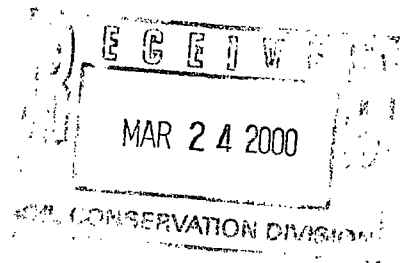




**PHILLIPS PETROLEUM COMPANY**

4001 PENBROOK  
ODESSA, TEXAS 79762

EXPLORATION AND PRODUCTION  
Permian Profit Center



~~September 17, 1998~~

State of New Mexico  
Energy, Minerals & Natural Resources  
Oil Conservation Division  
2040 S. Pacheco  
Santa Fe, New Mexico 87504

Attn: Mr. David Catanach


Re: Administrative Order NSL-4389  
Lea County, New Mexico

Dear Sir:

Referencing the attached Forms C-101, C-102, C-103; Phillips Petroleum wishes to amend NSL Order #4389. The locations for wells #397 & #398 were originally staked underneath overhead power lines which were simply overlooked. We have since re-staked the locations by moving each 25', plats attached, in order to avoid the power lines.

If any additional information is needed, I may be contacted at (915) 368-1488. Your consideration given this matter is greatly appreciated.

Sincerely,

  
for: L.M.S.

Larry M. Sanders  
Supervisor, Regulation/Proration

LMS/cgd

Submit 3 Copies  
to Appropriate  
District Office

State of New Mexico  
Energy, Minerals and Natural Resources Department

Form C-103  
Revised 1-1-89

DISTRICT I  
P.O. Box 1980, Hobbs NM 88241-1980

DISTRICT II  
P.O. Drawer DD, Artesia, NM 88210

DISTRICT III  
1000 Rio Brazos Rd., Aztec, NM 87410

OIL CONSERVATION DIVISION

2040 Pacheco St.  
Santa Fe, NM 87505

WELL API NO.

30-025-34834

5. Indicate Type of Lease

STATE ☒

FEE ☐

6. State Oil & Gas Lease No.

MC20353

SUNDRY NOTICES AND REPORTS ON WELLS  
(DO NOT USE THIS FORM FOR PROPOSALS TO DRILL OR TO DEEPEN OR PLUG BACK TO A  
DIFFERENT RESERVOIR. USE "APPLICATION FOR PERMIT"  
(FORM C-101) FOR SUCH PROPOSALS.)

7. Lease Name or Unit Agreement Name

EAST VACUUM GB/SA UNIT TRACT 3127

1. Type of Well:

OIL  
WELL ☐

GAS  
WELL ☐

OTHER ☒

2. Name of Operator

Phillips Petroleum Company

8. Well No.

397

3. Address of Operator

4001 Penbrook Street Odessa, TX 79762

9. Pool name or Wildcat

VACUUM GRAYBURG/SAN ANDRES

4. Well Location

Unit Letter J : 1885 Feet From The SOUTH Line and 2630 Feet From The EAST Line

Section 31 Township 17-S Range 35-E NMPM LEA County

10. Elevation (Show whether DF, RKB, RT, GR, etc.)

3977' GL

11. Check Appropriate Box to Indicate Nature of Notice, Report, or Other Data

NOTICE OF INTENTION TO:

PERFORM REMEDIAL WORK ☐

PLUG AND ABANDON ☐

TEMPORARILY ABANDON ☐

CHANGE PLANS ☐

PULL OR ALTER CASING ☐

OTHER: ☐

SUBSEQUENT REPORT OF:

REMEDIAL WORK ☐ ALTERING CASING ☐

COMMENCE DRILLING OPNS. ☐ PLUG AND ABANDONMENT ☐

CASING TEST AND CEMENT JOB ☐

OTHER: LOCATION CORRECTION ☒

12. Describe Proposed or Completed Operations (Clearly state all pertinent details, and give pertinent dates, including estimated date of starting any proposed work) SEE RULE 1103.

ORIGINALLY STAKED AS 1910' FSL & 2630' FEL, LOCATION MOVED 25' IN ORDER TO  
STAY CLEAR OF OVERHEAD POWERLINES. NEWLY STAKED LOCATION IS 1885' FSL & 2630' FEL.

I hereby certify that the information above is true and complete to the best of my knowledge and belief.

SIGNATURE L. M. Sanders

TITLE SUPV., REGULATION/PRORATION

DATE 03/21/00

TYPE OR PRINT NAME L. M. SANDERS

TELEPHONE NO. (915) 368-1488

(This space for State Use)

APPROVED BY \_\_\_\_\_ TITLE \_\_\_\_\_ DATE \_\_\_\_\_

CONDITIONS OF APPROVAL, IF ANY:

District I  
PO Box 1980, Hobbs, NM 88241-1980  
District II  
811 S. 1st Street, Artesia, NM 88210-2834  
District III  
1000 Rio Brazos Rd., Aztec, NM 87410  
District IV  
2040 South Pacheco, Santa Fe, NM 87505

State of New Mexico  
Energy, Minerals & Natural Resources Department

OIL CONSERVATION DIVISION  
2040 South Pacheco  
Santa Fe, NM 87505

Form C-101  
Revised October 18, 199

Instructions on bac  
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Fee Lease - 5 Copie

☒ AMENDED REPORT

APPLICATION FOR PERMIT TO DRILL, RE-ENTER, DEEPEN, PLUGBACK, OR ADD A ZONE

<sup>1</sup> Operator name and Address Phillips Petroleum Company 4001 Penbrook Street Odessa, TX 79762		<sup>2</sup> OGRID Number 017643
		<sup>3</sup> API Number 30-0 25-34834
<sup>4</sup> Property Code 009166	<sup>5</sup> Property Name VACUUM GB/SA UNIT EAST TRACT 3127	
		<sup>6</sup> Well No. 397

<sup>7</sup> Surface Location									
UL or lot no. J	Section 31	Township 17-S	Range 35-E	Lot. Idn	Feet from the 1885	North/South Line SOUTH	Feet from the 2630	East/West line EAST	County LEA

<sup>8</sup> Proposed Bottom Hole Location If Different From Surface									
UL or lot no.	Section	Township	Range	Lot. Idn	Feet from the	North/South Line	Feet from the	East/West line	County
<sup>9</sup> Proposed Pool 1 VACUUM GRAYBURG SAN ANDRES					<sup>10</sup> Proposed Pool 2				

<sup>11</sup> Work Type Code N	<sup>12</sup> Well Type Code O	<sup>13</sup> Cable/Rotary R	<sup>14</sup> Lease Type Code S	<sup>15</sup> Ground Level Elevation 3977'
<sup>16</sup> Multiple N	<sup>17</sup> Proposed Depth 4850'	<sup>18</sup> Formation GRAYBURG/SANANDRES	<sup>19</sup> Contractor TO BE DETERMINED	<sup>20</sup> Spud Date UPON APPROVAL

<sup>21</sup> Proposed Casing and Cement Program					
Hole Size	Casing Size	Casing weight/foot	Setting Depth	Sacks of Cement	Estimated TOC
11"	8-5/8"	24#	1550'	550	SURFACE
7-7/8"	5-1/2"	15.5#	4850'	900	SURFACE

<sup>22</sup> Describe the proposed program. If this application is to DEEPEN or PLUG BACK give the data on the present productive zone and proposed new productive z  
Describe the blowout prevention program, if any. Use additional sheets if necessary

CORRECTION TO LOCATION. LOCATION RE-STAKED IN ORDER TO STAY CLEAR OF OVERHEAD POWERLINES.

