1160

NEW MEXICO OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO

APPLICATION FOR APPROVAL OF UNIT AGREEMENT FOR DEVELOPMENT AND OPERATION OF THE ENTERPRISE UNIT AREA LEA COUNTY, NEW MEXICO

New Mexico Oil Conservation Commission
Santa Fe, New Mexico

COMES the undersigned, Enterprise Oils, Inc., a New Mexico corporation, with offices at Artesia, New Mexico, and files herewith a copy of a proposed Unit Agreement for the development and operation of the Enterprise Unit Area embracing land situated in Lea County, New Mexico, and hereby makes application for an order approving said Unit Agreement, and in support thereof shows:

1.

That the unit area designated in said agreement and the source of supply to be affected by the order hereby sought comprises 1440 acres, more or less, situated in Lea County, New Mexico, more particularly described as follows:

The W½, Sec. 16 Twp. 16 S., R. 34 E., N.M.P.M.,
The NE¼, Sec. 17, Twp. 16 S., R. 34 E., N.M.P.M.,
The W½, Sec. 21, Twp. 16 S., R. 34 E., N.M.P.M.,
The N½ (W½), Sec. 28, Twp. 16 S., R. 34 E., N.M.P.M.,
The SE¼, Sec. 17, Twp. 16 S., R. 34 E., N.M.P.M.,
The NE¼, Sec. 20, Twp. 16 S., R. 34 E., N.M.P.M.

That all of the above described lands are lands owned by the State of New Mexico upon which the applicant and others are owners of Oil and Gas Leases issued by the Commissioner of Public Lands of the State of New Mexico.

2.

That there is attached to said copy of the proposed Unit Agreement, as Exhibit "A" thereto, a plat of the proposed Unit Area, and because of the geological and geophysical information available applicant believes that the above said area is an area suitable and proper for unitization.

3.

That the undersigned, Enterprise Oils, Inc., is designated as the Unit Operator in said agreement, and the Unit Operator is given authority under the terms thereof to carry on all operations which are necessary for the development and operation of the Unit Area for oil and gas subject to all applicable laws and regulations. That said Unit Agreement provides for the commencement of a test well for oil and gas upon some part of the lands committed to the Unit Agreement on or before October 5, 1956, and for the drilling of a said well to a depth of 14,350 feet, or a depth sufficient to test the Devonian Formation expected to be encountered at about said depth.

4.

That said Unit Agreement is in substantially the same form as unit agreements heretofore approved by the Commissioner of Public Lands of the State of New Mexico, and by the New Mexico Oil Conservation Commission; and that under the terms of the proposed Unit Agreement, the rights of the royalty owner, the State of New Mexico, are fairly protected and the State of New Mexico and each beneficiary institution of the State of New Mexico will receive its fair share of recoverable oil and gas in place under its lands embraced in the Unit Area.

5.

That operations to be carried on under the terms of said Unit Agreement will tend to promote the conservation of oil and gas in place under the lands in the proposed unit area and to prevent waste in that if production in paying quantities is obtained from such unit area (1) the production may be controlled without regard to interior lease lines to the end that reservoir energy will be utilized to the greatest advantage, (2) recovery methods that might not be practicable on a small area will be feasible and more efficient on the area of the proposed unit, and (3) the drilling of unnecessary wells with attendant fire and other hazards conducive to waste may

be avoided. That said Unit Agreement is believed in all respects for the best interest of the State of New Mexico with respect to the lands embraced therein.

6.

That 100% of the owners on an acreage basis of oil and gas leases embracing lands within said area have agreed to join in said Unit Agreement, and it is believed that such owners will have joined therein by the time this application is heard.

7.

That an application is being filed for approval of said Unit Agreement by the Commissioner of Public Lands, and it is believed that his approval will be had if this Commission enters the order of approval hereby requested.

8.

That this application should be heard before an Examiner, rather than by the Commission as a whole at its regularly scheduled docket hearing, for the reason that time is of the essence in this application, and drilling operations are scheduled to commence on or before October 5, 1956, which date would make it impossible for applicant to have notice duly published in time for the next regularly scheduled hearing of the Commission.

WHEREFORE, applicant prays for an Order permitting the unit operation of said lands and adopting the plan set forth in the said Unit Agreement and approving the said Unit Agreement for development and operation of said lands, and for a hearing before an Examiner at the earliest possible date, rather than a hearing before the Commission at its regularly scheduled docket hearing.

Respectfully submitted,

ENTERPRISE OILS, INC.

By: Ernest W. Bain

Ernest W. Bain, Vice-President

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF THE
ENTERPRISE UNIT
LEA COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the day of , 1956, by and between the parties subscribing, ratifying, or consenting hereto, and herein referred to as the "parties hereto",

W I T N E S S E T H:

WHEREAS, the parties hereto are the owners of working, royalty or other oil or gas interests in the unit area subject to this agreement; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is duly authorized by law to consent to and approve the development or operation of State lands under agreements made by lessees of State land jointly or severally with other lessees where such agreements provide for the unit operation or development of part of or all of any oil or gas pool, field or area, and to amend with the approval of the lessee, any oil and gas lease embracing State lands so that the length of the term of said lease, in so far as it applies to unitized lands, may coincide with the term of such agreements for the unit operation and development of a part of or all of any oil or gas pool, field or area; and

WHEREAS, the Oil Conservation Commission of the State of New Mexico (hereinafter referred to as the "Commission") is duly authorized by law to approve this agreement and the conservation provisions hereof; and

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

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

NOW, THEREFORE, in consideration of the premises and the promises herein contained, the parties hereto commit to this agreement their respective interests in the below defined unit area and agree severally among themselves as follows:

1. UNIT AREA. The following described land is hereby designated and recognized as constituting the unit area:

The W½ of Sec. 16, Twp. 16 S., R. 34 E., N.M.P.M., Lea County, New Mexico, containing 320 acres;

The NE¼ of Section 17, Twp. 16 S., R. 34 E., N.M.P.M., Lea County, New Mexico, containing 160 acres;

The W½ of Sec. 21, Twp. 16 S., R. 34 E., N.M.P.M., Lea County, New Mexico, containing 320 acres;

N½ —The N½ of Sec. 28, Twp. 16 S., R. 34 E., N.M.P.M., Lea County, New Mexico, containing 320 acres;

The SE¼ of Sec. 17, Twp. 16 S., R. 34 E., N.M.P.M., Lea County, New Mexico, containing 160 acres;

The NE¼ of Sec. 20, Twp. 16 S., R. 34 E., N.M.P.M., Lea County, New Mexico, containing 160 acres.

