

GO

TEMPERATURE LOG

COMPANY TEXACO, INC. LOG. MEAS. FROM K. B. ELEV.
 WELL STATE OF N. M. "AB" # 5 DRLG. MEAS. FROM K. B. ELEV.
 FIELD VACUUM (ABO & DRINKARD) PERM. DATUM G. L. ELEV.
 COUNTY LEA, F. S. & E. L. STATE N. M. LOGGING SPEED FT./MIN. 100
 LOCATION SEC. 6, 18-3, 35-E TIME CONSTANT 6
 SENSITIVITY 800

WELL DATA

CASING SIZE 11 3/4 SURF. TO 340 BT SIZE 15" SURF. TO 340
 CASING SIZE 8-5/8 SURF. TO 3071 BT SIZE 11" 340 TO 3071
 CASING SIZE 2 STRING 2-7/8 TO 8851 BT SIZE 7-7/8" 3071 TO 8851

AMOUNT OF CEMENT 400 SACKS TYPE INCORE ADMIX 4% GEL. 3/4 of
 800 SACKS TYPE INCORE ADMIX 1% GFR2
 300 SACKS TYPE INCORE ADMIX 4% GEL.
 NEAT

CEMENTING COMPLETED: DATE 3-6-63 TIME 9:PM

SURVEY STARTED: DATE 3-7-63 TIME 1:10 PM DEPTH 500'
 COMPLETED: DATE 3-7-63 TIME 2:00 PM DEPTH 8813'

R-34-E

R-35-E

NORTH VACUUM ABO UNIT

MOBIL - OPER.

26

25

30

35

36

State "AE"

State

State

State

State

State



LEGEND: UNIT BOUNDARY
 TRACT NUMBER

BEFORE EXAMINER STAMETS
OIL CONSERVATION COMMISSION

EXHIBIT NO. 1

CASE NO. 5970

Submitted by Applicant

Hearing Date June 22, 1977

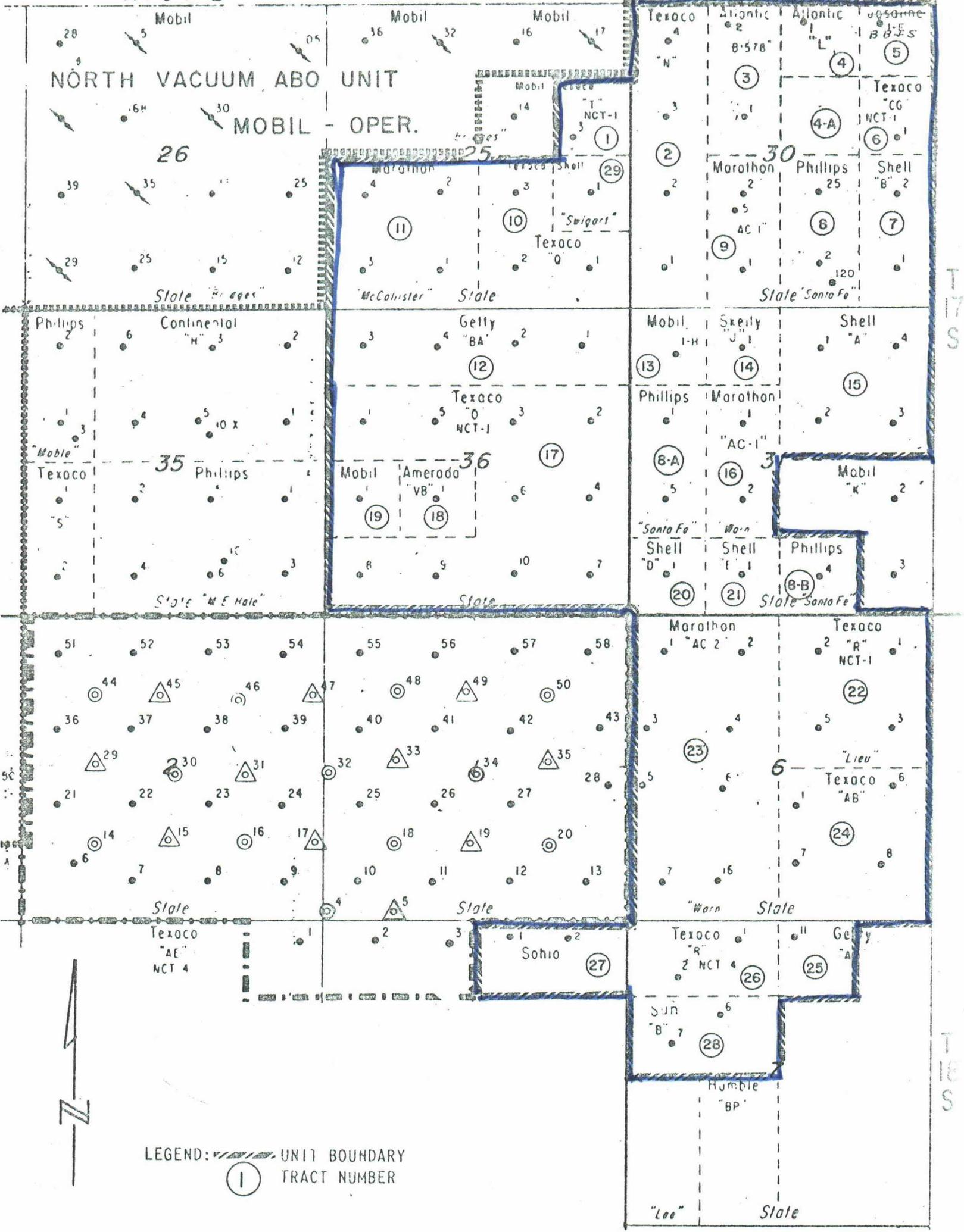
TEXACO INC.

EXHIBIT "A"
TO UNIT AGREEMENT
CENTRAL VACUUM UNIT
LEA COUNTY, NEW MEXICO

SCALE: 1" = 2000'

T 17 S

T 18 S



ELWOOD MCGRILL

FEB 11 1976

Midland



PHILLIPS PETROLEUM COMPANY

ODESSA, TEXAS 79761
PHILLIPS BUILDING

NATURAL RESOURCES GROUP
Exploration and Production

February 10, 1976

Proposed Central Vacuum Unit,
Vacuum Grayburg-San Andres Pool,
Lea County, New Mexico

File: W4-Ta-77-76

Texaco Inc.
P. O. Box 3109
Midland, Texas

Attention: Mr. G. F. Clarke

Gentlemen:

We have been advised by Mr. K. W. Harbin's letter of January 29, 1976, that Texaco hopes to be able to call a working interest owners meeting in early March to negotiate participation for the subject unit.

The proposed parameters have been thoroughly reviewed with the result that we are unable to include our Hale lease in the unit outline. This lease has considerable current excess capacity, all of which will be at upper tier oil prices and, in addition, has capacity behind the pipe not now being utilized for production of top allowable. The parameters determined by the Engineering Committee do not permit Phillips to adequately protect its interest by including this lease in the forthcoming negotiations. We agree with Texaco that engineering work has lasted long enough and, therefore, in order to expedite unitization of and secondary recovery from this area, we request that our Hale and Mable leases be excluded from the proposed unit. The request to exclude the Mable lease is made with the hope that Phillips can, in conjunction with your efforts, form a smaller cooperative unit in Section 35.

Subject to the removal of these two leases from the unit area, we will attend a meeting to negotiate participation in the subject unit.

REPORT BY MEMBER STATES
ON JOINT OWNERS COMMISSION
DATE: 2
NO. 5770
Applicant
6-22-77

Very truly yours,
PHILLIPS PETROLEUM COMPANY

W. B. Taylor, Jr.
W. B. Taylor, Jr., Representative
Working Interest Owners Committee

WBT:dva



JUL 21 1976

Midland District
 L. P. Thompson
 Division Manager
 Production Department
 Hobbs Division
 Western Hemisphere Petroleum Division

Continental Oil Company
 P.O. Box 460
 1001 North Turner
 Hobbs, New Mexico 88240
 (505) 393-4141

July 16, 1976

Texaco, Inc.
 P. O. Box 3109
 Midland, Texas 79701

Attention Mr. J. S. Blankenship Jr.

Gentlemen:

Proposed Central Vacuum Unit, Lea County, New Mexico

We have received your letter dated June 21, 1976 wherein you furnished material involving a revised Central Vacuum Unit area. We note that our State H-35 Lease is not included in the revised unit area. We are disappointed at being excluded from the unit but can understand your action as a means of expediting the formation of a unit which has been quite controversial. Our lease, we know, has been a point of some contention because of the disparity between our current producing rates and our indicated remaining reserves. We are now proceeding to take action which will, we hope, remove this disparity. There has also been a problem of upper tier and lower tier prices affecting our lease. Hopefully this matter will be resolved sometime in the future.

We appreciate Texaco's patience in attempting to unitize the original unit area. Continental Oil Company is anxious to work with you in promoting a secondary recovery effort in this area either by expansion of your unit area at a later date or by cooperative waterflood effort across common boundaries. We would hope in the latter instance, that Texaco would be willing to furnish injection water at a reasonable cost. We extend our best wishes in the formation of your revised unit.

Yours very truly,

VTL:reh
 CC:
 CFE

3
 5970
 Applicant
 June 22, 1977

SEP 1 1976

L. P. Thompson
Division Manager
Production Department
Hobbs Division

Midland Division

Continental Oil Company
P.O. Box 460
1001 North Turner
Hobbs, New Mexico 88240
(505) 393-4141

August 31, 1976

Texaco, Inc.
P.O. Box 3109
Midland, Texas 79701

Attention Mr. G. F. Clarke

Gentlemen:

Proposed Central Vacuum Unit, Lea County, New Mexico

Your letter dated August 3, forwarded a letter ballot on the proposed Formula No. 38. Continental Oil Company has reviewed this proposal and has concluded that acceptance of the formula would involve a greater sacrifice in our participation than we are willing to accept. Therefore, with considerable regret, we return the ballot disapproved.

Yours very truly,



VTL:reh
Enc
CFE

LETTER BALLOT
FORMULA NO. 38.
PROPOSED CENTRAL VACUUM UNIT
LEA COUNTY, NEW MEXICO

Boundary - Originally proposed boundary;
Parameter table dated 3/26/76.
Formula - 20.0% Current Production
10.0% Remaining Primary
27.5% Cumulative Production
22.5% Net HC Pore Volume
20.0% Ultimate Primary
100.0%

<u>Company</u>	<u>Participation-%</u>
Amerada-Hess	1.71055
Atlantic Richfield	0.83970
Conoco	6.42303
Getty	6.05103
Josaline	0.08360
Marathon	21.29808
Mobil	8.64061
Phillips	6.63666
Shell	12.85257
Skelly	1.39759
Sohio	0.50908
Sun	0.11374
Texaco	33.44376
	<u>100.00000%</u>

APPROVED _____

DISAPPROVED X

Company CONTINENTAL OIL COMPANY

By *L. P. Thompson*
L. P. Thompson

Date August 31, 1976

Please return completed ballot to:

Texaco Inc.
P. O. Box 3109
Midland, Texas 79701
Attn: Mr. G. F. Clarke

REC'D MGRL
Mobil Oil Corporation

OCT 28 1976

Midland Division

THREE GREENWAY PLAZA EAST - SUITE 800
HOUSTON, TEXAS 77046

October 21, 1976

Texaco Inc.
P. O. Box 3109
Midland, Texas 79701

Attention Mr. G. F. Clarke

PROPOSED CENTRAL VACUUM UNIT
LEA COUNTY, NEW MEXICO

Gentlemen:

This will continue correspondence concerning the subject unit ending when letters from each of us, dated September 20, 1976, apparently crossed in the mail.

In view of the results of your ballot on Formula No. 38 and your letter of September 20, 1976, Mobil hereby requests that its State "K" Lease be omitted from the Unit Area of the proposed unit. Since Mobil's other two leases in the proposed Unit Area are one-well leases (one lease would be a window in the proposed Unit Area) and the proposed formula more nearly approaches equity for these leases, we are willing, subject to the approval of development of satisfactory Unit Agreements, to commit the State "I" and State "H" leases to the proposed unit.

By copy of this letter, we are hereby requesting that Phillips Petroleum Company include Mobil's State "K" Lease in the parameter tabulations for its proposed East Vacuum (San Andres) Unit.

Yours very truly,



H. C. Patton
Division Joint Interest
Administrator

ERFrazier/bg

cc: Working Interest Owners

SEARCHED _____ INDEXED _____
SERIALIZED _____ FILED _____
OCT 28 1976
FBI - HOUSTON
5970
H. C. Patton
June 22, 1977

PROPOSED CENTRAL VACUUM UNIT
VACUUM GRAYBURG-SAN ANDRES FIELD
LEA COUNTY, NEW MEXICO

WORKING INTEREST OWNERS
MAILING LIST

5
5970

Applicant

6-22-77

Amerada Hess Corporation
P. O. Box 2040
Tulsa, Oklahoma 74101

Amerada Hess Corporation
Drawer 817
Seminole, Texas 79360

Atlantic Richfield Company
P. O. Box 1610
Midland, Texas 79702
Attn: Mr. G. Thane Akins

H. M. Bettis, Inc.
P. O. Box 1168
Graham, Texas 76046

W. T. Boyle & Company
P. O. Box 1168
Graham, Texas 76046

Trust Department
Ft. Worth National Bank,
Trustee No. 1979
P. O. Box 2050
Ft. Worth, Texas 76101

Getty Oil Company
P. O. Box 1231
Midland, Texas 79702

Mr. Larry O. Hulsey
P. O. Box 1168
Graham, Texas 76046

Marathon Oil Company
P. O. Box 552
Midland, Texas 79702
Attn: Mr. G. A. Naert

William D. McBee Estate
1200 Dresser Bldg.
1505 Elm Street
Dallas, Texas 75201

Mercantile Safe Deposit &
Trust Co.
Trustee U/D Donaldson Brown
1503 Mercantile Bank & Trust Bldg.
Baltimore, Maryland

Mobil Oil Corporation
Three Greenway Plaza East
Suite 800
Houston, Texas 77046
Attn: Joint Interest Adm.

Phillips Petroleum Company
Phillips Building - Room 820
4th & Washington Streets
Odessa, Texas 79760
Attn: Mr. W. B. Taylor, Jr.

Shell Oil Company
Mid-Continent Producing Div.
P. O. Box 991
Houston, Texas 77001
Attn: Div. Prod. Mgr.

Sohio Petroleum Company
P. O. Box 3000
Midland, Texas 79702
Attn: Mr. J. H. Walters

Sohio Petroleum Company
1110 Penn Tower
Oklahoma City, Oklahoma 73118
Attn: Mr. H. P. Dreher

Mr. Norman D. Stovall, Jr.
P. O. Box 1168
Graham, Texas 76046

S. B. Street & Company
P. O. Box 1168
Graham, Texas 76046

EXHIBIT "F"

Sun Oil Company
P. O. Box 1861
Midland, Texas 79702
Attn: Mr. R. K. Beggs

The William D. McBee Estate
1200 Dresser Building
1505 Elm Street
Dallas, Texas 75201
Attn: Mr. Robert E. McCarley

Sun Oil Company
12850 Hillcrest Road
Dallas, Texas 75230
Attn: Mr. Joe Thornton

Texaco Inc.
P. O. Box 3109
Midland, Texas 79702

Trusts U/D Donaldson Brown
C/O Mr. Guy Tregoe
Suite 1503
Mercantile Bank & Trust Bldg.
2 Hopkins Plaza
Baltimore, Maryland

Turnco, Inc.
P. O. Box 1168
Graham, Texas 76046

OFFSET OPERATORS

Continental Oil Co.
P. O. Box 460
Hobbs, New Mexico 88240

Chevron Oil Co.
205 N. Linam
Hobbs, New Mexico 88240

Exxon Company, USA
P. O. Box 1600
Midland, Texas 79702

NOTE: If an Offset Operator is also a Working Interest Owner in the Unit, he will be listed only as a Unit Working Interest Owner.

