

BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

**APPLICATION OF VENDERA RESOURCES III, LP,
VENDERA MANAGEMENT III, LLC AND HIGHMARK
OPERATING, LLC TO APPROVE A FORM C-145
NAMING HIGHMARK ENERGY OPERATING, LLC
AS THE SUCCESSOR OPERATOR OF THE CENTRAL
VACUUM UNIT, LEA COUNTY, NEW MEXICO.**

Case No. 21704

**RESPONSE OF VENDERA RESOURCES III, LP, VENDERA MANAGEMENT
III, LLC AND HIGHMARK OPERATING, LLC
IN OPPOSITION TO CHEVRON U.S.A. INC.'S MOTION TO DISMISS**

Vendera Resources III, LP and Vendera Management III, LLC (collectively "Vendera") and Highmark Energy Operating, LLC ("Highmark") submit this response in opposition to the Motion to Dismiss (the "Motion") filed by Chevron U.S.A. Inc. ("Chevron").

BACKGROUND.

1. The Central Vacuum Unit (the "CVU") was approved by Division Order No. R-5496 and covers 3,046.20 acres of State and fee lands in Lea County described in the order. The order is attached hereto as **Exhibit A**. Vendera is a working interest owner in the CVU.

3. The CVU is an enhanced recovery unit covering a portion of the Vacuum-Grayburg-San Andres Pool, and was formed pursuant to the provisions of the Statutory Unitization Act, NMSA 1978 §§70-7-1 *et seq.* One hundred percent of all mineral and leasehold interests in the unit area are committed the CVU.

3. The Unit Agreement and Unit Operating Agreement (the "Agreements"), approved by the Division, named Texaco Inc. as operator of the CVU. Chevron is the successor to Texaco Inc. Section 7 of the Unit Agreement provides that:

[T]he Unit Operator may be removed **at any time** by the affirmative vote of Working Interest Owners having ninety percent (90%) or more of the Voting

Interest remaining **after** excluding the voting interest of the Unit Operator. Such removal shall be effective upon notice to the Commissioner of Public Lands.

Please note that the unit operator may be removed for any valid cause, or for no cause at all.

5. Vendera organized a vote to remove Chevron as unit operator. An example of the letters sent to the working interest owners by Vendera to name a new operator is attached hereto as **Exhibit B**, and it explains why it sought removal of Chevron as operator of the CVU. A sufficient percentage of working interest owners voted to replace Chevron as unit operator, and the Commissioner of Public Lands (as well as Chevron) was so notified. **Exhibit C**. However, Chevron has refused to step down as operator. The Commissioner of Public Lands has requested Vendera to obtain Division approval of the change of operator before she acts.

6. A Form C-145 has been prepared and signed by Highmark as the duly elected successor unit operator. Chevron has refused to execute the Form C-145. As a result, Vendera and Highmark have applied for an order approving the Form C-145 naming Highmark as successor unit operator of the CVU and removing the current unit operator.

7. Chevron then filed its Motion.

ARGUMENT.

8. The Motion is based on two assertions: (1) The Division lacks jurisdiction to decide operatorship which involves contract interpretation; and (2) The Division rule regarding change of operator if the new operator only signs the Form C-145, only applies if the current operator is "unavailable." Both arguments are wrong.

Issue 1.

9. Chevron relies on Division or Commission orders which are not on point. They are generally from compulsory pooling and/or non-standard spacing unit cases brought under the Oil and Gas Act, NMSA 1978 §§70-7-1 *et seq.*, and involve wellbore ownership, the content of

oil and gas leases, and title matters between private entities. The Division was not a party to those agreements.

10. The Oil and Gas Act does apply in this case with respect to the Division's overall mandate of preventing waste. However, this case involves Statutory Unitization Act, NMSA 1978 §§70-7-1 *et seq.*, under which the Division *is* involved, and in essence is a party to the unit documents (the "Agreements"). The Statutory Unitization Act provides:

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

NMSA 1978 §70-7-3. It further provides:

The order providing for unitization and unit operation of a pool or part of a pool shall be upon terms and conditions that are fair, reasonable and equitable and shall approve or prescribe a plan or unit agreement for unit operation which shall include:

G. a provision designating the unit operator and providing for the supervision and conduct of the unit operations, including the selection, removal or substitution of an operator...; and

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

NMSA 1978 §70-7-7.