Exhibit "A" attached hereto is a map showing the unit area and the boundaries and identity of tracts and leases in said area to the extent known to the Unit Operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the Unit Operator the acreage, percentage, and kind of ownership of oil and gas interests in all land in the unit area. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in said map or schedule as owned by such party. Exhibits "A" and "B" shall be revised by the Unit Operator whenever changes in the unit area render such revision necessary, or when requested by the Commissioner of Public Lands, hereinafter referred to as "Commissioner".

The above described unit area shall, when practicable, be expanded to include therein any additional tract or tracts regarded

as reasonably necessary or advisable for the purposes of this agreement. Such expansion shall be effected in the following manner:

(a) Unit Operator, on its own motion or on demand of the Commissioner shall prepare a notice of proposed expansion describing the contemplated changes in the boundaries of the unit area, the reasons therefor, and the proposed effective date thereof.

(b) Said notice shall be delivered to the Commissioner and copies thereof mailed to the last known address of each working interest owner, lessee, and lessor whose interests are affected, advising that 30 days will be allowed for submission to the Unit Operator of any objections.

(c) Upon expiration of the 30-day period provided in the preceding item (b) hereof, Unit Operator shall file with the Commissioner evidence of mailing of the notice of expansion and a copy of any objections thereto which have been filed with the Unit Operator.

(d) After due consideration of all pertinent information, the expansion shall, upon approval by the Commissioner, become effective as of the date prescribed in the notice thereof; provided, however, that if any working interest owner or owners in the Unit object to such expansion, the Unit will not then be expanded.

All land committed to this agreement shall constitute land referred to herein as "unitized land" or "land subject to this agreement".

2. UNITIZED SUBSTANCES. All oil, gas, natural gasoline and associated fluid hydrocarbons in any and all formations of the unitized land are unitized under the terms of this agreement and herein are called "unitized substances".

3. UNIT OPERATOR. Enterprise Oils, Inc., a New Mexico corporation, is hereby designated as Unit Operator and by signature hereto commits to this agreement all interests in unitized substances vested in it as set forth in Exhibit "B", and agrees and consents to accept

the duties and obligations of Unit Operator for the discovery, development, and production of unitized substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in that capacity and not as an owner of interests in unitized substances, and the term "working interest owner" when used herein shall include or refer to Unit Operator as the owner of a working interest when such an interest is owned by it.

4. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Operator shall have the right to resign at any time but such resignation shall not become effective until a successor Unit Operator has been selected and approved in the manner provided for in Article 5 of this agreement. The resignation of the Unit Operator shall not release the Unit Operator from any liability or any default by it hereunder occurring prior to the effective date of its resignation.

Unit Operator may be subject to removal by the same percentage vote of the owners of working interests determined in like manner as herein provided for the selection of a new Unit Operator. Such removal shall be effective upon notice thereof to the Commissioner.

The resignation or removal of the Unit Operator under this agreement shall not terminate his right, title or interest as the owner of a working interest or other interest in unitized substances, but upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all equipment, materials and appurtenances used in conducting the unit operations and owned by the working interest owners to the new duly qualified successor Unit Operator or to the owners thereof if no such new Unit Operator is elected, to be used for the purpose of conducting unit operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment and appurtenances needed for the preservation of any wells.

5. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall resign as Unit Operator or shall be removed as hereinabove

provided, the owners of the working interests according to their respective acreage interests in all unitized land shall by a majority vote select a successor Unit Operator; provided that, so long as there are more than two parties who own working interests in unitized land, if any party owns the working interest in land comprising more than 50% of the acreage included in the Unit, the vote of such party shall not control without the concurring vote of one additional working interest owner, and, if there is no such concurring vote, the vote of any two or more of the other parties who own a majority of the working interest in the unitized land remaining after deducting the interest of the party owning more than 50% of the total unit acreage shall control. Such selection shall not become effective until (A) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator, and (B) the selection shall have been approved by the Commissioner. If no successor Unit Operator is selected and qualified as herein provided, the Commissioner at his election may declare this unit agreement terminated.

6. ACCOUNTING PROVISIONS. The Unit Operator shall pay in the first instance all costs and expenses incurred in conducting unit operations hereunder and such costs and expenses and the working interest benefits accruing hereunder shall be apportioned among the owners of the unitized working interests in accordance with an operating agreement by and between the Unit Operator and the owners of such interests, whether one or more, separately or collectively. Any agreement or agreements entered into between the working interest owners and the Unit Operator as provided in this article, whether one or more, are herein referred to as the "Operating Agreement". No such agreement shall be deemed either to modify any of the terms and conditions of this Unit Agreement or to relieve the Unit Operator of any right or obligation established under this Unit Agreement, and in case of any inconsistence or conflict between this Unit Agreement and the Operating Agreement this Unit Agreement shall prevail.

7. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR. Except as otherwise specifically provided herein, the exclusive right, privilege, and duty of exercising any and all rights of the parties hereto which are necessary or convenient for prospecting for, producing, storing, allocating, and distributing the unitized substances are hereby delegated to and shall be exercised by the Unit Operator as herein provided. Acceptable evidence of title to said rights shall be deposited with said Unit Operator and, together with this agreement, shall constitute and define the rights, privileges, and obligations of Unit Operator. Nothing herein, however, shall be construed to transfer title to any land or to any lease or operating agreement,it being understood that under this agreement the Unit Operator, in its capacity as Unit Operator, shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified.

8. DRILLING TO DISCOVERY. After the effective date hereof and on or before October 5, 1956, the Unit Operator shall commence operations upon a test well for oil and gas located in the approximate center of the

Township 16 South, Range 34 East, and shall drill said well with due diligence to a depth of feet, or to a depth sufficient in the opinion of Unit Operator, to test the Devonian formation, whichever is the shallower, or until at a lessor depth, unitized substances shall be discovered which can be produced in paying quantities, or until it shall in the opinion of the Unit Operator be determined that the further drilling of said well shall be unwarranted or impracticable. Until a discovery of a deposit of unitized substances capable of being produced in paying quantities, Unit Operator shall continue drilling diligently one well at a time allowing not more than six months between the completion of one well and the beginning of the next well until a well capable of producing unitized substances in

paying quantities is completed to the satisfaction of the Commissioner, or until it is reasonably proven to the satisfaction of the Unit Operator that the unitized land is incapable of producing unitized substances in paying quantities in the formations drilled hereunder.

Any well commenced prior to the effective date of this agreement upon the unit area and drilled to the depth provided herein for the drilling of an initial test well shall be considered as complying with the drilling requirements hereof with respect to the initial well. The Commissioner may modify the drilling requirements of this section by granting reasonable extensions of time when in his opinion such action is warranted. Failure to comply with the drilling provisions of this article shall automatically terminate this agreement as to all its terms, conditions and provisions and all rights, privileges and obligations granted by this Unit Agreement shall cease and terminate as of the date of any such default.

9. PARTICIPATION AND ALLOCATION AFTER DISCOVERY. All unitized substances produced from the unit area, except any part thereof used within the unit area for production or development purposes, or unavoidably lost, shall be deemed to be produced equally on an acreage basis from the several tracts of unitized land, and for the purpose of determining any benefits accruing under this agreement in such unitized substances and the distribution of the royalty payable to the State of New Mexico each such tract shall have allocated to it such percentage of such production as its area bears to the entire unitized area. Production of unitized substances from the unit area shall be so allocated regardless of whether or not any particular tract has a well thereon.

Notwithstanding any provision contained herein to the contrary, each working interest owner shall have the right to take such owner's proportionate share of the unitized substances in kind or to personally sell or dispose of the same, and nothing herein contained shall be construed as giving or granting to the Unit Operator the right to sell or otherwise dispose of the proportionate share of any working interest

without specific authorization from time to time so to do.

10. **ROYALTY AND RENTAL PAYMENT.** All royalties due the State of New Mexico under the terms of the Leases committed to this agreement shall be computed and paid on the basis of all unitized substances allocated to the respective leases committed hereto; provided, however, the State shall be entitled to take in kind its share of the unitized substances allocated to the respective leases, and in such case the Unit Operator shall make deliveries of such royalty oil in accordance with the terms of the respective leases.

If the Unit Operator introduces gas obtained from sources other than the unitized substances into any producing formation for the purpose of repressuring, stimulating or increasing the ultimate recovery of unitized substances therefrom, a like amount of gas, if available, with due allowance for loss or depletion from any cause may be withdrawn from the formation into which the gas was introduced royalty free as to dry gas but not as to the products extracted therefrom; provided, that, such withdrawal shall be at such time as may be provided in a plan of operations consented to by the Commissioner and approved by the Commission as conforming to good petroleum engineering practice; and provided further, that such right of withdrawal shall terminate on the termination of this unit agreement.

All rentals due the State of New Mexico shall be paid by the respective lease owners in accordance with the terms of their leases.

11. **CONSERVATION.** Operations hereunder and production of unitized substances shall be conducted to provide for the most economical and efficient recovery of said substances without waste, as defined by or pursuant to State laws or regulations.

12. **DRAINAGE.** The Unit Operator shall take appropriate and adequate measures to prevent drainage or unitized substances from unitized land by wells on land not subject to this agreement.

13. **LEASES AND CONTRACTS CONFORMED AND EXTENDED INSOFAR AS THEY APPLY TO LANDS WITHIN THE UNITIZED AREA.** The terms, conditions and

provisions of all leases, sub-leases, operating agreements and other contracts relating to the exploration, drilling, development or operation for oil or gas of the lands committed to this agreement, shall, upon approval hereof by the Commissioner be and the same are hereby expressly modified and amended insofar as they apply to lands within the unitized area to the extent necessary to make the same conform to the provisions hereof and so that the length of the secondary term as to lands within such area will be extended insofar as necessary to coincide with the terms of this agreement and the approval of this agreement by the Commissioner and the lessee, shall, without further action of the Commissioner or the lessee, be effective to conform the provisions and extend the term of this lease as to lands within the unitized area to the provisions and terms of this agreement; but otherwise to remain in full force and effect. Each lease committed to this agreement insofar as it applies to lands within the unitized area, shall continue in force beyond the term provided therein so long as this agreement remains in effect, provided drilling operations upon the initial test well provided for herein shall have been commenced or said well is in the process of being drilled by the Unit Operator prior to the expiration of the shortest term lease committed to this agreement. Termination of this agreement shall not affect any lease which pursuant to the terms thereof or any applicable laws shall continue in full force and effect thereafter. The commencement , completion, operation or production of a well on any part of unitized land shall be respectively construed and considered as the commencement or completion or operation or production of a well within the terms and provisions of each of the oil and gas leases to the same extent as though such commencement, completion, operation or production was carried on, conducted and/or obtained from any such leased tract.

