

CASE 1306: Phillips Petr. Co. application for
approval of no-span unit Agreement in Bisti-
Lower Gallup Oil Pool, San Juan County.

1306

Case No.

1306

Application, Transcript,
Small Exhibits, Etc.

BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION
FARMINGTON, NEW MEXICO

CASE NO. 1306

SEPTEMBER 11, 1957

DEARNLEY - MEIER & ASSOCIATES
INCORPORATED
GENERAL LAW REPORTERS
ALBUQUERQUE - SANTE FE
3-6691 2-2211

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION
FARMINGTON, NEW MEXICO

IN THE MATTER OF:

Application of Phillips Petroleum Company
for an order approving the Hospah Unit
Agreement in the Bisti-Lower Gallup Oil
Pool, San Juan County, New Mexico. Applicant,
in the above-styled cause, seeks an order
approving the establishment of the Hospah
Unit in the Bisti-Lower Gallup Oil Pool con-
sisting of 480 acres of State of New Mexico
acorage which comprises the S/2, S/2 NW/4,
W/2 NE/4 of Section 36, Township 26 North, Range CASE 1306
13 West, San Juan County, New Mexico. Said
unit is necessary to allow the applicant to
participate in the pilot liquefied petroleum
gas and dry natural gas injection project
authorized by Order R-1027.

BEFORE: Daniel S. Nutter, Examiner.

TRANSCRIPT OF HEARING

MR. NUTTER: The next case is Case 1306.

MR. UTZ: Case 1306: Application of Phillips Petroleum
Company for an order approving the Hospah Unit Agreement in the
Bisti-Lower Gallup Oil Pool, San Juan County, New Mexico.

MR. KELLAHIN: Jason W. Kellahin, Kellahin and Fox, Santa
Fe, New Mexico, appearing in behalf of Phillips Petroleum Company.
The Applicant has two witnesses, Mr. Lewis and Mr. Norton, I would
like to have sworn at this time.

MR. NUTTER: Will the witness stand and raise your right
hands.

(Witnesses sworn.)

MR. KELLAHIN: I would like to call Mr. Lewis as the first witness, please.

E. F. LEWIS

a witness, having been first duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. KELLAHIN:

MR. KELLAHIN: If the Commission please, in connection with this application, I would like to specifically call the Examiner's attention to Order Number R-1027 approving a pilot program for liquefied petroleum or dry natural gas in the Bisti-Lower Gallup Pool -- this case being related to and connected with the case that Order 1027 was entered.

Q Would you state your name, please?

A E. F. Lewis.

Q By whom are you employed?

A Phillips Petroleum Company.

Q Your position is what?

A Reservoir Engineer with that Company.

Q You've never testified before the New Mexico Oil and Gas Conservation Commission as an expert, have you?

A No, sir.

Q Mr. Lewis, what educational qualifications do you have for your position as a Reservoir Engineer?

A I have an Engineering Degree from Oklahoma State College.

Q And when did you secure that degree?

A In nineteen thirty-nine.

Q And since that date what has your employment been?

A Twelve years of employment with Phillips Petroleum Company in the capacity of an engineer.

Q And how long have you worked in the capacity of an Oil Engineer?

A Ten of those twelve years.

Q And all of that time was with Phillips Petroleum Company?

A Yes, sir.

MR. KELLAHIN: Are the witness' qualifications acceptable?

MR. NUTTER: They are. You are acquainted with the Bisti-Lower Gallup Oil Pool in San Juan County?

A Yes.

MR. NUTTER: They are.

Q (By Mr. Kellahin) Are you acquainted with the unit agreement under consideration in this hearing?

A Yes, I am.

Q Have you prepared a plat showing the area covered by this action?

A Yes, sir, I have.

Q I'd like to have the plat marked as Exhibit Number One.

MR. NUTTER: It shall be so marked.

(Whereupon the document was marked Exhibit Number One.)

Q (By Mr. Kellahin) Now, referring to what has been marked for identification Exhibit One, Mr. Lewis, does that correctly depict the area covered by the Unit agreement under consideration?

A Yes, it does.

Q Would you briefly describe that unit and give me a geographical description?

A Well, the south half of Section Thirty-six, south half of the northwest quarter of Section Thirty-six, west half of the Northeast quarter of Section Thirty-six, all in Township Twenty-six north Thirteen west.

Q Now, penciled in on that Exhibit is another area. Would you state what that shows?

A The penciled in area is the area of the so-called pilot injection HPQ, high pressure gas injection program.

Q Is that the order called Order R-1027?

A Yes, it is.

Q Where is the injection well located?

A Approximately five feet south and east out of the corner of Township Twenty-six North and Twenty-five North.

Q Now, referring to the plat, does that show the lease ownership?

A The plat shows the lease ownership of the acreage involved in this unit agreement. It does not show lease ownership of the remainder of the pilot injection area.

Q And what is the basic land ownership of the area?

A All of the lands involved in the unit agreement is State owned.

Q And would you state what the lease ownership within the

unit area is?

A This is division of ownership you have referred to.

Q Yes, sir, the work unit agreement interest ownership?

A Work unit agreement interest ownership in the unit will be provided under terms of the agreement. Terms of the agreement, in summarizing, Phillips Petroleum Company will have an interest of eighty-three point thirty-three percent, El Paso Natural Gas Products Company will have twelve point five per cent, Brookhaven will have four point one seven per cent. Those figures have been rounded off to about six decimal places.

Q Does that represent all the work unit agreement ownership in the area?

A Yes.

Q Do you know of any overriding royalties existing?

A There is an overriding royalty attached to that tract identified on the plat as tract number six. Those tracts will be changed in the unit agreement and we will submit a revised plat showing the corrected plat numbers. That would be the south quarter quarter of the southeast quarter of Section Thirty-six.

Q Will any portion of the land be communitized for the purpose of forming a drilling unit?

A Yes, sir. The west half of the southeast quarter of Section Thirty-six and the south half of the northwest quarter of Section Thirty-six have been -- are subject now to communitization agreement.

Q In connection with this unit agreement, does it cover your producing formations in the Bisti-Lower Gallup Pool?

A No, sir. It covers only that portion of the producing formation.

Q Is that the reason this is a pilot program, for the purpose of testing the gas injection program?

A Yes, sir, that's correct. We merely want to implement this pilot injection program.

Q Does Exhibit One show all the wells located on the unit?

A Yes, sir, it does.

Q Are all the lands in the unit -- may all the lands in the unit reasonably be presumed to be productive?

A Yes, sir.

Q From the Bisti formation?

A Yes, sir, they will.

Q Is the unit agreement in a form which has heretofore been approved by the State Land Commission?

A Yes. The Land Commission has reviewed the contract as to form and has approved it as to form.

MR. KELLAHIN: That's all the questions I have.

MR. NUTTER: Does anybody have a question of the witness?

MR. UTZ: I have.

MR. NUTTER: Mr. Utz.

CROSS-EXAMINATION

BY MR. UTZ:

Q Mr. Lewis, I believe you stated the south half of the northwest quarter of Section Thirty-six and the west half of the southeast quarter were being communitized?

A Will be communitized.

Q Will be communitized, and the eighty acres dedicated to the one well on the eighty?

A Yes, sir.

Q Why was this communitized?

A The purpose of the communitization was to permit the development of the field to eighty acre spacing, which was our intention at the time the agreement was executed.