<sup>23</sup> I hereby certify that the information given above is true and complete to the best of my knowledge and belief. Signature: <i>L. M. Sanders</i> Printed name: L. M. SANDERS 03/21/00 915/368-1488 Title: SUPV., REGULATION/PRORATION	OIL CONSERVATION DIVISION	
	Approved by:	
	Title:	
	Approval Date:	Expiration Date:

Form C-102  
Revised February 10, 1994  
Submit to Appropriate District Office  
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Fee Lease - 3 Copies

DISTRICT IV  
P.O. BOX 2088, SANTA FE, N.M. 87504-2088

☒ AMENDED REPORT

## WELL LOCATION AND ACREAGE DEDICATION PLAT

API Number	Pool Code	Pool Name
30-025-34834	62180	Vacuum Grayburg San Andres
Property Code	Property Name	Well Number
009166	EVGSAU TRACT 3127	397
OGRID No.	Operator Name	Elevation
017643	PHILLIPS PETROLEUM COMPANY	3977

### Surface Location

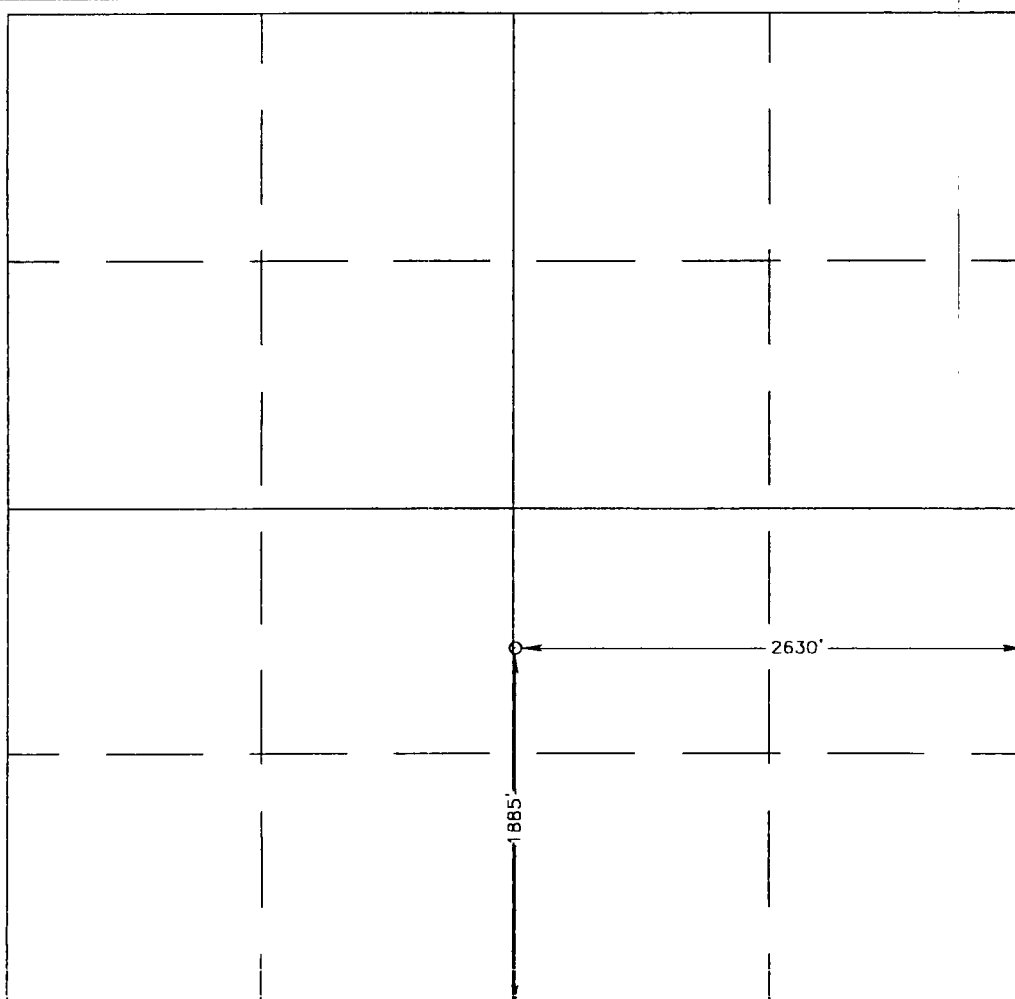
UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
J	31	17 S	35 E		1885	SOUTH	2630	EAST	LEA

## Bottom Hole Location If Different From Surface

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
---------------	---------	----------	-------	---------	---------------	------------------	---------------	----------------	--------

Dedicated Acres	Joint or Infill	Consolidation Code	Order No.

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED  
OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

	<b>OPERATOR CERTIFICATION</b>  <i>I hereby certify the the information contained herein is true and complete to the best of my knowledge and belief.</i>  <u><i>L. M. Sanders</i></u> Signature <u>L. M. Sanders</u> Printed Name <u>Supervisor, Regulation/</u> Title <u>Proration</u> <u>03/21/00</u> Date
	<b>SURVEYOR CERTIFICATION</b>  <i>I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.</i>  <u>MARCH 16, 2000</u> Date Surveyed <u>DC</u> Signature & Seal of Professional Surveyor <u><i>Ronald J. Edson</i></u> 60-11-0353 Certificate No. <u>RONALD J. EDSON 3239</u> <u>GARY EDSON 12641</u> <u>MACON McDONALD 12185</u>

Submit 3 Copies  
to Appropriate  
District Office

State of New Mexico  
Energy, Minerals and Natural Resources Department

Form C-103  
Revised 1-1-89

DISTRICT I  
P.O. Box 1980, Hobbs NM 88241-1980

DISTRICT II  
P.O. Drawer DD, Artesia, NM 88210

DISTRICT III  
1000 Rio Brazos Rd., Aztec, NM 87410

OIL CONSERVATION DIVISION

2040 Pacheco St.  
Santa Fe, NM 87505

WELL API NO.

30-025-34835

5. Indicate Type of Lease

STATE ☒

FEE ☐

6. State Oil & Gas Lease No.

MC20353

SUNDRY NOTICES AND REPORTS ON WELLS  
(DO NOT USE THIS FORM FOR PROPOSALS TO DRILL OR TO DEEPEN OR PLUG BACK TO A  
DIFFERENT RESERVOIR. USE "APPLICATION FOR PERMIT"  
(FORM C-101) FOR SUCH PROPOSALS.)

1. Type of Well:

OIL  
WELL ☐

GAS  
WELL ☐

OTHER ☒

2. Name of Operator

Phillips Petroleum Company

3. Address of Operator

4001 Penbrook Street Odessa, TX 79762

7. Lease Name or Unit Agreement Name

EAST VACUUM GB/SA UNIT TRACT 3127

8. Well No.

398

9. Pool name or Wildcat

VACUUM GRAYBURG/SAN ANDRES

4. Well Location

Unit Letter J : 1350 Feet From The SOUTH Line and 2140 Feet From The EAST Line

Section 31 Township 17-S Range 35-E NMPM LEA County

10. Elevation (Show whether DF, RKB, RT, GR, etc.)

3980' GL

11.

Check Appropriate Box to Indicate Nature of Notice, Report, or Other Data

NOTICE OF INTENTION TO:

PERFORM REMEDIAL WORK ☐

PLUG AND ABANDON ☐

TEMPORARILY ABANDON ☐

CHANGE PLANS ☐

PULL OR ALTER CASING ☐

OTHER: ☐

SUBSEQUENT REPORT OF:

REMEDIAL WORK ☐ ALTERING CASING ☐

COMMENCE DRILLING OPNS. ☐ PLUG AND ABANDONMENT ☐

CASING TEST AND CEMENT JOB ☐

OTHER: LOCATION CORRECTION ☒

12. Describe Proposed or Completed Operations (Clearly state all pertinent details, and give pertinent dates, including estimated date of starting any proposed work) SEE RULE 1103.

ORIGINALLY STAKED AS 1350' FSL & 2165' FEL, LOCATION MOVED 25' IN ORDER TO  
STAY CLEAR OF OVERHEAD POWERLINES. NEWLY STAKED LOCATION IS 1350' FSL & 2140' FEL.

I hereby certify that the information above is true and complete to the best of my knowledge and belief.