TEXAGO Inc.
 NEW MEXICO "O" ST. NCT-1 #23
 (TWIN WELL TO #10)
 VACUUM G-SA POOL

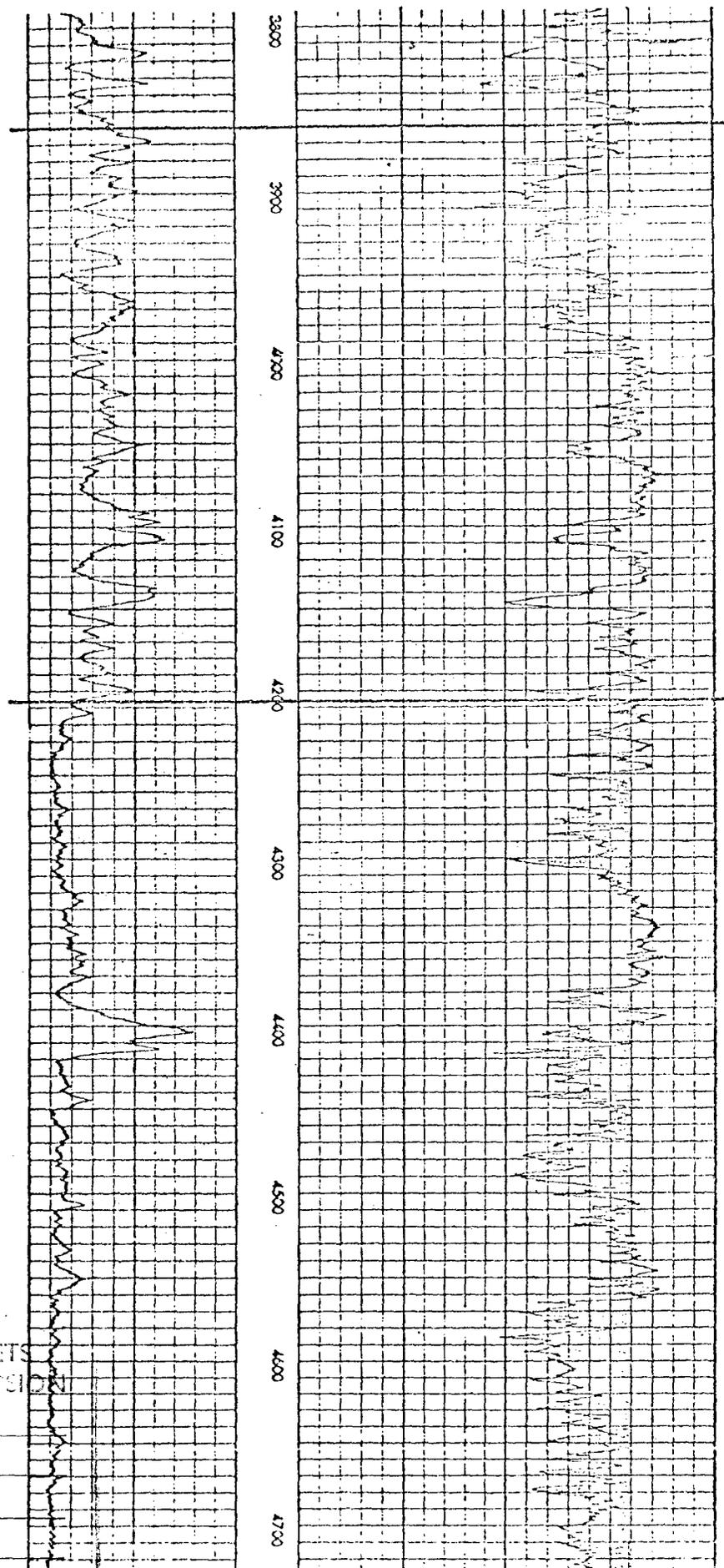
SAN ANDRES
 PAY

PROPOSED UNITIZED INTERVAL

NEW MEXICO OIL AND GAS COMMISSION
 OIL CONTROL DIVISION

6

CASE NO. 59770
 Applicant
 6-22-77



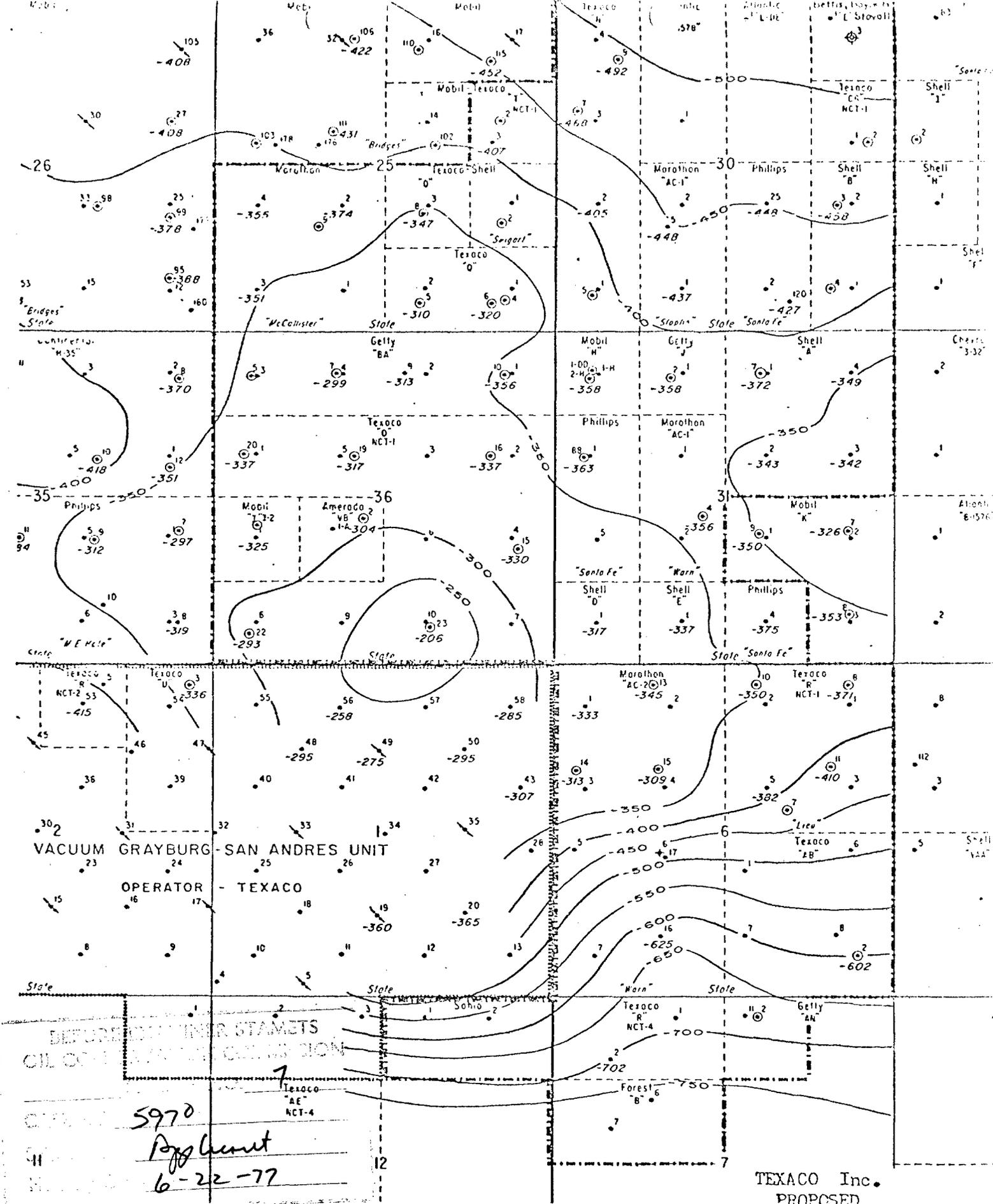


EXHIBIT "E"

STRUCTURE MAP
 CONTOURED ON TOP OF
 SAN ANDRES PAY

CONTOUR INTERVAL = 50'

CENTRAL VACUUM UNIT
 VACUUM (GRAYBURG-SAN ANDRES) POOL
 LEA COUNTY, NEW MEXICO

RJA/CRC

3-16-77

TEXACO Inc.
 PROPOSED

BEFORE THE COMMISSION ON OIL AND GAS

5970
 Rogers
 6-22-77

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
CENTRAL VACUUM UNIT
COUNTY OF LEA
STATE OF NEW MEXICO

CLYDE W. ...
C.A. ...
8
CASE NO. 5970
Submitted by Applicant
Hearing Date 6-22-77

UNIT AGREEMENT
CENTRAL VACUUM UNIT
LEA COUNTY, NEW MEXICO

TABLE OF CONTENTS

Section	Page
Preliminary Recitals	1
ARTICLE 1 ENABLING ACT AND REGULATIONS	
1. Enabling Act and Regulations	1
ARTICLE 2 DEFINITIONS	
2. Definitions	1
2.(a) Commission	1
2.(b) Commissioner	1
2.(c) Royalty Interest	1
2.(d) Royalty Owner	2
2.(e) Tract	2
2.(f) Tract Participation	2
2.(g) Unit Area	2
2.(h) Unit Operating Agreement	2
2.(i) Unit Participation	2
2.(j) Unitized Formation	2
2.(k) Unitized Substances	2
2.(l) Working Interest	2
2.(m) Working Interest Owner	2
2.(n) Voting Interest	2
2.(o) Oil and Gas Rights	2
2.(p) Unit Operations	3
2.(q) Unit Equipment	3
2.(r) Unit Expense	3
ARTICLE 3 EXHIBITS	
3. Exhibits	3
ARTICLE 4 EXPANSION OF UNIT AREA	
4. Expansion of Unit Area	3
ARTICLE 5 UNITIZED LAND AND UNITIZED SUBSTANCES	
5. Unitized Land and Unitized Substances	4
ARTICLE 6 UNIT OPERATOR	
6. Unit Operator	4

Section	Page
ARTICLE 10 RIGHTS AND OBLIGATIONS OF UNIT OPERATOR	
10.	Rights and Obligations of Unit Operator 5
ARTICLE 11 EQUIPMENT AND FACILITIES NOT FIXTURES ATTACHED TO REALTY	
11.	Equipment and Facilities not Fixtures Attached to Realty. 5
ARTICLE 12 PLAN OF FURTHER DEVELOPMENT AND OPERATION	
12.	Plan of Further Development and Operation 5
ARTICLE 13 PARTICIPATION	
13.	Participation 6
ARTICLE 14 ALLOCATION OF UNITIZED SUBSTANCES	
14.	Allocation of Unitized Substances 6
ARTICLE 15 BALANCING OF PRODUCTION	
15.	Balancing of Production 7
ARTICLE 16 TAKING UNITIZED SUBSTANCES IN KIND	
16.	Taking Unitized Substances in Kind 7
ARTICLE 17 FAILURE TO TAKE IN KIND	
17.	Failure to Take in Kind 7
ARTICLE 18 ENERGY POLICY AND CONSERVATION ACT	
18.	Certification of Unit Production 8
ARTICLE 19 ROYALTY SETTLEMENT	
19.	Royalty Settlement 9
ARTICLE 20 RENTAL SETTLEMENT	
20.	Rental Settlement 10
ARTICLE 21 CONSERVATION	

ARTICLE 24
COVENANTS RUN WITH LAND

24. Covenants Run With Land 11

ARTICLE 25
EFFECTIVE DATE AND TERM

25. Effective Date and Term 11

ARTICLE 26
IPSO FACTO TERMINATION

26. Ipso Facto Termination 11

ARTICLE 27
TERM

27. Term 12

ARTICLE 28
APPEARANCE

28. Appearance 12

ARTICLE 29
NOTICES

29. Notices 12

ARTICLE 30
NO WAIVER OF CERTAIN RIGHTS

30. No Waiver of Certain Rights 12

ARTICLE 31
UNAVOIDABLE DELAY

31. Unavoidable Delay 13

ARTICLE 32
TITLE

32. Title 13

ARTICLE 33
COUNTERPARTS

33. Counterparts 13

ARTICLE 34
TAXES

34. Taxes 14

ARTICLE 35
CONFLICT OF SUPERVISION

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
CENTRAL VACUUM UNIT AREA
COUNTY OF LEA
STATE OF NEW MEXICO

THIS AGREEMENT entered into as of the first day of December, 1976, 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 and gas interests in the Unit Area subject to this agreement and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by law (Volume 2, Chapter 7, Article 11, New Mexico Statutes, 1953 Annotated) 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

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 1, Chap. 162, Laws of 1951; Chap 7, Art. 11, Sec. 41, N. M. State. 1953 Annot.) to amend with the approval of lessee, evidenced by the lessee's execution of such agreement or otherwise, any oil and gas lease embracing State lands so that the length of the term of said lease may coincide with the term of such agreements for the unit operation and development of part or all of any oil or gas pool, field or area; and

WHEREAS, the parties hereto hold sufficient interest in the Central Vacuum Unit Area covering land hereinafter described to give reasonably effective control of operations therein; and

WHEREAS, it is the purpose of the parties hereto to enable institution and consummation of additional recovery operations, to conserve natural resources, prevent waste and secure other benefits obtainable through development and operation of the Central Vacuum Unit 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 "Unit Area" and the "Unitized Formation" lying thereunder (as those terms are defined hereinafter) and agree severally among themselves as follows:

1. ENABLING ACT AND REGULATIONS. The oil and gas operating regulations in effect as of the effective date hereto governing drilling and producing operations not inconsistent with the terms

the Unitized Substances or the proceeds thereof and includes the royalty interest reserved by the lessor by an oil and gas lease and any overriding royalty interest, oil payment interest, net profits contract, or any other payment or burden which does not carry with it the right to search for and produce Unitized Substances.

(d) "Royalty Owner" means the owner of a Royalty Interest.

(e) "Tract" means each parcel of land described as such and given a Tract number in Exhibit B.

(f) "Tract Participation" means the percentage of Unitized Substances allocated to a Tract under this agreement as shown in Exhibit B.

(g) "Unit Area" means the land shown on Exhibit A, and described by Tracts in Exhibit B, encompassing 3,046.2 acres, more or less.

(h) "Unit Operating Agreement" means any agreement or agreements, whether one or more, entered into either separately or collectively by and between the Unit Operator and the Working Interest Owners, as provided in Section 9, ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT, and shall be styled "Unit Operating Agreement for the Development and Operation of the Central Vacuum Unit Area, County of Lea, State of New Mexico."

(i) "Unit Participation" of a Working Interest Owner is the sum of the percentages obtained by multiplying the Working Interest of such Working Interest Owner in each Tract by the Tract Participation of such Tract.

(j) "Unitized Formation" means the Grayburg-San Andres Formation identified between the depths of 3,858 feet (plus 144 feet sub-sea) and 4,858 feet (minus 856 feet sub-sea) on the Welex Acoustic Velocity Log, run on November 15, 1963, in Texaco's State of New Mexico "O" (NCT-1) Well #23, located in the SW/4 SE/4 of Section 36, T-17-S, R-34-E, Lea County, New Mexico, and is to include all subsurface points throughout the Unit area correlative to those identified depths.

(k) "Unitized Substances" means all oil, gas, gaseous substances, sulphur contained in gas, condensate, distillate and all associated and constituent liquid or liquefiable hydrocarbons within or produced from the Unitized Formation.

(l) "Working Interest" means the right to search for, produce and acquire Unitized Substances whether held as an incident of ownership of mineral fee simple title, under an oil and gas lease or otherwise.

(m) "Working Interest Owner" means any party thereto owning a Working Interest, including a carried working interest owner, holding an interest in Unitized Substances by virtue of a lease, operating agreement, fee title or otherwise, which interest is chargeable with and obligated to pay or bear, either in cash or out of production, or otherwise, all or a portion of the cost of drilling, developing and producing the Unitized Substances from the

(p) "Unit Operations" are all operations conducted pursuant to this agreement and the Unit Operating Agreement.

(q) "Unit Equipment" is all personal property, lease and well equipment, plants, and other facilities and equipment taken over or otherwise acquired for the joint account for use in Unit Operations.

(r) "Unit Expense" is all cost, expense, or indebtedness incurred by Working Interest Owners or Unit Operator pursuant to this agreement and the Unit Operating Agreement for or on account of Unit Operations.

3. EXHIBITS. The following exhibits, which are attached hereto, are incorporated herein by reference:

EXHIBIT A: is a map that illustrates the boundary lines of the Unit Area and the Tracts therein.

EXHIBIT B: is a schedule that describes each Tract in the Unit Area and sets forth the percentage of participation for each Tract.

Said Schedule shall become effective at 7:00 a.m. on the effective date of this agreement.

It is hereby agreed by all parties to this agreement that Unit Operator is empowered to correct any mathematical or clerical errors which may exist in the pertinent exhibits to this agreement; provided, however, that correction of any error other than correction of mathematical or clerical error shall be made by Unit Operator only after first having obtained approval of Working Interest Owners and the Commissioner. The correction of any error shall not include any re-evaluation of engineering or geological interpretations used in determining "Tract Participation."

Exhibits A and B shall be revised by Unit Operator whenever changes render such revision necessary, and at least two copies of such revision shall be filed with the Commissioner.

4. EXPANSION OF UNIT AREA. The above described Unit Area may, when practicable, be expanded to include therein any additional tract or tracts regarded as reasonably necessary or advisable for the purposes of this agreement, whenever such expansion is necessary or advisable to conform with the purposes of this agreement. Tract Participations resulting from such expansion shall be on a negotiated basis and, after agreement between the affected parties has been reached, such expansion shall be effected in the following manner:

(a) Unit Operator, with concurrence of two or more working interest owners all of whom have at least a combined seventy-five percent (75%) of the then Voting Interest and after preliminary concurrence by the Commissioner and the Commission, 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, preferably the first day of a month subsequent to the date of notice.

(d) After due consideration of all pertinent information, the expansion shall, upon approval by the Commissioner and the Commission, become effective as of the date prescribed in the notice thereof.

In any approved expansion of the Unit Area, the revised Tract Participants of those Tracts which were committed prior to each such expansion shall remain in the same ratio one to another.

5. UNITIZED LAND AND UNITIZED SUBSTANCES. All oil, gas, gaseous substances, sulphur contained in gas, condensate, distillate and all associated and constituent liquid and liquefiable hydrocarbons in the lands committed to this agreement are, as to the Grayburg-San Andres Formation, unitized under the terms of this agreement (and are herein called Unitized Substances) and said lands shall constitute lands referred to herein as "unitized land" or "land subject to this agreement."

6. UNIT OPERATOR. TEXACO INC. is hereby designated as the Unit Operator and by signature hereto as Unit Operator agrees and consents to accept the duties of Unit Operator for the 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 interest 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 interest is owned by it.

7. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Operator shall have the right to resign at any time, but such resignation shall not become effective so as to release Unit Operator from the duties and obligations of Unit Operator and terminate Unit Operator's rights as such for a period of six (6) months after notice of intention to resign has been served by Unit Operator on all Working Interest Owners and the Commissioner and the Commission, and until all wells then drilled hereunder are placed in satisfactory condition for suspension or abandonment, whichever is required by the Commission as to State lands, unless a new Unit Operator shall have been selected and approved and shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

The resignation of Unit Operator shall not release Unit Operator from any liability or default by it hereunder occurring prior to the effective date of its resignation.

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. Such removal shall be effective upon notice thereof to the Commissioner.

In all such instances of resignation or removal, until a successor Unit Operator is selected and approved, as hereinafter provided, the Working Interest Owners shall be jointly responsible for the performance of the duties of Unit Operator and shall, not later than 30 days before such resignation or removal becomes effective

8. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall tender his or its resignation as Unit Operator, or shall be removed as hereinabove provided, the Working Interest Owners shall, by affirmative vote of at least sixty-five percent (65%) of the then Voting Interest, select a successor Unit Operator; provided, however, that if the Unit Operator that is removed fails to vote or votes only to succeed itself, the successor Unit Operator may be selected by the affirmative vote of at least fifty-one percent (51%) of the Voting Interest remaining after excluding the voting interest of the Unit Operator that resigned or was removed. 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 may, at his election, declare this Unit Agreement terminated.

9. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. All costs and expenses incurred by Unit Operator in conducting Unit operations hereunder shall be apportioned among, borne and paid by the Working Interest Owners, all in accordance with this agreement and the Unit Operating Agreement. The Unit Operating Agreement shall also provide the manner in which the Working Interest Owners shall be entitled to receive their respective proportionate and allocated share of the benefits accruing hereto in conformity with their underlying operating agreements, leases, or other independent contracts and such other rights and obligations as between Unit Operator and the Working Interest Owners as they may agree upon. However, the Unit Operating Agreement shall not be deemed to modify the terms and conditions of this Unit Agreement or to relieve the Unit Operator of any right or obligation established under this Unit Agreement; in case of any inconsistency or conflict between the Unit Agreement and the Unit Operating Agreement, this agreement shall prevail. One true copy of the Unit Operating Agreement shall be filed with the Commissioner.

10. 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 (including surface rights) which are necessary or convenient for the prospecting for, producing, storing, allocating, and distributing the Unitized Substances, are hereby granted and delegated to and shall be exercised by the Unit Operator as herein provided. Upon request therefor, 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, lease, Royalty Interest, operating agreement or communitization 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.