Q You are aware of the fact the spacing now is forty acres under statewide rules?

A Yes, sir.

Q I presume you are anticipating eighty acre spacing?

A Not as such. I don't believe it was our intention to, by agreement between El Paso and ourselves, to develop until the order was issued on the eighty acre spacing; we didn't anticipate -- that was our intention at the time, to drill on eighties if it was the will of the Commission that it be.

Q And what would be your plan if the spacing remained forty acres?

A With respect to this communitization or unit agreement?

Q With respect to the drilling of additional wells or communitization, either.

A I see that it would have no bearing on the unit agreement.

or the communitization. It doesn't prohibit the drilling of any further well on this tract or these tracts.

Q The owners of the off-forty would share in the production of the forty acres allowable, is that so?

A Yes, sir.

MR. UTZ: That's all.

MR. KELLAHIN: If the Examiner please, I overlooked some questions.

MR. NUTTER: Yes.

REDIRECT EXAMINATION

BY MR. KELLAHIN:

Q Mr. Lewis, in connection with the operation of this unit, what will be the affect on your method of operation under this gas injection program?

A By that, do you mean how do we propose to conduct our operations under this unit as a means of furthering the injection program?

Q That is correct.

A Well, it is our intention to produce all of the oil allocated to these tracts from the one well within the pilot injection area; the reason being that the present allocations to these wells is so low that production in the unit area, the pilot injection area, would be so restricted that we couldn't evaluate the injection program in a reasonable length of time. That, being very brief, is the whole nub of this situation. We have to have

area wells to adequately test this process.

Q How long do you think it will take to accomplish that, Mr. Lewis?

A Well, I don't wish to contradict what may have been entered in a hearing with respect to the pilot area, but we anticipate a maximum of two years will be required to evaluate this thing, and very probably less than that.

Q And in the event the prorationing of oil production was instituted in this type of pool, would it be necessary to transfer allowable to properly conduct the test?

A I believe so.

Q Would you ask that that be taken into consideration in connection with any proration hearing involving this pool?

A Yes, sir, I think that would be desirable, certainly.

MR. KELLAHER. That's all I have.

MR. NUTTER: Mr. Lewis, the primary purpose of this unit agreement is to transfer -- is to provide for the transfer of the allowables from all of the wells within the unit area to the one well located in the southeast quarter of the southeast quarter of Section Thirty-six?

A Yes, sir, that's correct.

Q That is under the present system under which there is no allocation of oil by the Oil Conservation Commission to high wells?

A Yes, sir.

MR. KELLAHIN: I would like to point out under State law the common purchaser is required to take ratably from the wells within the pool, and it would be necessary to have at least some recognition of this program in order to protect the purchaser as well as the producer in regard to transferring production, although there is no proration at this time.

MR. NUTTER: In the event there would be proration in the Bisti Pool, do you think the scope of this unit agreement and this hearing is sufficient to allow the transfer of the allowables to one well?

MR. KELLAHIN: It is set out in the unit agreement attached as an exhibit to the applications.

MR. NUTTER: What is the purpose, Mr. Lewis, of including the west half of the northeast quarter of Section Thirty-six in the unit area?

A We consider it to be proof, essentially proven, as to the ability to produce. We see no reason for excluding it from the unit agreement.

Q Would you in effect be transferring allowable from that eighty acres to the Number One Well?

A No, sir. Under the present system, that tract has no allocation and, presumably, it would have no allowable under the allowable set up until such time a well were drilled on that tract.

Q Do you know whether Phillips Petroleum Company contemplates drilling a well on that eighty acres?

A I have no knowledge of their plans as to that at the present time.

Q It seems that at the present time you have more wells than you need in Section thirty-six. You want to produce one well and you have a total of five wells, is that correct?

A Yes, sir.

Q So, in all likelihood, because you have more wells than you need you probably won't drill another one?

A I don't know that you could say that we have more than we need in that unit area now. I don't believe I quite understand what you mean.

Q You have five wells, but you want to produce one?

A That's right, but we have to have the fact of a well in a tract in order to have it receive allocation or allowable under the allowable ruling.

Q In other words, this assignment of allowables or the assignment of an allocation under the present ratable take system of the purchaser in the pool provides for transfer of allowable only from an eighty acre unit that has a well on it?

A On their division for the transfer of allocation, but you must have a well on a tract in order to receive an allocation from the pipeline.

Q Mr. Lewis, is this unit agreement a participating type of unit agreement? In other words, will participating areas be set up, and will the west half of the northeast quarter of

Section Thirty-six be in that participating area.

A Yes, it is. It is not a participating type. All of the tracts in the unit area will participate in the area.

Q And that tract will get credit for some of the oil production in the southeast quarter of the southeast quarter of the Section?

A Yes, sir.

MR. NUTTER: Any other questions of the witness?

Q (By Mr. Kellahin) Mr. Lewis, will further development of the area be dependent upon the progress and the experience realized as a result of the gas injection program?

A It's quite probable it will have some affect on the future development.

MR. NUTTER: Any other questions of the witness? If not, he may be excused.

(Witness excused.)

MR. KELLAHIN: I would like to call Mr. Norton as a witness.

ED NORTON

a witness, having been first duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q Would you state your name, please?

A Ed Norton.

Q By whom are you employed?

A El Paso Natural Gas Products Company.

Q What is your position?

A Lineman in the line department.

Q In connection with your position as lineman in the line department for El Paso Natural Gas Products Company, are you familiar with the Hospan Unit Agreement?

A I am.

Q Have you had anything to do with that agreement?

A I have.

Q Now, do you know what the present situation is as to the execution of that agreement?

A The unit agreement at the present time has been executed by the El Paso Natural Gas Products Company, and we have been notified by Brookhaven Oil Company that they have approved the form of the agreement and that they will execute it when we forward the unit agreement to them.

Q In connection with Mr. Lewis' testimony, he mentioned certain overriding royalties. Do you know what the status of that is?

A Verbally they have agreed to the executing of the unit agreement, also.

Q Who holds that?

A John Burroughs and his wife, Jean Burroughs.

Q And he has agreed to executing the agreement?

A Yes, sir.

~~Q Then, upon the execution of these, all parties owning~~

interest within the unit area will execute the agreement?

A Yes, sir.

Q At that time, would you be willing to furnish the Commission with a photostatic copy showing that the agreement has been duly executed?

A We will.

MR. KELLAHIN: That's all I have.

A I might say this unit agreement has been executed by the Phillips Petroleum Company, also.

MR. NUTTER: So that upon the execution by Brookhaven and by the overriding royalty interests, one hundred percent of the working interest, ownership and overriding royalties will be executed?

A Yes, sir.

Q You say that you didn't, but I think the statement was made, that the unit agreement has been submitted to the Commissioner of Public Lands of the State of New Mexico?

A It's my understanding that it has been.

MR. KELLAHIN: Mr. Lewis testified to that.

MR. NUTTER: And preliminary approval as to form of the unit agreement has been given?

MR. KELLAHIN: That's right.

MR. NUTTER: Any questions of the witness? If not, the witness may be excused.

(Witness excused.)

MR. NUTTER: Does anyone have anything further they would like to offer in Case 1306?

MR. KELLAHIN: If the Examiner please, we would like to offer in evidence Exhibit One, and, in that connection ask permission to file a corrected plat, the numbers appearing on the various plats in there to coincide with the present agreement; and we would like to file a plat showing the correct numbers.