SIGNATURE

*L. M. Sanders*

TITLE SUPV., REGULATION/PRORATION

DATE 03/21/00

TYPE OR PRINT NAME L. M. SANDERS

TELEPHONE NO. (915) 368-1488

(This space for State Use)

APPROVED BY

TITLE

DATE

CONDITIONS OF APPROVAL, IF ANY:

District I  
PO Box 1980, Hobbs, NM 88241-1980  
District II  
811 S. 1st Street, Artesia, NM 88210-2834  
District III  
1000 Rio Brazos Rd., Aztec, NM 87410  
District IV  
2040 South Pacheco, Santa Fe, NM 87505

State of New Mexico  
Energy, Minerals & Natural Resources Department

OIL CONSERVATION DIVISION  
2040 South Pacheco  
Santa Fe, NM 87505

Form C-101  
Revised October 18, 199  
Instructions on bac  
Submit to Appropriate District O  
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Fee Lease - 5 Copie

☒ AMENDED REPORT

APPLICATION FOR PERMIT TO DRILL, RE-ENTER, DEEPEN, PLUGBACK, OR ADD A ZONE

<sup>1</sup> Operator name and Address Phillips Petroleum Company 4001 Penbrook Street Odessa, TX 79762		<sup>2</sup> OGRID Number 017643
		<sup>3</sup> API Number 30-0 25-34835
<sup>4</sup> Property Code 009166	<sup>5</sup> Property Name VACUUM GB/SA UNIT EAST TRACT 3127	
<sup>6</sup> Well No. 398		

<sup>7</sup> Surface Location									
UL or lot no. J	Section 31	Township 17-S	Range 35-E	Lot. Idn	Feet from the 1350	North/South Line SOUTH	Feet from the 2140	East/West line EAST	County LEA

<sup>8</sup> Proposed Bottom Hole Location If Different From Surface									
UL or lot no.	Section	Township	Range	Lot. Idn	Feet from the	North/South Line	Feet from the	East/West line	County
<sup>9</sup> Proposed Pool 1 VACUUM GRAYBURG SAN ANDRES					<sup>10</sup> Proposed Pool 2				

<sup>11</sup> Work Type Code N	<sup>12</sup> Well Type Code I	<sup>13</sup> Cable/Rotary R	<sup>14</sup> Lease Type Code S	<sup>15</sup> Ground Level Elevation 3976'
<sup>16</sup> Multiple N	<sup>17</sup> Proposed Depth 4850'	<sup>18</sup> Formation GRAYBURG/SANANDRES	<sup>19</sup> Contractor TO BE DETERMINED	<sup>20</sup> Spud Date UPON APPROVAL

<sup>21</sup> Proposed Casing and Cement Program					
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11"	8-5/8"	24#	1550'	550	SURFACE
7-7/8"	5-1/2"	15.5#	4850'	900	SURFACE

<sup>22</sup>Describe the proposed program. If this application is to DEEPEN or PLUG BACK give the data on the present productive zone and proposed new productive zone. Describe the blowout prevention program, if any. Use additional sheets if necessary.

CORRECTION TO LOCATION. LOCATION RE-STAKED IN ORDER TO STAY CLEAR OF OVERHEAD POWERLINES.

<sup>23</sup>I hereby certify that the information given above is true and complete to the best of my knowledge and belief.

Signature: *L. M. Sanders*

Printed name: L. M. SANDERS 03/21/00 915/368-1488

Title: SUPV., REGULATION/PRORATION

OIL CONSERVATION DIVISION

Approved by:

Title:

Approval Date:

Expiration Date:

## DISTRICT I

P.O. Box 1960, Hobbs, NM 88241-1960

## State of New Mexico

Energy, Minerals and Natural Resources Department

Form C-102

Revised February 10, 1994

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## DISTRICT II

P.O. Drawer DD, Artesia, NM 88211-0719

## DISTRICT III

1000 Rio Brazos Rd., Aztec, NM 87410

## DISTRICT IV

P.O. BOX 2088, SANTA FE, N.M. 87504-2088

## OIL CONSERVATION DIVISION

P.O. Box 2088

Santa Fe, New Mexico 87504-2088

☒ AMENDED REPORT

## WELL LOCATION AND ACREAGE DEDICATION PLAT

API Number 30-025-34835	Pool Code 62180	Pool Name Vacuum Grayburg San Andres
Property Code 009166	Property Name EVGSAU TRACT 3127	Well Number 398
OGRID No. 017643	Operator Name PHILLIPS PETROLEUM COMPANY	Elevation 3980

## Surface Location

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
J	31	17 S	35 E		1350	SOUTH	2140	EAST	LEA

## Bottom Hole Location If Different From Surface

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County

Dedicated Acres	Joint or Infill	Consolidation Code	Order No.

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED  
OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

	<b>OPERATOR CERTIFICATION</b>  I hereby certify the the information contained herein is true and complete to the best of my knowledge and belief.  <i>L. M. Sanders</i> Signature L. M. Sanders Printed Name Supervisor, Regulation/ Title Proration 03/21/00 Date
	<b>SURVEYOR CERTIFICATION</b>  I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.  MARCH 16, 2000 Date Surveyed LMP Signature & Seal of Professional Surveyor <i>Ronald J. Edson</i> 3/17/2000 00-11-0354 Certificate No. RONALD J. EDSON 3239 GARY EDSON 12841 MACON McDONALD 12185

CAMPBELL, CARR, BERGE  
& SHERIDAN, P.A.  
LAWYERS

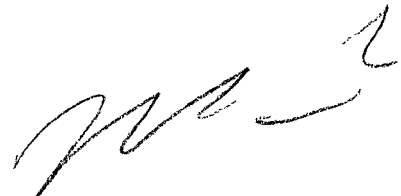
MICHAEL B. CAMPBELL  
WILLIAM F. CARR  
BRADFORD C. BERGE  
MARK F. SHERIDAN  
MICHAEL H. FELDEWERT  
PAUL R. OWEN  
ANTHONY F. MEDEIROS  
  
JACK M. CAMPBELL  
1916-1999

JEFFERSON PLACE  
SUITE 1 - 110 NORTH GUADALUPE  
POST OFFICE BOX 2208  
SANTA FE, NEW MEXICO 87504-2208  
TELEPHONE: (505) 988-4421  
FACSIMILE: (505) 983-6043  
E-MAIL: ccbspa@ix.netcom.com

February 25, 2000

**HAND DELIVERED**

Michael Stogner, Hearing Examiner  
Oil Conservation Division  
New Mexico Department of Energy,  
Minerals and Natural Resources  
2040 South Pacheco Street  
Santa Fe, New Mexico 87505



OIL CONSERVATION DIV.  
00 FEB 25 PM 4:25

**Re: *Application of Texaco Exploration and Production Inc. for nonstandard well locations for wells in Central Vacuum Unit Tertiary Recovery Project, Lea County, New Mexico.***

***Application of Phillips Petroleum Company for nonstandard well locations for wells in East Vacuum Grayburg San Andres Unit Tertiary Recovery Project, Lea County, New Mexico.***

Dear Mr. Stogner

On January 14, 2000, the Division issued Administrative Order NSL-4389, in which the Division approved non-standard well locations for Texaco and Phillips for the Central Vacuum Unit and the East Vacuum Grayburg San Andres Unit.

You will recall that the subject wells are unorthodox by virtue of their encroachment on the common lease line between the two units, and between the two parties' properties. When you and I discussed this matter prior to the Division's issuance of Order No. NSL-4389, you were concerned that the parties had not yet finalized a lease line agreement to formalize the parties' sharing of costs and proceeds from production. Accordingly, the Division included finding paragraphs 5 and 6, and ordering paragraph 3.



Michael Stogner, Hearing Examiner  
February 25, 2000  
Page 2

In Order NSL 4389, ordering paragraph 3 reads:

This order shall become effective upon the last party's signing of both the Producers Cooperative Unit Line Agreement and the Water Injection Agreement.

The parties finalized and signed those Agreements on February 10 and 14, 2000. Both Agreements carry an effective date of February 1, 2000. I have enclosed one copy of each agreement to complete your file in this matter.

