

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: ) CASE NO. 11,792

APPLICATION OF DOYLE HARTMAN, OIL )  
 OPERATOR, FOR AN ORDER CLARIFYING ORDER )  
 NO. R-6447 AND REVOKING OR MODIFYING )  
 ORDER NO. R-4680-A OR, ALTERNATIVELY, )  
 FOR AN ORDER TERMINATING THE MYERS )  
 LANGLIE-MATTIX UNIT WATERFLOOD PROGRAM, )  
 LEA COUNTY, NEW MEXICO )

OFFICIAL EXHIBIT FILE  
APPLICANT'S EXHIBIT A (PART I)  
PREHEARING CONFERENCE

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

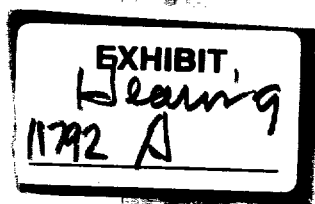
June 30th, 1997

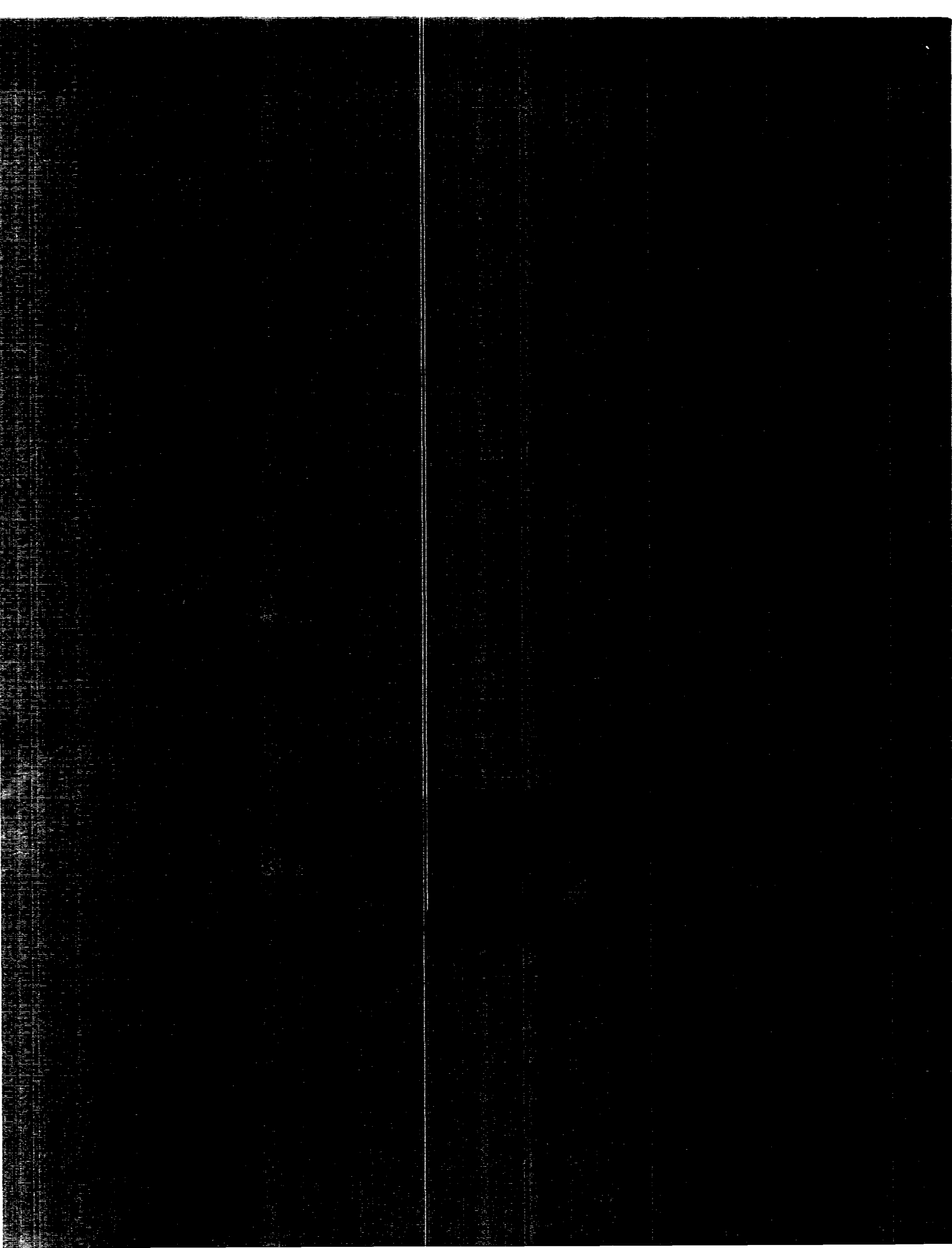
Santa Fe, New Mexico

This matter came on for prehearing conference before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Monday, June 30th, 1997, 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.

\* \* \*

# PART I





**STATES WITH STATUTORY  
UNITIZATION LAW AND PROVISION  
EQUIVILANT TO  
SEC 70-7-7**

**API Model Form UOA Art. 11  
" The bringing of a suit ..."  
TAB 1**

**Michigan 319.356**

**Kansas 55-1305**

**Colorado 34-60-118**

**Nebraska 57-910.03**

**Utah 40-6-8**

**South Dakota 45-9-39**

**Oregon 520.270**

**Montana 82-11-206**

**(Only for "owner who has not  
executed the proposed unit  
agreement and who elects to be  
carried ...")**

**1970**

**1973**

**MLMU Cases 5086 and 50  
Skelly**

**Order R-4660 Nov. 16, 19  
Approval of Unit Agreeme  
UOA)  
TAB 2**

**Order R-4680 Nov. 20, 19  
Approval to water flood  
TAB 3**



# HISTO STA

API Model Form UOA Art. 11

\* election to be covered

\* no right to sue

**TAB 4**

New Mexico enacts Statutory

Unitization Act

**TAB 5**

**1973**

86 and 5089 by

ov. 16, 1973

t Agreement (not

ov. 20, 1973

er flood

**1974**

**1975**

**1976**

First Statutory  
Double L-Queen  
by Burke Royal

1970 form Uni  
Agreement

Order R-5164

Therefore Orde  
(12) Unit Agre  
Operating inclu  
conditions]  
(15) When req  
the interests of  
unitized

**TAB 6**

Examiner: Stan  
Counsel: Carr

# **I HISTORICAL BACKGROUND T STATUTORY UNITIZATION IN NEW MEXICO**

UA For

...  
G  
(

**1976**  
Statutory Unitization Case  
L-Queen Case No. 5596  
L-Queen Royalty Co.

Form Unit Operating  
Agreement

R-5164 Feb. 17, 1976

Order Ordered:  
Unit Agreement and Unit  
Operating include [70-7-7  
provisions]  
When required approvals,  
Interests of all persons  
and

Examiner: Stamets  
Counsel: Carr

**1980**  
Sixth Statutory Unitization Case  
No. 6987 MLMU by Getty

**1982**  
Travis Penn Unit Case No.  
7391 by Yates Drilling  
Existing unit per Cases 7044  
and 7320 and Orders R-  
6502 and R-6765

Hearing Transcript:  
George Yates: Law requires  
non-consent provision but  
Unit Operating Agreement  
does not include;  
recommends terms for  
non-consent parties.  
**TAB 7**

Order R-6947  
p.4 (18) Unit Operating  
Agreement does not provide  
for carrying owners  
(19) Unit Operating  
Agreement subject to  
provisions in Ex A to order  
**TAB 8**

Examiner: Stamets  
Counsel: Pearce



7-7F amended to  
i-consent "penalty"

**1986**

**1987**

**1990**

First case after amended  
70-7-7F.  
Twin Lakes San Andres Case No.  
9210 by Pelfo Oil Co.

Application: That the order  
include a provision for carrying  
**TAB 10**

1970 Form Unit Operating  
Agreement  
Bruce letter to Examiner Stogner,  
Nov 16, 1987  
**TAB 11**

Order R-8557 Dec. 2, 1987  
p. 4 (18) Standard finding on  
agreements "include" [70-7-7  
conditions]  
p.7 (8) Uncommitted owners  
subject to 200% penalty  
**TAB 12**

Central Corbin Queen Case  
Nos. 10062, 10063 &  
10064 by Oxy (Atty Kellahin)

UA-Section 39  
UOA-1974 Form  
\* No right to sue  
\* Omits footnote inserts  
**TAB 13**

Hearing Transcript  
Kellahin: carry without  
penalty  
**TAB 14**

Order R-9336 Oct 29, 1990  
P. 3 (18) Standard finding  
on agreements "include" [70-  
7-7 conditions]  
(20) Applicant requested no  
penalty.  
p. 6 (8) 200% penalty for  
non approvers  
**TAB 15**

Examiner: Stogner  
Counsel: Stovall

§ 29.02 API Model Form of Unit Operating Agreement  
with Supplement

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Third Edition  
January 1970

**MODEL FORM**  
**of**  
**UNIT OPERATING AGREEMENT**



AMERICAN PETROLEUM INSTITUTE  
Washington, D.C. 20037

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Issued By

AMERICAN PETROLEUM INSTITUTE  
Production Department  
300 Corrigan Tower Building  
Dallas, Texas 75201

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(Rel. 19-4/90 Pub. 455)

Issued  
May 1974

Supplement 1  
to  
**MODEL FORM OF  
UNIT OPERATING AGREEMENT**

Third Edition  
January 1970



AMERICAN PETROLEUM INSTITUTE  
Washington, D. C.

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AMERICAN PETROLEUM INSTITUTE  
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300 Corrigan Tower Building  
Dallas, Texas 75201

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American Petroleum Institute

**Foreword**

This supplement covers revisions to *Model Form of Unit Operating Agreement*, Third Edition, January 1970, adopted by letter ballot of the API Executive Committee on Drilling and Production Practice, as reported in circular D-616, June 1973, and Circular D-622, May 1974.

Page 17, Article 17, "Withdrawal of Working Interest Owner": delete text of the existing Article, which appears on line numbers 7 through 22, and replace with the following text (remainder of page 17 is unchanged):

**ARTICLE 17****WITHDRAWAL OF WORKING INTEREST OWNER**

17.1 Withdrawal. A Working Interest Owner may withdraw from this agreement by transferring, without warranty of title either express or implied, to the Working Interest Owners who do not desire to withdraw all its Oil and Gas Rights, exclusive of Royalty Interests, together with its interest in all Unit Equipment and in all wells used in Unit Operations, provided that such transfer shall not relieve such Working Interest Owner from any obligation or liability incurred prior to the first day of the month following receipt by Unit Operator of such transfer. The delivery of the transfer shall be made to Unit Operator for the transferees. The transferred interest shall be owned by the transferees in proportion to their respective Unit Participations. The transferees, in proportion to the respective interests so acquired, shall pay the transferor for its interest in Unit Equipment, the salvage value thereof less its share of the estimated cost of salvaging same and of plugging and abandoning all wells then being used or held for Unit Operations, as determined by Working Interest Owners. In the event such withdrawing owner's interest in the aforesaid salvage value is less than such owner's share of such estimated costs, the withdrawing owner, as a condition precedent to withdrawal, shall pay the Unit Operator, for the benefit of Working Interest Owners succeeding to its interest, a sum equal to the deficiency. Within sixty (60) days after receiving delivery of the transfer, Unit Operator shall render a final statement to the withdrawing owner for its share of Unit Expense, including any deficiency in salvage value, as determined by Working Interest Owners, incurred as of the first day of the month following the date of receipt of the transfer. Provided all Unit Expense, includ-

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Supplement 1 to Model Form of Unit Operating Agreement

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ing any deficiency hereunder, due from the withdrawing owner has been paid in full within thirty (30) days after the rendering of such final statement by the Unit Operator, the transfer shall be effective the first day of the month following its receipt by Unit Operator and, as of such effective date, withdrawing owner shall be relieved from all further obligations and liabilities hereunder and under the Unit Agreement, and the rights of the withdrawing Working Interest Owner hereunder and under the Unit Agreement shall cease insofar as they existed by virtue of the interest transferred.

17.2 *Limitation on Withdrawal.* Notwithstanding anything set forth in Section 17.1, Working Interest Owners may refuse to permit the withdrawal of a Working Interest Owner if its Working Interest is burdened by any royalties, overriding royalties, production payments, net proceeds interest, carried interest, or any other interest created out of the Working Interest in excess of one-eighth ( $\frac{1}{8}$ ) lessor's royalty, unless the other Working Interest Owners willing to accept the assignment agree to accept the Working Interest subject to such burdens.



## FOREWORD

The API Model Form of Unit Agreement and the companion Model Form of Unit Operating Agreement date back to the First Edition, January 1937. Each was followed by a revised Second Edition, January 1961. This is the Third Edition, January 1970. The later editions have been designed to keep the forms up to date by making those revisions found from experience to be desirable. The majority of production units formed in the United States in recent years follow substantially the API forms.

The design of the forms is to aid in the accomplishment of voluntary unitization of oil and condensate reservoirs that are substantially developed in order to conduct some form of pressure maintenance, repressuring, water flood, or other cooperative form of operation to increase ultimate recovery.

USERS ARE CAUTIONED that, being general in nature, these forms require a certain amount of adaptation to conform to the conditions and requirements of particular units and to the laws of different states. The latter is true in regard to matters of execution, acknowledgments, and filing for record.

A Supplement is attached containing certain alternate or additional provisions which may be desired in some instances.

The model forms have been drafted by the Subcommittee on Unit Operations of the Executive Committee on Drilling and Production Practice, Division of Production, American Petroleum Institute. The subcommittee consists of lawyers, engineers, landmen, and other personnel experienced in all phases of unitization and unit operations in all of the principal producing areas in the United States. Members of the subcommittee who devoted a substantial amount of time to the drafting of the Third Edition are as follows:

("L" indicates legal representatives; "O" indicates other representatives.)

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Jack T. Akin (L), Mobil Oil Corporation, Midland, Texas  
M. H. Barber (O), Continental Oil Company, Houston, Texas  
Irley Bonnette (L), Anadarko Production Company, Fort Worth, Texas  
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# MODEL FORM OF UNIT OPERATING AGREEMENT

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## UNIT OPERATING AGREEMENT

\_\_\_\_\_ Unit  
 \_\_\_\_\_ County, \_\_\_\_\_

THIS AGREEMENT, entered into as of the \_\_\_\_\_ day of \_\_\_\_\_,  
 19\_\_\_\_, by the parties who have signed the original of this instrument, a counterpart  
 thereof, or other instrument agreeing to become a party hereto,

## WITNESSETH:

WHEREAS, the parties hereto as Working Interest Owners have executed, as of the  
 date hereof, an agreement entitled "Unit Agreement, \_\_\_\_\_ Unit,  
 \_\_\_\_\_ County, \_\_\_\_\_", herein referred to as "Unit Agreement",  
 which, among other things, provides for a separate agreement to be entered into by Working  
 Interest Owners to provide for Unit Operations as therein defined,

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

## ARTICLE 1

## CONFIRMATION OF UNIT AGREEMENT

1.1 Confirmation of Unit Agreement. The Unit Agreement is hereby confirmed and  
 by reference made a part of this agreement. The definitions in the Unit Agreement are  
 adopted for all purposes of this agreement. If there is any conflict between the Unit  
 Agreement and this agreement, the Unit Agreement shall govern.

## ARTICLE 2

## EXHIBITS

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

2.1.1 Exhibits A and B of the Unit Agreement.

2.1.2 Exhibit C, attached hereto, is a schedule showing the Working Interest of  
 each Working Interest Owner in each Tract, the portion of each Working Interest  
 Owner's Unit Participation attributable to each such interest, and the Unit Participa-

tion of each Working Interest Owner.\* Exhibit C, or a revision thereof, shall not be conclusive as to the information therein, except it may be used as showing the Unit Participations of Working Interest Owners for purposes of this agreement until shown to be in error and revised as herein authorized.

2.1.3 Exhibit D, attached hereto, is the Accounting Procedure applicable to Unit Operations. If there is any conflict between this agreement and Exhibit D, this agreement shall govern.

2.1.4 Exhibit E, attached hereto, contains insurance provisions applicable to Unit Operations.

2.1.5 Exhibit F, attached hereto, is the form of indemnity agreement provided for in Article 9 of the Unit Agreement.

2.2 Revision of Exhibits. Whenever Exhibits A and B are revised, Exhibit C shall be revised accordingly and be effective as of the same date. Unit Operator shall also revise Exhibit C 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 pursuant to this agreement and 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.

\*In case of a two-phase Unit Participation, add the following sentence:

Phase I and Phase II Unit Participations shall be applicable for the respective periods of time provided in Section 5.1.1 of the Unit Agreement except where a different phase Tract Participation, Unit Participation, or voting interest is herein stated.

3.2 Specific Authority and Duties. The matters with respect to which 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 the type or types of pressure maintenance, secondary recovery, or other recovery program to be employed.

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 Recompletions 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 \_\_\_\_\_ Dollars (\$ \_\_\_\_\_); however, approval by Working Interest Owners of the drilling, reworking, deepening, or plugging back of any well shall include approval of all necessary expenditures required therefor, and for completing, testing, and equipping the well, including necessary flow lines, separators, and lease tankage.

3.2.5 Disposition of Unit Equipment. The selling or otherwise disposing of any major item of surplus Unit Equipment, if the current price of new equipment similar thereto is \_\_\_\_\_ Dollars (\$ \_\_\_\_\_) or more.

3.2.6 Appearance Before a Court or Regulatory Agency. The designating of a representative to appear before any court or regulatory agency in matters pertaining to Unit Operations; however, such designation shall not prevent any Working Interest Owner from appearing in person or from designating another representative in its own behalf.

3.2.7 Audits. The auditing of the accounts of Unit Operator pertaining to Unit Operations hereunder; however, the audits shall



- 1 (a) not be conducted more than once each year except upon the  
2 resignation or removal of Unit Operator, and  
3 (b) be made upon the approval of the owner or owners of a majority of  
4 Working Interest other than that of Unit Operator, at the expense of all  
5 Working Interest Owners other than Unit Operator, or  
6 (c) be made at the expense of those Working Interest Owners requesting  
7 such audit, if owners of less than a majority of Working Interest, other  
8 than that of Unit Operator, request such an audit, and  
9 (d) be made upon not less than thirty (30) days' written notice to Unit  
10 Operator.

11 3.2.8 Inventories. The taking of periodic inventories under the terms of Exhibit  
12 D.

13 3.2.9 Technical Services. The authorizing of charges to the joint account for  
14 services by consultants or Unit Operator's technical personnel not covered by the  
15 overhead charges provided by Exhibit D.

16 3.2.10 Assignments to Committees. The appointment of committees to study  
17 any problems in connection with Unit Operations.

18 3.2.11 The removal of Unit Operator and the selection of a successor.

19 3.2.12 The enlargement of the Unit Area.

20 3.2.13 The adjustment and readjustment of investments.

21 3.2.14 The termination of the Unit Agreement.

22 ARTICLE 4

23 MANNER OF EXERCISING SUPERVISION

24 4.1 Designation of Representatives. Each Working Interest Owner shall inform Unit  
25 Operator in writing of the names and addresses of the representative and alternate who are  
26 authorized to represent and bind such Working Interest Owner with respect to Unit

Operations. The representative or alternate may be changed from time to time by written notice to Unit Operator.

4.2 Meetings. All meetings of Working Interest Owners shall be called by Unit Operator upon its own motion or at the request of one or more Working Interest Owners having a total Unit Participation of not less than \_\_\_\_\_ percent (\_\_\_\_%). No meeting shall be called on less than fourteen (14) days' advance written notice, with agenda for the meeting attached. Working Interest Owners who attend the meeting may amend items included in the agenda and may act upon an amended item or other items presented at the meeting. The representative of Unit Operator shall be chairman of each meeting.

4.3 Voting Procedure. Working Interest Owners shall decide all matters coming before them as follows:

4.3.1 Voting Interest. Each Working Interest Owner shall have a voting interest equal to its Unit Participation.

4.3.2 Vote Required. Unless otherwise provided herein or in the Unit Agreement, Working Interest Owners shall determine all matters by the affirmative vote of \_\_\_\_\_ or more Working Interest Owners having a combined voting interest of at least \_\_\_\_\_ percent (\_\_\_\_%); however, should any one Working Interest Owner have more than \_\_\_\_\_ percent (\_\_\_\_%) voting interest, its negative vote or failure to vote shall not defeat a motion, such motion shall pass if approved by Working Interest Owners having a majority voting interest, unless \_\_\_\_\_ or more Working Interest Owners having a combined voting interest of at least \_\_\_\_\_ percent (\_\_\_\_%) likewise vote against the motion or fail to vote.

4.3.3 Vote at Meeting by Nonattending Working Interest Owner. Any Working Interest Owner who is not represented at a meeting may vote on any agenda item by letter or telegram addressed to the representative of Unit Operator if its vote is received prior to the vote at the meeting.

**4.3.4 Poll Vote.** Working Interest Owners may vote on and decide, by letter or telegram, any matter submitted in writing to Working Interest Owners. If a meeting is not requested, as provided in Section 4.2, within seven (7) days after a written proposal is sent to Working Interest Owners, the vote taken by letter or telegram shall become final. Unit Operator will give prompt notice of the results of such voting to all Working Interest Owners.

## ARTICLE 5

## INDIVIDUAL RIGHTS OF WORKING INTEREST OWNERS

5.1 **Reservation of Rights.** Working Interest Owners severally reserve to themselves all their rights, except as otherwise provided in this agreement and the Unit Agreement.

**5.2 Specific Rights.** Each Working Interest Owner shall have, among others, the following specific rights:

5.2.1 Access to Unit Area. Access to the Unit Area at all reasonable times to inspect Unit Operations, all wells, and the records and data pertaining thereto.

**5.2.2 Reports.** The right to receive from Unit Operator, upon written request, copies of all reports to any governmental agency, reports of crude oil runs and stocks, inventory reports, and all other information pertaining to Unit Operations. The cost of gathering and furnishing information not ordinarily furnished by Unit Operator to all Working Interest Owners shall be charged to the Working Interest Owner that requests the information.

## ARTICLE 6

## UNIT OPERATOR

6.1 Unit Operator. \_\_\_\_\_ is hereby designated as the initial Unit Operator.

6.2 **Resignation or Removal.** Unit Operator may resign at any time. Unit Operator may be removed at any time by the affirmative vote of Working Interest Owners having \_\_\_\_\_ percent (\_\_\_\_%) or more of the voting interest remaining after excluding the

voting interest of Unit Operator. Such resignation or removal shall not become effective for a period of three (3) months after the resignation or removal, unless a successor Unit Operator has taken over Unit Operations prior to the expiration of such period.

6.3 Selection of Successor. Upon the resignation or removal of a Unit Operator, a successor Unit Operator shall be selected by Working Interest Owners. If the Unit Operator that is removed fails to vote or votes only to succeed itself, the successor Unit Operator shall be selected by the affirmative vote of Working Interest Owners having \_\_\_\_\_ percent (\_\_\_\_%) or more of the voting interest remaining after excluding the voting interest of the Unit Operator that was removed.

#### ARTICLE 7

##### AUTHORITY AND DUTIES OF UNIT OPERATOR

7.1 Exclusive Right to Operate Unit. Subject to the provisions of this agreement and to instructions from Working Interest Owners, Unit Operator shall have the exclusive right and be obligated to conduct Unit Operations.

7.2 Workmanlike Conduct. Unit Operator shall conduct Unit Operations in a good and workmanlike manner as would a prudent operator under the same or similar circumstances. Unit Operator shall freely consult with Working Interest Owners and keep them informed of all matters which Unit Operator, in the exercise of its best judgment, considers important. Unit Operator shall not be liable to Working Interest Owners for damages, unless such damages result from its gross negligence or willful misconduct.

7.3 Liens and Encumbrances. Unit Operator shall endeavor to keep the lands and leases in the Unit Area and Unit Equipment free from all liens and encumbrances occasioned by Unit Operations, except the lien and security interest of Unit Operator granted hereunder.

7.4 Employees. The number of employees used by Unit Operator in conducting Unit Operations, their selection, hours of labor, and compensation shall be determined by Unit Operator. Such employees shall be the employees of Unit Operator.

1           7.5 Records. Unit Operator shall keep correct books, accounts, and records of Unit  
2 Operations.

3           7.6 Reports to Working Interest Owners. Unit Operator shall furnish Working Interest  
4 Owners periodic reports of Unit Operations.

5           7.7 Reports to Governmental Authorities. Unit Operator shall make all reports to  
6 governmental authorities that it has the duty to make as Unit Operator.

7           7.8 Engineering and Geological Information. Unit Operator shall furnish to a Working  
8 Interest Owner, upon written request, a copy of all logs and other engineering and geological  
9 data pertaining to wells drilled for Unit Operations.

10          7.9 Expenditures. Unit Operator is authorized to make single expenditures not in  
11 excess of \_\_\_\_\_ Dollars (\$ \_\_\_\_\_) without prior approval of Working  
12 Interest Owners. If an emergency occurs, Unit Operator may immediately make or incur  
13 such expenditures as in its opinion are required to deal with the emergency. Unit Operator  
14 shall report to Working Interest Owners, as promptly as possible, the nature of the  
15 emergency and the action taken.

16          7.10 Wells Drilled by Unit Operator. All wells drilled by Unit Operator shall be at the  
17 usual rates prevailing in the area. Unit Operator may employ its own tools and equipment,  
18 but the charge therefor shall not exceed the usual rates prevailing in the area, and the work  
19 shall be performed by Unit Operator under the same terms and conditions as are usual in the  
20 area in contracts of independent contractors doing work of a similar nature.

21          7.11 Border Agreements. Unit Operator may, after approval by Working Interest  
22 Owners, enter into border agreements with respect to lands adjacent to the Unit Area for  
23 the purpose of coordinating operations.

24                                   ARTICLE 8

25                                   TAXES

26          8.1 Ad Valorem Taxes. Beginning with the first calendar year after the Effective Date  
27 hereof, Unit Operator shall make and file all necessary ad valorem tax renditions and returns

with the proper taxing authorities with respect to all property of each Working Interest Owner used or held by Unit Operator for Unit Operations. Unit Operator shall settle assessments arising therefrom. All such ad valorem taxes shall be paid by Unit Operator and charged to the joint account; however, if the interest of a Working Interest Owner is subject to a separately assessed overriding royalty interest, production payment, or other interest in excess of a one-eighth (1/8) royalty, such Working Interest Owner shall notify Unit Operator of such interest prior to the rendition date and shall be given credit for the reduction in taxes paid resulting therefrom.

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

#### ARTICLE 9

##### INSURANCE

9.1 Insurance. Unit Operator, with respect to Unit Operations, shall:

- (a) comply with the Workmen's Compensation Laws of the State,
- (b) carry Employer's Liability and other insurance required by the laws of the State, and
- (c) provide other insurance as set forth in Exhibit E.

#### ARTICLE 10

##### ADJUSTMENT OF INVESTMENTS

10.1 Personal Property Taken Over. Upon the Effective Date, Working Interest Owners shall deliver to Unit Operator the following:

10.1.1 Wells. All wells completed in the Unitized Formation.

10.1.2 Well and Lease Equipment. The casing and tubing in each such well, the wellhead connections thereon, and all other lease and operating equipment that is used in the operation of such wells which Working Interest Owners determine is necessary or desirable for conducting Unit Operations.

1           10.1.3 Records. A copy of all production and well records for such wells.

2           10.2 Inventory and Evaluation of Personal Property. Working Interest Owners shall at  
3           Unit Expense inventory and evaluate, as determined by Working Interest Owners, the  
4           personal property taken over. Such inventory shall include and be limited to those items of  
5           equipment considered controllable under Exhibit D except, upon determination of Working  
6           Interest Owners, items considered noncontrollable may be included in the inventory in  
7           order to insure a more equitable adjustment of investment. Casing shall be included in the  
8           inventory for record purposes, but shall be excluded from evaluation and investment  
9           adjustment.

10          10.3 Investment Adjustment.\* Upon approval by Working Interest Owners of the  
11          inventory and evaluation, each Working Interest Owner shall be credited with the value of  
12          its interest in all personal property taken over under Section 10.1.2, and shall be charged  
13          with an amount equal to that obtained by multiplying the total value of all personal  
14          property taken over under Section 10.1.2 by such Working Interest Owner's Unit  
15          Participation. If the charge against any Working Interest Owner is greater than the amount  
16          credited to such Working Interest Owner, the resulting net charge shall be an item of Unit  
17          Expense chargeable against such Working Interest Owner. If the credit to any Working  
18          Interest Owner is greater than the amount charged against such Working Interest Owner, the  
19          resulting net credit shall be paid to such Working Interest Owner by Unit Operator out of  
20          funds received by it in settlement of the net charges described above.

21          10.4 General Facilities. The acquisition of warehouses, warehouse stocks, lease  
22          houses, camps, facility systems, and office buildings necessary for Unit Operations shall be  
23          by negotiation by the owners thereof and Unit Operator, subject to the approval of Working  
24          Interest Owners.

25          10.5 Ownership of Personal Property and Facilities. Each Working Interest Owner,  
26          individually, shall by virtue hereof own an undivided interest, equal to its Unit

\*The investment adjustment, any readjustment of investment, and ownership of property in case of a two-phase Unit Participation are matters that vary so greatly that no attempt is made to provide language for use in such instances.

Participation, in all personal property and facilities taken over or otherwise acquired by Unit Operator pursuant to this agreement.

#### ARTICLE 11

#### UNIT EXPENSE

11.1 Basis of Charge to Working Interest Owners. Unit Operator initially shall pay all Unit Expense. Each Working Interest Owner shall reimburse Unit Operator for its share of Unit Expense. Each Working Interest Owner's share shall be the same as its Unit Participation.\* All charges, credits, and accounting for Unit Expense shall be in accordance with Exhibit D.

11.2 Budgets. Before or as soon as practical after the Effective Date, Unit Operator shall prepare a budget of estimated Unit Expense for the remainder of the calendar year, and, on or before the first day of each August thereafter, shall prepare a budget for the ensuing calendar year. A budget shall set forth the estimated Unit Expense by quarterly periods. Budgets shall be estimates only, and shall be adjusted or corrected by Working Interest Owners and Unit Operator whenever an adjustment or correction is proper. A copy of each budget and adjusted budget shall be furnished promptly to each Working Interest Owner.

11.3 Advance Billings. Unit Operator shall have the right, without prejudice to other rights or remedies, to require Working Interest Owners to advance their respective shares of estimated Unit Expense by submitting to Working Interest Owners, on or before the 15th day of any month, an itemized estimate thereof for the succeeding month, with a request for payment in advance. Within fifteen (15) days after receipt of the estimate, each Working Interest Owner shall pay to Unit Operator its share of such estimate. Adjustments between estimated and actual Unit Expense shall be made by Unit Operator at the close of each calendar month, and the accounts of Working Interest Owners shall be adjusted accordingly.

\*Consideration should here be given to any needed special provisions, if in case of a two-phase Unit Participation, or otherwise, there is to be any Unit Expense chargeable on a basis other than the Unit Participation in effect at the time the expense was incurred.



1           11.4 Commingling of Funds. Funds received by Unit Operator under this agreement  
2           need not be segregated or maintained by it as a separate fund, but may be commingled with  
3           its own funds.

4           11.5 Lien and Security Interest of Unit Operator. Each Working Interest Owner  
5           grants to Unit Operator a lien upon its Oil and Gas Rights in each Tract, and a security  
6           interest in its share of Unitized Substances when extracted and its interest in all Unit  
7           Equipment, to secure payment of its share of Unit Expense, together with interest thereon  
8           at the rate of \_\_\_ percent (\_\_\_%) per annum. To the extent that Unit Operator has a security  
9           interest under the Uniform Commercial Code of the State, Unit Operator shall be entitled to  
10          exercise the rights and remedies of a secured party under the Code. The bringing of a suit  
11          and the obtaining of judgment by Unit Operator for the secured indebtedness shall not be  
12          deemed an election of remedies or otherwise affect the lien rights or security interest as  
13          security for the payment thereof. In addition, upon default by any Working Interest Owner  
14          in the payment of its share of Unit Expense, Unit Operator shall have the right, without  
15          prejudice to other rights or remedies, to collect from the purchaser the proceeds from the  
16          sale of such Working Interest Owner's share of Unitized Substances until the amount owed  
17          by such Working Interest Owner, plus interest, has been paid. Each purchaser shall be  
18          entitled to rely upon Unit Operator's written statement concerning the amount of any  
19          default.

20          11.6 Unpaid Unit Expense. If any Working Interest Owner fails to pay its share of  
21          Unit Expense within sixty (60) days after rendition of a statement therefor by Unit  
22          Operator, each Working Interest Owner agrees, upon request by Unit Operator, to pay its  
23          proportionate part of the unpaid share of Unit Expense of the defaulting Working Interest  
24          Owner. Working Interest Owners that pay the share of Unit Expense of a defaulting Working  
25          Interest Owner shall be reimbursed by Unit Operator for the amount so paid, plus any  
26          interest collected thereon, upon receipt by Unit Operator of any past due amount collected  
27          from the defaulting Working Interest Owner. Any Working Interest Owner so paying a

defaulting Working Interest Owner's share of Unit Expense shall, to obtain reimbursement thereof, be subrogated to the lien and other rights herein granted Unit Operator.

11.7. Carved-out Interest. If any Working Interest Owner shall, after executing this agreement, create an overriding royalty; production payment, net proceeds interest, carried interest, or any other interest out of its Working Interest, such carved-out interest shall be subject to the terms and provisions of this agreement, specifically including, but without limitation, Section 11.5 hereof entitled "Lien and Security Interest of Unit Operator". If the Working Interest Owner creating such carved-out interest (a) fails to pay any Unit Expense chargeable to such Working Interest Owner under this agreement, and the production of Unitized Substances accruing to the credit of such Working Interest Owner is insufficient for that purpose, or (b) withdraws from this agreement under the terms and provisions of Article 17 hereof, the carved-out interest shall be chargeable with a pro rata portion of all Unit Expense incurred hereunder, the same as though such carved-out interest were a Working Interest, and Unit Operator shall have the right to enforce against such carved-out interest the lien and all other rights granted in Section 11.5 for the purpose of collecting the Unit Expense chargeable to the carved-out interest.

11.8 Uncommitted Royalty. Should an owner of a Royalty Interest in any Tract fail to become a party to the Unit Agreement, and, as a result thereof, the actual Royalty Interest payments with respect to such Tract are more or less than the Royalty Interest payments computed on the basis of the Unitized Substances that are allocated to such Tract under the Unit Agreement, the difference shall be borne by or inure to the benefit of Working Interest Owners, in proportion to their respective Unit Participations at the time the Unitized Substances were produced; however, the difference to be borne by or inure to the benefit of Working Interest Owners shall not exceed an amount computed on the basis of one-eighth (1/8) of the difference between the Unitized Substances allocated to the Tract and the Unitized Substances produced from the Tract. Such adjustments shall be made by charges and credits to the joint account.

## ARTICLE 12

## NONUNITIZED FORMATIONS

12.1 Right to Operate. Any Working Interest Owner that now has or hereafter acquires the right to drill for and produce oil, gas, or other minerals, from a formation underlying the Unit Area other than the Unitized Formation, shall have the right to do so notwithstanding this agreement or the Unit Agreement. In exercising the right, however, such Working Interest Owner shall exercise care to prevent unreasonable interference with Unit Operations. No Working Interest Owner shall produce Unitized Substances through any well drilled or operated by it. If any Working Interest Owner drills any well into or through the Unitized Formation, the Unitized Formation shall be protected in a manner satisfactory to Working Interest Owners so that the production of Unitized Substances will not be affected adversely.

## 12.2 Multiple Completions.

[The handling of multiply completed wells cannot be standardized. Provisions must be tailored to fit the particular situation.]

## ARTICLE 13

## TITLES

13.1 Warranty and Indemnity. Each Working Interest Owner represents and warrants that it is the owner of the respective Working Interests set forth opposite its name in Exhibit C, and agrees to indemnify and hold harmless the other Working Interest Owners from any loss due to failure, in whole or in part, of its title to any such interest, except failure of title arising because of Unit Operations; however, such indemnity and any liability for breach of warranty shall be limited to an amount equal to the net value that has been received from the sale or receipt of Unitized Substances attributed to the interest as to which title failed. Each failure of title will be deemed to be effective, insofar as this agreement is concerned, as of 7:00 a.m. on the first day of the calendar month in which such failure is finally

determined, and there shall be no retroactive adjustment of Unit Expense, or retroactive allocation of Unitized Substances or the proceeds therefrom, as a result of a title failure.

13.2 *Failure Because of Unit Operations.* The failure of title to any Working Interest in any Tract because of Unit Operations, including nonproduction from such Tract, shall not change the Unit Participation of the Working Interest Owner whose title failed in relation to the Unit Participations of the other Working Interest Owners at the time of the title failure.