MR. NUTTER: I think you said the plat mentioned the southeast quarter of Section Thirty-six. The correct number on that tract number six will be amended to be tract number five on the corrected exhibit?

MR. KELLAHIN: Attached to the unit agreement is Exhibit "A" which correctly describes the tracts by number.

MR. NUTTER: Are you offering this?

MR. KELLAHIN: Yes.

MR. NUTTER: Without objection, Phillips Petroleum Exhibit One, Case 1306, will be received in evidence.

(Whereupon the document was received in evidence as Exhibit Number One.)

MR. NUTTER: Does anyone have anything further in this case? If not, we will take the case under advisement.

REPORTER'S CERTIFICATE

I, J. CALVIN BEVELL, do hereby certify that the foregoing and attached Transcript of Proceedings, pages numbered 2 through 16 were reported by me in Stenotype at the time and place aforesaid; that the same was reduced to typewritten transcript by me and contains a true and correct record of said proceedings, to the best of my knowledge, skill and ability.

I FURTHER CERTIFY that I am not employed by or related to any attorney or party of interest in this matter; and further, that I have no financial interest in the outcome thereof.

DATED this 18th day of September, 1957, in the City of Albuquerque, County of Bernalillo, State of New Mexico.


J. CALVIN BEVELL, COURT REPORTER

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 1306, heard by me on 9-11, 1957.


Examiner
Mexico Oil Conservation Commission

17/10/57
MAIN OFFICE 000

SEP 30 1 41 7:53

In Reply, Refer to
UNIT DIVISION

September 30, 1957

Mr. Jason W. Kellahin
54 1/2 East San Francisco
Santa Fe, New Mexico

Re: Phillip's Hospah
Unit Agreement
San Juan County, New
Mexico

Dear Mr. Kellahin:

We are enclosing three copies of the Hospah Unit Agreement which was approved by the Commissioner of Public Lands September 30, 1957.

It is our understanding you will furnish this office letters from the record owners of the acreage not committed in Sec. 36, verifying they were contacted and their reasons for not joining this Unit. Also you will furnish us a copy of the operating Agreement.

We will mail the Official Receipt in the amount of \$5.00 to you as soon as it is issued.

Very truly yours,

MURRAY E. MORGAN
Commissioner of Public Lands

By: Ted Bilberry, Supervisor
Oil and Gas Department

MEM:mmr
cc: N.M.O.C.C.-Santa Fe

OIL CONSERVATION COMMISSION
P. O. BOX 871
SANTA FE, NEW MEXICO

October 1, 1957

C
O
P
Y

Mr. Jason Kellahin
P.O. Box 597
Santa Fe, New Mexico

Dear Sir:

On behalf of your client, Phillips Petroleum Company, we enclose two copies of Order R-1061 issued September 30, 1957, by the Oil Conservation Commission in Case 1306, which was heard on September 11th.

Very truly yours,

A. L. Porter, Jr.
Secretary - Director

bp
Encls.

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

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

CASE NO. 1306
Order No. R-1061

THE APPLICATION OF PHILLIPS PETROLEUM
COMPANY FOR THE APPROVAL OF THE HOSPAH
UNIT AGREEMENT EMBRACING 480 ACRES,
MORE OR LESS, LOCATED IN TOWNSHIP 26
NORTH, RANGE 13 WEST, NMPM, SAN JUAN
COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 10 o'clock a.m. on September 11, 1957, at Farmington, New Mexico, before Daniel S. Nutter, Examiner duly appointed by the New Mexico Oil Conservation Commission, hereinafter referred to as the "Commission," in accordance with Rule 1214 of the Commission Rules and Regulations.

NOW, on this 30th day of September, 1957, the Commission, a quorum being present, having considered the application, the evidence adduced and the recommendations of the Examiner, Daniel S. Nutter, 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 proposed unit plan will in principle tend to promote the conservation of oil and gas and the prevention of waste.

IT IS THEREFORE ORDERED:

(1) That this order shall be known as the

HOSPAH UNIT AGREEMENT ORDER.

(2) (a) That the project herein referred to shall be known as the Hospah Unit Agreement and shall hereinafter be referred to as the "Project."

(b) That the Plan by which the project shall be operated shall be embraced in the form of a unit agreement for the development and operation of the Hospah Unit Area, referred to in the Petitioner's petition and filed with said petition, and such plan shall be known as the Hospah Unit Agreement Plan.

Case No. 1306
Order No. R-1061

(3) That the Hospah Unit Agreement Plan shall be, and hereby is, 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, duties or obligations which are now, or may hereafter, be vested in the New Mexico Oil Conservation Commission by law relative to the supervision and control of operations for exploration and development of any lands committed to said Hospah Unit Agreement, or relative to the production of oil and gas therefrom.

(4) That the unit area shall be:

NEW MEXICO PRINCIPAL MERIDIAN

TOWNSHIP 26 NORTH, RANGE 13 WEST
Section 36: S/2, S/2 NW/4, and W/2 NE/4

all in San Juan County, New Mexico,
containing 480 acres more or less.

(5) That the unit operator shall file with the Commission an executed original or executed counterpart of the Hospah Unit Agreement within 30 days after the effective date thereof.

(6) That any party owning rights in the unitized substances who does not commit such rights to said unit agreement before the effective date thereof may thereafter become a party thereto by subscribing to such agreement or counterpart thereof, or by ratifying the same. The unit operator shall file with the Commission within 30 days an original of any such counterpart or ratification.

(7) 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 shall terminate ipso facto upon the termination of said unit agreement. The last unit operator shall immediately notify the Commission in writing of such termination.

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION



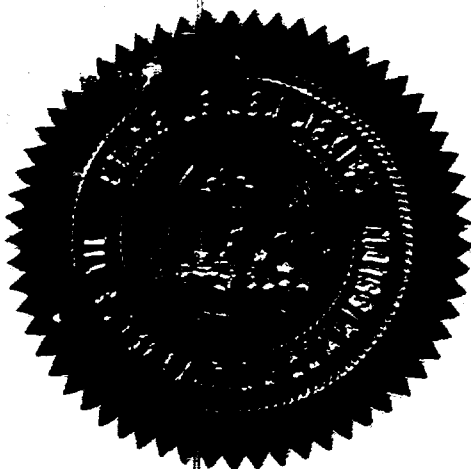
EDWIN L. MECHEM, Chairman



MURRAY E. MORGAN, Member



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



JASON W. KELLAHIN
ROBERT E. FOX

MAIN OFFICE OCC
1957 SEP 30 AM 8:05

KELLAHIN AND FOX

ATTORNEYS AT LAW

54 1/2 EAST SAN FRANCISCO STREET

POST OFFICE BOX 1713

SANTA FE, NEW MEXICO

TELEPHONES

3-9396

2-2266

September 28, 1957

Oil Conservation Commission
State Capitol Building
Santa Fe, New Mexico

Attention of Dan J. Nutter

Re: Case No. 1306, Bisti
Lower Gallup Pool, San
Juan County, New Mexico.

Gentlemen:

We are enclosing five copies of plat marked Exhibit "A", in connection with the above-captioned case.