Your assistance and thoroughness in this matter are greatly appreciated. If you have any questions, please call.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Paul R. Owen', with a stylized, flowing script.

Paul R. Owen

cc: Mr. Scott Wehner (via facsimile)  
Mr. Fred Kent (via facsimile)  
Mr. Tom Kellahin (via hand delivery)

CASE \_\_\_\_\_: Application of Texaco Exploration and Production Inc. for approval pursuant to the provisions of Division Rule 104 F (2), of unorthodox well locations in the Grayburg and San Andres formations, Vacuum Grayburg-San Andres Pool. Applicant seeks approval of the Central Vacuum Unit Well No. 295, to be drilled 669 feet from the North line and 10 feet from the East line of Section 6, Township 18 South, Range 35 East, NMPM, Lea County, New Mexico, and the Central Vacuum Unit Well No. 286 to be drilled 634 feet from the South line and 1333 feet from the East line of Section 31, Township 17 South, Range 35 East, NMPM, Lea County, New Mexico. Said wells are necessary for an efficient production pattern within the Central Vacuum Unit Tertiary Recovery Project, which was approved by order No. R-5530-E dated April 30, 1997. Said waterflood project is located approximately 20 miles west of Hobbs, New Mexico.

## DISTRICT I

P.O. Box 1980, Hobbs, NM 88241-1980

## DISTRICT II

P.O. Box Drawer DD, Artesia, NM 88211-0719

## DISTRICT III

1000 Rio Brazos Rd., Aztec, NM 87410

## DISTRICT IV

P.O. Box 2088, Santa Fe, NM 87504-2088

## State of New Mexico

Energy, Minerals and Natural Resources Department

Form C-101

Revised February 10, 1994

Instructions on back

Submit to Appropriate District Office

State Lease - 6 Copies

Fee Lease - 5 Copies

## OIL CONSERVATION DIVISION

P.O. Box 2088

Santa Fe, New Mexico 87504-2088

☐ AMENDED REPORT

## APPLICATION FOR PERMIT TO DRILL, RE-ENTER, DEEPEN, PLUGBACK, OR ADD A ZONE

<sup>1</sup> Operator Name and Address TEXACO EXPLORATION & PRODUCTION INC. P.O. Box 3109, Midland Texas 79702		<sup>2</sup> OGRID Number 022351
		<sup>3</sup> API Number
<sup>4</sup> Property Code 11122	<sup>5</sup> Property Name CENTRAL VACUUM UNIT	<sup>6</sup> Well No. 286

<sup>7</sup> Surface Location

UI or lot no.	Section	Township	Range	Lot.Idn	Feet From The	North/South Line	Feet From The	East/West Line	County
O	31	17-S	35-E		634	SOUTH	1333	EAST	LEA

<sup>8</sup> Proposed Bottom Hole Location If Different From Surface

UI or lot no.	Section	Township	Range	Lot.Idn	Feet From The	North/South Line	Feet From The	East/West Line	County

<sup>9</sup> Proposed Pool 1 Vacuum Grayburg-San Andres	<sup>10</sup> Proposed Pool 2
--	-------------------------------

<sup>11</sup> Work Type Code N	<sup>12</sup> WellType Code O	<sup>13</sup> Rotary or C.T. ROTARY	<sup>14</sup> Lease Type Code S	<sup>15</sup> Ground Level Elevation 3965'
<sup>16</sup> Multiple No	<sup>17</sup> Proposed Depth 4850'	<sup>18</sup> Formation Grayburg-San Andres	<sup>19</sup> Contractor	<sup>20</sup> Spud Date 02/05/2000

<sup>21</sup> Proposed Casing and Cement Program

SIZE OF HOLE	SIZE OF CASING	WEIGHT PER FOOT	SETTING DEPTH	SACKS OF CEMENT	EST. TOP
11"	8 5/8"	24#	1550'	550	Surface
7 7/8"	5 1/2"	15.5#	4850'	900	Surface

<sup>22</sup> Describe the proposed program. If this application is to DEEPEN or PLUG BACK give the data on the present productive zone and proposed new productive zone.  
Describe the blowout prevention program, if any. Use additional sheets if necessary.

## CEMENTING PROGRAM:

SURFACE CASING: 400 SACKS CLASS C w/2% GEL, 2% CACL<sub>2</sub> (13.5 PPG, 1.74 CF/S, 9.1 GW/S). F/B 150 SACKS CLASS C w/2% CACL<sub>2</sub> (14.8 PPG, 1.34 CF/S, 6.3 GW/S).

PRODUCTION CASING: 800 SACKS 35/65 POZ CLASS H w/6% GEL, 5% SALT, 1/4# FC (12.8 PPG, 1.94 CF/S, 10.4 GW/S). F/B 100 SACKS CLASS H (15.6 PPG, 1.18 CF/S, 5.2 GW/S).

## UNORTHODOX LOCATION

THERE ARE NO OTHER OPERATORS IN THIS QUARTER-QUARTER SECTION.

<sup>23</sup> I hereby certify that the rules and regulations of the Oil Conservation Division have been complied with and that the information given above is true and complete to the best of my knowledge and belief.

Signature

*A. Phil Ryan*

Printed Name

*A. Phil Ryan*

Title

*Commission Coordinator*

Date 01/05/2000

Telephone 688-4606

## OIL CONSERVATION DIVISION

Approved By:

Title:

Approval Date:

Expiration Date:

Conditions of Approval:

Attached ☐

DISTRICT 1  
P. O. Box 1980, Hobbs, NM 88240

DISTRICT II  
P. O. Drawer DD, Artesia, NM 88210

DISTRICT III  
1000 Río Bragosa Rd., Aztec, NM 87410

DISTRICT IV  
P. O. Box 2088, Santa Fe, NM 87504-2088

State of New Mexico  
Energy, Minerals and Natural Resources Department

OIL CONSERVATION DIVISION  
PO Box 2088  
Santa Fe, NM 87504-2088

Form C-102  
Revised February 10, 1994

Instructions on back

Submit to Appropriate District Office

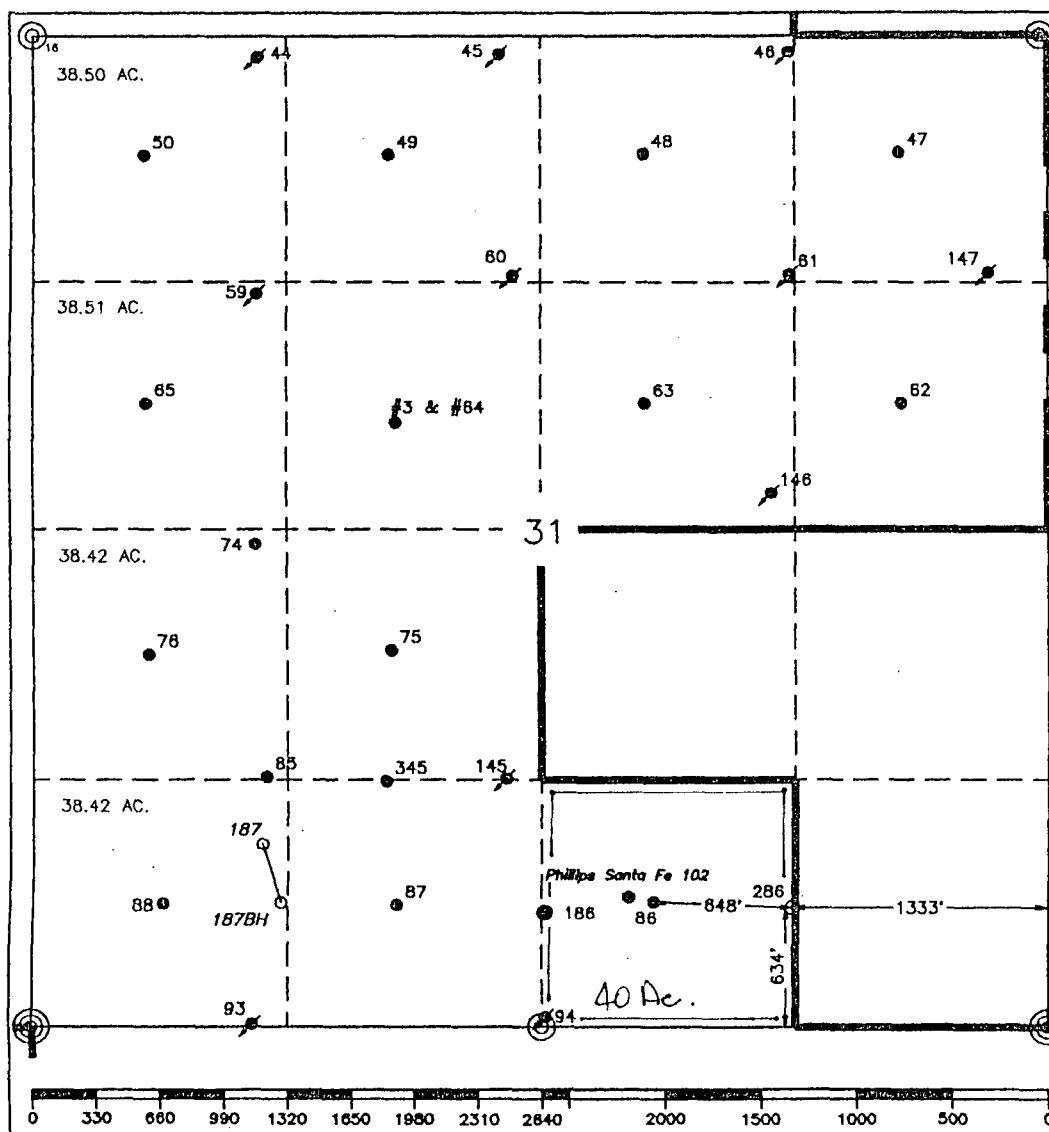
State Lease-4 copies  
Fee Lease-3 copies

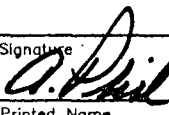
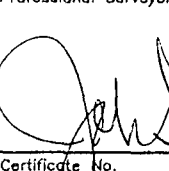
☐ AMENDED REPORT

## WELL LOCATION AND ACREAGE DEDICATION PLAT

<sup>1</sup> API Number		<sup>2</sup> Pool Code		<sup>3</sup> Pool Name Vacuum Grayburg-San Andres					
<sup>4</sup> Property Code		<sup>5</sup> Property Name Central Vacuum Unit					<sup>6</sup> Well Number 286		
<sup>7</sup> OGRID No. 22351		<sup>8</sup> Operator Name TEXACO EXPLORATION & PRODUCTION, INC.					<sup>9</sup> Elevation 3965'		
<sup>10</sup> Surface Location									
UL or lot no. 0	Section 31	Township 17-S	Range 35-E	Lot Idn	Feet from the 634'	North/South line South	Feet from the 1333'	East/West line East	<sup>7</sup> County Lea
<sup>11</sup> Bottom Hole Location If Different From Surface									
UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	<sup>7</sup> County
<sup>12</sup> Dedicated Acres 40		<sup>13</sup> Joint or Infill		<sup>14</sup> Consolidation Code		<sup>15</sup> Order No.			

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED  
OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION.



1 <sup>st</sup> OPERATOR CERTIFICATION	
I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.	
Signature	
Printed Name	A. Phil Ryan
Position	Commission Coordinator
Company	Texaco Expl. & Prod., Inc.
Date	<del>June 4, 1998</del> 1/5/00
1 <sup>st</sup> SURVEYOR CERTIFICATION	
I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my knowledge and belief.	
Date Surveyed	May 21, 1998
Signature & Seal of Professional Surveyor	
Certificate No.	7254 John S. Piper
Sheet	

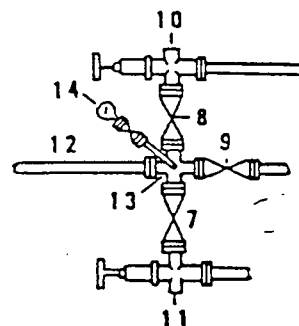
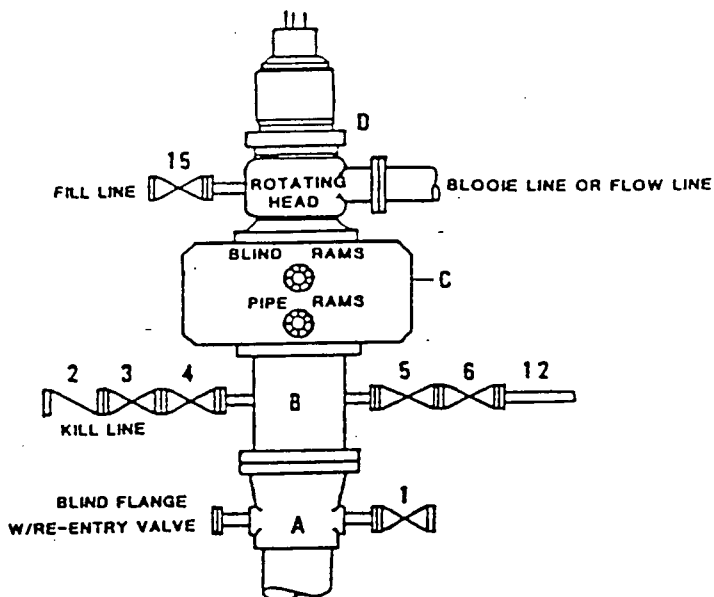
○ = Staked Location   ● = Producing Well    = Injection Well   ◇ = Water Supply Well    = Plugged & Abandon Well  
 ⊙ = Found Section Corner, 2 or 3" Iron Pipe & GLO B.C.   ○ = Found /4 Section Corner, 1" Iron Pipe & GLO B.C.

### ADDITIONAL INFORMATION ON THE LOCATION

State Plane Coordinates			
Northing	650,688.66'	Easting	799,649.90'
Latitude 32°47'09.437"		Longitude 103°29'34.076"	
Zone	North American Datum	Combined Grid Factor	Coordinate File
East	1983	0.99979145	Buckeye.cr5
Drawing File		Field Book	
CVU_286.dwg		Lea Co. F.B. 17, Pg. 53	

**DRILLING CONTROL  
CONDITION II-B 3000 WP  
FOR AIR DRILLING OR  
WHERE NITROGEN OR AIR BLOWS ARE EXPECTED**

H<sub>2</sub>S TRIM REQUIRED  
YES \_\_\_\_\_ NO X



**DRILLING CONTROL**

**MATERIAL LIST - CONDITION II - B**

- |                |   |
|----------------|---|
| A              | Texaco Wellhead   |
| B              | 3000# W.P. drilling spool with a 2" minimum flanged outlet for kill line and 3" minimum flanged outlet for choke line.  |
| C              | 3000# W.P. Dual ram type preventer, hydraulic operated with 1" steel, 3000# W.P. control lines (where sub-structure height is adequate, 2 - 3000# W.P. single ram type preventers may be utilized). |
| D              | Rotating Head with fill up outlet and extended Blooe Line.  |
| 1,3,4,<br>7,8, | 2" minimum 3000# W.P. flanged full opening steel gate valve, or Halliburton Lo Torc Plug valve.   |
| 2              | 2" minimum 3000# W.P. back pressure valve.  |
| 5,6,9          | 3" minimum 3000# W.P. flanged full opening steel gate valve, or Halliburton Lo Torc Plug valve.   |
| 12             | 3" minimum schedule 80, Grade "B", seamless line pipe.  |
| 13             | 2" minimum x 3" minimum 3000# W.P. flanged cross.   |
| 10,11          | 2" minimum 3000# W.P. adjustable choke bodies.  |
| 14             | Cameron Mud Gauge or equivalent ( location optional in choke line).   |
| 15             | 2" minimum 3000# W.P. flanged or threaded full opening steel gate valve, or Halliburton Lo Torc Plug valve.   |



TEXACO, INC.  
MIDLAND DIVISION  
MIDLAND, TEXAS



SCALE	DATE	EST. NO	DRG. NO.
DRAWN BY			
CHECKED BY			
APPROVED BY			

EXHIBIT C

## EVGSAU/CVU WATER INJECTION AGREEMENT

THIS AGREEMENT, is entered into between Phillips Petroleum Company (Phillips) as Operator and on behalf of all working interest owners of the East Vacuum Grayburg San Andres Unit (EVGSAU), and Texaco Exploration and Production Inc. (TEPI) as operator and on behalf of all working interest owners of the Central Vacuum Unit (CVU).

