

VACUUM AREA COOPERATIVE LEASE LINE AGREEMENT

THIS AGREEMENT, is entered into as of the 1st day of March, 1996, between Texaco Exploration and Production Inc. ("TEPI") as Operator and sole working interest owner in the Vacuum Grayburg San Andres Unit, and Texaco Exploration and Production Inc. as Operator and on behalf of all working interest owners in the Central Vacuum Unit.

WITNESSETH:

WHEREAS, TEPI represents that the Vacuum Grayburg San Andres Unit and the Central Vacuum Unit, as shown on Exhibit "A" attached hereto and made a part hereof, are currently producing oil and gas from the Grayburg and San Andres formations in Lea County, New Mexico; and

WHEREAS, in the interest of more properly producing and conserving the oil and gas from the Vacuum Grayburg San Andres Unit and the Central Vacuum Unit, the parties hereto desire to enter into and operate a cooperative program in order to obtain the maximum economic recovery of oil and gas from the Grayburg and San Andres formations.

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements hereinafter contained, the parties hereto agree as follows:

I.

TEPI will drill and equip the well listed below for the purpose of production of oil and gas from the Grayburg and San Andres formations:

Vacuum Grayburg San Andres Unit Well No. 159, at a surface location of 907 feet from the North line and 350 feet from the East line of Section 1, T18S, R34E, with a bottom hole location of 572 feet from the North line and 78 feet from the East line of Section 1, T18S, R34E.

The above well is located in Lea County, New Mexico as shown on Exhibit "A" attached hereto.

II.

Except as otherwise provided herein, all operations hereunder will be governed by the applicable terms of the Operating Agreement for the Central Vacuum Unit, which is incorporated herein by

Examiner	<u>Catanoch</u>
Case No.	<u>11527</u>
EXHIBIT NO.	<u>1</u>

reference. All costs to drill, equip, operate, plug and abandon the well and all production therefrom will be allocated and the well will be owned as follows:

Vacuum Grayburg San Andres Unit	50%
Central Vacuum Unit	50%

III.

Royalties, overriding royalties, production payments and similar burdens for the well set forth in Article II shall be borne by the owner of the lease within each unit to which the production is allocated pursuant to Article II.

IV.

This agreement is effective March 1, 1996 and shall remain in full force and effect for as long as there is production from the well provided for in Article I.

V.

The parties hereto agree that the drilling of the above described well will facilitate protection of their correlative rights and increase the ultimate recovery of oil and gas from the properties.

VI.

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

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of March 1, 1996.

TEXACO EXPLORATION AND PRODUCTION INC.
Operator of the Vacuum Grayburg San Andres Unit



Attorney-in-Fact

TEXACO EXPLORATION AND PRODUCTION INC.
Operator of the Central Vacuum Unit



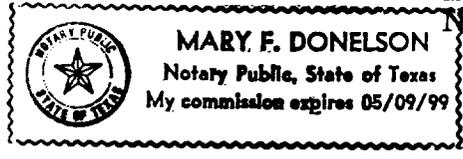
Attorney-in-Fact

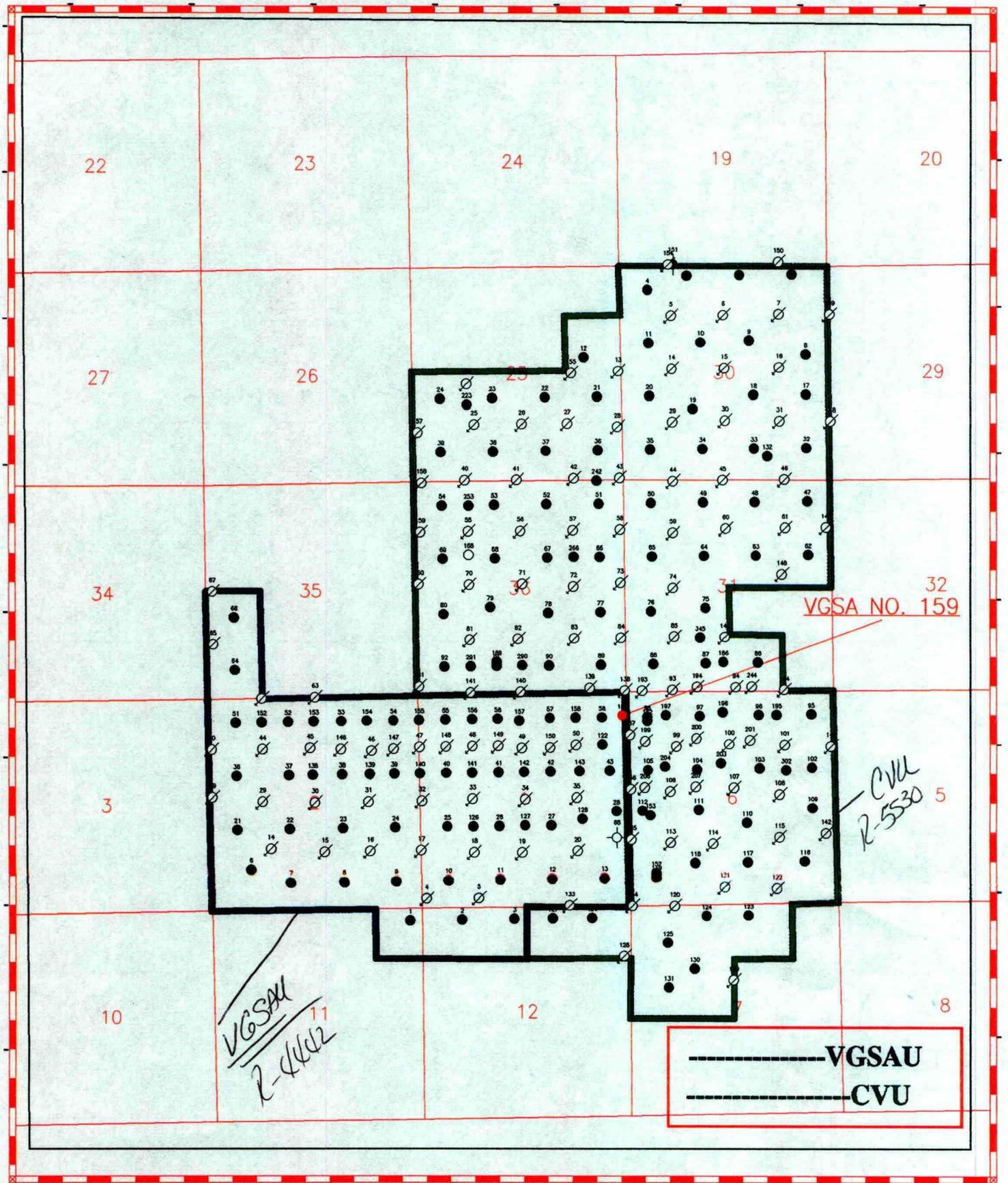
STATE OF TEXAS §
 §
COUNTY OF MIDLAND §

The foregoing instrument was acknowledged before me this 13 day of March, 1996 by M. A. CARRELL, Attorney-in-Fact for Texaco Exploration and Production Inc., a Delaware corporation.