Any lease having only a portion of the lands committed herein shall be segregated as to the portion committed and to the portion not

committed, and the terms of such lease shall apply separately to such segregated portions commencing as of the effective date hereof. Notwithstanding any of the provisions of this agreement to the contrary, any lease embracing lands committed hereto shall continue in full force and effect beyond the term provided therein as to all lands embraced in such lease, if unitized substances are discovered and are capable of being produced in paying quantities from some part of the lands embraced in such lease committed to this agreement at the expiration of the secondary term of such lease; or if, at the expiration of the secondary term, the lessee or the Unit Operator is then engaged in bona fide drilling or reworking operations on some part of the lands embraced in such lease, the same as to all lands embraced therein shall remain in full force and effect so long as such operations are being diligently prosecuted, and if they result in the production of unitized substances, said lease shall continue in full force and effect as to all of the lands embraced therein, so long thereafter as unitized substances in paying quantities are being produced from any portion of said lands.

14. COVENANTS RUN WITH LAND. The covenants herein shall be construed to be covenants running with the land with respect to the interests of the parties hereto and their successors in interest until this agreement terminates, and any grant, transfer, or conveyance, of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee, or other successor in interest. No assignment or transfer of any working, royalty or other interest subject hereto shall be binding upon Unit Operator until the first day of the calendar month after Unit Operator is furnished with the original, photostatic or certified copy of the instrument of transfer.

15. EFFECTIVE DATE AND TERM. This agreement shall become effective upon approval by the Commissioner and shall terminate in six months after such date unless (a) such date of expiration is

extended by the Commissioner, or (b) a valuable discovery of unitized substances has been made on unitized land during said initial term or any extension thereof in which case this agreement shall remain in effect so long as unitized substances can be produced from the unitized land in paying quantities, and, should production cease, so long thereafter as diligent operations are in progress for the restoration of production or discovery of new production and so long thereafter as the unitized substances so discovered can be produced as aforesaid. As provided in Article 8 hereof, the failure to comply with the drilling provisions of this Unit Agreement shall as of the date of any such default automatically terminate this Unit Agreement.

16. **RATE OF PRODUCTION.** All production and the disposal thereof shall be in conformity with allocations, allotments and quotas made or fixed by the Commission and in conformity with all applicable laws and lawful regulations.

17. **APPEARANCES.** Unit Operator shall, after notice to other parties affected, have the right to appear for and on behalf of any and all interests affected hereby before the Commissioner of Public Lands and the New Mexico Oil Conservation Commission or Commission or to apply for relief from any of said regulations or in any proceedings relative to operations pending before the Commissioner or Commission; provided, however, that any other interested party shall also have the right at his own expense to appear and to participate in any such proceeding.

18. **NOTICES.** All notices, demands or statements required hereunder to be given or rendered to the parties hereto shall be deemed fully given if given in writing and personally delivered to the party or sent by postpaid registered mail, addressed to such party or parties at their respective addresses set forth in connection with the signatures hereto or to the ratification or consent hereof or to such other address as any such party may have furnished in writing to party sending the notice, demand or statement.

19. **UNAVOIDABLE DELAY.** All obligations under this agreement requiring the Unit Operator to commence or continue drilling or to operate on or produce unitized substances from any of the lands covered by this agreement shall be suspended while, but only so long as, the Unit Operator despite the exercise of due care and diligence is prevented from complying with subh obligations, in whole or in part, by strikes, war, acts of God, Federal, State, or municipal law or agencies, unavoidable accidents, uncontrollable delays in transportation, inability to obtain necessary materials in open market, or other matters beyond the reasonable control of the Unit Operator whether similar to matters herein enumerated or not.

20. **LOSS OF TITLE.** In the event title to any tract of unitized land or substantial interest therein shall fail and the true owner cannot be induced to join the unit agreement so that such tract is not committed to this agreement or the operation thereof hereunder becomes impracticable as a result thereof, such tract may be eliminated from the unitized area, and the interest of the parties readjusted as a result of such tract being eliminated from the unitized area. In the event of a dispute as to the title to any royalty, working or other interest subject hereto, the Unit Operator may withhold payment or delivery of the allocated portion of the unitized substances involved on account thereof without liability for interest until the dispute is finally settled, provided that no payments of funds due the State of New Mexico shall be withheld. Unit Operator as such is relieved from any responsibility for any defect or failure of title hereunder.

21. **COUNTERPARTS.** This Agreement may be executed in any number of counterparts no one of which needs to be executed by all parties or may be ratified or consented to by separate instrument in writing specifically referring hereto and shall be binding upon all those parties who have executed such a counterpart, ratification, or consent hereto with the same force and effect as if all such parties had signed the same document.

IN WITNESS WHEREOF, the undersigned parties hereto have caused this agreement to be executed on the respective dates set opposite their signatures.

EXHIBIT "B"