WITNESSETH:

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

WHEREAS, the parties hereto desire to further enhance the recovery of crude oil from the CVU and EVGSAU by drilling four (4) water injection wells in close proximity to their common unit boundary, with an option to convert same to water-alternating-gas injection when deemed necessary and mutually agreed to by both parties.

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

### **ARTICLE I** **DRILL WELLS**

Phillips for the joint account, will drill, equip, operate and maintain the wells listed below for the purpose of injecting water into the Grayburg and San Andres formations.

EVGSAU 3127-395W - 2630' FSL, 645' FEL  
EVGSAU 3127-396W - 2630' FSL, 1950' FEL  
EVGSAU 3127-398W - 1350' FSL, 2165' FEL  
EVGSAU 3127-399W - 10' FSL, 660' FEL

The drilling of the subject wells shall be commenced within the later of, sixty (60) days from the date of approval by the New Mexico Oil Conservation Division, or March 31, 2000.

The above wells are located in Section 31, T-17-S, R-35-E, Lea County, New Mexico as shown on Exhibit "A" attached hereto. Unless mutually agreed to by the undersigned, all wells drilled subject to the terms of this Agreement shall be drilled from a surface location within 25 feet of the locations stated above.

### **ARTICLE II** **OPERATIONS**

Phillips will operate the injection wells and furnish suitable water as required for injection through its water injection system. Injection of water into any of the injection wells covered by this Agreement in the Grayburg and San Andres formations shall be at rates and at pressures that will comply with the rules and regulations of the Oil Conservation Division of the Department of Energy and Minerals of the State of New Mexico. The intent of such injection will be to maintain average reservoir pressure between 1500 and 1600 psig. Except as otherwise provided for herein, all operations hereunder will be governed by the applicable terms of the Operating Agreement for the EVGSAU which is incorporated herein by reference.

OIL CONSERVATION DIV.  
FEB 25 PM 4:30

**ARTICLE III**  
**OPERATING COSTS AND EXPENSES**

All costs to drill, equip, operate, plug and abandon the injection wells will be allocated and the injection wells will be owned as follows:

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

Phillips will establish accounts on behalf of Phillips and TEPI and apply all costs and expenses incurred in the operation and maintenance of the injection wells under this Agreement to such accounts. Phillips shall invoice TEPI for CVU's share (50%) of such costs and expenses based on the following;

1. INJECTION WELL ACCOUNT.

This account includes all costs and expenses associated with the drilling and completion of the new injection wells, and the subsequent operation, maintenance and workover(s) of the injection wells. Also included is the installation, construction and maintenance of associated equipment, including all well meters and water injection lines.

2. WATER INJECTION ACCOUNT.

This account includes all costs and expenses associated with the treatment, pressuring and transportation of water for the herein referenced injection wells. It is agreed by the parties hereto that the payments to be made for water delivered by Phillips to the injection wells are intended to reimburse Phillips as nearly as possible for CVU's share (50%) of such costs and expenses actually incurred by Phillips in acquiring, transporting, and delivering such water to the injection well sites at sufficient pressure to achieve injection into the formation, it being intended that Phillips shall not make a profit from the operations conducted hereunder, aside from any resultant production from producing wells on their respective properties. The rate of \$0.12 per barrel of water injected into the four lease-line wells shall be charged to this account for this purpose.

Two years after the first day of the month in which injection is initiated, Phillips or TEPI may call, but are not required to call, for a recalculation of the costs and expenses of acquiring, transporting, and delivering a barrel of said water under the terms of this agreement. By mutual agreement, the actual rate per barrel, as determined in the manner set forth above shall be the rate for the remainder of the term of this agreement.

It is further understood that Phillips or TEPI may call for a recalculation of the actual cost of acquiring, transporting, and delivering water to the injection well sites for any subsequent two (2) years or twenty-four (24) month period in the manner provided for herein, but such recalculation will not be made more than once in any two year period.

3. MISCELLANEOUS ACCOUNT.

All other associated costs and expenses not herein addressed above, and pertaining to this Agreement will be charged to this account and shared jointly and in the proportions set out in this Article III.

**ARTICLE IV**  
**EXPENDITURE LIMITATION**

Without the approval of TEPI, Phillips shall not undertake any single project reasonably estimated to require an expenditure in excess of Fifty Thousand dollars (\$50,000.00); provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature,

Phillips may take steps and incur such expenses as in its opinion are required to deal with such emergency to safeguard life and property. Phillips shall as promptly as possible report any such emergency to TEPI, but in all events, within 48 hours after the start of the first normal business day following any such occurrence.

## **ARTICLE V** **INCOME TAX ELECTION**

This Agreement and 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 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 1986, as permitted and authorized by Section 761 of the Code and regulations promulgated thereunder. Phillips is 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 Treasury Regulation 1.761. Should there be any requirement that each party hereto give further evidence of this election, such party shall 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 notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state in which the operations are located or any future income tax law of the United States contain provisions similar to those in Subchapter K, Chapter 1, Subtitle A, of the Internal Revenue Code of 1986, under which an election similar to that provided by Section 761 of the Code is permitted, each of the parties hereto agrees to make such election as may be permitted or required by such laws. In making the foregoing election, each of the parties states that the income derived by such party from the operations under this Agreement can be adequately determined without the computation of partnership taxable income.

## **ARTICLE VI** **CLAIMS AND LAWSUITS**

Phillips may settle any single third party damage claim or suit arising from operations hereunder if the expenditure does not exceed Twenty-five Thousand dollars ( \$25,000.00 ) and if the payment is in complete settlement of such claim or suit. If the amount for settlement exceeds the above amount, the parties hereto shall assume and takeover the further handling of the claim or suit, unless TEPI delegates authority to Phillips to handle the same. All costs of handling, settling, or otherwise discharging such claim or suit shall be shared jointly and in the proportions set out in Article III, hereinabove. If a claim is made against any party hereto or a party hereto is sued on account of any matter arising from operations hereunder, such party shall timely notify the other party hereto, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

Each party hereto agrees to indemnify, defend and hold the other party harmless from and against any and all suits, claims, demands, liabilities, costs, and expenses (including attorneys fees and court costs) brought by royalty owners, working interest owners or other interest owners of such property as a result of the parties entering into this Agreement, including without limitation any claims based upon the amount of royalties being paid to such royalty owner, working interest owner, or other interest owner of such party.

## **ARTICLE VII** **FORCE MAJEURE**

If any party hereto is rendered unable, wholly or in part, by force majeure to carry out its obligations under this Agreement, other than the obligation to make money payments, said party shall give the other party prompt written notice of the force majeure situation, including full particulars thereof. Upon giving notice, the obligations of such party, so far as they are affected by such force majeure, shall be suspended during, but no longer than, the continuance of the force majeure situation. The affected party shall use all reasonable diligence to remove the force majeure situation as quickly as practicable.

The requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes, lockouts, or other labor difficulty by the party involved, contrary



to the party's wishes. Such difficulties shall be handled entirely within the discretion of the concerned party.

The term "force majeure" as used herein shall mean an act of God, strike, lockout, or other industrial disturbance, act of the public enemy, war, blockade, public riot, lighting, fire, frozen pipes, storm, flood, explosion, governmental action or delay, restraint or inaction, unavailability of equipment, and any other cause, whether of the kind specifically enumerated above or otherwise, which is not reasonably within the control of the party claiming such suspension.