11. EQUIPMENT AND FACILITIES NOT FIXTURES ATTACHED TO REALTY. Each Working Interest Owner has heretofore placed and used on its Tract or Tracts committed to this agreement, various well and lease equipment and other property, equipment and facilities. It is also recognized that additional equipment and facilities may hereafter

approval of a plan of operation by the Working Interest Owners, the Commissioner and the Commission, inject into the Unitized Formation, through any well or wells completed therein, brine, water, air, gas, oil, liquefied petroleum gas, or any other substance or a combination of any of said substances, whether produced from the Unitized formation or not, and that the location of input wells and the rates of injection therein and the rate of production shall be governed by standards of good geologic and petroleum engineering practices and conservation methods. This agreement is and shall be subject to the conservation laws of the State of New Mexico, to the valid rules, regulations and orders of the Commissioner and the Commission and to all other applicable federal, state and municipal laws, rules, regulations and orders. The parties hereto, subject to prior rights, if any, grant to Unit Operator the use of brine or water or both from any formation in and under the Unit Area for injection into the Unitized Formation. After commencement of additional recovery operations, Unit Operator shall furnish the Commissioner monthly injection and production reports for each well in the Unit Area. The Working Interest Owners and the Commissioner shall be furnished periodic reports on the progress of the plan of operation and any revisions or changes thereto necessary to meet changed conditions or to protect the interests of all parties to this agreement; provided, however, that any major revisions of the plan of operation involving a basic deviation from the initial plan of operation shall be subject to the consent and approval of the Working Interest Owners, the Commissioner and the Commission.

13. PARTICIPATION. The Tract Participations shown on Exhibit B attached hereto shall govern the allocation of Unitized Substances on and after the effective date of this Unit Agreement and until the allocation schedule is revised pursuant to this agreement and the revised Tract Participations are approved by the Commissioner and the Commission.

The Tract Participation of each tract in the Unit Area, as shown on Exhibit A and described in Exhibit B, has been calculated and determined in accordance with the following formula using data heretofore approved by the Working Interest Owners:

The sum of	
20.0%	Weight to the Tract percent of current Unit oil production for the period May 1, 1975, to November 1, 1975.
plus 10.0%	Weight to the Tract percent of Unit remaining primary oil reserves as of November 1, 1975.
plus 27.5%	Weight to the Tract percent of Unit cumulative oil production as of November 1, 1975.
plus 22.5%	Weight to the Tract percent of Unit net hydrocarbon pore volume.
plus <u>20.0%</u>	Weight to the Tract percent of Unit ultimate primary oil recovery.
100.0%	Tract Participation

14. ALLOCATION OF UNITIZED SUBSTANCES. All Unitized Substances produced and saved (less, save and except any part of such Unitized Substances used in conformity with good operating practices on uni-

The Unitized Substances allocated to each such Tract shall be distributed among, or accounted for to, the parties entitled to share in the production from such Tract in the same manner, in the same proportions, and upon the same conditions, as they would have participated and shared in the production from such Tract, or in the proceeds thereof, had this agreement not been entered into, and with the same legal effect. It is hereby agreed that production of Unitized Substances from any such committed Tract shall be allocated as provided herein regardless of whether oil or gas is being produced from any particular Tract committed hereto. If the Working Interests or the Royalty Interests in any Tract are divided with respect to separate parcels or portions of such Tract and owned severally by different persons, the Tract Participation of such Tract shall, in the absence of a recordable instrument among all owners fixing the division of ownership, be divided among such parcels or portions in proportion to the number of surface acres in each.

15. BALANCING OF PRODUCTION. Unit Operator shall make a proper and timely gauge of all lease and other tanks located on each committed Tract in order to ascertain the amount of merchantable oil in such tanks, above the pipe line connections, as of 7:00 a.m. on the effective date hereof. All Unitized Substances which are a part of the prior allowable of the well or wells from which the same were produced shall be and remain the property of the Working Interest Owners entitled thereto as if the Unit had not been formed and such Working Interest Owners shall promptly remove same. Any such Unitized Substances not so removed may be sold by the Unit Operator for the account of such Working Interest Owners, subject to the payment of all royalty to Royalty Owners under the terms and provisions of the applicable lease or leases and other contracts. All such Unitized Substances which are in excess of the prior allowable of the well or wells from which the same were produced shall be regarded and treated the same as Unitized Substances produced after the effective date hereof. If, as of the effective date hereof, any Tract is over-produced with respect to the allowable of the well or wells on that Tract and the amount of such over-production has been sold or otherwise disposed of, such over-production shall be regarded and included as a part of the Unitized Substances produced after the effective date hereof and the amount thereof charged to such Tract as having been delivered to the persons entitled to Unitized Substances allocated to such Tract.

16. TAKING UNITIZED SUBSTANCES IN KIND. The Unitized Substances allocated to each Tract shall be delivered in kind to the respective parties entitled thereto by virtue of the ownership of Oil and Gas Rights therein or by purchase from such owners. Such parties shall have the right to construct, maintain and operate within the Unit Area all necessary facilities for that purpose, provided they are so constructed, maintained, and operated as not to interfere with Unit Operations. Any extra expenditures incurred by Unit Operator by reason of the delivery in kind of any portion of Unitized Substances shall be borne by the owner of such portion. If a Royalty Owner has the right to take in kind a share of Unitized Substances and fails to do so, the Working Interest Owner whose Working Interest is subject to such Royalty Interest shall be entitled to take in kind such share of Unitized Substances.

17. FAILURE TO TAKE IN KIND. If any party fails to take in

share of gas production without first giving such other party sixty (60) days' notice of such intended sale.

18. CERTIFICATION OF UNIT PRODUCTION. It is anticipated, at the effective date of unitization, crude oil produced, saved and sold from the Central Vacuum Unit will be subject to the Energy Policy and Conservation Act (Public Law 94-163) as well as rules and regulations of the Federal Energy Administration. Such rules provide for the classification of crude oil for pricing purposes as (1) stripper well crude oil, (2) old oil and (3) upper tier crude oil. It is further anticipated that the Unit Operator will in compliance with applicable FEA regulations, prepare a unit-wide certification covering monthly crude oil production from the unit in which event it will be necessary for the unit operator to implement a method for the allocation of the unit certification among the unit ownership. It is the intention of the parties to this Agreement that each unit participant shall retain the regulatory benefits attributable to the tracts which such participant has committed to the unit to the extent that the Unit is legally permitted to retain such benefits.

Under the rules and regulations of the Federal Energy Administration as of October 1, 1976, a unit certification is allowed each month to include in the Upper Tier Crude Oil portion thereof, a constant number of barrels described by FEA Regulations as Imputed Upper Tier Crude Oil. The unit certification is further allowed each month to include in the Stripper Well Crude Oil portion thereof, a constant number of barrels described by FEA Regulations as Imputed Stripper Well Crude Oil.

In view of the above, and notwithstanding the provisions of Article 14, crude oil produced, saved and sold shall be allocated as follows:

1. Stripper Well Crude Oil - The first oil produced, saved and sold each month up to a quantity equal to the Unit's Imputed Stripper Well Crude Oil shall be allocated to Tracts contributing Imputed Stripper Well Crude Oil to the Unit Certification in proportion to their contributions of such Imputed Stripper Well Crude Oil. Should any Tract in any month be allocated, out of Unit production in accordance with its Tract Participation as set forth in this Agreement, a total number of barrels of oil that is less than the Imputed Stripper Well Crude Oil that such Tract has contributed to the Unit Certification, then such Tract's allocation of Imputed Stripper Well Crude Oil shall be reduced by the amount that the Imputed Stripper Crude Oil exceeds the amount of oil to be allocated in accordance with its Tract Participation. The amount in excess of its Tract Participation shall be termed Excess Imputed Stripper Well Crude Oil. The total Excess Imputed Stripper Well Crude Oil of all Tracts shall be allocated to all Tracts, including Tracts which have not contributed Imputed Stripper Well Crude Oil to the Unit certification, in proportion to the quantities that the Unit production allocated a Tract by its Tract Participation exceeds the quantity of Imputed Stripper Well Crude Oil allocated such tract.

then such Tract's allocation of Imputed Upper Tier Crude Oil shall be reduced by the quantity that the sum of the Tract's Imputed Stripper Well Crude Oil, its Excess Imputed Stripper Crude Oil and its allocated Imputed Upper Tier Crude Oil exceeds the total quantity of oil to be allocated in accordance with its Tract Participation. The amount in excess of its Tract Participation shall be termed Excess Imputed Upper Tier Crude Oil. The total Excess Imputed Upper Tier Crude Oil of all Tracts shall be allocated to all Tracts including Tracts which have not contributed Imputed Stripper Well Crude Oil and/or Imputed Upper Tier Crude Oil to the Unit certification, in proportion to the quantities that each Tract's allocation of Unit production by its Tract Participation exceeds the sum of the Imputed Stripper Well Crude, Excess Imputed Stripper Well Crude Oil and Imputed Upper Tier Crude Oil allocated such Tract.

3. Upper Tier Crude Oil and Old Oil shall each be allocated to each Tract in proportion to the quantities that each Tract's allocation of Unit Production, in accordance with its Participation, exceeds the sum of the allocated Imputed Stripper Well Crude Oil, Excess Imputed Stripper Well Crude Oil, Imputed Upper Tier Crude Oil and Excess Imputed Upper Tier Crude Oil.

This provision shall remain in effect only so long as necessary for the unit to comply with applicable laws, rules, and regulations of appropriate governmental authorities. Should such laws, rules, and regulations hereafter change substantially so as to alter the basis for a certification of unit production as set forth above, then in such event a method of allocating the certification among the unit ownership shall be implemented by the Unit Operator which as nearly as possible achieves the stated intention hereof. In any event this provision will automatically terminate in its entirety upon the production of 13,368,077 barrels of oil from the Unit Area after November 1, 1975. This provision is deemed supplementary to the other provisions of this Agreement and the provisions of the Unit Operating Agreement so that nothing contained herein shall alter the terms of such agreements, including but not limited to the portions thereof dealing with tract participation, the allocation of unit production, and the allocation of investment and operating costs.

19. ROYALTY SETTLEMENT. If, under any existing lease, the State of New Mexico is entitled to take in kind a share of the Unitized Substances produced from any committed Tract, the Unit Operator shall make deliveries of such Royalty share taken in kind in conformity with the applicable contracts, laws and regulations. Settlement for Royalty Interests not taken in kind shall be made by Working Interest Owners responsible therefor under existing contracts, laws and regulations, on or before the last day of each month for Unitized Substances produced during the preceding calendar month; provided, however, that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any royalties due under their leases except that said royalties shall be computed in accordance with the terms of this agreement.

formance with a plan first approved by the Commissioner, part or all of such liquefied petroleum gases may be withdrawn royalty free pursuant to such conditions and formulas as may be prescribed or approved by the Commissioner.

Royalty due on account of State lands shall be computed and paid on the basis of all Unitized Substances allocated to such lands.

20. RENTAL SETTLEMENT. Rentals on State of New Mexico lands subject to this agreement shall be paid at the rate specified in the respective leases, or may be reduced or suspended under order of the Commissioner pursuant to applicable laws and regulations.

21. CONSERVATION. Operations hereunder and production of Unitized Substances shall be conducted so as to provide for the most economical and efficient recovery of such substances to prevent waste as defined by State laws or regulations.

22. DRAINAGE. Unit Operator shall take appropriate and adequate measures to prevent drainage of Unitized Substances from the committed Tracts by wells on land not subject to this agreement, or, with consent of the Commissioner and pursuant to applicable regulations, pay a fair and reasonable compensatory royalty.

23. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, conditions and provisions of all leases, subleases, and other contracts relating to exploration, drilling, development, or operation for oil, gas gaseous substances, sulphur contained in gas, condensate, distillate and all associated and constituent liquid or liquefiable hydrocarbons in the under lands committed to this agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect; and the parties hereto hereby consent that the Commissioner as to State leases shall by his approval hereof, or by the approval hereof by his duly authorized representative, does hereby establish, alter, change or revoke the drilling, producing, rental, minimum royalty and royalty requirements of State leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this agreement, and without limiting the generality of the foregoing, Unit Operations conducted on any part of the Unit Area shall be considered with respect to leases or term mineral or royalty interests as follows:

(a) The development and operation of lands subject to this agreement under the terms hereof shall be deemed full performance of all obligations for development and operation with respect to each and every part or separately owned Tract committed to this agreement, regardless of whether there is any development of any particular part of or Tract of unitized land, notwithstanding anything to the contrary in any lease, operating agreement, or other contract by and between the parties hereto, or their respective predecessors in interest, or any of them.

(b) Production from any part of the Unitized Formation, except for the purpose of determining payments to Royalty Owners, or other Unit Operations shall be considered as production from or

(d) Any lease embracing lands of the State of New Mexico which is made subject to this agreement shall continue in force beyond the term provided therein as to the lands committed hereto until the termination hereof.

(e) Any lease embracing lands of the State of New Mexico having only a portion of its land committed hereto shall be segregated as to that portion committed and that not committed, and the terms of such lease shall apply separately as to such segregated portions commencing as of the Effective Date hereof. Provided, however, that, notwithstanding any of the provisions of this agreement to the contrary, such lease shall continue in full force and effect beyond the term provided therein as to all lands embraced in such lease if oil or gas is or has heretofore been discovered in paying quantities on some part of the lands embraced in such lease committed to this agreement or so long as a portion of the Unitized Substances produced from the Unit Area is, under the terms of this agreement, allocated to the portion of the lands covered by such lease committed to this agreement or, at any time during the term hereof, as to any lease that is valid and subsisting and upon which the lessee or the Unit Operator is then engaged in bona fide drilling, reworking, or improved recovery operations on any part of the lands embraced in such lease, then the same as to all lands embraced therein should remain in full force and effect so long as such operations are diligently prosecuted; and if they result in the production of oil or gas, said lease shall continue in full force and effect as to all lands embraced therein, so long thereafter as oil or gas in paying quantities is being produced from any portion of said lands.

24. 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.

25. EFFECTIVE DATE. This agreement shall become binding upon each party as of the date such party executes or ratifies the instrument by which it becomes a party hereto. This agreement shall become effective as of 7:00 o'clock a.m. of the first day of the calendar month next following approval by the Commissioner. Subsequent to approval of this agreement by the Commission, the Working Interest Owners shall have the sole and exclusive right to determine whether this agreement shall become effective by a vote favoring unitization by Working Interest Owners owning seventy-five percent (75%) or more of the combined Unit Participation. Notwithstanding the accomplishment of the other requirements of this section, this agreement shall terminate on the termination date or extended termination date provided for in Article 26 unless prior to that date Working Interest Owners by the vote herein provided have determined that this agreement should become effective and have established an effective time and date.

There must be filed at least one counterpart of this Agreement for record in the office of the County Clerk of Lea County, New Mexico, by the Unit Operator.

agreement and Working Interest Owners owning seventy-five percent (75%) or more of that percent have decided to extend the termination date for a period not to exceed one year. If the termination date is so extended and the requirements of Article 25 are not accomplished on or before the extended termination date, this agreement shall ipso facto terminate on the extended termination date and thereafter be of no further effect. For the purpose of this article, Unit Participation shall be as calculated on the basis of Tract Participation shown on the original Exhibit B.

27. TERM. The term of this agreement shall be for and during the time that Unitized Substances are produced in paying quantities from the Unit Area and so long thereafter as drilling, reworking, or other operations (including secondary recovery operations) are prosecuted thereon without cessation of more than ninety (90) consecutive days, unless sooner terminated by Working Interest Owners in the manner hereinafter provided.

This agreement may be terminated with the approval of the Land Commissioner and two or more Working Interest Owners owning seventy-five percent (75%) of the then Unit Participation whenever such Working Interest Owners determine that Unit Operations are no longer profitable, feasible or in the interest of conservation. Notice of any such termination shall be given by Unit Operator to all parties hereto.

Upon termination of this agreement, the further development and operation of the Unit Area as a Unit shall be abandoned, Unit operations shall cease, and thereafter the parties hereto shall be governed by the terms and provisions of the leases and contracts affecting the separate tracts.

If not otherwise covered by the leases unitized under this agreement each Royalty Owner hereby grants Working Interest Owners a period of six months after termination of this agreement in which to salvage, sell, distribute or otherwise dispose of the personal property and facilities used in connection with Unit Operations.

Upon termination of this agreement, Unit Operator shall file for record in the office of the County Clerk of Lea County, New Mexico, a certificate to the effect that this agreement has terminated and declaring therein the termination date.

28. APPEARANCES. Unit Operator shall, after notice to other parties affected, have the right to appear for or on behalf of any and all interests affected hereby before the Commission and to appeal from orders issued under the regulations of said Commission or to apply for relief from any of said regulations or in any proceedings relative to operations before the Commission, or other legally constituted authority; provided, however, that any other interested party shall also have the right at his or its own expense to be heard in any such proceeding.

29. NOTICES. All notices, demands, objections or statements required hereunder to be given or rendered to the parties hereto shall be deemed fully given if made in writing and personally delivered to, or delivered by certified mail, to the party or parties at their respective addresses set forth in connection with the

31. UNAVOIDABLE DELAY. All obligations under this agreement requiring the Unit Operator to commence or continue drilling or to operate on or to produce Unitized Substances from any of the lands subject to 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 such obligations, in whole or in part, by strikes, 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.

32. TITLE. Each Party who, by acceptance of produced Unitized Substances or the proceeds thereof, may claim to own a Working Interest or Royalty Interest in and to any Tract or in the Unitized Substances allocated thereto, shall be deemed to have warranted its title to such interest, and, upon receipt of the Unitized Substances or the proceeds thereof to the credit of such interest, shall indemnify and hold harmless all other Parties in Interest from any loss due to failure, in whole or in part, of its title to any such interest.

If the title or right of any Party claiming the right to receive in kind all or any portion of the Unitized Substances allocated to a Tract is in dispute, Unit Operator at the direction of Working Interest Owners shall either:

(a) require that the Party to whom such Unitized Substances are delivered or to whom the proceeds thereof are paid furnish security for the proper accounting therefor to the rightful owner if the title or right of such Party fails in whole or in part, or

(b) withhold and market the portion of Unitized Substances with respect to which title or right is in dispute, and impound the proceeds thereof until such time as the title or right thereto is established by a final judgment of a court of competent jurisdiction or otherwise to the satisfaction of Working Interest Owners, whereupon the proceeds so impounded shall be paid to the Party rightfully entitled thereto, provided, that as to State land or leases, no payments of funds due the State of New Mexico shall be withheld, such funds of the State shall be deposited as directed by the Commissioner, all to be held as unearned money pending final settlement of the title dispute and then applied as earned or returned in accordance with such final settlement.

Unit Operator, as such, is relieved from any responsibility for any dispute of title hereunder.

Any conveyance of all or any part of any interest owned by a Party with respect to any Tract shall be subject to this Agreement. No change of title shall be binding upon Unit Operator, or upon any Party other than the Party so transferring until 7:00 a.m. on the first day of the calendar month next succeeding the date of receipt by Unit Operator of a photocopy or a certified copy of the recorded instrument evidencing such change in ownership.

34. TAXES. The Working Interest Owners shall render and pay for their account and the account of the Royalty Owners all valid taxes on or measured by the Unitized Substances in and under or that may be produced, gathered and sold from the land subject to this agreement after the effective date of this agreement, or upon the proceeds or net proceeds derived therefrom. The Working Interest Owners in each Tract may charge the proper proportion of said taxes to the Royalty Owners having interests in said Tract, and may currently retain and deduct sufficient of the Unitized Substances or derivative products, or net proceeds thereof, from the allocated share of each Royalty Owner to secure reimbursement for the taxes so paid. No such taxes shall be charged to the State of New Mexico or to any lessor who has a contract with his lessee which requires the lessee to pay such taxes.