11. Pursuant to statute the Division approved the CVU, and incorporated the Unit Agreement and the Unit Operating Agreement into its order. **Exhibit A**, Finding Paragraph (12), and Ordering Paragraphs (4) and 5. It also incorporated into the Order the provisions NMSA 1978 §70-7-7. **Exhibit A**, Ordering Paragraph (6). Thus, *even if* this case involves contract interpretation the Division has already opined on the provisions and reasonableness of the

Agreements. And in approving unitization, the Division was acting in a judicial capacity. *Amoco Production Company v. Heimann*, 905 Fed. 2d 1405 (10th Cir 1990), cert. denied 498 U.S. 942 (1990).

12. The Division has jurisdiction under its unitization order and the statutes to determine the operator of the CVU. Vendera also notes that the unit operator is the person designated by working interest owners “or the Division” to conduct unit operations. NMSA 1978 §70-7-4.H. In fact, in its letter to the Division (**Exhibit D**) Chevron’s counsel states that if Highmark or Vendera seek approval of a Form C-145, “Chevron requests that the Division set the matter before for hearing before a Division examiner.”

13. Vendera also notes that the removal provision set forth in Paragraph 3 above is so simple it does not need interpretation; all it requires is arithmetic.

Issue 2.

14. NMAC 19.15.9 provides that changes of operator should be jointly signed and submitted by the current and successor operator. However, NMAC 19.15.9.B allows the Division to approve a Form C-145 even if not signed by the current operator of record. As a result, the Division should approve the Form C-145 even though not signed by Chevron.

15. Chevron states that it is “available,” and thus the Division can take no action. Vendera submits that Chevron is “present,” but not available. **Exhibit B** sets forth the following: Vendera first acquired its interest almost three years ago because it thought the CVU had opportunities to increase cash flow, benefitting all interest owners; it contacted Chevron many, many times to discuss improvements in unit operations, but Chevron was unresponsive, to say the least; and the attempts to work with Chevron continued for two years, to no avail. With the

onset of the pandemic and low oil prices the CVU started experience a negative cash flow, thus impairing the correlative rights of the interest owners. Chevron would not sign the Form C-145.

16. If this persists, it could lead to dissolution of the CVU due to lack of production in paying quantities. That would cause waste.

17. It is the duty of the Division to prevent waste and to protect correlative rights, and to do so it can "do whatever may be reasonably necessary to carry out the purposes of this act, whether or not indicated or specified in any section hereof." NMSA 1978 §70-2-11. This provision has been used by the Division to remove an operator even though the current operator was "available."

18. In Case No. 15772 Matador Production Company (Matador) applied to the Division to require Lanexco, Inc. (Lanexco) to P&A the Cerro Com. Well No. 1, an out-of-compliance well which had open perforations in the zone in which Matador sought to drill and complete a new horizontal well. Matador was concerned that, due to the proximity of the wells to each other, the drilling and completion of Matador's well would be adversely affected, reserves would be lost, and waste would occur.

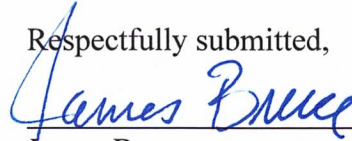
In the alternative, Matador requested that the Division approve Matador as operator of the Cerro Com. Well No. 1 so that it could legally P&A the well. The Division granted Matador's application to be appointed operator, even though Lanexco refused to sign a Form C-145, relying on NMSA 1978 §70-2-11 and the need to prevent waste. See Order No. R-14183-A. See also Order No. R-14228. Similar relief is requested in this case.

CONCLUSION.