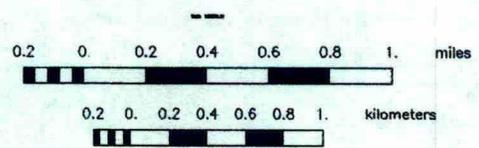
Mary F. Donelson

Notary Public





TEXACO EXPLORATION & PRODUCTION, INC.		
VACUUM AREA EXHIBIT "A"		
Taylor, Sharon		3/12/96
	Scale 1:39374.32	





Texaco Exploration and Production Inc

500 North Loraine
Midland TX 79701

P O Box 3109
Midland TX 79702

February 2, 1996

BEFORE THE
OIL CONSERVATION DIVISION
Santa Fe, New Mexico

To: Working Interest Owners

Case No. 11527 Exhibit No. 2

NM255100 - Central Vacuum Unit
Lea County, New Mexico

Submitted by: Texaco Exploration and Production Inc.

Hearing Date: May 16, 1996

Gentlemen:

Texaco is finalizing plans to drill the Vacuum Grayburg San Andres Unit No. 159 as a lease line producer between the Central Vacuum Unit and the Vacuum Grayburg San Andres Unit. It will be at a bottom hole location of 572' FNL and 78' FEL of Section 1, T18S, R34E. Each unit will bear one half of the costs for the well and production will be allocated equally to each unit. Since the Vacuum Grayburg San Andres Unit is a 100% Texaco property, operations will be governed by the Central Vacuum Unit Operating Agreement. The well will be proposed to you later this year as part of an eight well package for the Central Vacuum Unit.

Article 38 of the Central Vacuum Unit Agreement provides for Border Agreements. We anticipate that it will take several months to obtain approval for this well from you, the royalty owners, the Commissioner of Public Lands, and the NMOCD. Please grant your approval in the space provided below for Texaco, as Operator of the Central Vacuum Unit, to enter into an agreement providing for the drilling of this lease line producer and return one original of this letter to me at your earliest convenience.

MAIL
TV

Very truly yours,

→ Ronald W. Lanning
915-688-4445

APPROVED THIS 7th DAY OF Feb, 1996.

By: H. M. Bettis

Company: H. M. BETTIS, INC

Title: PRES.



Texaco Exploration
and Production Inc

500 North Loraine
Midland TX 79701

P O Box 3109
Midland TX 79702

February 2, 1996

To: Working Interest Owners

NM255100 - Central Vacuum Unit
Lea County, New Mexico

Gentlemen:

Texaco is finalizing plans to drill the Vacuum Grayburg San Andres Unit No. 159 as a lease line producer between the Central Vacuum Unit and the Vacuum Grayburg San Andres Unit. It will be at a bottom hole location of 572' FNL and 78' FEL of Section 1, T18S, R34E. Each unit will bear one half of the costs for the well and production will be allocated equally to each unit. Since the Vacuum Grayburg San Andres Unit is a 100% Texaco property, operations will be governed by the Central Vacuum Unit Operating Agreement. The well will be proposed to you later this year as part of an eight well package for the Central Vacuum Unit.

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Very truly yours,

Ronald W. Lanning
915-688-4445

APPROVED THIS 7th DAY OF Feb, 1996.

By: W. T. Boyle

Company: W. T. Boyle & Co.

Title: President



Texaco Exploration
and Production Inc

500 North Loraine
Midland TX 79701

P O Box 3109
Midland TX 79702

February 2, 1996

To: Working Interest Owners

NM255100 - Central Vacuum Unit
Lea County, New Mexico

Gentlemen:

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Very truly yours,

Ronald W. Lanning
915-688-4445

APPROVED THIS 7 DAY OF January, 1996.

By: Madelon Bredshaw

Company: _____

Title: _____



Texaco Exploration
and Production Inc

500 North Loraine
Midland TX 79701

P O Box 3109
Midland TX 79702

February 2, 1996

To: Working Interest Owners

NM255100 - Central Vacuum Unit
Lea County, New Mexico

Gentlemen:

Texaco is finalizing plans to drill the Vacuum Grayburg San Andres Unit No. 159 as a lease line producer between the Central Vacuum Unit and the Vacuum Grayburg San Andres Unit. It will be at a bottom hole location of 572' FNL and 78' FEL of Section 1, T18S, R34E. Each unit will bear one half of the costs for the well and production will be allocated equally to each unit. Since the Vacuum Grayburg San Andres Unit is a 100% Texaco property, operations will be governed by the Central Vacuum Unit Operating Agreement. The well will be proposed to you later this year as part of an eight well package for the Central Vacuum Unit.

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Very truly yours,

Ronald W. Lanning
915-688-4445

APPROVED THIS 9th DAY OF FEBRUARY, 1996.

By:

Butch Smith

Company:

HAWKINS OIL & GAS, INC.

Title:

VICE-PRESIDENT



FEB 07 1995

Texaco Exploration
and Production Inc

500 North Loraine
Midland TX 79701

P O Box 3109
Midland TX 79702

February 2, 1996

To: Working Interest Owners

NM255100 - Central Vacuum Unit
Lea County, New Mexico

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Very truly yours,

Ronald W. Lanning
915-688-4445

APPROVED THIS 8th DAY OF February, 1996.

By: [Signature]

Company: W. O. HUDSEY

Title: Production Engineer



Texaco Exploration
and Production Inc

500 North Loraine
Midland TX 79701

P O Box 3109
Midland TX 79702

February 2, 1996

To: Working Interest Owners

NM255100 - Central Vacuum Unit
Lea County, New Mexico

Gentlemen:

Texaco is finalizing plans to drill the Vacuum Grayburg San Andres Unit No. 159 as a lease line producer between the Central Vacuum Unit and the Vacuum Grayburg San Andres Unit. It will be at a bottom hole location of 572' FNL and 78' FEL of Section 1, T18S, R34E. Each unit will bear one half of the costs for the well and production will be allocated equally to each unit. Since the Vacuum Grayburg San Andres Unit is a 100% Texaco property, operations will be governed by the Central Vacuum Unit Operating Agreement. The well will be proposed to you later this year as part of an eight well package for the Central Vacuum Unit.

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Very truly yours,

Ronald W. Lanning
915-688-4445

APPROVED THIS 8th DAY OF February, 1996.