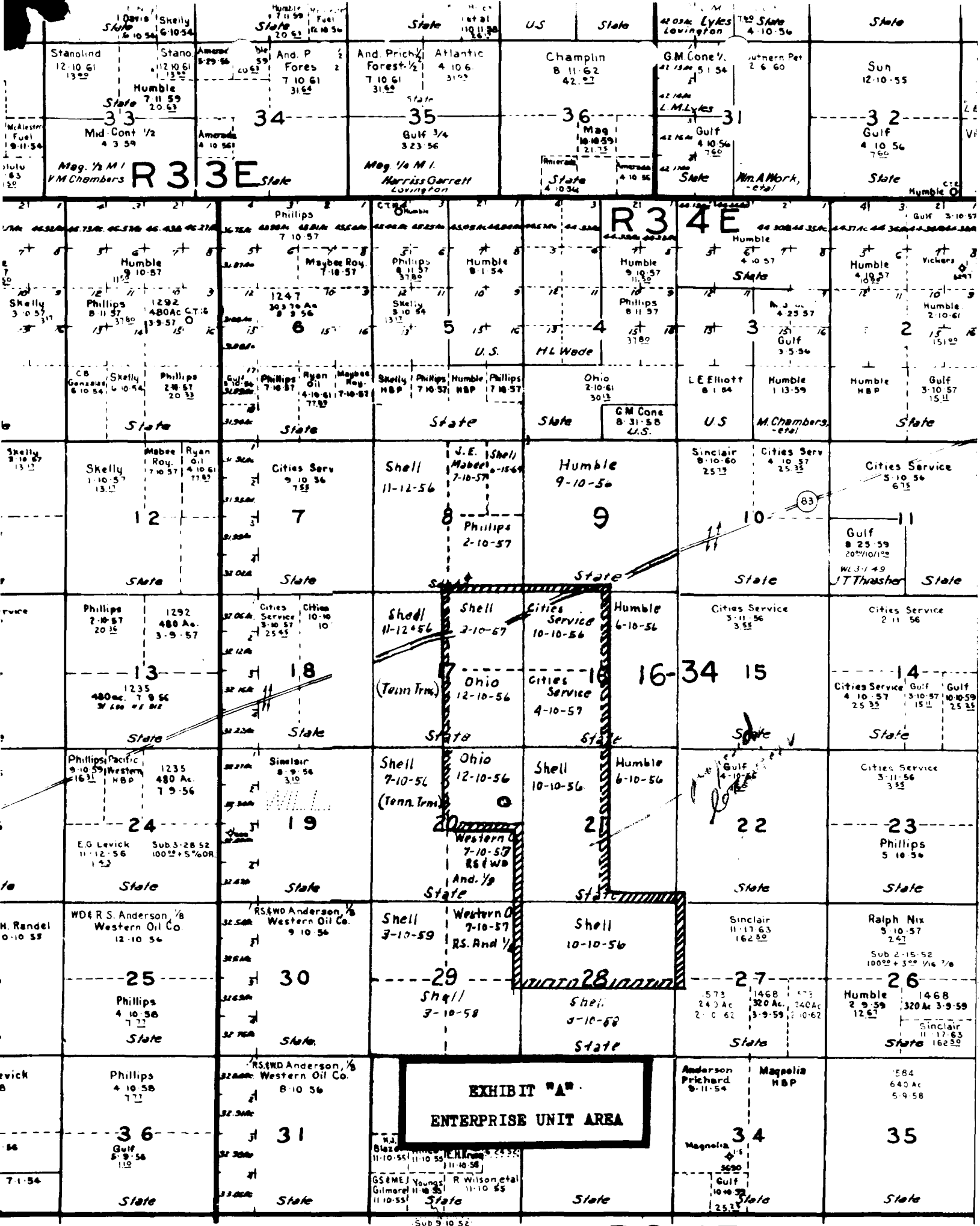
SCHEDULE SHOWING THE PERCENTAGE AND KIND OF OWNERSHIP OF OIL AND GAS INTERESTS IN ALL LAND IN THE ENTERPRISE UNIT AREA

TRACT NO.	DESCRIPTION	NO. OF ACRES	LEASE NO. AND EXPIRATION DATE OF LEASE	LAND OWNER	RECORD OWNER OF
1	W½, Sec. 16 Twp. 16 S., R. 34 E., N.M.P.M.	320	E1047 & E1281	State of New Mexico	Cities Service
2	NE¼, Sec. 17, Twp. 16 S., R. 34 E., N.M.P.M.	160	Assnmt. # E1240	State of New Mexico	Shell Oil Co.
3	W½, Sec. 21, Twp. 16 S., R. 34 E., N.M.P.M.	320	E1048, Assnmt. #1	State of New Mexico	Shell Oil Co.
4	N½, Sec. 28, Twp. 16 S., R. 34 E., N.M.P.M.	320	E1048, Assnmt. #1	State of New Mexico	Shell Oil Co.
5	SE¼, Sec. 17, Twp. 16 S., R. 34 E., N.M.P.M.	160	E1127	State of New Mexico	Ohio Oil
6	NE¼, Sec. 20, Twp. 16 S., R. 34 E., N.M.P.M.	160	E1127	State of New Mexico	Ohio Oil

RECAPITULATION OF OWNERSHIP

NAME	ACRES	PERCENTAGE OWNED
Enterprise Oils, Inc.	560	38.88
Cities Service	160	11.12
Shell Oil	400	27.78
Ohio Oil	320	22.22
	1440	100.00 %

Note: Immediately upon completion of the first test well by Operator, Cities Service will assign to Operator a one-half (½) undivided interest in and to the oil and gas lease covering the W½, Sec. 16, Twp. 16 S., R. 34 E., and Shell Oil Co. shall assign to Operator a one-half (½) undivided interest in and to the leasehold interest covering the W½ of Sec. 21, the NE¼ of Sec. 17, and the N½ of Sec. 28, all in Twp. 16 S., R. 34 E., N.M.P.M.


R 33 E
R 34 E
EXHIBIT "A"
ENTERPRISE UNIT AREA
Lea County, New Mexico
R 34 E

PARTY OF THE FIRST PART

ATTEST:

ENTERPRISE OILS, INC.

_____
Secretary

By: _____
Ernest W. Bain
Vice-President

Address: Artesia, New Mexico

PARTIES OF THE SECOND PART

ATTEST:

SHELL OIL COMPANY

_____
Secretary

By: _____

Vice-President

Address: Petroleum Building
Midland, Texas

ATTEST:

THE OHIO OIL COMPANY

_____
Secretary

By: _____

Vice-President

Address: _____
_____

ATTEST:

CITIES SERVICE

_____
Secretary

By: _____

Vice-President

Address: _____
_____

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

Before me, the undersigned, authority, on this the _____ day of September, 1956, appeared ERNEST W. BAIN, to me personally known, who, being by me duly sworn, did say that he is Vice-President of ENTERPRISE OILS, INC., that the seal affixed to said instrument is the corporate seal of said corporation, that same was signed and sealed in behalf of said corporation by authority of its Board of Directors, and he acknowledged said instrument to be the free act and deed of said corporation, same having been executed by him for the purposes and consideration therein expressed and in the capacity therein stated.