19. Based on the above, the Division has jurisdiction and authority to remove Chevron as operator of the CVU.

WHEREFORE. Vendera and Highmark request that the Division deny Chevron's Motion to Dismiss and allow the case to proceed to hearing.

Respectfully submitted,



James Bruce
Post Office Box 1056
Santa Fe, New Mexico 87504
(505) 982-2043

Attorney for Vendera Resources III, LP and
Vendera Management III, LLC and
Highmark Energy Operating, LLC

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing pleading was served upon the following counsel of record this 15th day of March, 2021 by e-mail:

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James Bruce

VACUUM-GRAYBURG-SAN ANDRES POOL
(Central Vacuum Unit)
Lea County, New Mexico

Order No. R-5496, Approving for Statutory Unitization the Central Vacuum Unit, Vacuum-Grayburg-San Andres Pool, Lea County, New Mexico, August 9, 1977.

Application of Texaco Inc. for Statutory Unitization and Pressure Maintenance, Vacuum-Grayburg-San Andres Pool, Lea County, New Mexico.

CASE NO. 5970
Order No. R-5496

ORDER OF THE COMMISSION

BY THE COMMISSION: This cause came on for hearing at 9 a.m. on June 22, 1977, at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 9th day of August, 1977, the Commission, a quorum being present, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

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

(2) That the applicant, Texaco Inc., seeks the statutory unitization, pursuant to the "Statutory Unitization Act," Sections 65-14-1 through 65-14-21, NMSA, 1953 Compilation, of 3,046.2 acres, more or less, of State and fee lands, being a portion of the Vacuum-Grayburg-San Andres Pool, Lea County, New Mexico, and approval of the plan of unitization and the proposed operating plan.

(3) That the proposed unit area would be designated the Central Vacuum Unit Area; that the vertical limits of said unit area would be the subsurface formation commonly known as the Grayburg-San Andres formation identified between the depths of 3858 feet (plus 144 feet sub-sea) and 4858 feet (minus 856 feet sub-sea) on the Welx Acoustic Velocity Log, run on November 15, 1963, in Texaco's State of New Mexico "O" (NCT-1) Well No. 23, located in the SW/4 SE/4 of Section 36, Township 17 South, Range 34 East, NMPM, Lea County, New Mexico, and is to include all subsurface points throughout the Unit area correlative to those identified depths, and that the unit area would comprise the following described lands:

TOWNSHIP 17 SOUTH, RANGE 34 EAST, NMPM
Section 25: S/2 and SE/4 NE/4
Section 36: All

TOWNSHIP 17 SOUTH, RANGE 35 EAST, NMPM
Section 30: All
Section 31: N/2, SW/4, and SW/4 SE/4

TOWNSHIP 18 SOUTH, RANGE 34 EAST, NMPM
Section 12: N/2 NE/4

TOWNSHIP 18 SOUTH, RANGE 35 EAST, NMPM
Section 6: All
Section 7: NW/4 and NW/4 NE/4

(4) That the portion of the Vacuum-Grayburg-San Andres Pool proposed to be included in the aforesaid Central Vacuum Unit Area has been reasonably defined by development.

(5) That the applicant proposes to institute a pressure maintenance project for the secondary recovery of oil and gas in the proposed unit area.

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

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

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

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

(10) That the applicant has made a good faith effort to secure voluntary unitization within the Vacuum Grayburg-San Andres Pool.

(11) That the participation formula contained in the unitization agreement allocates the produced and saved unitized hydrocarbons to the separately owned tracts in the unit area on a fair, reasonable and equitable basis, and protects correlative rights of all owners of interest within the unit area.

(12) That applicant's Exhibits Nos. 8 and 9 in this case, being the Unit Agreement and the Unit Operating Agreement should be incorporated by reference into this order.

(13) That the Statutory Unitization of the Central Vacuum Unit Area, in conformance to the above findings, will prevent waste and protect correlative rights and should be approved.

IT IS THEREFORE ORDERED:

(1) That the Central Vacuum Unit Agreement, covering 3,046.2 acres, more or less, of State and fee lands in the Vacuum-Grayburg-San Andres Pool, Lea County, New Mexico, is hereby approved for statutory unitization pursuant to the Statutory Unitization Act, Sections 65-14-1 through 65-14-21, NMSA, 1953 Compilation.