By: William D. Coats

Company: Martha Leonard Trust

Title: VP



Texaco Exploration
and Production Inc

500 North Loraine
Midland TX 79701

P O Box 3109
Midland TX 79702

February 2, 1996

To: Working Interest Owners

NM255100 - Central Vacuum Unit
Lea County, New Mexico

Gentlemen:

Texaco is finalizing plans to drill the Vacuum Grayburg San Andres Unit No. 159 as a lease line producer between the Central Vacuum Unit and the Vacuum Grayburg San Andres Unit. It will be at a bottom hole location of 572' FNL and 78' FEL of Section 1, T18S, R34E. Each unit will bear one half of the costs for the well and production will be allocated equally to each unit. Since the Vacuum Grayburg San Andres Unit is a 100% Texaco property, operations will be governed by the Central Vacuum Unit Operating Agreement. The well will be proposed to you later this year as part of an eight well package for the Central Vacuum Unit.

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Very truly yours,

Ronald W. Lanning
915-688-4445

APPROVED THIS 24 DAY OF February, 1996.

By: William O. Coats

Company: May Leonard Children's Trust

Title: VPO



Texaco Exploration
and Production Inc

500 North Loraine
Midland TX 79701

P O Box 3109
Midland TX 79702

February 2, 1996

To: Working Interest Owners

NM255100 - Central Vacuum Unit
Lea County, New Mexico

Gentlemen:

Texaco is finalizing plans to drill the Vacuum Grayburg San Andres Unit No. 159 as a lease line producer between the Central Vacuum Unit and the Vacuum Grayburg San Andres Unit. It will be at a bottom hole location of 572' FNL and 78' FEL of Section 1, T18S, R34E. Each unit will bear one half of the costs for the well and production will be allocated equally to each unit. Since the Vacuum Grayburg San Andres Unit is a 100% Texaco property, operations will be governed by the Central Vacuum Unit Operating Agreement. The well will be proposed to you later this year as part of an eight well package for the Central Vacuum Unit.

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Very truly yours,

Ronald W. Lanning
915-688-4445

APPROVED THIS 8th DAY OF February, 1996.

By:

Company:

Title:



Texaco Exploration
and Production Inc

500 North Loraine
Midland TX 79701

P O Box 3109
Midland TX 79702

February 2, 1996

To: Working Interest Owners

NM255100 - Central Vacuum Unit
Lea County, New Mexico

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Very truly yours,

Ronald W. Lanning
915-688-4445

APPROVED THIS 22nd DAY OF February, 1996.

By: Joseph J. Maden

Company: MARATHON OIL CO.

Title: Joint Interest Supervisor

Reference Marathon's letter of February 22, 1996.

Marathon Oil Company

FEB 07 1996

JOINT INTEREST OPERATIONS
MID-CONTINENT REGION



Texaco Exploration
and Production Inc

500 North Loraine
Midland TX 79701

P O Box 3109
Midland TX 79702

February 2, 1996

To: Working Interest Owners

NM255100 - Central Vacuum Unit
Lea County, New Mexico

Gentlemen:

Texaco is finalizing plans to drill the Vacuum Grayburg San Andres Unit No. 159 as a lease line producer between the Central Vacuum Unit and the Vacuum Grayburg San Andres Unit. It will be at a bottom hole location of 572' FNL and 78' FEL of Section 1, T18S, R34E. Each unit will bear one half of the costs for the well and production will be allocated equally to each unit. Since the Vacuum Grayburg San Andres Unit is a 100% Texaco property, operations will be governed by the Central Vacuum Unit Operating Agreement. The well will be proposed to you later this year as part of an eight well package for the Central Vacuum Unit.

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Very truly yours,

Ronald W. Lanning
915-688-4445

APPROVED THIS 21st DAY OF Feburary, 1996.

By:

Michael A. McBee, Jr.

Company:

The McBee Company

Title:

Operations



Texaco Exploration
and Production Inc

500 North Loraine
Midland TX 79701

P O Box 3109
Midland TX 79702

February 2, 1996

To: Working Interest Owners

NM255100 - Central Vacuum Unit
Lea County, New Mexico

Gentlemen:

Texaco is finalizing plans to drill the Vacuum Grayburg San Andres Unit No. 159 as a lease line producer between the Central Vacuum Unit and the Vacuum Grayburg San Andres Unit. It will be at a bottom hole location of 572' FNL and 78' FEL of Section 1, T18S, R34E. Each unit will bear one half of the costs for the well and production will be allocated equally to each unit. Since the Vacuum Grayburg San Andres Unit is a 100% Texaco property, operations will be governed by the Central Vacuum Unit Operating Agreement. The well will be proposed to you later this year as part of an eight well package for the Central Vacuum Unit.

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Very truly yours,

Ronald W. Lanning
915-688-4445

APPROVED THIS 12th DAY OF FEBRUARY, 1996.

By: Meg Hawk

Company: MOEL EXPLORATION & PRODUCTION U.S. INC.
AS AGENT FOR
MOEL PRODUCTION TEXAS - NEW MEXICO INC.

Title: STAFF RES. ENGR



Texaco Exploration
and Production Inc

500 North Loraine
Midland TX 79701

P O Box 3109
Midland TX 79702

February 2, 1996

PARTNERSHIP OPERATIONS

To: Working Interest Owners

FEB 6 1996

NM255100 - Central Vacuum Unit
Lea County, New Mexico

CONTROLLERS

Gentlemen:

Texaco is finalizing plans to drill the Vacuum Grayburg San Andres Unit No. 159 as a lease line producer between the Central Vacuum Unit and the Vacuum Grayburg San Andres Unit. It will be at a bottom hole location of 572' FNL and 78' FEL of Section 1, T18S, R34E. Each unit will bear one half of the costs for the well and production will be allocated equally to each unit. Since the Vacuum Grayburg San Andres Unit is a 100% Texaco property, operations will be governed by the Central Vacuum Unit Operating Agreement. The well will be proposed to you later this year as part of an eight well package for the Central Vacuum Unit.

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Very truly yours,

Ronald W. Lanning
915-688-4445

APPROVED THIS 6th DAY OF March, 1996.

By: x Lisa H. Turnell

Company: Phillips Petroleum Company

Title: CENTRAL ASSET TEAM LEADER



Texaco Exploration
and Production Inc

500 North Loraine
Midland TX 79701

P O Box 3109
Midland TX 79702

February 2, 1996

To: Working Interest Owners

NM255100 - Central Vacuum Unit
Lea County, New Mexico

Gentlemen:

Texaco is finalizing plans to drill the Vacuum Grayburg San Andres Unit No. 159 as a lease line producer between the Central Vacuum Unit and the Vacuum Grayburg San Andres Unit. It will be at a bottom hole location of 572' FNL and 78' FEL of Section 1, T18S, R34E. Each unit will bear one half of the costs for the well and production will be allocated equally to each unit. Since the Vacuum Grayburg San Andres Unit is a 100% Texaco property, operations will be governed by the Central Vacuum Unit Operating Agreement. The well will be proposed to you later this year as part of an eight well package for the Central Vacuum Unit.