Very truly yours,

KELLAHIN and FOX

By: *Jason Kellahin*

JWK:j
enc

EXHIBIT "A"

HOSPITAL UNIT
BISTI LOWER GALLUP POOL
SAN JUAN CO, NEW MEXICO

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Case # 1304

BEFORE THE OIL CONSERVATION COMMISSION

OF NEW MEXICO

Santa Fe, New Mexico

Sub. 1280
Bisti-Lower Gallup
8/11/13

APPLICATION

Comes now Phillips Petroleum Company and seeks approval of the Commission of a unit agreement designated as the Hospah Unit, and in support thereof would show:

1. The lands embraced in said unit are the S/2, S/2 NW/4, W/2 NE/4, all in Section 56, Township 26 North, Range 13 West, N.M.P.M., San Juan County, New Mexico, located in the Bisti-Lower Gallup Oil Pool, as designated by the Commission.

All lands within the unit area are owned by the State of New Mexico, and applicant and others are the owners of oil and gas leases covering all lands in the unit area, and all owners and holders of interests in the unit area are parties to the unit agreement.

3. Said unit is necessary to allow owners to participate in a pilot liquefied petroleum gas and dry natural gas injection project in the Bisti-Lower Gallup Oil Pool, heretofore approved by the Commission in Case No. 1280 by its order No. R-1027.

4. Said unit agreement is in the interests of conservation, will prevent waste, and will not impair the rights or others, including the rights of royalty owners.

5. There is attached hereto as Exhibit A, a copy of the Hospah Unit Agreement, copy of which has heretofore been submitted to the Commissioner of Public Lands of the State of New Mexico for approval, and has been approved as to form.

Wherefore applicant prays that this application be set for hearing before the Commission's duly appointed examiner in Santa Fe, New Mexico, as soon as may be possible, and that after notice

and hearing as required by law, the Commission enter its order approving the Mosbah Unit Agreement, and for such other and further order or orders as to the Commission may seem just.

Respectfully submitted,

PHILLIPS PETROLEUM COMPANY

By: KELLAHIN & FOX
Attorneys for Applicant

Jason W. Kellahin

P. O. Box 1713
Santa Fe, New Mexico

wp 9/25

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

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

CASE NO. 1306
Order No. 1-1-57

THE APPLICATION OF PHILLIPS PETROLEUM
COMPANY
FOR THE APPROVAL OF HOSPAN UNIT
UNIT
AGREEMENT EMBRACING 480
ACRES, MORE OR LESS, LOCATED IN TOWNSHIP
26 NORTH, RANGE 13 WEST
NMPM, SAN JUAN COUNTY, NEW
MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 10 o'clock am. on September 11,
19 57 at Farmington, New Mexico, before Daniel S. Nutter, Examiner
duly appointed by the New Mexico Oil Conservation Commission, hereinafter
referred to as the "Commission," in accordance with Rule 1214 of the Com-
mission Rules and Regulations

NOW, on this day of Sept. 19 57, the Commission, a quorum being
present, having considered the application, the evidence adduced and the
recommendations of the Examiner, Daniel S. Nutter
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 proposed unit plan will in principle tend to promote the conservation of oil and gas and the prevention of waste.

IT IS THEREFORE ORDERED:

- (1) That this order shall be known as the

HOSPAN UNIT AGREEMENT ORDER.

- (2) (a) That the project herein referred to shall be known as the Hospah
Unit Agreement and shall hereinafter be referred to as the "Project."

(b) That the Plan by which the project shall be operated shall be embraced
in the form of a unit agreement for the development and operation of the Hospah
Unit Area, referred to in the Petitioner's petition and filed with said
petition, and such plan shall be known as the Hospah Unit Agreement Plan.

(3) That the Hospah Unit Agreement Plan shall be, and
hereby is, 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, duties or obligations
which are now, or may hereafter, be vested in the New Mexico Oil Conservation Commission by
law relative to the supervision and control of operations for exploration and development of
any lands committed to said Hospah Unit Agreement, or relative
to the production of oil and gas therefrom.

(b) That the unit operator periodically shall file with the Commission a Hospah Unit Statement of Progress, summarizing operations for the exploration and development of any lands committed to said Hospah Unit Agreement. This statement of progress shall be filed within 30 days after the expiration of each six-months period during the term of the unit agreement, and shall contain such pertinent data as may be necessary for the Commission to determine the progress being made in the Hospah Unit Area.

(4) ~~(A)~~ That the unit area shall be:

NEW MEXICO PRINCIPAL MERIDIAN

TOWNSHIP 26 North, RANGE 13 West
Section 36: S/2, S/2 NW/4, and W/2 NE/4

all in San Juan County, New Mexico

containing 480 acres more or less.

~~(b) The unit area may be changed or restricted as provided in said Plan. (omit if Agreement does not so provide.)~~

(5) That the unit operator shall file with the Commission an executed original or executed counterpart of the Hospah Unit Agreement within 30 days after the effective date thereof.

(6) That any party owning rights in the unitized substances who does not commit such rights to said unit agreement before the effective date thereof may thereafter become a party thereto by subscribing to such agreement or counterpart thereof, or by ratifying the same. The unit operator shall file with the Commission within 30 days an original of any such counterpart or ratification.

(7) 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 shall terminate ipso facto upon the termination of said unit agreement. The last unit operator shall immediately notify the Commission in writing of such termination.

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

, Chairman

, Member

, Member & Secretary

S E A L

DOCKET EXAMINER HEARING SEPTEMBER 11, 1957

FARMINGTON MUNICIPAL BUILDING, 10 00 a m , FARMINGTON, NEW MEXICO

The following cases will be heard before Daniel S. Nutter, Examiner:

CASE 1305: Application of Northwest Production Corporation for an unorthodox gas well location in the Tapacito-Pictured Cliffs Gas Pool, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks an order authorizing the drilling of a gas well in the Tapacito-Pictured Cliffs Gas Pool in the NW/4 of Section 7, Township 26 North, Range 4 West, Rio Arriba County, New Mexico, rather than in the SW/4 of the Section as required by Paragraph 4 of the Special Rules and Regulations for the Tapacito-Pictured Cliffs Gas Pool as set forth in Order R-794.

CASE 1306: Application of Phillips Petroleum Company for an order approving the Hospah Unit Agreement in the Bisti-Lower Gallup Oil Pool, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks an order approving the establishment of the Hospah Unit in the Bisti-Lower Gallup Oil Pool consisting of 480-acres of State of New Mexico acreage which comprises the S/2, S/2 NW/4, W/2 NE/4 of Section 36, Township 26 North, Range 13 West, San Juan County, New Mexico. Said unit is necessary to allow the applicant to participate in the pilot liquefied petroleum gas and dry natural gas injection project authorized by Order R-1027.

CASE 1307: Application of Pacific Northwest Pipeline Corporation for approval of several unorthodox gas well locations and non-standard gas drilling and proration units in the Blanco Mesaverde Gas Pool in San Juan and Rio Arriba Counties, New Mexico. Applicant, in the above-styled cause, seeks an order authorizing six unorthodox gas well locations and fifteen non-standard gas drilling and proration units in the San Juan 32-7 Unit in Township 31 North, Range 7 West, Township 32 North, Range 7 West, and Township 32 North, Range 6 West, Blanco Mesaverde Gas Pool, San Juan County, New Mexico. The subject application is occasioned by variations in the legal subdivision of the United States Public Land Surveys.

OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO

Date 9-12

CASE 1306

Hearing Date 9-11-57 10 am

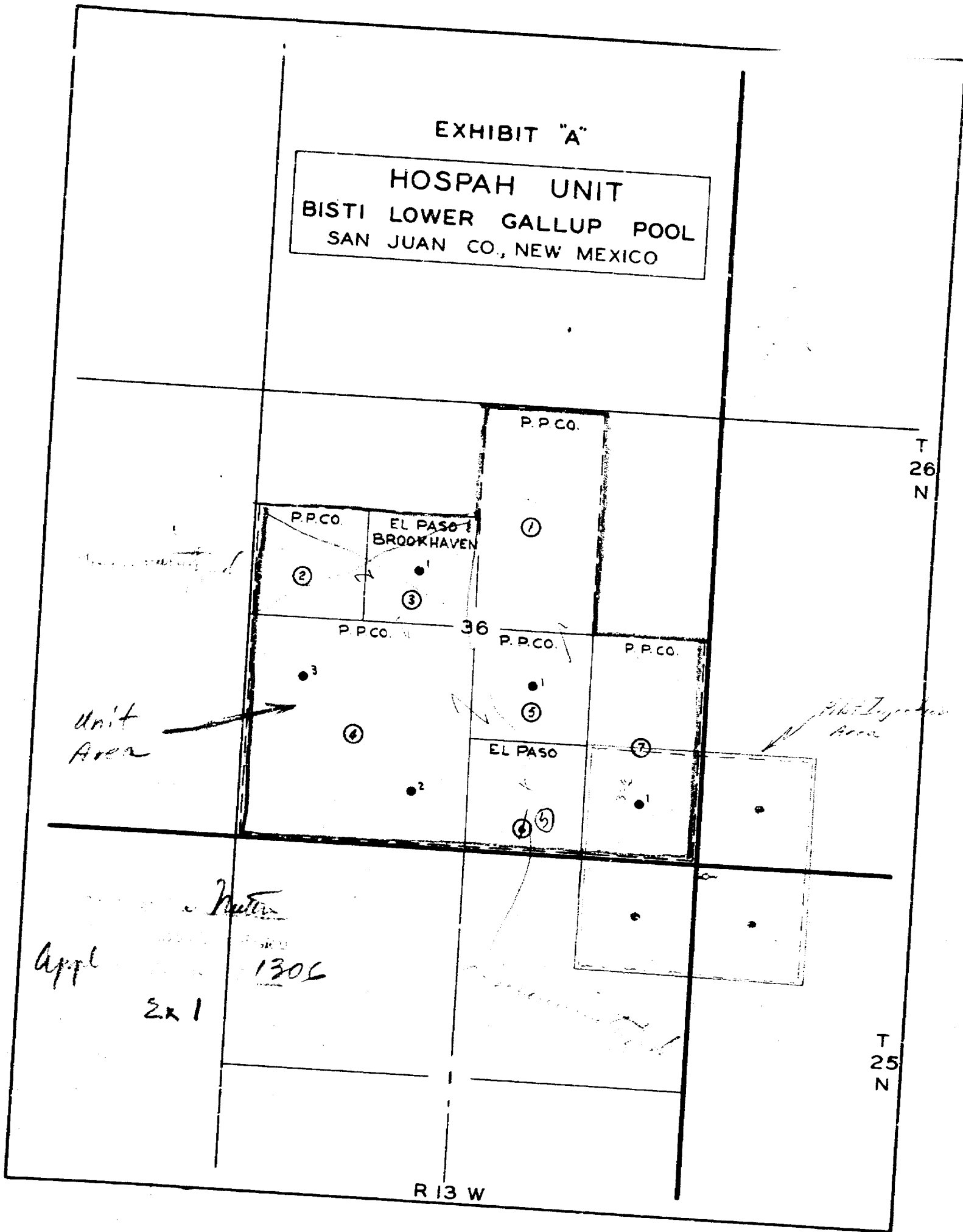
My recommendations for an order in the above numbered cases are as follows:
DSN @ Farmington

*Enter an order approving P.P.Co's
Hograh Unit area as advertised.*

Laurel A. Miller
Staff Member

EXHIBIT "A"

HOSPAN UNIT
BISTI LOWER GALLUP POOL
SAN JUAN CO., NEW MEXICO



PHILLIPS PETROLEUM COMPANY

BARTLESVILLE, OKLAHOMA

LEGAL DEPARTMENT

RAYBURN L. FOSTER
VICE PRESIDENT
AND GENERAL COUNSEL

HARRY D. TURNER
GENERAL ATTORNEY

H. K. HUDSON
ASSOCIATE GENERAL ATTORNEY

WALTER L. BARNES
ED WAITE CLARK
R. M. WILLIAMS
WM. J. ZEMAN
ASSISTANT GENERAL ATTORNEYS

October 9, 1957

DARLENE G. ANDERSON
R. Y. BANDY, JR.
ROBT. B. BURGESS
GARY W. DAVIS
S. E. FLEGEN
EARL GUITAR
DARALL G. HAWK
KENNETH HEADY
D. E. HODGES
C. B. McDONALD, JR.
LLOYD G. MINTER
JAMES MULLEN
W. E. SAVAGE
EARL T. WARREN
JAMES G. WILLIAMS, JR.
STAFF ATTORNEYS

Oil Conservation Commission of New Mexico
107 Mabry Hall
Capitol Building
Santa Fe, New Mexico

In re: Case No. 1305 - Hospah Unit

Gentlemen:

Pursuant to Paragraph No. (5) of Order No. R-1061 in the above captioned unit, I am enclosing for filing on behalf of Phillips Petroleum Company, operator of the Hospah Unit, copy of the Hospah Unit Agreement.

Very truly yours,

James G. Williams, Jr.
James G. Williams, Jr.

JGW:ch
Enc.

cc: Mr. Jason W. Kellahin
Kellahin & Fox
P. O. Box 1713
Santa Fe, New Mexico

UNIT AGREEMENT
HOSPAH UNIT, SAN JUAN COUNTY, NEW MEXICO

THIS AGREEMENT, made and entered into this _____ day of August, 1957, by and between the State of New Mexico, acting through the Commissioner of Public Lands under authority and by virtue of Sections 7-11-39 to 7-11-42, New Mexico Statutes 1953, hereinafter called "Lessor," and PHILLIPS PETROLEUM COMPANY, a corporation, EL PASO NATURAL GAS PRODUCTS COMPANY, a corporation, and BROOKHAVEN OIL COMPANY, a corporation, hereinafter called "Lessees," and the undersigned signing as "Other Royalty Owners,"

W I T N E S S E T H :

WHEREAS, Lessees are the owners of separate oil and gas leases executed by Lessor covering certain lands in San Juan County, New Mexico, which leases and lands are more fully described in Exhibit "A" hereto attached, said lands being hereinafter referred to as the "Unitized Area"; and

WHEREAS, the parties signing this agreement as Other Royalty Owners own overriding or other interests, other than a working interest, in and to the production from one or more of said leases; and

WHEREAS, Lessees have entered into an agreement with lessees of adjacent lands for the cooperative conduct of a pilot LPG high-pressure gas injection project to determine the feasibility and extent to which LPG and gas can be injected into the presently producing formation underlying the Unitized Area for the efficient recovery of the greatest quantity of oil therefrom, using an injection well on adjacent land located five feet from the southeast corner of the Unitized Area, and which requires the consolidation of the leases covering the Unitized Area as a single lease in order to effect a transfer of all or a part of the allowables of the several wells on the Unitized Area to the well on the Unitized Area offsetting the injection well so as to allow freedom in the operation of such well as a part of the pilot project; and

WHEREAS, it is the desire of the parties hereto that the leases covering the Unitized Area be so consolidated, developed, operated and

treated as a single lease in order to enable Lessees to participate in said pilot LPG high-pressure gas injection project and, if successful, to carry on pressure maintenance operations on the Unitized Area and to otherwise more efficiently develop, produce and operate said leases and land for oil and gas, obtain a greater recovery, prevent waste, and thereby more properly conserve the oil and gas resources of the State;

NOW, THEREFORE, premises considered and in consideration of the mutual covenants and agreements of the parties hereto, it is agreed as follows:

1. From and after the effective date hereof and subject to the further provisions, conditions and limitations hereinafter set out, all of the aforesaid leases insofar as they relate to the Unitized Area shall, for all intents, uses and purposes incident to the further development and operation thereof for oil and gas, the ownership of the production, and the payment of royalties, be unitized and treated as an entirety, all to the same extent and with the same force and effect as if said lands had been included in a single lease to the Lessees in the first instance.

