the water injected into said well at the rate of two and one-half ($2\frac{1}{2}$) cents per barrel, which sum shall represent Phillips' share of the cost and expense of operating and maintaining said water injection well in the Queen Sand Formation. In the event that any of the four wells ceases to produce oil, then operation and maintenance charges shall be charged on the basis of the remaining producing wells being served by said injection well at the rate of two and one-half ($2\frac{1}{2}$) cents per barrel. A statement of Cities' charges covering the water injected into said well each month shall be made to Phillips and shall be payable by Phillips within ten (10) days after receipt thereof.

7. Any expense incurred in "extraordinary maintenance" as the term is understood in the industry, on said wells shall not be included in the amount set forth above. Phillips shall reimburse Cities for its proportionate share of such "extraordinary maintenance" cost in the event such maintenance is necessary. No "extraordinary maintenance" costs in excess of \$1,500.00 shall be performed on the well at location "C" without the written consent of Phillips.

8. The cost of plugging and abandoning any water injection well shall be at the sole cost, risk, expense and liability of the drilling party unless the other party exercises its option under Paragraph 11, in which case the party exercising the option shall plug and abandon the well or wells at its sole cost, risk and expense.

9. The water injection wells provided for by this agreement shall be completed within one hundred twenty (120) days from the date of the last execution of this agreement between the parties hereto.

10. The rate of injection and the pressure maintained shall be adjusted as mutually agreed upon between the parties hereto, it being understood that neither party shall be required to inject water at a rate which requires a pressure in excess of the manufacturer's limits placed on the injection equipment, nor at a pressure which causes formation parting.

11. This agreement shall become effective on the date of the last execution and shall continue in full force and effect for a minimum period of one year from the date water injection commences and thereafter may be terminated by either party hereto on giving sixty (60) days written notice to the other party. The party giving such notice shall not be liable for any cost or liability accruing hereunder after the expiration of said sixty (60) day period. In the event either party elects to abandon any water injection well provided for by this agreement, said party shall notify the other party of such election in writing and the party receiving such notice shall have, for a period of thirty (30) days from the receipt of such notice, an option to take over said injection well, together with the pipe and equipment therein and thereon by agreeing to pay the estimated value of the salvable pipe and equipment and to assume full responsibility, cost, expense and liability for the proper plugging of said well upon ultimate abandonment. It is further agreed that should said option be exercised, to the extent that it has the right to do so, the abandoning party shall assign to the non-abandoning party, its right to continue operation of said injection well, it being understood that should the non-abandoning party desire to continue operations under the provisions of this paragraph, such party will obtain any consent necessary for continued water injection. Any notice required to be given hereunder shall be deemed to have been given when such notice in writing shall have been deposited in the United States Mail, postage prepaid, and addressed to the parties at the following addresses:

Cities Service Petroleum Company
Cities Service Building
Bartlesville, Oklahoma

Phillips Petroleum Company
Bartlesville, Oklahoma

12. This contract shall in no way affect the obligation of any party hereto to produce the oil from its own wells, and each party shall be entitled to all production from its own wells and leases. The duties, liabilities and obligations of the parties hereto are intended to be several and not joint or collective, and nothing herein contained shall ever be construed to impose a partnership obligation or

liability with regard to any of the parties hereto. Each party shall be individually responsible for only its obligation, as set out herein, and shall be liable only for its own costs and expenses incurred in complying with the terms of this agreement.

While each of the parties hereto recognizes that its rights and liabilities hereunder are several and not joint or collective, if solely for Federal Income Tax purposes, and for no other reason, the parties should be regarded as partners or joint venturers, and the operations carried on under this agreement be required to be treated as a partnership as defined in Section 761 of the Internal Revenue Code of 1954 for Federal Income Tax purposes, each and all of the parties hereto do hereby elect to exclude such operations from the application of all of subchapter K of the Internal Revenue Code of 1954 as provided in Section 761 (a) thereof.

13. Failure to perform any of the obligations hereof occasioned by any cause, accident or occurrence beyond the control of the party charged therewith, or occasioned by any valid orders, rules or regulations of duly constituted authorities shall not be considered as a breach of this agreement.

14. The terms and provisions of this agreement shall inure to the benefit of and be binding upon the parties hereto, their successors and assigns.

15. This instrument may be executed in counterparts by one or more parties and shall have the same effect as if each and every party had executed such counterpart; provided, however, that this agreement shall not become effective and binding upon the parties hereto until all of the said parties have executed this instrument or a counterpart thereof.

16. Cities, as Operator of the Drickey Queen Sand Unit, and Phillips, as Operator of the West Cap Unit, shall secure the consent and approval of its Non-Operators with respect to the performance intended under this agreement and shall indemnify and hold each other harmless with respect thereto. The parties hereto shall, upon request, furnish satisfactory evidence of such approval.

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day, month and year first above written.

WITNESS:

CITIES SERVICE OIL COMPANY

By _____
Manager of Production

PHILLIPS PETROLEUM COMPANY

By _____