#### ARTICLE 14

##### LIABILITY, CLAIMS, AND SUITS

14.1 *Individual Liability.* The duties, obligations, and liabilities of Working Interest Owners shall be several and not joint or collective; and nothing herein shall ever be construed as creating a partnership of any kind, joint venture, association, or trust among Working Interest Owners.

14.2 *Settlements.* Unit Operator may settle any single damage claim or suit involving Unit Operations if the expenditure does not exceed \_\_\_\_\_ Dollars (\$ \_\_\_\_\_) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, Working Interest Owners shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Unit Operator. All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be an item of Unit Expense. If a claim is made against any Working Interest Owner or if any Working Interest Owner is sued on account of any matter arising from Unit Operations over which such Working Interest Owner individually has no control because of the rights given Working Interest Owners and Unit Operator by this agreement and the Unit Agreement, the Working Interest Owner shall immediately notify Unit Operator, and the claim or suit shall be treated as any other claim or suit involving Unit Operations.

## ARTICLE 15

## LAWS AND REGULATIONS\*

15.1 Internal Revenue Provision. Notwithstanding any provisions herein that the rights and liabilities of the parties hereunder are several and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if for Federal income tax purposes this agreement and the operations hereunder are regarded as a partnership, then each of the parties hereto elects to be excluded from the application of all of the provisions of Subchapter K, Chapter 1, Subtitle A, of the Internal Revenue Code of 1954, as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Unit Operator is hereby authorized and directed to execute on behalf of each of the parties hereto such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Federal Regulations 1.761-1(a). Should there be any requirement that each party hereto further evidence this election, each party hereto agrees to execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. Each party hereto further agrees not to give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Unit Area is located, or any future income tax law of the United States, contain provisions similar to those in Subchapter K, Chapter 1, Subtitle A, of the Internal Revenue Code of 1954, under which an election similar to that provided by Section 761 of the Code is permitted, each of the parties agrees to make such election as may be permitted or required by such laws. In making this election, each of the parties states that the income derived by such party from the operations under this agreement can be adequately determined without the computation of partnership taxable income.

\*Consideration should be given to the applicability of nondiscrimination provisions.

## ARTICLE 16

## NOTICES

16.1 Notices. All notices required hereunder shall be in writing and shall be deemed to have been properly served when sent by mail or telegram to the address of the representative of each Working Interest Owner as furnished to Unit Operator in accordance with Article 4.

## ARTICLE 17

## WITHDRAWAL OF WORKING INTEREST OWNER

17.1 Withdrawal. A Working Interest Owner may withdraw from this agreement by transferring, without warranty of title, either express or implied, to the other Working Interest Owners, all its Oil and Gas Rights, exclusive of Royalty Interests, together with its interest in all Unit Equipment and in all wells used in Unit Operations. The instrument of transfer may be delivered to Unit Operator for the transferees. Such transfer shall not relieve the Working Interest Owner from any obligation or liability incurred prior to the date of the delivery of the instrument of transfer. The interest transferred shall be owned by the transferees in proportion to their respective Unit Participations. The transferees, in proportion to the respective interests so acquired, shall pay transferor, for its interest in Unit Equipment, the net salvage value thereof as determined by Working Interest Owners. After the date of delivery of the instrument of transfer, the withdrawing Working Interest Owner shall be relieved from all further obligations and liability hereunder and under the Unit Agreement, and the rights of such Working Interest Owner hereunder and under the Unit Agreement shall cease insofar as they existed by virtue of the interest transferred.

## ARTICLE 18

## ABANDONMENT OF WELLS

18.1 Rights of Former Owners. If Working Interest Owners decide to permanently abandon any well within the Unit Area prior to termination of the Unit Agreement, Unit Operator shall give written notice thereof to the Working Interest Owners of the Tract on

1 which the well is located, and they shall have the option for a period of ninety (90) days  
2 after the sending of such notice to notify Unit Operator in writing of their election to take  
3 over and own the well. Within ten (10) days after the Working Interest Owners of the Tract  
4 have notified Unit Operator of their election to take over the well, they shall pay Unit  
5 Operator, for credit to the joint account, the amount determined by Working Interest  
6 Owners to be the net salvage value of the casing and equipment in and on the well. The  
7 Working Interest Owners of the Tract, by taking over the well, agree to seal off the Unitized  
8 Formation, and upon abandonment to plug the well in compliance with applicable laws and  
9 regulations.

10 18.2 **Plugging.** If the Working Interest Owners of a Tract do not elect to take over a  
11 well located within the Unit Area that is proposed for abandonment, Unit Operator shall  
12 plug and abandon the well in compliance with applicable laws and regulations.

#### 13 ARTICLE 19

##### 14 EFFECTIVE DATE AND TERM

15 19.1 **Effective Date.** This agreement shall become effective when the Unit Agreement  
16 becomes effective.

17 19.2 **Term.** This agreement shall continue in effect so long as the Unit Agreement  
18 remains in effect, and thereafter until (a) all Unit wells have been plugged and abandoned or  
19 turned over to Working Interest Owners in accordance with Article 20; (b) all Unit  
20 Equipment and real property acquired for the joint account have been disposed of by Unit  
21 Operator in accordance with instructions of Working Interest Owners; and (c) there has been  
22 a final accounting.

#### 23 ARTICLE 20

##### 24 ABANDONMENT OF OPERATIONS

25 20.1 **Termination.** Upon termination of the Unit Agreement, the following will occur:

26 20.1.1 **Oil and Gas Rights.** Oil and Gas Rights in and to each separate Tract shall  
27 no longer be affected by this agreement, and thereafter the parties shall be governed by

the terms and provisions of the leases, contracts, and other instruments affecting the separate Tracts.

20.1.2 Right to Operate. Working Interest Owners of any Tract that desire to take over and continue to operate wells located thereon may do so by paying Unit Operator, for credit to the joint account, the net salvage value, as determined by Working Interest Owners, of the casing and equipment in and on the wells taken over and by agreeing upon abandonment to plug each well in compliance with applicable laws and regulations.

20.1.3 Salvaging Wells. Unit Operator shall salvage as much of the casing and equipment in or on wells not taken over by Working Interest Owners of separate Tracts as can economically and reasonably be salvaged, and shall cause the wells to be plugged and abandoned in compliance with applicable laws and regulations.

20.1.4 Cost of Abandonment. The cost of abandonment of Unit Operations shall be Unit Expense.

20.1.5 Distribution of Assets. Working Interest Owners shall share in the distribution of Unit Equipment, or the proceeds thereof, in proportion to their Unit Participations.

#### ARTICLE 21

#### EXECUTION

21.1 Original, Counterpart, or Other Instrument. An owner of a Working Interest may become a party to this agreement by signing the original of this instrument, a counterpart thereof, or other instrument agreeing to become a party hereto.\* The signing of any such instrument shall have the same effect as if all parties had signed the same instrument.

#### ARTICLE 22

#### SUCCESSORS AND ASSIGNS

22.1 Successors and Assigns. This agreement shall extend to, be binding upon, and

\*See suggested form in Part III of the Supplement to the Unit Agreement.



1 inure to the benefit of the parties hereto and their respective heirs, devisees, legal  
2 representatives, successors, and assigns, and shall constitute a covenant running with the  
3 lands, leases, and interests covered hereby.

4 IN WITNESS WHEREOF, the parties hereto have executed this agreement on the dates  
5 opposite their respective signatures.

6 [Provide for appropriate execution by corporations (with attests), individuals, and  
7 other parties as may be required, with place for "date signed" after each signature. If  
8 the Unit Operating Agreement is to be recorded, acknowledgements should conform to  
9 the law of the State wherein the land is located.]

EXHIBIT C\*  
TO  
UNIT OPERATING AGREEMENT

\_\_\_\_\_ Unit  
\_\_\_\_\_ County, \_\_\_\_\_

WORKING INTEREST OWNERSHIP BY TRACTS  
AND ATTRIBUTABLE UNIT PARTICIPATIONS

PART I

Tract Number	Tract Name	Working Interest Owner	Working Interest	Unit Participations	
				Phase I*	Phase II*
1	Riverbed	X Oil Company	50.00000	0.19660	0.22200
		Y Oil Company	25.00000	0.09830	0.11100
		Z Oil Company	<u>25.00000</u>	<u>0.09830</u>	<u>0.11100</u>
			100.00000	0.39320	0.44400
2	_____	_____	_____	_____	_____
Total				100.00000	100.00000

PART II

Working Interest Owner	Tract Number	Unit Participation by Tracts		Total Unit Participations of Owners	
		Phase I*	Phase II*	Phase I*	Phase II*
X Oil Company	1	0.19660	0.22200		
	2	<u>1.28575</u>	<u>1.17300</u>		
		1.48235	1.39500	1.48235	1.39500
		_____	_____	_____	_____
Total				100.00000	100.00000

\*Prepared as example for a two-phase Unit Participation. In case of a single-phase Unit Participation, omit column headings "Phase I" and "Phase II" and use only the single column under the main headings. If a revised Exhibit, it should show "Revision No. \_\_\_\_" and time and date of effectiveness.

EXHIBIT D  
TO  
UNIT OPERATING AGREEMENT

\_\_\_\_ Unit  
\_\_\_\_ County, \_\_\_\_\_

ACCOUNTING PROCEDURE

(Available for this purpose are a number of more or less standard printed forms of accounting procedure. For example, there is the COPAS form developed by the Council of Petroleum Accountants Societies of North America, printed by Ross-Martin Company, P. O. Box 800, Tulsa, Oklahoma 74101.)

EXHIBIT E  
TO  
UNIT OPERATING AGREEMENT

\_\_\_\_ Unit  
\_\_\_\_ County, \_\_\_\_\_

INSURANCE PROVISIONS

(As determined by Working Interest Owners.)

EXHIBIT F  
TO  
UNIT OPERATING AGREEMENT  
\_\_\_\_ Unit  
\_\_\_\_ County, \_\_\_\_\_

INDEMNITY AGREEMENT

WHEREAS, Section 9.1.3\* of an agreement entitled "Unit Agreement,  
\_\_\_\_ Unit, \_\_\_\_\_ County,  
\_\_\_\_", dated \_\_\_\_\_,  
provides that under certain circumstances and conditions therein stated a Tract that fails to  
qualify for inclusion in the Unit Area of the Unit may be included if the requisite Working  
Interest Owners in the Tract as specified in said Section request the inclusion of the Tract in  
the Unit Area and execute and deliver, or obligate themselves to execute and deliver, an  
indemnity agreement; and

WHEREAS, Tract \_\_\_\_\_, described in the Unit  
Agreement is such a Tract; and

WHEREAS, the undersigned are owners of Working Interest in such Tract who have  
become parties to the Unit Agreement and the Unit Operating Agreement and desire the  
inclusion of the Tract in the Unit Area of the Unit.

NOW, THEREFORE, in consideration of and conditioned upon said Tract meeting the  
other requirements of the aforesaid Section of the Unit Agreement and its inclusion in the  
Unit Area of the Unit, the undersigned hereby request the inclusion of the above Tract in  
the Unit Area and agree, together with other owners of Working Interest in the Tract who  
execute and deliver, or who obligate themselves to execute and deliver, like indemnity  
agreements, to indemnify and hold harmless all other Working Interest Owners in the Unit  
Area, against all claims and demands required by said Section to be the subject of such  
indemnity. Any liability arising hereunder shall be borne by the undersigned and other

\*No. 1 Alternate Section 9.1.2 in Part II of the Supplement to the Unit Agreement also requires an Indemnity Agreement.

1 Working Interest Owners in the Tract who are committed to like indemnity agreements in  
2 the proportion that the Working Interest of each in the Tract bears to the total Working  
3 Interest therein of all the owners of Working Interest in the Tract committed to such  
4 indemnity agreements.

5 This indemnity shall become void with respect to all claims and demands based upon  
6 occurrences subsequent to the time when the conditions are met that would initially have  
7 qualified such Tract for inclusion in the Unit Area without this indemnity.

8 This agreement shall be binding upon and inure to the benefit of the heirs, devisees,  
9 legal representatives, successors, and assigns of the respective parties initially bound or  
10 benefitted by the provisions hereof.

11 IN WITNESS WHEREOF, each of the undersigned has executed this instrument on the  
12 date opposite its signature.

13 [Provide for appropriate execution by corporations (with attests), individuals, and  
14 other parties, as may be required, with a place for "date signed" after each signature. If  
15 the Indemnity Agreement is to be recorded, acknowledgments should conform to the  
16 laws of the state wherein the land is located.]

BEFORE THE OIL CONSERVATION COMMISSION  
OF THE STATE OF NEW MEXICO

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

CASE NO. 5086  
Order No. R-4660

APPLICATION OF SKELLY OIL COMPANY  
FOR APPROVAL OF THE MYERS LANGLEY-  
MATTIX UNIT AGREEMENT, LEA COUNTY,  
NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 o'clock a.m. on  
October 31, 1973, at Santa Fe, New Mexico, before Examiner  
Richard L. Stamets.

NOW, on this 16th day of November, 1973, the Commission,  
a quorum being present, having considered the testimony, the  
record, and the recommendations of the Examiner, and being  
fully advised in the premises,

FINDS:

(1) That due public notice having been given as required  
by law, the Commission has jurisdiction of this cause and the  
subject matter thereof.

(2) That the applicant, Skelly Oil Company, seeks approval  
of the Myers Langley-Mattix Unit Agreement covering 2928.63  
acres, more or less, of State, Federal and See lands described  
as follows:

LEA COUNTY, NEW MEXICO

TOWNSHIP 23 SOUTH, RANGE 36 EAST, NMRM  
Section 25: N/2 NE/4, SE/4 NE/4, E/2 SW/4,  
SW/4 SW/4, and SE/4  
Section 36: N/2, SE/4, and E/2 SW/4

TOWNSHIP 23 SOUTH, RANGE 37 EAST, NMRM  
Section 28: SW/4 NW/4 and SW/4  
Sections 29 through 33: All  
Section 34: W/2

TOWNSHIP 24 SOUTH, RANGE 36 EAST, NMRM  
Section 1: NE/4 NE/4  
Section 12: S/2 N/2, N/2 S/2, and SE/4 SE/4

Case No. 5086  
Order No. R-4660

TOWNSHIP 21 SOUTH, RANGE 37 EAST, NMPM

Section 2: E/2 NE/4 and W/2

Section 3: NE/4, E/2 SE/4, and W/2 SW/4

Sections 4 and 5: All

Section 6: E/2, E/2 N/2, and NW/4 NW/4

Section 7: All

Section 8: N/2, N/2 S/2, and SW/4 SW/4

Section 9: W/2 and E/2 SW/4

Section 10: NW/4, W/2 NE/4, SE/4 NE/4, E/2 SW/4,  
and W/4 SW/4

Section 11: SW/4 NW/4

(3) That approval of the proposed unit agreement should promote the prevention of waste and the protection of correlative rights within the unit area.

IT IS THEREFORE ORDERED:

(1) That the Myers Langille-Mattix Unit Agreement is hereby approved.

(2) That the plan contained in said unit agreement for the development and operation of the unit area is hereby approved in principle as a proper conservation measure; provided however, that notwithstanding any of the provisions contained in said unit agreement, this approval shall not be considered as waiving or relinquishing, in any manner, any right, duty, or obligation which is now, or may hereafter be, vested in the Commission to supervise and control operations for the exploration and development of any lands committed to the unit and production of oil or gas therefrom.

(3) That the unit operator shall file with the Commission a certified original or certified counterparts of the unit agreement within 30 days after the effective date thereof; that in the event of subsequent joinder by any party or expansion or contraction of the unit area, the unit operator shall file with the Commission within 30 days thereafter counterparts of the unit agreement reflecting the subscription of those interests having joined or ratified.

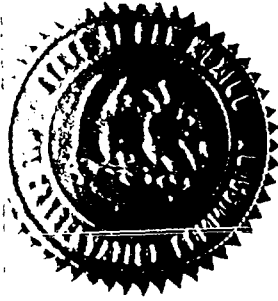
(4) That this order shall become effective upon the approval of said unit agreement by the Commissioner of Public Lands for the State of New Mexico and the Director of the United States Geological Survey; that this order shall terminate ipso facto upon the termination of said unit agreement; and that the last unit operator shall notify the Commission immediately in writing of such termination.

(5) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

-3-

Case No. 5086  
Order No. R-4660

DONE at Santa Fe, New Mexico, on the day and year herein-  
above designated.



STATE OF NEW MEXICO  
OIL CONSERVATION COMMISSION

*E. R. Trujillo*  
E. R. TRUJILLO, Chairman

ALEX J. ARMILLO, Member

*A. L. Porter, Jr.*  
A. L. PORTER, Jr., Member & Secretary

S E A L

dr/



BEFORE THE OIL CONSERVATION COMMISSION  
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING  
CALLED BY THE OIL CONSERVATION  
COMMISSION OF NEW MEXICO FOR  
THE PURPOSE OF CONSIDERING.

CASE NO. 5037  
Order No. P-4630

APPLICATION OF SHELLEY OIL COMPANY  
FOR A WATERFLOOD PROJECT, LEA  
COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on October 31,  
1973, at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 20th day of November, 1973, the Commission,  
a quorum being present, having considered the testimony, the  
record, and the recommendations of the Examiner, and being  
fully advised in the premises,

FINDS:

- (1) That due public notice having been given as required  
by law, the Commission has jurisdiction of this cause and the  
subject matter thereof.
- (2) That the applicant, Shelley Oil Company, seeks authority  
to institute a waterflood project in the Myers Langlie-Mattix  
Unit Area, Langlie-Mattix Pool, Lea County, New Mexico, by the  
injection of water into the Lower Seven Rivers and Queen forma-  
tions through 84 injection wells as shown on Attachment "A" to  
this order.
- (3) That the wells in the project area are in an advanced  
state of depletion and should properly be classified as "stripper"  
wells.
- (4) That the proposed waterflood project should result in  
the recovery of otherwise unrecoverable oil, thereby preventing  
waste.
- (5) That the operator should take all steps necessary to  
ensure that the injected water enters only the proposed injection  
interval and is not permitted to escape to other formations or  
onto the surface from injection, production, or plugged and  
abandoned wells.
- (6) That the subject application should be approved and  
the project should be governed by the provisions of Rules 701,  
702, and 703 of the Commission Rules and Regulations.

IT IS THEREFORE ORDERED:

- (1) That the applicant, Skelly Oil Company, is hereby authorized to institute a waterflood project in the Myers Langlie-Mattix Unit Area, Langlie-Mattix Pool, Lea County, New Mexico, by the injection of water into the Lower Seven Rivers and Queen formations through 84 injection wells as described on Attachment "A" to this order.
- (2) That prior to initial injection of water into any of said injection wells, the operator shall obtain the approval of supervisor of the Commission's Hobbs district office as to the casing and cementing of said well.
- (3) That injection into each of said wells shall be through cement-lined tubing, set in a packer which shall be located within 50 feet of the casing shoe or uppermost perforation through which water is to be injected; that the casing-tubing annulus of each singly completed injection well shall be loaded with an inert fluid and equipped with an approved pressure gauge or attention-attracting leak detection device.
- (4) That the operator shall immediately notify the supervisor of the Commission's Hobbs district office of the failure of the tubing or packer in any of said injection wells, the leakage of water or oil from around any producing well, or the leakage of water or oil from any plugged and abandoned well within the project area and shall take such timely steps as may be necessary or required to correct such failure or leakage.
- (5) That the subject waterflood project is hereby designated the Skelly Myers Langlie Mattix Unit Waterflood Project and shall be governed by the provisions of Rules 701, 702, and 703 of the Commission Rules and Regulations.
- (6) That monthly progress reports of the waterflood project herein authorized shall be submitted to the Commission in accordance with Rules 704 and 1120 of the Commission Rules and Regulations.

IT IS FURTHER ORDERED:

- (1) That any of the aforesaid injection wells which has previously been approved as a Jalmat-Langlie Mattix dual completion producer is hereby approved for continued production from the Jalmat Pool and injection into the Langlie Mattix Pool.
- (2) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

ATTACHMENT "A"

WATER INJECTION WELLS

MYERS LANGLEIE MATTIX UNIT AREA

Lea County, New Mexico

<u>Tract Number</u>	<u>Unit Well No.</u>	<u>Unit Letter</u>	<u>Section</u>	<u>Former Operator</u>	<u>Former Lease Name and Well No.</u>
<u>TOWNSHIP 23 SOUTH, RANGE 36 EAST, NMPM</u>					
44	10	A	25	Reserve	Carter No. 1
1	34	K	25	Flag Redfern	Lynn B-25 No. 3
1	35	M	25	Flag Redfern	Lynn B-25 No. 4
2	37	O	25	Conoco	Lynn B-25 No. 4
30	63	A	36	Amerada	St. LMT No. 5
30	65	C	36	Amerada	St. LMT No. 7
30	69	G	36	Amerada	St. LMT No. 3
33	99	I	36	Gulf	Ho B No. 1
32	103	O	36	Skelly	Mexico D No. 2
<u>TOWNSHIP 23 SOUTH, RANGE 37 EAST, NMPM</u>					
16	47	M	28	Conoco	Stewart 28 No. 1
3	3	C	29	Gulf	La Munyon No. 18
3	17	E	29	Gulf	La Munyon No. 2
3	19	G	29	Gulf	La Munyon No. 15
17	24	I	29	Conoco	Stewart 29 No. 2
22	26	K	29	Texas Pacific	Blinebry A No. 4
19	43	M	29	Texas Pacific	Blinebry No. 1
17	45	O	29	Conoco	Stewart 29 No. 1
21	7	C	30	Texas Pacific	Blinebry A No. 10
20	13	E	30	Texas Pacific	Blinebry A No. 11
47	28	I	30	Gackle	Cowden No. 2
46	39	M	30	Gackle	Cowden B No. 2
49	71	E	31	Gackle	Cowden C No. 2
49	73	G	31	Gackle	Cowden C No. 5
14	95	I	31	Texaco	Blinebry A No. 2
15	97	K	31	Texaco	Blinebry B No. 3
15	105	M	31	Texaco	Blinebry B No. 2
15	107	O	31	Texaco	Blinebry B No. 4
34	55	A	32	Great Western	Leonard B No. 5
34	57	C	32	Great Western	Leonard B No. 3
38	91	I	32	Amerada	State LMA No. 2
36	109	M	32	Texaco	State B-4 No. 1
50	53	C	33	Resler-Sheidon	Fanning B No. 5
50	79	E	33	Resler-Sheidon	Fanning No. 1
52	89	K	33	Lyrom	Davis No. 2
53	113	M	33	Byrom	Davis B No. 1
56	115	O	33	Johnson-French	Davis No. 1
23	50	D	34	Texas Pacific	Blinebry B No. 8
24	86	L	34	Texas Pacific	Blinebry B No. 4

TC



## OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO  
P. O. BOX 2088 - SANTA FE  
87501

I. P. TRUJILLO  
CHAIRMAN

LAND COMMISSIONER  
ALEX J. ARMJO  
MEMBER

STATE GEOLOGIST  
A. L. PORTER, JR.  
SECRETARY - DIRECTOR

November 21, 1973

Mr. Chester E. Blodgett  
Skelly Oil Company  
Post Office Box 1650  
Tulsa, Oklahoma 74102

Re: CASE NO. 5087

ORDER NO. R-4680

Applicant:

Skelly Oil Company

Dear Sir:

Enclosed herewith are two copies of the above-referenced Commission order recently entered in the subject case.

Very truly yours,

Wm. L. Porter, Jr.

A. L. PORTER, Jr.  
Secretary-Director

ALP/ir

Copy of order also sent to:

Hobbs OCC \_\_\_\_\_ x  
Artesia OCC \_\_\_\_\_  
Aztec OCC \_\_\_\_\_

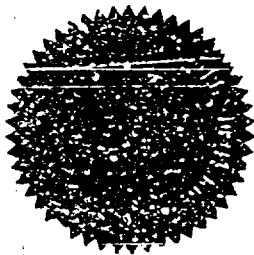
Other Mr. D. E. Gray, State Engineer Office

 $\tau_c$

-3-  
Case No. 5037  
Order No. R-4680

DONE at Santa Fe, New Mexico, on the day and year herein-  
above designated.

STATE OF NEW MEXICO  
OIL CONSERVATION COMMISSION



*I. R. Trujillo*  
I. R. TRUJILLO, Chairman

ALEX J. ARMIJO, Member

*A. L. Porter, Jr.*  
A. L. PORTER, Jr., Member & Secretary

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AMERICAN PETROLEUM INSTITUTE

First Edition  
March 1974

1574Z NIT 0008

# MODEL FORM

of

## UNIT OPERATING AGREEMENT FOR STATUTORY UNITIZATION (With Supplement)

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AMERICAN PETROLEUM INSTITUTE

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Issued By  
AMERICAN PETROLEUM INSTITUTE

Division of Production  
300 Corrigan Tower Building

Dallas, Texas 75201

# FOREWORD

The API Model Forms of Unit Agreement and Unit Operating Agreement for Statutory Unitization are designed for use in states where so-called "fieldwide" units may be established by order of the appropriate regulatory agency for the purpose of increasing the ultimate recovery of oil or gas. At the time these model forms were being prepared, twenty-eight states had statutes for this purpose:

<i>State</i>	<i>Statutory Reference</i>
Alabama	26 Ala. Code Sec. 179 (70) et seq.
Alaska	Alaska Stat. Sec. 31.05.110 et seq.
Arizona	Ariz. Rev. Stat. Sec. 27-531 et seq.
Arkansas	Ark. Stat. Ann. Sec. 53-115C-1 et seq.
California	Calif. Pub. Res. Code Secs. 3315, 3630 et seq.
Colorado	Colo. Rev. Stat. Sec. 100-6-16
Florida	Fla. Stat. Ann. Sec. 377.28
Georgia	Ga. Code Ann. Sec. 43-717
Indiana	Burns Ind. Stat. Sec. 46-1714
Kansas	Kan. Stat. Ann. Sec. 55.1301 et seq.
Louisiana	La. Rev. Stat. Ann. Sec. 30-5C
Michigan	Mich. Comp. Laws Ann. Sec. 319.351 et seq.
Mississippi	Miss. Code Ann. Sec. 6132-101 et seq.
Missouri	Vernon's Ann. Mo. Stat. Sec. 259.120
Montana	Mont. Rev. Code Sec. 60-131.1 et seq.
Nebraska	Neb. Rev. Stat. Sec. 57-910.01 et seq.
Nevada	Nev. Rev. Stat. Sec. 522.070
New York	10 McKinney's Cons. Laws Sec. 79
North Dakota	N. Dak. Cent. Code Sec. 38.08.09.1 et seq.
Ohio	Ohio Rev. Code Sec. 1509.28
Oklahoma	52 Okla. Stat. Ann. Sec. 287.1 et seq.
Oregon	Ore. Rev. Stat. Sec. 520.260 et seq.
South Dakota	S. Dak. Comp. Laws Sec. 45-9-37 et seq.
Tennessee	Tenn. Code Ann. Sec. 60-104(d) (13)
Utah	Utah Code Ann. Sec. 40-6-17
Washington	Wash. Rev. Code Sec. 78.52.340
West Virginia	W. Va. Code Sec. 22-4A-8
Wyoming	Wyo. Stat. Sec. 30-222

However, the California statutes contain unusual provisions which limit their applicability, and consequently these model forms *were not* designed for use in California.

Because of similarities in accomplishing unitization, either voluntarily or under statutory authority, these model forms are patterned after the API Model Forms of Unit Agreement and Unit Operating Agreement, Third Edition, January 1970, for voluntary unitization. Appropriate modifications and footnotes reflect the requirements and prohibitions of the various statutes. **USERS ARE CAUTIONED** that, being general in nature, the forms require adaptation to conform to conditions of particular units and to requirements concerning execution, acknowledgment and recordation.

Statutes of eight of the states listed above (Alaska, Arizona, Kansas, Michigan, Nevada, North Dakota, Oklahoma, and West Virginia) contemplate that the Unit Agreement and Unit Operating Agreement for Statutory Unitization be consolidated into a single document for approval by participants and the appropriate regulatory agency. The single document would consist of two parts corresponding to the two model forms. In other states, the model forms should be used as separate documents.

The model forms have been drafted by the Subcommittee on Unit Operations of the Executive Committee on Drilling and Production Practice, Division of Production, American Petroleum Institute. The Subcommittee consists of lawyers, engineers, landmen, and other personnel experienced in all phases of unitization and unit operations in all the principal producing areas in the United States. Members of the Subcommittee who devoted a substantial amount of time and effort to the drafting of these forms are as follows:

Riley B. Fell, *Chairman*, Marathon Oil Co., New Orleans, La.  
Granville Dutton, *Task Group Chairman*, Sun Oil Co., Dallas, Texas  
T. W. Lynch, *Task Group Chairman*, Amerada Hess Corp., Tulsa, Okla.  
J. W. Woolfolk, Jr., *Task Group Chairman*, Chevron Oil Co., New Orleans, La.  
L. B. Agers, Mobil Oil Corp., Oklahoma City, Okla.  
M. H. Barber, Continental Oil Co., Houston, Texas  
M. L. Duvieilh, Gulf Oil Co.-U.S., New Orleans, La.  
J. E. Embry, Cities Service Oil Co., Tulsa, Okla.  
G. C. Gibson, Amoco Production Co., New Orleans, La.  
D. H. Gregg, Exxon Co., U.S.A., Houston, Texas  
J. M. Grower, Brunini, Grantham, Grower, & Hewes, Jackson, Miss.  
R. M. Hippard, Shell Oil Co., New Orleans, La.  
R. J. Jacobs, Skelly Oil Co., Tulsa, Okla.  
K. E. Jones, Skelly Oil Co., Tulsa, Okla.  
R. T. Jorden, Liskow & Lewis, Lafayette, La.  
C. H. Kallenberger, Texaco Inc., Tulsa, Okla.  
R. F. LeBlanc, Cities Service Oil Co., Tulsa, Okla.  
E. F. Lewis, Phillips Petroleum Co., Bartlesville, Okla.  
W. M. Petmecky, Union Oil Co. of Calif., Midland, Texas  
Robert Pruyn, Amoco Production Co., New Orleans, La.  
G. R. Schoonmaker, Marathon Oil Co., Findlay, Ohio  
Sam Snyder, Union Oil Co. of Calif., Los Angeles, Calif.  
V. E. Stepp, Atlantic Richfield Co., Dallas, Texas  
S. D. Tomlinson, Pennzoil Co. (now with Burmah Oil Co., New Orleans, La.)

The following members' efforts were devoted primarily to the Subcommittee's work pertaining to unitization of Outer Continental Shelf leases:

C. D. Monzingo, *Task Group Chairman*, Getty Oil Co., Houston, Texas  
John Bevan, Marathon Oil Co., Findlay, Ohio  
J. D. Carmichael, Standard Oil Co. of Calif., San Francisco, Calif.  
Henry Eubank, Union Oil Co. of Calif., Houston, Texas  
Bruce Warren, Shell Oil Co., Los Angeles, Calif.



# MODEL FORM OF UNIT OPERATING AGREEMENT FOR STATUTORY UNITIZATION

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# UNIT OPERATING AGREEMENT<sup>1</sup>

\_\_\_\_\_  
Unit<sup>2</sup>

\_\_\_\_\_  
County,<sup>3</sup>\_\_\_\_\_

THIS AGREEMENT, entered into as of the \_\_\_\_\_ day of \_\_\_\_\_,  
19\_\_\_\_.

## WITNESSETH:

WHEREAS, an agreement entitled "Unit Agreement, \_\_\_\_\_ Unit,  
\_\_\_\_\_  
County,<sup>3</sup> \_\_\_\_\_", herein referred to as "Unit Agreement", has  
been made which, among other things, provides for a separate agreement to provide for  
Unit Operations as therein defined,

NOW, THEREFORE, it is provided as follows:

## ARTICLE 1<sup>4</sup>

### CONFIRMATION OF UNIT AGREEMENT

1.1 Confirmation of Unit Agreement. The Unit Agreement is hereby confirmed  
and by reference made a part of this Agreement. The definitions in the Unit Agreement  
are adopted for all purposes of this Agreement. If there is any conflict between the Unit  
Agreement and this Agreement, the Unit Agreement shall govern.

## ARTICLE 2

### EXHIBITS

2.1 Exhibits. The following exhibits are incorporated herein by reference or  
attachment:

2.1.1 Exhibits A and B<sup>5</sup> of the Unit Agreement.

2.1.2 Exhibit C, attached hereto, is the Accounting Procedure applicable to

<sup>1</sup>Nebraska: Add "(Operating Plan)" below title, "UNIT OPERATING AGREEMENT".

<sup>2</sup>Alaska, Arizona, Kansas, Michigan, Nevada, North Dakota, and Oklahoma: Delete lines 4 through 11.

<sup>3</sup>Alaska: Use "Borough"; Louisiana: Use "Parish", throughout this Agreement.

<sup>4</sup>Alaska, Arizona, Kansas, Michigan, Nevada, North Dakota, and Oklahoma: See Part I of Supplement.

<sup>5</sup>Louisiana: Add "and C", and redesignate subsequent exhibits accordingly.

**COPY PROVIDED FOR  
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Unit Operations. If there is any conflict between this Agreement and Exhibit C, this Agreement shall govern.

2.1.3 Exhibit D, attached hereto, contains insurance provisions applicable to Unit Operations.

2.2 Reference to Exhibits. When reference is made herein to an exhibit, it is to the original exhibit or, if revised, to the last revision.

### ARTICLE 3

#### SUPERVISION OF OPERATIONS BY WORKING INTEREST OWNERS<sup>1</sup>

3.1 Overall Supervision. Working Interest Owners<sup>1</sup> shall exercise overall supervision and control of all matters pertaining to Unit Operations. 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 Authority and Duties. The matters with respect to which Working Interest Owners<sup>1</sup> 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 the type of recovery program to be employed.

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 Recompletions 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 Unit Operator's Tools and Equipment. The use by Unit Operator of its own tools and equipment in the drilling of a well or in any other operation in which drilling equipment is required.

<sup>1</sup>Alaska, Nevada, North Dakota, and Oklahoma: Insert "the Operating Committee" in lieu of "Working Interest Owners".

3.2.5 Expenditures. The making of any single expenditure in excess of \_\_\_\_\_ Dollars (\$\_\_\_\_\_); however, approval by Working Interest Owners<sup>1</sup> of the drilling, reworking, deepening, or plugging back of any well shall include approval of all necessary expenditures required therefor, and for completing, testing, and equipping the well, including necessary flow lines, separators, and lease tankage.

3.2.6 Disposition of Unit Equipment. The selling or otherwise disposing of any item of surplus Unit Equipment, if the current price of new equipment similar thereto is in excess of \_\_\_\_\_ Dollars (\$\_\_\_\_\_).

3.2.7 Appearance Before a Court or Regulatory Agency. The designating of a representative to appear before any court or regulatory agency in matters pertaining to Unit Operations; however, such designation shall not prevent any Working Interest Owner from appearing in person or from designating another representative in its own behalf.

3.2.8 Audit Exceptions. The settlement of unresolved audit exceptions.

3.2.9 Inventories. The taking of periodic inventories as provided by Exhibit C.

3.2.10 Technical Services. The authorizing of charges to the joint account for services by consultants or Unit Operator's technical personnel not covered by the charges provided by Exhibit C.

3.2.11 Assignments to Committees. The appointment of committees to study any problems in connection with Unit Operations.

3.2.12 Removal of Operator. The removal of Unit Operator and the selection of a successor.

3.2.13 Changes and Amendments. The changing of the Unit Area or the amending of this Agreement or the Unit Agreement as provided by Article 11 of the Unit Agreement.

<sup>1</sup>See Footnote 1. Page 2.

**3.2.14 Investment Adjustment.** The adjustment and readjustment of investments.

**3.2.15 Termination of Unit Agreement.** The termination of the Unit Agreement as provided therein.

## ARTICLE 4

## MANNER OF EXERCISING SUPERVISION

4.1 **Designation of Representatives.** Each Working Interest Owner shall inform Unit Operator in writing of the names and addresses of the representative and alternate<sup>1</sup> who are authorized to represent and bind such Working Interest Owner with respect to Unit Operations. The representative or alternate may be changed from time to time by written notice to Unit Operator.

**4.2 Meetings.** All meetings of Working Interest Owners<sup>2</sup> shall be called by Unit Operator upon its own motion or at the request of one or more Working Interest Owners having a total Unit Participation of not less than \_\_\_\_\_ percent (\_\_\_\_\_%). No meeting shall be called on less than fourteen (14) days' advance written notice, with agenda for the meeting attached. Working Interest Owners who attend the meeting may amend items included in the agenda and may act upon an amended item or other items presented at the meeting. The representative of Unit Operator shall be chairman of each meeting.

**4.3 Voting Procedure.** Working Interest Owners<sup>2</sup> shall determine all matters coming before them as follows:

**43.1 Voting Interest.** Each Working Interest Owner shall have a voting interest equal to its Unit Participation.

**4.3.2 Vote Required.** Unless otherwise provided herein or in the Unit

<sup>1</sup>Alaska, Nevada, North Dakota, and Oklahoma: Insert "on the Operating Committee".