(2) That the lands covered by said Central Vacuum Unit Agreement shall be designated the Central Vacuum Unit Area and shall comprise:

TOWNSHIP 17 SOUTH, RANGE 34 EAST, NMPM
Section 25: S/2 and SE/4 NE/4
Section 36: All

TOWNSHIP 17 SOUTH, RANGE 35 EAST, NMPM
Section 30: All
Section 31: N/2, SW/4, and SW/4 SE/4

TOWNSHIP 18 SOUTH, RANGE 34 EAST, NMPM
Section 12: N/2 NE/4

TOWNSHIP 18 SOUTH, RANGE 35 EAST, NMPM
Section 6: All
Section 7: NW/4 and NW/4 NE/4

(VACUUM-GRAYBURG-SAN ANDRES (CENTRAL VACUUM UNIT) POOL - Cont'd.)

(3) That the vertical limits of the Central Vacuum Unit Area shall be the Grayburg-San Andres formation identified between the depths of 3858 feet (plus 144 feet sub-sea) and 4858 feet (minus 856 feet sub-sea) on the Wellex Acoustic Velocity Log, run on November 15, 1963, in Texaco's State of New Mexico "O" (NCT-1) Well No. 23, located in the SW/4 SE/4 of Section 36, Township 17 South, Range 34 East, NMPM, Lea County, New Mexico, and is to include all subsurface points throughout the Unit area correlative to those identified depths.

(4) That applicant's Exhibit No. 8 in this case, being the Central Vacuum Unit Agreement, is hereby incorporated by reference into this order.

(5) That applicant's Exhibit No. 9 in this case, being the Central Vacuum Unit Operating Agreement, is hereby incorporated by reference into this order.

(6) That the Central Vacuum Unit Agreement and the Central Vacuum Unit Operating Agreement provide for unitization and unit operation of the subject portion of the Vacuum-Grayburg-San Andres Pool upon terms and conditions that are fair, reasonable and equitable and include:

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

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

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

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

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

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

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

and are therefore hereby adopted.

(7) That this order shall not become effective unless and until the appropriate ratification provisions of Section 65-14-8, NMSA, 1953 Compilation, are complied with.

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

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

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

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



VENDERA RESOURCES

Collin Lensing
COO & General Counsel
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Suite 750
Dallas, Texas 75204
venderaresources.com

September 16, 2020

Via Certified Mail

Breitburn Energy Partners, LP
1111 Bagby St. #166
Houston, TX. 77002

Re: **Removal of Unit Operator and Selection of Successor Unit Operator**: Central Vacuum Unit ("CVU"), Lea County, New Mexico

Dear Working Interest Owner:

Reference is made to that certain Unit Agreement for the Development and Operation of the Central Vacuum Unit Area, County of Lea, State of New Mexico, entered into on the first day of December 1976, by and between Chevron North America Exploration ("Chevron") or an affiliate thereof's predecessor in interest as Unit Operator and Working Interest Owner and the other parties thereto ("Operating Agreement").

Reference is also made to that certain Unit Agreement of the Central Vacuum Unit, County of Lea, State of New Mexico, entered into on the first day of December 1976, by and between the predecessor in interest to Chevron or an affiliate thereof as Unit Operator and Working Interest Owner and the other parties thereto ("Unit Agreement" and collectively with the Operating Agreement, the "Agreements").

Vendera Resources III, LP and Vendera Management III, LLC (collectively "Vendera") are Working Interest Owners under the Agreements and hold a 33.16% working interest.

Chevron or an affiliate thereof presently serves as the Unit Operator under the Agreements. Pursuant to Section 7 of the Unit Agreement, the Unit Operator may be removed at any time by the affirmative vote of Working Interest Owners having ninety percent (90%) or more of the Voting Interest remaining after excluding the voting interest of the Unit Operator. Further, such removal shall be effective upon notice thereof to the Commissioner.