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Very truly yours,

Ronald W. Lanning
915-688-4445

APPROVED THIS 11 DAY OF Feb, 1996.

By: Norman L. Strickland

Company: _____

Title: _____



Texaco Exploration
and Production Inc

500 North Loraine
Midland TX 79701

P O Box 3109
Midland TX 79702

February 2, 1996

To: Working Interest Owners

NM255100 - Central Vacuum Unit
Lea County, New Mexico

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Very truly yours,

Ronald W. Lanning
915-688-4445

APPROVED THIS 8th DAY OF Feb, 1996.

By:

Company: S. B. Street & Co.

Title: Pres.



Texaco Exploration
and Production Inc

500 North Loraine
Midland TX 79701

P O Box 3109
Midland TX 79702

February 2, 1996

To: Working Interest Owners

NM255100 - Central Vacuum Unit
Lea County, New Mexico

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Very truly yours,

Ronald W. Lanning
915-688-4445

APPROVED THIS 22th DAY OF FEB., 1996.

By: [Signature]
Company: TONGUE POINT B&P INC.
Title: President



Texaco Exploration
and Production Inc

500 North Loraine
Midland TX 79701

P O Box 3109
Midland TX 79702

February 2, 1996

To: Working Interest Owners

NM255100 - Central Vacuum Unit
Lea County, New Mexico

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Very truly yours,

Ronald W. Lanning
915-688-4445

APPROVED THIS 8 DAY OF February, 1996.

By:

Wayne Christ

Company:

Turnco Inc.

Title:

President



Texaco Exploration
and Production Inc

500 North Loraine
Midland TX 79701

P O Box 3109
Midland TX 79702

March 19, 1996

Royalty Owners
Central Vacuum Unit
(See Attached List)

NM254770 - Vacuum Grayburg San Andres Unit
NM255100 - Central Vacuum Unit
Lea County, New Mexico

Ladies and Gentlemen:

Texaco Exploration and Production Inc. ("Texaco") is the Operator of the captioned units. We are planning to drill our Vacuum Grayburg San Andres Unit Well No. 159 as a lease line producer between the Vacuum Grayburg San Andres Unit and the Central Vacuum Unit. Each unit will share equally in the production from this well.

We estimate that this well will produce from 109,000 to 231,000 barrels of oil. As a royalty owner under the Central Vacuum Unit, you would receive your proportionate part of any royalties from the production allocated to the Central Vacuum Unit.

We will be appearing before the New Mexico Oil Conservation Division in the near future seeking approval for this well. Please give your approval, as a royalty owner in the Central Vacuum Unit, for the drilling of this well by signing in the space provided below and returning an original to me as soon as possible.

Give me a call at (915) 688-4445 if you have any questions.

Sincerely,

Ronald W. Lanning

RWL:

APPROVED, this 24th day of March, 1996

Signature: Norman R. Gross

Printed Name: Norman R. Gross



Texaco Exploration
and Production Inc

500 North Loraine
Midland TX 79701

P O Box 3109
Midland TX 79702

March 19, 1996

Royalty Owners
Central Vacuum Unit
(See Attached List)

NM254770 - Vacuum Grayburg San Andres Unit
NM255100 - Central Vacuum Unit
Lea County, New Mexico

Ladies and Gentlemen:

Texaco Exploration and Production Inc. ("Texaco") is the Operator of the captioned units. We are planning to drill our Vacuum Grayburg San Andres Unit Well No. 159 as a lease line producer between the Vacuum Grayburg San Andres Unit and the Central Vacuum Unit. Each unit will share equally in the production from this well.

We estimate that this well will produce from 109,000 to 231,000 barrels of oil. As a royalty owner under the Central Vacuum Unit, you would receive your proportionate part of any royalties from the production allocated to the Central Vacuum Unit.

We will be appearing before the New Mexico Oil Conservation Division in the near future seeking approval for this well. Please give your approval, as a royalty owner in the Central Vacuum Unit, for the drilling of this well by signing in the space provided below and returning an original to me as soon as possible.

Give me a call at (915) 688-4445 if you have any questions.

Sincerely,

Ronald W. Lanning

RWL:

APPROVED, this 21st day of March, 1996

Signature: SARA C. BURNS

Printed Name: SARA C. BURNS



Texaco Exploration
and Production Inc

500 North Loraine
Midland TX 79701

P O Box 3109
Midland TX 79702

March 19, 1996

Royalty Owners
Central Vacuum Unit
(See Attached List)

NM254770 - Vacuum Grayburg San Andres Unit
NM255100 - Central Vacuum Unit
Lea County, New Mexico

Ladies and Gentlemen:

Texaco Exploration and Production Inc. ("Texaco") is the Operator of the captioned units. We are planning to drill our Vacuum Grayburg San Andres Unit Well No. 159 as a lease line producer between the Vacuum Grayburg San Andres Unit and the Central Vacuum Unit. Each unit will share equally in the production from this well.

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Give me a call at (915) 688-4445 if you have any questions.

Sincerely,

Ronald W. Lanning

RWL:

APPROVED, this 20th day of March, 1996

Signature: Earl J. Waters

Printed Name: EARL J. WATERS



Texaco Exploration
and Production Inc

500 North Loraine
Midland TX 79701

P O Box 3109
Midland TX 79702

March 19, 1996

Royalty Owners
Central Vacuum Unit
(See Attached List)

NM254770 - Vacuum Grayburg San Andres Unit
NM255100 - Central Vacuum Unit
Lea County, New Mexico

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Give me a call at (915) 688-4445 if you have any questions.

Sincerely,

Ronald W. Lanning

RWL:

APPROVED, this 21 day of MARCH, 1996

Signature:

Printed Name: RONALD C. ROBBINS



Texaco Exploration
and Production Inc

500 North Loraine
Midland TX 79701

March 19, 1996

Royalty Owners
Central Vacuum Unit
(See Attached List)

NM254770 - Vacuum Grayburg San Andres Unit
NM255100 - Central Vacuum Unit
Lea County, New Mexico

Ladies and Gentlemen:

Texaco Exploration and Production Inc. ("Texaco") is the Operator of the captioned units. We are planning to drill our Vacuum Grayburg San Andres Unit Well No. 159 as a lease line producer between the Vacuum Grayburg San Andres Unit and the Central Vacuum Unit. Each unit will share equally in the production from this well.

We estimate that this well will produce from 109,000 to 231,000 barrels of oil. As a royalty owner under the Central Vacuum Unit, you would receive your proportionate part of any royalties from the production allocated to the Central Vacuum Unit.

We will be appearing before the New Mexico Oil Conservation Division in the near future seeking approval for this well. Please give your approval, as a royalty owner in the Central Vacuum Unit, for the drilling of this well by signing in the space provided below and returning an original to me as soon as possible.