<sup>2</sup>See Footnote 1, Page 2.



Agreement, Working Interest Owners<sup>1</sup> shall determine all matters by the affirmative vote of \_\_\_\_\_<sup>2</sup> or more Working Interest Owners having a combined voting interest of at least \_\_\_\_\_ percent (\_\_\_\_\_%); however, should any one Working Interest Owner have more than \_\_\_\_\_ percent (\_\_\_\_\_% ) voting interest, its negative vote or failure to vote shall not defeat a motion, such motion shall pass if approved by Working Interest Owners having a majority voting interest, unless \_\_\_\_\_ or more Working Interest Owners having a combined voting interest of at least \_\_\_\_\_ percent (\_\_\_\_\_% ) likewise vote against the motion or fail to vote.

**4.3.3 Vote at Meeting by Nonattending Working Interest Owner.** Any Working Interest Owner who is not represented at a meeting may vote on any agenda item by letter or telegram addressed to the representative of Unit Operator if its vote is received prior to the vote at the meeting.

**4.3.4 Poll Votes.** Working Interest Owners may vote by letter or telegram on any matter submitted in writing to all Working Interest Owners. If a meeting is not requested, as provided in Section 4.2, within seven (7) days after a written proposal is sent to Working Interest Owners, the vote taken by letter or telegram shall control. Unit Operator shall give prompt notice of the results of such voting to each Working Interest Owner.

## ARTICLE 5

### INDIVIDUAL RIGHTS OF WORKING INTEREST OWNERS

**5.1 Reservation of Rights.** Working Interest Owners retain all their rights, except as otherwise provided in this Agreement or the Unit Agreement.

**5.2 Specific Rights.** Each Working Interest Owner shall have, among others, the following specific rights:

<sup>1</sup>See Footnote 1, Page 2.

<sup>2</sup>Kansas: Insert a minimum of two (2) unless there is only a single Working Interest Owner.

**5.2.1 Access to Unit Area.** Access to the Unit Area at all reasonable times to inspect Unit Operations, all wells, and the records and data pertaining thereto.

**5.2.2 Reports.** The right to receive from Unit Operator, upon written request, copies of all reports to any governmental agency, reports of crude oil runs and stocks, inventory reports, and all other information pertaining to Unit Operations. The cost of gathering and furnishing information not ordinarily furnished by Unit Operator to all Working Interest Owners shall be charged to the Working Interest Owner that requests the information.

**5.2.3 Audits.** The right to audit the accounts of Unit Operator pertaining to Unit Operations according to the provisions of Exhibit C.

## ARTICLE 6

## UNIT OPERATOR

6.1 Unit Operator. \_\_\_\_\_ is designated as the initial Unit Operator.

**6.2 Resignation or Removal.** Unit Operator may resign at any time. Unit Operator may be removed at any time by the affirmative vote of<sup>1</sup> Working Interest Owners having \_\_\_\_\_percent (\_\_\_\_\_% ) or more of the voting interest remaining after excluding the voting interest of Unit Operator.<sup>2</sup> Such resignation or removal shall not become effective for a period of three (3) months after the resignation or removal, unless a successor Unit Operator has taken over Unit Operations prior to the expiration of such period.<sup>3</sup>

**6.3 Selection of Successor.** Upon the resignation or removal<sup>4</sup> of Unit Operator, a successor Unit Operator shall be selected by Working Interest Owners. If the removed Unit Operator fails to vote or votes only to succeed itself, the successor Unit Operator shall be selected by the affirmative vote of<sup>1</sup> Working Interest Owners having \_\_\_\_\_

<sup>1</sup>Kansas: Insert "two (2) or more".

<sup>2</sup>North Dakota: Revise second sentence in Section 6.2 to read "Unit Operator may be removed at any time by the affirmative vote of Working Interest Owners having a simple majority of the Working Interest in the Unit Area."

<sup>3</sup>Montana: Add to Section 6.2 the additional provisions contained in Part II of Supplement.

"Montana: Insert "(other than by challenge)".

percent (\_\_\_\_%) or more of the voting interest remaining after excluding the voting interest of the removed Unit Operator.

## ARTICLE 7

### AUTHORITY AND DUTIES OF UNIT OPERATOR

**7.1 Exclusive Right to Operate Unit.** Subject to the provisions of this Agreement and to instructions from Working Interest Owners,<sup>1</sup> Unit Operator shall have the exclusive right and be obligated to conduct Unit Operations.

**7.2 Workmanlike Conduct.** Unit Operator shall conduct Unit Operations in a good and workmanlike manner as would a prudent operator under the same or similar circumstances. Unit Operator shall freely consult with Working Interest Owners and keep them informed of all matters which Unit Operator, in the exercise of its best judgment, considers important. Unit Operator shall not be liable to Working Interest Owners for damages, unless such damages result from its gross negligence or willful misconduct.

**7.3 Liens and Encumbrances.** Unit Operator shall endeavor to keep the lands and leases in the Unit Area and Unit Equipment free from all liens and encumbrances occasioned by Unit Operations, except those provided for in Article 11.

**7.4 Employees.** The number of employees used by Unit Operator in conducting Unit Operations, their selection, hours of labor, and compensation shall be determined by Unit Operator. Such employees shall be the employees of Unit Operator.

**7.5 Records.** Unit Operator shall keep correct books, accounts, and records of Unit Operations.

**7.6 Reports to Working Interest Owners.** Unit Operator shall furnish Working Interest Owners periodic reports of Unit Operations.

**7.7 Reports to Governmental Authorities.** Unit Operator shall make all reports to governmental authorities that it has the duty to make as Unit Operator.

<sup>1</sup>See Footnote 1, Page 2.



8.3 **Income Tax Election.** Notwithstanding any provisions herein that the  
rights and liabilities hereunder are several and not joint or collective, or that this  
Agreement and operations hereunder shall not constitute a partnership, if for Federal  
income tax purposes this Agreement and the operations hereunder are regarded as a  
partnership, then each Person hereby affected elects to be excluded from the applica-  
tion of all of the provisions of Subchapter K, Chapter 1, Subtitle A, of the Internal  
Revenue Code of 1954, as permitted and authorized by Section 761 of the Code and the  
regulations promulgated thereunder. Unit Operator is authorized and directed to  
execute on behalf of each Person hereby affected such evidence of this election as may  
be required by the Secretary of the Treasury of the United States or the Federal  
Internal Revenue Service, including specifically, but not by way of limitation, all of the  
returns, statements, and the data required by Federal Regulations 1.761-1(a). Should  
there be any requirement that each Person hereby affected give further evidence of this  
election, each such Person shall execute such documents and furnish such other  
evidence as may be required by the Federal Internal Revenue Service or as may be  
necessary to evidence this election. No such Person shall give any notices or take any  
other action inconsistent with the election made hereby. If any present or future income  
tax laws of the state or states in which the Unit Area is located or any future income tax  
law of the United States contain provisions similar to those in Subchapter K, Chapter 1,  
Subtitle A, of the Internal Revenue Code of 1954, under which an election similar to  
that provided by Section 761 of the Code is permitted, each Person hereby affected shall  
make such election as may be permitted or required by such laws. In making the  
foregoing election, each such Person states that the income derived by such Person from  
Unit Operations can be adequately determined without the computation of partnership  
taxable income.

1 ARTICLE 9

2 INSURANCE

3 9.1 Insurance. Unit Operator, with respect to Unit Operations, shall:

- 4 (a) comply with the Workmen's Compensation Laws of the state,
- 5 (b) comply with Employer's Liability and other insurance requirements of
- 6 the laws of the state, and
- 7 (c) provide insurance or other protection as set forth in Exhibit D.

8 ARTICLE 10

9 ADJUSTMENT OF INVESTMENTS

10 10.1 Property Taken Over. Upon the Effective Date, Working Interest Owners

11 shall deliver to Unit Operator the following:

12 10.1.1 Wells. All wells completed in the Unitized Formation, as shown on

13 Exhibit B.

14 10.1.2 Equipment. The casing and tubing in each such well, the wellhead

15 connections thereon, and all other lease and operating equipment that is used in

16 the operation of such wells which Working Interest Owners<sup>1</sup> determine is neces-

17 sary or desirable for conducting Unit Operations.

18 10.1.3 Records. A copy of all production and well records for such wells.

19 10.2 Inventory and Evaluation. Working Interest Owners<sup>1</sup> shall at Unit Ex-

20 pense inventory and evaluate the wells and equipment taken over. The inventory of

21 equipment shall be limited to those items considered controllable under Exhibit C

22 except, upon determination of Working Interest Owners,<sup>1</sup> items considered noncon-

23 trollable may be included in the inventory in order to insure a more equitable adjust-

24 ment of investment. The method of evaluating wells and equipment shall be deter-

25 mined by Working Interest Owners.<sup>1</sup>

26 *(Insert methods for evaluating tangibles and intangibles.)*

<sup>1</sup>See Footnote 1, Page 2.

10.3 Investment Adjustment.<sup>1</sup> Upon approval by Working Interest Owners<sup>2</sup> of the inventory and evaluation, each Working Interest Owner shall be credited with the value of its interest in all wells and equipment taken over under Section 10.1, and shall be charged with an amount equal to that obtained by multiplying the total value of all wells and equipment taken over under Section 10.1 by such Working Interest Owner's Unit Participation. If the charge against any Working Interest Owner is greater than the amount credited to such Working Interest Owner, the resulting net charge shall be an item of Unit Expense chargeable against such Working Interest Owner. If the credit to any Working Interest Owner is greater than the amount charged against such Working Interest Owner, the resulting net credit shall be paid to such Working Interest Owner by Unit Operator out of funds received by it in settlement of the net charges described above.

10.4 General Facilities. The acquisition of warehouses, warehouse stocks, lease houses, camps, facility systems, and office buildings necessary for Unit Operations shall be by negotiation by the owners thereof and Unit Operator, subject to the approval of Working Interest Owners.<sup>2</sup>

10.5 Ownership of Property and Facilities. Each Working Interest Owner, individually, shall by virtue hereof own an undivided interest, equal to its Unit Participation in all wells, equipment, and facilities taken over or otherwise acquired by Unit Operator pursuant to this Agreement.

## ARTICLE 11

### UNIT EXPENSE

11.1 Basis of Charge to Working Interest Owners. Unit Operator initially shall pay all Unit Expense. Each Working Interest Owner shall reimburse Unit Operator for its share of Unit Expense. Each Working Interest Owner's share shall be

<sup>1</sup>The investment adjustment, any readjustment of investment, and ownership of property in case of a multi-phase Unit Participation are matters that vary so greatly that no attempt is made to provide language for use in such instances.

<sup>2</sup>See Footnote 1, Page 2.

the same as its Unit Participation.<sup>1</sup> All charges, credits, and accounting for Unit Expense shall be in accordance with Exhibit C.

**11.2 Budgets.** Before or as soon as practical after the Effective Date, Unit Operator shall prepare a budget of estimated Unit Expense for the remainder of the calendar year, and thereafter shall prepare budgets as determined by Working Interest Owners. Budgets shall be estimates only, and shall be adjusted or corrected by Working Interest Owners<sup>2</sup> and Unit Operator whenever an adjustment or correction is proper. A copy of each budget and adjusted budget shall be furnished promptly to each Working Interest Owner.

**11.3 Advance Billings.** Unit Operator shall have the right to require Working Interest Owners to advance their respective shares of estimated Unit Expense as provided by Exhibit C.

**11.4 Commingling of Funds.** Funds received by Unit Operator under this Agreement need not be segregated or maintained by it as a separate fund, but may be commingled with its own funds.

**11.5 Unpaid Unit Expense.**<sup>3</sup> If any Working Interest Owner fails or is unable to pay its share of Unit Expense within sixty (60) days after rendition of a statement therefor by Unit Operator, <sup>4</sup> the non-defaulting Working Interest Owners shall, upon request by Unit Operator, pay the unpaid amount as if it were Unit Expense in the proportion that the Unit Participation of each such Working Interest Owner bears to the Unit Participation of all such Working Interest Owners. Each Working Interest Owner so paying its share of the unpaid amount shall, to obtain reimbursement thereof, be subrogated to the security rights described in Section 11.6 of this Agreement.

<sup>1</sup>Where Unit Expense is to be chargeable on a basis other than the Unit Participation in effect at the time the expense was incurred, special provisions are required.

<sup>2</sup>See Footnote 1, Page 2.

<sup>3</sup>Arkansas and Missouri: Delete Section 11.5 and renumber all succeeding Sections under Article 11.

<sup>4</sup>Colorado, Kansas, Michigan, Nebraska, Oregon, South Dakota, and Utah: Insert "or if any Working Interest Owner elects to be carried or otherwise financed,". Montana: Insert "or if any Working Interest Owner that has not executed this Agreement elects to be carried or otherwise financed,".



11.6 Security Rights.<sup>1</sup> In addition to any other security rights and remedies provided for by the laws of this State with respect to services rendered or materials and equipment furnished under this Agreement, Unit Operator<sup>2</sup> shall have a first and prior lien upon each Working Interest, including the Unitized Substances and Unit Equipment credited thereto, in order to secure payment of the Unit Expense charged against such Working Interest, together with interest thereon at the rate set forth in Exhibit C or the maximum rate allowed by law, whichever is less. If any Working Interest Owner does not pay its share of Unit Expense when due,<sup>3</sup> Unit Operator<sup>2</sup> shall have the right to collect from the purchaser the proceeds from the sale of such Working Interest Owner's share of Unitized Substances until the amount owed, plus interest at the rate herein provided, has been paid.<sup>4</sup> Each purchaser shall be entitled to rely on Unit Operator's statement concerning the amount owed and the interest payable thereon.

11.7 Carved-out Interests.<sup>5</sup> Any overriding royalty, production payment, net proceeds interest, carried interest or any other interest carved out of a Working Interest shall be subject to this Agreement. If a Working Interest Owner does not pay its share of Unit Expense and the proceeds from the sale of Unitized Substances under Section 11.6 are insufficient for that purpose, the security rights provided for therein may be applied against the carved-out interests with which such Working Interest is burdened. In such event, the owner of such carved-out interest shall be subrogated to the security rights granted by Section 11.6.

## ARTICLE 12

### NONUNITIZED FORMATIONS<sup>6</sup>

12.1 Right to Operate. Any Working Interest Owner that now has or hereafter

<sup>1</sup>Mississippi: In lieu of the last two sentences of Section 11.6, see Part III of Supplement.

<sup>2</sup>Alaska, Michigan, North Dakota, and Oklahoma: Insert ", on behalf of the Unit,".

<sup>3</sup>Colorado, Kansas, Michigan, Montana, Nebraska, Oregon, South Dakota, and Utah: Insert "or if any Working Interest Owner elects to be carried or otherwise financed,".

<sup>4</sup>Montana: Add ", provided that such recovery shall be limited, only during the period of depletion of the remaining estimated primary reserves from the Unit, to the production that is in excess of such Working Interest Owner's average actual rate of production during the eighteen (18) months immediately preceding the Effective Date of the unit."

<sup>5</sup>North Dakota: Delete Section 11.7.

<sup>6</sup>See Part IV of Supplement.

1 acquires the right to drill for and produce oil, gas, or other minerals, from a formation  
2 underlying the Unit Area other than the Unitized Formation, shall have the right to do  
3 so notwithstanding this Agreement or the Unit Agreement. In exercising the right,  
4 however, such Working Interest Owner shall exercise care to prevent unreasonable  
5 interference with Unit Operations. No Working Interest Owner other than Unit  
6 Operator shall produce Unitized Substances. If any Working Interest Owner drills any  
7 well into or through the Unitized Formation, the Unitized Formation shall be protected  
8 in a manner satisfactory to Working Interest Owners<sup>1</sup> so that the production of Un-  
9 itized Substances will not be affected adversely.

## 10 ARTICLE 13

### 11 LIABILITY, CLAIMS, AND SUITS

12 13.1 Individual Liability. The duties, obligations, and liabilities of Working  
13 Interest Owners shall be several and not joint or collective; and nothing herein shall  
14 ever be construed as creating a partnership of any kind, joint venture, association, or  
15 trust among Working Interest Owners.

16 13.2 Settlements. Unit Operator may settle any single damage claim or suit  
17 involving Unit Operations if the expenditure does not exceed \_\_\_\_\_ Dollars  
18 (\$\_\_\_\_\_) and if the payment is in complete settlement of such claim or  
19 suit. If the amount required for settlement exceeds the above amount, Working Interest  
20 Owners<sup>1</sup> shall determine the further handling of the claim or suit. All costs and expense  
21 of handling, settling, or otherwise discharging such claim or suit shall be an item of  
22 Unit Expense, subject to such limitation as is set forth in Exhibit C. If a claim is made  
23 against any Working Interest Owner or if any Working Interest Owner is sued on  
24 account of any matter arising from Unit Operations over which such Working Interest  
25 Owner individually has no control because of the rights given Working Interest Own-

<sup>1</sup>See Footnote 1, Page 2.

ers and Unit Operator by this Agreement and the Unit Agreement, the Working Interest Owner shall immediately notify Unit Operator, and the claim or suit shall be treated as any other claim or suit involving Unit Operations.

13.3 **Notice of Loss.** Unit Operator shall report to Working Interest Owners<sup>1</sup> as soon as practicable after each occurrence, damage or loss to Unit Equipment, and each accident, occurrence, claim, or suit involving third party bodily injury or property damage not covered by insurance carried for the benefit of Working Interest Owners.

## ARTICLE 14

### NONDISCRIMINATION<sup>2</sup>

14.1 **Nondiscrimination.** During the performance of work under this Agreement, Unit Operator agrees to comply with all the provisions of subsections (1) through (7) of Section 202, Executive Order 11246 of September 24, 1965, as amended by Executive Order 11375 of October 13, 1967, and as subsequently amended, which are hereby incorporated by reference in this Agreement.

## ARTICLE 15

### NOTICES

15.1 **Notices.** All notices required hereunder shall be in writing and shall be deemed to have been properly served when sent by mail or telegram to the address of the representative of each Working Interest Owner as furnished to Unit Operator in accordance with Article 4.

## ARTICLE 16

### WITHDRAWAL OF WORKING INTEREST OWNER

16.1 **Withdrawal.** A Working Interest Owner may withdraw from this agreement by transferring, without warranty of title either express or implied, to the Working Interest Owners who do not desire to withdraw all its Oil and Gas Rights, exclusive of Royalty Interests, together with its interest in all Unit Equipment and in

<sup>1</sup>See Footnote 1, Page 2.

<sup>2</sup>See Part V of Supplement.

1 all wells used in Unit Operations, provided that such transfer shall not relieve such  
2 Working Interest Owner from any obligation or liability incurred prior to the first day  
of the month following receipt by Unit Operator of such transfer. The delivery of the  
4 transfer shall be made to Unit Operator for the transferees. The transferred interest  
5 shall be owned by the transferees in proportion to their respective Unit Participations.  
6 The transferees, in proportion to the respective interests so acquired, shall pay the  
7 transferor for its interest in Unit Equipment, the salvage value thereof less its share of  
8 the estimated cost of salvaging same and of plugging and abandoning all wells then  
9 being used or held for Unit Operations, as determined by Working Interest Owners.<sup>1,2</sup>  
10 In the event such withdrawing owner's interest in the aforesaid salvage value is less  
11 than such owner's share of such estimated costs, the withdrawing owner, as a condition  
12 precedent to withdrawal, shall pay the Unit Operator, for the benefit of Working  
13 Interest Owners succeeding to its interest, a sum equal to the deficiency. Within sixty  
14 (60) days after receiving delivery of the transfer, Unit Operator shall render a final  
15 statement to the withdrawing owner for its share of Unit Expense, including any  
16 deficiency in salvage value, as determined by Working Interest Owners,<sup>1,2</sup> incurred as  
17 of the first day of the month following the date of receipt of the transfer. Provided all  
18 Unit Expense, including any deficiency hereunder, due from the withdrawing owner  
19 has been paid in full within thirty (30) days after the rendering of such final statement  
20 by the Unit Operator, the transfer shall be effective the first day of the month following  
21 its receipt by Unit Operator and, as of such effective date, withdrawing owner shall be  
22 relieved from all further obligations and liabilities hereunder and under the Unit  
23 Agreement, and the rights of the withdrawing Working Interest Owner hereunder and  
24 under the Unit Agreement shall cease insofar as they existed by virtue of the interest  
25 transferred.

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<sup>1</sup>Alaska, Nevada, and Oklahoma: Insert "the Operating Committee" in lieu of "Working Interest Owners".

<sup>2</sup>North Dakota: Insert "agreement between the withdrawing owner and Unit Operator" in lieu of "Working Interest Owners".

16.2 Limitation on Withdrawal.<sup>1</sup> Notwithstanding anything set forth in Section 16.1, Working Interest Owners<sup>2</sup> may refuse to permit the withdrawal of a Working Interest Owner if its Working Interest is burdened by any royalties, overriding royalties, production payments, net proceeds interest, carried interest, or any other interest created out of the Working Interest in excess of one-eighth (1/8) lessor's royalty, unless the other Working Interest Owners willing to accept the assignment agree to accept the Working Interest subject to such burdens.

## ARTICLE 17

### ABANDONMENT OF WELLS

17.1 Rights of Former Owners. If Working Interest Owners<sup>3</sup> determine to permanently abandon any well within the Unit Area prior to termination of the Unit Agreement, Unit Operator shall give written notice thereof to the Working Interest Owners of the Tract on which the well is located, and they shall have the option for a period of sixty (60) days after the sending of such notice to notify Unit Operator in writing of their election to take over and own the well. Within ten (10) days after the Working Interest Owners of the Tract have notified Unit Operator of their election to take over the well, they shall pay Unit Operator, for credit to the joint account, the amount determined by Working Interest Owners<sup>3</sup> to be the net salvage value of the casing and equipment, through the wellhead, in and on the well. The Working Interest Owners of the Tract, by taking over the well, agree to seal off the Unitized Formation, and upon abandonment to plug the well in compliance with applicable laws and regulations.

17.2 Plugging. If the Working Interest Owners of a Tract do not elect to take over a well located within the Unit Area that is proposed for abandonment, Unit Operator shall plug and abandon the well in compliance with applicable laws and regulations.

<sup>1</sup>North Dakota: Delete Section 16.2.

<sup>2</sup>Alaska, Nevada, and Oklahoma: Insert "the Operating Committee" in lieu of "Working Interest Owners".

<sup>3</sup>See Footnote 1, Page 2.

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ARTICLE 18<sup>1</sup>

EFFECTIVE DATE AND TERM

18.1 **Effective Date.** This Agreement shall become effective when the Unit Agreement becomes effective.

18.2 **Term.** This Agreement shall continue in effect so long as the Unit Agreement remains in effect, and thereafter until (a) all Unit wells have been plugged and abandoned or turned over to Working Interest Owners in accordance with Article 19; (b) all Unit Equipment and real property acquired for the joint account have been disposed of by Unit Operator in accordance with instructions of Working Interest Owners;<sup>2</sup> and (c) there has been a final accounting.

ARTICLE 19

ABANDONMENT OF OPERATIONS

19.1 **Termination.** Upon termination of the Unit Agreement, the following will occur:

19.1.1 **Oil and Gas Rights.** Oil and Gas Rights in and to each separate Tract shall no longer be affected by this Agreement, and thereafter the parties shall be governed by the terms and provisions of the leases, contracts, and other instruments affecting the separate Tracts.

19.1.2 **Right to Operate.** Working Interest Owners of any Tract that desire to take over and continue to operate wells located thereon may do so by paying Unit Operator, for credit to the joint account, the net salvage value, as determined by Working Interest Owners,<sup>2</sup> of the casing and equipment, through the wellhead, in and on the wells taken over and by agreeing upon abandonment to plug each well in compliance with applicable laws and regulations.

19.1.3 **Salvaging Wells.** Unit Operator shall salvage as much of the casing and equipment in or on wells not taken over by Working Interest Owners of

<sup>1</sup>Alaska, Arizona, Kansas, Michigan, Nevada, North Dakota, and Oklahoma: Delete Article 18 and renumber all succeeding Articles.

<sup>2</sup>See Footnote 1, Page 2.

separate Tracts as can economically and reasonably be salvaged, and shall cause the wells to be plugged and abandoned in compliance with applicable laws and regulations.

19.1.4 **Cost of Abandonment.** The cost of abandonment of Unit Operations shall be Unit Expense.

19.1.5 **Distribution of Assets.** Working Interest Owners shall share in the distribution of Unit Equipment, or the proceeds thereof, in proportion to their Unit Participations.

## ARTICLE 20<sup>1</sup>

### APPROVAL

20.1 **Original, Counterpart, or Other Instrument.** An owner of a Working Interest may approve this Agreement by signing the original, a counterpart thereof, or other instrument approving this Agreement. The signing of any such instrument shall have the same effect as if all Persons had signed the same instrument.

## ARTICLE 21<sup>1</sup>

### SUCCESSORS AND ASSIGNS

21.1 **Successors and Assigns.** This Agreement shall extend to, be binding upon, and inure to the benefit of the Persons hereto and their respective heirs, devisees, legal representatives, successors, and assigns, and shall constitute a covenant running with the lands, leases, and interests covered hereby.

IN WITNESS WHEREOF, this Agreement is approved on the dates opposite the respective signatures.

[Provide for appropriate execution by corporations, individuals, and other Persons as may be required, with place for "date signed" after each signature. Also provide acknowledgements that conform to the law of the state wherein the land is located.]

<sup>1</sup>Alaska, Arizona, Kansas, Michigan, Nevada, North Dakota, and Oklahoma: Delete Articles 20 and 21.

**COPY PROVIDED FOR  
HISTORICAL PURPOSES ONLY**

**EXHIBIT C**  
**TO**  
**UNIT OPERATING AGREEMENT**

\_\_\_\_\_Unit  
\_\_\_\_\_County, \_\_\_\_\_

**ACCOUNTING PROCEDURE**

(Available for this purpose are a number of more or less standard printed forms of accounting procedure. For example, there is the COPAS form developed by the Council of Petroleum Accountants Societies of North America.)

**EXHIBIT D**  
**TO**  
**UNIT OPERATING AGREEMENT**

\_\_\_\_\_Unit  
\_\_\_\_\_County, \_\_\_\_\_

**INSURANCE PROVISIONS**

(As determined by Working Interest Owners.)



SUPPLEMENT TO API MODEL FORM OF  
UNIT OPERATING AGREEMENT FOR STATUTORY UNITIZATION

*This supplement contains alternate and added provisions.*

PART I

*In Alaska, Arizona, Kansas, Michigan, Nevada, North Dakota, and Oklahoma,  
substitute the following for Article 1:*

ARTICLE 1

RELATIONSHIP TO UNIT AGREEMENT

**1.1 Relationship to Unit Agreement.** This part of the Plan, entitled "Unit Operating Agreement", contains matters affecting only the Working Interest Owners. The definitions in the Unit Agreement are incorporated herein, and if there is any conflict between this Agreement and the Unit Agreement, the Unit Agreement shall govern.

PART II

*In Montana, add the following to Section 6.2:*

Unit Operator, after having operated for a minimum of two years, can be challenged by any other Working Interest Owner for operation of the Unit. Such challenge shall be made in writing and shall set out the conditions of operations under which the challenging Working Interest Owner proposes to operate the Unit and shall include a showing that:

- (a) he can conduct Unit Operations more efficiently and economically than the Unit Operator,
- (b) he is qualified and financially responsible, and
- (c) a majority of Working Interest Owners, both in number and in Unit Participation, exclusive of Unit Operator, approve such challenging Working Interest Owner becoming Unit Operator.

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1 If the challenged Unit Operator does not initiate such conditions of operations within  
2 sixty (60) days of receipt of such challenge, the challenging Working Interest Owner  
3 shall become Unit Operator.

### 4 PART III

5 *In Mississippi, substitute the following in lieu of the last two sentences in Section*  
6 *11.6:*

7 When any owner fails to pay his part thereof when due and interest thereon at the legal  
8 rate, then all of such owner's interest in the unit production and equipment may be  
9 foreclosed in the same manner and under the same procedures provided for the fore-  
10 closure of mortgages in Chancery Court.

### 11 PART IV

12 *For multiple-completion wells, the following Section may be added to Article 12:*

13 **12.2 Multiple-completion Wells.** A Working Interest Owner who contributes a  
14 well completed in a non-unitized formation shall, prior to delivery of the well to  
15 Working Interest Owners and at its sole risk and expense, segregate such formation in  
16 a manner satisfactory to Working Interest Owners.<sup>1</sup> Each Working Interest Owner  
17 reserves the right to use the well for the purpose of exploring, developing, and operating  
18 such other formations as may overlie or underlie the Unitized Formation pursuant to  
19 such conditions as Working Interest Owners may prescribe. A workover, recondition-  
20 ing, or redrilling of a multiple-completion well for the benefit of the non-unitized  
21 formation shall be at the sole risk and expense of the Working Interest Owners who  
22 participate in production from the non-unitized formation. Operations for the benefit of  
23 the Unitized Formation shall be at the risk and expense of all Working Interest  
24 Owners; provided that, if extra expense is incurred in such an operation because of a  
25 multiple completion, the extra expense shall be borne by the Working Interest Owners  
26 who participate in production from the non-unitized formation. The term "extra ex-

<sup>1</sup>See Footnote 1, Page 2.

pense" as used herein shall mean the difference between the normal charges incurred in such an operation and the normal charges for doing the same work on a well which is not a multiple completion. Unit Operator shall furnish the Working Interest Owners who participate in production from the non-unitized formation with an estimate of such charges prior to commencement of the work. Before any Working Interest Owner shall commence such an operation the permission of the Working Interest Owners<sup>1</sup> must be secured. The interests of the unit shall prevail in the event of any conflict. Neither Working Interest Owners nor Unit Operator shall be liable for any damage to or loss of production from the non-unitized formation nor for damage to the property, equipment, or facilities used in development and operation of a multiple-completion well.

## PART V

*The following alternate provision may be substituted for Article 14:*

### ARTICLE 14

#### NONDISCRIMINATION

14.1 Nondiscrimination. During the performance of this Agreement, Unit Operator agrees as follows:

- (a) that it will not discriminate against any employee or applicant for employment because of race, color, religion, sex, or national origin. Unit Operator will take affirmative action to ensure that applicants are employed, and that employees are treated during employment, without regard to their race, color, religion, sex, or national origin. Such action shall include, but not be limited to the following: employment, upgrading, demotion, or transfer, recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. Unit Operator agrees to post in conspicuous places, available to employees and applicants for employment, notices to be provided by the contract-

<sup>1</sup>See Footnote 1, Page 2.

ing officer setting forth the provision of this nondiscrimination clause;

- (b) that it will, in all solicitations or advertisements for employees placed by or on behalf of the Unit Operator, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, sex, or national origin;
- (c) that it will send to each labor union or representative of workers with which it has a collective bargaining agreement or other contract or understanding, a notice to be provided by the agency contracting officer, advising the labor union or workers' representative of the Unit Operator's commitments under Section 202 of Executive Order 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment;
- (d) that it will comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules, regulations, and relevant orders of the Secretary of Labor;
- (e) that it will furnish all information and reports required by Executive Order 11246 of September 24, 1965, and by the rules, regulations, and orders of the Secretary of Labor, or pursuant thereto, and will permit access to its books, records, and accounts by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations, and orders; and
- (f) in the event of the Unit Operator's non-compliance with the nondiscrimination clauses of this Agreement or with any of such rules, regulations, or orders, this Agreement may be canceled, terminated, or suspended in whole or in part and the Unit Operator may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order 11246 of September 24, 1965, and such other sanctions may be

imposed and remedies invoked as provided in Executive Order 11246 of  
September 24, 1965, or by rule, regulation, or order of the Secretary of Labor,  
or as otherwise provided by law; and further

- (g) that it will include the provisions of paragraphs (a) through (g) in every  
subcontract or purchase order unless exempted by rules, regulations, or  
orders of the Secretary of Labor issued pursuant to Section 204 of Executive  
Order 11246 of September 24, 1965, so that such provisions will be binding  
upon each subcontractor or vendor. The Unit Operator will take such action  
with respect to any subcontract or purchase order as the contracting agency  
may direct as a means of enforcing such provisions including sections for  
noncompliance; PROVIDED, HOWEVER, that in the event the Unit  
Operator becomes involved in, or is threatened with litigation with a subcon-  
tractor or vendor as a result of such direction by the contracting agency, the  
Unit Operator may request the United States to enter into such litigation to  
protect the interests of the United States.

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Laws 1963, ch. 139, § 7; 1977, ch. 255, § 72; 1981, ch. 125, § 53.

Cross references. — For telegraph and telephone

42A-2-4 NMSA 1978. For railroads' right of eminent domain, see 42A-2-3 and 42A-2-4 NMSA 1978.

## 70-6-8. Ownership of injected gas.

All natural gas which has previously been reduced to possession, and which is subsequently injected into underground storage in any strata or formation shall at all times be deemed the property of the injector, his heirs, successors or assigns; and in no event shall such gas be subject to the right of the owner of the surface of said lands or of any mineral interest therein, under which said strata or formation lie, or of any person other than the injector, his heirs, successors and assigns, to produce, take, reduce to possession, waste or otherwise interfere with or exercise any control thereover, provided that the injector, his heirs, successors and assigns shall have no right to gas in any stratum, formation or portion thereof, in which storage rights have not been acquired pursuant to this act [70-6-1 to 70-6-8 NMSA 1978], or otherwise purchased.

History: 1953 Comp., § 65-9-8, enacted by Laws 1953, ch. 139, § 8.  
Am. Jur. 2d, A.L.R. and C.J.S. references. —

Rights and liabilities with respect to natural gas reduced to possession and subsequently stored in natural reservoir, 94 A.L.R.2d 643.

# ARTICLE 7

## Statutory Unitization Act

Sec.

- 70-7-1. Purpose of act.
- 70-7-2. Short title.
- 70-7-3. Additional powers and duties of the oil conservation division.
- 70-7-4. Definitions.
- 70-7-5. Requisites of application for unitization.
- 70-7-6. Matters to be found by the division precedent to issuance of unitization order.
- 70-7-7. Division orders.
- 70-7-8. Ratification or approval of plan by owners.
- 70-7-9. Amendment of plan of unitization.
- 70-7-10. Previously established units.
- 70-7-11. Unit operations of less than an entire pool.

Sec.

- 70-7-12. Operation; expressed or implied covenants.
- 70-7-13. Income from unitized substances.
- 70-7-14. Lien for costs.
- 70-7-15. Liability for expenses.
- 70-7-16. Division orders.
- 70-7-17. Property rights.
- 70-7-18. Existing rights, rights in unleased land and royalties and lease burdens.
- 70-7-19. Agreements not violative of laws governing monopolies or restraint of trade.
- 70-7-20. Evidence of unit to be recorded.
- 70-7-21. Unlawful operation.

## 70-7-1. Purpose of act.

The legislature finds and determines that it is desirable and necessary under the circumstances and for the purposes hereinafter set out to authorize and provide for the unitized management, operation and further development of the oil and gas properties to which the Statutory Unitization Act [70-7-1 to 70-7-21 NMSA 1978] is applicable, to the end that greater ultimate recovery may be had therefrom, waste prevented, and correlative rights protected of all owners of mineral interests in each unitized area. It is the intention of the legislature that the Statutory Unitization Act apply to any type of operation that will substantially increase the recovery of oil above the amount that would be recovered by primary recovery alone and not to what the industry understands as exploratory units.

History: 1953 Comp., § 65-14-1, enacted by Laws 1975, ch. 293, § 1.  
Law reviews. — For article, "On an Institutional

Arrangement for Developing Oil and Gas in the Gulf of Mexico", see 26 Nat. Resources J. 717 (1986).

## 70-7-2. Short title.

This act [70-7-1 to 70-7-21 NMSA 1978] may be cited as the "Statutory Unitization Act."

History: 1953 Comp., § 65-14-2, enacted by Laws 1975, ch. 293, § 2.

### 70-7-3. Additional powers and duties of the oil conservation division.

Subject to the limitations of the Statutory Unitization Act [70-7-1 to 70-7-21 NMSA 1978], the oil conservation division of the energy, minerals and natural resources department, hereinafter referred to as the "division", is vested with jurisdiction, power and authority and it shall be its duty to make and enforce such orders and do such things as may be necessary or proper to carry out and effectuate the purposes of the Statutory Unitization Act.

History: 1953 Comp., § 65-14-3, enacted by Laws 1975, ch. 293, § 3; 1977, ch. 255, § 109; 1987, ch. 234, § 67.

The 1987 amendment, effective July 1, 1987,

substituted "energy, minerals and natural resources" for "energy and minerals" and made minor changes in language.

