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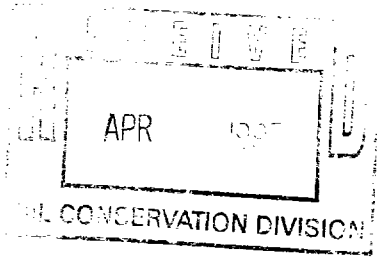
April 3, 1995




**HAND-DELIVERED**

William J. LeMay, Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
2040 South Pacheco
Santa Fe, New Mexico 87503

Re: Case No. 11152; Order No. R-10307:
Application of Texaco Exploration and Production Inc. and Marathon Oil Company for a Pressure Maintenance Project, Unorthodox Injection Well Locations and Qualification for the Recovered Oil Tax Credit Pursuant to the New Mexico Oil Recovery Act, Lea County, New Mexico

Dear Mr. LeMay:

Order Paragraph 19 of Order No. R-10307 entered on February 3, 1995 provided that prior to commencing the drilling or recompletion of any injection wells in the Vacuum Drinkard Cooperative Pressure Maintenance Project, the operators should submit to the Division an injection lease-line agreement executed by those parties whose acreage is located adjacent to the proposed injection wells. To comply with the provisions of this paragraph of Order No. R-10307, I am enclosing a copy of a Cooperative Injection Agreement which has been executed by both Texaco and Marathon.

Your attention to this matter is appreciated.

Very truly yours,

WILLIAM F. CARR

WFC:mlh
Enc.
cc: Mr. Ronald W. Lanning
Texaco Exploration and Production Inc.
Post Office Box 3109
Midland, TX 79702

W. Thomas Kellahin, Esq.
Kellahin & Kellahin
Post Office Box 2265
Santa Fe, New Mexico 87504-2265

# COOPERATIVE WATER INJECTION AGREEMENT

**STATE OF NEW MEXICO** §
§ **KNOW ALL MEN BY THESE PRESENTS THAT:**
**COUNTY OF LEA** §

**THIS AGREEMENT,** entered into and effective as of the date of the last execution hereof, by and between MARATHON OIL COMPANY, whose mailing address is P. O. Box 552, Midland, Texas 79702, hereafter referred to as "MARATHON," and TEXACO EXPLORATION AND PRODUCTION INC., whose mailing address is P. O. Box 3109, Midland, Texas 79702, hereafter referred to as "TEXACO." Hereinafter, Marathon and Texaco may sometimes be individually referred to as a "party" or collectively as the "parties."

**WITNESSETH:**

**WHEREAS,** Marathon is the owner and operator of the Warn State A/C 2 Lease, covering the west half (W/2) of Section 6, T-18-S, R-35-E, NMPM, Lea County, New Mexico; and

**WHEREAS,** Texaco is the owner and operator of the New Mexico "L" State Lease, covering the NE/4 of Section 1, T-18-S, R-34-E, NMPM; the New Mexico "R" State NCT-3 Lease, covering the SE/4 of Section 1, T-18-S, R-34-E, NMPM; the New Mexico "R" State NCT-1 Lease, covering the NE/4 of Section 6, T-18-S, R-35-E, NMPM; and the State "AB" Lease, covering the SE/4 of Section 6, T-18-S, R-35-E, NMPM, all being located in Lea County, New Mexico, and hereafter collectively referred to as the "Texaco Leases;" and

**WHEREAS,** Marathon and Texaco desire to provide for the drilling and operation of five (5) water injection wells on or near the common boundary of the Marathon - Warn State A/C 2 Lease and the Texaco Leases to provide for the injection of water into the underlying Drinkard Formation so that the leases and lands mentioned above will be benefited by an increase in the production of crude oil and in order to protect the correlative rights of the owners of said leases.