Give me a call at (915) 688-4445 if you have any questions.

Sincerely,

Ronald W. Lanning

RWL:

APPROVED, this First day of April, 1996

Signature: Christine E Campos

Printed Name: Christine E. CAMPOS

PERMIAN WEST BUSINESS UNIT NORTH HOBBS ASSET TEAM			
APR 08 1996			
P.O. Box 3169 Midland TX 79702			
JLS	MSW	MAC	HCP
RJS	SCW	MAC	MEB
REH	PKW	MAC	MAF
KEH	CRW	MES	LRH
CAF		TEP	SMS
RW	OC	JMW	DET
RW	SN		
EAR	RAF	PRM	FILE
		X - HANDLE / NO	



Texaco Exploration
and Production Inc

500 North Loraine
Midland TX 79701

PERMIAN WEST BUSINESS UNIT
NORTH HOBBS ASSET TEAM

APR 08 1996

March 19, 1996

Royalty Owners
Central Vacuum Unit
(See Attached List)

P.O. Box 3109 Midland TX 79702	DES	RAS	HCP
MSW	MAC		
SCW		MES	
RKW	MOB	MAF	
CRW	MES	LRH	
	TEL	SMS	
CC	JMW	DET	
ORT			
HEZ	PRW	FILE	
D - DISCUSS WITH		X - HANDLE	
C - COPY		W - NOTE	

NM254770 - Vacuum Grayburg San Andres Unit
NM255100 - Central Vacuum Unit
Lea County, New Mexico

Ladies and Gentlemen:

Texaco Exploration and Production Inc. ("Texaco") is the Operator of the captioned units. We are planning to drill our Vacuum Grayburg San Andres Unit Well No. 159 as a lease line producer between the Vacuum Grayburg San Andres Unit and the Central Vacuum Unit. Each unit will share equally in the production from this well.

We estimate that this well will produce from 109,000 to 231,000 barrels of oil. As a royalty owner under the Central Vacuum Unit, you would receive your proportionate part of any royalties from the production allocated to the Central Vacuum Unit.

We will be appearing before the New Mexico Oil Conservation Division in the near future seeking approval for this well. Please give your approval, as a royalty owner in the Central Vacuum Unit, for the drilling of this well by signing in the space provided below and returning an original to me as soon as possible.

Give me a call at (915) 688-4445 if you have any questions.

Sincerely,

Ronald W. Lanning

RWL:

APPROVED, this 2nd day of April, 1996

Signature: Stephanie C.R. Aldemir

Printed Name: Stephanie C.R. Aldemir



Texaco Exploration
and Production Inc

500 North Loraine
Midland TX 79701

P O Box 3109
Midland TX 79702

March 18, 1996

Mr. Larry Kehoe, Director
Oil, Gas & Minerals Division
New Mexico State Land Office
P. O. Box 1148
Santa Fe, New Mexico 87504-1148

NM254770 - Vacuum Grayburg San Andres Unit
NM255100 - Central Vacuum Unit
Lea County, New Mexico

Dear Mr. Kehoe:

The State of New Mexico is the owner of all royalty interests under the Vacuum Grayburg San Andres Unit and 98.8409% of the royalty interests under the Central Vacuum Unit. The purpose of this letter is to seek your approval, as a royalty owner, of our plans to drill a lease line producer between these two units.

The limits of the Vacuum Field were defined and developed on forty acre spacing by the mid-1940's. Enhanced recovery by waterflooding was initiated during the 1970's throughout the field. The majority of the field's well spacing was reduced to twenty acres in the late 1970's and early 1980's. The reduced spacing and waterflooding capital projects were highly successful, adding significant reserves to the properties. Sporadic infill drilling on ten acre spacing occurred in the late 1980's and early 1990's. The ten acre development projects have been modestly profitable and are adding attractive reserves. Some of the more attractive ten acre drilling sites remaining are on the common lease lines between the various unitized waterflood operations.

We undertook a detailed evaluation (Study) of the various Vacuum Field operator's ten acre development experiences in the summer of 1994. Fig. 1 shows the extent of ten acre development as of the summer of 1994. The Study found that recoveries ranged from 3.2% to 6.8% of the Original Oil-In-Place (OOIP). Recoveries were found to be dominated by reservoir quality, with few exceptions. The Study showed that an additional 5,100,000 Stock Tank Barrels (STB) of oil will be recovered through the thirty, then existing, ten acre locations we operated within the field.

Based on the Study's findings, we successfully drilled fourteen new ten acre locations in 1995. These locations are shown in Fig. 2 relative to previously drilled locations. The production plot in Fig. 3 provides a general measure of this latest project's success--production is at a ten year high. There was no interference/acceleration of reserves, and Fig. 4 demonstrates that 1,460,000 STB's of additional recovery can be attributed to this latest development. This is equivalent to 3.3% OOIP that would not otherwise have been recovered.

Examiner Catavach
Case No. 11527
EXHIBIT NO. 4

We plan to continue ten acre infill development on a strategic approach rather than blanket infill development. There is clearly acreage that would not be profitable to develop on the greater well density. Based on the earlier Study, and recent successes from the 1995 development program, we have identified eight locations which could be developed in 1996 (Fig. 5). One of the prime locations remaining exists on the common lease line between the Vacuum Grayburg San Andres Unit (VGSAU) and the Central Vacuum Unit (CVU). This lease line location is immediately offset by the 1995 development, and is surrounded by ten acre locations. Based on the 1994 Study, this location should recover between 109,000 and 231,000 STB of additional oil. The remaining lease line locations represent the no flow boundary between existing patterns and have stagnant mobile oil saturations which will not be recovered with the existing waterflood patterns.

We have plans to initiate a miscible CO₂ flood at both of the subject properties. Industry projects forecast additional reserves from 9% to 18% OOIP. This suggests that an additional recovery of 306,000 to 612,000 STB will be bypassed in the near future without the lease line location.

The most favorable site for the wellbore (572' FNL, 78' FEL Sec. 1, T18S, R34E) falls within the VGSAU. Therefore, the well is planned as VGSAU No. 159. Costs for the well will be shared by each unit on an equal basis. Production will be handled through the existing lease gathering system. Individual wells are gathered and tested/metered through a three-phase test separator. Averages of individual monthly tests are used to prorate volumes back to individual wells based on the monthly sales meter volume. Half of all production from the well will be allocated to each unit. Each unit will then allocate its share of production to each of its tracts based on existing tract participation factors and royalties will be paid accordingly.

We have received working interest owner approval for this project. A copy of the Vacuum Area Cooperative Lease Line Agreement is enclosed for your review.

We will soon schedule a hearing with the New Mexico Oil Conservation Division for approval of this well. Based on our previous experience with lease line wells, we would like to have your approval for this project prior to the hearing.