In order to avoid title failures which might incidentally cause the title to a Working Interest or Royalty Interest to fail, the owners of (1) the surface rights to each committed Tract, (2) severed mineral or royalty interest in said Tracts and improvements located on said Tracts not utilized for Unit Operations shall individually be responsible for the rendition and assessment, for ad valorem tax purposes, of all such property, and for the payment of such taxes, except as otherwise provided in any contract or agreement between such owners and a Working Interest Owner or Owners. If any ad valorem taxes are not paid by such owner responsible therefor when due, Unit Operator may, at any time prior to tax sale, pay the same, redeem such property and discharge such tax liens as may arise through nonpayment. In the event Unit Operator makes any such payment or redeems any such property from tax sale, Unit Operator shall be reimbursed therefor by the Working Interest Owners in proportion to their respective Unit Participations then in effect, and Unit Operator shall withhold from any proceeds derived from the sale of Unitized Substances otherwise due to said delinquent taxpayer or taxpayers an amount sufficient to defray the costs of such payment or redemption, such withholding to be distributed among the Working Interest Owners in proportion to their respective contributions toward such payment or redemption. Such withholding shall be without prejudice to any other remedy, either at law or in equity, which may be available for exercise by the Unit Operator or by the Working Interest Owners.

35. CONFLICT OF SUPERVISION. Neither the Unit Operator nor the Working Interest Owners or any of them shall be subject to any forfeiture, termination, or expiration of any rights hereunder or under any leases or contracts subject hereto, or to any penalty or liability on account of delay or failure in whole or in part to comply with any applicable provisions thereof to the extent that the said Unit Operator, Working Interest Owners, or any of them are hindered, delayed or prevented from complying therewith by reason of the failure of the Unit Operator to obtain, in the exercise of due diligence, the concurrence of proper representatives of the State of New Mexico in and about any matters or things concerning which it is required herein that such concurrence be obtained. The parties hereto, including the Commission, agree that all powers and authority vested in the Commission in and by any provisions of this contract are vested in the Commission and shall be exercised by it pursuant to the provisions of the laws of the State of New Mexico and subject, in any case, to appeal or judicial review as may now or hereafter be provided by the laws of the State of New

38. BORDER AGREEMENTS. Subject to the approval of the Commissioner, the Unit Operator with Working Interest Owners' approval in accordance with the voting procedure in Article 4.3.2 of the Unit Operating Agreement, may enter into a border-protection agreement or agreements with the Working Interest Owners of lands adjacent to the committed Tracts with respect to the operations in the border area for the maximum ultimate recovery, conservation purposes and property protection of the parties and interest.

IN WITNESS WHEREOF, the parties hereto have caused this agreement to be executed as of the date first written and have set opposite their respective names the date of execution and the address of each of the respective executing parties.

P. O. Box 3109
Midland, Texas 79702

TEXACO INC.
UNIT OPERATOR AND WORKING INTEREST OWNER

By: *D. T. McCreary*
Attorney-in-Fact

DATE: May 9, 1977

APPROVED AS TO
Term: 60Y 1151
Form: 54 GMP
AcctG: 136

THE STATE OF TEXAS
COUNTY OF MIDLAND

The foregoing instrument was acknowledged before me this 9th day of May, 1977, by D. T. McCreary, Attorney-in-Fact for TEXACO INC., a Delaware Corporation, on behalf of said corporation.

Martha Fincher Martha Fincher
Notary Public in and for
Midland County, Texas

My Commission Expires:
June 1, 1977

R-34-E

R-35-F

NORTH VACUUM ABO UNIT

MOBIL - OPER.

26

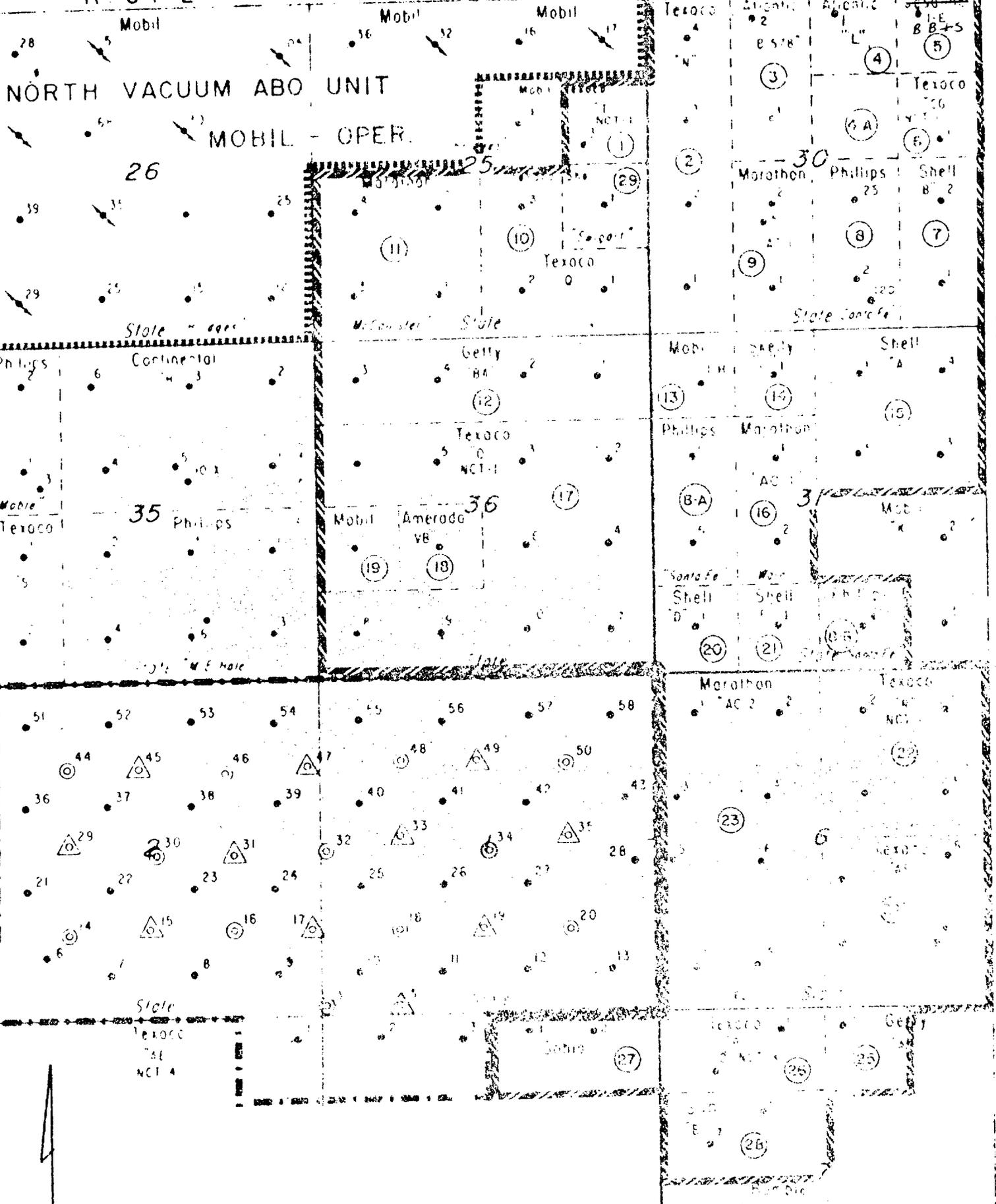
25

35

36

State

Texaco
NCT 4



T 17 S

T 18 S

EXHIBIT "B"
TO UNIT AGREEMENT
CENTRAL VACUUM UNIT
LEA COUNTY, NEW MEXICO

TRACT NUMBER	LEASE NAME AND LAND DESCRIPTION	NUMBER OF ACRES	NEW MEXICO STATE LEASE NUMBER	BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY OWNER AND AMOUNT	WORKING INTEREST OWNER
1	State "T" NCT-1 T-17-S, R-34-E, Sec. 25, SE/4 NE/4	40	B-1030-1	State of New Mexico 12.5%	Texaco Inc.	None	Texaco Inc.
2	State "N" T-17-S, R-35-E, Sec. 30, W/2 W/2	150.56	B-1722-1	State of New Mexico 12.5%	Texaco Inc.	None	Texaco Inc.
3	State "B" 1578" T-17-S, R-35-E, Sec. 30, E/2 NW/4	80	B-1578-6	State of New Mexico 12.5%	Atlantic Richfield Company	None	Atlantic Richfield Company W. D. McBee Michael A. and Dorothy Buell, Exec and Executri pectively, Estate of W McBee, Dece
4	State "L-DE" T-17-S, R-35E, Sec. 30, NW/4 NE/4	40	B-8667-2	State of New Mexico 12.5%	Atlantic Richfield Company	None	Atlantic Richfield Company
4A	State "L-DE" T-17-S, R-35-E, Sec. 30, SW/4 NE/4	40	B-8667-2	State of New Mexico 12.5%	Atlantic Richfield Company	None	Atlantic Richfield Company

EXHIBIT "B"
TO UNIT AGREEMENT
CENTRAL VACUUM UNIT
LEA COUNTY, NEW MEXICO

TRACT NUMBER	LEASE NAME AND LAND DESCRIPTION	NUMBER OF ACRES	NEW MEXICO STATE LEASE NUMBER	BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY OWNER AND AMOUNT	WORKING INTEREST OWNER
5	State "E" T-17-S, R-35-E, Sec. 30, NE/4 NE/4	40	B-2423-16	State of New Mexico 12.5%	Joe B. Singer	Shell Canadian Exploration Company 0.0625000 John A. Barnett 0.0416666 D. W. Hutchison 0.0104167 Emma B. Vandeventer <u>0.0104167</u> <u>0.1250000</u>	H. M. Bett W. T. Boyl Norman D. Turnco, Inc S. B. Stre Larry O. H
6	State "CG" NCT-1 T-17-S, R-35-E, Sec. 30, SE/4 NE/4	40	E-7585	State of New Mexico 12.5%	Texaco Inc.	None	Texaco Inc
7	State "B" T-17-S, R-35-E, Sec. 30, E/2 SE/4	80	B-1414	State of New Mexico 12.5%	Shell Oil Company	None	Shell Oil
8	Santa Fe T-17-S, R-35-E, Sec. 30, W/2 SE/4	80	B-1501	State of New Mexico 12.5%	Phillips Petroleum Company	None	Phillips P Company
8A	Santa Fe T-17-S, R-35-E Sec. 31, SW/4 NW/4 and NW/4 SW/4	74.98	B-1606	State of New Mexico 12.5%	Phillips Petroleum Company	None	Phillips P Company

EXHIBIT "B"
 TO UNIT AGREEMENT
 CENTRAL VACUUM UNIT
 LEA COUNTY, NEW MEXICO

TRACT NUMBER	LEASE NAME AND LAND DESCRIPTION	NUMBER OF ACRES	NEW MEXICO STATE LEASE NUMBER	BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY OWNER AND AMOUNT	WORKING INTEREST OWNER
8B	Santa Fe T-17-S, R-35-E Sec. 31, SW/4 SE/4	40	B-1861	State of New Mexico 12.5%	Phillips Petroleum Company	None	Phillips Petroleum Company
9	Staplin State A/C-1 T-17-S, R-35-E, Sec. 30, E/2 SW/4	80	B-2245-0	State of New Mexico 12.5%	Marathon Oil Company	None	Marathon Oil Company
10	State "Q" T-17-S, R-34-E, Sec. 25, NW/4, SE/4 Sec. 25, S/2 SE/4	120	B-1056-1	State of New Mexico 12.5%	Texaco Inc.	None	Texaco Inc.
11	McCallister State T-17-S, R-34-E, Sec. 25, SW/4	160	B-2706-0	State of New Mexico 12.5%	Marathon Oil Company	None	Marathon Oil Company
12	State "BA" T-17-S, R-34-E, Sec. 36, N/2 N/2	160	B-1565-2	State of New Mexico 12.5%	Getty Oil Company	None	Getty Oil
13	State "H" T-17-S, R-35-E, Sec. 31, NW/4, NW/4	37.56	B-1518-0	State of New Mexico 12.5%	Mobil Oil Corp.	None	Mobil Oil

EXHIBIT "B"
 TO UNIT AGREEMENT
 CENTRAL VACUUM UNIT
 IEA COUNTY, NEW MEXICO

TRACT NUMBER	LEASE NAME AND LAND DESCRIPTION	NUMBER OF ACRES	NEW MEXICO STATE LEASE NUMBER	BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY OWNER AND AMOUNT	WORKING INTEREST OWNER
14	State "J" T-17-S, R-35-E, Sec. 31, NE/4 NW/4	40	B-1334-0	State of New Mexico 12.5%	Getty Oil Company	None	Getty Oil Company
15	State "A" T-17-S, R-35-E, Sec. 31, NE/4	160	B-2354-2	State of New Mexico 12.5%	Shell Oil Company	None	Shell Oil Company
16	Warn State A/C-1 T-17-S, R-35-E, Sec. 31, SE/4 NW/4 Sec. 31, NE/4 SW/4	80	B-1713-1	State of New Mexico 12.5%	Marathon Oil Company	None	Marathon Oil Company
17	State "O" NCT-1 T-17-S, R-34-E Sec. 36, S/2 N/2 Sec. 36, N/2 SE/4 Sec. 36, S/2 S/2	400	B-155-1	State of New Mexico 12.5%	Texaco Inc.	None	Texaco Inc.
18	State "VB" T-17-S, R-34-E Sec. 36, NE/4 SW/4	40	B-2146-6	State of New Mexico 12.5%	Amerada Hess Corporation	None	Amerada Hess Corporation
19	State "T" T-17-S, R-34-E Sec. 36, NW/4 SW/4	40	B-2146-2	State of New Mexico 12.5%	Mobil Oil Corp.	None	Mobil Oil Corp.

EXHIBIT "B"
 TO UNIT AGREEMENT
 CENTRAL VACUUM UNIT
 LEA COUNTY, NEW MEXICO

TRACT NUMBER	LEASE NAME AND LAND DESCRIPTION	NUMBER OF ACRES	NEW MEXICO STATE LEASE NUMBER	BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY OWNER AND AMOUNT	WORKING INT OWNER
20	State "D" T-17-S, R-35-E Sec. 31, SW/4 SW/4	37.42	B-1415-1	State of New Mexico 12.5%	Shell Oil Company	None	Shell Oil C
21	State "E" T-17-S, R-35-E Sec. 31, SE/4 SW/4	40	B-1404-2	State of New Mexico 12.5%	Shell Oil Company	None	Shell Oil C
22	State "R" NCT-1 T-18-S, R-35-E Sec. 6, NE/4	160	B-1306-1	State of New Mexico 12.5%	Texaco Inc.	None	Texaco Inc.
23	Warn State A/C-2 T-18-S, R-35-E Sec. 6, W/2	310.16	B-1113-1	State of New Mexico 12.5%	Marathon Oil Co.	None	Marathon Oil
24	State "AB" T-18-S, R-35-E Sec. 6, SE/4	160	B-1031-1	State of New Mexico 12.5%	Texaco Inc.	None	Texaco Inc.
25	State "AN" T-18-S, R-35-E Sec. 7, NW/4 NE/4	40	E-7653-2	State of New Mexico 12.5%	Getty Oil Company	None	Getty Oil C
26	State "R" NCT-4 T-18-S, R-35-E Sec. 7, N/2 NW/4	77.72	B-1306-1	State of New Mexico 12.5%	Texaco Inc.	None	Texaco Inc.

EXHIBIT "g"
 TO UNIT AGREEMENT
 CENTRAL VACUUM UNIT
 LEA COUNTY, NEW MEXICO

TRACT NUMBER	LEASE NAME AND LAND DESCRIPTION	NUMBER OF ACRES	NEW MEXICO STATE LEASE NUMBER	BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY OWNER AND AMOUNT	WORKING INTEREST OWNER
27	Humble State T-18-S, R-34-E Sec. 12, N/2 NE/4	80	B-936-17	State of New Mexico 12.5%	J. M. Leonard and Sohio Petroleum Company	Exxon Company 1/8 X 1/8	Sohio Petroleum Ft. Worth Bank, Trust 1979 Trust U/D F Donaldson F Mercantile Deposit & T et al Trust Donaldson F
28	State B - Lee T-18-S, R-35-E Sec. 7, S/2 NW/4	77.8	E-6002-1	State of New Mexico 12.5%	Forest Oil Corp.	Martha Dorn Bird 0.002804487 Dale H. Dorn 0.040945513 0.043750000	Sun Oil Com

Twenty-eight (28) State Tracts totaling 3006.2 acres consisting of 98.69 percent of Unit Area.

EXHIBIT "B"
 TO UNIT AGREEMENT
 CENTRAL VACUUM UNIT
 LEA COUNTY, NEW MEXICO

TRACT NUMBER	LEASE NAME AND LAND DESCRIPTION	NUMBER OF ACRES	NEW MEXICO STATE LEASE NUMBER	BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY OWNER AND AMOUNT	WORKING INT. OWNER
29	Swigart, L. A. T-17-S, R-34-E Sec. 25, NE/4 SE/4	40	Fee	Sara C. Burns 3.125% Dorothy Swigart Carlson 6.250% Norman and Mar- jorie G. Gross 3.125%	Shell Oil Company	None	Shell Oil

One (1) Fee Tract totaling 40 acres consisting of 1.31 percent of Unit Area.