Vendera acquired its interest in CVU from Marathon Oil Company effective on May 1, 2018 ("Closing Date"). In part, Vendera's rationale for acquiring its interest in CVU was that the asset had incredible value-add opportunities for improvement that could increase cashflow and the value of the properties substantially. Since the Closing Date Vendera's internal asset management, engineering and land teams have contacted Chevron countless times to work with Chevron to improve the production, expense and cashflow profiles of the CVU properties, however Chevron has been unable to realize any such improvements or unwilling to entertain

EXHIBIT

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any such value-add collaborative thought from its working interest partners – Chevron is generally unresponsive to any of Vendera’s communications over the past 2+ years.

Most recently and in response to the COVID-19 pandemic and depressed commodity price environment, Vendera again contacted Chevron on March 25, 2020¹ via a formal email letter because the asset was realizing a negative cashflow to Vendera’s interest in an amount of approximately \$500,000 per month, which in Vendera’s estimation equates to realizing negative \$1,500,000 cashflow at the gross level. In this communication Vendera requested a telephonic meeting with Chevron to discuss maximizing the economic and efficient recovery under the CVU properties and if necessary, proposing an alternative operator that could deliver positive economics for all CVU working interest parties. Chevron did not coordinate any such meeting with Vendera and ignored the request. Instead, Chevron ceased any communication with Vendera and engaged outside legal counsel to intimidate and harass Vendera to suppress its efforts to protect its interest in the CVU properties. In contrast, ConocoPhillips is the operator for the adjacent East Vacuum Unit (where Vendera also owns a non-op working interest) and they have engaged in regular and collaborative discussions with working interest owners, and have taken appropriate action to focus on the profitability of the asset.

Vendera again attempted to work with Chevron, through Chevron’s outside counsel, to improve the economics of the CVU properties, however Vendera’s efforts were stone walled and simple data requests have been ignored. Finally, Vendera proposed to buy Chevron out of its interest in the CVU properties, but its offer was rejected. Throughout its ownership of the CVU properties, Vendera has observed an increasing and alarming number of deficiencies in Chevron’s operations of CVU, including but not limited to:

- Non-Core Asset. This is not a core asset to Chevron and as such it is largely orphaned by the company as they have progressively divested from conventional CO2 and waterflood assets to focus on unconventional drilling programs.
- Lack of focus in organizational structure. Chevron does not have a team dedicated to managing the CVU, rather it is piecemeal managed by a broad organization responsible for various fields within Chevron’s portfolio. As demonstrated by ConocoPhillips’ operatorship of the East Vacuum Unit, aligned and focused management is critical to optimize asset value due to the dynamic nature of a CO2 flood.
- High turnover and disjointed operations. There have been multiple instances of personnel turnover since 2018 and it is highly evident that Chevron’s operations, engineering, accounting, and commercial are very disjointed, incredibly inefficient, and are not focused at all on this asset.
- Lack of incentive to optimize vendor costs for CVU. Due to Chevron’s portfolio of assets across the mid-continent and globally, Chevron has not and will not tailor vendor cost solutions for CVU, resulting in a massive expense upcharge to all its working interest partners. For example, a specific case is Chevron’s failure to rebid work for a project after the oil price downturn demonstrated Chevron’s acceptance of the status quo.
- High cost structure will lead to stranded reserves and further lost value. Chevron’s lease operating expenses are significantly higher than market rates; ranging from company labor to preventative maintenance to routine well work, these have all been stagnant.

¹ The March 25, 2020 letter from Vendera to Chevron is attached hereto for reference.

- Lack of transparency with working interest owners. The last general Working Interest Owner meeting per our records was in March 2012 – over 8 years ago, and Chevron has largely ignored Vendera’s requests for the past 2+ years. Again in contrast, ConocoPhillips has conducted annual working interest owners meetings for the East Vacuum Unit and has been transparent in plans and goals for the assets.