Please direct any technical questions to Mr. Scott Wehner at 915-688-2954. I can be reached at 915-688-4445.

Very truly yours,

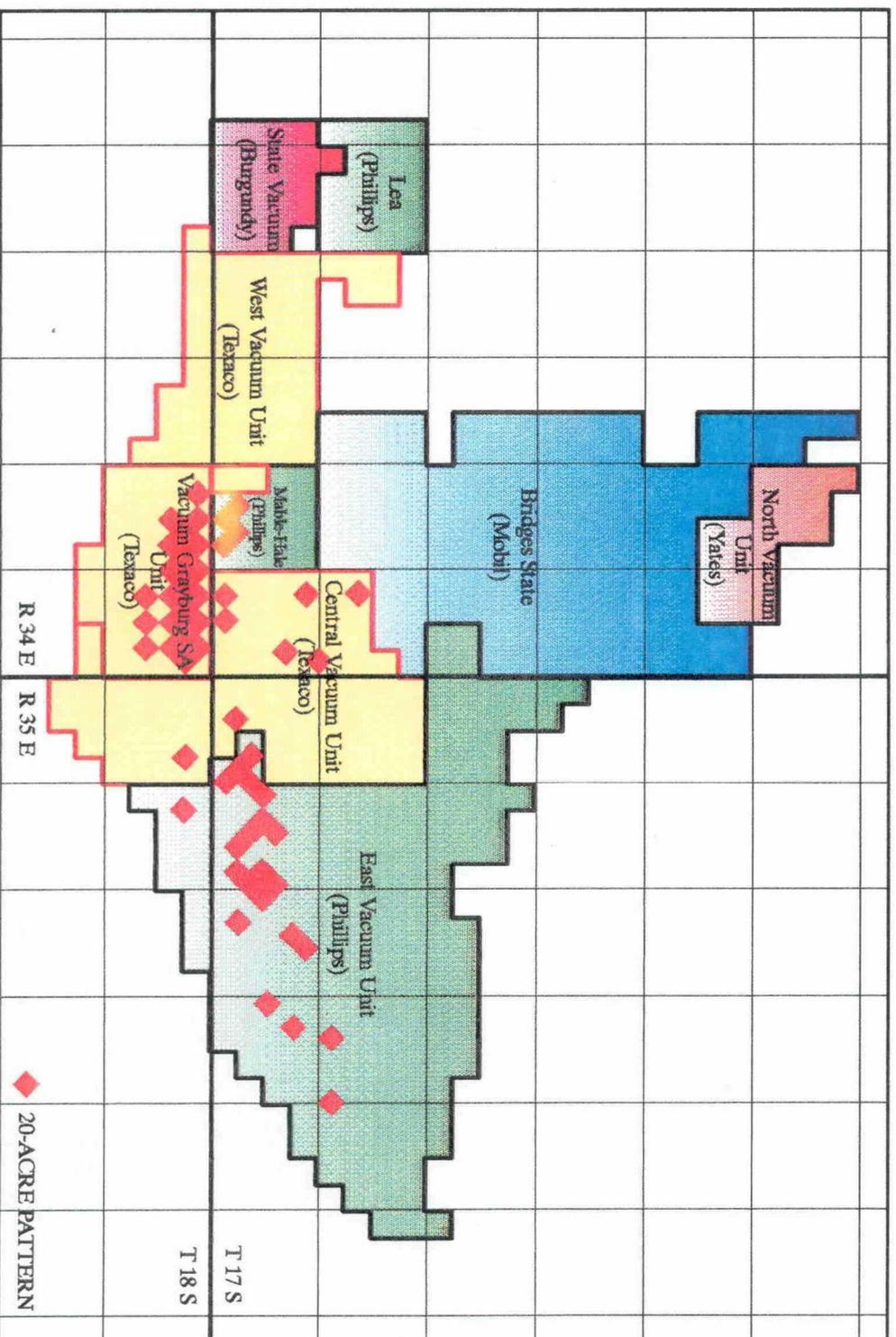


Ronald W. Lanning

RWL:

Enclosures

RELATIVE LOCATIONS OF 10-ACRE DEVELOPMENT VACUUM FIELD, LEA COUNTY, NEW MEXICO



10-A INFILL LOCATIONS

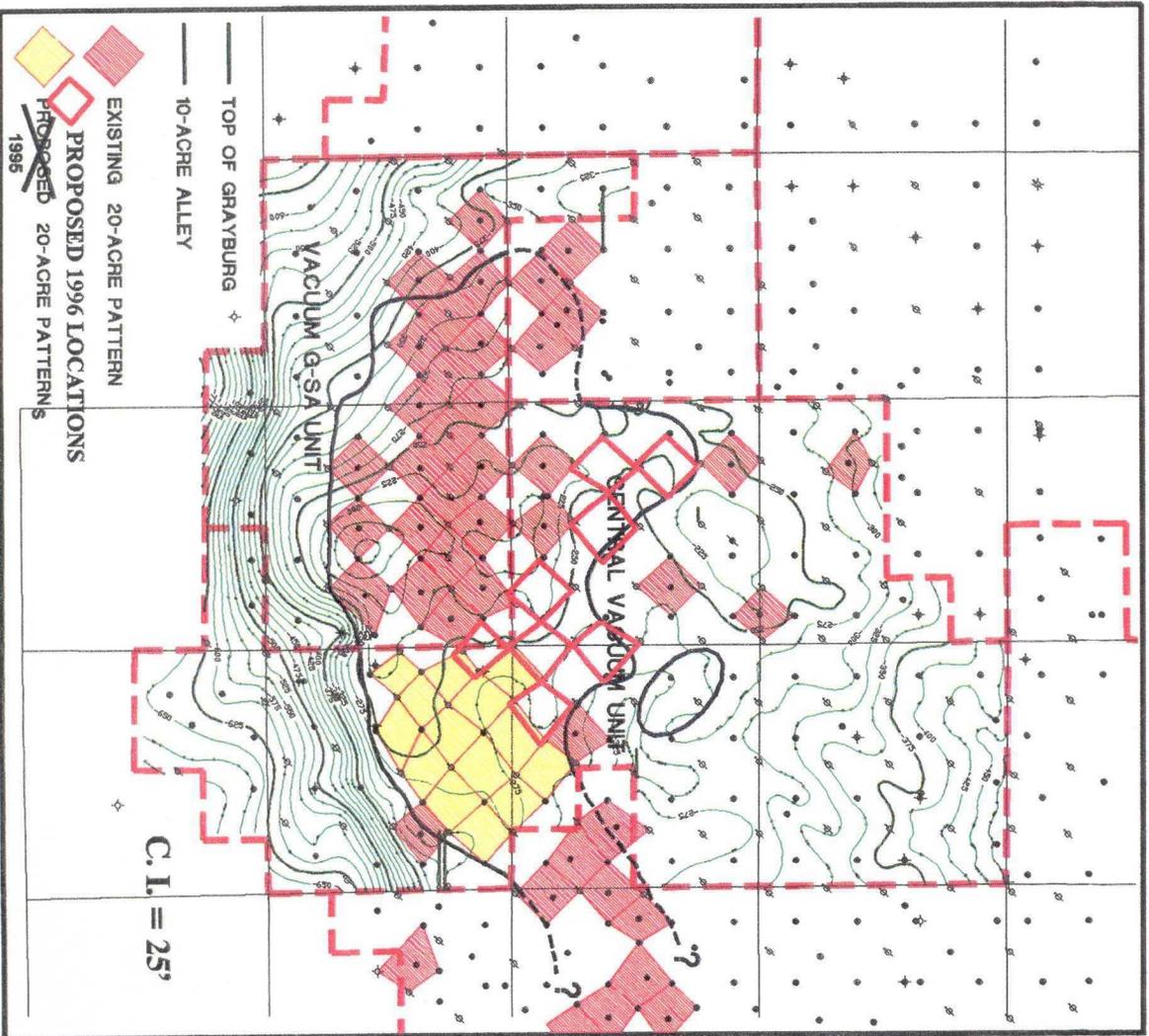


Fig. 2

1995 CVU 14 10-A Dev. Program
 [Inclusive of Immediate Offsets]

[100% Allocation]