### 70-7-4. Definitions.

For the purposes of the Statutory Unitization Act [70-7-1 to 70-7-21 NMSA 1978], unless the context otherwise requires:

A. "pool" means an underground reservoir containing a common accumulation of crude petroleum oil or natural gas or both. Each zone of a general structure, which zone is completely separate from any other zone in the structure, is covered by the word pool as used herein. Pool is synonymous with "common source of supply" and with "common reservoir";

B. "oil and gas" means crude oil, natural gas, casinghead gas, condensate or any combination thereof;

C. "waste," in addition to its meaning in Section 70-2-3 NMSA 1978, shall include both economic and physical waste resulting, or that could reasonably be expected to result, from the development and operation separately of tracts that can best be developed and operated as a unit;

D. "working interest" means an interest in unitized substances by virtue of a lease, operating agreement, fee title or otherwise, excluding royalty owners, owners of overriding royalties, oil and gas payments, carried interests, mortgages and lien claimants but including a carried interest, the owner of which is primarily obligated to pay, either in cash or out of production or otherwise, a portion of the unit expense; however, oil and gas rights that are free of lease or other instrument creating a working interest shall be regarded as a working interest to the extent of seven-eighths thereof and a royalty interest to the extent of the remaining one-eighth thereof;

E. "working interest owner" or "lessee" means a person who owns a working interest;

F. "royalty interest" means a right to or interest in any portion of the unitized substances or proceeds thereof other than a working interest;

G. "royalty owner" means a person who owns a royalty interest;

H. "unit operator" means the working interest owner, designated by working interest owners under the unit operating agreement or the division to conduct unit operations, acting as operator and not as a working interest owner;

I. "basic royalty" means the royalty reserved in the lease but in no event exceeding one-eighth; and

J. "relative value" means the value of each separately owned tract for oil and gas purposes and its contributing value to the unit in relation to like values of other tracts in the unit, taking into account acreage, the quantity of oil and gas recoverable therefrom, location on structure, its probable productivity of oil and gas in the absence of unit operations, the burden of operation to which the tract will or is likely to be subjected, or so many of said factors, or such other pertinent engineering, geological, operating or pricing factors, as may be reasonably susceptible of determination.

History: 1953 Comp., § 65-14-4, enacted by Laws 1975, ch. 293, § 4; 1977, ch. 255, § 110.

### 70-7-5. Requisites of application for unitization.

Any working interest owner may file an application with the division requesting an order for the unit operation of a pool or any part thereof. The application shall contain:

- A. a description of the proposed unit area and the vertical limits to be included therein with a map or plat thereof attached;
- B. a statement that the reservoir or portion thereof involved in the application has been reasonably defined by development;
- C. a statement of the type of operations contemplated for the unit area;
- D. a copy of a proposed plan of unitization which the applicant considers fair, reasonable and equitable;
- E. a copy of a proposed operating plan covering the manner in which the unit will be supervised and managed and costs allocated and paid; and
- F. an allegation of the facts required to be found by the division under Section 70-7-6 NMSA 1978.

History: 1953 Comp., § 65-14-5, enacted by Laws 1975, ch. 293, § 5; 1977, ch. 255, § 111.

Am. Jur. 2d, ALR and C.J.S. references. — 38 Am. Jur. 2d Gas and Oil §§ 164, 172.

Compulsory pooling or unitization statute or ordinance requiring owners or lessees of oil and gas lands to develop their holdings as a single drilling unit and the like, 37 A.L.R.2d 434.

### 70-7-6. Matters to be found by the division precedent to issuance of unitization order.

A. After an application for unitization has been filed with the division and after notice and hearing, all in the form and manner and in accordance with the procedural requirements of the division, and prior to reaching a decision on the petition, the division shall determine whether or not each of the following conditions exists:

(1) that the unitized management, operation and further development of the oil or gas pool or a portion thereof is reasonably necessary in order to effectively carry on pressure maintenance or secondary or tertiary recovery operations, to substantially increase the ultimate recovery of oil and gas from the pool or the unitized portion thereof;

(2) that one or more of the said unitized methods of operations as applied to such pool or portion thereof is feasible, will prevent waste and will result with reasonable probability in the increased recovery of substantially more oil and gas from the pool or unitized portion thereof than would otherwise be recovered;

(3) that the estimated additional costs, if any, of conducting such operations will not exceed the estimated value of the additional oil and gas so recovered plus a reasonable profit;

(4) that such unitization and adoption of one or more of such unitized methods of operation will benefit the working interest owners and royalty owners of the oil and gas rights within the pool or portion thereof directly affected;

(5) that the operator has made a good faith effort to secure voluntary unitization within the pool or portion thereof directly affected; and

(6) that the participation formula contained in the unitization agreement allocates the produced and saved unitized hydrocarbons to the separately owned tracts in the unit area on a fair, reasonable and equitable basis.

B. If the division determines that the participation formula contained in the unitization agreement does not allocate unitized hydrocarbons on a fair, reasonable and equitable basis, the division shall determine the relative value, from evidence introduced at the hearing, taking into account the separately owned tracts in the unit area, exclusive of physical equipment, for development of oil and gas by unit operations, and the production allocated to each tract shall be the proportion that the relative value of each tract so determined bears to the relative value of all tracts in the unit area.



C. When the division determines that the preceding conditions exist, it shall make findings to that effect and make an order creating the unit and providing for the unitization and unitized operation of the pool or portion thereof described in the order, all upon such terms and conditions as may be shown by the evidence 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.

History: 1953 Comp., § 65-14-8, enacted by Laws 1975, ch. 293, § 6; 1977, ch. 255, § 112.

### 70-7-7. Division orders.

The order providing for unitization and unit operation of a pool or part 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:

A. a legal description in terms of surface area of the pool or part of the pool to be operated as a unit and the vertical limits to be included, termed "the unit area";

B. a statement of the nature of the operations contemplated;

C. an allocation to the separately owned tracts in the unit area of all the oil and gas that is produced from the unit area and is saved, being the production that is not used in the conduct of operations on the unit area or not unavoidably lost;

D. a provision for the credits and charges to be made in the adjustment among the owners in the unit area for their respective investments in wells, tanks, pumps, machinery, materials and equipment contributed to the unit operations;

E. a provision governing how the costs of unit operations, including capital investments, shall be determined and charged to the separately owned tracts and how the costs shall be paid, including a provision providing when, how and by whom the unit production allocated to an owner who does not pay the share of the costs of unit operations charged to that owner or the interest of that owner may be sold and the proceeds applied to the payment of costs;

F. a provision for carrying any working interest owner on a limited, carried or net-profits basis, payable out of production, upon such terms and conditions determined by the division to be just and reasonable and allowing an appropriate charge for interest for such service payable out of the owner's share of production; provided that any nonconsenting working interest owner being so carried shall be deemed to have relinquished to the unit operator all of its operating rights and working interest in and to the unit until his share of the costs are repaid, plus an amount not to exceed two hundred percent of such costs as a nonconsent penalty, with maximum penalty amount in each case to be determined by the division;

G. a provision designating the unit operator and providing for the supervision and conduct of the unit operations, including the selection, removal or substitution of an operator from among the working interest owners to conduct the unit operations;

H. a provision for a voting procedure for the decision of matters to be decided by the working interest owners in respect to which each working interest owner shall have a voting interest equal to its unit participation;

I. the time when the unit operation shall commence and the manner in which and the circumstances under which the operations shall terminate and for the settlement of accounts upon termination; and

J. such additional provisions as are found to be appropriate for carrying on the unit operations and for the protection of correlative rights and the prevention of waste.

History: 1953 Comp., § 65-14-7, enacted by Laws 1975, ch. 293, § 7; 1977, ch. 255, § 113; 1986, ch. 55, § 1.

The 1986 amendment, effective May 21, 1986, at

the end of Subsection F, added the language following "in and to the unit until" and made minor stylistic changes throughout the section.

## **70-7-8. Ratification or approval of plan by owners.**

A. No order of the division providing for unit operations shall become effective unless and until the plan for unit operations prescribed by the division has been approved in writing by those persons who, under the division's order, will be required initially to pay at least seventy-five percent of the costs of the unit operations, and also by the owners of at least seventy-five percent of the production or proceeds thereof that will be credited to interests which are free of cost such as royalties, overriding royalties and production payments, and the division has made a finding either in the order providing for unit operations or in a supplemental order that the plan for unit operations has been so approved. Notwithstanding any other provisions of this section, if seventy-five percent or more of the unit area is owned, as to working interest, by one working interest owner, such working interest owner must be joined by at least one other working interest owner in ratifying and approving the plan of unit operations, unless such working interest owner is the owner of one hundred percent of the working interest in said unit area; provided, however, if a single owner is one who, under the division's order will be required initially to pay at least twenty-five percent, but not more than fifty percent, of the costs of unit operation, such owner must be joined by at least one other owner of the same type interest in disapproving, or failure to approve, the plan of unit operations to defeat the plan.

B. If one owner is the owner of at least twenty-five percent, but not more than fifty percent, of the production or proceeds thereof that will be credited to interests which are free of costs, such owner must be joined by at least one other owner of the same type interest in disapproving, or failure to approve, the plan of unit operations to defeat the plan.

C. If the persons owning the required percentage of interest in the unit area do not approve the plan for unit operations within a period of six months from the date on which the order providing for unit operations is made, such order shall cease to be of further force and effect and shall be revoked by the division, unless the division shall extend the time for ratification for good cause shown.

D. When the persons owning the required percentage of interest in the unit area have approved the plan for unit operations, the interests of all persons in the unit are unitized whether or not such persons have approved the plan of unitization in writing.

History: 1953 Comp., § 65-14-8, enacted by Laws 1975, ch. 293, § 8; 1977, ch. 255, § 114.

## **70-7-9. Amendment of plan of unitization.**

An order providing for unit operations may be amended by an order made by the division in the same manner and subject to the same conditions as an original order providing for unit operations, provided:

A. if such an amendment affects only the rights and interests of the working interest owners, the approval of the amendment by the royalty owners shall not be required; and

B. no such amendment shall change the percentage for the allocation of oil and gas as established for any separately owned tract by the original order, except with the consent of all working interest owners and royalty owners in such tract, or change the percentage for the allocation of costs as established for any separately owned tract by the original order, except with the consent of all working interest owners in such tract.

History: 1953 Comp., § 65-14-9, enacted by Laws 1975, ch. 293, § 9; 1977, ch. 255, § 115.

## **70-7-10. Previously established units.**

The division, by order, may provide for the unit operation of a pool or parts thereof that embrace a unit area established by a previous order of the division. Such order, in providing for the allocation of unit production, shall first treat the unit area previously established as a single tract, and the portion of the unit production allocated thereto shall then be allocated

among the separately owned tracts included in such previously established unit area in the same proportions as those specified in the previous order.

History: 1953 Comp., § 65-14-10, enacted by  
Laws 1975, ch. 293, § 10; 1977, ch. 255, § 116.

#### 70-7-11. Unit operations of less than an entire pool.

An order may provide for unit operation on less than the whole of a pool where the unit area is of such size and shape as may be reasonably suitable for that purpose, and the conduct thereof will have no adverse effect upon other portions of the pool.

History: 1953 Comp., § 65-14-11, enacted by  
Laws 1975, ch. 293, § 11.

Am. Jur. 2d, A.L.R. and C.J.S. references. —  
38 Am. Jur. 2d Gas and Oil §§ 164, 172.

#### 70-7-12. Operation; expressed or implied covenants.

All operations, including but not limited to, the commencement, drilling or operation of a well upon any portion of the unit area shall be deemed for all purposes the conduct of such operations upon each separately owned tract in the unit area by the several owners thereof. The portions of the unit production allocated to a separately owned tract in a unit area shall, when produced, be deemed, for all purposes, to have been actually produced from such tract by a well drilled thereon. Operations conducted pursuant to an order of the division providing for unit operations shall constitute a fulfillment of all the express or implied obligations for each lease or contract covering lands in the unit area to the extent that compliance with such obligations cannot be had because of the order of the division.

History: 1953 Comp., § 65-14-12, enacted by  
Laws 1975, ch. 293, § 12; 1977, ch. 255, § 117.

#### 70-7-13. Income from unitized substances.

The portion of the unit production allocated to any tract, and the proceeds from the sale thereof, shall be the property and income of the several persons to whom, or to whose credit, the same are allocated or payable under the order providing for unit operations.

History: 1953 Comp., § 65-14-13, enacted by  
Laws 1975, ch. 293, § 13.

#### 70-7-14. Lien for costs.

Subject to such reasonable limitations as may be set out in the plan of unitization, the unit shall have a first and prior lien upon the leasehold estate and other oil and gas rights (exclusive of a one-eighth royalty interest or exclusive of the interest provided in the unit operating plan which allocates costs, if it is different than one-eighth) in and to each separately owned tract, the interest of the owners thereof in and to the unit production and all equipment in the possession of the unit, to secure the payment of the amount of the unit expense charged to and assessed against such separately owned tract.

History: 1953 Comp., § 65-14-14, enacted by  
Laws 1975, ch. 293, § 14.

#### 70-7-15. Liability for expenses.

The obligation or liability of each working interest owner in the several separately owned tracts in the unit for the payment of unit expense at all times shall be several and not joint or collective, and a working interest owner shall not be chargeable with, obligated or liable for, directly or indirectly, more than the amount apportioned, assessed or otherwise charged to his interest in the separately owned tract pursuant to the order of unitization.

History: 1953 Comp., § 65-14-15, enacted by Laws 1975, ch. 293, § 15.

#### 70-7-16. Division orders.

A. No division order or other contract relating to the sale or purchase of production from a separately owned tract shall be terminated by the order providing for unit operations, but shall remain in force and apply to oil and gas allocated to such tract until terminated in accordance with the provisions thereof.

B. For purposes of this section, "division order" shall mean a contract of sale to the purchaser of oil and gas.

History: 1953 Comp., § 65-14-16, enacted by Laws 1975, ch. 293, § 16; 1977, ch. 255, § 118.

#### 70-7-17. Property rights.

Except to the extent that the parties affected so agree, no order providing for unit operations shall be construed to result in a transfer of all or any part of the title of any person to the oil and gas rights in any tract in the unit area. All property, whether real or personal, that may be acquired in the conduct of unit operations hereunder shall be acquired for the account of the working interest owners within the unit area, and shall be the property of such working interest owners in the proportion that the costs of unit operations are charged.

History: 1953 Comp., § 65-14-17, enacted by Laws 1975, ch. 293, § 17.

#### 70-7-18. Existing rights, rights in unleased land and royalties and lease burdens.

Property rights, leases, contracts and other rights or obligations shall be regarded as amended and modified only to the extent necessary to conform to the provisions and requirements of the Statutory Unitization Act [70-7-1 to 70-7-21 NMSA 1978] and to any valid order of the division providing for the unit operation of a pool or a part thereof, but otherwise shall remain in full force and effect. A one-eighth part of the production allocated to each tract under an order providing for the unit operation of a pool or a part thereof shall in all events be and remain free and clear of any cost or expense of developing or operating the unit and of any lien therefor as an encumbered [unencumbered] source from which to pay the royalties or other cost-free obligations due or payable with respect to the production from such tract. If a lease or other contract pertaining to a tract or interest stipulates a royalty, overriding royalty, production payment or other obligation in excess of one-eighth of the production or proceeds therefrom, then the working interest owner subject to such excess payment or other obligation shall bear and pay the same.

History: 1953 Comp., § 65-14-18, enacted by Laws 1975, ch. 293, § 18; 1977, ch. 255, § 119.  
Bracketed material. — The bracketed word "un-

encumbered" was inserted by the compiler as the apparently intended term. It was not enacted by the legislature and is not a part of the law.

#### 70-7-19. Agreements not violative of laws governing monopolies or restraint of trade.

No agreement between or among lessees or other owners of oil and gas rights in oil and gas properties entered into pursuant hereto or with a view or for the purpose of bringing about the unitized development or operation of such properties shall be held to violate any of the statutes of this state prohibiting monopolies or acts, arrangements, agreements, contracts, combinations or conspiracies in restraint of trade or commerce.

History: 1953 Comp., § 65-14-19, enacted by Laws 1975, ch. 293, § 19.

### 70-7-20. Evidence of unit to be recorded.

A copy of each unit agreement shall be recorded in the office of the county clerk of the county or counties in which the unit is situated.

History: 1953 Comp., § 65-14-20, enacted by Laws 1975, ch. 293, § 20.

### 70-7-21. Unlawful operation.

From and after the date designated by the division that a unit plan shall become effective, the operation of any well producing from the pool within the area subject to said unit plan, by persons other than persons acting under the authority of the unit plan, or except in the manner and to the extent provided in such unit plan, shall be unlawful and is hereby prohibited.

History: 1953 Comp., § 65-14-21, enacted by Laws 1975, ch. 293, § 21; 1977, ch. 355, § 120.

## ARTICLE 8

### Emergency Petroleum Products Supplies

Sec.

70-8-1. Short title.

70-8-2. Purpose and findings.

70-8-3. Definitions.

70-8-4. Consent as a condition of doing business.

Sec.

70-8-5. Prohibited acts.

70-8-5.1. Exemption.

70-8-6. Right of action; injunction; damages.

### 70-8-1. Short title.

This act [70-8-1 to 70-8-6 NMSA 1978] may be cited as the "Emergency Petroleum Products Supply Act."

History: 1953 Comp., § 65-10-1, enacted by Laws 1974, ch. 22, § 1.

Meaning of "this act". — The term "this act" means Laws 1974, Chapter 22, which appears as

70-8-1 to 70-8-5 and 70-8-6 NMSA 1978. However, Laws 1979, Chapter 174 added present 70-8-5.1 NMSA 1978 to the Emergency Petroleum Products Supply Act.

### 70-8-2. Purpose and findings.

The legislature hereby determines that:

A. shortages of petroleum products caused by discontinuance or significant reductions of normal and customary availability in New Mexico of petroleum supplies create severe economic dislocations and hardships, including loss of jobs, closing of factories and businesses, reduction of crop plantings and harvesting, and curtailment of vital public services, including the transportation of food and other essential goods;

B. such hardships and dislocations are a threat to the public health, safety and welfare and can be averted or minimized through the operation of the Emergency Petroleum Products Supply Act [70-8-1 to 70-8-6 NMSA 1978];

C. the purpose of the Emergency Petroleum Products Supply Act is to avert or minimize such threats to the public health, safety and welfare; and

D. the preservation of existing marketing and distribution facilities of petroleum products in the state is necessary to prevent chaos and promote the public health, safety and welfare.

History: 1953 Comp., § 65-10-2, enacted by Laws 1974, ch. 22, § 2.

BEFORE THE OIL CONSERVATION COMMISSION  
OF THE STATE OF NEW MEXICO

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

CASE NO. 5596  
Order No. R-5164

APPLICATION OF BURK ROYALTY COMPANY  
FOR STATUTORY UNITIZATION, DOUBLE L-  
QUEEN POOL, CHAVES COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9:00 a.m. on December 3, 1975, and on January 7, 1976, at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 17th day of February, 1976, the Commission, a quorum being present, having considered the testimony, the record and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

- (1) That due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.
- (2) That the applicant, Burk Royalty Company, seeks the statutory unitization, pursuant to the "Statutory Unitization Act," Sections 65-14-1 through 65-14-21, NMSA, 1953 Compilation, of 2,670.10 acres, more or less, of State, Federal, and fee lands, being a portion of the Double L-Queen Associated Pool, Chaves County, New Mexico, and approval of the plan of unitization and the proposed operating plan.
- (3) That the proposed unit area would be designated the Double L Queen Unit Area; that the vertical limits of said unit area would be the subsurface formation commonly known as the Queen Formation and which is encountered between the logged depths of 1870 feet (subsea elevation of + 1984 feet) and 1980 feet (subsea elevation of + 1874 feet) as shown on the Schlumberger Compensated Formation Density Log dated July 30, 1969, for the Dalport Oil Corporation Spurck State Well No. 5, located 1980 feet from the South line and 1980 feet from the East line of Section 36, Township 14 South, Range 29 East, NMPM, Chaves County, New Mexico; and that the unit area would comprise the following described lands:

TOWNSHIP 14 SOUTH, RANGE 29 EAST, NMPM

Section 23: E/2 SE/4

Section 24: W/2 SW/4

Section 25: NW/4, SW/4 NE/4, N/2 SW/4, SE/4 SW/4,  
W/2 SE/4 and SE/4 SE/4

Section 36: NE/4 NW/4, NE/4, N/2 SE/4 and SE/4 SE/4

Case No. 5596  
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TOWNSHIP 14 SOUTH, RANGE 30 EAST, NMPM  
Section 31: W/2, W/2 SE/4 and SE/4 SE/4

TOWNSHIP 15 SOUTH, RANGE 29 EAST, NMPM  
Section 1: E/2 E/2  
Section 12: NE/4 and E/2 SE/4  
Section 13: NE/4 NE/4

TOWNSHIP 15 SOUTH, RANGE 30 EAST, NMPM  
Section 6: N/2, SW/4 and NW/4 SE/4  
Section 7: W/2 W/2 and NE/4 NW/4  
Section 18: NW/4

(4) That the portion of the Double L-Queen Associated Pool proposed to be included in the aforesaid Double L-Queen Unit Area has been reasonably defined by development.

(5) That the applicant proposes to institute a waterflood project for the secondary recovery of oil and gas in the proposed unit area, and in fact has heretofore sought and been granted approval to institute such a project in the Double L-Queen Unit Area by Commission Order No. R-5007, dated May 6, 1975.

(6) That the unitized management, operation and further development of the subject portion of the Double L-Queen Associated Pool, as proposed, is reasonably necessary in order to effectively carry on secondary recovery operations and to substantially increase the ultimate recovery of oil from the pool.

(7) That the proposed unitized method of operation as applied to the Double L Queen Unit Area is feasible, will prevent waste, and will result with reasonable probability in the increased recovery of substantially more oil from the pool than would otherwise be recovered.

(8) That the estimated additional costs of such operations will not exceed the estimated value of the additional oil so recovered plus a reasonable profit.

(9) That such unitization and adoption of the proposed unitized method of operation will benefit the working interest owners and royalty owners of the oil and gas rights within the Double L Queen Unit Area.

(10) That the applicant has made a good faith effort to secure voluntary unitization within the Double L Queen Associated Pool.

(11) That the participation formula contained in the unitization agreement does not allocate the produced and saved unitized hydrocarbons to the separately owned tracts in the unit area on a fair, reasonable and equitable basis, and does not protect the correlative rights of all owners of interest within the unit area.

(12) That a two-phase formula equally recognizing under its first phase remaining primary production and net acre feet of pay under each tract and under its second phase total primary production and net acre feet of pay under each tract will allocate the produced and saved unitized hydrocarbons to the separately owned tracts in the unit area on a fair, reasonable and equitable basis, and will protect the correlative rights of all owners of interest within the unit area.

(13) That there should be attached to this order an exhibit showing such fair, reasonable and equitable allocation of said unitized hydrocarbons to each of the separately owned tracts within the unit area.

(14) That applicant's Exhibits Nos. 1 and 2 in this case, being the Unit Agreement and the Unit Operating Agreement should be incorporated by reference into this order.

(15) That Section 13, Section 14, Section 23 and Exhibit "C" of said Unit Agreement should be amended to appropriately reflect the terms and conditions of this order.

(16) That applicant should amend Exhibit "E" of the Unit Operating Agreement to conform to the tract participation factors set out in Amended Exhibit "C" of the Unit Agreement.

(17) That the Statutory Unitization of the Double L Queen Unit Area, in conformance to the above findings, should be approved.

IT IS THEREFORE ORDERED:

(1) That the Double L Queen Unit Agreement, as hereinafter amended, covering 2670.10 acres, more or less, of State, Federal, and fee lands in the Double L-Queen Associated Pool, Chaves County, New Mexico, is hereby approved for statutory unitization pursuant to the Statutory Unitization Act.

(2) That the lands covered by said Double L Queen Unit Agreement shall be designated the Double L Queen Unit Area and shall comprise:

TOWNSHIP 14 SOUTH, RANGE 29 EAST, NMPM

Section 23: E/2 SE/4

Section 24: W/2 SW/4

Section 25: NW/4, SW/4 NE/4, N/2 SW/4, SE/4 SW/4,  
W/2 SE/4 and SE/4 SE/4

Section 36: NE/4 NW/4, NE/4, N/2 SE/4 and SE/4 SE/4

TOWNSHIP 14 SOUTH, RANGE 30 EAST, NMPM

Section 31: W/2, W/2 SE/4 and SE/4 SE/4



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Case No. 5596  
Order No. R-5164

TOWNSHIP 15 SOUTH, RANGE 29 EAST, NMPM

Section 1: E/2 E/2  
Section 12: NE/4 and E/2 SE/4  
Section 13: NE/4 NE/4

TOWNSHIP 15 SOUTH, RANGE 30 EAST, NMPM

Section 6: N/2, SW/4 and NW/4 SE/4  
Section 7: W/2 W/2 and NE/4 NW/4  
Section 18: NW/4

(3) That the vertical limits of the Double L Queen Unit Area shall be the Queen Formation as found between the logged depths of 1870 feet (subsea elevation of + 1984 feet) and 1980 feet (subsea elevation of + 1874 feet) as shown on the Schlumberger Compensated Formation Density Log dated July 30, 1969, for the Dalport Oil Corporation Spurck State Well No. 5, located 1980 feet from the South line and 1980 feet from the East line of Section 36, Township 14 South, Range 29 East, NMPM, Chaves County, New Mexico.

(4) That the applicant, Burk Royalty Company, is hereby authorized to institute a waterflood project in the Double L Queen Unit Area, Double L-Queen Associated Pool, Chaves County, New Mexico, pursuant to the provisions set forth in Commission Order No. R-5007.

(5) That applicant's Exhibit No. 1 in this case, being the Double L Queen Unit Agreement, is hereby incorporated by reference into this order, subject to the amendments herein-after set forth.

(6) That applicant's Exhibit No. 2 in this case, being the Double L Queen Unit Operating Agreement, is hereby incorporated by reference into this order, subject to the amendments herein-after provided for.

(7) That Section 13 of applicant's Exhibit No. 1 in this case is hereby amended to read in its entirety as follows:

"SECTION 13. TRACT PARTICIPATION. In Exhibit "C" attached hereto there are listed and numbered the various Tracts within the Unit Area, and set forth opposite each Tract are figures which represent the Tract Participation, during Phase I and Phase II of Unit Operations. The Phase I and Phase II Tract Participation of each Tract as shown in Exhibit "C" were determined in accordance with the following formulas:

Tract Participation during Phase I:  $50\% A + 50\% B$

Phase II:  $50\% B + 50\% C$

Where A = Ratio of the volume of oil determined to be producible after 11/1/75 from each Tract to the summation of the volume of producible oil after 11/1/75 from all Tracts being 166,528 barrels.

B = Ratio of the Acre-Feet of originally productive oil reservoir from each Tract to the summation of Acre-Feet from all Tracts being 10,077.3 acre feet.

C = Ratio of the volume of oil determined to be ultimately producible from each Tract to the summation of the volume determined to be ultimately producible from all Tracts being 1,634,102 barrels.

Phase I shall begin on the Effective Date of this Agreement and continue until the first day of the calendar month next following the date on which the total number of barrels of oil produced from the Unitized Formation underlying all Tracts described in the original Exhibit "B" hereof equals 1,634,102 barrels as determined from the official production reports (currently known as C-115 reports) filed with the New Mexico Oil Conservation Commission. Phase II shall begin with the termination of Phase I and continue for the remainder of the term of this Agreement."

(8) That the first paragraph of Section 14 of applicant's Exhibit No. 1 in this case is hereby amended to read in its entirety as follows:

"SECTION 14. TRACTS QUALIFIED FOR PARTICIPATION.

On and after the Effective Date hereof, all tracts within the Unit Area shall be entitled to participation in the production of unitized substances."

(Sub-sections (a), (b), and (c) of said Section 14 remain unchanged.)

(9) That Section 23 of applicant's Exhibit No. 1 in this case is hereby amended to read in its entirety as follows:

"SECTION 23. EFFECTIVE DATE AND TERM. This Agreement shall become effective upon approval by the Supervisor and the Land Commissioner, and, in accordance with Section 65-14-8, by the Commission.

This Agreement, or notice thereof, together with a certificate by the Unit Operator so stating the effective date shall be filed for record in the office of the County Clerk of Chaves County, New Mexico.

The term of this Agreement shall be for and during the time that Unitized Substances are produced from the unitized land and so long thereafter as drilling, reworking or other operations (including secondary recovery operations) are prosecuted thereon without cessation of more than ninety (90) consecutive days unless sooner terminated as herein provided.

This Agreement may be terminated with the approval of the Land Commissioner and the Supervisor by Working Interest Owners owning eighty percent (80%) of the Unit Participation then in effect whenever such Working Interest Owners determine that Unit Operations are no longer profitable, or in the interest of conservation. Upon approval, such termination shall be effective as of the first day of the month after said Working Interest Owners' determination. Notice of any such termination shall be filed by Unit Operator in the office of the County Clerk of Chaves County, New Mexico, within thirty (30) days of the effective date of termination.

Upon termination of this Agreement, the parties hereto shall be governed by the terms and provisions of the leases and contracts affecting the separate Tracts just as if this Agreement had never been entered into.

If not otherwise provided by the leases unitized under this Agreement, Royalty Owners hereby grant Working Interest Owners a period of six months after termination of this Agreement in which to salvage, sell, distribute or otherwise dispose of the personal property and facilities used in connection with Unit Operations."

(10) That Exhibit "C" of applicant's Exhibit No. 1 in this case is hereby amended to conform to Commission Exhibit I attached hereto and made a part hereof.

(11) That the applicant herein, Burk Royalty Company, shall, within 45 days after entry of this order, file with the Commission an amended Exhibit "E" to its Exhibit No. 2 in this case. Said Exhibit "E", as amended, shall reflect the several working interest owners' Unit Participation Percentages under Phase I and Phase II of unit operations as calculated pursuant to the revised Exhibit "C" of the Double L Queen Unit Agreement as depicted by Commission Exhibit I attached hereto.

(12) That the Double L Queen Unit Agreement and the Double L Queen Unit Operating Agreement, amended in accordance herewith, provide for unitization and unit operation of the subject portion of the Double L Queen Pool upon terms and conditions that are fair, reasonable and equitable and include:

an allocation to the separately owned tracts in the unit area of all the oil and gas that is produced from the unit area and is saved, being the production that is not used in the conduct of operations on the unit area or not unavoidably lost;

a provision for the credits and charges to be made in the adjustment among the owners in the unit area for their respective investments in wells, tanks, pumps, machinery, materials and equipment contributed to the unit operations;

a provision governing how the costs of unit operations including capital investments shall be determined and charged to the separately owned tracts and how said costs shall be paid including a provision providing when, how, and by whom the unit production allocated to an owner who does not pay the share of the costs of unit operations charged to such owner, or the interest of such owner, may be sold and the proceeds applied to the payment of such costs;

a provision for carrying any working interest owner on a limited, carried or net-profits basis, payable out of production, upon such terms and conditions determined by the commission to be just and reasonable, and allowing an appropriate charge for interest for such service payable out of such owner's share of production, provided that any nonconsenting working interest owner being so carried shall be deemed to have relinquished to the unit operator all of its operating rights and working interest in and to the unit until his share of the costs, service charge and interest are repaid to the unit operator;

a provision designating the unit operator and providing for the supervision and conduct of the unit operations, including the selection, removal or substitution of an operator from among the working interest owners to conduct the unit operations;

a provision for a voting procedure for the decision of matters to be decided by the working interest owners in respect to which each working interest owner shall have a voting interest equal to its unit participation; and

the time when the unit operation shall commence and the manner in which, and the circumstances under which, the operations shall terminate and for the settlement of accounts upon such termination;

and are therefore hereby adopted.

(13) That this order shall not become effective unless and

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Case No. 5596  
Order No. R-5164

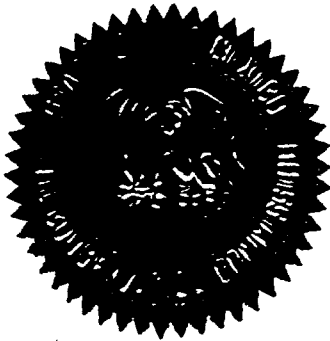
until the appropriate ratification provisions of Section 65-14-8 NMSA, 1953 Compilation, are complied with nor until a revised Exhibit "E" reflecting amended participation factors in accordance with Exhibit "C" of the unit agreement shall be filed with the Commission.

(14) That if the persons owning the required percentage of interest in the unit area as set out in Section 65-14-8 NMSA, 1953 Compilation, do not approve the plan for unit operations within a period of six months from the date of entry of this order, this order shall cease to be of further force and effect and shall be revoked by the Commission, unless the Commission shall extend the time for ratification for good cause shown.

(15) That when the persons owning the required percentage of interest in the unit area have approved the plan for unit operations, the interests of all persons in the unit are unitized whether or not such persons have approved the plan of unitization in writing.

(16) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



S E A L

STATE OF NEW MEXICO  
OIL CONSERVATION COMMISSION

*Phil R. Lucero*  
PHIL R. LUCERO, Chairman

*Emery C. Arnold*  
EMERY C. ARNOLD, Member

*Joe D. Ramey*  
JOE D. RAMEY, Member & Secretary

dr/

EXHIBIT "C"  
To Unit Agreement

DOUBLE L QUEEN UNIT  
Chaves County, New Mexico  
January 1, 1975

*changed to  
1975 by  
new unit  
found*

<u>TRACT NO.</u>	<u>TRACT PARTICIPATION %</u>	
	<u>PHASE I</u>	<u>PHASE II</u>
1	8.0660	6.4500
2	0.0245	0.0245
3	5.2600	4.0190
4	0.0520	0.0520
5	17.4850	15.3345
6	0.0325	0.0325
7	1.7455	2.5230
8	1.3550	2.4580
9	0.0125	0.0350
10	4.4265	4.0375
11	0.2515	0.4020
12	0.7250	0.7895
13	4.3610	3.8195
14	1.7130	0.9800
15	5.4860	5.8540
16	12.4170	16.1630
17	3.5445	2.9150
18	7.6285	6.0400
19	6.2590	5.4650
20	0.8130	1.0130
21	1.3455	1.7030
22	0.8080	1.1925
23	2.9380	4.3925
24	<u>13.2505</u>	<u>14.3050</u>
	100.0000	100.0000

Commission Exhibit I  
Order No. R-5164

STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION  
STATE LAND OFFICE BLDG.  
SANTA FE, NEW MEXICO

21 October 1981

EXAMINER HEARING

IN THE MATTER OF:

Application of Harvey E. Yates  
Company for statutory unitization,  
Eddy County, New Mexico.

CASE  
7391

BEFORE: Richard L. Stamets

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation  
Division:

W. Perry Pearce, Esq.  
Legal Counsel to the Division  
State Land Office Bldg.  
Santa Fe, New Mexico 87501

For the Applicant:

Robert Strand, Esq.  
Harvey E. Yates Company  
Roswell, New Mexico

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I N D E X

GEORGE YATLS

Direct Examination by Mr. Strand 3

Cross Examination by Mr. Stamets 13

JOE HALL

Direct Examination by Mr. Strand 16

Cross Examination by Mr. Stamets 20

RALPH H. VINEY

Direct Examination by Mr. Strand 21

GEORGE YATES RECALLED

Recross Examination by Mr. Stamets 29

Cross Examination by Mr. Pearce 31

E X H I B I T S

Applicant Exhibit One, Unit Agreement 8

Applicant Exhibit Two, Operating Agreement 8



MR. STAMETS: We'll call next Case 7391.

MR. PEARCE: Application of Harvey E. Yates Company for statutory unitization, Eddy County, New Mexico.

MR. STRAND: Mr. Examiner, I'm Robert Strand, attorney from Roswell, appearing for the applicant.

Mr. Examiner, I have three witnesses who need to be sworn.

(Witnesses sworn.)

GEORGE YATES

being called as a witness and being duly sworn upon his oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. STRAND:

Q Please state your name and where you reside.

A. My name is George Yates. I'm from Roswell, New Mexico.

Q Mr. Yates, what is your position with the applicant, Harvey E. Yates Company?

A. I'm president.

Q As president of Harvey E. Yates Com;  
are you responsible for all exploration and production ac-  
tivities?

A. I am.

Q Have you previously testified before  
Commission with regard to such matters as risk and non-co  
penalties?

A. I have.

MR. STRAND: Mr. Examiner, are Mr. 1  
qualifications for that purpose satisfactory?

MR. STAMETS: They are.

Q Mr. Yates, are you familiar with the  
application in Case Number 7391?

A. Yes, I am.

Q Will you briefly state the purpose of  
the application?

A We're requesting an order by the Conser-  
vation Commission for statutory unitization of our proposed  
Travis Penn Unit for secondary recovery purposes.

Q Would you please state for the record  
what lands are proposed to be included in the unit area?

A. The unit area includes in 18 South,  
Range 28 East, Eddy County, New Mexico, the south half of the  
southeast of Section 12; the north half and the north half

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2 that was submitted to the interest owners, as I remember  
3 covered 400 acres, is that correct?

4 A. That's correct.

5 Q. And subsequently have you drilled an  
6 additional well out there and added an additional 80 acres?

7 A. We have. We have. In the interest  
8 time we added another 80-acre tract. We have had several  
9 deadlines for completion of the unit. Unfortunately because  
10 of the slow return of paperwork covering the unit we found  
11 that time outran us. We drilled an additional well and we  
12 had the Canyon zone in that well, and so we expanded the unit  
13 plus the exhibits and the allocations to include 480 acres.