Accordingly, in order to protect its interests and the interests of the other working interest partners in the CVU properties, **Vendera proposes to remove Chevron as Unit Operator of CVU pursuant to the Agreements, and nominate a successor operator** being HighMark Energy Operating, LLC (“HEO”), or another successor operator as agreed upon by the non-operated working interest partners. Vendera, through HEO (or another successor operator) proposes at a minimum (i) to institute a focused asset management team that can optimize value for the CVU working interest owners, (ii) an evaluation and rebidding of all vendors to lower expenses to market rates, (iii) insert an operator with a track record of value creation through renegotiations and identifying alternatives for production optimization, and (iv) to relentlessly test the status quo and create value for the working interest owners.

Vendera believes alignment in expectations, objectives, and long-term goals is critical to success of the CVU properties, especially under current commodity price and economic conditions. Chevron has demonstrated its inability or unwillingness to commit to such goals and expectations, and should therefore be removed as operator. If you wish to stop losing money and instead cause the CVU properties to generate positive cashflow, please indicate your desire to remove Chevron as Unit Operator below.

We would appreciate if you would return your proxy to remove Chevron as operator within 14 days of your receipt of this letter – please email your selection to clensing@venderaresources.com. If you should have any questions, please do not hesitate to contact me.

Thank you for your prompt attention,

Collin Lensing
COO & General Counsel

Below please select whether you vote to remove or not to remove Chevron as Unit Operator.

Breitburn Energy Partners, LP

Date:

Vote in favor to remove Chevron as Unit Operator of CVU

Vote not in favor to remove Chevron as Unit Operator of CVU

By:
Title:



VENDERA RESOURCES

Collin Lensing
COO & General Counsel
D 469 206 0020
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2626 Cole Avenue
Suite 750
Dallas, Texas 75204
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November 23, 2020

<p><u>VIA CM and email:</u></p> <p>New Mexico State Land Office Attn: Commissioner Stephanie Richard P.O. Box 1148 310 Old Santa Fe Trail Santa Fe, NM 87504 slo-info@slo.state.nm.us</p>	<p><u>Via CM and Email:</u></p> <p>Chevron U.S.A., Inc. 6301 Deauville Blvd., Suite 4307 Midland, Texas 79706 Attn: Candace LaBron, Land Representative candacelabron@chevron.com</p>	<p><u>VIA CM:</u></p> <p>Chevron Corporation 6001 Bollinger Canyon Rd. San Ramon, California 94583 Attn: Hewitt Pate, CLO</p>
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Re: **Removal of Unit Operator and Selection of Successor Unit Operator:** Central Vacuum Unit ("CVU"), Lea County, New Mexico

Dear Commissioner and Chevron U.S.A., Inc.:

Reference is made to that certain Unit Agreement for the Development and Operation of the Central Vacuum Unit Area, County of Lea, State of New Mexico, entered into on the first day of December 1976, by and between Chevron U.S.A., Inc. ("Chevron") or an affiliate thereof's predecessor in interest as Unit Operator and Working Interest Owner and the other parties thereto ("Operating Agreement").

Reference is also made to that certain Unit Agreement of the Central Vacuum Unit, County of Lea, State of New Mexico, entered into on the first day of December 1976, by and between the predecessor in interest to Chevron or an affiliate thereof as Unit Operator and Working Interest Owner and the other parties thereto ("Unit Agreement" and collectively with the Operating Agreement, the "Agreements").

Vendera Resources III, LP and Vendera Management III, LLC (collectively "Vendera") are Working Interest Owners under the Agreements.

Chevron presently serves as the Unit Operator under the Agreements. Pursuant to Section 7 of the Unit Agreement, the Unit Operator may be removed at any time by the affirmative vote of Working Interest Owners having ninety percent (90%) or more of the Voting Interest remaining after excluding the voting interest of the Unit Operator. Further, such removal shall be effective upon notice thereof to the Commissioner.