RECAPITULATION OF NUMBER OF ACRES

State Lands	3006.2 Acres	98.69 percent
Fee Lands	<u>40.0 Acres</u>	<u>1.31 percent</u>
	3046.2 Acres	100.00 percent

R-34-E

R-35-F

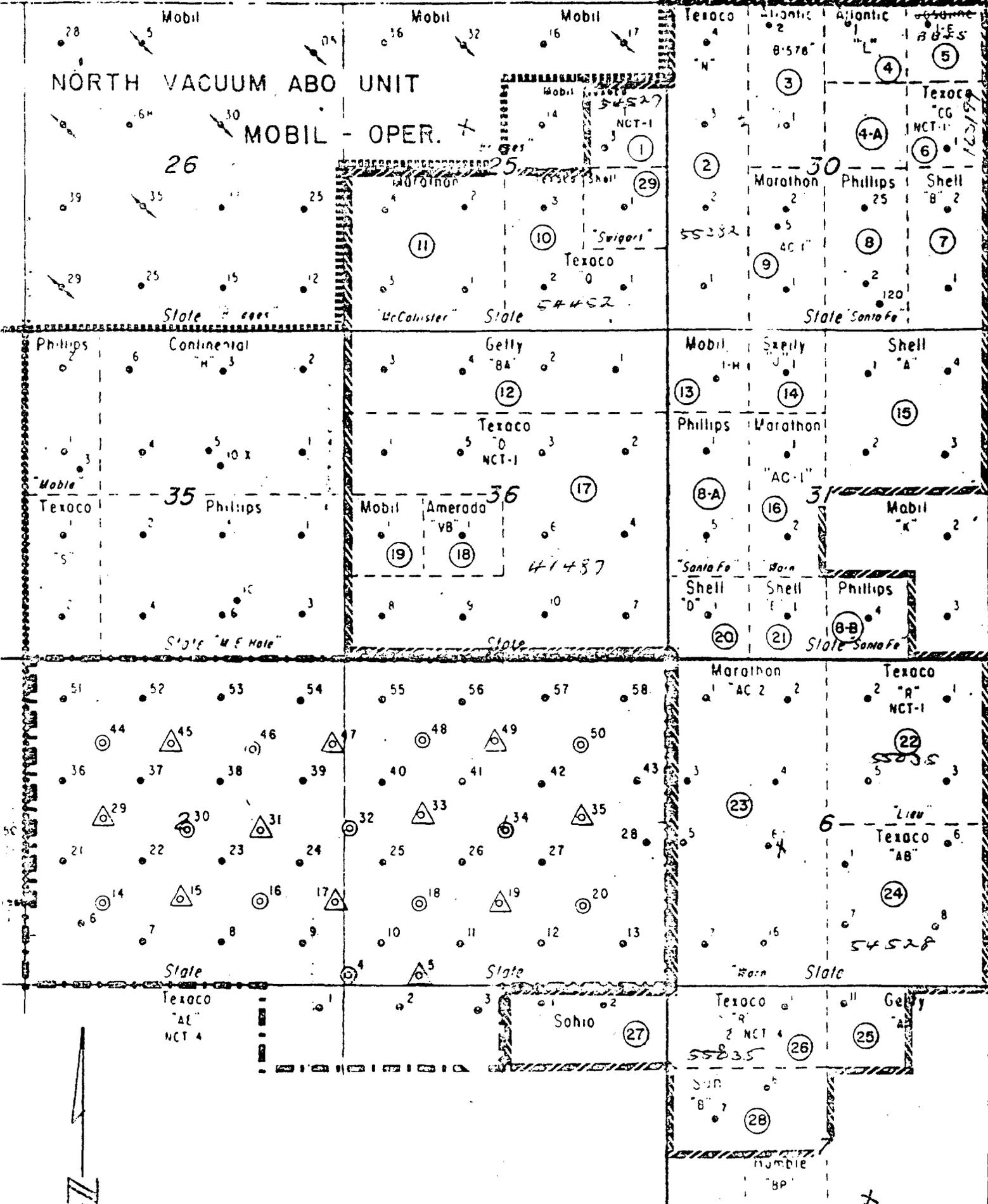


EXHIBIT "B"
 TO UNIT AGREEMENT
 CENTRAL VACUUM UNIT
 LEA COUNTY, NEW MEXICO

TRACT NUMBER	LEASE NAME AND LAND DESCRIPTION	NUMBER OF ACRES	NEW MEXICO STATE LEASE NUMBER	BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY OWNER AND AMOUNT	WORKING INTEREST OWNER
1	State "T" NCT-1 T-17-S, R-34-E, Sec. 25, SE/4 NE/4	40	B-1030-1	State of New Mexico 12.5%	Texaco Inc. 545229	None	Texaco Inc
2	State "N" T-17-S, R-35-E, Sec. 30, W/2 W/2	150.56	B-1722-1	State of New Mexico 12.5%	Texaco Inc. 553872	None	Texaco Inc
3	State "B" 1578" T-17-S, R-35-E, Sec. 30, E/2 NW/4	80	B-1578-6	State of New Mexico 12.5%	Atlantic Richfield Company	None	Atlantic Richfield Company W. D. McBr Michael A and Doroti Buell, Ex and Execu pectively Estate of McBee, De
4	State "L-DE" T-17-S, R-35E, Sec. 30, NW/4 NE/4	40	B-8667-2	State of New Mexico 12.5%	Atlantic Richfield Company	None	Atlantic Richfield Company
4A	State "L-DE" T-17-S, R-35-E, Sec. 30, SW/4 NE/4	40	B-8667-2	State of New Mexico 12.5%	Atlantic Richfield Company	None	Atlantic Richfield Company

EXHIBIT "B"
TO UNIT AGREEMENT
CENTRAL VACUUM UNIT
LEA COUNTY, NEW MEXICO

25510

TRACT BOOK	LEASE NAME AND LAND DESCRIPTION	NUMBER OF ACRES	NEW MEXICO STATE LEASE NUMBER	BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY OWNER AND AMOUNT	WORKING INTEREST OWNERS
5	State "E" T-17-S, R-35-E, Sec. 30, NE/4 NE/4	40	B-2423-16	State of New Mexico 12.5%	Joe B. Singer	Shell Canadian Exploration Company 0.0625000 John A. Barnett, Jr., Francis May Barnett, & Paul B. McEvoy, Trustees of the Estate of John A. Barnett, Sr., dec'd. 0.0416666 D. W. Hutchison 0.0104167 Emma B. Vandeventer 0.0104167 0.1250000	H. M. Bett W. T. Boyl Norman D. Turnco, Inc. S. B. Stre Larry O. H
6	State "CG" NCT-1 T-17-S, R-35-E, Sec. 30, SE/4 NE/4	40	E-7585	State of New Mexico 12.5%	Texaco Inc.	None	Texaco Inc
7	State "B" T-17-S, R-35-E, Sec. 30, E/2 SE/4	80	B-1414	State of New Mexico 12.5%	Shell Oil Company	None	Shell Oil
8	Santa Fe T-17-S, R-35-E, Sec. 30, W/2 SE/4	80	B-1501	State of New Mexico 12.5%	Phillips Petroleum Company	None	Phillips P Company
8A	Santa Fe T-17-S, R-35-E Sec. 31, SW/4 NW/4 and NW/4 SW/4	74.98	B-1606	State of New Mexico 12.5%	Phillips Petroleum Company	None	Phillips P Company

EXHIBIT "B"
TO UNIT AGREEMENT
CENTRAL VACUUM UNIT
LEA COUNTY, NEW MEXICO

TRACT NUMBER	LEASE NAME AND LAND DESCRIPTION	NUMBER OF ACRES	NEW MEXICO STATE LEASE NUMBER	BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY OWNER AND AMOUNT	WORKING INTEREST OWNERS
8B	Santa Fe T-17-S, R-35-E Sec. 31, SW/4 SE/4	40	B-1861	State of New Mexico 12.5%	Phillips Petroleum Company	None	Phillips Petroleum Company
9	Staplin State A/C-1 T-17-S, R-35-E, Sec. 30, E/2 SW/4	80	B-2245-0	State of New Mexico 12.5%	Marathon Oil Company	None	Marathon Oil Company
10	State "Q" T-17-S, R-34-E, Sec. 25, NW/4 SE/4 Sec. 25, S/2 SE/4	120	B-1056-1	State of New Mexico 12.5%	Texaco Inc. 5445 & 2	None	Texaco Inc.
11	McCallister State T-17-S, R-34-E, Sec. 25, SW/4	160	B-2706-0	State of New Mexico 12.5%	Marathon Oil Company	None	Marathon Oil Company
12	State "BA" T-17-S, R-34-E, Sec. 36, N/2 N/2	160	B-1565-2	State of New Mexico 12.5%	Getty Oil Company	None	Getty Oil Company
13	State "H" T-17-S, R-35-E, Sec. 31, NW/4 NW/4	37.56	B-1518-0	State of New Mexico 12.5%	Mobil Oil Corp.	None	Mobil Oil Company

255100

EXHIBIT "B"
 TO UNIT AGREEMENT
 CENTRAL VACUUM UNIT
 LEA COUNTY, NEW MEXICO

TRACT NUMBER	LEASE NAME AND LAND DESCRIPTION	NUMBER OF ACRES	NEW MEXICO STATE LEASE NUMBER	BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY OWNER AND AMOUNT	WORKING INTEREST OWNER
14	State "J" T-17-S, R-35-E, Sec. 31, NE/4 NW/4	40	B-1334-0	State of New Mexico 12.5%	Getty Oil Company	None	Getty Oil
15	State "A" T-17-S, R-35-E, Sec. 31, NE/4	160	B-2354-2	State of New Mexico 12.5%	Shell Oil Company	None	Shell Oil
16	Warn State A/C-1 T-17-S, R-35-E, Sec. 31, SE/4 NW/4 Sec. 31, NE/4 SW/4	80	B-1713-1	State of New Mexico 12.5%	Marathon Oil Company	None	Marathon Oil Company
17	State "O" NCT-1 T-17-S, R-34-E Sec. 36, S/2 N/2 Sec. 36, N/2 SE/4 Sec. 36, S/2 S/2	400	B-155-1	State of New Mexico 12.5%	Texaco Inc. 4/14/87	None	Texaco Inc
18	State "VB" T-17-S, R-34-E Sec. 36, NE/4 SW/4	40	B-2146-6	State of New Mexico 12.5%	Amerada Hess Corporation	None	Amerada Hess Corporation
19	State "I" T-17-S, R-34-E Sec. 36, NW/4 SW/4	40	B-2146-2	State of New Mexico 12.5%	Mobil Oil Corp.	None	Mobil Oil

EXHIBIT "B"
 TO UNIT AGREEMENT
 CENTRAL VACUUM UNIT
 LEA COUNTY, NEW MEXICO

TRACT NUMBER	LEASE NAME AND LAND DESCRIPTION	NUMBER OF ACRES	NEW MEXICO STATE LEASE NUMBER	BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY OWNER AND AMOUNT	WORKING INTEREST OWNER
20	State "D" T-17-S, R-35-E Sec. 31, SW/4 SW/4	37.42	B-1415-1	State of New Mexico 12.5%	Shell Oil Company	None	Shell Oil
21	State "E" T-17-S, R-35-E Sec. 31, SE/4 SW/4	40	B-1404-2	State of New Mexico 12.5%	Shell Oil Company	None	Shell Oil
22	State "R" NCT-1 T-18-S, R-35-E Sec. 6, NE/4	160	B-1306-1	State of New Mexico 12.5%	Texaco Inc.	None	Texaco Inc
23	Warn State A/C-2 T-18-S, R-35-E Sec. 6, W/2	310.16	B-1113-1	State of New Mexico 12.5%	Marathon Oil Co.	None	Marathon Oil
24	State "AB" T-18-S, R-35-E Sec. 6, SE/4	160	B-1031-1	State of New Mexico 12.5%	Texaco Inc.	None	Texaco Inc
25	State "AN" T-18-S, R-35-E Sec. 7, NW/4 NE/4	40	E-7653-2	State of New Mexico 12.5%	Getty Oil Company	None	Getty Oil
26	State "R" NCT-4 T-18-S, R-35-E Sec. 7, N/2 NW/4	77.72	B-1306-1	State of New Mexico 12.5%	Texaco Inc.	None	Texaco Inc

EXHIBIT "B"
 TO UNIT AGREEMENT
 CENTRAL VACUUM UNIT
 LEA COUNTY, NEW MEXICO

TRACT NUMBER	LEASE NAME AND LAND DESCRIPTION	NUMBER OF ACRES	NEW MEXICO STATE LEASE NUMBER	BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY OWNER AND AMOUNT	WORKING INTEREST OWNER
27	Hubble State T-18-S, R-34-E Sec. 12, N/2 NE/4	80	B-936-17	State of New Mexico 12.5%	J. M. Leonard and Sohio Petroleum Company	Exxon Company 12.5%	Sohio Petro Ft. Worth Bank, Trust 1979 Mercantile & Trust Co. Trusts U/D Brown Account No. Account No.
28	State B - Lee T-18-S, R-35-E Sec. 7, S/2 NW/4	77.8	E-6002-1	State of New Mexico 12.5%	Forest Oil Corp.	Martha Dorn Bird 0.002804487 Dale H. Dorn 0.040945513 0.043750000	Sun Oil Com

Twenty-eight (28) State Tracts totaling 3006.2 acres consisting of 98.69 percent of Unit Area.

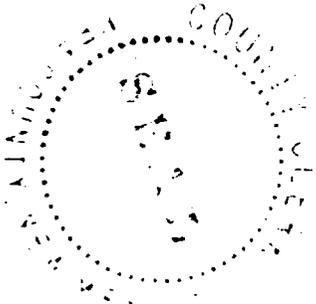
EXHIBIT "B"
 TO UNIT AGREEMENT
 CENTRAL VACUUM UNIT
 LEA COUNTY, NEW MEXICO

TRACT NUMBER	LEASE NAME AND LAND DESCRIPTION	NUMBER OF ACRES	NEW MEXICO STATE LEASE NUMBER	BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY OWNER AND AMOUNT	WORKING INTEREST OWNER
25	Swigart, L. A. T-17-S, R-34-E Sec. 25, NE/4 SE/4	40	Fee	Sara C. Burns 3.125% Dorothy Swigart Carlson 6.250% Norman and Mar- jorie G. Gross 3.125%	Shell Oil Company	None	Shell Oil Company

One (1) Fee Tract totaling 40 acres consisting of 1.31 percent of Unit Area.

RECAPITULATION OF NUMBER OF ACRES

State Lands	3006.2 Acres	98.69 percent
Fee Lands	<u>40.0 Acres</u>	<u>1.31 percent</u>
	3046.2 Acres	100.00 percent



UNIT OPERATING AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
CENTRAL VACUUM UNIT
COUNTY OF LEA
STATE OF NEW MEXICO

RECORDED
COUNTY OF LEA
INDEXED
9
SERIAL 5970
FILED BY Applicant

UNIT OPERATING AGREEMENT
CENTRAL VACUUM UNIT
LEA COUNTY, NEW MEXICO

TABLE OF CONTENTS

Section	Page
Preliminary Recitals	1
ARTICLE 1 CONFIRMATION OF UNIT AGREEMENT	
1.1 Confirmation of Unit Agreement	1
ARTICLE 2 EXHIBITS	
2.1 Exhibits	1
2.1.1 Exhibits A & B: Reference to Unit Agreement . .	1
2.1.2 Exhibit C: Unit Participation	1
2.1.3 Exhibit D: Accounting Procedure	1
2.1.4 Exhibit E: Insurance Provisions	1
2.2 Revision of Exhibits	2
ARTICLE 3 SUPERVISION OF OPERATIONS BY WORKING INTEREST OWNERS	
3.1 Overall Supervision	2
3.2 Specific Authorities and Duties	2
3.2.1 Method of Operation	2
3.2.2 Drilling of Wells	2
3.2.3 Well Recompletions and Change of Status	2
3.2.4 Expenditures	2
3.2.5 Disposition of Unit Equipment	2
3.2.6 Appearance Before a Court or Regulatory Agency.	2
3.2.7 Audits	2
3.2.8 Inventories	3
3.2.9 Technical Services	3
3.2.10 Assignments to Committees	3
3.2.11 Removal of Unit Operator	3
3.2.12 Enlargement of Unit Area	3
3.2.13 Adjustment and Readjustment of Investments . .	3
3.2.14 Termination	3
ARTICLE 4 MANNER OF EXERCISING SUPERVISION	
4.1 Designation of Representatives	3
4.2 Meetings	3
4.3 Voting Procedure	3
4.3.1 Voting Interest	3
4.3.2 Vote Required - Generally	4
4.3.3 Vote at Meeting by Nonattending Working Interest Owner	4
4.3.4 Poll Votes	4

ARTICLE 6
UNIT OPERATOR

6.1	Initial Unit Operator	4
6.2	Resignation or Removal-Selection of Successor	4

ARTICLE 7
AUTHORITIES AND DUTIES OF UNIT OPERATOR

7.1	Exclusive Right to Operate Unit	5
7.2	Workmanlike Conduct	5
7.3	Liens and Encumbrances	5
7.4	Employees	5
7.5	Records	5
7.6	Reports to Working Interest Owners	5
7.7	Reports to Governmental Authorities	5
7.8	Engineering and Geological Information	5
7.9	Expenditures	5
7.10	Wells Drilled by Unit Operator	5
7.11	Border Agreements	5

ARTICLE 8
TAXES

8.1	Ad Valorem Taxes	6
8.2	Other Taxes	6

ARTICLE 9
INSURANCE

9.1	Insurance	6
	9.1.1 Workmen's Compensation Law	6
	9.1.2 Employer's Liability Insurance	6
	9.1.3 Other Insurance	6

ARTICLE 10
ADJUSTMENT OF INVESTMENTS

10.1	Personal Property Taken Over	6
	10.1.1 Wells	6
	10.1.2 Well and Lease Equipment	6
	10.1.3 Records	6
10.2	Inventory and Evaluation of Personal Property	6
10.3	Investment Adjustment	7
10.4	General Facilities	7
10.5	Ownership of Personal Property and Facilities	7

ARTICLE 11
WELL BORES

11.1	Well Bores	7
11.2	Exception to Well Bore Requirement	8
11.3	Condition of Wells	8

ARTICLE 12
UNIT EXPENSE

ARTICLE 13
NONUNITIZED FORMATIONS

13.1	Right to Operate	9
13.2	Multiple Completions	10

ARTICLE 14
TITLES

14.1	Representation and Indemnity	10
14.2	Failure Because of Unit Operations	10

ARTICLE 15
LIABILITY, CLAIMS, AND SUITS

15.1	Individual Liability	10
15.2	Settlements	10

ARTICLE 16
INTERNAL REVENUE PROVISION

16.1	Internal Revenue Provision	11
----------------	--------------------------------------	----

ARTICLE 17
NON-DISCRIMINATION

17.1	Non-Discrimination	11
----------------	------------------------------	----

ARTICLE 18
NOTICES

18.1	Notices	12
----------------	-------------------	----

ARTICLE 19
WITHDRAWAL OF WORKING INTEREST OWNER

19.1	Withdrawal	12
19.2	Limitation on Withdrawal	12

ARTICLE 20
ABANDONMENT OF WELLS

20.1	Right of Former Owners	13
20.2	Plugging	13

ARTICLE 21
EFFECTIVE DATE AND TERM

21.1	Effective Date	13
21.2	Term	13

ARTICLE 22
ABANDONMENT OF OPERATIONS

22.1	Termination	13
	22.1.1 Oil and Gas Rights	13
	22.1.2 Right to Operate	13
	22.1.3 Salvaging Wells	14

Section

Page

ARTICLE 24
SUCCESSORS AND ASSIGNS

24.1 Successors and Assigns 14

EXHIBITS

Exhibit C . . Working Interest Ownership by Tracts and Attributable Unit
Participations
Exhibit D . . Accounting Procedure
Exhibit E . . Insurance Provisions

UNIT OPERATING AGREEMENT
CENTRAL VACUUM UNIT
LEA COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 1st day of December, 1976, by the parties who have signed the original of this instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions hereof;

W I T N E S S E T H:

WHEREAS, the parties hereto as Working Interest Owners have executed as of the date hereof, an agreement entitled "Unit Agreement, Central Vacuum Unit, Lea County, New Mexico," herein referred to as "Unit Agreement," which, among other things, provides for a separate agreement to be entered into by Working Interest Owners to provide for the development and operation of the Unit Area as therein defined;

NOW, THEREFORE, in consideration of the mutual agreements herein set forth, it is agreed as follows:

ARTICLE 1

CONFIRMATION OF UNIT AGREEMENT

1.1 Confirmation of Unit Agreement. The Unit Agreement is hereby confirmed and by reference made a part of this agreement. The definitions in the Unit Agreement are adopted for all purposes of this agreement. If there is any conflict between the Unit Agreement and this agreement, the Unit Agreement shall govern.