**NOW, THEREFORE,** in consideration of the premises and the mutual covenants and agreements hereinafter set forth, the adequacy and sufficiency of which are hereby acknowledged, it is agreed by the parties hereto as follows:

1. Texaco is hereby designated as Operator of said water injection wells being described, as follows:

(a) New Mexico "L" State Well No. 16, located 1,310' FNL, 10' FEL Sec 1, T18S, R34E

(b) New Mexico "L" State Well No. 17, located 2,560' FNL, 10' FEL Sec. 1, T18S, R34E

(c) New Mexico "R" State NCT-3 Well No. 28, located 1,310' FSL, 110' FEL Sec. 1, T18S, R34E

(d) New Mexico "R" State NCT-1 Well No. 16, located 1,410' FNL, 2,630' FEL Sec. 6, T18S, R35E

(e) New Mexico "R" State NCT-1 Well No. 17, located 2,530' FNL, 2,530' FEL Sec. 6, T18S, R35E.

The above-described wells will each be drilled to an approximate depth of 8,100 feet into the Drinkard Formation and will hereinafter be referred to as "said wells." Texaco agrees to commence drilling operations for said wells within 60 days from the latter of the execution date of this agreement or reception of an

approved order from the New Mexico Oil Conservation Division. Texaco will make every effort to complete and begin injection into the initial two wells (the New Mexico "R" State NCT-1 Well No. 16 and the New Mexico "L" State Well No. 16) within 60 days from the spud date of the first well. Within 90 days from the date of first injection, a final determination will be made on the drilling of the final three wells. If a final determination is made to continue, Texaco will commence drilling operations on the first of the three remaining wells within 60 days of the final determination and will make every effort to drill, complete and begin injection into the final three wells within 90 days of the spud date for the first of the final three wells.

Injection of water into the said wells shall be at such rates and at such pressures that will comply with the rules and regulations of the Oil Conservation Division of the Department of Energy and Minerals of the State of New Mexico. The maximum injection rate shall be determined by parting pressures and by mutual consent of the parties hereto, in accordance with prudent oil field operating practices. In no event, however, shall the injection pressure exceed the fracture pressure unless mutually agreed upon by the parties. In the event channeling or other damage to any well, on any of the above-described leases, where the cause can be clearly traced to an injection well listed above, injection will be ceased into the offending well, by mutual agreement, pending remedial work.

The parties hereto agree with each other that the creation of an artificial water drive by the injection of water through the said injection wells into the Drinkard Formation is a reasonable producing and engineering practice. Each of the parties hereby releases the other party hereto from any liability for damages or losses of any kind to its interest arising from or growing out of the injection of water by proper engineering methods or operation of said wells pursuant to the terms and conditions of this agreement. Each party shall also hold the other party harmless from all claims, demands, actions, causes of action, and damages relating to or arising out of the separate operation of each party's respective leases; all to the end that each party shall assume and discharge any and all claims from its own mineral, royalty and surface owners for money damages arising out of the flooding operations conducted pursuant to this agreement, and shall hold the other party harmless from any and all such claims. However, it is understood that Marathon and Texaco agree to be jointly liable (50 percent each) for all damages, claims, actions, penalties, expenses, including attorney fees, related to any claim or action for environmental damages, pollution or contamination arising out of the operation of said wells or injection of water pursuant to this agreement unless such environmental damages, pollution or contamination is a result of Texaco's gross negligence or willful misconduct, in which event Texaco will be solely liable and responsible therefor.

2. It is understood and agreed that the above-described injection wells shall be owned and operated by Texaco.

3. It is understood and agreed that the costs and expenses incurred for drilling, casing, cementing, completing, and equipping the aforesaid injection wells (subject to mutually acceptable AFE's) plus costs associated with capital workovers of said wells performed after receiving the consent of each party shall be borne by and paid 50 percent by Marathon and 50 percent by Texaco. However, it is understood that said wells and all materials and equipment acquired therefore shall be owned entirely by Texaco. It is expressly understood and agreed that Texaco will be responsible for 100 percent of all costs associated with operating said wells during the term hereof, subject to the takeover provisions contained hereinbelow. If any well drilled under this agreement cannot be completed as an injector and Texaco desires to put said well to alternative use, Texaco will reimburse Marathon for its share of all costs incurred in connection with the drilling and attempted completion of said well as an injector.