2. For the purpose of sharing in the production and for the disbursement and payment of royalties and overriding royalties or other payments with respect to production, all oil and gas produced from the Unitized Area, regardless of the well or tract from which the same may be produced, shall from and after the effective date hereof be treated as an entirety and, except so much thereof as is used in the development and operation of the Unitized Area or is unavoidably lost, shall be apportioned among and allocated to the several tracts comprising the Unitized Area in accordance with the percentage participation shown opposite such tracts on Exhibit "A" hereto attached. All persons who in the absence of this agreement would have been entitled under the terms of said leases or other contracts relating thereto to share in, receive or be paid royalties, overriding royalties or other payments in respect to, production from a particular tract shall in lieu thereof, in like proportion and in like manner and with the same force and effect, share in, or be paid royalties or other payments in respect to, the production so allocated hereunder to

such tract as though the production so allocated to such tract hereunder had actually been produced from such tract.

3. Wells drilled or other operations conducted by Lessees upon any part of the Unitized Area or production from any well thereon shall for all uses and purposes be considered as wells drilled and other operations conducted on and production from each lease covering any part of the Unitized Area.

4. The terms and provisions of the various leases, agreements or other instruments covering the several tracts comprising the Unitized Area are hereby amended to the extent necessary to make them conform to the terms and provisions of this agreement but otherwise shall remain and continue in full force and effect in accordance with the terms and conditions thereof.

5. This agreement shall become and be effective as of 7:00 o'clock A.M. the day and year first above written and shall remain in force so long as oil and gas can be produced from the Unitized Area in paying quantities. From and after the termination of this agreement all rights in and to the several separate tracts and leases thereon within the Unitized Area shall revert to the separate owners thereof, all to the same extent as if this agreement had not been entered into. Lessees shall have a reasonable time thereafter to remove all material and equipment placed thereon.

6. As soon as reasonably practical after the effective date hereof Lessees in cooperation with lessees of adjacent lands shall with diligence and in accordance with good engineering and production practices establish and conduct a pilot LPG high-pressure gas injection project to determine the feasibility and extent to which gas can be injected into the presently producing formation underlying the Unitized Area for the efficient recovery of the greatest quantity of oil and gas therefrom. If gas injection operations are determined by Lessees to be feasible and profitable, Lessees will to that extent conduct such operations on the Unitized Area in accordance with good engineering and production practices. Lessees may abandon or change in whole or in part any particular method or methods of operation, including such gas injection operations, if and in the event,

at such time, and to the extent that any such method of operation as applied to the Unitized Area is, in the best judgment of Lessees, no longer feasible, profitable or in accord with good engineering or production practices or if it appears that some other method of operation is better suited to the Unitized Area.

7. Lessor and the Other Royalty Owners recognize that they are not entitled to royalty or other payments based on the reproduced LPG, gas or other substances (herein called "Outside Substances") purchased by Lessees and associates from sources off the Unitized Area and injected into the producing formations thereunder, whether injected in the initial pilot injection well on adjacent land or injection wells on the Unitized Area, and to provide a reasonable and practical basis of identifying the same for accounting purposes it is agreed that one-eighth (1/8) of the entire production produced and sold from the Unitized Area shall be deemed to be Outside Substances until the aggregate value of said 1/8 of said production equals 23.95 per cent of the accumulated cost of the Outside Substances so injected into the producing formation through the initial pilot injection well plus the entire accumulated cost to Lessees of the Outside Substances so injected into the producing formation through injection wells which may be located on the Unitized Area. No royalty or other payments shall be due or payable to Lessor or the Other Royalty Owners on said 1/8 of the production so deemed to be Outside Substances.

8. In the event that the oil and gas lessees of the other lands embraced within the pilot area of the pilot LPG high-pressure gas injection project agree with the United States Geological Survey upon a plan for the nonpayment of royalty on production in lieu of Outside Substances injected which is more favorable to Lessor and the Other Royalty Owners than that provided in paragraph 7 hereof, then such paragraph 7 shall be revised retroactively to the effective date of this agreement to provide for such more favorable treatment.

9. The phrase "oil and gas" wherever used in this agreement shall not only refer to oil and gas as such in combination one with the other but shall have reference to oil, gas, casinghead gas, casinghead gasoline or

other hydrocarbons or any combination thereof which may underlie or be produced from the lands comprising the Unitized Area.

10. It is understood that Lessees coincident with the execution of this agreement have entered into a separate Operating Agreement defining more in detail the rights and obligations as among themselves with respect to the cooperative development and operation of the Unitized Area.

11. Lessees shall make a proper and timely gauge of all lease or other tanks to ascertain the amount of oil in such tanks as of the effective date hereof. Such oil shall remain and be the property of the parties owning the same immediately prior to such time.

12. This agreement is made subject to all laws, rules and regulations of any duly constituted authority having jurisdiction.

13. This agreement may be executed in any number of counterparts or ratified by separate instrument, all of which shall be considered together as one instrument.

14. This agreement shall constitute a covenant running with the lands embraced within the Unitized Area and shall extend to and be binding upon and inure to the benefit of the parties hereto and persons who may later execute this agreement or a ratification thereof, their respective heirs, administrators, executors, successors, legal representatives and assigns, whether or not this agreement be executed by all of the parties owning minerals, royalties, overriding royalties or other rights in and to the several tracts comprising the Unitized Area; provided that if this agreement is not executed by Lessor and all Lessees by the 1st day of October, 1957, it shall thereupon terminate and be of no further force and effect.

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

THE STATE OF NEW MEXICO

By _____
Commissioner of Public Lands
LESSOR

ATTEST:

Assistant Secretary

ATTEST:

Secretary

ATTEST:

PHILLIPS PETROLEUM COMPANY

By _____
Vice President

EL PASO NATURAL GAS PRODUCTS COMPANY

By _____
President

BROOKHAVEN OIL COMPANY

By _____
President

STATE OF NEW MEXICO)
COUNTY OF _____) SS.

On this _____ day of _____, 1957, before me personally appeared _____, Commissioner of Public Lands of the State of New Mexico, to me known to be the person described in and who executed the foregoing instrument, and acknowledged that he executed the same as his free act and deed and in the capacity therein stated.

Notary Public

My commission expires:

STATE OF OKLAHOMA)
COUNTY OF WASHINGTON) SS.