14 Q. Mr. Yates, you requested the interest  
15 owners to ratify this amendment in the unit agreement?

16 A. Yes, we have.

17 Q. And have you received ratification from  
18 the majority of the interest owners to date?

19 A. Yes, we have. Yes, we have.

20 Q. Mr. Yates, in the original unit operating  
21 agreement, which is Exhibit Number Two, there was no provision  
22 in there for non-consent operations. Was this at the request  
23 of the interest owners at the meeting in February?

24 A. It was. At that time, as I said, we had  
25 unanimous support of the group with the unit. We didn't anti-

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2 cipate any non-consent operations.

3 Q Mr. Yates, it's my understanding under  
4 the statutory unitization provisions of New Mexico law that  
5 if any order is entered in this matter it will be required  
6 that a -- that provisions be included in that order relating  
7 to the recovery of costs from parties who do not consent to  
8 operations under the unit and also a provision relating to  
9 the interest of such parties being assigned as to the other  
10 parties until such costs are recovered.

11 Do you have any recommendations for the  
12 Division as to non-consent provisions for additional drilling  
13 on the unit and any penalties or additional charges for  
14 operating as to non-consent owners?

15 A I would recommend that the agreement  
16 have a non-consent provision, which is identical to the  
17 working interest unit that most of the acreage is subject to.  
18 And that is a 300/100 percent non-consent provision for ad-  
19 ditional drilling.

20 I would further recommend that in the  
21 case of surface equipment, operating costs, that are required  
22 for the secondary project that -- that the -- that there be  
23 a charge over and above the recovery of costs, of interest  
24 to finance those -- those expenditures of primary plus two  
25 percent in addition to the standard operating costs, as pro-

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vided by the agreement.

Q. You refer to standard operating costs; you're really referring to overhead rates?

A. Overhead rates under the accounting procedure.

Q. In the unit operating agreement?

A. That's correct.

Q. Mr. Yates, have the unit agreement and unit operating agreement been submitted to the United States Geological Survey and the Commissioner of Public Lands in the State of New Mexico for their approval?

A. Yes.

Q. And have they informed the applicant that they will not approve these agreements formally until we have all of the ratifications in or that an order is entered in this matter?

A. Yes, that's correct.

Q. Were Exhibits One and Two prepared by Harvey E. Yates Company's attorneys at your direction?

A. Yes.

MR. STRAND: I have no further questions of Mr. Yates at this time.

## CROSS EXAMINATION

BY MR. STAMLET:

Q. Mr. Yates, I wish you would clarify the non-consent provisions. You've said that those should be the same as something that's already applicable in this area, and I didn't catch that.

A. The lands that are now part, or will be part of the proposed Travis Penn Unit, were subject to an operating agreement in a working interest unit, the Travis Deep operating agreement, and in that operating agreement we had a 300 percent penalty for non-consent drilling operations. That's the agreement to which I refer.

Q. Okay, now that -- that would be applicable to everything that's in the unit presently.

A. That's correct. Now we do not anticipate drilling operations under lands that are committed to the unit; however, it's possible that based on engineering data that might be forthcoming in the future we would recommend infill drilling or smaller spacing under the tracts that are committed to the unit.

Q. There will be some costs of unit operation, though, regardless of whether additional wells would be drilled. Does the same 300 percent apply to those costs?

A. In our operating agreement, no, our

operating agreement has an interest penalty provision but operating agreement was not set up, of course, to cover secondary operations.

Q. You would wish an order which would allow you to collect the costs of these operations from the people who do not choose to pay their share.

A. That's correct, plus interest that we have to pay to represent their share.

Q. Okay, and I presume we will be getting some information later on which will represent what the various shares are to the interest owners in the proposed compulsory pooled unit.

A. Yes.

Q. Okay. Now, the law does require that we have a provision in the order for carrying any working interest owner limited, carried, or net profits basis payable at production upon such terms and conditions determined by the Division to be just and reasonable and allowing appropriate charged interest for such service payable out of the owner's share of production.

What would that interest rate be?

A. Mr. Examiner, I would recommend that we base it on a prime rate plus two percent. The reason for that is that the operator pays interest on a floating basis,

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2 as do most companies today, and so I would suggest that we  
3 base it on some floating rate, and my suggestion, prime plus  
4 two, fits the category of roughly the range of interest that  
5 we presently pay and would foresee paying under the terms  
6 of this agreement -- under the term of the agreement.

7 Q. This two percent, would you see that as  
8 a service charge?

9 A. Well, no, I would not. It's -- we are  
10 presently not paying that rate of interest, however, if in-  
11 terest rates subside we very well might be. Some -- some out-  
12 standing credit arrangements we have require us to pay  
13 slightly more than prime.

14 I would not say it would be a penalty  
15 since it would represent approximately the interest rate  
16 that most well secured borrowers are borrowing at. But what  
17 it does is it would anticipate the -- a small fluctuation in  
18 the credit markets.

19 MR. STAMETS: Any other questions of  
20 this witness? He may be excused.

21  
22 JOE HALL

23 BEING called as a witness and being duly sworn upon his oath,  
24 testified as follows, to-wit:  
25



1  
2 in the unit agreement and the unit operating agreement, to  
3 your knowledge, are any of the items in there contrary to  
4 the requirements of the Statutory Unitization Act?

5 A. Not to my knowledge, no, sir.

6 Q. Is there anything which is required by  
7 the Statutory Unitization Act that should be in there and is  
8 not in there?

9 A. Not to my knowledge.

10 Q. Okay.

11 MR. STRAND: Mr. Examiner, I would point  
12 out the non-consent provisions that we -- Mr. Yates testified  
13 to earlier, which are not in the unit operating agreement.

14 MR. STAMETS: Yes, very good.

15 Any other questions of this witness? He  
16 may be excused.

17  
18 RALPH H. VINEY

19 being called as a witness and being duly sworn upon his oath,  
20 testified as follows, to-wit:

21  
22 DIRECT EXAMINATION

23 BY MR. STRAND:

24 Q. Please state your name and place of  
25 residence.

STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION

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

CASE NO. 7391  
Order No. R-6947

APPLICATION OF HARVEY E. YATES  
COMPANY FOR STATUTORY UNITIZATION,  
EDDY COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on October 21, 1981, at Santa Fe, New Mexico, before the Examiner Richard L. Stamets.

NOW, on this 23rd day of April, 1982, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

(1) That due public notice has been given as required by law, the Division has jurisdiction of this case and cause of action and the subject matter hereof.

(2) That the applicant, Harvey E. Yates Company, seeks the statutory unitization, pursuant to the "Statutory Unitization Act," Sections 70-7-1 through 70-7-21, NMSA, 1978, of 480.00 acres, more or less, being a portion of the Travis-Upper Pennsylvanian Pool, Eddy County, New Mexico, said portion to be known as the Travis Penn Unit Area; that applicant further seeks approval of the Unit Agreement and the Unit Operating Agreement which were submitted in evidence as applicant's Exhibits No. 1 and 2, respectively, in this case.

(3) That the proposed unit area should be designated the Travis Penn Unit Area, and the horizontal limits of said unit area should be comprised of the following described lands:

Township 18 South, Range 28 East, NMPM  
Section 12: S/2 SE/4  
Section 13: N/2 and N/2 SW/4

(4) That the vertical limits of said Travis Penn Unit Area should comprise a portion of the Cisco-Canyon formation of Pennsylvanian age as found from a depth of 9,815 feet to a depth of 9,935 feet, on the CNL Density Radioactive log run June 23, 1977, in the Travis Deep Unit Well No. 2, located 1980 feet from the North line and 1780 feet from the East line of Section 13, Township 18 South, Range 28 East, NMPM, Eddy County, New Mexico.

(5) That the portion of the Travis-Upper Pennsylvanian Pool proposed to be included in the aforesaid Travis Penn Unit Area has been reasonably defined by development.

(6) That the applicant proposes to institute a waterflood project for the secondary recovery of oil, gas, gaseous substances, sulfur contained in gas, condensate, distillate and all associated and constituent liquid or liquefied hydrocarbons within and to be produced from the proposed unit area, which waterflood project is the subject of Case No. 7320 and Division Order No. R-6765 entered therein on August 18, 1981.

(7) That the proposed enhanced recovery operations should result in the additional recovery of approximately 415,500 thousand barrels of oil.

(8) That the unitized management, operation and further development of the Travis Penn Unit Area, as proposed, is reasonably necessary to effectively carry on secondary recovery operations and will substantially increase the ultimate recovery of oil and gas from the unitized portion of the pool.

(9) That the proposed unitized method of operation as applied to the Travis Penn Unit Area is feasible and will result with reasonable probability in the increased recovery of substantially more oil and gas from the unitized portion of the pool than would otherwise be recovered without unitization.

(10) That the estimated additional investment costs of the proposed enhanced recovery operations are \$1,995,000.

(11) That the estimated additional costs of the proposed operations (as described in Finding No. (10) above) will not exceed the estimated value of the additional oil and gas plus a reasonable profit.

(12) That the applicant, the designated Unit Operator pursuant to the Unit Agreement and the Unit Operating Agreement, has made a good faith effort to secure voluntary unitization within the Travis Penn Unit Area.

(13) That one interest owner, Holly Energy, Inc., has declined to voluntarily join the unit.

(14) That the participation formula contained in the unitization agreement allocates the produced and saved unitized substances to the separately owned tracts in the unit area on a fair, reasonable and equitable basis.

(15) That unitization and the adoption of the proposed unitized method of operation will benefit the working interest owners and royalty owners of the oil and gas rights within the Travis Penn Unit Area.

(16) That applicant's Exhibits Nos. 1 and 2 in this case, being the Unit Agreement and the Unit Operating Agreement, respectively, should be incorporated by reference into this Order.

(17) That the Travis Penn Unit Agreement and the Travis Penn Unit Operating Agreement provide for unitization and unit operation of the Travis Penn Unit Area upon terms and conditions that are fair, reasonable and equitable and which include:

(a) an allocation to the separately owned tracts in the unit area of all oil and gas that is produced from the unit area and which is saved, being the production that is not used in the conduct of unit operations or not unavoidably lost;

(b) a provision for the credits and charges to be made in the adjustment among the owners in the unit area for their respective investments in wells, tanks, pumps, machinery, materials and equipment contributed to the unit operations;

(c) a provision governing how the costs of unit operations including capital investments shall be determined and charged to the separately owned tracts and how said costs shall be paid including a provision providing when, how, and by whom the unit production allocated to an owner who does not pay his share of the costs of unit operations shall be charged to such owner, or the interest of such owner, and how his interest may be sold and the proceeds applied to the payment of his costs;

(d) a provision designating the Unit Operator and providing for the supervision and conduct of the unit operations, including the selection, removal or

substitution of an operator from among the working interest owners to conduct the unit operations;

(e) a provision for a voting procedure for the decision of matters to be decided by the working interest owners in respect to which each working interest owner shall have a voting interest equal to his unit participation; and

(f) the time when the unit operation shall commence and the manner in which, and the circumstances under which, the operations shall terminate and for the settlement of accounts upon such termination;

(18) That the Travis Penn Unit Agreement and the Travis Penn Unit Operating Agreement do not contain provisions for carrying any working interest owner on a limited, carried or net profits basis, payable out of production, upon such terms and conditions determined by the Division to be just and reasonable, and allowing an appropriate charge for interest for such service payable out of such owner's share of production, provided that any non-consenting working interest owner being so carried shall be deemed to have relinquished to the unit operator all of its operating rights and working interest in and to the unit until his share of the costs, service charge and interest are repaid to the unit operator.

(19) That the unit operation should be subject to such provisions as set out on Exhibit "A" attached to this Order.

(20) That the statutory unitization of the Travis Penn Unit Area in conformity with the above findings should be approved.

IT IS THEREFORE ORDERED:

(1) That the Travis Penn Unit Area, comprising 480.00 acres, more or less, in the Travis-Upper Pennsylvanian Pool, Eddy County, New Mexico, is hereby approved for statutory unitization pursuant to the Statutory Unitization act, Sections 70-7-1 through 70-7-21, NMSA, 1978.

(2) That the lands included within the Travis Penn Unit Area shall be comprised of:

Township 18 South, Range 28 East, NMPM

Section 12: S/2 SE/4

Section 13: N/2 and N/2 SW/4

Case No. 7391  
Order No. R-6947

and that the above-described lands shall be designated as the Travis Penn Unit Area.

(3) That the vertical limits of said Travis Penn Unit Area shall comprise a portion of the Cisco Canyon formation of Pennsylvanian age as found from a depth of 9,815 feet to a depth of 9,935 feet on the CNL Density Radioactive log run June 23, 1977, in the Travis Deep Unit Well No. 2, located 1980 feet from the North line and 1780 feet from the East line of Section 13, Township 18 South, Range 28 East, NMPM, Eddy County, New Mexico.

(4) That the applicant shall institute a waterflood project for the secondary recovery of oil, gas, gaseous substances, sulfur contained in gas, condensate, distillate and all associated and constituent liquid or liquefied hydrocarbons within and produced from the unit area, and said waterflood project is the subject of Case No. 7320 and Division Order No. R-6765 entered therein on August 18, 1981.

(5) That the Travis Penn Unit Agreement and the Travis Penn Unit Operating Agreement, subject to the terms of the "Operations By Less Than All Working Interest Owners" provisions of Exhibit "A" attached to and made a part of this Order, are approved and adopted and incorporated by reference into this Order subject to compliance with the appropriate ratification provisions of Section 70-7-8, NMSA 1978.

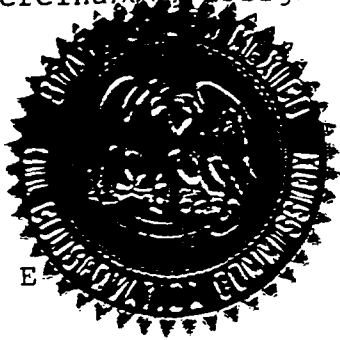
(6) That when the persons owning the required percentage of interest in the unit area have approved or ratified the Unit Agreement and the Unit Operating Agreement, the interests of all persons within the unit area are unitized whether or not such persons have approved the Unit Agreement or the Unit Operating Agreement in writing.

(7) That the applicant as Unit Operator shall notify in writing the Division Director of any removal or substitution of said Unit Operator by any other working interest owner within the unit area.

(8) That jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

-6-  
Case No. 7391  
Order No. R-6947

DONE at Santa Fe, New Mexico, on the day and year  
hereinafter designated.



STATE OF NEW MEXICO  
OIL CONSERVATION DIVISION

*Joe D. Ramey*  
JOE D. RAMEY,  
Director

OPERATIONS BY LESS THAN ALL WORKING INTEREST OWNERS: If all the working interest owners cannot mutually agree upon the drilling of any well on the Unit Area, or upon the re-working, deepening or plugging back of a dry hole drilled at the joint expense of all such working interest owners or a well jointly owned by all the working interest owners and not then producing in paying quantities (i.e., in quantities sufficient to pay the costs of producing same) on the Unit Area, or any other operations on the Unit Area, any working interest owner or owners wishing to drill, re-work, deepen or plug back such a well or conduct other proposed operations, may give the other working interest owners written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective formation and the estimated cost of the operation. The working interest owners receiving such a notice shall have thirty (30) days (except that as to re-working, plugging back or drilling deeper, where a drilling rig is on location, the notice shall be given by telegram, and the period shall be limited to forty-eight (48) hours exclusive of Saturday, Sunday or holidays) after receipt of the notice within which to notify the working interest owners wishing to do the work whether they elect to participate in the cost of the proposed operation. Failure of a working interest owner receiving such a notice to so reply to it within the period above fixed shall constitute an election by that working interest owner not to participate in the cost of the proposed operation.

If any working interest owner receiving such a notice elects not to participate in the proposed operation (such working interest owner or owners being hereafter referred to as "Non-Consenting Working Interest Owners"), then in order to be entitled to the benefits of this section, the working interest owner or owners giving the notice and such other working interest owners as shall elect to participate in the operation (all such working interest owners being referred to hereafter as the "Consenting Working Interest Owners") shall, within sixty (60) days after the expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period where the drilling rig is on location, as the case may be), actually commence work on the proposed operation and complete it with due diligence.

The entire cost and risk of conducting such operations shall be borne by the Consenting Working Interest Owners in the proportions that their respective interests, as shown on Exhibit "C" to said Unit Operating Agreement, bears to the total interest of all Consenting Working Interest Owners. Consenting Working Interest Owners shall keep the leasehold estates involved in such operations free and clear of all



liens and encumbrances of every kind created by or arising from the operations of the Consenting Working Interest Owners. If such an operation results in a dry hole, the Consenting Working Interest Owners shall plug and abandon the well at their sole cost, risk and expense. If any well drilled, re-worked, deepened or plugged back under the provisions of this Section results in a producer of oil and/or gas in paying quantities (i.e., in quantities sufficient to pay the cost of producing same), the Consenting Working Interest Owners shall complete and equip the well to produce at their sole cost and risk, and the well shall then be turned over to Unit Operator and shall be operated by it at the expense and for the account of the Consenting Working Interest Owners. Upon commencement of operations for the drilling, re-working, deepening or plugging back of any such well or other operations by Consenting Working Interest Owners in accordance with the provisions of this Section, each Non-Consenting Working Interest Owner shall be deemed to have relinquished to Consenting Working Interest Owners, and the Consenting Working Interest Owners shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Working Interest Owner's interest in the Unit, its leasehold operating rights, and share of production therefrom until the proceeds or market value thereof (after deducting production taxes, royalty, overriding royalty and other interest payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

(a) One hundred percent (100%) of each such Non-Consenting Working Interest Owner's share of the cost of any newly acquired surface equipment beyond wellhead connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus one hundred percent (100%) of each such Non-Consenting Working Interest Owner's share of the cost of such operating commencing with first production and continuing until each such Non-Consenting Working Interest Owner's relinquished interest shall revert to it under the provisions of this Section, it being agreed that each Non-Consenting Working Interest Owner's share of such cost and equipment will be that interest which would have been chargeable to each Non-Consenting Working Interest Owner had all participated in the well from the beginning of the operation. In addition, the unpaid balance of such amount, shall bear interest at a rate equal to the prime rate plus two percent (2%) per annum.

(b) Three hundred percent (300%) of that portion of the costs and expenses of drilling, re-working,

deepening or plugging back, testing and completing, after deducting any cash contributions received, and three hundred percent (300%) of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections) which would have been chargeable to such Non-Consenting Working Interest Owners if all had participated therein.

Within sixty (60) days after the completion of any operation under this Section, the working interest owner conducting the operations for the Consenting Working Interest Owners shall furnish each Non-Consenting Working Interest Owner with an inventory of the equipment utilized, and an itemized statement of the cost of such operations, or, at its option, the operating party, in lieu of an itemized statement of such cost of operation, may submit a detailed statement of monthly billings. Each month thereafter, during the time the Consenting Working Interest Owners are being reimbursed as provided above, the Consenting Working Interest Owners shall furnish the Non-Consenting Working Interest Owners with an itemized statement of all costs and liabilities incurred in such operations, together with a statement of quantity of unitized substances produced from the Unit and the amount of proceeds realized from the sale of working interest production during the preceding month. Any amount realized from the sale or other disposition of equipment newly acquired in connection with any such operation which would have been owned by a Non-Consenting Working Interest Owner had it participated therein shall be credited against the total unreturned costs of the work done and of the equipment purchased, in determining when the interest of such Non-Consenting Working Interest Owner shall revert to it as above provided, if there is a credit balance, it shall be paid to such Non-Consenting Working Interest Owner.

If and when the Consenting Working Interest Owners recover from a Non-Consenting Working Interest Owner's relinquished interest, in the amounts provided for above, the relinquished unit interest of such Non-Consenting Working Interest Owner shall automatically revert to it and from and after such reversion such Non-Consenting Working Interest Owner shall own the same interest, and the production therefrom as such Non-Consenting Working Interest Owner would have owned had it participated in the non-consent operations. Thereafter, such Non-Consenting Working Interest Owner shall be charged with and shall pay its proportionate part of the further cost of the operations in accordance with the terms of this Agreement and the Accounting Procedure Schedule, Exhibit "D", attached to said Agreement.

UNIT AGREEMENT  
AND EXHIBITS "A" & "B"

EUNICE MONUMENT SOUTH  
STATUTORY SECONDARY RECOVERY  
FEDERAL - STATE UNIT  
LEA COUNTY, NEW MEXICO

EFFECTIVE DATE  
FEBRUARY 1, 1985

UNIT AGREEMENT  
EUNICE MONUMENT SOUTH UNIT  
LEA COUNTY, NEW MEXICO

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Exhibit "A" (Map of Unit Area)

Exhibit "B" (Schedule of Ownership and Tract Participation)

UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION  
OF THE  
EUNICE MONUMENT SOUTH UNIT  
LEA COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 22nd day of June, 1984, by and between the parties subscribing, ratifying, or consenting hereto, and herein referred to as the "parties hereto,"

WITNESSETH:

WHEREAS, the parties hereto are the owners of working, royalty, or other oil and gas interests in the Unit Area subject to this Agreement; and

WHEREAS, the Mineral Leasing Act of February 25, 1920, 41 Stat. 437, as amended, 30 U.S.C. Secs. 181 et seq., authorizes Federal lessees and their representatives to unite with each other, or jointly or separately with others, in collectively adopting and operating a cooperative or unit plan of development or operation of any oil or gas pool, field, or like area, or any part thereof for the purpose of more properly conserving the natural resources thereof whenever determined and certified by the Secretary of the Interior to be necessary or advisable in the public interest; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Section 1, Chapter 88, Laws 1943, as amended by Section 1 of Chapter 176, Laws of 1961) (Chapter 19, Article 10, Section 45, New Mexico Statutes 1978 Annotated), to consent to and approve the development or operation of State lands under agreements made by lessees of State land jointly or severally with other lessees where such agreements provide for the unit operation or development of part of or all of any oil or gas pool, field or area; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Section 1, Chapter 88, Laws 1943, as amended by Section 1, Chapter 162, Laws of 1951) (Chapter 19, Article 10, Section 47, New Mexico Statutes 1978 Annotated) to amend with the approval of lessee, evidenced by the lessee's execution of such agreement or otherwise, any oil and gas lease embracing State lands so that the length of the term of said lease may coincide with the term of such agreements for the unit operation and development of part or all of any oil or gas pool, field or area; and

WHEREAS, the Oil Conservation Division of the State of New Mexico (hereinafter referred to as the "Division") is authorized by an Act of the Legislature (Chapter 72, Laws of 1935 as amended) (Chapter 70, Article 2, Section 2 et seq., New Mexico Statutes 1978 Annotated) to approve this Agreement and the conservation provisions hereof; and

WHEREAS, the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico is authorized by law (Chapter 65, Article 3 and Article 14, N.M.S. 1953 Annotated) to approve this Agreement and the conservation provisions hereof; and

WHEREAS, the parties hereto hold sufficient interest in the Unit Area covering the land hereinafter described to give reasonably effective control of operations therein; and

WHEREAS, it is the purpose of the parties hereto to conserve natural resources, prevent waste, and secure other benefits obtainable through development and operation of the area subject to this Agreement under the terms, conditions, and limitations herein set forth;

NOW, THEREFORE, in consideration of the premises and the promises herein contained, the parties hereto commit to this Agreement their respective interest in the below-defined Unit Area, and agree severally among themselves as follows:

from the unitized land. Any such oil not so removed shall be sold by Unit Operator for the account of such Working Interest Owners, subject to the payment of all Royalty to Royalty Owners under the terms hereof. The oil that is in excess of the prior allowable of the wells from which it was produced shall be regarded as Unitized Substances produced after Effective Date hereof.

If, as of the Effective Date hereof, any Tract is over-produced with respect to the allowable of the wells on that Tract and the amount of over-production has been sold or otherwise disposed of, such over-production shall be regarded as a part of the Unitized Substances produced after the Effective Date hereof and shall be charged to such Tract as having been delivered to the parties entitled to Unitized Substances allocated to such Tract.

SECTION 38. NO SHARING OF MARKET. This Agreement is not intended to provide and shall not be construed to provide, directly or indirectly, for any cooperative refining, joint sale or marketing of Unitized Substances.

SECTION 39. STATUTORY UNITIZATION. If and when Working Interest Owners owning at least seventy-five percent (75%) Unit Participation and Royalty Owners owning at least seventy-five percent (75%) Royalty Interest have become parties to this Agreement or have approved this Agreement in writing and such Working Interest Owners have also become parties to the Unit Operating Agreement, Unit Operator may make application to the Division for statutory unitization of the uncommitted interests pursuant to the Statutory Unitization Act (Chapter 65, Article 14, N.M.S. 1953 Annotated). If such application is made and statutory unitization is approved by the Division, then effective as of the date of the Division's order approving statutory unitization, this Agreement and/or the Unit Operating Agreement shall automatically be revised and/or amended in accordance with the following:

(1) Section 14 of this Agreement shall be revised by substituting for the entire said section the following:

"SECTION 14. TRACTS QUALIFIED FOR PARTICIPATION. On and after the Effective Date hereof, all Tracts within the Unit Area shall be entitled to participation in the production of Unitized Substances."

(2) Section 24 of this Agreement shall be revised by substituting for the first three paragraphs of said section the following:

"SECTION 24. EFFECTIVE DATE AND TERM. This Agreement shall become effective on the first day of the calendar month next following the effective date of the Division's order approving statutory unitization upon the terms and conditions of this Agreement, as amended (if any amendment is necessary) to conform to the Division's order; approval of this Agreement, as so amended, by the Land Commissioner; and the A.O. and the filing by Unit Operator of this Agreement or notice thereof for record in the office of the County Clerk of Lea County, New Mexico. Unit Operator shall not file this Agreement or notice thereof for record, and hence this Agreement shall not become effective, unless within ninety (90) days after the date all other prerequisites for effectiveness of this Agreement have been satisfied, such filing is approved by Working Interest Owners owning a combined Unit Participation of at least sixty-five percent (65%) as to all Tracts within the Unit Area.

"Unit Operator shall, within thirty (30) days after the Effective Date of this Agreement, file for record in the office of the County Clerk of Lea County, New Mexico, a certificate to the effect that this Agreement has become effective in accordance with its terms, therein identifying the Division's order approving statutory unitization and stating the Effective Date."

(3) This Agreement and/or the Unit Operating Agreement shall be amended in any and all respects necessary to conform to the Division's order approving statutory unitization.

Any and all amendments of this Agreement and/or the Unit Operating Agreement that are necessary to conform said agreements to the Division's order approving statutory unitization shall be deemed to be hereby approved in writing by the parties hereto without any necessity for further approval by said parties, except as follows:

(a) If any amendment of this Agreement has the effect of reducing any Royalty Owner's participation in the production of Unitized Substances, such Royalty Owner shall not be deemed to have hereby approved the amended agreement without the necessity of further approval in writing by said Royalty Owner; and

(b) If any amendment of this Agreement and/or the Unit Operating Agreement has the effect of reducing any Working Interest Owner's participation in the production of Unitized Substances or increasing such Working Interest Owner's share of Unit Expense, such Working Interest Owner shall not be deemed to have hereby approved the amended agreements without the necessity of further approval in writing by said Working Interest Owner.

Executed as of the day and year first above written.

GULF OIL CORPORATION *KB*

By

*L. A. Turner*  
Attorney-in-Fact

Date of Execution:

June 22, 1984

THE STATE OF TEXAS §  
COUNTY OF MIDLAND §

The foregoing instrument was acknowledged before me this  
22nd day of June, 1984, by L. A. Turner  
Attorney-in-Fact, for/of Gulf Oil Corporation  
a Pennsylvania  
corporation, on behalf of said corporation.

My Commission Expires:

7-30-88

*Cathryn D. Larson*

BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

APPLICATION OF PELTO OIL COMPANY  
FOR STATUTORY UNITIZATION AND  
APPROVAL OF A UNIT, CHAVES COUNTY,  
NEW MEXICO.

RECEIVED  
AUG 14 1987  
OIL CONSERVATION DIVISION  
OIL CONSERVATION DIVISION

APPLICATION

Pelto Oil Company hereby applies to the New Mexico Oil Conservation Division for an order approving statutory unitization of the area and formation known as the Twin Lakes San Andres Unit, Chaves County, New Mexico, and approving the Unit for the Twin Lakes San Andres Unit, and in support thereof, states:

1. Pelto Oil Company is engaged in the business of, among other things, producing and selling oil and gas as defined by the New Mexico Statutory Unitization Act (N.M. Stat. Ann. §§ 70-7-1 through 70-7-21 (1978), hereinafter referred to as the "Act").

2. The proposed area for which application is made for unitized operations pursuant to the Act is known as the Twin Lakes San Andres Unit, Chaves County, New Mexico (the "Unit Area"), and consists of 4863.82 acres, more or less, in Chaves County, New Mexico, being more particularly described in Exhibit A attached hereto. A map of the Unit Area is attached hereto as Exhibit B.

3. The formation for which application is made (the "Unitized Formation") is the subsurface portion of the Unit Area known as the San Andres formation, and the vertical limits thereof are found in the interval between 2708 and 2798 feet as recorded on the Dual Laterolog in the Pelto Oil Company O'Brien



"L" No. 16 Well (Twin Lakes San Andres Unit Well No. 80), on December 23, 1984, said well located 2310 feet from the North line and 1675 feet from the East line of Section 6, Township 1 South, Range 29 East, Chaves County, New Mexico. The Unitized Formation shall further include all subsurface points throughout the Unit Area correlative to the above-identified depths.

4. The portion of the Unitized Formation included within the Unit Area has been reasonably defined by development.

5. Pelto Oil Company proposes to institute a water flood project for the secondary recovery of oil from the Unitized Formation within the Unit Area, as described in an accompanying application.

6. The proposed plan of unitization is embodied in the Unit Agreement, a true copy of which is attached hereto as Exhibit C, and the plan is fair, reasonable and equitable.

7. The proposed operating plan, covering the manner in which the Unit will be supervised and managed and costs allocated and paid, is embodied in the Unit Operating Agreement, a true copy of which is attached hereto as Exhibit D.

8. Pelto Oil Company projects that the unitized management, operation and further development of the Unitized Formation will increase production by approximately 3.5 million barrels of oil, will improve the oil producing rate, and will extend the producing life of the Unitized Formation beyond the year 2000. It is therefore evident that the unitized management, operation, and further development of the Unitized Formation is reasonably necessary in order to effectively carry on water flood

and secondary recovery operations to substantially increase the ultimate recovery of oil from the Unitized Formation within the Unit Area.

9. The method of operation which is proposed in the Unit Operating Agreement is feasible, will prevent waste and will result with reasonable probability in the increased recovery of substantially more oil from the Unitized Formation than would otherwise be recovered.

10. The estimated additional costs of conducting unitized operations will not exceed the estimated value of the additional oil and gas to be recovered, plus a reasonable profit.

11. The proposed unitization and adoption of the methods of operation embodied in the Unit Operating Agreement will benefit the working interest owners and royalty owners of the oil and gas rights within the Unitized Formation of the Unit Area.

12. Pelto Oil Company has made a good faith effort to secure voluntary unitization within the Unitized Formation of the Unit Area.

13. The participation formula contained in the Unit Agreement allocates the produced and saved unitized oil to the separately owned tracts in the Unit Area on a fair, reasonable and equitable basis, and protects the correlative rights of all owners of interest within the Unit Area.

14. The statutory unitization of the Unitized Formation within the Unit Area in accordance with the plan embodied in the Unit Agreement and Unit Operating Agreement will prevent waste and protect correlative rights.

15. By converting certain presently producing wells into injection wells, Pelto Oil Company proposes to inject fluids into the above described San Andres formation in the Twin Lakes San Andres Unit. Attached hereto as Exhibit E is a plat showing the location of all wells located within the Unit Area which are proposed to be used as producing wells or injection wells.

16. The water rights to be used for injection for the water flood project have been acquired by Pelto Oil Company, and are located approximately 27 miles to the southeast in Lea County. The water will be transported to the Unit Area by means of a pipeline to be constructed by the unit operator, which will belong to working interest owners of the Unit. Rights-of-way for the pipeline have already been acquired by Pelto Oil Company. Initially, 11,600 barrels of water per day will be injected, with an anticipated maximum injection volume of 21,800 barrels of water per day.

WHEREFORE, Pelto Oil Company requests that this application be set for hearing on September 9, 1987 and that the Division enter its order approving the Unit Agreement and Unit Operating Agreement, providing for the unitized management, operation and further development of the Unitized Formation and the Unit Area in accordance with the Act.

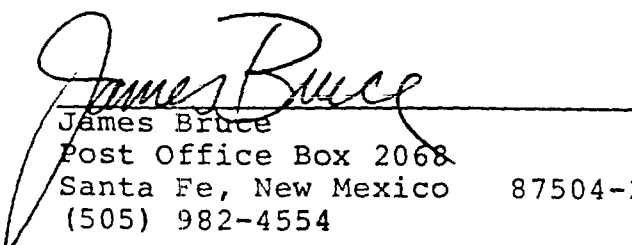
Pelto Oil Company further requests the establishment of a project allowable in accordance with Rule 701, the establishment of an administrative procedure for any change in, or additional, injection wells which might prove to be necessary, and also an administrative procedure for approving unorthodox well locations

for both producing and injection wells. Applicant also requests that the order include a provision for carrying any working interest owner, as provided in N.M. Stat. Ann. § 70-7-7 (F) (1978).

Respectfully submitted,

HINKLE, COX, EATON,  
COFFIELD & HENSLEY

By

  
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November 16, 1987

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\*NOT LICENSED IN NEW MEXICO

Michael E. Stogner  
New Mexico Oil Conservation Division  
State Land Office Building  
Santa Fe, New Mexico 87503

Re: OCD Case Nos. 9210 and 9211 (Applications of Pelto Oil Company for Statutory Unitization and Institution of a Water Flood, Twin Lakes Area, Chaves County)

Dear Mike:

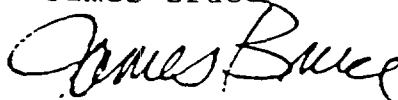
Gerry Murrell of Pelto Oil Company recently discussed these cases with Vic Lyon. Vic indicated that one item the OCD was having a problem with was the penalty provision in the order, since the OCD has never previously written such a provision. We checked around and located the enclosed unitization order of the Oklahoma Corporation Commission, which contains a penalty provision. Also enclosed is the application and initial report of the hearing officer in the matter. We believe this provision could be adapted to your purposes. One difference is that the Oklahoma case provides for penalties throughout the period of unit operations, whereas Pelto Oil Company only requests a penalty with respect to initial unit outlays. Mr. Randall Speck of the Oklahoma Corporation Commission (405-521-4116) would be happy to discuss this with you if you are so inclined. I know you are busy Mike, and I really do hate to bug you about this, but Pelto Oil Company is desperate to obtain an order in this matter. They are at the point where they must order millions of dollars of equipment for the unit and thus would appreciate your attention to this matter.

Please call if I can provide any further materials.

Very truly yours,

HINKLE, COX, EATON,  
COFFIELD & HENSLEY

James Bruce



JCB:jr

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:

CASE NO. 9210  
ORDER NO. R-8557

APPLICATION OF PELTO OIL COMPANY  
FOR STATUTORY UNITIZATION, CHAVES  
COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on September 9, 1987, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 2nd day of December, 1987, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) At the time of the hearing this case was consolidated with Division Case No. 9211 for the purpose of testimony.

(3) The applicant, Pelto Oil Company, seeks the statutory unitization, pursuant to the "Statutory Unitization Act," Sections 70-7-1 through 70-7-21 NMSA 1978, of 4,863.82 acres, more or less, being a portion of the Twin Lakes - San Andres Associated Pool, Chaves County, New Mexico, said portion to be known as the Twin Lake San Andres Unit; applicant further seeks approval of the Unit Agreement and the Unit Operating Agreement which were submitted in evidence as applicant's Exhibits Nos. 3 and 4 presented at the time of the hearing.

(4) The proposed unit area should be designated the Twin Lakes Sam Andres Unit Area; and the horizontal limits of said unit area should be comprised of the following described State and Fee lands in Chaves County, New Mexico:

TOWNSHIP 8 SOUTH, RANGE 28 EAST, NMPM

Section 25: SE/4 NW/4, NE/4 SW/4, S/2 SW/4, and  
SE/4

Section 26: SE/4 SE/4

Section 35: E/2 E/2

Section 36: All

TOWNSHIP 8 SOUTH, RANGE 29 EAST, NMPM

Section 30: Lots 3 and 4, E/2 SW/4, and SW/4 SE

Section 31: All

Section 32: W/2 SW/4

TOWNSHIP 9 SOUTH, RANGE 28 EAST, NMPM

Section 1: Lots 1 through 4, S/2 N/2, SE/4, and  
E/2 SW/4

Section 2: Lot 1

Section 12: NE/4, E/2 SE/4 and NW/4 SE/4

TOWNSHIP 9 SOUTH, RANGE 29 EAST, NMPM

Section 5: Lots 3 and 4, S/2 NW/4, and SW/4

Sections 6 and 7: All

Section 8: N/2 NW/4 and SW/4 NW/4

Section 18: Lot 1, E/2 NW/4, and W/2 NE/4

(5) The horizontal limits of said unit are within the governing boundaries of the Twin Lakes - San Andres Associated Pool and have been reasonably defined by development.