Pursuant to Section 7 of the Unit Agreement, Vendera Resources III, LP and Vendera Management III, LLC along with other Working Interest Owners, whose collective Voting Interest after

EXHIBIT




excluding that of Chevron is in excess of 90%, have voted to remove Chevron as Unit Operator. Affirmative votes are provided below for your reference. This letter serves to comply with the Unit Agreement and to notify the Commissioner, and as such Chevron has be removed as Unit Operator of the CVU.

Pursuant to Section 8 of the Unit Agreement, the Working Interest Owners shall, by affirmative vote of at least 65% of the Voting Interest select a successor Unit Operator; provided however if the removed unit operator fails to vote or votes for itself, then such successor Unit Operator may be selected by the affirmative vote of at least 51% of the Voting Interest. The same parties who have voted to remove Chevron as Unit Operator have voted to select HighMark Energy Operating, LLC as the successor Unit Operator.

Interest Owner	Working Interest Vote to Remove and Replace
FRISCO ENERGY LLC	0.19813
ANN MCBEE BUELL	0.06129
MADELON L BRADSHAW	0.148605
MARTHA LEONARD REV TRST	0.049535
MARY LEONARD CHILDRENS TRST	0.049535
MIRANDA LEONARD TRST	0.049535
MCBEE OPERATING COMPANY LLC	0.0613
W D MCBEE ENTERPRISES LTD	0.06129
TRIPLE T RESOURCES LP	0.13216
BREITBURN ENERGY PARTNERS LP	1.98966
VENDERA MANAGEMENT III LLC	33.23029
Voted to remove and replace	36.03133
Total working interest excluding Chevron	40.00852
Percent voted to remove and replace	90.06%

Pursuant to Section 7 of the Unit Agreement, upon the removal of the Unit Operator becoming effective, such Unit Operator shall deliver possession of all equipment, materials, and appurtenances used in conducting the Unit operations owned by the Working Interest Owners to the new duly qualified successor Unit Operator. Accordingly, we expect to transition operations from Chevron to HighMark no later than January 1, 2021.

We very much look forward toward a smooth and efficient transfer of operations.


Collin Lensing
COO & General Counsel

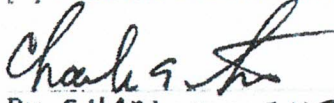
WORKING INTEREST VOTES TOTALING OVER 90% TO REMOVE CHEVRON AS UNIT OPERATOR AND REPLACE WITH HIGHMARK ENERGY OPERATING, LLC

[Frisco Energy LLC]

Date: 11-9-20

Vote in favor to remove Chevron as Unit Operator of CVU and replace with HighMark Energy Operating, LLC

Vote not in favor to remove Chevron as Unit Operator of CVU



By: CHARLES E SMITH

Title: CO-MANAGER

Triple J Resources LP

Date: 11-6-2020

Vote in favor to remove Chevron as Unit Operator of CVU and replace with HighMark Energy Operating, LLC

Vote not in favor to remove Chevron as Unit Operator of CVU



By: G. Thomas Graves III

Title: Operating Partner

[Anne McBee Buell]

Date: 11-17-20

Vote in favor to remove Chevron as Unit Operator of CVU and replace with HighMark Energy Operating, LLC

Vote not in favor to remove Chevron as Unit Operator of CVU



By: Anne Buell

Title: Authorized Rep + POA

[Breitburn Energy Partners, LP]

Vote in favor to remove Chevron as Unit Operator of CVU and replace with HighMark Energy Operating, LLC

Vote not in favor to remove Chevron as Unit Operator of CVU



By: Kitt Jordan, RPL

Title: Land Supervisor

Date: October 28, 2020

[Marta Leonard Childrens Trust]

Date: 11/9/2020

Vote in favor to remove Chevron as Unit Operator of CVU and replace with HighMark Energy Operating, LLC

Vote not in favor to remove Chevron as Unit Operator of CVU

Jimmie E. Busselman

By: Jimmie E. Busselman
Title: Trustee

[Madelon L Bradshaw]

Date: 11/16/20

Vote in favor to remove Chevron as Unit Operator of CVU and replace with HighMark Energy Operating, LLC

Vote not in favor to remove Chevron as Unit Operator of CVU

Madelon L. Bradshaw

By: Madelon L. Bradshaw
Title: OWNER

[McBee Operating Company, LLC]

Date: 11/17/2020

Vote in favor to remove Chevron as Unit Operator of CVU and replace with HighMark Energy Operating, LLC

Vote not in favor to remove Chevron as Unit Operator of CVU

Michael A. McBee, Jr.