On this _____ day of _____, 1957, before me appeared _____, to me personally known, who, being by me duly sworn, did say that he is the Vice President of PHILLIPS PETROLEUM COMPANY, and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said _____ acknowledged said instrument to be the free act and deed of said corporation.

Notary Public

My commission expires:

STATE OF _____)
COUNTY OF _____) SS.

On this _____ day of _____, 1957, before me appeared _____, to me personally known, who, being by me duly sworn, did say that he is the _____ President of EL PASO NATURAL GAS PRODUCTS COMPANY, and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said _____ acknowledged said instrument to be the free act and deed of said corporation.

Notary Public

My commission expires:

STATE OF _____ }
COUNTY OF _____ } SS.

On this _____ day of _____, 1957, before me appeared _____, to me personally known, who, being by me duly sworn, did say that he is the _____ President of BROOKHAVEN OIL COMPANY, and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said _____ acknowledged said instrument to be the free act and deed of said corporation.

Notary Public

My commission expires:

STATE OF _____ }
COUNTY OF _____ } SS.

On this _____ day of _____, 1957, before me personally appeared _____, to me known to be the person described in and who executed the foregoing instrument, and acknowledged that _____ executed the same as _____ free act and deed.

Notary Public

My commission expires:

EXHIBIT "A"

<u>Tract No.</u>	<u>Description</u>	<u>New Mex. Lease No.</u>	<u>Tract Participation Percentage</u>
1	W/2 NE/4; SW/4 and E/2 SE/4	E-9707	66.666668
2	SW/4 NW/4	E-9707	8.333333
3	SE/4 NW/4	E-4500-2	8.333333
4	NW/4 SE/4	E-9707	8.333333
5	SW/4 SE/4	E-3148-2	8.333333

all in Sec. 36,
Twp. 26N, Rge. 13W,
San Juan County,
New Mexico

CERTIFICATE OF APPROVAL
BY COMMISSIONER OF PUBLIC LANDS, STATE OF NEW MEXICO

HOSPAL UNIT

There having been presented to the undersigned Commissioner of Public Lands of the State of New Mexico for examination, the attached Agreement for the development and operation of acreage which is described within the attached Agreement, dated 21st day of August 1957, which has been executed or is to be executed by parties owning and holding oil and gas leases and royalty interests in and under the property described, and upon examination of said Agreement, the Commissioner finds;

- (a) That such agreement will tend to promote the conservation of oil and gas and the better utilization of reservoir energy in said area.
- (b) That under the proposed agreement the State of New Mexico will receive its fair share of the recoverable oil or gas in place under its lands in the area.
- (c) That each beneficiary Institution of the State of New Mexico will receive its fair and equitable share of the recoverable oil and gas under its lands within the area.
- (d) That such agreement is in other respects for the best interests of the state, with respect to state lands.

NOW, THEREFORE, by virtue of the authority conferred upon me under Sections 7-11-39, 7-11-40, 7-11-41, 7-11-47, 7-11-48, New Mexico Statutes Annotated 1953 Compilation, I, the undersigned, Commissioner of Public Lands of the State of New Mexico, for the purpose of more properly conserving the oil and gas resources of the State, do hereby consent to and approve the said Agreement, and any leases embracing lands of the State of New Mexico within the area shall be and the same are hereby amended to conform with the terms thereof, and shall remain in full force and effect according to the terms and conditions of said Agreement. This approval is subject to all of the provisions of the aforesaid statutes.

IN WITNESS WHEREOF, this Certificate of Approval is executed, with seal affixed, this 30th day of September 19 57.


Commissioner of Public Lands
of the State of New Mexico

407-1

ROM:ch:cd
8-19-57

1435

UNIT AGREEMENT
HOSPAN UNIT, SAN JUAN COUNTY, NEW MEXICO

THIS AGREEMENT, made and entered into this 21st day of August, 1957, by and between THE STATE OF NEW MEXICO, acting by and through the Commissioner of Public Lands under authority and by virtue of Sections 7-11-39 to 7-11-42, New Mexico Statutes 1953, hereinafter called "Lessor," and PHILLIPS PETROLEUM COMPANY, a corporation, EL PASO NATURAL GAS PRODUCTS COMPANY, a corporation, and BROOKHAVEN OIL COMPANY, a corporation, hereinafter called "Lessees," and the undersigned as "Other Royalty Owners,"

WITNESSETH

WHEREAS, Lessees are the owners of separate oil and gas leases, executed by Lessor covering certain lands in San Juan County, New Mexico, which leases and lands are more fully described in Exhibit "A" hereto attached, said lands being hereinafter referred to as the "Unitized Area"; and

WHEREAS, the parties signing this agreement as Other Royalty Owners own overriding or other interests, other than a working interest, in and to the production from one or more of said leases; and

WHEREAS, Lessees have entered into an agreement with lessees of adjacent lands for the cooperative conduct of a pilot LPG high-pressure gas injection project to determine the feasibility and extent to which LPG and gas can be injected into the presently producing formation underlying the Unitized Area for the efficient recovery of the greatest quantity of oil therefrom, using an injection well on adjacent land located five feet from the southeast corner of the Unitized Area, and which requires the consolidation of the leases covering the Unitized Area as a single lease in order to effect a transfer of all or a part of the allowables of the several wells on the Unitized Area to the well on the Unitized Area offsetting the injection well so as to allow freedom in the operation of such well as a part of the pilot project; and

WHEREAS, it is the desire of the parties hereto that the leases covering the Unitized Area be so consolidated, developed, operated and

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treated as a single lease in order to enable Lessees to participate in said pilot LPG high-pressure gas injection project and, if successful, to carry on pressure maintenance operations on the Unitized Area and to more efficiently develop, produce and operate said leases and lands for oil and gas, obtain a greater recovery, prevent waste, and thereby more properly conserve the oil and gas resources of the State.

NOW, THEREFORE, premises considered and in consideration of the mutual covenants and agreements of the parties hereto, it is agreed as follows:

1. From and after the effective date hereof and subject to the further provisions, conditions and limitations hereinafter set out, all of the aforesaid leases insofar as they relate to the Unitized Area shall, for all intents, uses and purposes incident to the further development and operation thereof for oil and gas, the ownership of the production, and the payment of royalties, be unitized and treated as an entirety, all to the same extent and with the same force and effect as if said lands had been included in a single lease to the Lessees in the first instance.

2. For the purpose of sharing in the production and for the disbursement and payment of royalties and overriding royalties or other payments with respect to production, all oil and gas produced from the Unitized Area, regardless of the well or tract from which the same may be produced, shall from and after the effective date hereof be treated as an entirety and, except so much thereof as is used in the development and operation of the Unitized Area or is unavoidably lost, shall be apportioned among and allocated to the several tracts comprising the Unitized Area in accordance with the percentage participation shown opposite such tracts on Exhibit "A" hereto attached. All persons who in the absence of this agreement would have been entitled under the terms of said leases or other contracts relating thereto to share in, receive or be paid royalties, overriding royalties or other payments in respect to, production from a particular tract shall in lieu thereof, in like proportion and in like manner and with the same force and effect, share in, or be paid royalties or other payments in respect to, the production so allocated hereunder to

such tract as though the production so allocated to such tract hereunder had actually been produced from such tract.

3. Wells drilled or other operations initiated by Lessees upon any part of the Unitized Area or production therefrom shall for all uses and purposes be considered as wells drilled and other operations conducted on and production from each lease covering any part of the Unitized Area.