## **ARTICLE VIII** **NOTICES**

All notices that are required or authorized to be given hereunder, except as otherwise specifically provided herein, shall be given in writing personally, or by mail, overnight courier service, telex or telecopier, postage or charges prepaid, and addressed to the party to whom such notice is given as follows:

Phillips Petroleum Company  
4001 Penbrook  
Odessa, TX 79762  
Attn: Land Director  
Phone: ( 915 ) 368-1373  
FAX: ( 915 ) 368-1633

Texaco Exploration and Production Inc.  
P. O. Box 3109  
Midland, TX 79702  
Attn: CO<sub>2</sub> Assets Manager  
Phone: ( 915 ) 688-2936  
FAX: ( 915 ) 688-4473

Each party hereto will be responsible for assuring that such address or FAX number noted above is current.

The originating notice to be given under any provisions hereof shall be deemed given when received by the party to whom such notice is directed and the time for such party to give any response thereto shall run from the date the originating notice is received. Any subsequent responsive notice shall be deemed given when deposited with the U. S. Post Office or overnight courier service, with postage or charges prepaid or when actually received if given personally or sent by telex or telecopier. Each party shall have the right to change its address at anytime, and from time to time, by giving written notice thereof to the other parties. Any notice(s) or response(s) may be made by telephone in person, but not by recorded message, and must be confirmed in writing consistent with the other provisions hereof.

## **ARTICLE IX** **TERM OF AGREEMENT**

This Agreement shall remain in effect for a period of five (5) years from the effective date hereof and for so long thereafter as the CVU and EVGSAU benefit from the terms and provisions of this Agreement and remain economically profitable to the parties hereto, subject to the provisions below. However, unless the subject wells are drilled and completed by June 30, 2000, this Agreement shall terminate and be of no force or effect except as to those wells drilled and capable of injection.

If at any time during the term of this Agreement, the parties mutually agree that the injection well(s) should be converted to CO<sub>2</sub> water-alternating-gas injection service, said well(s) will cease to be subject to this Agreement, and will instead become subject to a new agreement, to be negotiated between both parties containing provisions for such CO<sub>2</sub> injection.

Furthermore, during the initial five (5) year period, this Agreement cannot be terminated without the mutual consent of both Phillips and TEPI. Thereafter, either party, upon giving sixty (60) days notice to the other, may relinquish all right, title and interest under this Agreement and the remaining party shall retain the option to continue the operations under this Agreement at its sole cost and benefit.

It is agreed, however, that the termination of this Agreement or relinquishment of rights pursuant to this Agreement, shall not relieve either party hereto from any liability which has occurred or attached prior to the date of such termination.

**ARTICLE X**  
**ABANDONMENT OF OPERATIONS**

If the parties hereto mutually agree to terminate this Agreement or either party elects to relinquish its interest under the terms and provisions of Article IX above, Phillips shall, within sixty (60) days of such termination or relinquishment under Article IX, determine the value of salvable material or equipment purchased for the joint account, in the proportions the material and equipment were purchased and the costs accounted for, and remaining value distributed under Article III above. The value of such salvable material and equipment shall be determined in accordance with the provisions of Exhibit "B", less the estimated cost of salvaging said material and equipment.

**Article XI**  
**ALTERNATIVE DISPUTE RESOLUTION**

The parties agree that if any dispute arises between them related to this Agreement they will use the procedures outlined in Exhibit "C", attached hereto, to attempt to resolve such dispute prior to commencing legal proceedings; provided, however, that either party may seek a restraining order, temporary injunction, or other provisional judicial relief if such party in its sole judgement believes that such action is necessary to avoid irreparable injury or to preserve the status quo. The parties will continue to participate in good faith in the procedures despite any such request for provisional relief.

**ARTICLE XII**  
**ASSIGNMENT**

The Parties hereto may assign this Agreement pursuant to the terms and conditions governing assignments contained in the EVGSAU Unit Agreement.

**ARTICLE XIII**  
**MISCELLANEOUS PROVISIONS**

1. This Agreement may be amended at any time with the written consent of all the parties hereto.
2. This Agreement and its Exhibits shall constitute the entire contract of the parties hereto and there are no agreements, undertakings, obligations, promises, assurances or conditions, whether precedent or otherwise, except those specifically set forth herein. In the event there is a conflict between this Agreement, the Exhibits attached hereto and the Operating Agreement for the EVGSAU, the provisions of this Agreement shall prevail.
3. Phillips will conduct all operations under this Agreement in a good and workmanlike manner and have no liability to TEPI for losses sustained or liabilities incurred, except such as may result from gross negligence or willful misconduct.

IN WITNESS WHEREOF, the Parties have executed this Agreement to be effective the 1<sup>st</sup> day of February, 2000.

**PHILLIPS PETROLEUM COMPANY**  
as operator and on behalf of all working interest owners of the  
East Vacuum Grayburg San Andres Unit

By: [Signature]  
Mark W. Tompkins  
Attorney - in - Fact

**TEXACO EXPLORATION AND PRODUCTION INC.**  
as operator and on behalf of all working interest owners of the  
Central Vacuum Unit

By: [Signature] 2/2/00  
~~R. J. Schneider~~ J.M. Woliver  
Attorney - in - Fact

STATE OF TEXAS }

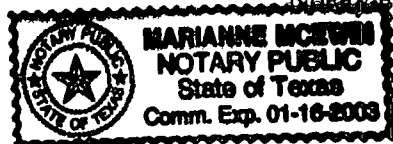
COUNTY OF ECTOR }

Before me Marianne McEwen <sup>Mark W. Tompkins</sup>, a Notary Public in and for said County and State, on this day personally appeared ~~Brett A. Butterfield~~, Attorney-in-Fact of PHILLIPS PETROLEUM COMPANY, a Delaware corporation, known to me to be the person whose name is subscribed on the foregoing instrument, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, and in the capacity therein stated.

Given under my hand and seal of office this 10<sup>th</sup> day of February, 2000.

My Commission expires:

1-16-03



[Signature]  
Notary Public in and for the State of Texas

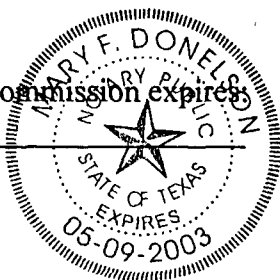
STATE OF TEXAS }

COUNTY OF MIDLAND }

Before me Mary F. Donelson, a Notary Public in and for said County and State, on this day personally appeared JEFF M. WOLIVER, Attorney-in-Fact, of TEXACO EXPLORATION AND PRODUCTION INC., a Delaware corporation, known to me to be the person whose name is subscribed on the foregoing instrument, and acknowledged to me that he executed the same for the purposes and consideration therein expressed. and in the capacity therein stated.

Given under my hand and seal of office this 14 day of February, 2000.