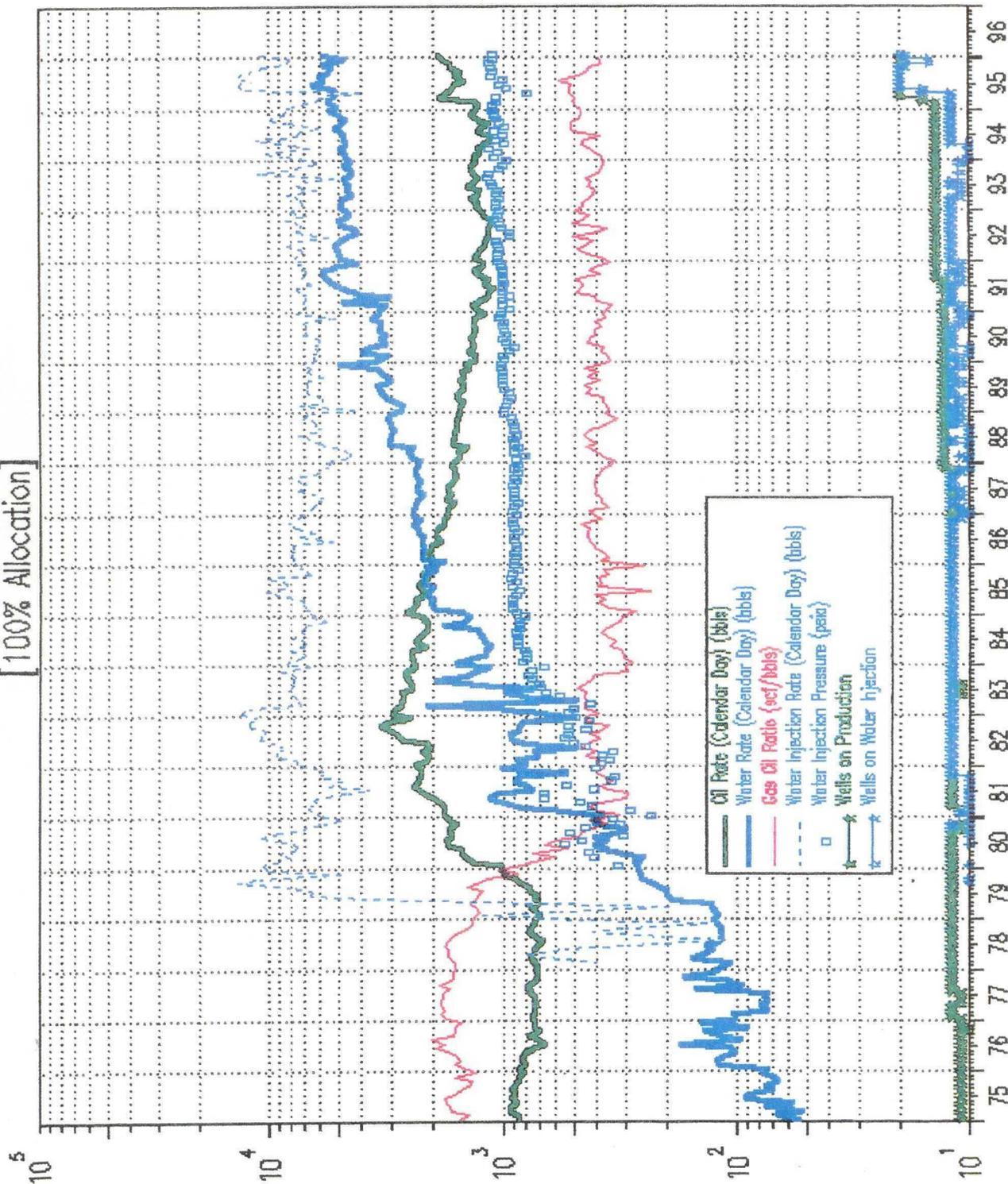


Fig. 3

1995 CVU 14 10-A Dev. Program
[Inclusive of Immediate Offsets]

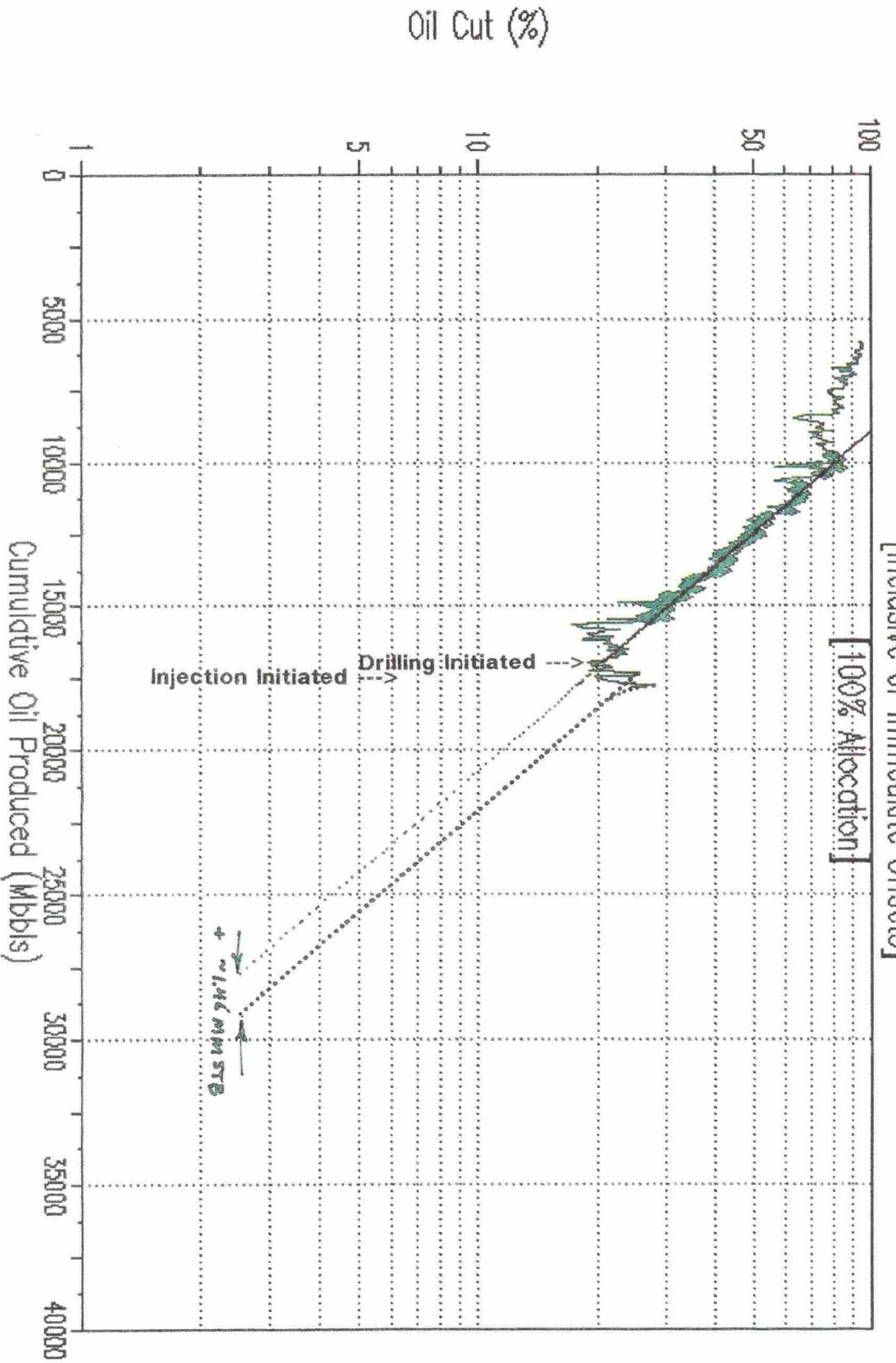
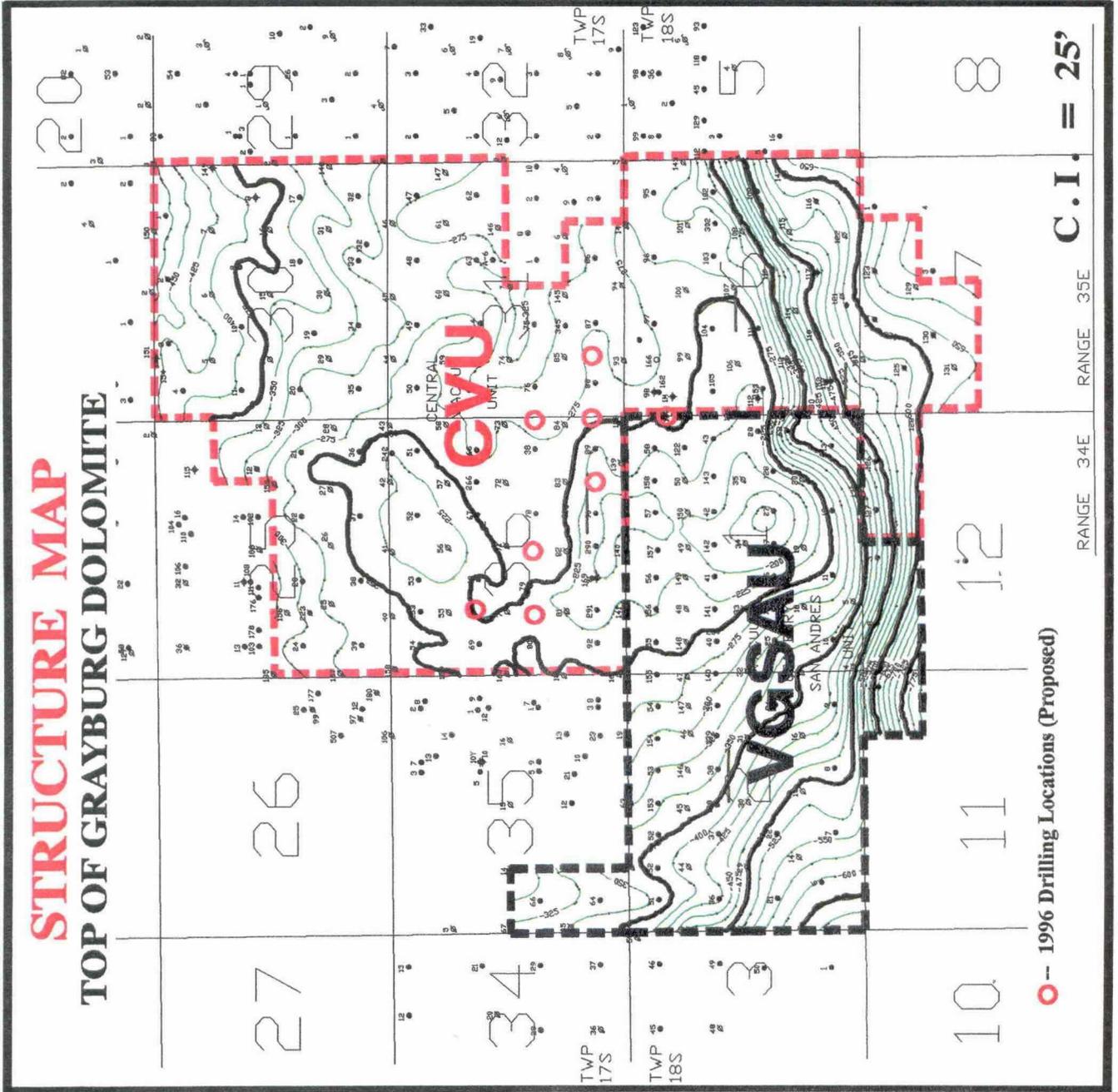


Fig. 4

STRUCTURE MAP TOP OF GRAYBURG DOLOMITE



○ -- 1996 Drilling Locations (Proposed)

C.I. = 25'

RANGE 34E RANGE 35E

RANGE 34E RANGE 35E

Fig. 5

**BEFORE THE
OIL CONSERVATION DIVISION**
Santa Fe, New Mexico

Case No. 11527 Exhibit No. 4

Submitted by: Texaco Exploration and Production Inc.

Hearing Date: May 16, 1996