ARTICLE 2

EXHIBITS

2.1 Exhibits. The following exhibits are incorporated herein by reference:

2.1.1 Exhibits A and B of the Unit Agreement.

2.1.2 Exhibit C attached hereto, which is a schedule showing the Working Interest of each Working Interest Owner in each Tract, the percentage of total Unit Participation attributable to each such interest and the total Unit Participation of each Working Interest Owner. Exhibit C or a revision thereof, shall not be conclusive as to the information therein, except it may be used as showing the Unit Participations of the Working Interest Owners for purposes of this agreement until shown to be in error or is revised as herein authorized.

2.1.3 Exhibit D, attached hereto, which is the Account-
ing Procedure applicable to Unit Operations. If there is

2.2 Revision of Exhibits. Whenever Exhibits A and B are revised, Exhibit C shall be revised accordingly and be effective as of the same date. Unit Operator shall also revise Exhibit C from time to time as required to conform to changes in ownership of which Unit Operator has been notified as provided in the Unit Agreement.

ARTICLE 3

SUPERVISION OF OPERATIONS BY WORKING INTEREST OWNERS

3.1 Overall Supervision. Working Interest Owners shall exercise overall supervision and control of all matters pertaining to Unit Operations pursuant to this agreement and the Unit Agreement. In the exercise of such authority, each Working Interest Owner shall act solely in its own behalf in the capacity of an individual owner and not on behalf of the owners as an entirety.

3.2 Specific Authorities and Duties. The matters with respect to which the Working Interest Owners shall decide and take action shall include, but not be limited to, the following:

3.2.1 Method of Operation. The method of operation, including any type of pressure maintenance, additional recovery, or other recovery program to be employed.

3.2.2 Drilling of Wells. The drilling of any well whether for production of Unitized Substances, for use as an injection well, or for other purposes.

3.2.3 Well Recompletions and Change of Status. The recompletion, abandonment, or change of status of any well in the Unit Area, or the use of any well for injection or other purposes.

3.2.4 Expenditures. The making of any single expenditure in excess of Twenty Thousand Dollars (\$20,000.00); provided that approval by Working Interest Owners of the drilling, reworking, deepening, or plugging back of any well shall include approval of all necessary expenditures required therefor, and for completing, testing, and equipping the same, including necessary flow lines, separators, and lease tankage.

3.2.5 Disposition of Unit Equipment. The selling or otherwise disposing of any major item of surplus Unit Equipment if the current list price of new equipment similar thereto is more than Five Thousand Dollars (\$5,000.00).

3.2.6 Appearance Before a Court or Regulatory Agency. The designating of a representative to appear before any court or regulatory agency in matters pertaining to Unit Operations; provided that such designation shall not prevent any Working Interest Owner from appearing in person or from designating another representative in its own behalf.

- (b) be made upon the approval of the owner or owners of a majority of Working Interest other than that of Unit Operator, at the expense of all Working Interest Owners other than Unit Operator, or
- (c) be made at the expense of those Working Interest Owners requesting such audit, if owners of less than a majority of Working Interest, other than that of Unit Operator, request such an audit, and
- (d) be made upon not less than thirty (30) days' written notice to Unit Operator.

3.2.8 Inventories. The taking of periodic inventories under the terms of Exhibit D.

3.2.9 Technical Services. The authorization of charges to the joint account for services by consultants or Unit Operator's technical personnel not covered by the overhead charges provided by Exhibit D.

3.2.10 Assignments to Committees. The appointment of committees to study any problems in connection with Unit Operations.

3.2.11 The removal of Unit Operator and the selection of a successor.

3.2.12 The enlargement of the Unit Area.

3.2.13 The adjustment and readjustment of investments.

3.2.14 The termination of the Unit Agreement.

ARTICLE 4

MANNER OF EXERCISING SUPERVISION

4.1 Designation of Representatives. Each Working Interest shall in writing inform Unit Operator of the names and addresses of the representative and alternate who are authorized to represent and bind such Working Interest Owner with respect to Unit Operations. The representative or alternate may be changed from time to time by written notice to Unit Operator.

4.2 Meetings. All meetings of Working Interest Owners shall be called by Unit Operator upon its own motion or at the request of one or more Working Interest Owners having a total Unit Participation of not less than five percent (5%). No meeting shall be called on less than fourteen (14) days' advance written notice with agenda for the meeting attached. Working Interest Owners who attend the meeting may amend items included in the agenda and may act upon an amended item or other items presented at the meeting. The representative of the Unit Operator shall be chairman of each meeting.

4.3.2 Vote Required. Unless otherwise provided herein or in the Unit Agreement, Working Interest Owners shall determine all matters by the affirmative vote of two or more Working Interest Owners having a combined voting interest of at least sixty-five percent (65%); however, should any one Working Interest Owner have more than thirty-five percent (35%) voting interest, its negative vote or failure to vote shall not defeat a motion, such motion shall pass if approved by Working Interest Owners having a majority voting interest, unless one or more Working Interest Owners having a combined voting interest of at least five percent (5%) likewise vote against the motion or fail to vote.

4.3.3 Vote at Meeting by Nonattending Working Interest Owner. Any Working Interest Owner who is not represented at a meeting may vote by letter or telegram addressed to the representative of the Unit Operator if its vote is received prior to the vote on the item.

4.3.4 Poll Votes. Working Interest Owners may vote on and decide, by letter or telegram, any matter submitted in writing to Working Interest Owners if no meeting is requested, as provided in Section 4.2, within seven (7) days after the proposal is sent to Working Interest Owners. Unit Operator will give prompt notice of the results of the voting to all Working Interest Owners.

ARTICLE 5

INDIVIDUAL RIGHTS OF WORKING INTEREST OWNERS

5.1 Reservation of Rights. Working Interest Owners severally reserve to themselves all their rights except as otherwise provided in this agreement and the Unit Agreement.

5.2 Specific Rights. Each Working Interest Owner shall have, among others, the following specific rights:

5.2.1 Access to Unit Area. Access to the Unit Area at all reasonable times to inspect Unit Operations, all wells, and the records and data pertaining thereto.

5.2.2 Reports. The right to receive from Unit Operator, upon written request, copies of all reports to any governmental agency, reports of crude oil runs and stocks, inventory reports, and all other information pertaining to Unit Operations. The cost of gathering and furnishing information not ordinarily furnished by Unit Operator to all Working Interest Owners shall be charged to the Working Interest Owner who requests the information.

ARTICLE 6

UNIT OPERATOR

ARTICLE 7

AUTHORITIES AND DUTIES OF UNIT OPERATOR

7.1 Exclusive Right to Operate Unit. Subject to the provisions of this agreement and to instructions from Working Interest Owners, Unit Operator shall have the exclusive right and be obligated to conduct Unit Operations.

7.2 Workmanlike Conduct. Unit Operator shall conduct Unit Operations in a good and workmanlike manner as would a prudent operator under the same or similar circumstances. Unit Operator shall freely consult with Working Interest Owners and keep them informed of all matters which Unit Operator, in the exercise of its best judgment, considers important. Unit Operator shall not be liable to Working Interest Owners for damages unless such damages result from its gross negligence or willful misconduct.

7.3 Liens and Encumbrances. Unit Operator shall endeavor to keep the Lands, Leases and Unit Equipment in the Unit Area free from all liens and encumbrances occasioned by Unit Operations except the lien of Unit Operator granted hereunder.

7.4 Employees. The number of employees used by Unit Operator in conducting Unit Operations, their selection, hours of labor, and compensation shall be determined by Unit Operator. Such employees shall be the employees of Unit Operator.

7.5 Records. Unit Operator shall keep correct books, accounts, and records of Unit Operations.

7.6 Reports to Working Interest Owners. Unit Operator shall furnish to Working Interest Owners periodic reports of Unit Operations as prescribed by Working Interest Owners.

7.7 Reports to Governmental Authorities. Unit Operator shall make all reports to governmental authorities that it has the duty to make as Unit Operator.

7.8 Engineering and Geological Information. Unit Operator shall furnish to a Working Interest Owner, upon written request, a copy of the log and other engineering and geological data pertaining to wells drilled for Unit Operations.

7.9 Expenditures. Unit Operator is authorized to make single expenditures not in excess of Twenty Thousand Dollars (\$20,000.00) without prior approval of Working Interest Owners. If an emergency occurs, Unit Operator may immediately make or incur such expenditures as in its opinion are required to deal with the emergency. Unit Operator shall report to Working Interest Owners as promptly as possible the nature of the emergency and the action taken.

7.10 Wells Drilled by Unit Operator. All wells drilled by Unit Operator shall be at the usual rates prevailing in the area. Unit Operator may employ its own tools and equipment under terms and conditions approved by Working Interest Owners.

7.11 Border Agreements. Unit Operator may, after approval

ARTICLE 8

TAXES

8.1 Ad Valorem Taxes. Beginning with the first calendar year after the effective date hereof, Unit Operator shall make and file all necessary ad valorem tax renditions and returns with the proper taxing authorities covering all real and personal property of each Working Interest Owner used or held by Unit Operator in Unit Operations. Unit Operator shall settle assessments arising therefrom. All such ad valorem taxes shall be paid by Unit Operator and charged to the joint account; provided that if the interest of a Working Interest Owner is subject to a separately assessed overriding royalty interest, production payment, or other interest in excess of a one-eighth (1/8) royalty, such Working Interest Owner shall be given credit for the reduction in taxes paid resulting therefrom.

8.2 Other Taxes. Each Working Interest Owner shall pay, or cause to be paid, all production severance, gathering, and other taxes imposed upon or in respect to the production or handling of its share of Unitized Substances.

ARTICLE 9

INSURANCE

9.1 Insurance. Unit Operator, with respect to Unit Operations, shall do the following:

9.1.1 Carry Workmen's Compensation Insurance in compliance with the Workmen's Compensation Law of the State of New Mexico.

9.1.2 Carry Employer's Liability and other insurance as required by the laws of the State of New Mexico.

9.1.3 Carry other insurance as set forth in Exhibit E.

ARTICLE 10

ADJUSTMENT OF INVESTMENTS

10.1 Personal Property Taken Over. Upon the effective date hereof, Working Interest Owners shall deliver to Unit Operator the following:

10.1.1 Wells. All wells completed in the Unitized Formation.

10.1.2 Well and Lease Equipment. The casing and tubing in each such well, the wellhead connections thereon, and all other lease and operating equipment

equipment considered controllable under Exhibit D except, upon determination of Working Interest Owners, items considered noncontrollable may be included in the inventory in order to insure a more equitable adjustment of investment. Casing shall be included in the inventory for record purposes, but shall be excluded from evaluation and investment adjustment.

10.3 Investment Adjustment. Upon approval by Working Interest Owners of the inventory and evaluation, investments shall be adjusted as follows:

Each Working Interest Owner shall be credited with the value, as determined in accordance with Section 10.2 above, of its interest in all personal property taken over by Unit Operator under Section 10.1.2, and charged with an amount equal to that obtained by multiplying the total value of all such personal property taken over by Unit Operator under Section 10.1.2 by such Working Interest Owner's Unit Participation, as shown in Exhibit C. If the charge against any Working Interest Owner is greater than the amount credited to such Working Interest Owner, the resulting net charge shall be paid and in all other respects be treated as any other item of Unit Expense chargeable against such Working Interest Owner. If the credit to any Working Interest Owner is greater than the amount charged against such Working Interest Owner, the resulting net credit shall be paid to such Working Interest Owner by Unit Operator out of funds received by it in settlement of the net charges described above.

10.4 General Facilities. The acquisition of warehouses, warehouse stocks, lease houses, camps, facility systems, and office buildings necessary for Unit Operations shall be by negotiation by the owners thereof and Unit Operator, subject to the approval of Working Interest Owners. There shall be no adjustment for lease roads or appurtenances thereto.

10.5 Ownership of Personal Property and Facilities. Each Working Interest Owner, individually, shall by virtue hereof own an undivided interest equal to its Unit Participation in all personal property and facilities taken over or otherwise acquired by Unit Operator pursuant to this agreement.

ARTICLE 11

WELL BORES

11.1 Well Bores. As of the Effective Date of the Unit Agreement each forty acre subdivision of any tract committed hereto shall be required to have a well bore which is completed in the Unitized Formation. If any 40 acre subdivision does not have a well bore as above provided, the party or parties contributing same shall have the option for 60 days to provide a well bore. If a well bore has not been provided at the end of said 60 day period, the party or parties contributing a 40 acre subdivision without a well shall remit the sum of \$125,000 to the Unit Operator for the Unit account. In the event the party or parties do not provide a

shall include (1) \$125,000 charge, (2) allocated Unit expenses, (3) ten percent (10%) interest per annum on the unpaid balance; all of which is to be paid out of the proceeds from the sale of allocated amount of Oil and Gas production, less royalty interest.

11.2 Exception to Well Bore Requirement Any 40 acre subdivision that has not contributed oil production from the Unitized Formation to any parameter through which Unit Tract Participation was calculated by the formula outlined in Article 13 of the Unit Agreement will not be required to provide a well bore as provided in Paragraph 11.1 above.

11.3 Condition of Wells. All wells delivered to the Unit Operator shall be completed in the Unitized Formation and be in a reasonably good physical condition to produce Unitized Substances on the effective date hereof. If within 180 days after the effective date any such well is determined by the Working Interest Owners not to have been in a reasonably good physical condition when taken over, including but not limited to defective casing or junk in the well, the Working Interest Owner who contributed such well shall be liable to the other Working Interest Owners for liquidated damages in an amount, measured by the cost to Working Interest Owners of repairing such unit well, not to exceed Fifty Thousand Dollars (\$50,000); provided that any amount in excess of Fifty Thousand Dollars (\$50,000) shall be treated as any other item of Unit Expense and charged to the joint account.

ARTICLE 12

UNIT EXPENSE

12.1 Basis of Charge to Working Interest Owners. Unit Operator initially shall pay all Unit Expense. Each Working Interest Owner shall reimburse Unit Operator for its share of Unit Expense. Each Working Interest Owner's share shall be the same as its Unit Participation. All charges, credits, and accounting for Unit Expense shall be in accordance with Exhibit D.

12.2 Budgets. Before or as soon as practical after the effective date hereof, Unit Operator shall prepare a budget of estimated Unit Expense for the remainder of the calendar year, and on or before the first day of each August thereafter shall prepare such a budget for the ensuing calendar year. A budget shall set forth the estimated Unit Expense by quarterly periods. Budgets shall be estimates only and shall be adjusted or corrected by Working Interest Owners and Unit Operator whenever an adjustment or correction is proper. A copy of each budget and adjusted budget shall promptly be furnished to each Working Interest Owner.

12.3 Advance Billing. Unit Operator shall have the right, without prejudice to other rights or remedies, to require Working Interest Owners to advance their respective shares of estimated Unit Expense by submitting to Working Interest Owners, on or before the 15th day of any month, an itemized estimate thereof for the succeeding month with a request for payment in advance. Within fifteen (15) days after receipt thereof, each Working Interest Owner shall pay to Unit Operator its share of such estimate. Adjustments between estimated and actual Unit Expense shall be made by

12.5 Lien and Security Interest of Unit Operator. Each Working Interest Owner grants to Unit Operator a lien upon its Oil and Gas Rights in each tract, and a security interest in its share of Unitized Substances when extracted and its interest in all Unit Equipment, to secure payment of its share of Unit Expense, together with interest thereon at the rate of ten percent (10%) per annum. To the extent that Unit Operator has a security interest under the Uniform Commercial Code of the State, Unit Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by Unit Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In addition, upon default by any Working Interest Owner in the payment of its share of Unit Expense, Unit Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such Working Interest Owner's share of Unitized Substances until the amount owed by such Working Interest Owner, plus interest, has been paid. Each Purchaser shall be entitled to rely upon Unit Operator's written statement concerning the amount of any default. Unit Operator hereby grants a like lien to Working Interest Owners.

12.6 Unpaid Unit Expense. If any Working Interest Owner fails to pay its share of Unit Expense within sixty (60) days after rendition of a statement therefor by Unit Operator, each Working Interest Owner agrees, upon request by Unit Operator, to pay its proportionate part of the unpaid share of Unit Expense of the defaulting Working Interest Owner. The Working Interest Owners that pay the share of Unit Expense of a defaulting Working Interest Owner shall be reimbursed by the Unit Operator for the amount so paid, plus any interest collected thereon, upon receipt by Unit Operator of any past due amount collected from or credited to the account of the defaulting Working Interest Owner. Any Working Interest Owner so paying a defaulting Working Interest Owner's share of Unit Expense shall, to obtain reimbursement thereof, be subrogated to the lien and other rights herein granted Unit Operator.

12.7 Carved-out Interest. If any Working Interest Owner shall, after executing this agreement, create an overriding royalty, production payment, net proceeds interest, carried interest, or any other interest out of its Working Interest, such carved-out interest shall be subject to the terms and provisions of this agreement, specifically including, but without limitation, Section 12.5 hereof entitled "Lien and Security Interest of Unit Operator." If the Working Interest Owner creating such carved-out interest (a) fails to pay any Unit Expense chargeable to such Working Interest Owner under this agreement, and the production of Unitized Substances accruing to the credit of such Working Interest Owner is insufficient for that purpose, or (b) withdraws from this agreement under the terms and provisions of Article 19 hereof, the carved-out interest shall be chargeable with a pro rata portion of all Unit Expense incurred hereunder, the same as though such carved-out interest were a Working Interest, and Unit Operator shall have the right to enforce against such carved-out interest the lien and all other rights granted in Section 12.5 for the purpose of collecting the Unit Expense chargeable to the carved-out interest.

other than the Unitized Formation, shall have the right to do so notwithstanding this agreement or the Unit Agreement. In exercising the right, however, such Working Interest owner shall exercise care to prevent unreasonable interference with Unit Operations. No Working Interest Owner other than Unit Operator shall produce Unitized Substances through any well drilled or operated by it. If any Working Interest Owner drills any well into or through the Unitized Formation, the Unitized Formation shall be protected in a manner satisfactory to Working Interest Owners so that the production of Unitized Substances will not be affected adversely.

13.2 Multiple Completions. No well now or hereafter completed in the Unitized Formation within the Unit Area or any enlargement thereof shall ever be completed as a multiple completion with the Unitized Formation and any other formation unless such multiple completion and the subsequent handling of the multiple completion is approved by Working Interest Owners in accordance with the voting procedures as set out in Article 4.3.2 of this agreement.