4. Texaco agrees to furnish water suitable for injection purposes. The water volume delivered hereunder to said wells shall be measured by standard type water metering equipment installed by Texaco. The cost for said water will be $.10 per barrel, which will be paid 50 percent by Marathon and 50 percent by Texaco. Marathon will be billed monthly and will make payments within 30 days of receipt of said bill. The cost for said water may be redetermined on an annual basis after the three-year period defined in Article 16 to approximate the total annual operating cost (including the cost for the water supply) of said wells. Texaco shall provide documentation of the operating costs to Marathon at least 30 days prior to increasing the per barrel water charge.

5. At Marathon's sole cost and expense, Marathon shall have the right to inspect Texaco's sales water meter at any reasonable time and from time-to-time in the presence of Texaco's

representative. If the accuracy of the meter is questioned, Texaco shall cause the meter to be tested and calibrated upon request of Marathon. If the meter is found to be reading accurately within plus or minus 2 percent, such meter readings as have been made since the last such test shall be considered accurate for billing purposes. The cost and expense of testing and calibrating the meter shall be borne by Marathon in the event the meter is found to be within plus or minus 2 percent accuracy. If the meter is found to be in error in excess of 2 percent in favor of Texaco, the next monthly billing shall reflect a corresponding reduction equal to the percentage of error times one-half (1/2) of the total volume purchased since the last previous meter test and shall credit Marathon's account accordingly, but in no event shall the correction be applied for a period in excess of three (3) months. Texaco shall bear the cost and expense of testing and calibrating the meter in the event the meter is not reading accurately within plus or minus 2 percent.

6. Marathon shall have the right to audit the accounts and records of Texaco that relate to said wells for any calendar year for a two-year period following the end of any calendar year. This shall include the right to audit those related entities of Texaco which provide materials or services for the operation of said wells. Such materials and services must be reasonably necessary and of the same or better quality as those available from unrelated vendors in the same general area.

7. The term of this agreement shall commence as of the effective date hereof and shall continue for a period of three (3) years from the date of initial injection into the first of said wells. At the end of said three (3) year period or thereafter, either of the parties hereto shall have the right to terminate its participation in the water injection operations upon giving sixty (60) days advance written notice to the other party of its intention to terminate participation. The other party shall then have the option, but not the obligation, at its sole risk and expense, to takeover and operate said wells. In such event, the party taking over said wells is to be granted the right of ingress and egress to said injection wells, together with rights-of-way and easements necessary to continue operation of said wells, but this grant is made without representation or warranty whatsoever and only insofar as the terminating party can legally make such grant. The parties further agree to execute and deliver such additional instruments as may be required to accomplish the foregoing. The party taking over operations of said wells shall pay the other party for 50 percent of the equipment therein on the basis of the current net salvage value thereof in place, and when said party wishes to discontinue the water injection operations, such party shall plug and abandon said wells, including any applicable surface clean-up, in compliance with all contractual obligations and rules and regulations of each governmental body having jurisdiction, at its sole cost, risk and expense. The net salvage value is defined as the value of all recoverable equipment less cost to recover and abandon said well. The party taking over said wells hereby agrees to indemnify and hold the other party harmless from and against all claims, charges, suits and any liabilities arising out of or in any way associated with subsequent operations. It is the intention hereof that the party taking over said wells shall thereafter be responsible for 100 percent of any and all costs associated therewith after the effective date of such assignment. However, any liability, environmental or otherwise, which existed before the effective date of such assignment, shall remain the joint responsibility of the parties as outlined in Article 1.

8. In the event any party hereto is rendered unable, wholly or in part, by force majeure to carry out its obligations under this Agreement, upon such party's giving notice and reasonably full particulars of such force majeure in writing to the other party hereto within a reasonable time after the occurrence of the case relied upon, the obligations of the party giving such notice, insofar as they are affected by such force majeure, shall be suspended during the continuance of any inability so caused, but for no longer period; and the cause of the force majeure so far as possible shall be remedied with all possible dispatch.