Witness my hand and official seal the day and year last above written.

My Commission Expires:

_____

_____
Notary Public, Santa Fe County, New Mexico

* * * * * * * * * * * * * *

STATE OF _____)
) ss.
COUNTY OF _____)

On this _____ day of September, 1956, before me appeared _____ _____, to me personally known, who, being by me duly sworn, did say that he is the Vice President of Shell 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

Witness my hand and seal the day and year last above written.

My Commission Expires:

_____

_____
Notary Public

* * * * * * * * * * * * * *

STATE OF _____)
) ss.
COUNTY OF _____)

On this _____ day of September, 1956, before me appeared _____ _____, to me personally known, who, being by me duly sworn, did say that he is the Vice President of Ohio 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.

Witness my hand and seal the day and year last above written.

My Commission Expires:

_____

_____
Notary Public

STATE OF _____)
_) ss.
COUNTY OF _____)

On this _____ day of September, 1956, before me appeared _____, to me personally known, who, being by me duly sworn did say that he is the Vice President of CITIES SERVICE, and that the seal affixed to said instrument is the corporate seal of said corporation and that said instrument is 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

Witness my hand and official seal the day and year last above written.

My Commission Expires:

_____

_____
Notary Public

EXHIBIT "A"

Attached to and made a part of _____

_____

_____

ACCOUNTING PROCEDURE
(Unit and Joint Lease Operations)

1. General Provisions

1. Definitions:
The term "joint property" as herein used shall be construed to mean the subject area covered by the agreement to which this "Accounting Procedure" is attached.
The term "Operator" as herein used shall be construed to mean the party designated to conduct the development and operation of the leased premises for the joint account.
The term "Non-Operator" as herein used shall be construed to mean any one or more of the non-operating parties.

2. Statements and billings:
Operator shall bill Non-Operator on or before the last day of each month for its proportionate share of costs and expenditures during the preceding month. Such bills will be accompanied by statements, reflecting the total costs and charges as set forth under Sub-Paragraph _____ below:
A. Statement in detail of all charges and credits to the joint account.
B. Statement of all charges and credits to the joint account, summarized by appropriate classifications indicative of the nature thereof.
C. Statements, as follows:
(1) Detailed statement of material ordinarily considered controllable by Operators of oil and gas properties;
(2) Statement of all other charges and credits to the joint account summarized by appropriate classifications indicative of the nature thereof; and
(3) Statement of any other receipts and credits.

3. Payments by Non-Operator:
Each party shall pay its proportion of all such bills within fifteen (15) days after receipt thereof. If payment is not made within such time, the unpaid balance shall bear interest at the rate of six per cent (6%) per annum until paid.

4. Audits:
Payment of any such bills shall not prejudice the right of Non-Operator to protest or question the correctness thereof. All statements rendered to Non-Operator by Operator during any calendar year shall be conclusively presumed to be true and correct after eighteen months following the close of any such calendar year, unless within said eighteen months period Non-Operator takes written exception thereto and makes claim on Operator for adjustment. Failure on the part of Non-Operator to make claim on Operator for adjustment within such period shall establish the correctness thereof and preclude the filing of exceptions thereto or the making of claims for adjustment thereon. A Non-Operator, upon notice in writing to Operator and all all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the accounting hereunder, within

eighteen months next following the close of any calendar year. Non-Operator shall have six months next following the examination of the Operator's records within which to take written exception to and make any and all claims on Operator. The provisions of this paragraph shall not prevent adjustments resulting from the physical inventory of property as provided for in Section VI, Inventories, hereof.

II. Development and Operating Charges

Subject to limitations hereinafter prescribed, Operator shall charge the joint account with the following items:

1. Rentals and Royalties:
Delay or other rentals, when such rentals are paid by Operator for the joint account, royalties, when not paid direct to royalty owners by the purchaser of the oil, gas, casinghead gas, or other products.

2. Labor, Transportation, and Services:
Labor, transportation, and other services necessary for the development, maintenance, and operation of the joint property. Labor shall include (A) Operator's cost of vacation, sickness and siability benefits of employees, and expenditures or contributions imposed or assessed by governmental authority applicable to such labor, and (B) Operator's current cost of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of like nature, applicable to Operator's field payroll; provided that the charges under Part (B) of this paragraph shall not exceed _____% of the total of such labor charged to the joint account.

3. Material:
Material, equipment, and supplies purchased or furnished by Operator, for use of tne joint property. So far as it is reasonably practical and consistent with efficient and economical operation, only such material shall be purchased for or transferred to the joint property as required for immediate use, and the accumulation of surplus stocks shall be avoided.

4. Moving Material to Joint Property:
Moving material to the joint property from Vendor's or from Operator's warehouse in the district or from the other property of Operator, but in either of the last two events no charge shall be made to the joint account for a distance greater than the distance from the nearest reliable supply store or railway receiving point where such material is available, except by special agreement with Non-Operator.

5. Moving Surplus Material from Joint Property:
Moving surplus material from the joint property to outside vendees, if sold f.o.b. destination, or minor returns to Operator's warehouse or other storage point. No charge shall be made to the joint account for moving major surplus material to Operator's warehouse or other storage point for a distance greater than the distance to the nearest reliable supply store or railway receiving point, except by special agreement with Non-Operator, and no charge shall be made to the joint account for moving material to other properties belonging to Operator, except by special agreement with Non-Operator.

6. Use of Operator's Equipment and Facilities:
Use of and service by Operator's exclusively owned equipment and facilities as provided in Pargraph 4, of Section III, "Basis of Charges to Joint Account".