ARTICLE 14

TITLES

14.1 Representation and Indemnity. Each Working Interest Owner represents that it is the owner of the respective Working Interests set forth opposite its name in Exhibit C, and agrees to indemnify and hold harmless the other Working Interest Owners from any loss due to failure, in whole or in part, of its title to any such interest, except failure of title arising because of Unit Operations; however, such indemnity and any liability arising therefrom shall be limited to an amount equal to the net value that has been received from the sale or receipt of Unitized Substances attributed to the interest as to which title failed. Each failure of title will be deemed to be effective, insofar as this agreement is concerned, as of 7:00 a.m. on the first day of the calendar month in which such failure is finally determined, and there shall be no retroactive adjustment of Unit Expense, or retroactive allocation of Unitized Substances or the proceeds therefrom, as a result of a title failure.

14.2 Failure Because of Unit Operations. The failure of title to any Working Interest in any Tract because of Unit Operations, including nonproduction from such Tract, shall not change the Unit Participation of the Working Interest Owner whose title failed in relation to the Unit Participations of the other Working Interest Owners at the time of the title failure.

ARTICLE 15

LIABILITY, CLAIMS, AND SUITS

15.1 Individual Liability. The duties, obligations, and liabilities of Working Interest Owners 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, association, or

further handling of the claim or suit unless such authority is expressly delegated to Unit Operator. All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be an item of Unit Expense. If a claim is made against any Working Interest Owner or if any Working Interest Owner is sued on account of any matter arising from Unit Operations and over which such Working Interest Owner individually has no control because of the rights given Working Interest Owners and Unit Operator by this agreement and the Unit Agreement, the Working Interest Owner shall immediately notify the Unit Operator and the claim or suit shall be treated as any other claim or suit involving Unit Operations.

ARTICLE 16

INTERNAL REVENUE PROVISION

16.1 Internal Revenue Provision. Notwithstanding any provisions herein that the rights and liabilities of the parties hereunder are several and not joint or collective or that this agreement and the operations hereunder shall not constitute a partnership, if for Federal income tax purposes this agreement and the operations hereunder are regarded as a partnership, then each of the parties hereto hereby elects to be excluded from the application of all of the provisions of Subchapter K, Chapter 1, Subtitle A of the Internal Revenue Code of 1954 as permitted and authorized by Section 761 of said Code and the regulation promulgated thereunder. Operator is hereby authorized and directed to execute on behalf of each of the parties hereto such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service including specifically, but not by way of limitation, all of the returns, statements, and the data required by Federal Regulations 1.761-1 (a). Should there be any requirement that each party hereto further evidence this election, each party hereto agrees to execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. Each party hereto further agrees not to give any notice or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the property covered by this agreement is located, or any future income tax law of the United States, contain, or shall hereafter contain, provisions similar to those contained in Subchapter K, Chapter 1, Subtitle A or the Internal Revenue Code of 1954, under which an election similar to that provided by Section 761 of said Subchapter K is permitted, each of the parties hereto hereby makes such election or agrees to make such election as may be permitted by such laws. In making this election, each of the parties hereto hereby states that the income derived by him from the operations under this agreement can be adequately determined without the computation of partnership taxable income.

ARTICLE 17

NONDISCRIMINATION

ARTICLE 20

ABANDONMENT OF WELLS

20.1 Rights of Former Owners. If Working Interest Owners decide to abandon permanently any well within the Unit Area prior to termination of the Unit Agreement, Unit Operator shall give written notice thereof to the Working Interest Owners of the Tract on which the well is located and they shall have the option for a period of ninety (90) days after the sending of such notice to notify Unit Operator in writing of their election to take over and own the well. Within ten (10) days after the Working Interest Owners of the Tract have notified Unit Operator of their election to take over the well, they shall pay Unit Operator, for credit to the joint account, the amount estimated by Working Interest Owners to be the net salvage value of the equipment in and on the well up to and including the wellhead except casing which was included in the original inventory shall receive no value. The Working Interest Owners of the Tract, by taking over the well, agree to seal off effectively and protect the Unitized Formation and upon abandonment to plug the well in compliance with applicable laws and regulations.

20.2 Plugging. If the Working Interest Owners of a Tract do not elect to take over a well located thereon which is proposed for abandonment, Unit Operator shall plug and abandon the well in compliance with applicable laws and regulations.

ARTICLE 21

EFFECTIVE DATE AND TERM

21.1 Effective Date. This agreement shall become effective on the date ~~and at the time~~ that the Unit Agreement becomes effective.

21.2 Term. This agreement shall continue in effect so long as the Unit Agreement remains in effect and thereafter until (a) all unit wells have been abandoned and plugged or turned over to Working Interest Owners in accordance with Article 19, (b) all Unit Equipment and real property acquired for the joint account have been disposed of by Unit Operator in accordance with instructions of Working Interest Owners, and (c) there has been a final accounting.

ARTICLE 22

ABANDONMENT OF OPERATIONS

22.1 Termination. Upon termination of the Unit Agreement the following will occur:

22.1.1 Oil and Gas Rights. Oil and Gas Rights in and to each separate Tract shall no longer be affected by this agreement and thereafter the parties shall be governed by the terms and provisions of the leases, contracts, and other instruments affecting the separate

by Working Interest Owners, except that casing which was included in the original inventory shall receive no value, and by agreeing to plug properly each well in compliance with applicable laws and regulations at such times as it is abandoned.

22.1.3 Salvaging Wells. Unit Operator shall salvage as much of the casing and equipment in or on wells not taken over by Working Interest Owners of separate Tracts as can economically and reasonably be salvaged, and shall cause the wells to be plugged and abandoned in compliance with applicable laws and regulations.

22.1.4 Cost of Salvaging. Working Interest Owners shall share the cost of salvaging, liquidation, or other distribution of assets and properties used in Unit Operation in proportion to their respective Unit participations.

22.1.5 Distribution of Assets. Working Interest Owners shall share in the distribution of Unit Equipment, or the proceeds thereof, in proportion to their Unit Participation.

ARTICLE 23

EXECUTION

23.1 Original, Counterpart, or Other Instrument. A party may become a party to this agreement by signing the original of this instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions hereof. The signing of any such instrument shall have the same effect as if all the parties had signed the same instrument.

ARTICLE 24

SUCCESSORS AND ASSIGNS

24.1 Successors and Assigns. The provisions hereof shall be covenants running with the lands, leases, and interests covered hereby, and shall be binding upon and inure to the benefit of the respective heirs, devisees, legal representatives, successors, and assigns of the parties hereto.

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

WORKING INTEREST OWNERS

APPROVED AS TO TEXACO INC.

EXHIBIT "C"
 TO UNIT OPERATING AGREEMENT
 CENTRAL VACUUM UNIT
 LEA COUNTY, NEW MEXICO

<u>TRACT NUMBER</u>	<u>WORKING INTEREST OWNER</u>	<u>WORKING INTEREST IN TRACT - %</u>	<u>UNIT PARTICIPATION -</u>
1	Texaco Inc.	100.0000	0.19817
2	Texaco Inc.	100.0000	1.60375
3	Atlantic Richfield Company W. D. McBee, Jr., Michael A. McBee, and Dorothy Ann Buell, Executors and Executrix, Respectively, of the Estate of William D. McBee, Deceased	66.6667	0.36777
4	Atlantic Richfield Company	100.0000	0.26663
4A	Atlantic Richfield Company	100.0000	0.16750
5	H. M. Bettis, Inc. W. T. Boyle & Co. Norman D. Stovall, Jr. Turnco, Inc. (a Corporation) S. B. Street & Co. Larry O. Hulsey	18.0000 18.0000 18.0000 18.0000 18.0000 10.0000 <u>100.0000</u>	0.01761 0.01761 0.01761 0.01761 0.01761 0.00976 <u>0.09781</u>
6	Texaco Inc.	100.0000	0.17955
7	Shell Oil Company	100.0000	1.74452
8	Phillips Petroleum Company	100.0000	1.50967

EXHIBIT "C"
 TO UNIT OPERATING AGREEMENT
 CENTRAL VACUUM UNIT
 LEA COUNTY, NEW MEXICO

<u>TRACT NUMBER</u>	<u>WORKING INTEREST OWNER</u>	<u>WORKING INTEREST IN TRACT - %</u>	<u>UNIT PARTICIPATION -</u>
8A	Phillips Petroleum Company	100.0000	4.22365
8B	Phillips Petroleum Company	100.0000	1.98388
9	Marathon Oil Company	100.0000	1.70795
10	Texaco Inc.	100.0000	4.29153
11	Marathon Oil Company	100.0000	6.85518
12	Getty Oil Company	100.0000	7.01649
13	Mobil Oil Corporation	100.0000	1.75192
14	Getty Oil Company	100.0000	1.62279
15	Shell Oil Company	100.0000	8.03105
16	Marathon Oil Company	100.0000	3.11972
17	Texaco Inc.	100.0000	20.52576
18	Amerada Hess Corporation	100.0000	1.98966
19	Mobil Oil Corporation	100.0000	2.21551
20	Shell Oil Company	100.0000	2.10721

EXHIBIT "C"
 TO UNIT OPERATING AGREEMENT
 CENTRAL VACUUM UNIT
 LEA COUNTY, NEW MEXICO

TRACT NUMBER	WORKING INTEREST OWNER	WORKING INTEREST		UNIT PARTICIPATION -
		IN TRACT -	%	
21	Shell Oil Company	100.0000		1.90978
22	Texaco Inc.	100.0000		6.82709
23	Marathon Oil Company	100.0000		13.07057
24	Texaco Inc.	100.0000		1.68639
25	Getty Oil Company	100.0000		0.01278
26	Texaco Inc.	100.0000		0.84667
27	Sohio Petroleum Company Ft. Worth National Bank, Trustee No. 1979 Trust under deed from Donaldson Brown, Frank D. Brown, Jr., H. Barksdale Brown, Jacques T. Schlenger and Mercantile Safe Deposit & Trust Company, Trustees Trust under deed from Donaldson Brown, Frank D. Brown, Jr., H. Barksdale Brown, Jacques T. Schlenger and Mercantile Safe Deposit & Trust Company, Trustees		15.8340	0.09412
28	Sun Oil Company	<u>0.8330</u> <u>100.0000</u>		0.00495 <u>0.59471</u>
29	Shell Oil Company	100.0000		0.13216 1.15910
				<u>100.00000</u>

EXHIBIT "C" SUMMARY
 TO UNIT OPERATING AGREEMENT
 CENTRAL VACUUM UNIT
 LEA COUNTY, NEW MEXICO

<u>WORKING INTEREST OWNER</u>	<u>TRACT NUMBER</u>	<u>UNIT PARTICIPATION - %</u>
Amerada Hess Corporation	18	1.98966
Atlantic Richfield Company	3	0.36777
	4	0.26663
	4A	0.16750
		<u>0.80190</u>
H. M. Bettis, Inc.	5	0.01761
W. T. Boyle & Company	5	0.01761
Ft. Worth National Bank, Trustee No. 1979	27	0.29721
Getty Oil Company	12	7.01649
	14	1.62279
	25	0.01278
		<u>8.65206</u>
Larry O. Hulsey	5	0.00976
Marathon Oil Company	9	1.70795
	11	6.85518
	16	3.11972
	23	13.07057
		<u>24.75342</u>
William D. McBee Estate	3	0.18388

EXHIBIT "C" SUMMARY
 TO UNIT OPERATING AGREEMENT
 CENTRAL VACUUM UNIT
 LEA COUNTY, NEW MEXICO

<u>WORKING INTEREST OWNER</u>	<u>TRACT NUMBER</u>	<u>UNIT PARTICIPATION - %</u>
Mercantile Safe Deposit and Trust Company et al Trustees U/D Donaldson Brown	27	0.00495
Mobil Oil Corporation	13	1.75192
	19	2.21551
		<u>3.96743</u>
Phillips Petroleum Company	8	1.50967
	8-A	4.22365
	8-B	1.96388
		<u>7.71720</u>
Shell Oil Company	7	1.74452
	15	8.03105
	20	2.10721
	21	1.90978
	29	1.15910
		<u>14.95166</u>
Sohio Petroleum Company	27	0.19813
Norman D. Stovall, Jr.	5	0.01761
S. B. Street & Company	5	0.01761
Sun Oil Company	28	0.13216

EXHIBIT "C" SUMMARY
 TO UNIT OPERATING AGREEMENT
 CENTRAL VACUUM UNIT
 LEA COUNTY, NEW MEXICO

<u>WORKING INTEREST OWNER</u>	<u>TRACT NUMBER</u>	<u>UNIT PARTICIPATION - %</u>
Texaco Inc.	1	0.19817
	2	1.60325
	6	0.17955
	10	4.29153
	17	20.52576
	22	6.82709
	24	1.68639
	26	0.84667
		<u>36.15841</u>
	Trusts U/D Donaldson Brown	27
Turnco, Inc. (a Corporation)	5	0.01761
		<u><u>100.00000</u></u>

EXHIBIT " D "

Attached to and made a part of Unit Operating Agreement
CENTRAL VACUUM UNIT
Lea County, New Mexico

ACCOUNTING PROCEDURE JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

"Joint Property" shall mean the real and personal property subject to the agreement to which this Accounting Procedure is attached.

"Joint Operations" shall mean all operations necessary or proper for the development, operation, protection and maintenance of the Joint Property.

"Joint Account" shall mean the account showing the charges paid and credits received in the conduct of the Joint Operations and which are to be shared by the Parties.

"Operator" shall mean the party designated to conduct the Joint Operations.

"Non-Operators" shall mean the parties to this agreement other than the Operator.

"Parties" shall mean Operator and Non-Operators.

"First Level Supervisors" shall mean those employees whose primary function in Joint Operations is the direct supervision of other employees and/or contract labor directly employed on the Joint Property in a field operating capacity.

"Technical Employees" shall mean those employees having special and specific engineering, geological or other professional skills, and whose primary function in Joint Operations is the handling of specific operating conditions and problems for the benefit of the Joint Property.

"Personal Expenses" shall mean travel and other reasonable reimbursable expenses of Operator's employees.

"Material" shall mean personal property, equipment or supplies acquired or held for use on the Joint Property.

"Controllable Material" shall mean Material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council of Petroleum Accountants Societies of North America.

2. Statement and Billings

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of the Joint Account for the preceding month. Such bills will be accompanied by statements which identify the authority for expenditure, lease or facility, and all charges and credits, summarized by appropriate classifications of investment and expense except that items of Controllable Material and unusual charges and credits shall be separately identified and fully described in detail.

3. Advances and Payments by Non-Operators

Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the rate of twelve percent (12%) per annum or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

Payment of any such bills shall not prejudice the right of any Non-Operator to protest or question the correctness thereof; provided, however, all bills and statements rendered to Non-Operators by Operator during any calendar year shall conclusively be presumed to be true and correct after twenty-four (24) months following the end of any such calendar year, unless within the said twenty-four (24) month period a Non-Operator takes written exception thereto and makes claim on Operator for adjustment. No adjustment favorable to Operator shall be made unless it is made within the same prescribed period. The provisions of this paragraph shall not prevent adjustments resulting from a physical inventory of Controllable Material as provided for in Section V.

5. Audits

1. Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit One

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Rentals and Royalties

Lease rentals and royalties paid by Operator for the Joint Operations.

2. Labor

- A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.
- (2) Salaries of First Level Supervisors in the field.
- (3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the Overhead rates.
- B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II. Such costs under this Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.
- C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II.
- D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II.

3. Employee Benefits

Operator's current costs of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II shall be Operator's actual cost not to exceed twenty per cent (20%).

4. Material

Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV. Only such Material shall be purchased for or transferred to the Joint Property as may be required for immediate use and is reasonably practical and consistent with efficient and economical operations. The accumulation of surplus stocks shall be avoided.

5. Transportation

Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations:

- A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store, recognized barge terminal, or railway receiving point where like material is normally available, unless agreed to by the Parties.
- B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store, recognized barge terminal, or railway receiving point unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.
- C. In the application of Subparagraphs A and B above, there shall be no equalization of actual gross trucking cost of \$200 or less excluding accessorial charges.

6. Services

The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 9 of Section II and Paragraph 1. ii of Section III. The cost of professional consultant services and contract services of technical personnel directly engaged on the Joint Property if such charges are excluded from the Overhead rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.

7. Equipment and Facilities Furnished by Operator

- A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on investment not to exceed eight per cent (8%) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.
- B. In lieu of charges in Paragraph 7A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates

10. Taxes

All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties.

11. Insurance

Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the event Joint Operations are conducted in a state in which Operator may act as self-insurer for Workmen's Compensation and/or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self-insurance program and in that event, Operator shall include a charge at Operator's cost not to exceed manual rates.

12. Other Expenditures

Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III, and which is incurred by the Operator in the necessary and proper conduct of the Joint Operations.

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

i. As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge drilling and producing operations on either:

- () Fixed Rate Basis, Paragraph 1A, or
- () Percentage Basis, Paragraph 1B.

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 2A, Section II. The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in the Overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.

ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property shall () shall not () be covered by the Overhead rates.

***and the cost of First Level Supervisors in the Field.**

A. Overhead - Fixed Rate Basis

(1) Operator shall charge the Joint Account at the following rates per well per month:

Drilling Well Rate \$ 1,200.00
 Producing Well Rate \$ 165.00

(2) Application of Overhead - Fixed Rate Basis shall be as follows:

(a) Drilling Well Rate

- [1] Charges for onshore drilling wells shall begin on the date the well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
- [2] Charges for offshore drilling wells shall begin on the date when drilling or completion equipment arrives on location and terminate on the date the drilling or completion equipment moves off location or rig is released, whichever occurs first, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days
- [3] Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig, commence through date of rig release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive days.

(b) Producing Well Rates

- [1] An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.
- [2] Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.
- [3] An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a per-

B. Overhead - Percentage Basis

(1) Operator shall charge the Joint Account at the following rates:

(a) Development

_____ Percent (%) of the cost of Development of the Joint Property exclusive of costs provided under Paragraph 9 of Section II and all salvage credits.

(b) Operating

_____ Percent (%) of the cost of Operating the Joint Property exclusive of costs provided under Paragraphs 1 and 9 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.

(2) Application of Overhead - Percentage Basis shall be as follows:

For the purpose of determining charges on a percentage basis under Paragraph 1B of this Section III, development shall include all costs in connection with drilling, redrilling, deepening or any remedial operations on any or all wells involving the use of drilling crew and equipment; also, preliminary expenditures necessary in preparation for drilling and expenditures incurred in abandoning when the well is not completed as a producer, and original cost of construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a fixed asset, except Major Construction as defined in Paragraph 2 of this Section III. All other costs shall be considered as Operating.

2. Overhead - Major Construction

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint Account for Overhead based on the following rates for any Major Construction project in excess of \$ 25,000.00 :

A. 3 % of total costs if such costs are more than \$ 25,000 but less than \$ 100,000 ; plus

B. 3 % of total costs in excess of \$ 100,000 but less than \$500,000; plus

C. 2 % of total costs in excess of \$500,000.

Total cost shall mean the gross cost of any one project. For the purpose of this paragraph, the component parts of a single project shall not be treated separately and the cost of drilling and workover wells shall be excluded.

