

EXXON COMPANY, U.S.A.

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PRODUCTION DEPARTMENT
MIDCONTINENT DIVISION

FRANK MITSCH
UNIT INTEREST MANAGER

OIL CONSERVATION DIVISION
SOUTH UNIT

Case No. _____ Unit No. 41

April 23, 1984

Submitted by Gulf
Hearing Date _____

Re: Unit Agreement and Unit
Operating Agreement
Proposed Eunice Monument
South Unit
Lea County, New Mexico

Gulf Oil Exploration and
Production Company
P. O. Drawer 1150
Midland, Texas 79702

Attention: Mr. D. T. Berlin

Exxon strongly believes that the Demand Well Provisions contained in Article 11.1 of the Unit Operating Agreement (hereinafter referred to as the Gulf penalty inventory method) are inequitable to those working interest owners whose percentage of contributed wellbores exceeds their proposed Unit working interest participation percentage. *

As an alternative to Gulf's proposed penalty inventory method of adjustment, Exxon proposes that each owner receive a credit of \$100k for every wellbore contributed with such owner receiving a debit equal to his Unit working interest participation percentage of the value of all the contributed wellbores. We believe this type of adjustment is more equitable to those owners with an excess number of wellbores to contribute. Attached is a summary table illustrating this point and comparing the Gulf and Exxon methods. Our example calculations assume that all owners will contribute all producing wells and temporarily abandoned wells, and not contribute plugged-back gas wells and plugged and abandoned wells. Also assumed is that each non-contributed wellbore is re-drilled. These costs are included in the payment numbers in the table. This table is intended as a qualitative analysis only as varying assumptions can be made regarding contributed wellbores.

We fail to see the equity in Gulf's proposal which results in an operator contributing more than his Unit participation share of wellbores while simultaneously penalizing the operator for not contributing even more wellbores.

We strongly urge Gulf to reconsider its position in this matter and adopt the Exxon proposal before proceeding to hearing. Be advised that Exxon is willing to make our concerns known at any subsequent unitization hearing before the New Mexico Oil Conservation Division.

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With regards to other aspects of the Unit and Unit Operating Agreements, we offer following comments.

1. References to Exxon in all Exhibits and in Exxon's execution lines should be changed from "Exxon Company, U.S.A." to "Exxon Corporation".
2. Attachment II regarding business ethics should be incorporated into the Unit Operating Agreement. If desired, Exxon would be willing to enter into a side agreement with Gulf regarding this matter.
3. Under Exhibit B to both agreements, one of Exxon's royalty owners is missing under Tract No. 69 and the royalty does not add up to 12.5%. The missing owner is A. L. Cone with a .1953% royalty interest.

Article 3.28 - Audit

We recommend that the current language be deleted and replaced by standard API language.

5. Article 8.1 - Ad Valorem Taxes

We suggest that the following passage be inserted at the end of the third sentence which ends with the word "thenfrom":

"If the property taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the joint account shall be made and paid by the parties hereto in accordance with the tax value generated by each party's working interest."

6. We recommend the following changes in the Accounting Procedure:

Section I.3 - Change the requirement of paying bills within 15 days to 30 days.

Section II.2.A (2) - Delete the present language and use standard COPAS-1974 Accounting Procedure language.

Section II.3 - Delete the 26% inserted after the word "exceed" and add the word "the". The sentence then will read, "...not to exceed the percent most recently recommended by the Council of Petroleum Accountants Societies of North America".

I would be willing to discuss any of the items mentioned above at your convenience.


R. R. Hickman

WGL:bj

Attachments

xc Working Interest Owners