7. Damages and Losses
Damages or lesses incurred by fire, flood, storm, or any other cause not controllable by Operator through the exercise of reasonable diligence. Operator shall furnish Non-Operator written notice of damage or losses incurred by fire, storm, flood, or other natural or accidental causes as soon as practicable after report of the same has been received by Operator.

8. Litigation, Judgments, and Claims
All costs and expenses of litigation, or legal services otherwise necessary or expedient for the protection of the joint interests, including attorney's fees and expenses as hereinafter provided, together with all judgments obtained against the joint account or the subject matter of this agreement; actual expense incurred by any party or parties hereto in securing evidence for the purpose of defending against any action or claim presented or urged against the joint account or the subject matter of this agreement.
A. If a majority of the interests hereunder shall so agree, actions or claims affecting the joint interests hereunder may be handled by the legal staff of one or more of the parties hereto, and a charge commensurate with the services rendered may be made against the joint account, but no such charge shall be made until approved by the legal department of or attorneys for the respective parties hereto.
B. Fees and expenses of outside attorneys shall not be charged to the joint account unless authorized by the majority of the interests hereunder.

9. Taxes
All taxes of every kind and nature assessed upon or in connection with the properties which are the subject of this agreement, the production therefrom or the operation thereof, and which taxes have been paidby the Operator for the benefit of the parties hereto.

10. Insurance
A. Premiums paid for insurance carried for the benefit of the joint account, together with all expenditures incurred and paid in settlement of any and all losses, claims, damages, judgments, and other expenses, including legal services, not recovered from insurance carrier.
B. If no insurance is required to be carried, all actual expenditures incurred andpaid by Operator in settlement of any and all losses, claims, damages, judgments, and any other expenses, including legal services, shall be charged to the joint account.

11. Division and Camp Expense:
A proportionate share of the salaries and expenses of operators, Division Manager and other general field employees serving the joing property, whose time is not allocated direct to the joint property, and a proportionate share of maintaining a Division office and all necessary camps, including housing facilities for employees if necessary, in conducing the operations on the joint property and other leases owned and operated by operator in the same locality. The expense of, less any revenue from, these facilities shall include depreciation or a fair monthly rental in lieu of depreciation on the investment. Such charges shall be apportioned to all leases served on some equitable basis consistent with operator's accounting practice.

12. Overhead:
Overhead charges, which shall be in lieu of any charges for any part of the compensation or salaries paid to managing officers and employees of operator, including the Area Manager, the entire staff

and expenses of the area office located at _____, _____, and any portion of the office expense of the principal business office located at _____, but which are not in lieu of Division or field expenses incurred in the development and operation of said properties; and operator shall have the right to assess against the joint property covered hereby the following overhead charges:

A. $_____ per month for each drilling well, beginning on the date the well is spudded and terminating when it is on production or is plugged, as the case may be, except that no charge shall be made during the suspension of drilling operations for fifteen (15) or more consecutive days.

B. $_____ per well per month for the first five (5) producing wells.

C. $_____ per well per month for the second five (5) producing wells.

D. $_____ per well per month for all producing wells over ten (10).

E. In connection with overhead charges, the status of wells shall be as follows:

(1) In-put or key wells shall be included in overhead schedule the same as producing oil wells.

(2) Producing gas wells shall be included in overhead schedule the same as producing oil wells.

(3) Wells permanently shut down but on which plugging operations are deferred, shall be dropped from overhead schedule at the time the shut down is effected. When such wells are plugged, overhead shall be charged at the producing well rate during the time required for the plugging operation.

(4) Wells being plugged back or drilled deeper shall be included in overhead schedule the same as drilling wells.

(5) Various wells may be shut down temporarily and later replaced on production. If and when a well is shut down (other than proration) and not produced or worked upon for a period of a full calendar month, it shall not be included in the overhead schedule for such month.

(6) Salt water disposal wells shall not be included in overhead schedule.

(7) A dual completion shall be considered as two wells.

F. The above overhead schedule on producing wells shall be applied to individual lease; provided that, whenever leases covered by this agreement are operated as a unitized project in the interest of economic development, the schedule shall be applied to the total number of wells, irrespective of individual leases.

G. The above specific overhead rates may be amended from time to time by agreement between Operator and Non-Operator, if, in practice, they are found to be insufficient or excessive.

13. Warehouse Handling Charges

_____

_____

14. Other Expenditures

Any other expenditure incurred by Operator for the necessary and proper development, maintenance, and operation of the joint property.

III. Basis of Charges to Joint Account

1. Purchases

Material and equipment purchased and service procured shall be charged at price paid by Operator, after deduction of all discounts actually received.

2. Material Furnished by Operator
Material required for operations shall be purchased for direct charge to joint account whenever practicable, except that Operator may furnish such material from Operator's stock under the following conditions:

A. New Material (Condition "A")

(1) New material transferred from Operator's warehouse or other properties shall be priced f.o.b. the nearest reputable supply store or railway receiving point, where such material is available at current replacement cost of the same kind of material. This will include material such as tanks, rigs, pumps, sucker rods, boilers, and engines. Tubular goods (2" and over), shall be priced on carload basis effective at date of transfer and f.o.b. railway receiving point nearest the joint account operation, regardless of quantity transferred.

(2) Other materisl ahall be priced on basis of a reputable supply company's Preferential Price List effective at date of transfer and f.o.b. the store or railway receiving point nearest the joint account operation where such material is available.

(3) Cash discount shall not be allowed.

B. Used Material (Condition "B" and "C")

(1) Material which is in sound and serviceable condition and is suitable for reuse without reconditioning shall be classed as Condition "B" and priced at 75% of new price.

(2) Material which cannot be classified as Condition "B" but which,

(a) After reconditioning will be further serviceable for original function as good second hand material (Condition "B"), or

(b) Is serviceable for original function but substantially not suitable for reconditioning, shall be classed as Condition "C" and priced at 50% of new price.