3. Amendment of Rates

The Overhead rates provided for in this Section III may be amended from time to time only by mutual agreement between the Parties hereo if, in practice, the rates are found to be insufficient or excessive.

IV. PRICING OF JOINT ACCOUNT MATERIAL PURCHASES, TRANSFERS AND DISPOSITIONS

Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for all material movements affecting the Joint Property. Operator shall provide all Material for use on the Joint Property; however, at Operator's option, such Material may be supplied by the Non-Operator. Operator shall make timely disposition of idle and/or surplus Material, such disposal being made either through sale to Operator or Non-Operator, division in kind, or sale to outsiders. Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus condition A or B Material. The disposal of surplus Controllable Material not purchased by the Operator shall be agreed to by the Parties.

1. Purchases

Material purchased shall be charged at the price paid by Operator after deduction of all discounts received. In case of Material found to be defective or returned to vendor for any other reason, credit shall be passed to the Joint Account when adjustment has been received by the Operator.

2. Transfers and Dispositions

Material furnished to the Joint Property and Material transferred from the Joint Property or disposed of by the Operator, unless otherwise agreed to by the Parties, shall be priced on the following bases exclusive of cash discounts:

A. New Material (Condition A)

(1) Tubular goods, except line pipe, shall be priced at the current new price in effect on date of movement on a maximum carload or barge load weight basis, regardless of quantity transferred, equalized to the lowest published price f.o.b. railway receiving point or recognized barge terminal nearest the Joint Property where such Material is normally available.

(2) Line Pipe

(a) Movement of less than 30,000 pounds shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property where such Material is normally available.

- (b) at sixty-five percent (65%) of current new price, as determined by Paragraph 2A of this Section IV, if Material was originally charged to the Joint Account as good used Material at seventy-five percent (75%) of current new price.

The cost of reconditioning, if any, shall be absorbed by the transferring property.

C. Other Used Material (Condition C and D)

(1) Condition C

Material which is not in sound and serviceable condition and not suitable for its original function until after reconditioning shall be priced at fifty percent (50%) of current new price as determined by Paragraph 2A of this Section IV. The cost of reconditioning shall be charged to the receiving property, provided Condition C value plus cost of reconditioning does not exceed Condition B value.

(2) Condition D

All other Material, including junk, shall be priced at a value commensurate with its use or at prevailing prices. Material no longer suitable for its original purpose but usable for some other purpose, shall be priced on a basis comparable with that of items normally used for such other purpose. Operator may dispose of Condition D Material under procedures normally utilized by the Operator without prior approval of Non-Operators.

D. Obsolete Material

Material which is serviceable and usable for its original function but condition and/or value of such Material is not equivalent to that which would justify a price as provided above may be specially priced as agreed to by the Parties. Such price should result in the Joint Account being charged with the value of the service rendered by such Material.

E. Pricing Conditions

- (1) Loading and unloading costs may be charged to the Joint Account at the rate of fifteen cents (15¢) per hundred weight on all tubular goods movements, in lieu of loading and unloading costs sustained, when actual hauling cost of such tubular goods are equalized under provisions of Paragraph 5 of Section II.
- (2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

3. Premium Prices

Whenever Material is not readily obtainable at published or listed prices because of national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required Material at the Operator's actual cost incurred in providing such Material, in making it suitable for use, and in moving it to the Joint Property; provided notice in writing is furnished to Non-Operators of the proposed charge prior to billing Non-Operators for such Material. Each Non-Operator shall have the right, by so electing and notifying Operator within ten days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use and acceptable to Operator.

4. Warranty of Material Furnished by Operator

Operator does not warrant the Material furnished. In case of defective Material, credit shall not be passed to the Joint Account until adjustment has been received by Operator from the manufacturers or their agents.

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

At reasonable intervals, Inventories shall be taken by Operator of the Joint Account Controllable Material. Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that Non-Operators may be represented when any inventory is taken. Failure of Non-Operators to be represented at an inventory shall bind Non-Operators to accept the inventory taken by Operator.

2. Reconciliation and Adjustment of Inventories

Reconciliation of a physical inventory with the Joint Account shall be made, and a list of overages and shortages shall be furnished to the Non-Operators within six months following the taking of the inventory. Inventory adjustments shall be made by Operator with the Joint Account for overages and shortages, but Operator shall be held accountable only for shortages due to lack of reasonable diligence.

3. Special Inventories

Special Inventories may be taken whenever there is any sale or change of interest in the Joint Property. It shall be the duty of the party selling to notify all other Parties as quickly as possible after the transfer of interest takes place. In such cases, both the seller and the purchaser shall be governed by such inventory.

4. Expense of Conducting Periodic Inventories

The expense of conducting periodic Inventories shall not be charged to the Joint Account unless agreed to by the

EXHIBIT "E"

ATTACHED TO
UNIT OPERATING AGREEMENT
CENTRAL VACUUM UNIT
LEA COUNTY, NEW MEXICO

INSURANCE PROVISIONS

OPERATOR, during the term of this Agreement, shall carry specific insurances for the benefit and at the expense of the parties hereto as follows:

- (A) Workmen's Compensation Insurance as contemplated by the laws of the state in which operations will be conducted, and Employers' Liability Insurance with limits of \$100,000 per employee and \$100,000 per accident.
- (B) OPERATOR shall require contractors and subcontractors performing work for the joint account to provide such insurance as deemed necessary by OPERATOR in relation to the work to be performed by said contractors or subcontractors.

Liability, except that covered by the above specified insurance, against any of the parties hereto for damages to property of third persons or injury to or death of third persons arising out of the joint operations, including expenses incurred in defending claims or actions asserting liability of this character, shall be borne severally and not jointly by the parties hereto in proportion to their respective undivided interests in the joint operation. Any party hereto individually may acquire such additional insurance as it desires to protect itself against any liability not covered by the above specified insurance at its own cost. All insurance purchased individually by a party to this agreement shall contain a waiver by the insurance company of all rights of subrogation in favor of the parties to this agreement.

No other insurances shall be carried by operator for the joint account unless mutually agreed to by the parties hereto. All losses not covered by the above specified insurances shall be borne by the parties in proportion to their interest in the venture at the time of the loss.

Inasmuch as OPERATOR has agreed with each party to this agreement to acquire, construct, operate and maintain the joint account operations on a cost basis without profit to OPERATOR, each such party hereby releases from all claims for loss by or damage to, such party arising out of, in connection with, or as an incident to, any act or omission, including negligence (but excluding gross negligence, willful misconduct, or intentional breach of any provision of the operating agreement) of OPERATOR or, to the extent of OPERATOR'S legal liability, its employees, agents or contractors, in acquiring, operating or maintaining the joint account; provided this release shall not apply to OPERATOR'S prorata share of the cost and expenses as otherwise provided in this agreement. The obligations of each party under this agreement are several and not joint with any other

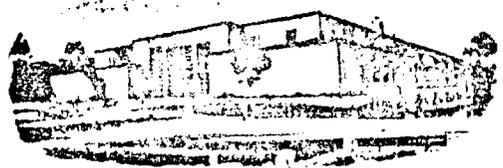
RECORDED - INDEXED

FEB 22 1977

State of New Mexico



Land Division



Commissioner of Public Lands

February 17, 1977

PHIL R. LUCERO
COMMISSIONER

P. O. BOX 1148
SANTA FE, NEW MEXICO 87501

Texaco Inc.
P. O. Box 3109
Midland, Texas 79701

255100

Re: Proposed Central Vacuum Unit
Lea County, New Mexico

RECEIVED
LAND DIVISION
FEB 22 1977
LAND DEPT.

ATTENTION: Mr. Robert E. Davis

Gentlemen:

We have reviewed the unexecuted copy of unit agreement, Exhibits "A" and "B" which you submitted for the proposed Central Vacuum Unit, Lea County, New Mexico. The form of agreement meets the requirements of the Commissioner of Public Lands, therefore, your agreement has been approved as to form and content and as a logical area for unitization.

The corrections on your Exhibit "A" and "B" were pointed out to you in our meeting yesterday.

The following are required by this office when submitting your agreement for final approval.

1. Application for final approval stating all Tracts committed and Tracts not committed.
2. Two copies of Unit Agreement, one must contain original signatures.
3. All ratifications, two copies, from Lessees of Record and Working Intrest owners. One must contain original signatures.
4. One signed copy of Operating Agreement.
5. One copy of New Mexico Oil Conservation Commission order.

BEFORE EXAMINER STAMETS

EXHIBIT NO. 10

5970

Submitted by Applicant

Hearing Date 6-22-77

Texaco Inc.
P. O. Box 3109
Midland, Texas
February 17, 1977
Page 2.

6. Two copies of final Exhibits "A" and "B"
7. The filing fee in the amount of Seventy (\$70.00) Dollars.

Very truly yours,

PHIL R. LUCERO
COMMISSIONER OF PUBLIC LANDS

BY: *Ray D. Graham*
RAY D. GRAHAM, Director
Oil and Gas Division

PRL/RDG/s

TEXAS-NEW MEXICO PIPE LINE COMPANY

REC'D. - MGRL

Midland, Texas, June 3, 1977

JUN 6 1977

Midland Division

CENTRAL VACUUM UNIT
LEA COUNTY, NEW MEXICO

Mr. D. T. McCreary
Texaco Inc.
Box 3109
Midland, Texas 79702

Dear Sir:

This is to advise that Texas-New Mexico Pipe Line Company is making plans to handle all of the increased production from the Central Vacuum Unit in Lea County, New Mexico.

Yours very truly,

J.R. Mangold

LRM-DEW

TEXAS-NEW MEXICO PIPE LINE COMPANY
CENTRAL VACUUM UNIT
LEA COUNTY, NEW MEXICO
11
5570
Applicant
8-22-77



PHILLIPS PETROLEUM COMPANY

ODESSA, TEXAS 79761
PHILLIPS BUILDING

NATURAL RESOURCES GROUP
Exploration and Production

June 16, 1977

Case 5970: Application of
Texaco Inc. for Statutory
Unitization--Vacuum-Grayburg
San Andres Pool, Lea County,
New Mexico

File: W4-Ro-21-77

New Mexico Oil Conservation Commission (3)
P. O. Box 2088
Santa Fe, New Mexico 87501

Gentlemen:

In the matter of Case 5970, application of Texaco Incorporated for statutory unitization of certain properties in the Vacuum-Grayburg San Andres Pool, Lea County, New Mexico, the applicant has presented a plan for operation of the proposed unit. Texaco Incorporated has informed Phillips Petroleum Company that if this proposal for pressure maintenance is approved by the Commission, an increase in both oil and gas production can be expected from the unitized properties. We have been informed that the casinghead gas volumes from such properties may increase to a peak in 1979 that will exceed current daily gas production by 1.2 MMCF per day.

Phillips Petroleum Company is the principal purchaser of casinghead gas from the proposed unitized area, and delivers this gas to our Lee gasoline plant. Phillips wishes to inform the Commission that if operations by Texaco yield this predicted increase in gas, the receiving and processing of this additional volume will not present a problem to Phillips, and will not result in the flaring of gas at our plant which is now operating well below nominal capacity.

Yours truly,

PHILLIPS PETROLEUM COMPANY

F. F. Lovering, Manager,
Southwestern Region

WCR:db

SEARCHED	INDEXED
SERIALIZED	FILED
JUN 22 1977	
FBI - ALBUQUERQUE	
5970	12
Applicant	
6-22-77	

TABULATION OF ROYALTY AND
WORKING INTEREST OWNER RATIFICATION
CENTRAL VACUUM UNIT
LEA COUNTY, NEW MEXICO

The following is a tabulation of those working interest owners and their respective unit participations who have ratified the Central Vacuum Unit Agreement and Unit Operating Agreement. The unit tracts in which each working interest owner has an interest is also identified:

	<u>Tract No.</u>	<u>Unit Participation</u>
Atlantic Richfield Company	3, 4, 4-A	0.80190%
Amerada Hess Corporation	18	1.98966%
H. M. Bettis, Inc.	5	0.01761%
W. T. Boyle & Co.	5	0.01761%
Fort Worth National Bank Trust #1979	27	0.29721%
Larry O. Hulsey	5	0.00976%
Marathon Oil Company	9, 11, 16, 23	24.75342%
Mercantile Safe Deposit & Trust Co., Co-Trustee U/D Donaldson Brown Acct. Nos. 1 and 2	27	0.00495%
Mobil Oil Corporation	13 & 19	3.96743%
Shell Oil Company	7, 15, 20, 21, 29	14.95166%
Sohio Petroleum Company	27	0.19813%
S. B. Street & Co.	5	0.01761%
Texaco Inc.	1, 2, 6, 10, 17, 22, 24, 26	36.15841%
Turnco, Inc.	5	0.01761%
Sun Oil Co.	13 28	0.13216%
		83.42925%

BEFORE THE COMMISSION
OIL CONSERVATION COMMISSION
EDWIN H. 13 28
CASE NO. 5970
Submitted by Applicant
Hearing Date 6-22-77

The following sets forth those working interest owners and their respective unit participations who have not yet ratified the Unit Agreement and Unit Operating Agreement:

	<u>Tract No.</u>	<u>Unit Participation</u>
Getty Oil Company	12, 14, 25	8.65206%
William D. McBee Estate	3	0.18388%
Phillips Petroleum Company	8, 8A, 8B	7.71720%
Norman D. Stovall, Jr.	5	<u>0.01761%</u>
		16.57075%

The tabulation set forth below lists and categorizes signed and unsigned royalty and overriding royalty owners and their percentage of 12.5923% of gross revenue:

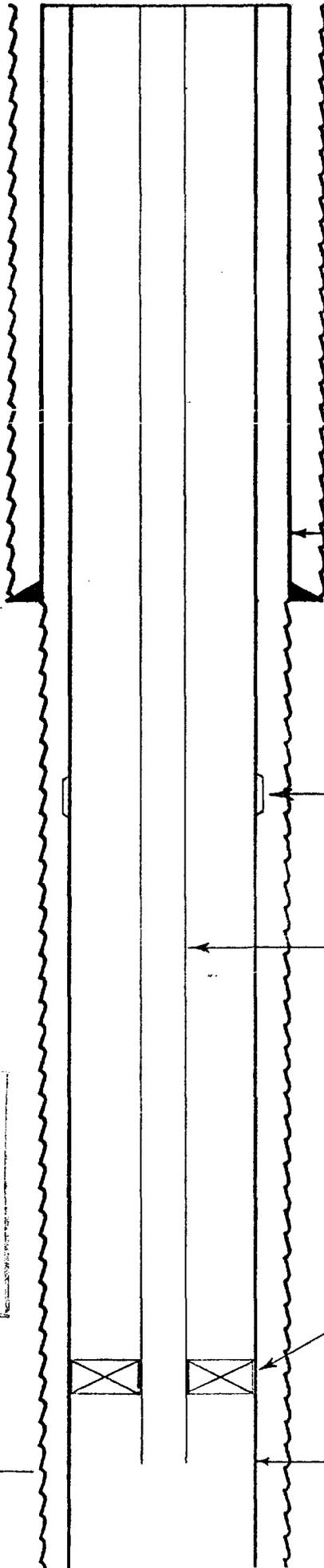
SIGNED

	<u>Tracts</u>	<u>Percentage</u>
State of New Mexico	1 thru 28	98.11638
Sara C. Burns	29	0.28763
Dorothy Swigart Carlson	29	0.57526
Norman & Marjorie G. Gross	29	0.28763
Shell Canadian Exploration Co.	5	0.04854
D. W. Hutchinson	5	0.00809
Ema B. VanDeventer	5	<u>0.00809</u>
	TOTAL	99.33162%

UNSIGNED

	<u>Tracts</u>	<u>Percentage</u>
John A. Barnett, Jr. (Dec'd)	5	0.03232
Exxon Company	27	0.59004
Maratha Dorn Bird	28	0.00295
Dale H. Dorn	28	<u>0.04307</u>
	TOTAL	0.66838%

As a matter of explanation, the royalty and overriding royalty owners' interests are "cost free" interests and such interests in the Central Vacuum Unit amount to a total of 12.5923% of gross revenues.



8-5/8" csg. set @ 350'
Cmt. circulated

Cement stage tool @ base
of salt.

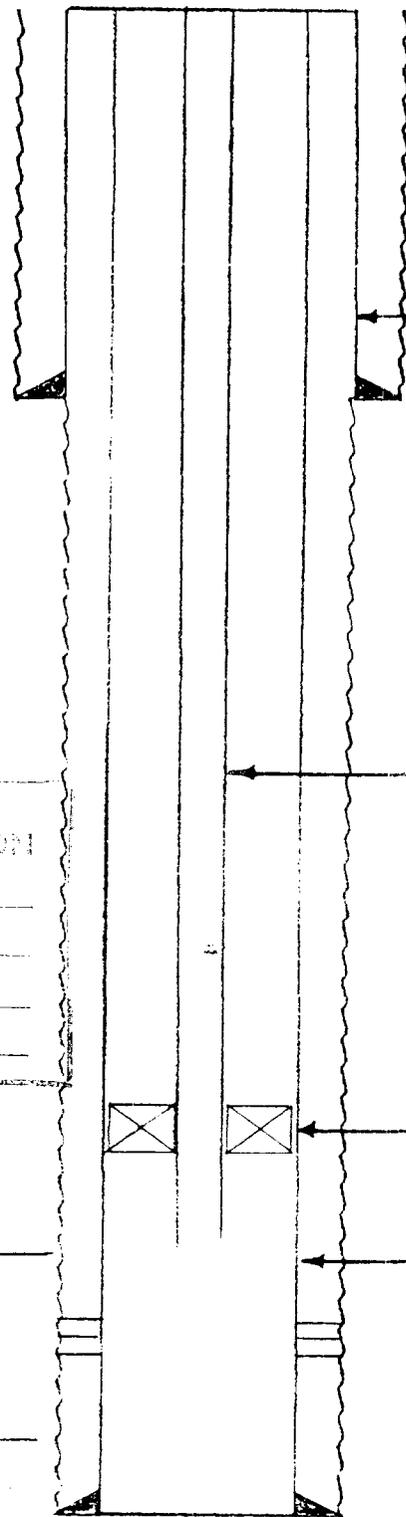
2-3/8" Int. plastic coated
tubing set in packer
@ approx. 4150'

PACKER set approx. 50' above
top perf.

4-1/2" csg. set @ 4800'
Cmt. top to tie
back to 8-5/8" csg.

SAN ANDRES

COMPANY: AMERICAN OIL & GAS COMPANY
 OPERATOR: AMERICAN OIL & GAS COMPANY
 WELL NO. 15
 C. L. NO. 5970
 STATE: Appalachia
 RECORD NO. 6-22-77



8-5/8" csg. set @ 1649'
550 sx cmt.
Cmt. circulated

2-3/8" Int. plastic coated
tubing set in packer

PACKER set approx. 4376'

4-1/2" csg. set @ 4772'
650 sx cmt.
Cmt. circulated

STANDARD STANDARDS
APPLICANT
16
5970
Applicant
6-22-77

SAN ANDRES
perf,
4726' - 4712'

TD 4772'