The term "force majeure," as employed herein, shall mean an act of God, strike, lockout or other industrial disturbance, act of the public enemy, war, blockade, public riot, lightning, earthquake, storm, flood, fire, explosion, governmental restraint, unavailability of equipment, failure of water supply and any other cause, whether or not of the character above enumerated, which is not reasonably within the control of the party claiming suspension. It is understood that the settlement of strikes, lockouts or other labor difficulties shall be entirely within the discretion of the party having the difficulty. The above requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes, lockouts or other labor difficulty by acceding to the demands of opponents therein when such course is inadvisable in the discretion of the party having the difficulty.

9. The rights, duties, obligations and liabilities of the parties hereto shall be several, and not joint or collective, and nothing herein contained shall ever be construed as creating a partnership of any kind, joint venture, an association or a trust or as imposing upon any of the parties hereto a partnership duty, obligation or liability. Each party hereto shall be individually responsible only for its obligations as set out in this Agreement.

10. Each party hereto agrees that this Agreement shall not constitute a partnership, as defined in the Internal Revenue Code, and specifically elects to be excluded from the application of all of Subchapter K of the Internal Revenue Code of 1986 pursuant to Section 761 thereof.

11. Any sale, assignment, unitization or transfer of any interest of any party hereto in the lease and lands covered hereby shall be made expressly subject to this Agreement, and any party acquiring any such interest shall assume the obligations hereof and be entitled to the benefits accruing hereunder. In the event any party not a signatory party to this contract thereafter shall acquire any interest subject to this contract by assignment, operation of law, or otherwise, such party shall forthwith furnish to the other party having an interest subject to this contract evidence of the acquisition of such interest. Failure to comply herewith shall constitute a waiver by such party as to any notice required or permitted hereunder, and said party shall be deemed to have received any such notice where such notice was given to such party's predecessor in title and any action taken or any notice received by such party's predecessor in title shall be binding upon any such party.

12. All terms and provisions herein shall be subject to all valid orders, rules and regulations of the Oil Conservation Division of the Department of Energy and Minerals of the State of New Mexico and all other applicable State and Federal Laws, rules and regulations.

13. This Agreement and all terms, covenants and conditions hereof shall extend to, be binding upon, and inure to the benefit of the parties hereto and their respective successors and assigns.

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

**MARATHON OIL COMPANY**

DATE: 3/10/95 By: A R Kuck

Title: Region Manager

APPROVED AS TO FORM

**TEXACO EXPLORATION AND PRODUCTION INC.**

DATE: 3/7/95 By: W A Carroll

Title: Leveraged Asset Mgr

**STATE OF TEXAS** §
§
**COUNTY OF MIDLAND** §

The foregoing instrument was acknowledged before me on the 7 day of March, 1995, by M. A. Carrell, as Attorney-in-Fact, of Texaco Exploration and Production Inc., a Delaware corporation, on behalf of said corporation.

NORMA A. ZAMBRANO
Notary Public, State of Texas
My commission expires 4-18-97

Norma A. Zambrano
Notary Public in and for the State of Texas

My Commission Expires:

_____

**STATE OF TEXAS** §
§
**COUNTY OF MIDLAND** §

The foregoing instrument was acknowledged before me on the 10th day of March, 1995, by A. K. Kuhla, as Attorney In Fact, of Marathon Oil Company, a Ohio corporation, on behalf of said corporation.

DIXIE A. HERTEL
MY COMMISSION EXPIRES
April 27, 1997

Dixie A. Hertel
Notary Public in and for the State of Texas

My Commission Expires:

_____

State of New Mexico
**ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT**
Santa Fe, New Mexico 87505

February 6, 1995

CAMBELL, CARR, BERGE
& SHERIDAN
Attorneys at Law
P. O. Box 2208
Santa Fe, New Mexico 87504

RE: CASE NO. 11152
ORDER NO. R-10307

Dear Sir:

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

Sincerely,

Sally E. Martinez
Administrative Secretary

cc: BLM - Carlsbad
Tom Kellahin
Jim Bruce
David Abbey

VILLAGRA BUILDING - 408 Galisteo
Forestry and Resources Conservation Division
P.O. Box 1948 87504-1948
827-5830
Park and Recreation Division
P.O. Box 1147 87504-1147
827-7465

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