(3) Material which cannot be classified as Condition "B" or Condition "C" shall be priced at a value commensurate with its use.

(4) Tanks, derricks, buildings, and other equipment involving erection costs shall be charged at applicable per-percentage of knocked-down new price.

3. Warranty of Material Furnished by Operator
Operator does not warrant the material furnished beyond or back of the dealer's or manufacturer's guaranty; and, in case of defective material, credit shall not be passed until adjustment has been received by Operator from the manufacturers or their agents.

4. Operator's Exclusively Owned Facilities
The following rates shall apply to service rendered to the joint account by facilities owned exclusively by Operator:

A. Water service, fuel, gas, power, and compressor service: At rates commensurate with cost of providing and furnishing such service to the joint account but not exceeding rates currently prevailing in the field where the joint property is located.

B. Automotive Equipment: Rates commensurate with cost of ownership and operation. Such rates should generally be in line with schedule of rates adopted by the Petroleum Motor Transport Association, or some other recognized organization, as recommended uniform charges against joint account operations and revised from time to time. Automotive rates shall include cost of oil, gas, repairs, insurance, and other operating expense and depreciation; and charges shall be based on use in actual service, on, or in connection with, the joint account operations. Truck, tractor, and pulling unit rates

rates shall include wages and expenses of driver.

C. A fair rate shall be charged for the use of drilling and cleaning-out tools and any other items of Operator's fully owned machinery or equipment which shall be ample to cover maintenance, repairs, depreciation, and the service furnished the joint property; provided that such charges shall not exceed those currently prevailing in the field where the joint property is located.

D. Whenever requested, Operator shall inform Non-Operator in advance of the rates it proposes to charge.

E. Rates shall be revised and adjusted from time to time when found to be either excessive of insufficient.

IV. Disposal of Lease Equipment and Material

The Operator shall be under no obligation to purchase interest of Non-Operator in surplus new or secondhand material. Derricks, tanks, buildings, and other major items shall not be removed by Operator from the joint property without the approval of Non-Operator. Operator shall not sell major items of material to an outside party without giving Non-Operator an opportunity either to purchase same at the price offered or to take Non-Operator's share in kind.

1. Material Purchased by Operator
Material purchased by Operator shall be credited to the joint account and included in the monthly statement of operations for the month in which the material is removed from the joint property.

2. Material Purchased by Non-Operator
Material purchased by Non-Operator shall be invoiced by Operator and paid for by Non-Operator to Operator immediately following receipt of invoice. The Operator shall pass credit to the joint account and include the same in the monthly statement of operations.

3. Division in Kind
Division of material in kind, if made between Operator and Non-Operator, shall be in proportion to their respective interest in such material. Each party will thereupon be charged individually with the value of the material received or receivable by each party and corresponding credits will be made by the Operator to the joint account, and such credits shall appear in the monthly statement of operations.

4. Sales to Outsiders
Sales to outsiders of material from the joint property shall be credited by Operator to the joint account at the net amount collected by Operator from Vendee. Any claims by Vendee for defective material or otherwise shall be charged back to the joint account, if and when paid by Operator.

V. Basis of Pricing Material Transferred from Joint Account

Material purchased by either Operator or Non-Operator or divided in kind, unless otherwise agreed, shall be valued on the following basis:

1. New Price Defined
New price as used in the following paragraphs shall have the same meaning and application as that used above in Section III,"Basis of Charges to Joint Account".

2. New Material
New material (Condition "A"), being new material procured for the joint account but never used thereon, at 100% of current new price.

3. Good Used Material
Good used material (Condition "B"), being used material in sound and serviceable condition, suitable for reuse without reconditioning.
   A. At 75% of current new price if material was charged to joint account as new, or
   B. At 75% of current new price less depreciation consistent with their usage on and service to the joint property, if material was originally charged to the joint property as secondhand at 75% of new price.

4. Other Used Material
Used Material (Condition "C"), being used material which
   A. After reconditioning will be further serviceable for original function as good secondhand material (Condition "B"), or,
   B. Is serviceable for original function but substantially not suitable for reconditioning, at 50% of current new price.

5. Bad-Order Material
Used material (Condition "D"), being material which cannot be classified as Condition "B" or Condition "C", shall be priced at a value commensurate with its use.

6. Junk
Junk (Condition "E"), being obsolete and scrap material, at prevailing price.

7. Temporarily Used Material
When the use of material is of a temporary nature and its service to the joint account does not justify the reduction in price as provided in Paragraph 3B above, such material shall be priced on a basis that will leave a net charge to the joint account consistent with the value of the service rendered.

VI. Inventories

1. Periodic Inventories
Periodic inventories shall be taken by Operator of the joint account material, which shall include all such material as is ordinarily considered controllable by operators of oil and gas properties.

2. Notice
Notice of intention to take inventory shall be given by Operator at least ten days before any inventory is to begin, so that Non-Operator may be represented when any inventory is taken.

3. Failure to be Represented
Failure of Non-Operator to be represented at the physical inventory shall bind Non-Operator to accept the inventory taken by Operator, who shall in that event furnish Non-Operator with a copy thereof.

4. Reconciliation of Inventory
Reconciliation of inventory with charges to the joint account shall be made by each party at interest, and a list of overages and shortages shall be jointly determined by Operator and Non-Operator.

5. Adjustment of Inventory
Inventory Adjustments shall be made by Operator with the joint account for overages and shortages, but Operator shall only be held accountable to Non-Operator for shortages due to lack of reasonable diligence.

6. Special Inventories
Special inventories may be taken, at the expense of the purchaser, whenever there is any sale or change of interest in the joint property, and it shall be the duty of the party selling to notify all other parties hereto as quickly as possible after the transfer of interest takes place. In such cases both the seller and the purchaser shall be represented and shall be governed by the inventory so taken.