((6) The vertical limits of said Unit Area should comprise the San Andres formation from a depth 2708 feet (+ 1259 feet sub-sea) to a depth of 2798 feet (+ 1169 feet sub-sea) as recorded on the Dual Laterolog/Compensated Neutron Log dated December 23, 1984, in the applicant's O'Brien "L" Well No. 16 located 2310 feet from the North line and 1675 feet from the East line (Unit G) of Section 6, Township 9 South, Range 29 East, NMPM, Chaves County, New Mexico.

(7) The unit area contains 35 separate tracts owned by 18 different working interests.

(8) The applicant has made a good faith effort to secure voluntary unitization within the Unit Area and at the time of the hearing over 87 percent of the working interest owners and 83.6 percent of the royalty interest owners were effectively committed to the unit.

(9) All interested parties who have not agreed to unitization were notified of the hearing by the applicant, but no person entered an appearance or opposed the application at the hearing.

(10) The applicant proposes to institute a waterflood project for the secondary recovery of oil and associated gas, condensate, and all associated liquifiable hydrocarbons within and to be produced from the proposed unit area, all as shown in Division Case No. 9211.

(11) The proposed secondary recovery operations should result in the additional recovery of approximately 2.9 million barrels of oil.

(12) The unitized management, operation and further development of the Twin Lakes San Andres Unit Area, as proposed, is reasonably necessary to effectively carry on secondary recovery operations and will substantially increase the ultimate recovery of oil and gas from the unitized portion of the pool.

(13) The proposed unitized method of operation as applied to the Twin Lakes San Andres Unit Area is feasible and will result with reasonable probability in the increased recovery of substantially more oil and gas from the unitized portion of the pool than would otherwise be recovered without unitization.

(14) The estimated additional costs of such operations will not exceed the estimated value of the additional oil so recovered plus reasonable profit.

(15) Such unitization and adoption of applicant's proposed unitized method of operation will benefit the working interest owners and royalty owners of the oil and gas rights within the Twin Lakes San Andres Unit Area.

(16) The granting of the application in this case will have no adverse effect upon the Twin Lakes - San Andres Associated Pool and/or the San Andres formation located outside of the proposed Twin Lakes Unit boundary.



(17) Applicant's Exhibits Nos. 3 and 4 in this case, being the Unit Agreement and the Unit Operating Agreement respectively, should be incorporated by reference into the order.

(18) The Twin Lakes San Andres Unit Agreement and the Twin Lakes San Andres Unit Operating Agreement provide for unitization and unit operation of the Twin Lakes San Andres Unit Area upon terms and conditions that are fair, reasonable and equitable, and which include:

- (a) an allocation to the separately owned tracts of the unit area of all oil and gas that is produced from the unit area and which is saved, being the production that is not used in the conduct of unit operations or not unavoidably lost;
- (b) a provision for the credits and charges to be made in the adjustment among the owners in the unit area for their respective investments in wells, tanks, pumps, machinery, materials and equipment contributed to the unit operations;
- (c) a provision governing how the costs of unit operations including capital investments shall be determined and charged to the separately-owned tracts and how said costs shall be paid, including a provision providing when, how and by whom the unit production allocated to an owner who does not pay his share of the cost of the unit operations shall be charged to such owner, or the interest of such owner, and how his interest may be sold and the proceeds applied to the payment of his costs;
- (d) a provision for carrying any working interest owner on a limited, carried or net-profits basis, payable out of production, upon terms and conditions which are just and reasonable, and which allow an appropriate charge for interest for such service payable out of production, upon such terms and conditions determined by the Division to be just and reasonable.
- (e) a provision designating the Unit Operator and providing for the supervision and conduct of the unit operations, including the selection, removal and substitution of an operator from

among the working interest owners to conduct the unit operations;

- (f) a provision for a voting procedure for the decision on matters to be decided by the working interest owners in respect to which each working interest owner shall have a voting interest equal to his unit participation; and
- (g) the time when the unit operation shall commence and the manner in which, and the circumstances under which, the operations shall terminate and for the settlement of accounts upon such termination.

(19) Any working interest owner who has not agreed in writing to participate in the unit prior to the date of this order should be deemed to have relinquished to the unit operator all of its operating rights and working interest in and to the unit until his share of the costs have been repaid, plus an additional 200 percent thereof as a non-consent penalty (Section 70-7-7.F. NMSA 1978.)

(20) The statutory unitization of the Twin Lakes San Andres Unit Area is in the conformity with the above findings, and will prevent waste and protect correlative rights of all interest owners within the proposed unit area, and should be approved.

IT IS THEREFORE ORDERED THAT:

(1) The Twin Lakes San Andres Unit Agreement, covering 4,863.82 acres, more or less, of State and Fee lands in the Twin Lakes - San Andres Associated Pool, Chaves County, New Mexico, is hereby approved for statutory unitization pursuant to the "Statutory Unitization Act", Sections 70-7-1 through 70-7-21, NMSA (1978).

(2) The lands covered by said Twin Lakes San Andres Unit Agreement shall be designated the Twin Lakes San Andres Unit Area and shall comprise the following described acreage in Chaves County, New Mexico:

TOWNSHIP 8 SOUTH, RANGE 28 EAST, NMPM

Section 25: SE/4 NW/4, NE/4 SW/4, S/2 SW/4, and  
SE/4

Section 26: SE/4 SE/4

Section 35: E/2 E/2

Section 36: All

TOWNSHIP 8 SOUTH, RANGE 29 EAST, NMPM

Section 30: Lots 3 and 4, E/2 SW/4, and SW/4 SE/4

Section 31: All

Section 32: W/2 SW/4

TOWNSHIP 9 SOUTH, RANGE 28 EAST, NMPM

Section 1: Lots 1 through 4, S/2 N/2, SE/4, and  
E/2 SW/4

Section 2: Lot 1

Section 12: NE/4, E/2 SE/4, and NW/4 SE/4

TOWNSHIP 9 SOUTH, RANGE 29 EAST, NMPM

Section 5: Lots 3 and 4, S/2 NW/4, and SW/4

Sections 6 and 7: All

Section 8: N/2 NW/4 and SW/4 NW/4

Section 18: Lot 1, E/2 NW/4, and W/2 NE/4

(6) The vertical limits of said Unit Area shall comprise the San Andres formation as found from a depth of 2708 feet (+ 1259 feet sub-sea) to a depth of 2798 feet (+ 1169 feet sub-sea) as recorded on the Dual Laterolog/Compensated Neutron Log dated December 23, 1984, in Pelto Oil Company's O'Brien "L" Well No. 16 located 2310 feet from the North line and 1675 feet from the East line (Unit G) of Section 6, Township 9 South, Range 29 East, NMPM, Chaves County, New Mexico.

(4) The applicant shall institute a waterflood project for the secondary recovery of oil and associated gas, condensate and all associated liquifiable hydrocarbons within

and produced from the unit area, and said waterflood project is the subject of Division Case No. 9211.

(5) The Twin Lakes San Andres Unit Agreement and the Twin Lakes San Andres Unit Operating Agreement, being applicant's Exhibit Nos. 3 and 4 in this case, are hereby incorporated by reference into this Order.

(6) The Twin Lakes San Andres Unit Agreement and the Twin Lakes San Andres Unit Operating Agreement provide for unitization and unit operation of the Twin Lakes - San Andres Associated Pool upon terms and conditions that are fair, reasonable and equitable.

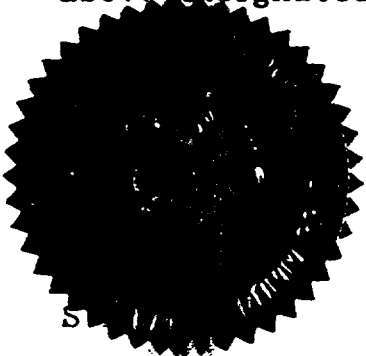
(7) Since the persons owning the required statutory minimum percentage of interest in the unit area have approved or ratified the Unit Agreement and the Unit Operating Agreement, the interests of all persons within the unit area are unitized whether or not such persons have approved the Unit Agreement or the Unit Operating Agreement in writing.

(8) Any working interest owner who has not agreed in writing to participate in the unit prior to the date of this order shall be deemed to have relinquished to the unit operator all of its operating rights and working interest in and to the unit until his share of the costs have been repaid, plus an additional 200 percent thereof as a non-consent penalty (Section 70-7-7.F. NMSA 1978.)


(9) The applicant as Unit Operator shall notify in writing the Division Director of any removal or substitution of said Unit Operator by any other working interest owner within the unit area.

(10) Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

~~DOE~~ at Santa Fe, New Mexico, on the day and year hereinabove designated.



STATE OF NEW MEXICO  
OIL CONSERVATION DIVISION

  
WILLIAM J. LEMAY  
Director

UNIT OPERATING AGREEMENT  
CENTRAL CORBIN QUEEN UNIT  
LEA COUNTY, NEW MEXICO

Interest Owner is greater than the amount charged against such Working Interest Owner, the resulting net credit shall be paid to such Working Interest Owner by Unit Operator out of funds received by it in settlement of the net charges described above.

10.4 General Facilities. The acquisition of warehouses, warehouse stocks, lease houses, camps, facility systems, and office buildings necessary for Unit Operations shall be by negotiation by the owners thereof and Unit Operator, subject to the approval of Working Interest Owners.

10.5 Ownership of Property and Facilities. Each Working Interest Owner, individually, shall by virtue hereof own an undivided interest, equal to its Unit Participation in all wells, equipment, and facilities taken over or otherwise acquired by Unit Operator pursuant to this Agreement.

## ARTICLE 11

### UNIT EXPENSE

11.1 Basis of Charge to Working Interest Owners. Unit Operator initially shall pay all Unit Expense. Each Working Interest Owner shall reimburse Unit Operator for its share of Unit Expense. Each Working Interest Owner's share shall be the same as its Unit Participation. All charges, credits, and accounting for Unit Expense shall be in accordance with Exhibit C.

11.2 Budgets. Before or as soon as practical after the Effective Date, Unit Operator shall prepare a budget of estimated Unit Expense for the remainder of the calendar year, and thereafter shall prepare budgets as determined by Working Interest Owners.

Budgets shall be estimates only, and shall be adjusted or corrected by Working Interest Owners and Unit Operator whenever an adjustment or correction is proper. A copy of each budget and adjustment budget shall be furnished promptly to each Working Interest Owner.

11.3 Advance Billings. Unit Operator shall have the right to require Working Interest Owners to advance their respective shares of estimated Unit Expense as provided by Exhibit C.

11.4 Commingling of Funds. Funds received by Unit Operator under this Agreement need not be segregated or maintained by Unit Operator as a separate fund, but may be commingled with its own funds.

11.5 Unpaid Unit Expense. If any Working Interest Owner fails or is unable to pay its share of Unit Expense within sixty (60) days after rendition of a statement therefor by Unit Operator, the non-defaulting Working Interest Owners shall, upon request by Unit Operator, pay the unpaid amount as if it were Unit Expense in the proportion that the Unit Participation of each such Working Interest Owner bears to the Unit Participation of all such Working Interest Owners. Each Working Interest Owner so paying its share of the unpaid amount shall, to obtain reimbursement thereof, be subrogated to the security rights described in Section 11.6 of this Agreement.

11.6 Security Rights. In addition to any other security rights and remedies provided for by the laws of this State with respect to services rendered or materials and equipment furnished under this Agreement, Unit Operator shall have a first and prior lien upon each Working Interest, including the Unitized Substances

and Unit Equipment credited thereto, in order to secure payment of the Unit Expense charged against such Working Interest, together with interest thereon at the rate set forth in Exhibit C or the maximum rate allowed by law, whichever is less. If any Working Interest Owner does not pay its share of Unit Expense when due, Unit Operator shall have the right to collect from the purchaser the proceeds from the sale of such Working Interest Owner's share of Unitized Substances until the amount owed, plus interest at the rate herein provided, has been paid. Each purchaser shall be entitled to rely on Unit Operator's statement concerning the amount owed and the interest payable thereon.

11.7 Carved-out Interests. Any overriding royalty, production payment, net proceeds interest, carried interest or any other interest carved out of a Working Interest shall be subject to this Agreement. If a Working Interest Owner does not pay its share of Unit Expense and the proceeds from the sale of Unitized Substances under Section 11.6 are insufficient for that purpose, the security rights provided for therein may be applied against the carved-out interests with which such Working Interest is burdened. In such event, the owner of such carved-out interest shall be subrogated to the security rights granted by Section 11.6.

## ARTICLE 12

### NONUNITIZED FORMATIONS

12.1 Right to Operate. Any Working Interest Owner that now has or hereafter acquires the right to drill for and produce oil, gas, or other minerals, from a formation underlying the Unit Are



STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

CASES 10062, 10063, 10064

EXAMINER HEARING

IN THE MATTER OF:

Application of OXY USA, Inc., for Statutory  
Unitization, Lea County, New Mexico

Application of OXY USA, Inc., for a  
Waterflood Project, Lea County, New Mexico

Application of OXY USA, Inc., for Pool  
Contraction and Extension, Lea County, New Mexico

TRANSCRIPT OF PROCEEDINGS

BEFORE: MICHAEL E. STOGNER, EXAMINER

STATE LAND OFFICE BUILDING

SANTA FE, NEW MEXICO

September 5, 1990

**ORIGINAL**

CUMBRE COURT REPORTING  
(505) 984-2244

## EXAMINATION

1

2 BY MR. STOVALL:

3 Q. Is there a provision in either the Unit  
4 Agreement or the Unit Operating Agreement for carrying  
5 of nonconsenting parties? I'll preface that by saying  
6 that I didn't find one as I skimmed through it?

7 A. No, sir, there isn't. And the only  
8 reference I would make to that would be that under the  
9 Statutory Unitization Act in 70-7, provision (F) it  
10 does say that in the event you have a nonconsenting  
11 working interest party, that they could be subject to  
12 cost, 100 percent plus 200 percent penalty. The  
13 question never came up except one of Santa Fe  
14 Exploration's working interest parties asked me would  
15 he would be exposed to that, and I said I could not  
16 answer that. There was a provision under the Act--

17 Q. Let me interrupt you here, Mr. Dickenson.  
18 I'm reading 70-7-7, "...and shall approve or prescribe  
19 a plan for a Unit Agreement for unit operations which  
20 shall include"--and I'll go to your paragraph (F)--"a  
21 provision for carrying any working interest owner  
22 unlimited during a net profits basis," and further  
23 down it provides, "carrying plus an amount not to  
24 exceed 200 percent."

25 My interpretation of that statutory

1 provision is that the Unit Agreement or Unit Operating  
2 Agreement needs to have that provision for carrying  
3 included in it. Would you been willing to amend the  
4 Agreement?

5 MR. KELLAHIN: No, sir. Mr. Stovall, we've  
6 made the conscious decision not to seek the nonconsent  
7 provisions that apply in the statute and it's been  
8 intentionally deleted from the operating agreement.

9 MR. STOVALL: So, in effect the  
10 nonparticipating interest would be carried at no  
11 penalty?

12 MR. KELLAHIN: That's right.

13 EXAMINER STOGNER: Any other questions of  
14 this witness? If not, Mr. Dickenson--

15 THE WITNESS: If I might, in response to  
16 Mr. Stovall--

17 MR. STOGNER: Mr. Kellahin?

18 MR. KELLAHIN: There's no question before  
19 you, Mr. Dickenson.

20 EXAMINER STOGNER: Okay. Mr. Dickenson,  
21 you may be excused.

22 MR. KELLAHIN: That concludes our  
23 presentation, Mr. Examiner.

24 EXAMINER STOGNER: Mr. Padilla, do you have  
25 a witness?

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:

CASE NO. 10062  
Order No. R-9336

APPLICATION OF OXY USA, INC.  
FOR STATUTORY UNITIZATION, LEA  
COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on September 5, 1990, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 29th day of October, 1990, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) Division Case Nos. 10062, 10063 and 10064 were consolidated at the time of the hearing for the purpose of testimony.

(3) The applicant, OXY USA, Inc., seeks the statutory unitization, pursuant to the "Statutory Unitization Act", Sections 70-7-1 through 70-7-21, NMSA (1978), of 1561.19 acres, more or less, being a portion of the Central Corbin-Queen Pool, Lea County, New Mexico, said portion to be known as the Central Corbin Queen Unit; the applicant further seeks approval of the Unit Agreement and the Unit Operating Agreement which were submitted in evidence as applicant's Exhibit Nos. 14 and 15 in this case.

(4) The horizontal limits of said unit area should be comprised of the following described Federal and Fee lands in Lea County, New Mexico:

TOWNSHIP 18 SOUTH, RANGE 33 EAST, NMPM

Section 3: Lot 4, SW/4 NW/4, and W/2 SW/4  
Section 4: Lots 1, 2 and 3, S/2 N/2, and S/2  
Section 8: E/2 NE/4  
Section 9: N/2, N/2 SW/4, SE/4 SW/4, and SE/4  
Section 10: W/2 NW/4 and NW/4 SW/4

(5) The horizontal limits of said unit are within the governing boundaries of the Central Corbin Queen Pool and have been reasonably defined by development.

(6) The vertical limits of said Unit Area should comprise that interval which extends from an upper limit described as 215 feet below mean sea level or at the top of the Queen formation, whichever is higher, to a lower limit at the base of the Queen formation; the geologic markers having been previously found to occur at 4200 feet and 4246 feet, respectively, in OXY USA, Inc.'s Federal AA Well No. 1, located 990 feet from the North line and 1980 feet from the East line (Unit B) of Section 9, Township 18 South, Range 33 East, NMPM, Lea County, New Mexico, as recorded on the Schlumberger CNL-LDT log taken on November 10, 1984, said log being measured from a kelly drive bushing elevation of 3985 feet above sea level.

(7) The unit area contains nine separate tracts of land owned by twenty-eight different working interest owners.

(8) The applicant has made a good faith effort to secure voluntary unitization within the Unit Area and at the time of the hearing 93.03 percent of the working interest owners and approximately 91.792 percent of the royalty interest owners were effectively committed to the unit.

(9) The applicant proposes to institute a waterflood project for the secondary recovery of oil and associated gas, condensate, and all associated liquefiable hydrocarbons within and to be produced from the proposed unit area (being the subject of Division Case No. 10063).

(10) Santa Fe Exploration Company, a 2.00833 percent working interest owner in said unit appeared at the hearing in opposition to this case but presented no new technical evidence for its opposition.

(11) The proposed secondary recovery operations should result in the additional recovery of approximately 550,000 barrels of oil.

(12) The unitized management, operation and further development of the Central Corbin Queen Unit Area, as proposed, is reasonably necessary to effectively carry on secondary recovery operations and will substantially increase the ultimate recovery of oil and gas from the unitized portion of the pool.

(13) The proposed unitized method of operation as applied to the Central Corbin Queen Unit Area is feasible and will result with reasonable probability in the increased recovery of substantially more oil and gas from the unitized portion of the pool than would otherwise be recovered without unitization.

(14) The estimated additional costs of such operations will not exceed the estimated value of the additional oil so recovered plus a reasonable profit.

(15) Such unitization and adoption of applicant's proposed unitized method of operation will benefit the working interest owners and royalty owners of the oil and gas rights within the Central Corbin Queen Unit Area.

(16) The granting of the application in this case will have no adverse effect upon the Central Corbin-Queen Pool.

(17) The applicant's Exhibit Nos. 14 and 15 in this case, being the Statutory Unit Agreement and the Unit Statutory Operating Agreement, respectively, should be incorporated by reference into this order.

(18) The Central Corbin Queen Unit Agreement and the Central Corbin Queen Unit Operating Agreement provide for unitization and unit operation of the Central Corbin Queen Unit Area upon terms and conditions that are fair, reasonable and equitable, and include:

- (a) an allocation to the separately owned tracts of the unit area of all oil and gas that is produced from the unit area and which is saved, being the production that is not used in the conduct of unit operations or not unavoidably lost;

- (b) a provision for the credits and charges to be made in the adjustment among the owners in the unit area for their respective investments in wells, tanks, pumps, machinery, materials and equipment contributed to the unit operators;
- (c) a provision governing how the costs of unit operations including capital investments shall be determined and charged to the separately-owned tracts and how said costs shall be paid, including a provision providing when, how and by whom such costs shall be charged to such owner, or the interest of such owner, and how his interest may be sold and the proceeds applied to the payment of his costs;
- (d) a provision for carrying any working interest owner on a limited, carried or net-profits basis, payable out of production, upon terms and conditions which are just and reasonable, and which allow an appropriate charge for interest for such service payable out of production, upon such terms and conditions determined by the Division to be just and reasonable;
- (e) a provision designating the Unit Operator and providing for supervision and conduct of the unit operations, including the selection, removal and substitution of an operator from among the working interest owners to conduct the unit operations;
- (f) a provision for a voting procedure for decisions on matters to be decided by the working interest owners in respect to which each working interest owner shall have a voting interest equal to his unit participation; and
- (g) the time when the unit operation shall commence and the manner in which, and the circumstances under which, the operations shall terminate and for the settlement of accounts upon such termination.

(19) Section 70-7-7.F. NMSA of said "Statutory Unitization Act" provides that any working interest owner who has not agreed in writing to participate in a unit could have relinquished to the unit operator all of its operating rights and working interest in and to the unit until his share of the costs has been repaid plus an additional 200 percent thereof as a non-consent penalty.

(20) At the time of the hearing, the applicant requested that no additional penalty be assessed these working interest owners in said unit who have not committed their interests.

(21) The statutory unitization of the Central Corbin Queen Unit Area is in conformity with the above findings, and will prevent waste and protect correlative rights of all interest owners within the proposed unit area, and should be approved.

IT IS THEREFORE ORDERED THAT:

(1) The application of OXY USA, Inc. for the Central Corbin Queen Unit Agreement, covering 1561.19 acres, more or less, of Federal and Fee lands in the Central Corbin-Queen Pool, Lea County, New Mexico, is hereby approved for statutory unitization pursuant to the "Statutory Unitization Act", Sections 70-7-1 through 70-7-21, NMSA (1978).

(2) The lands covered by said Central Corbin Queen Unit Agreement shall be designated the Central Corbin Queen Unit Area and shall comprise the following described acreage in Lea County, New Mexico:

TOWNSHIP 18 SOUTH, RANGE 33 EAST, NMPM

Section 3: Lot 4, SW/4 NW/4, and W/2 SW/4  
Section 4: Lots 1, 2 and 3, S/2 N/2, and S/2  
Section 8: E/2 NE/4  
Section 9: N/2, N/2 SW/4, SE/4 SW/4, and SE/4  
Section 10: W/2 NW/4 and NW/4 SW/4

(3) The vertical limits of said Unit Area shall comprise that interval which extends from an upper limit described as 215 feet below mean sea level or at the top of the Queen formation, whichever is higher, to a lower limit at the base of the Queen formation; the geologic markers having been previously found to occur at 4200 feet and 4246 feet, respectively, in OXY USA, Inc.'s Federal AA Well No. 1, located 990 feet from the North line and 1980 feet from the East line (Unit B) of Section 9, Township 18 South, Range 33 East, NMPM, Lea County, New Mexico, as recorded on the Schlumberger CNL-LDT log taken on November 10, 1984, said log being measured from a kelly drive bushing elevation of 3985 feet above sea level.



(4) The applicant shall institute a waterflood project for the secondary recovery of oil and associated gas, condensate and all associated liquefiable hydrocarbons within and produced from the unit area, and said waterflood project is the subject of Division Case No. 10063.

(5) The Central Corbin Queen Unit Agreement and the Central Corbin Queen Unit Operating Agreement, which were submitted to the Division at the time of the hearing as Exhibits 14 and 15, respectively, are hereby incorporated by reference into this order.

(6) The Central Corbin Queen Unit Agreement and the Central Corbin Queen Unit Operating Agreement provide for unitization and unit operation of the Central Corbin-Queen Pool upon terms and conditions that are fair, reasonable and equitable.

(7) Since persons owning the required statutory minimum percentage of interest in the unit area have approved or ratified the Unit Agreement and the Unit Operating Agreement, the interests of all persons within the unit area are hereby unitized whether or not such persons have approved the Unit Agreement or the Unit Operating Agreement in writing.

(8) Any working interest owner who has not agreed in writing to participate in the unit prior to the date of this order shall be deemed to have relinquished to the unit operator all of his operating rights and working interest in and to the unit until his share of the costs has been repaid. Such repayment shall include no non-consent penalty (Section 7-7-F NMSA 1978).

(9) The applicant as Unit Operator shall notify in writing the Division Director of any removal or substitution of said Unit Operator by any other working interest owner within the area.

(10) Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

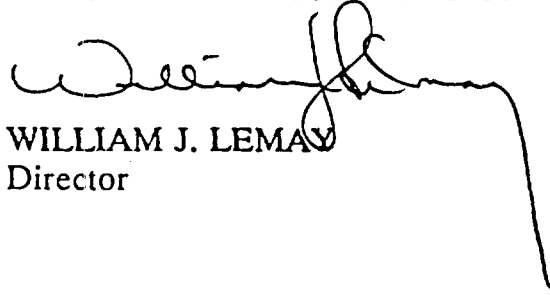
Case No. 10062  
Order No. R-9336  
Page 7

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



S E A L

STATE OF NEW MEXICO  
OIL CONSERVATION DIVISION



WILLIAM J. LEMAY  
Director

## **PART II**



## II

### **UNITIZATION OF THE MEYERS LANGLIE-MATTIX PURSUANT TO N.M. STATUTORY UNITIZATION ACT**

- A. Correcting Oxy USA's factual misstatements  
Tab 16

- B. Operative documents in Case No. 6987 Application of Getty Oil  
Company for Statutory Unitization, Lea County, New Mexico

APPLICATION June 20, 1980  
Tab 17A

TRANSCRIPT OF HEARING August 5, 1980  
Tab 17B

ORDER R-6447 August 27, 1980  
Tab 17C

1. Additional investment costs of \$1.6 million from which \$600,000 can be deducted by eliminating duplicating facilities. Additional recovery of 500,000 barrels of oil and gross added value to the unit of \$18.24 million Findings (9)-(14)
2. Unitization of all acreage and "of all persons within the unit area...whether or not such persons have approved the Unit Agreement or the Unit Operating Agreement in writing." when the required percentage of persons have approved or ratified.

RATIFICATION AND APPROVAL  
September-October 1980  
17D

GETTY AFFIDAVIT FOR PROOF OF RATIFICATION  
(Blohm. December 24, 1980)  
17E

- C. Carr transmittal letter June 19, 1980  
Tab 18

OXY USA, Inc.'s  
Motion to Dismiss  
Page 4

... because the working interest owners of the Unit Tracts from whom Hartman obtained his working interest in the Myers Langlie Mattix Unit were not the subject of this statutory unitization order. <sup>6</sup>

<sup>6</sup> None of these owners was provided with notice of hearing for Case 6907 which demonstrates no intention to affect the working interest owners by statutory unitization

On page 5 Oxy reverses itself and says the opposite: "The owners of the working interest now owned by Hartman were notified of and had the opportunity to appear in both unitization hearings but did not do so."

Getty's letter of February 5, 1980 to "Myers Langlie Mattix Unit Working Interest Owners" advises in detail of the intention to apply for statutory unitization and requests information and cooperation from those owners. *TAB 16A* (Letter was Exhibit 15 in Case No 6987 and Exhibit 8 to Motion to Dismiss).

OXY USA, Inc.'s  
Motion to Dismiss  
Page 5

On November 16, 1973, the  
Division entered Order R-  
4660 in Case 5086 approving  
the Myers Langlie Mattix  
Unit ...

Wrong. Order R-4660 in  
Case no. 5086 purports  
to approve MLMU Unit  
Agreement and nothing  
more.

Oxy does not attach a copy  
of that order to its  
motion, preferring to  
characterize it. (See *TAB 2*  
for a copy) New Mexico  
law contains no  
provision for approval  
of voluntary unitization  
agreements. See Kramer  
& Martin, The Law of  
Pooling and Unitization,  
(3rd Ed.) Sec. 17.03  
note 49.28

OXY USA, Inc.'s  
Motion to Dismiss  
Page 5

Furthermore, this application did not change the boundary of the Unit or the participation of any working interest owner in the Unit. <sup>8</sup>

<sup>8</sup> See Exhibit 8 attached. Copy of Getty's Exhibit 15 in Case 6987.

Wrong. At the hearing held before the Commission on August 5, 1980, it developed that a number of tracts were to be excluded. To accomodate those changes the tract descriptions in Exhibit A to the Unit Agreement had to be changed (Exhibit 10 in the hearing). Later the day of the hearing Getty's attorney (Mr. Carr) delivered a revised Exhibit B to the Unit Agreement. *TAB 16B*



OXY USA, Inc.'s  
Motion to Dismiss  
Page 5

<sup>7</sup> See Exhibit 7 being Exhibit  
14 in Case 6987.

Exhibit 7 to the Motion to  
Dismiss is not a copy of  
Exhibit 14 in Case No.  
6987. It is a letter from  
Getty to royalty interest  
owners dated July 14,  
1981, eleven months  
after the hearing

OXY USA, Inc.'s  
Motion to Dismiss

Page 15

Hartman argues that he has declared himself to be a "non-consenting" working interest owner and therefore OXY's sole remedy is to "take" Hartman's share of unit production until such time as OXY has been reimbursed for Hartman's share of the costs. Unfortunately, if that is OXY's remedy which they deny, Hartman has precluded OXY from taking Hartman's share of his oil because he now has taken an estimated 16,728 barrels of oil and keeps switching purchasers in order to avoid OXY's right to take.<sup>29</sup>

<sup>29</sup>See Exhibit 20 attached.

False. Hartman has never switched purchasers. He took control of the sale of his oil for the first and only time by a contract with Scurlock Permian on September 1, 1995 that has enabled the receipt of an average ten percent better price than when the oil was sold by Oxy -- thus, to Oxy's financial benefit under the nonconsent provision. Hartman holds about \$250,000. in oil sale revenue to turn over to Oxy when Hartman's carried position is recognized by Oxy.



Getty Oil Company | P.O. Box 1231, Midland, Texas 79702 • Telephone (915) 683-6301

Audra B. Cary, District Production Manager  
Central Exploration and Production Division

February 5, 1980

File: Myers Langlie Mattix Unit  
Langlie Mattix Field  
Lea County, New Mexico

Re: Request for Division Orders

MYERS LANGLIE MATTIX UNIT  
WORKING INTEREST OWNERS

Gentlemen:

The Myers Langlie Mattix Unit became effective February 1, 1974 with Skelly Oil Company (Getty Oil Company) designated as the Unit Operator. Since unitization numerous attempts have been made to obtain ratification of the Unit from all royalty owners. At the present time there are 14 tracts within the Unit which have been ratified by all working interest owners, but not all royalty interest owners have ratified.

It is estimated that approximately 500,000 Bbls. of oil will not be recovered unless the royalty under these tracts are pooled. The unrecovered reserves will be primarily due to the inability of securing a lease line agreement with the Pearson, Seibert, and Carter Foundation which hinges on the conversion of Well No. 226. This well is the only well on Tract No. 81 which has unsigned royalty interest. Legal implications would disallow our converting this well unless the royalty is forced pooled. Additional unplanned investments in operating cost will be required if these unsigned tracts are not forced pooled. The investment necessary to install new production facilities and modify existing facilities on the 14 tracts will total \$600,000. Additional operating costs to maintain these batteries will be \$90,000 per year.

**Tab 16a**

BEFORE THE OIL CONSERVATION COMMISSION Santa Fe, New Mexico	
Case No. <u>6987</u>	Exhibit No. <u>15</u>
Submitted by <u>Getty</u>	
Hearing Date <u>8/5/80</u>	


Myers Langlie Mattix Unit  
Langlie Mattix Field  
Lea County, New Mexico

Page 2

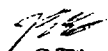
In order to eliminate the unnecessary expenditures and increase the recovery from this Unit, Getty Oil Company proposes to apply for statutory unitization for the subject Unit. This application will in no way change the existing boundary of the Unit or the current working interest owners participation in the Unit. The overall effect on the existing ratified royalty interest participation will be insignificant as only a few royalty interest owners on 14 tracts have not signed.

In order to prepare for the proposed statutory unitization of this Unit, we are requesting that each working interest owner provide this office with a current division order showing all royalty interest owners and indicating which royalty interest owners have not ratified the Unit Agreement. The Division Orders should include the royalty interest owner's name, current address, unit participation percentage, the tract's in which the royalty owner participates and an indication if the royalty owner has not ratified the Unit Agreement. Your prompt attention and cooperation will help us expedite implementation of this proposal and hearing. Any questions concerning this proposal should be directed to Mr. J. E. Eakin at this office.

Yours very truly,

  
Audra B. Cary

JEE:slw

  
cc: Mr. R. J. Starrak .  
Mr. J. E. Eakin

CAMPBELL AND BLACK, P.A.

LAWYERS

JACK M. CAMPBELL  
BRUCE D. BLACK  
MICHAEL B. CAMPBELL  
WILLIAM F. CARR

POST OFFICE BOX 2208  
JEFFERSON PLACE  
SANTA FE, NEW MEXICO 87501  
TELEPHONE (505) 968-4421

August 5, 1980

Mr. Joe D. Ramey  
Director  
Oil Conservation Division  
New Mexico Department of  
Energy and Minerals  
Post Office Box 2208  
Santa Fe, New Mexico 87501

HAND DELIVERED

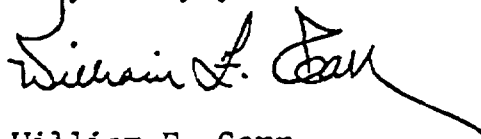
Re: Case No. 6987: Application of Getty Oil Company  
for Statutory Unitization of the Myer Langlie-  
Mattix Unit, Lea County, New Mexico

Dear Mr. Ramey:

Enclosed in triplicate is a revised Exhibit B which is part of the 1976 Revision to the Myer Langlie-Mattix Unit Agreement. Getty offered this as their Exhibit No. 10 in the above-referenced case. We have deleted from Exhibit B all non-qualified tracts which have been excluded from the unit area.

If you have questions about the enclosed, please advise.

Very truly yours,



William F. Carr

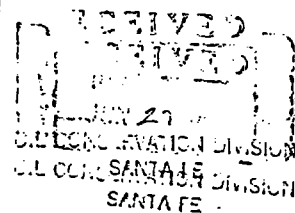
WFC:lr

Enclosure

cc: Mr. James E. Eakin, Jr.

Ex 10-B

Tab 16b



BEFORE THE

OIL CONSERVATION COMMISSION

NEW MEXICO DEPARTMENT OF ENERGY AND MINERALS

APPLICATION OF GETTY OIL COMPANY  
FOR APPROVAL OF STATUTORY UNITIZA-  
TION, LEA COUNTY, NEW MEXICO

CASE 6987

APPLICATION

Comes now, GETTY OIL COMPANY, by and through its under-  
signed attorneys and pursuant to the provisions of the Statutory  
Unitization Act (Sections 70-7-1 through 70-7-21, N.M.S.A., 1978  
Comp.) hereby applies to the New Mexico Oil Conservation Commis-  
sion for an Order unitizing the Myers Langlie-Mattix Unit, Lea  
County, New Mexico, and in support of its application states:

1. Getty Oil Company (Getty) is a Delaware corporation  
authorized to transact business in the State of New Mexico,  
and is engaged in the business of, among other things,  
producing and selling oil and gas.
2. The Proposed Unit Area for which this application is  
made consists of 9,360 acres, more or less, of Federal,  
State and Fee land in Lea County, New Mexico, and is  
more particularly described on Exhibit A attached hereto  
and incorporated herein by reference. Getty proposes to  
seek an order pursuant to the Statutory Unitization Act  
providing for unitized management, operation and further  
development of the Project Area. A plat of the Project  
Area is attached hereto as Exhibit B and incorporated  
herein by reference.
3. The vertical limits of the formation to be included  
within the proposed unit area means that interval which

extends from a point 100 feet above the base of the Seven Rivers formation to the base of the Queen formation; said interval having been heretofore found to occur in the Texas Pacific Oil Company's Blinbry "B" No. 3 well (located 2310 feet from the west line and 330 feet from the north line of Section 34, Township 23 South, Range 37 East, Lea County, New Mexico) at an indicated depth interval of 3168 feet to 3570 feet, as recorded on the Schlumberger Electrical log Run No. 1 taken December 26, 1952, said log being measured from a derrick floor elevation of 3300 feet above sea level.