By: MICHAEL A. MCBEE, Jr.
Title: VP - OPERATIONS

[Miranda Leonard Trust]

Date: 11/9/2020

Vote in favor to remove Chevron as Unit Operator of CVU and replace with HighMark Energy Operating, LLC

Vote not in favor to remove Chevron as Unit Operator of CVU

Jimmie E. Busselman

By: Jimmie E. Busselman
Title: Trustee

[Martha Leonard Revocable Trust]

Date: 11/9/2020

Vote in favor to remove Chevron as Unit Operator of CVU and replace with HighMark Energy Operating, LLC

Vote not in favor to remove Chevron as Unit Operator of CVU

Jimmie E. Busselman

By: Jimmie E. Busselman
Title: Trustee

[WD McBee Enterprises, LTD.]

W. J. McBee

Date: 10.30.20

Vote in favor to remove Chevron as Unit Operator of CVU and replace with HighMark Energy Operating, LLC

Vote not in favor to remove Chevron as Unit Operator of CVU

W. J. McBee

By: William McBee
Title: Manager

[Vendera Resources III, LP and Vendera Management III, LLC] Date: November 19, 2020

Vote in favor to remove Chevron as Unit Operator of CVU and replace with HighMark Energy Operating, LLC

Vote not in favor to remove Chevron as Unit Operator of CVU

A. Wood Brookshire

By: A. Wood Brookshire
Title: CEO

December 3, 2020

VIA EMAIL

Adrienne Sandoval
Director, Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
1220 South St. Francis Drive
Santa Fe, NM 87505
Adrienne.Sandoval@state.nm.us

Re: HighMark Energy's Anticipated Submission of Change of Operator: Central Vacuum Unit, Lea County, New Mexico

Dear Ms. Sandoval:

Please be advised that a dispute has arisen over operations of the Central Vacuum Unit ("Unit"), a state exploratory unit formed in 1976 and operated by Chevron U.S.A. Inc. ("Chevron") (OGRID No. 4323). Specifically, Vendera Resources III, LP and Vendera Management III, LLC (together "Vendera") purport to have removed Chevron as operator of the Unit and replaced Chevron with HighMark Energy Operating, LLC ("HighMark Energy") as successor operator.

Chevron disputes Vendera's assertion that removal was effective and that a successor operator has been properly designated. Please see the enclosed letter to Ari Biernoff, General Counsel of the New Mexico State Land Office, dated December 2, 2020, which summarizes some of the legal defects with the purported removal.

As part of the attempt to transition operations from Chevron to HighMark Energy, Chevron anticipates that HighMark Energy, or possibly Vendera, will file with the Division at some point a Form C-145 application, seeking to transition operations of the Unit and its wells from Chevron to HighMark Energy. Because Chevron contests its removal as Unit operator and HighMark Energy's claim to be successor operator, Chevron disputes HighMark Energy's right to assume operations of the Unit and objects to Division approval of a C-145 change of operator.

Accordingly, Chevron requests that the Division provide Chevron written notification when HighMark Energy, or Vendera, submits a C-145 application to change operator of the Unit, and that the Division not approve the request until the dispute has been resolved either by a legally binding final adjudication or the agreement of Chevron and HighMark Energy. If the

Director deems it appropriate, Chevron requests that the Division set the matter for hearing before a Division examiner.

Chevron appreciates your attention to this request.

Very truly yours,

/s/ Adam G. Rankin
Adam G. Rankin
of Holland & Hart LLP

cc: OCD.Engineer@state.nm.us
Collin Lensing, Vendera Resources, COO & General Counsel,
clensing@venderaresources.com

AGR:ajg

Enclosure

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