4. The terms and provisions of the various leases, agreements or other instruments covering the several tracts comprising the Unitized Area are hereby amended to the extent necessary to make them conform to the terms and provisions of this agreement but otherwise shall remain and continue in full force and effect in accordance with the terms and conditions thereof.

5. This agreement shall become and be effective as of 7:00 o'clock A.M. the day and year first above written and shall remain in force so long as oil and gas can be produced from the Unitized Area in paying quantities. From and after the termination of this agreement all rights in and to the several separate tracts and leases thereon within the Unitized Area shall revert to the separate owners thereof, all to the same extent as if this agreement had not been entered into. Lessees shall have a reasonable time thereafter to remove all material and equipment placed thereon.

6. As soon as reasonably practical after the effective date hereof Lessees in cooperation with lessees of adjacent lands shall with diligence and in accordance with good engineering and production practices establish and conduct a pilot LPG high-pressure gas injection project to determine the feasibility and extent to which gas can be injected into the presently producing formation underlying the Unitized Area for the efficient recovery of the greatest quantity of oil and gas therefrom. If gas injection operations are determined by Lessees to be feasible and profitable, Lessees will to that extent conduct such operations on the Unitized Area in accordance with good engineering and production practices. Lessees may abandon or change in whole or in part any particular method or methods of operation, including such gas injection operations, if and in the event,

at such time, and to the extent that any such method of operation as applied to the Unitized Area is, in the best judgment of Lessees, no longer feasible, profitable or in accord with good engineering or production practices or as it appears that some other method of operation is better suited to the Unitized Area.

7. Lessor and the Other Royalty Owners recognize that they are not entitled to royalty or other payments based on the reproduced LPG, gas or other substances (herein called "Outside Substances") purchased by Lessees and associates from sources off the Unitized Area and injected into the producing formations thereunder, whether injected in the initial pilot injection well on adjacent land or injection wells on the Unitized Area, and to provide a reasonable and practical basis of identifying the same for accounting purposes it is agreed that one-eighth ($1/8$) of the entire production produced and sold from the Unitized Area shall be deemed to be Outside Substances until the aggregate value of said $1/8$ of said production equals 23.95 per cent of the accumulated cost of the Outside Substances so injected into the producing formation through the initial pilot injection well plus the entire accumulated cost to Lessees of the Outside Substances so injected into the producing formation through injection wells which may be located on the Unitized Area. No royalty or other payments shall be due or payable to Lessor or the Other Royalty Owners on said $1/8$ of the production so deemed to be Outside Substances.

8. In the event that the oil and gas lessees of the other lands embraced within the pilot area of the pilot LPG high-pressure gas injection project agree with the United States Geological Survey upon a plan for the nonpayment of royalty on production in lieu of Outside Substances injected which is more favorable to Lessor and the Other Royalty Owners than that provided in paragraph 7 hereof, then such paragraph 7 shall be revised retroactively to the effective date of this agreement to provide for such more favorable treatment.

9. The phrase "oil and gas" wherever used in this agreement shall not only refer to oil and gas as such in combination one with the other but shall have reference to oil, gas, casinghead gas, casinghead gasoline

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other hydrocarbons or any combination thereof which may underlie or be produced from the lands comprising the Unitized Area.

10. It is understood that Lessees coincident with the execution of this agreement have entered into a separate Operating Agreement defining more in detail the rights and obligations as among themselves with respect to the cooperative development and operation of the Unitized Area.

11. Lessees shall make a proper and timely gauge of all lease or other tanks to ascertain the amount of oil in such tanks as of the effective date hereof. Such oil shall remain and be the property of the parties owning the same immediately prior to such time.

12. This agreement is made subject to all laws, rules and regulations of any duly constituted authority having jurisdiction.

13. This agreement may be executed in any number of counterparts or ratified by separate instrument, all of which shall be considered together as one instrument.

14. This agreement shall constitute a covenant running with lands embraced within the Unitized Area and shall extend to and be binding upon and inure to the benefit of the parties hereto and persons who may later execute this agreement or a ratification thereof, their respective heirs, administrators, executors, successors, legal representatives and assigns, whether or not this agreement be executed by all of the parties owning minerals, royalties, overriding royalties or other rights in and to the several tracts comprising the Unitized Area; provided that if this agreement is not executed by Lessor and all Lessees by the 1st day of October, 1957, it shall thereupon terminate and be of no further force and effect.

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

THE STATE OF NEW MEXICO

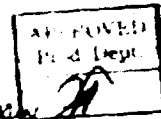
By _____
Commissioner of Public Lands
LESSOR

ATTEST:

Robert J. ...
Assistant Secretary

PHILLIPS PETROLEUM COMPANY

By John M. Houchens
Vice President



ATTEST:

W. H. ...
Secretary

EL PASO NATURAL GAS PRODUCTS COMPANY

By Samuel E. ...
Vice President

ATTEST:

W. ...

BRICKHAVEN OIL COMPANY

Harold Scott
John Burdette
...

ILLUSIBLE

STATE OF NEW MEXICO

COUNTY OF _____

SS.

On this _____ day of _____, 1951, before me personally appeared _____, Commissioner of Public Lands of the State of New Mexico, to me known to be the person whose name is subscribed to the foregoing instrument, and acknowledged that he executed the same as his free act and deed and in the capacity therein stated.

Notary Public

My commission expires: _____

STATE OF OKLAHOMA

COUNTY OF WASHINGTON

SS.

On this 27th day of August, 1951, before me appeared J. M. Nauckin, to me personally known, who, being by me duly sworn, did say that he is the Vice President of PHILLIPS PETROLEUM COMPANY, and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said J. M. Nauckin acknowledged said instrument to be the free act and deed of said corporation.

Notary Public

My commission expires: _____

Apr 7, 1960

STATE OF Texas

COUNTY OF El Paso

SS.

On this 7th day of September, 1951, before me appeared _____, to me personally known, who, being by me duly sworn, did say that he is the Vice President of EL PASO NATURAL GAS PROCESSING COMPANY, and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said _____ acknowledged said instrument to be the free act and deed of said corporation.

Notary Public

My commission expires: _____

RECEIVED

STATE OF Arizona)
COUNTY OF Maricopa) SS.

On this 22nd day of September, 1957, before me appeared John P. Smith, to me personally known, who is the President of BROOKHAVEN OIL COMPANY, and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said John P. Smith acknowledged said instrument to be the free act and deed of said corporation.

Lawrence J. Smith
Notary Public

My commission expires:
My Commission Expires Mar. 19, 1960

STATE OF New Mexico)
COUNTY OF Haskell) SS.

On this 26th day of September, 1957, before me personally appeared William J. Smith, to me known to be the person described in and who executed the foregoing instrument, and acknowledged that he executed the same as his free act and deed.

Lawrence J. Smith
Notary Public

My commission expires:
July 26, 1960

ILLUSTIBLE

EXHIBIT "A"

<u>Tract No.</u>	<u>Description</u>	<u>New Mex. Lease No.</u>	<u>Acres</u>
1	W/2 NW/4 SW/4 and E/2 SE/4	2-2101	160.00
2	SW/4 NW/4	2-2101	40.00
3	SE/4 NW/4	2-2101	40.00
4	NW/4 SE/4	2-2101	40.00
5	SW/4 SE/4	2-2101	40.00
all in Sec. 1, Twp. 1 N., Range 1 W., San Juan County, New Mexico			

ILLUSTRABLE