4. The portion of the reservoir involved in this application has been reasonably defined by development.

5. The type of operations being conducted in this unit is secondary recovery by means of water flooding.

6. Attached to this application as Exhibit C and incorporated herein by reference is a copy of the proposed plan of statutory unitization which Getty considers fair, reasonable and equitable.

7. Attached to this application as Exhibit D and incorporated herein by reference is a copy of the proposed operating plan covering the manner in which the unit will be supervised and managed and costs allocated and paid.

8. Getty further states:

a. That the unitized management, operation and further development of the portion of the Langlie-Mattix pool which is the subject of this application

is reasonably necessary in order to effectively carry on secondary recovery operations and to substantially increase the ultimate recovery of oil from the unitized portion thereof.

b. That unitized methods of operations applied to the portion of the Langlie-Mattix pool which is the subject of this application are feasible, will prevent waste and will result with reasonable probability in the increased recovery of substantially more oil from the unitized portion of the pool than would otherwise be recovered.

c. That the estimated additional costs, if any, of conducting such operations will not exceed the estimated value of additional oil so recovered plus reasonable profit.

d. That such unitization and adoption of unitized methods of operation will benefit the working interest owners and the royalty owners of the oil and gas rights within the portion of the pool directly affected.

e. That Getty Oil Company, as operator, has made a good faith effort to secure voluntary unitization within the portion of the pool affected by this application.

f. That the participation formula contained in the unitization agreement allocates the produced and saved unitized hydrocarbons to the separately owned tracts in the unit area on a fair, reasonable and equitable basis.

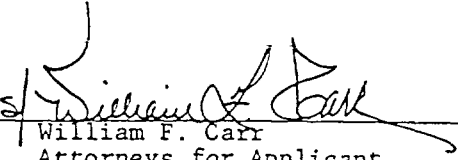
9. Approval of the statutory unitization of the Myers Langlie-Mattix unit sought hereunder is in the interest



of conservation, the prevention of waste and the protection of correlative rights.

WHEREFORE, Getty Oil Company respectfully requests that this application be set for hearing before the full Commission at the earliest practicable date and that the Commission enter its order granting this application.

Respectfully submitted,  
CAMPBELL AND BLACK, P.A.

By   
William F. Carr  
Attorneys for Applicant  
Post Office Box 2208  
Santa Fe, New Mexico 87501

STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION  
STATE LAND OFFICE BLDG.  
SANTA FE, NEW MEXICO  
5 August 1980

COMMISSION HEARING

IN THE MATTER OF:

Application of Getty Oil Company for ) CASE  
statutory unitization, Lea County, ) 6987  
New Mexico. )

BEFORE: Commissioner Ramey  
Commissioner Arnold

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation Commission: Ernest L. Padilla, Esq.  
Legal Counsel to the Commission  
State Land Office Bldg.  
Santa Fe, New Mexico 87501

For the Applicant: William F. Carr, Esq.  
CAMPBELL & BLACK P. A.  
P. O. Box 2208  
Santa Fe, New Mexico 87501

I N D E X

HERMAN W. TERRY

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Questions by Mr. Nutter	22

HARVEY O. WOODS

Direct Examination by Mr Carr	23
Questions by Mr. Nutter	32

SALLY W. BOYD, C.S.R.  
 Rt. 1 Box 193-B  
 Santa Fe, New Mexico 87501  
 Phone (505) 455-7409

## E X H I B I T S

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MR. RAMEY: We'll call next Case 6987.

MR. PADILLA: Application of Getty Oil Company for statutory unitization, Lea County, New Mexico.

MR. CARR: May it please the Commission, I am William F. Carr, Campbell and Black, P. A., Santa Fe, appearing on behalf of the applicant.

I have two witnesses who need to be sworn.

(Witnesses sworn.)

MR. RAMEY: Any other appearances?

HERMAN W. TERRY

being called as a witness and having been duly sworn upon his oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. CARR:

Q Will you state your name and place of residence?

A My name is Herman W. Terry. I reside at Hobbs, New Mexico.

Q Mr. Terry, by whom are you employed and in what capacity?

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B

Santa Fe, New Mexico 87501

Phone (505) 455-7409

SA--Y W. BOYD, C.S.R.

Rt. 1 Box 193-B

Santa Fe, New Mexico 87501

Phone (505) 455-7409

1 A. I'm employed by Getty Oil Company as Area  
2 Engineer in the Hobbs area.

3 Q. Have you previously testified before this  
4 Commission or one of its Examiners and had your credentials  
5 accepted and made a matter of record?

6 A. Yes, sir, I have.

7 Q. Are you familiar with the application of  
8 Getty Oil Company as filed in this case?

9 A. Yes, sir.

10 Q. And are you familiar with the Myers  
11 Langlie-Mattix Unit?

12 A. Yes, sir, I am.

13 MR. CARR: Are the witness' qualifications  
14 acceptable?

15 MR. RAMEY: Yes, they are.

16 Q. Mr. Terry, will you please explain what  
17 Getty Oil Company seeks with this application?

18 A. Yes, sir. With this application Getty  
19 Oil Company is seeking to statutorily unitize for the purpose  
20 of continued secondary recovery operations those mineral in-  
21 terests which underlie the Myers Langlie-Mattix Unit of which  
22 Getty Oil Company is the operator.

23 Q. Will you please summarize the events which  
24 have led up to this hearing?

25 A. Yes, sir. Case No. 5087 was heard at an

1 Examiner's Hearing on October 31st, 1973. At this hearing  
2 Skelly Oil Company, now Getty Oil Company, sought permission  
3 to initiate a secondary recovery project in the Langlie-Mattix  
4 Pool in Lea County, New Mexico.

5 Order No. R-4680 was issued by the Com-  
6 mission on November 20th, 1973, authorizing the project. The  
7 unit was effective on February 1st, 1974, and the unit agree-  
8 ment was revised twice thereafter.

9 To date in excess of 99 percent of both  
10 the working interest owners and royalty interest owners have  
11 ratified the unit agreement, and Getty has made a concentrated  
12 effort to obtain 100 percent ratification of the unit agree-  
13 ment.

14 MR. NUTTER: What was the percentage again,  
15 please?

16 A. In excess of 99 percent of both working  
17 interest and royalty interest owners.

18 However, there still remain a total of  
19 13 tracts for which we do not have 100 percent ratification  
20 of the royalty interest owners. On these tracts we are main-  
21 taining separate production facilities. Statutory unitization  
22 of these unsigned royalty interests will greatly benefit  
23 the working interest owners, royalty interest owners, as well  
24 as overriding royalty interest owners, of the unit. It will  
25 allow Getty as unit operator to enter into lease line agree-

1 ments with offset operators and more efficiently flood the  
2 unit area. It will reduce operating costs, increase oil re-  
3 covery, and extend the economic life of the unit.

4 Q Mr. Terry, are you familiar with the  
5 New Mexico statutory unitization act?

6 A Yes, sir, I am.

7 Q Have you prepared certain exhibits for  
8 introduction in this case today?

9 A Yes, sir, I have.

10 Q Will you please refer to what has been  
11 marked for identification as Getty Oil Company Exhibit Number  
12 One and explain to the Commission what this is and what it  
13 shows?

14 A Exhibit Number One is an index map which  
15 shows the location of the Myers Langlie-Mattix Unit in Lea  
16 County, New Mexico. This unit is located approximately nine  
17 miles north of Jal, New Mexico.

18 Q Will you now refer to Exhibit Number Two  
19 and explain this to the Commission?

20 A Exhibit Number Two is an ownership map  
21 on which the unitized area of the Myers Langlie-Mattix Unit  
22 has been outlined in magenta. The tract numbers have been  
23 identified and the Federal, State, and fee land is identified.  
24 Those tracts of fee land are further identified to indicate  
25 which tracts have less than 100 percent ratification of the



1 unit agreement.

2 As I previously mentioned, there are a  
3 total of 13 unsigned tracts. These tracts being Tracts Nos.  
4 50, 52, 53, 54, 55, 56, 61, 64, 65, 66, and Tract 81.

5 Q Mr. Terry, I believe also Tracts 43 and  
6 45 are characterized as unsigned, is that correct?

7 A Yes, sir, that is correct.

8 Q And when you say unsigned fee land, it  
9 doesn't mean that there are no interests in the tract that  
10 are signed, it means that there are just some fractional in-  
11 terests that have not committed, is that correct?

12 A Yes, there -- in most cases we have the  
13 biggest majority of the interests signed and in most cases  
14 it's one royalty interest owner that has not ratified the  
15 agreement.

16 Q Now on this plat the area that's out-  
17 lined in magenta, that is the existing unit boundary, is that  
18 correct?

19 A Yes, sir, that is correct.

20 Q That is also the proposed unit boundary?

21 A Yes, sir, we're not proposing to change  
22 the unit boundary in any way.

23 Q Mr. Terry, what formation is being unit-  
24 ized?

25 A The Langlie-Mattix Pool.

1 Q How is the unitized interval being de-  
2 fined? That is, what are the vertical limits of this --

3 A The unitized interval is defined as the  
4 interval which extends from a point 100 feet above the base  
5 of the Seven Rivers formation to the base of the Queen forma-  
6 tion, this interval having been heretofore found to occur in  
7 the Texas Pacific Oil Company Blinebry B No. 3 Well, which  
8 is located 2310 feet from the west line and 330 feet from  
9 the north line of Section 34, Township 23 South, Range 37  
10 East, Lea County, New Mexico.

11 In this well the unitized interval was  
12 present at an indicated depth interval of 3168 feet to 3570  
13 feet, as recorded on the Schlumberger electrical log run num-  
14 ber one, taken December 26th, 1952, this log having been  
15 measured from a derrick floor elevation of 3300 feet above  
16 sea level.

17 Q Has the portion of the reservoir that you  
18 propose to unitize been reasonably defined by development?

19 A Yes, sir, it has.

20 Q Are there windows within the present  
21 unit area?

22 A Yes, sir, there are. Referring back to  
23 Exhibit Two, you'll note that there are three windows which  
24 are present in the unit. The two smaller windows in the  
25 western half of the unit present little, if any, operational

1 difficulties as far as secondary recovery operations are con-  
2 cerned; however, I wish to point out that it's not the pur-  
3 pose of this hearing to close either of these two windows  
4 in the western half or the larger window in the eastern half  
5 of the unit.

6 Q Now, I direct your attention to this  
7 larger unit in the eastern portion of the unit area. Will  
8 granting of this application facilitate your being able to  
9 cooperatively waterflood this area?

10 A Yes, sir, in this statutory unitization  
11 we'll facilitate the execution of a cooperative lease line  
12 agreement with this large window and our other offset oper-  
13 ators in this portion of the field.

14 Q Will you now refer to Getty's Exhibit  
15 Number Three and explain this to the Commission?

16 A Exhibit Number Three is a map which shows  
17 the status of wells contained in the Myers Langlie-Mattix  
18 Unit and proposed wells and conversions.

19 You will note that there are a number  
20 of wells which have been converted to injection service but  
21 are shut-in because of the delay in executing a lease line  
22 cooperative flood agreement with offset operators. The un-  
23 signed royalty interests are the primary reason for this  
24 delay. For example, Well No. 226 in the southeast corner  
25 of the unit is proposed for injection service and is a key

1 well for any lease line agreement that we might execute; how-  
2 ever, Well No. 226 is the only producing well on Tract 81,  
3 which is one of the unsigned tracts and cannot be converted  
4 to injection service at this time.

5 Q. What is the status of the sign-up in that  
6 particular tract?

7 A. It is less than 100 percent.

8 Q. Is all the working interest committed?

9 A. Yes, sir, all the working interest is  
10 committed.

11 Q. But you do have an outstanding royalty  
12 interest owner that --

13 A. Yes, sir, we do --

14 Q. -- has not signed?

15 A. -- have an outstanding royalty interest  
16 that has not ratified.

17 Q. Will you please refer to what has been  
18 marked for identification as Getty Exhibit Number Four and  
19 explain the data contained on this exhibit to the Commission?

20 A. Yes, sir. Exhibit Number Four is a com-  
21 parative production schedule which anticipates production  
22 with and without statutory unitization.

23 Case number two, the case number two  
24 schedule reflects the anticipated benefits of statutory  
25 unitization. With the lease line agreement and the drilling

1 and conversion of wells, as shown on Exhibit Three, it is an-  
2 ticipated that 500,000 barrels of additional secondary re-  
3 covery of oil will be recovered.

4 Production facilities on these unsigned  
5 tracts are old and in any case only temporary. Without  
6 statutory unitization investment of \$600,000 will be required  
7 in the near future for new production facilities on the un-  
8 signed tracts, and operating expenses are estimated to be  
9 \$90,000 greater per month than with a statutory unitization.

10 It is further anticipated that the life  
11 of the unit will be shortened by two years because of the  
12 higher operating expenses without statutory unitization.

13 Q Mr. Terry, will you now refer to Exhibit  
14 Number Five and review this for the Commission?

15 A Exhibit Number Five is a listing of esti-  
16 mated reserves by well which will be lost if the unsigned  
17 tracts are not statutorily unitized. This is a very conser-  
18 vative estimate based upon our recovery in other areas of the  
19 unit with fully developed waterflood pattern.

20 Q Mr. Terry, is unitized management, oper-  
21 ation, and further development of a portion of the Myers  
22 Langlie-Mattix Pool covered by this application reasonably  
23 necessary to substantially increase the ultimate recovery of  
24 oil from the unitized portion thereof?

25 A Yes, sir, they are.

Q And exactly what type of secondary recovery operations are you employing?

A Waterflood.

Q Now will you refer to Getty Exhibit Number Six and explain this, what this shows.

A Exhibit Number Six is a calculation of the gross value of the 500,000 barrels of secondary oil which can be recovered with statutory unitization. This calculation indicates the gross value of this production to be \$18.24-million. This exhibit also indicates how this additional gross revenue would be divided.

Q And what price were you using in computing those figures?

A We're using an average -- a first quarter 1980 average price of \$36.48 per barrel.

Q Are you taking into consideration the windfall profits tax and other taxes?

A No, sir, this is strictly a gross calculation. We're not trying to account for windfall profit tax or any taxes at all.

Q Now I believe you stated if this application is granted, additional costs will be incurred in developing the unit. Isn't that correct?

A Yes, sir, that's correct. It's anticipated that an investment of approximately 1.6 million dollars

1 will be required for new wells and conversion, assuming that  
2 as a result of statutory unitization we are able to execute  
3 a lease line agreement with offset operators; however, statu-  
4 tory unitization will make the anticipated \$600,000 investment  
5 for facilities for the unsigned tracts unnecessary, and will  
6 result in future -- a lower future operating expense, as well.

7 Q Will the estimated value of the additional  
8 oil recovered from unitized management, plus a reasonable  
9 profit, exceed the additional cost, if any, of conducting  
10 these operations?

11 A Yes, sir, it will. Just briefly looking,  
12 with a 1.6 million dollars required, with a saving of \$600,000,  
13 we're looking at slightly, probably only approximately \$1-millio  
14 investment and the gross income that we anticipate is \$18.24--  
15 million.

16 Q Mr. Terry, will you now refer to what  
17 has been marked Getty Oil Company Exhibit Number Seven and  
18 explain this to the Commission?

19 A Exhibit Number Seven is a graph of the  
20 monthly oil and water production from the Myers Langlie-Mattix  
21 Unit. The producing gas/oil ratio has been calculated and  
22 plotted, as well as the monthly water injection volume. These  
23 curves graphically point out the excellent response that we've  
24 experienced in the Myers Langlie-Mattix Unit.

25 Q Are unitized methods of operation as applied

1 to the area covered by this application feasible?

2 A. Yes, sir, I think from looking at Exhibit  
3 Seven that you can definitely see that they are feasible.

4 Q. Will you not refer to Exhibit Number Eight  
5 and explain what this is and what it shows?

6 A. Exhibit Number Eight is a graph of the  
7 predicted unit performance with and without statutory unitiza-  
8 tion. As previously stated, statutory unitization will result  
9 in the recovery of an additional 500,000 barrels of secondary  
10 oil and extend the economic life of the unit by two years, and  
11 this is graphically presented in this exhibit.

12 Q. Mr. Terry, will unitization and adoption  
13 of the proposed unitized methods of operation benefit working  
14 interest owners and royalty interest owners in the area affected  
15 by this application?

16 A. Yes, sir, it will benefit all working  
17 interest owners, all royalty interest owners, and all over-  
18 riding royalty interest owners, as well.

19 Q. Have you reviewed this application with  
20 the USGS?

21 A. Yes, sir, we discussed this application  
22 with the USGS in January of this year and it was requested that  
23 we keep them informed. We've contacted them since then. We  
24 have a meeting scheduled in Albuquerque with the USGS in the  
25 morning to discuss the application.

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1 Q Have you reviewed the application with the  
2 State Land Office?

3 A Yes, sir, we've -- the State Land Office  
4 has been notified and it's been indicated to us that they will  
5 approve the unit agreement following the issuance of a statu-  
6 tory unitization order.

7 Q And they're going to re-approve the --  
8 the unit at that time?

9 A Yes, sir, that's correct.

10 Q Is unitized management operation and fur-  
11 ther development of that portion of the Langlie-Mattix Pool,  
12 which is the subject of this application, reasonably necessary  
13 to effectively carry on secondary recovery operations?

14 A Yes, sir, it is.

15 Q Will unitized methods of operation prevent  
16 waste of oil and result with reasonable probability in an in-  
17 creased recovery of substantially more oil from the unitized  
18 portion of the pool than otherwise would be recovered?

19 A Yes, sir.

20 Q Mr. Terry, is Getty, as unit operator of  
21 this unit, do they presently have authority to commit addi-  
22 tional wells to injection in the unit area by administrative  
23 procedure?

24 A Yes, sir, we do.

25 Q And are you requesting that any order

1 resulting from this hearing likewise permit conversion of ad-  
2 ditional wells to injection by administrative procedure?

3 A. Yes, sir, we are.

4 Q. In your opinion will granting this appli-  
5 cation be in the interest of conservation, the prevention of  
6 waste, and the protection of correlative rights?

7 A. Yes, sir.

8 Q. Were Exhibits One through Eight prepared  
9 by you or under your direction and supervision?

10 A. Yes, sir, they were.

11 MR. CARR: At this time, may it please  
12 the Commission, we would offer into evidence Applicant's Ex-  
13 hibits One through Eight.

14 MR. RAMEY: The Exhibits One through  
15 Eight will be admitted.

16 MR. CARR: We have nothing further of  
17 this witness on direct.

18 MR. RAMEY: Any questions of the witness?  
19 Mr. Nutter?

20  
21 QUESTIONS BY MR. NUTTER:

22 Q. Mr. Terry, you stated that you weren't  
23 seeking to close the windows that are in the unit area. In  
24 looking at your Exhibit Number Three, first of all, I don't  
25 have on my legend an explanation of what the orange circles

1 depict. Should that be colored on the legend?

2 A. Yes, sir, that should be shown converted  
3 shut-in.

4 Q. Okay, that's --

5 A. The orange -- the orange circles.

6 Q. And then I look up here at the Atlantic  
7 tract, which is in Section 30. It's a 40-acre tract, and on  
8 Section 3 it would appear that there are two green tracts  
9 shown there, or two green circles.

10 A. Yes, sir.

11 Q. Being injectors, and two tilted squares,  
12 being -- indicating they're proposed for injection.

13 A. Yes, sir, that's correct.

14 Q. And then on that 40-acre tract there's a  
15 square around a circle that says proposed producer.

16 Now why aren't you closing the window  
17 there? You've got four injection tracts surrounding a 40-acre  
18 tract. It looks like you're driving oil off the unit onto  
19 that 40-acre tract without any protection for the unit?

20 A. We've discussed this with ARCO, bringing  
21 this particular window into the unit. It's just we're not  
22 seeking to do this at this time, but our -- this is an unde-  
23 veloped tract. ARCO has expressed an interest to bring the  
24 window into the unit.

25 Q. Do you think it's going to be committed

1 to the unit?

2 A Yes, sir, I feel that in the future it  
3 will be committed to the unit.

4 Q What incentive does ARCO have to come into  
5 the unit? It's sitting there with a producer surrounded by  
6 four injection wells.

7 A Presently there's only two injection  
8 wells and I'm sure ARCO's future action will dictate whether  
9 or not we convert these other two wells to injection service.  
10 This is -- this is simply a proposed pattern of development  
11 for the unit at this point.

12 Q Now I can understand down here in the  
13 southwest corner of the unit, that company has one proposed  
14 injection well and one proposed producing well, so you'd come  
15 out even with respect to unit operations there.

16 A Well, this is our proposal here, as far  
17 as this injection well, and then we've discussed with these  
18 people, as well, the possibility of bringing this window into  
19 the unit, or some type of cooperative agreement.

20 Q Uh-huh, and if you had a cooperative  
21 agreement, the unit would come out even, wouldn't it, with  
22 respect to the 80-acre tract --

23 A Yes, sir, this well --

24 Q -- even if they didn't come in.

25 A Yes, sir, that's correct.

1 Q And then this Carter Foundation lease over  
2 to the east here has a number of injection wells and producing  
3 wells. You are working on a line agreement with that company?

4 A Yes, sir, we are. We have discussed a  
5 line agreement with the Carter Foundation. They are definitely  
6 not interested in entering the unit. They do wish to execute  
7 a lease line agreement and the biggest hold-up on that is in  
8 this Well 226.

9 Q Well now, you didn't have statutory unit-  
10 ization available to you when this unit was originally put  
11 together.

12 A No, sir.

13 Q And you couldn't make Carter come in under  
14 any kind of a statutory unitization, but it is available to  
15 you now. Why haven't you brought these undeveloped -- or these  
16 uncommitted tracts in?

17 A We -- we just don't choose to bring in  
18 Carter Foundation. We feel that a lease line agreement is --  
19 is the way we would prefer to go on it, rather than try to  
20 bring in this particular window.

21 Q Uh-huh. Now, why are these converted  
22 injection wells shut-in, that being the orange wells? Because  
23 you haven't arrived at a lease line agreement?

24 A Yes, sir, because we do not have an  
25 agreement.

1 Q Uh-huh, and when you have an agreement,  
2 those wells will be put back on injection?

3 A Yes, sir, that's correct.

4 Q They did inject at one time?

5 A No, they were -- no, sir, they were con-  
6 verted and injection tubing was ran and they've been shut-in  
7 since then. We haven't injected.

8 Q So you're just ready to go with injection.

9 A We're ready to go with this -- this is,  
10 we feel, is the most effective way to flood the unit, and this  
11 is the agreement that we're hoping to negotiate with the Carter  
12 Foundation.

13 Q Now on your Exhibit Number Six, Mr. Terry,  
14 we have all these computations in dollars. The fee royalty  
15 unsigned would gain an additional gross revenue of \$7000.  
16 That's -- why is this figure so low, because you have such a  
17 small amount of unsigned --

18 A Yes.

19 Q -- royalty owners?

20 A Yes.

21 Q At the present time?

22 A Yes, sir, that's correct. If you'll look  
23 at the interest there that the fee royalty -- unsigned fee  
24 royalty have, that -- that's the reason.

25 Q Uh-huh, now their actual royalty is more

1 than this. This is just the additional royalty --

2 A. This is just the additional, based upon  
3 the recovery of an additional 500,000 barrels of oil.

4 MR. NUTTER: I believe that's all.

5 Thank you.

6 MR. RAMEY: Any other questions of the  
7 witness?

8  
9 CROSS EXAMINATION

10 BY MR. RAMEY:

11 Q. Mr. Terry, say if -- if you don't get a  
12 line agreement with Carter Foundation, are you prepared to come  
13 back and request that they be force pooled into the unit?

14 A. I don't think I'm prepared to answer that  
15 at this time. I think we would first probably try to arrive  
16 at a different or a compromise, less than ideal lease line  
17 agreement before we would take that course of action.

18 Q. Okay, thank you.

19 MR. RAMEY: Any other questions?

20 MR. NUTTER: One more.

21  
22 QUESTIONS BY MR. NUTTER:

23 Q. Well, Mr. Terry, I haven't looked at the  
24 description of the unit boundaries in the Exhibit Nine that's  
25 coming up, but the unit boundaries are defined as excluding

1 these windows. These are not unit -- these are not windows  
2 of uncommitted acreage in the unit. They're lands that are  
3 outside of the unit, is that it?

4 A. Yes, that's correct. That's the way  
5 it's --

6 Q. Any statutory unitization order does not  
7 affect these because they're not in the unit.

8 A. That's correct.

9 Q. Okay.

10 A. The unit area will remain exactly the  
11 same as it is now and these windows are not within the unit.

12 Q. Okay.

13 MR. RAMEY: The witness may be excused.  
14 Do you want to call your next witness, Mr. Carr?

15 MR. CARR: I call Harvey O. Woods.

16  
17 HARVEY O. WOODS  
18 being called as a witness and having been duly sworn upon his  
19 oath, testified as follows, to-wit:

20  
21 DIRECT EXAMINATION

22 BY MR. CARR:

23 Q. Will you state your full name and place  
24 of residence?

25 A. Harvey O. Woods, Midland, Texas.



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1 Q. Mr. Woods, have you previously testified  
2 before this Commission as a landman and had your credentials  
3 accepted and made a matter of record?

4 A. No, I have not.

5 Q. Would you briefly summarize for the Com-  
6 mission your educational background and your work experience?

7 A. I'm a graduate of Hardin Simmons Univer-  
8 sity in business management. I worked for Skelly and Getty  
9 Oil Companies for the last twenty-seven years as a roustabout,  
10 office manager, assistant operations superintendent, and a  
11 landman.

12 Q. And by whom are you currently employed?

13 A. Getty Oil Company.

14 Q. In what capacity?

15 A. As a New Mexico area landman.

16 Q. Are you familiar with the application of  
17 Getty Oil Company in this case?

18 A. Yes, I am.

19 Q. And are you familiar with the Myers  
20 Langlie-Mattix Unit?

21 A. Yes, I am.

22 MR. CARR: Are the witness' qualifications  
23 acceptable?

24 MR. RAMEY: Yes, they're acceptable.

25 Q. Mr. Woods, have you prepared certain ex-

1 hibits for introduction in this case?

2 A. Yes, I have.

3 Q. Would you please refer to what has been  
4 marked as Getty Exhibit Number Nine and identify that for the  
5 Commission?

6 A. This is a unit agreement for the develop-  
7 ment and operation of the Myers Langlie-Mattix Unit in Lea  
8 County, New Mexico.

9 Q. Will you now refer to Applicant's Exhibit  
10 Number Ten and explain what this is and what it shows?

11 A. This is the first and second revision of  
12 the unit agreement that provides for -- that identifies the  
13 character of the land, the waterflooding operation, and the  
14 unit area.

15 Q. And is this in a usual form?

16 A. It's in a usual form, yes.

17 Q. And does it set out the basis for partici-  
18 pation of each of the parties in the unit?

19 A. Yes, it does.

20 Q. Are the waterflooding operations presently  
21 being conducted in this unit?

22 A. Yes, they are.

23 Q. Would you please explain the basis for  
24 the participation formula?

25 A. Prior to unitization they had an engineerin

1 study committee that made a study of the recommended reservoir  
2 based on past cumulative production, the anticipated secondary  
3 recovery, and the acreage contributions of each tract, and  
4 they arrived at a formula for tract participation from that  
5 study.

6 Q In your opinion, does this formula allo-  
7 cate production to the separately owned tracts on a fair,  
8 reasonable, and equitable basis?

9 A Yes, it does, and after the unit was  
10 created the working interest owners negotiated an equitable  
11 formula for the tract participation and it was ratified by the  
12 working interest owners.

13 Q And that's the formula we're presenting  
14 to the Commission today?

15 A That is true.

16 Q What is the basis for participation in  
17 the unit?

18 A 85 percent ultimate recovery, 10 percent  
19 cumulative past production, and 5 percent acreage.

20 Q Mr. Woods, would you please refer to what  
21 has been marked for identification as Getty Oil Company Exhibit  
22 Number Eleven and identify this for the Commission?

23 A Yes. This is the unit operating agreement  
24 for the Myers Langlie-Mattix Unit.

25 Q Now I'd ask you to review Exhibit Number

1 Twelve and explain to the Commission what it is and what it  
2 shows.

3 A. This is a unit operating agreement, Exhibit  
4 D, second revision, July 1, 1976. It outlines the supervision  
5 of the unit to be exercised by the now operator. It defines  
6 the rights and duties of all parties. It shows how investments  
7 and costs are to be shared. It establishes voting procedure  
8 for decisions to be made by the working interest owners. This  
9 is based on the equal working interest owner participation in  
10 the unit; sets forth the accounting procedures, and contains  
11 other standard provisions in a unit of this type.

12 Q. Okay, so the voting procedures are tied  
13 to the ownership of each of the working interest owners?

14 A. Yes, based on their participation.

15 Q. And the unit operating agreement, as  
16 amended, shows how costs will be allocated and paid.

17 A. Absolutely.

18 Q. Mr. Woods, if statutory unitization is  
19 approved pursuant to this application, will the unit continue  
20 to be operated under the same unit agreement, unit operating  
21 agreement?

22 A. There will be no change in either agreement.

23 Q. Will you now refer to what has been  
24 marked for identification as Getty Exhibit Number Thirteen and  
25 explain to the Commission what this is?

1 A. Yes. This is a list of the working interest  
2 owners in the Myers Langlie-Mattix Unit, and it shows the unit  
3 participation and indicates which interests are not signed, or  
4 unsigned.

5 Q. What percentage of the working interest  
6 ownership is presently unsigned?

7 A. Less than 1/100ths of one percent.

8 Q. Will you now refer to what has been  
9 marked for identification Getty Exhibit Number Fourteen and  
10 explain this to the Commission?

11 A. This is an indemnity agreement with the  
12 Langlie-Mattix Myers Unit. It covers the unqualified tracts  
13 that wish to come into the unit but will indemnify the other  
14 working interest owners of any type of -- of bills or costs or  
15 any kind of liability against unqualified tracts.

16 Q. Mr. Woods, would you now refer to Getty  
17 Exhibit Number Fifteen and explain what this is to the Commis-  
18 sion?

19 A. This is a letter dated October the -- I  
20 mean February the 5th, 1980, requesting for Division orders  
21 and any type of information from all working interest owners  
22 to provide us with the information to try to sign unsigned  
23 royalty owners in various tracts in the unit.

24 Q. And this letter was mailed to all working  
25 interest owners?

1 A. All unsigned -- oh, the letter was mailed  
2 to all working interest owners in the unit, yes.

3 Q. And you were attempting to get the most  
4 current address of the royalty interest owners?

5 A. We were trying to get information to lead  
6 us to sign the unsigned royalty tracts, yes.

7 Q. Now I'd ask you to explain what Exhibit  
8 Number Sixteen is.

9 A. This is a list of the royalty interest  
10 owners, including the royalty and overriding royalty interests  
11 within the unit. It shows the royalty interest, their parti-  
12 cipation in these tracts. It also indicates the unsigned  
13 royalty owners.

14 Q. What percentage of the royalty interest  
15 ownership is currently unsigned?

16 A. 1/4th of one percent.

17 Q. Now, Mr. Woods, please refer to what has  
18 been marked for identification as Getty Exhibit Number Seventeen  
19 and explain this to the Commission?

20 A. Okay. This was a letter that was written  
21 to only those that were not committed to the unit.

22 Q. This was only to royalty interest owners?

23 A. These are to royalty interest owners,  
24 overriding royalty and royalty, and the reason for this was  
25 trying to, or attempting to get those people to ratify the unit

1 on a voluntary basis.

2 Q. And what response did you receive to this  
3 letter?

4 A. About 50 percent of those that were un-  
5 signed at that particular time responded to this letter.

6 Q. Would you briefly summarize your prior  
7 efforts to get royalty interest owners to commit their interest  
8 to the unit?

9 A. For the past five years we've had anywhere  
10 from two to three employees researching records, trying to get  
11 available information as to the present whereabouts of all the  
12 unsigned royalty owners. We mailed out certified letters for  
13 a unit agreement, unit operating agreement, and ratification,  
14 and spent numerous telephone calls and even trips to visit  
15 with the people that were unsigned to attempt to get those  
16 people to voluntarily ratify the unit.

17 Q. Do you believe you have done all that you  
18 reasonably can do to obtain voluntary commitment?

19 A. At this time, yes, I do.

20 Q. Has Getty made a good faith effort to  
21 secure voluntary unitization of all working interest owners  
22 and royalty interest owners in the area affected by this ap-  
23 plication?

24 A. Yes, sir, they have.

25 Q. Will you now refer to what has been marked

1 Getty Exhibit Number Eighteen and explain to the Commission  
2 what this is and what it shows?

3 A. This is a tabulation of the royalty in-  
4 terest, showing a total interest -- total Federal interest, a  
5 total State interest, and the unsigned fee and the signed fee.  
6 And then under the working interest it shows a signed royalty,  
7 the signed working interest and the unsigned working interest,  
8 and both tabulate over 99 percent, as a round-off area, of  
9 more than --

10 Q. What was that? Would you repeat that  
11 answer?

12 A. On this right here?

13 Q. Yes.

14 A. There's a total of less than 2 percent --  
15 say 2000 to 1 percent does not sign in the royalty and the --  
16 and the working interest ownership.

17 Q. And is this total --

18 A. It's not equal to 100, no. Call it a  
19 round-off area of -- round-off area is allowed out here of  
20 about 2-millionths.

21 Q. Have there been any changes in this  
22 tabulation since May of 1980?

23 A. No change.

24 Q. Mr. Woods, were Exhibits Nine through  
25 Eighteen either prepared by you or can you testify to their



1 accuracy from your own knowledge?

2 A. Either by me or under my supervision.

3 MR. CARR: At this time we would offer  
4 Getty Exhibits Nine through Eighteen.

5 MR. RAMEY: Getty Exhibits Nine through  
6 Eighteen will be admitted.

7 MR. CARR: We have nothing further of  
8 this witness on direct.

9 MR. RAMEY: Any questions? Mr. Nutter.

10  
11 QUESTIONS BY MR. NUTTER:

12 Q. Mr. Woods, in response to questions, Mr.  
13 Terry stated that the Carter Foundation tract, the Atlantic  
14 tract, and this other tract down here in Section 7, were not  
15 in the unit area; that the unit area was defined by the magenta  
16 line and it excluded those tracts.

17 Then on examination of the unit agreement  
18 and Exhibit A, the Carter Foundation tract is shown to be in  
19 the unit area in Tract 9.

20 The Atlantic tract is shown in the unit  
21 area as Tract 82, and the King, Warren, and Dye tract in Sec-  
22 tion 7 is shown to be Tract Number 67.

23 Now I realize that in the participation  
24 they're shown as having zero participation but they are in the  
25 unit area. Now if we enter an order statutorily unitizing the

1 unit area, as defined, those tracts are coming in.

2 A. It will have to be revised to exclude  
3 those tracts, the unit agreement.

4 Q. What have we got here to revise it? We  
5 don't have any testimony --

6 MR. CARR: The two revisions to the unit  
7 agreement, which are Exhibits -- the following exhibits --

8 A. Exhibits right there exclude those.

9 MR. CARR: -- exclude that from the unit  
10 area.

11 Q. All right, Exhibit Number One is the  
12 first revision to the operating agreement. Where are those  
13 exhibits, Mr. Carr?

14 MR. PADILLA: Isn't that Exhibit Ten?

15 MR. NUTTER: No, that's the --

16 MR. CARR: They should be Exhibit Ten, Mr.  
17 Nutter. Let's see Exhibit Ten.

18 MR. TERRY: It's right there.

19 MR. NUTTER: Okay, Exhibit Ten is the new  
20 revised Exhibit A to the unit agreement, is that it?

21 MR. CARR: That's correct.

22 MR. NUTTER: And Exhibit C here is a re-  
23 vision of the schedule of tract participation. No, it doesn't  
24 exclude Tract 9.

25 MR. RAMEY: Where -- where is Tract 9?

1 MR. NUTTER: Or did you renumber the  
2 tracts?

3 It calls it an unqualified tract but it's  
4 still listed in here as a tract in the unit.

5 MR. CARR: Tract 9, like other tracts up  
6 in the -- oh, let's see, Mr. Nutter --

7 MR. NUTTER: Tracts 82 and 67, I believe,  
8 are --

9 MR. CARR: Well, these tracts have been  
10 treated as if they were outside of the unit. There are also  
11 some other tracts to the north and east that are -- are the  
12 same. They're carried in here as unqualified tracts that were  
13 within the original proposed area, but they are treated through-  
14 out as if they are not within the unit area at all and not,  
15 therefor, windows.

16 MR. NUTTER: Shouldn't the Exhibit B be  
17 revised to eliminate those tracts?

18 MR. CARR: Well, perhaps it should be.  
19 It would be consistent with the ad. It would be consistent  
20 with the legal -- with the application and all in this case  
21 to do that, too, take those out and perhaps an additional re-  
22 vision of Unit B would be necessary to avoid this confusion  
23 on this.

24 MR. NUTTER: Now I note that originally  
25 Tract Number 67 on the original unit agreement and Exhibit C

1 was shown as being a participating tract, but is now shown as  
2 not participating at all. Did that tract at one time partici-  
3 pate?

4 MR. CARR: It apparently has never parti-  
5 cipated. It was in the area but unqualified.

6 MR. PADILLA: Well, the other, Tract 82  
7 and Tract 9 do show zero participation from both, but Tract  
8 67 does show a percent participation.

9 MR. NUTTER: We're looking at Exhibit C  
10 to the unit agreement, the original unit agreement.

11 MR. CARR: The original?

12 MR. NUTTER: Right. Okay, now you'll note  
13 there that Tract 9 shows zero participation for Phase One and  
14 zero participation for Phase Two.

15 Then on the next page Tract 67 shows part-  
16 icipation on Phase One and Phase Two. Tract 82 shows zero  
17 participation for Phase One and Phase Two.

18 So even though that tract didn't qualify,  
19 apparently at one time it participated.

20 MR. CARR: Mr. Nutter, there is an error  
21 in the Exhibit C attached to the original unit agreement and  
22 it is correct -- it is corrected by the revisions to it that  
23 were adopted in 1974. If you desire I can call a witness who  
24 can testify to that fact.

25 MR. NUTTER: Is it shown on one of the

1 exhibits?

2 MR. CARR: It's Exhibit Number Twelve. It's actually -  
3 or I'm sorry, Exhibit Number Ten. It's actually the third  
4 page of that exhibit. Exhibit C lists the schedule of tract  
5 participation and Tract 67 has been excluded.

6 MR. NUTTER: Well, all three tracts are  
7 excluded on that exhibit.

8 MR. CARR: That's correct.

9 MR. NUTTER: 9 and 67 and 82.

10 MR. CARR: That's right. That's correct.  
11 And this is in error because it has never participated in the  
12 unit; that is referring to Tract 67.

13 MR. NUTTER: Okay. Well, apparently Ex-  
14 hibit A and Exhibit Number Ten is correct, then. This shows  
15 the unit outline as amended, as the actual unit area, which  
16 excludes the old Tract 9, 67, and 82.

17 MR. CARR: That's correct.

18 MR. NUTTER: And also some tracts up on  
19 the north end that --

20 MR. CARR: That is correct.

21 MR. NUTTER: -- you mentioned, and a 40-acre  
22 tract down on the south end.

23 MR. CARR: That's right.

24 MR. NUTTER: Yeah, one 40-acre tract in  
25 the south end.

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7409

1 MR. CARR: In Section 9.

2 MR. NUTTER: Where Well 220 is.

3 MR. CARR: Yes, sir, in Section 9, that's  
4 correct.

5 MR. NUTTER: Okay.

6 MR. CARR: Which is the southwest of the  
7 northeast of that section.

8 MR. NUTTER: Okay, so now if you could  
9 prepare a new exhibit B to go with this revised Exhibit A, to  
10 substitute for the Exhibit B that's in Exhibit Ten.

11 MR. CARR: Right, we can do that.

12 MR. NUTTER: Excluding those tracts com-  
13 pletely and not just listing them as unqualified tracts, but  
14 excluding them, then the unit area could be defined. Exhibit  
15 Ten as amended would stand as the definition of what the unit  
16 area is, and it wouldn't affect royalty interests or working  
17 interests, either one, in those lands that are outside the  
18 unit area.

19 MR. CARR: Getty has the data to do that,  
20 and with the Commission's permission, we will supply that data  
21 to you immediately with the amended exhibit reflecting that  
22 these tracts are not just unqualified but not within the unit  
23 area at all.

24 MR. NUTTER: Not in the unit area at all.

25 MR. CARR: Correct.

1 MR. NUTTER: Right. That's all the  
2 questions I have on that.

3 MR. RAMEY: Any other questions of Mr.  
4 Woods? He may be excused.

5 MR. CARR: We have nothing further.

6 MR. RAMEY: Does anyone have anything  
7 further in Case 6987?

8 If not, the Commission will take the  
9 case under advisement, and the hearing is adjourned.

10  
11 (Hearing concluded.)  
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SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7409

## C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREPY CERTIFY that the foregoing Transcript of Hearing before the Oil Conservation Division was reported by me; that the said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability.

Sally W. Boyd C.S.R.

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B

Santa Fe, New Mexico 87501

Phone (505) 455-7409



STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION

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

CASE NO. 6987  
Order No. R-6447

APPLICATION OF GETTY OIL COMPANY  
FOR STATUTORY UNITIZATION, LEA  
COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on August 5, 1980, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 27th day of August, 1980, the Commission, a quorum being present, having considered the testimony and the record and being otherwise fully advised in the premises,

FINDS:

(1) That due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.

(2) That the applicant, Getty Oil Company, seeks the statutory unitization, pursuant to the "Statutory Unitization Act," Sections 70-7-1 through 70-7-21, NMSA 1978, of 9,360 acres, more or less, being a portion of the Langlie Mattix Pool, Lea County, New Mexico, said portion being known as the Myers Langlie-Mattix Unit Area and applicant further seeks approval of the Unit Agreement as revised and the Unit Operating Agreement as revised.

(3) That the Myers Langlie-Mattix Unit Agreement was approved by the Oil Conservation Commission by Order No. R-4680 entered in Case No. 5087 on October 31, 1973.

(4) That the Myers Langlie-Mattix Unit became effective on February 1, 1974, and has been operated by Getty Oil Company and its predecessor in interest, Skelly Oil Company, since that date.

(5) That the applicant seeks statutory unitization of this voluntary unit to enable it to institute more effective and efficient operating practices thereby extending the economic life of the unit.

(6) That the unit area should be designated the Myers Langlie-Mattix Unit Area and the horizontal limits of said unit area should be comprised of the following described lands:

TOWNSHIP 23 SOUTH, RANGE 36 EAST, NMPH

Section 25: N/2 NE/4, SE/4 NE/4, E/2  
SW/4, SW/4 SW/4, and SE/4  
Section 36: N/2, SE/4, and E/2 SW/4

TOWNSHIP 23 SOUTH, RANGE 37 EAST, NMPH

Section 28: SW/4  
Section 29: W/2, W/2 E/2, and E/2 SE/4  
Section 30: N/2, SW/4, N/2 SE/4, and  
SW/4 SE/4  
Sections 31 through 33: All  
Section 34: W/2

TOWNSHIP 24 SOUTH, RANGE 36 EAST, NMPH

Section 1: NE/4 NE/4  
Section 12: S/2 N/2, N/2 S/2, and SE/4  
SE/4

TOWNSHIP 24 SOUTH, RANGE 37 EAST, NMPH

Section 2: W/2 NE/4 and W/2  
Section 3: NE/4, E/2 SE/4, and W/2  
SW/4  
Sections 4 and 5: All  
Section 6: E/2, E/2 W/2, and NW/4  
NW/4  
Section 7: N/2, SE/4, and S/2 SW/4  
Section 8: N/2, N/2 S/2, and SW/4  
SW/4  
Section 9: NW/4, N/2 SW/4, N/2 NE/4,  
and SE/4 NE/4  
Section 10: NW/4, W/2 NE/4, SE/4 NE/4,  
E/2 SW/4, and W/2 SE/4

Section 11: SW/4 NW/4

(7) That the vertical limits of said Myers Langlie-Mattix Unit Area should comprise that interval which extends from a point 100 feet above the base of the Seven Rivers formation to

the base of the Queen formation; said interval having been heretofore found to occur in the Texas Pacific Oil Company's Blinbry "B" Well No. 3 located 330 feet from the North line and 2310 feet from the West line of Section 34, Township 23 South, Range 37 East, NMPPM, Lea County, New Mexico, at an indicated depth interval of 3168 feet to 3570 feet, as recorded on the Schlumberger Electrical Log Run No. 1 taken December 26, 1952, said log being measured from a derrick floor elevation of 3300 feet above sea level.

(8) That the portion of the Langlie Mattix Pool proposed to be included in the aforesaid Myers Langlie-Mattix Unit Area has been reasonably defined by development.

(9) That the applicant proposes to continue water flooding for the secondary recovery of oil, gas, gaseous substances, sulfur contained in gas, condensate, distillate and all associated and constituent liquid or liquifiable hydrocarbons within and to be produced from the proposed unit area.

(10) That the continuation of secondary recovery operations as a result of statutory unitization should result in the additional recovery of approximately 500,000 barrels of oil.

(11) That the unitized management, operation and further development of the Myers Langlie-Mattix Unit Area, as proposed, is reasonably necessary to effectively carry on secondary recovery operations and will substantially increase the ultimate recovery of oil from the unitized portion of the pool.

(12) That the proposed unitized method of operation as applied to the Myers Langlie-Mattix Unit Area is feasible and will result with reasonable probability in the increased recovery of substantially more oil from the unitized portion of the pool than would otherwise be recovered without unitization.

(13) That the estimated additional investment costs which result from statutory unitization are \$1.6 million from which can be deducted \$600,000, which will be saved by not having to maintain separate production facilities on certain tracts within the unit area for a net additional investment of \$1 million.

(14) That the additional recovery to be derived from the extended secondary recovery operations resulting from statutory unitization will have a gross value to the unit of \$18.24 million.

(15) That the estimated additional costs of the proposed operations (as described in Finding No. (13) above) will not exceed the estimated value of the additional oil (as described in Finding No. (14) above) plus a reasonable profit.

(16) That the applicant, the designated Unit Operator pursuant to the Unit Agreement and the Unit Operation Agreement, has made a good faith effort to secure voluntary unitization within the Myers Langlie-Mattix Unit Area.

(17) That the participation formula contained in the Unit Agreement allocates the produced and saved unitized substances to the separately owned tracts in the unit area on a fair, reasonable, and equitable basis.

(18) That statutory unitization and the adoption of the proposed unitized method of operation will benefit the working interest owners and royalty owners of the oil and gas rights within the Myers Langlie-Mattix Unit Area.

(19) That the granting of the application in this case will have no adverse effect upon other portions of the Langlie Mattix Pool.

(20) That applicant's Exhibits Nos. 9 and 11 as revised by Exhibits 10 and 12 in this case, being the Unit Agreement and the Unit Operating Agreement, respectively, should be incorporated by reference into this order.

(21) That the Myers Langlie-Mattix Unit Agreement and the Myers Langlie-Mattix Unit Operating Agreement provide for unitization and unit operation of the Myers Langlie-Mattix Unit Area upon terms and conditions that are fair, reasonable, and equitable, and which include:

(a) an allocation to the separately owned tracts in the unit area of all oil and gas that is produced from the unit area and which is saved, being the production that is not used in the conduct of unit operations or not unavoidably lost;

(b) a provision for the credits and charges to be made in the adjustment among the owners in the unit area for their respective investments in wells, tanks, pumps, machinery, materials, and equipment contributed to the unit operations;

(c) a provision governing how the costs of unit operations including capital investments shall be determined and charged to the separately owned tracts and how said costs shall be paid including a provision providing when, how, and by whom the unit production allocated to an owner who does not pay his share of the costs of unit operations shall be charged to such owner, or the interest of such owner, and how his interest may be sold and the proceeds applied to the payment of his costs;

(d) a provision for carrying any working interest owner on a limited, carried, or net-profits basis, payable out of production, upon such terms and conditions which are just and reasonable, and which allow an appropriate charge for interest for such service payable out of production, upon such terms and conditions determined by the Commission to be just and reasonable, and allowing an appropriate charge for interest for such service payable out of such owner's share of production, providing that any nonconsenting working interest owner being so carried shall be deemed to have relinquished to the Unit Operator all of his operating rights and working interests in and to the unit until his share of the costs, service charge, and interest are repaid to the Unit Operator;

(e) a provision designating the Unit Operator and providing for the supervision and conduct of the unit operations, including the selection, removal or substitution of an operator from among the working interest owners to conduct the unit operations;

(f) a provision for voting procedure for the decision of matters to be decided by the working interest owners in respect to which each working interest owner shall have a voting interest equal to his unit participation; and

(g) the time when the unit operation shall commence and the manner in which, and the circumstances under which, the operations shall terminate and for the settlement of accounts upon such termination.

(22) That applicant seeks establishment of an administrative procedure whereby the conversion of additional wells to injection may be approved without further notice or hearing.

(23) That the statutory unitization of the Myers Langlie-Mattix Unit Area is in conformity with the above findings, and

will prevent waste and protect the correlative rights of all owners of interest within the proposed unit area, and should be approved.

IT IS THEREFORE ORDERED:

(1) That the Myers Langlie-Mattix Unit Area, comprising 9,360 acres, more or less, in the Langlie Mattix Pool, Lea County, New Mexico, is hereby approved for statutory unitization pursuant to the Statutory Unitization Act, Sections 70-7-1 through 70-7-21 NMSA 1978.

(2) That the lands included within the Myers Langlie-Mattix Unit Area shall be comprised of:

TOWNSHIP 23 SOUTH, RANGE 36 EAST, NMPM

Section 25: N/2 NE/4, SE/4 NE/4, E/2  
SW/4, SW/4 SW/4, and SE/4  
Section 36: N/2, SE/4, and E/2 SW/4

TOWNSHIP 23 SOUTH, RANGE 37 EAST, NMPM

Section 28: SW/4  
Section 29: W/2, W/2 E/2, and E/2 SE/4  
Section 30: N/2, SW/4, N/2 SE/4, and  
SW/4 SE/4  
Sections 31 through 33: All  
Section 34: W/2

TOWNSHIP 24 SOUTH, RANGE 36 EAST, NMPM

Section 1: NE/4 NE/4  
Section 12: S/2 N/2, N/2 S/2, and  
SE/4 SE/4

TOWNSHIP 24 SOUTH, RANGE 37 EAST, NMPM

Section 2: W/2 NE/4 and W/2  
Section 3: NE/4, E/2 SE/4, and W/2 SW/4  
Sections 4 and 5: All  
Section 6: E/2, E/2 W/2, and NW/4 NW/4  
Section 7: N/2, SE/4, and S/2 SW/4  
Section 8: N/2, N/2 S/2, and SW/4 SW/4  
Section 9: NW/4, N/2 SW/4, N/2 NE/4,  
and SE/4 NE/4  
Section 10: NW/4, W/2 NE/4, SE/4 NE/4,  
E/2 SW/4, and W/2 SE/4  
Section 11: SW/4 NW/4

(3) That the vertical limits of said Myers Langlie-Mattix Unit Area should comprise that interval which extends from a point 100 feet above the base of the Seven Rivers formation to the base of the Queen formation; said interval having been heretofore found to occur in the Texas Pacific Oil Company's Blinebry "B" Well No. 3 located 330 feet from the North line and 2310 feet from the West line of Section 34, Township 23 South, Range 37 East, NMPM, Lea County, New Mexico, at an indicated depth interval of 3168 feet to 3570 feet, as recorded on the Schlumberger Electrical Log Run No. 1 taken December 26, 1952, said log being measured from a derrick floor elevation of 3300 feet above sea level.

(4) That the applicant shall waterflood for the secondary recovery of oil, gas, gaseous substances, sulfur contained in gas, condensate, distillate, and all associated and constituent liquid or liquified hydrocarbons within and produced from the unit area.

(5) That the Myers Langlie-Mattix Unit Agreement as revised and the Myers Langlie-Mattix Unit Operating Agreement as revised are approved and adopted and incorporated by reference into this order.

(6) That when, pursuant to the terms of Sections 70-7-9 NMSA 1978, the persons owning the required percentage of interest in the unit area have approved or ratified the Unit Agreement and the Unit Operating Agreement, the interests of all persons within the unit area are unitized whether or not such persons have approved the Unit Agreement or the Unit Operating Agreement in writing.

(7) That the applicant as Unit Operator shall notify in writing the Division Director of any removal or substitution of said Unit Operator by any other working interest owner within the unit area.

(8) That the applicant is authorized to convert additional wells to injection in accordance with the provisions of Division Rule 701 E 4.

(9) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

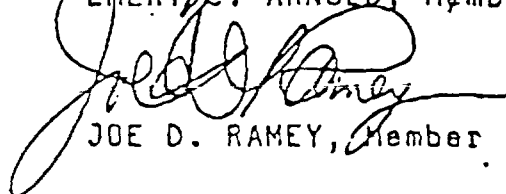
-8-  
Case No. 6987  
Order No. R-6447

DONE at Santa Fe, New Mexico, on the day and year herein-  
above designated.

STATE OF NEW MEXICO  
OIL CONSERVATION COMMISSION

ALEX J. ARMIJO; Member

  
EMERY C. ARNOLD, Member

  
JOE D. RAMEY, Member & Secretary

S E A L

fd/



RATIFICATION AND APPROVAL  
OF THE PLAN FOR UNIT OPERATIONS  
AS STATED IN THE UNIT AGREEMENT AND  
UNIT OPERATING AGREEMENT OF THE  
MYERS LANGLIE-MATTIX UNIT  
LEA COUNTY, NEW MEXICO

KNOW ALL MEN BY THESE PRESENTS, THAT:

For consideration and the purposes stated in those certain agreements, entitled as above; both being dated January 1, 1973, and to obtain the benefits of unitized management, operation and further development of the oil and gas properties in the Myers Langlie-Mattix Unit pursuant to New Mexico Oil Conservation Commission Order No. R-6447 entered on August 27, 1980, approving statutory unitization of the Myers Langlie-Mattix Unit, the undersigned (whether one or more) represents that it is a Working Interest Owner within the meaning of that term as used in the captioned Unit Agreement and, as such, does hereby consent to ratify and approve the plan for unit operations contained in the captioned Unit Agreement and Unit Operating Agreement, said Agreements being incorporated herein by reference and said plan for unit operations having been approved by the New Mexico Oil Conservation Commission in Order No. R-6447.

If the undersigned is also a Royalty Owner, within the meaning of that term as used in said Unit Agreement, then for the considerations and purposes hereinabove stated, this ratification and approval shall extend to the undersigned's Royalty Interest as well as to its Working Interest.

The undersigned hereby acknowledges receipt of copies of said New Mexico Oil Conservation Commission Order No. R-6447, Unit Agreement and Unit Operating Agreement and further acknowledges that the plan for unit operations prescribed in said documents has been ratified and approved and unconditionally delivered on the date set out hereinbelow.

This ratification shall extend to and be binding upon the undersigned, his heirs, legal representatives, successors and assigns.

The undersigned, whether one or more, is referred to in the neuter gender.

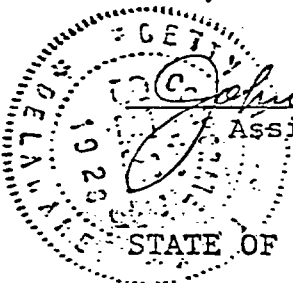
IN WITNESS WHEREOF, this instrument is executed this 29th  
day of September, 1980.

GETTY OIL COMPANY

By

[Signature]  
Vice President

ATTEST:



[Signature]  
Assistant Secretary

STATE OF Oklahoma

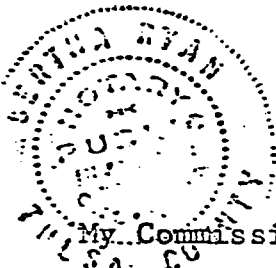
COUNTY OF Tulsa

ss.

FILE COPY	
APPROVED BY	
Exec.	
Auth.	
Law	<u>CEB</u>
Fed. Tax	
Envt.	
U.S. Recl.	
Envt.	
Prod.	<u>WAF</u>
Gen.	
E & T	
Ins.	
Adm.	
Contract	<u>[Signature]</u>

SUBSCRIBED AND SWORN TO before me this 29th day of

September, 1980.



My Commission Expires:

April 1, 1981

[Signature]  
Notary Public

STATE OF NEW MEXICO  
COUNTY OF LEA  
FILED

JAN 6 1981

at 11:05 AM  
and recorded in Book 382  
Page 612  
Donna Benoe, County Clerk

641

368

*Misc* BOOK 383 PAGE 63

RATIFICATION AND APPROVAL  
OF THE PLAN FOR UNIT OPERATIONS  
AS STATED IN THE UNIT AGREEMENT OF  
THE MYERS LANGLIE-MATTIX UNIT  
LEA COUNTY, NEW MEXICO

STATE OF NEW MEXICO  
COUNTY OF LEA  
FILED

JAN 6 1981

at 11:05 A.M.  
and recorded in Book 383  
Pg: 103  
Donna Bengel, County Clerk  
By: JB Deputy

KNOW ALL MEN BY THESE PRESENTS, THAT:

For consideration and the purposes stated in that certain agreement, entitled as above, being dated January 1, 1973, and to obtain the benefits of unitized management, operation and further development of the oil and gas properties in the Myers Langlie-Mattix Unit pursuant to New Mexico Oil Conservation Commission Order No. R-6447 entered on August 27, 1980, approving statutory unitization of the Myers Langlie-Mattix Unit, the undersigned (whether one or more) represents that it is a Royalty Interest Owner within the meaning of that term as used in the captioned Unit Agreement and, as such, does hereby consent to ratify and approve the plan for unit operations contained in the captioned Unit Agreement, said Agreement being incorporated herein by reference and said plan for unit operations having been approved by the New Mexico Oil Conservation Commission in Order No. R-6447.

The undersigned hereby acknowledges receipt of copies of said New Mexico Oil Conservation Commission Order No. R-6447 and Unit Agreement and further acknowledges that the plan for unit operations prescribed in said documents has been ratified and approved and unconditionally delivered on the date set out hereinbelow.

This ratification shall extend to and be binding upon the undersigned, his heirs, legal representatives, successors and assigns.

The undersigned, whether one or more, is referred to in the neuter gender.

IN WITNESS WHEREOF, this instrument is executed this 21st.  
day of October, 1980.

Alex J. Armijo  
ALEX J. ARMIJO  
COMMISSIONER OF PUBLIC LANDS  
STATE OF NEW MEXICO

369

442

*misc*  
X BOOK 383 PAGE 210

RATIFICATION AND APPROVAL  
OF THE PLAN FOR UNIT OPERATIONS  
AS STATED IN THE UNIT AGREEMENT OF  
THE MYERS LANGLIE-MATTIX UNIT  
LEA COUNTY, NEW MEXICO

KNOW ALL MEN BY THESE PRESENTS, THAT:

For consideration and the purposes stated in that certain agreement, entitled as above, being dated January 1, 1973, and to obtain the benefits of unitized management, operation and further development of the oil and gas properties in the Myers Langlie-Mattix Unit pursuant to New Mexico Oil Conservation Commission Order No. R-6447 entered on August 27, 1980, approving statutory unitization of the Myers Langlie-Mattix Unit, the undersigned (whether one or more) represents that it is a Royalty Interest Owner within the meaning of that term as used in the captioned Unit Agreement and, as such, does hereby consent to ratify and approve the plan for unit operations contained in the captioned Unit Agreement, said Agreement being incorporated herein by reference and said plan for unit operations having been approved by the New Mexico Oil Conservation Commission in Order No. R-6447.

The undersigned hereby acknowledges receipt of copies of said New Mexico Oil Conservation Commission Order No. R-6447 and Unit Agreement and further acknowledges that the plan for unit operations prescribed in said documents has been ratified and approved and unconditionally delivered on the date set out hereinbelow.

This ratification shall extend to and be binding upon the undersigned, his heirs, legal representatives, successors and assigns.

The undersigned, whether one or more, is referred to in the neuter gender.

IN WITNESS WHEREOF, this instrument is executed this 17<sup>th</sup> day of October, 1980.

SUN OIL COMPANY (DELAWARE)

*Arthur F. Allen*

Agent and Attorney in Fact


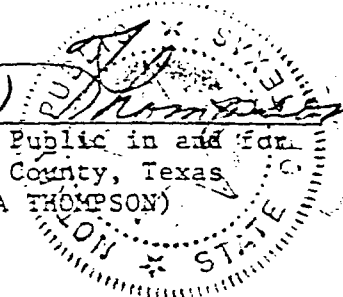
APPROVED	
Legal	<i>AF</i>
C&LA	
Gen.	
Land	<i>GBM</i>
Unit.	<i>GBM</i>
J.O.	<i>GBM</i>

THE STATE OF TEXAS        I  
COUNTY OF DALLAS        I

BEFORE ME, the undersigned authority, on this day personally appeared Luther F. Ellison, known to me to be the person who executed the foregoing instrument as Agent and Attorney-in-Fact for SUN OIL COMPANY (DELAWARE), and acknowledged to me that he executed the same for the purposes and consideration therein expressed as the act and deed of said corporation, and in the capacity therein stated.

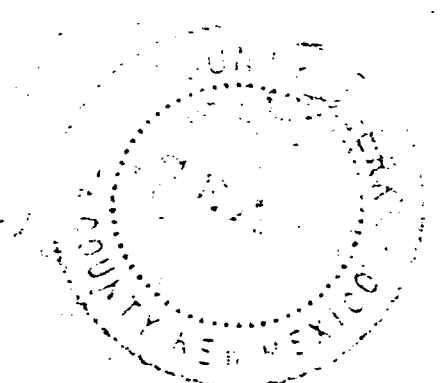
GIVEN UNDER MY HAND AND SEAL OF OFFICE this 17<sup>th</sup> day of October, 1980.

My Commission Expires: 7-19-84

  
Notary Public in and for  
Dallas County, Texas  
(GLORIA THOMPSON)  


STATE OF NEW MEXICO - COUNTY OF LEA  
FILED

JAN 6 1981  
at 11:05 o'clock a M and Recorded in  
Book 383 Page 210  
Donna Bengel, County Clerk  
By DTB Deputy



BOOK 382 PAGE 642 RATIFICATION AND APPROVAL

OF THE PLAN FOR UNIT OPERATIONS  
AS STATED IN THE UNIT AGREEMENT AND  
UNIT OPERATING AGREEMENT OF THE  
MYERS LANGLIE-MATTIX UNIT  
LEA COUNTY, NEW MEXICO

KNOW ALL MEN BY THESE PRESENTS, THAT:

For consideration and the purposes stated in those certain agreements, entitled as above, both being dated January 1, 1973, and to obtain the benefits of unitized management, operation and further development of the oil and gas properties in the Myers Langlie-Mattix Unit pursuant to New Mexico Oil Conservation Commission Order No. R-6447 entered on August 27, 1980, approving statutory unitization of the Myers Langlie-Mattix Unit, the undersigned (whether one or more) represents that it is a Working Interest Owner within the meaning of that term as used in the captioned Unit Agreement and, as such, does hereby consent to ratify and approve the plan for unit operations contained in the captioned Unit Agreement and Unit Operating Agreement, said Agreements being incorporated herein by reference and said plan for unit operations having been approved by the New Mexico Oil Conservation Commission in Order No. R-6447.

If the undersigned is also a Royalty Owner, within the meaning of that term as used in said Unit Agreement, then for the considerations and purposes hereinabove stated, this ratification and approval shall extend to the undersigned's Royalty Interest as well as to its Working Interest.

The undersigned hereby acknowledges receipt of copies of said New Mexico Oil Conservation Commission Order No. R-6447, Unit Agreement and Unit Operating Agreement and further acknowledges that the plan for unit operations prescribed in said documents has been ratified and approved and unconditionally delivered on the date set out hereinbelow.

This ratification shall extend to and be binding upon the undersigned, his heirs, legal representatives, successors and assigns.

The undersigned, whether one or more, is referred to in the neuter gender.

IN WITNESS WHEREOF, this instrument is executed this 23rd  
day of October, 1980.

[Signature]

Attorney - in fact for Sun Oil Company (Delaware)  
for Sun Texas Company,  
a Division of Sun Oil Company (Delaware)

ATTEST:

STATE OF Texas )  
COUNTY OF Greene ) ss.

SUBSCRIBED AND SWORN TO before me this 23rd day of  
October, 1980.

[Signature]  
Notary Public

My Commission Expires:

Feb 14 1984

GETTY OIL COMPANY

NOV 19 1980

MIDLAND E&P DISTRICT  
PRODUCTION DEPARTMENT

STATE OF NEW MEXICO  
COUNTY OF LEA  
FILED

JAN 6 1981

at 11:05 AM  
and recorded in Book 382  
Page 642  
By Donna Bengt, County Clerk  
Deputy

**AFFIDAVIT  
OF RAYMOND W. BLOHM**

**December 24, 1980**

**Recorded, Lea County, January 6, 1981, B382/P567**

**COMES NOW, Raymond W. Blohm, and  
upon his oath, deposes and states:**

**1. That he is the Midland District  
Production Manager for Getty Oil  
Company.**

**\* \* \***

**3. That on June 19, 1980, Getty Oil  
Company filed an application with the  
New Mexico Oil Conservation Division  
under the New Mexico Statutory  
Unitization Act (Section 70-7-1  
through 70-7-21, N.M.S.A, 1978  
Compilation) seeking an order  
providing for statutory unitization of  
the Myers Langlie-Mattix Unit in Lea  
County, New Mexico.**



**AFFIDAVIT  
OF RAYMOND W. BLOHM**

**December 24, 1980**

**Recorded, Lea County, January 6, 1981, B382/P567**

**6. That on August 27, 1980, the Oil Conservation Commission entered Order No. R-6447 approving the application of Getty Oil Company for statutory unitization of the Myers Langlie-Mattix Unit.**

**\* \* \***

**8. That said Order No. R-6447 provided "that when . . . the persons owning the required percentage of interest in the unit area have approved or ratified the Unit Agreement and the Unit Operating Agreement, the interests of all persons within the unit area are unitized, whether or not such persons have approved the Unit Agreement or Unit Operating Agreement."**

**AFFIDAVIT  
OF RAYMOND W. BLOHM**

**December 24, 1980**

Recorded, Lea County, January 6, 1981, B382/P567

**10. That as of December 15, 1980 Getty Oil Company has received written approval or ratification of the plan for unit operations from more than 75% of those who would be required initially to pay the costs of unit operations and from more than 75% of the interest owners of production proceeds from the unit that will be credited to interests which are free of costs.**

**11. That Getty Oil Company intends to commence unitized operations of the Myers Langlie-Mattix Unit under Oil Conservation Division Order No. R-6447 on January 1, 1981 at 7:00 a.m.**

AFFIDAVIT

STATE OF TEXAS            )  
                              ) ss.  
COUNTY OF MIDLAND        )

COMES NOW, Raymond W. Blohm, and upon his oath, deposes and states:

1. That he is the Midland District Production Manager for Getty Oil Company.

2. That as District Production Manager, he is responsible for the development and production of the oil and gas properties of Getty Oil Company in Lea County, New Mexico.

3. That on June 19, 1980, Getty Oil Company filed an application with the New Mexico Oil Conservation Division under the New Mexico Statutory Unitization Act (Section 70-7-1 through 70-7-21, N.M.S.A., 1978 Compilation) seeking an order providing for statutory unitization of the Myers Langlie-Mattix Unit in Lea County, New Mexico.

4. That Section 70-7-8, N.M.S.A., 1978 Compilation provides in part as follows: "No order of the Division providing for unit operations shall become effective unless and until the plan for unit operations described by the Division has been approved in writing by those persons who, under the Division's Order, will be required initially to pay at least seventy-five percent of the cost of unit operations, and also by the owners of at least seventy-five percent of the production proceeds thereof that will be credited to interest which are free of

cost . . . and the Division has made a finding either in the order providing for unit operations or in a supplemental order that the plan for unit operation has been so approved."

5. That the application of Getty Oil Company for statutory unitization of the Myers Langlie-Mattix Unit (Oil Conservation Division Case No. 6987) was heard by the full Oil Conservation Commission on August 5, 1980.

6. That on August 27, 1980, the Oil Conservation Commission entered Order No. R-6447 approving the application of Getty Oil Company for statutory unitization of the Myers Langlie-Mattix Unit.

7. That Oil Conservation Division Order R-6447 " . . . approved and adopted and incorporated by reference . . ." the Myers Langlie-Mattix Unit Agreement and Unit Operating Agreement.

8. That said Order No. R-6447 provided "that when . . . the persons owning the required percentage of interest in the unit area have approved or ratified the Unit Agreement and the Unit Operating Agreement, the interests of all persons within the unit area are unitized, whether or not such persons have approved the Unit Agreement or the Unit Operating Agreement."

9. That following issuance of Order R-6447, Getty Oil Company solicited the written approval of ratification of all interest owners in the unit area.

10. That as of December 15, 1980, Getty Oil Company has received written approval or ratification of the plan for unit operations from more than 75% of those who would be required

initially to pay the costs of unit operations and from more than 75% of the interest owners of production proceeds from the unit that will be credited to interests which are free of costs.

11. That Getty Oil Company intends to commence unitized operations of the Myers Langlie-Mattix Unit under Oil Conservation Division Order No. R-6447 on January 1, 1981 at 7:00 a.m.

Raymond W. Blohm  
Raymond W. Blohm

SUBSCRIBED AND SWORN TO before me this 24<sup>th</sup> day of December, 1980, by Raymond W. Blohm.

J. R. AVENT  
Notary Public

J. R. AVENT Notary Public  
Midland County, Texas

My Commission Expires:

6-30-84

STATE OF NEW MEXICO  
COUNTY OF LEA  
FILED

JAN 6 1981

at 11:05 o'clock A.M  
and recorded in Book 382  
Page 567  
Donna Berge, County Clerk  
By JM Deputy

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ROYALTY INTEREST - RATIFICATION

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NEW 383 1961 63

RATIFICATION AND APPROVAL  
OF THE PLAN FOR UNIT OPERATIONS  
AS STATED IN THE UNIT AGREEMENT OF  
THE MYERS LANGLEL-MATLIX UNIT  
LEA COUNTY, NEW MEXICO

STATE OF NEW MEXICO  
COUNTY OF LEA  
FILED

JAN 6 1961

at 11:05 AM and recorded in Book \_\_\_\_\_  
Page \_\_\_\_\_  
Dennis Menger, County Clerk  
By \_\_\_\_\_ Deputy

KNOW ALL MEN BY THESE PRESENTS, THAT:

For consideration and the purposes stated in that certain agreement, entitled as above, being dated January 1, 1973, and to obtain the benefits of unitized management, operation and further development of the oil and gas properties in the Myers Langlie-Matrix Unit pursuant to New Mexico Oil Conservation Commission Order No. R-6447 entered on August 27, 1980, approving statutory unitization of the Myers Langlie-Matrix Unit, the undersigned (whether one or more) represents that it is a Royalty Interest Owner within the meaning of that term as used in the captioned Unit Agreement and, as such, does hereby consent to ratify and approve the plan for unit operations contained in the captioned Unit Agreement, said Agreement being incorporated herein by reference and said plan for unit operations having been approved by the New Mexico Oil Conservation Commission in Order No. R-6447.

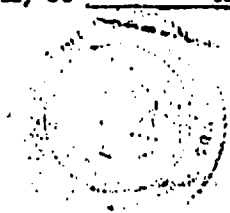
The undersigned hereby acknowledges receipt of copies of said New Mexico Oil Conservation Commission Order No. R-6447 and Unit Agreement and further acknowledges that the plan for unit operations prescribed in said documents has been ratified and approved and unconditionally delivered on the date set out hereinbelow.

This ratification shall extend to and be binding upon the undersigned, his heirs, legal representatives, successors and assigns.

The undersigned, whether one or more, is referred to in the neuter gender.

IN WITNESS WHEREOF, this instrument is executed this 21st. day of October, 1980.

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Alex J. Armijo  
ALEX J. ARMILLO  
COMMISSIONER OF PUBLIC LANDS  
STATE OF NEW MEXICO

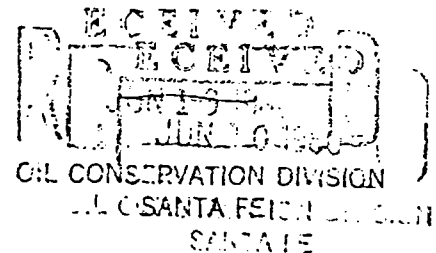
CAMPBELL AND BLACK, P.A.  
LAWYERS

JACK M. CAMPBELL  
BRUCE D. BLACK  
MICHAEL B. CAMPBELL  
WILLIAM F. CARR

POST OFFICE BOX 2208  
JEFFERSON PLACE  
SANTA FE, NEW MEXICO 87501  
TELEPHONE (505) 988-4421

June 19, 1980

Mr. Joe D. Ramey  
Director  
Oil Conservation Division  
New Mexico Department of  
Energy and Minerals  
Post Office Box 2088  
Santa Fe, New Mexico 87501



Case 6987

Re: Application of Getty Oil Company for Statutory  
Unitization of the Myers Langlie-Mattix Unit,  
Lea County, New Mexico

Dear Mr. Ramey:

Enclosed in triplicate is the application of Getty Oil Company for statutory unitization of the Myers Langlie-Mattix Unit. As you will note, this application seeks an Order unitizing certain small royalty interests thereby enabling Getty to enter lease line agreements and implement operating practices which will extend the life of this unit. Getty Oil Company requests that this case initially be set before the full Oil Conservation Commission and would request that it be included on the docket for the Commission hearing which we understand has tentatively been set for August 5, 1980.

Your attention to this request is appreciated.

Very truly yours,

*William F. Carr*

William F. Carr

WFC:lr

Enclosures

cc: Getty Oil Company