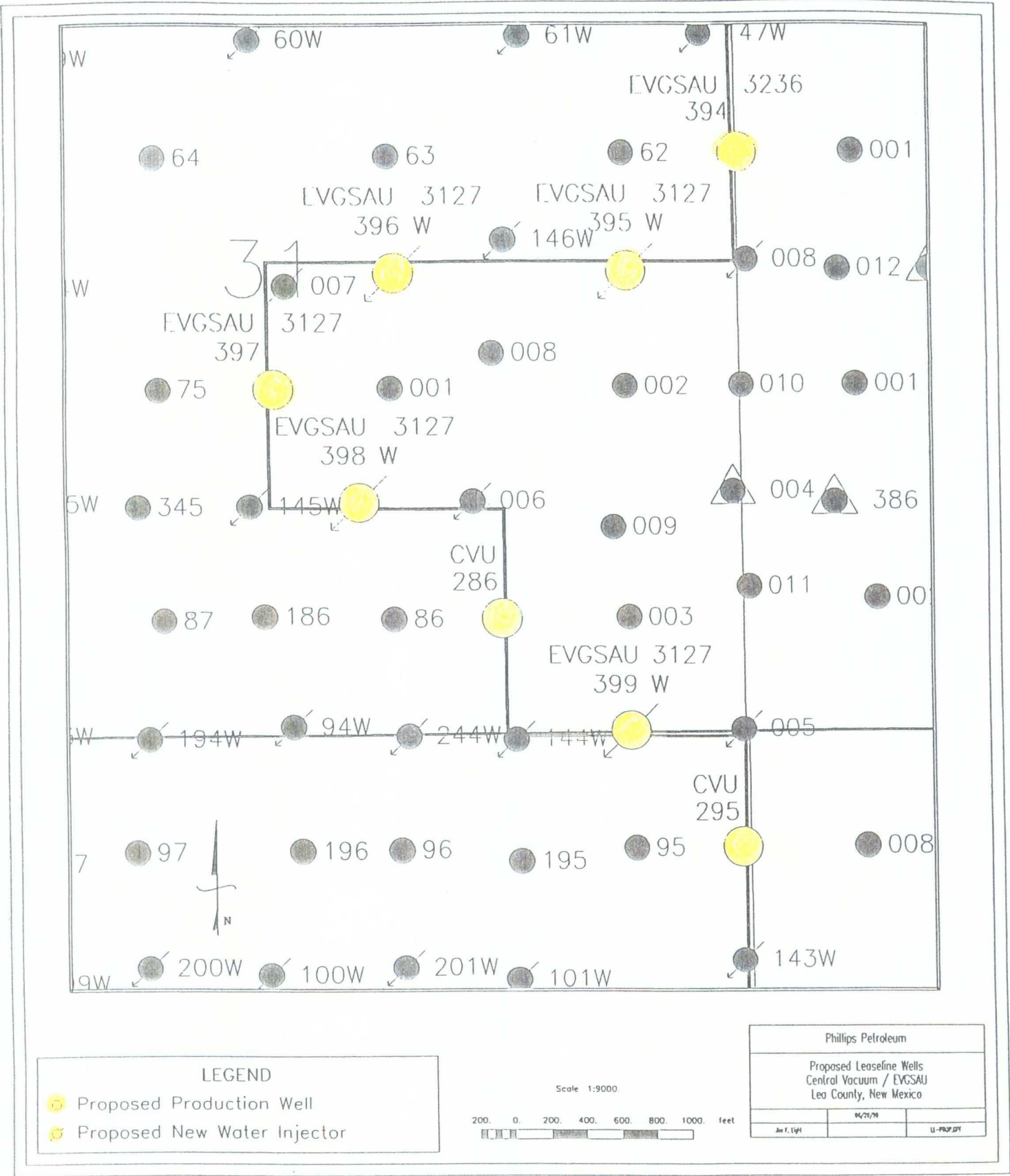
My Commission expires



[Signature]  
Notary Public in and for the State of Texas

EXHIBIT "A"

Attached to and made a part of that certain EVGSAU/CVU Water Injection Agreement  
effective February 1, 2000, by and between  
Phillips Petroleum Company and Texaco Exploration and Production Inc.



**EXHIBIT "B"**

Attached to and made a part of that certain EVGSAU/CVU Water Injection Agreement  
effective February 1, 2000, by and between  
Phillips Petroleum Company and Texaco Exploration and Production Inc.

EXHIBIT

" B "

Attached to and made a part of "that certain EVGSAU/CVU Water Injection Agreement  
effective February 1, 2000, by and between Phillips Petroleum Company and  
Texaco Exploration and Production Inc."

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.

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

A. 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 within ~~fifteen (15)~~ <sup>thirty (30)</sup> days after receipt of the billing or by the first day of the month for which the advance is required, whichever is later. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

B. Each Non-Operator shall pay its proportion of all bills within ~~fifteen (15)~~ <sup>thirty (30)</sup> days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the prime rate in effect at The Chase Manhattan Bank, New York, NY on the first day of the month in which delinquency occurs plus ~~4%~~ <sup>2%</sup> 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

- A. A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided, however, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct a joint audit in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator. The audits shall not be conducted more than once each year without prior approval of Operator, except upon the resignation or removal of the Operator, and shall be made at the expense of those Non-Operators approving such audit.
- B. The Operator shall reply in writing to an audit report within 180 days after receipt of such report.

6. Approval By Non-Operators

Where an approval or other agreement of the Parties or Non-Operators is expressly required under other sections of this Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, Operator shall notify all Non-Operators of the Operator's proposal, and the agreement or approval of a majority in interest of the Non-Operators shall be controlling on all Non-Operators.

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Ecological and Environmental

Costs incurred for the benefit of the Joint Property as a result of governmental or regulatory requirements to satisfy environmental considerations applicable to the Joint Operations. Such costs may include surveys of an ecological or archaeological nature and pollution control procedures as required by applicable laws and regulations.

2. Rentals and Royalties

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

3. 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.
- (4) Salaries and wages of Technical Employees either temporarily or permanently assigned to and directly employed in the operation of 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 3A of this Section II. Such costs under this Paragraph 3B 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 3A 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 3A and 3B of this Section II.
- D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II.

4. 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 3A and 3B of this Section II shall be Operator's actual cost not to exceed the percent most recently recommended by the Council of Petroleum Accountants Societies.

5. 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.

6. 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 where like material is normally available or railway receiving point nearest the Joint Property 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 where like material is normally available, or railway receiving point nearest the Joint Property 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, the option to equalize or charge actual trucking cost is available when the actual charge is \$400 or less excluding accessorial charges. The \$400 will be adjusted to the amount most recently recommended by the Council of Petroleum Accountants Societies.

7. Services

The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 10 of Section II and Paragraph i, ii, and iii, 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.

8. 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 gross investment less accumulated depreciation not to exceed twelve percent ( 12 %) 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 8A 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 published by the Petroleum Motor Transport Association.

9. Damages and Losses to Joint Property

All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or losses incurred by fire, flood, storm, theft, accident, or other cause, except those resulting from Operator's gross negligence or willful misconduct. Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.

10. Legal Expense

Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgements and amounts paid for settlement of claims incurred in or resulting from operations under the agreement or necessary to protect or recover the Joint Property, except that no charge for services of Operator's legal staff or fees or expense of outside attorneys shall be made unless previously agreed to by the Parties. All other legal expense is considered to be covered by the overhead provisions of Section III unless otherwise agreed to by the Parties, except as provided in Section I, Paragraph 3.

11. 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. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the Joint Account shall be made and paid by the Parties hereto in accordance with the tax value generated by each party's working interest.



12. 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 Worker'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.

13. Abandonment and Reclamation

Costs incurred for abandonment of the Joint Property, including costs required by governmental or other regulatory authority.

14. Communications

Cost of acquiring, leasing, installing, operating, repairing and maintaining communication systems, including radio and microwave facilities directly serving the Joint Property. In the event communication facilities/systems serving the Joint Property are Operator owned, charges to the Joint Account shall be made as provided in Paragraph 8 of this Section II.

15. 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 of direct benefit to the Joint Property and 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:

( X ) 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 3A, 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 be covered by the overhead rates, or  
( X ) shall not be covered by the overhead rates.

- iii. The salaries, wages and Personal Expenses of Technical Employees and/or costs of professional consultant services and contract services of technical personnel either temporarily or permanently assigned to and directly employed in the operation of the Joint Property:

( X ) shall be covered by the overhead rates, or  
( ) shall not be covered by the overhead rates.

A. Overhead - Fixed Rate Basis

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

Drilling Well Rate \$ 5,250.00  
(Prorated for less than a full month)

Producing Well Rate \$ 525.00

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

(a) Drilling Well Rate

- (1) Charges for drilling wells shall begin on the date the well is spudded and terminate on the date the drilling rig, completion rig, or other units used in completion of the well is released, whichever

is later, except that no charge shall be made during suspension of drilling or completion operations for fifteen (15) or more consecutive calendar days.

- (2) Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive work 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 or other units used in workover, commence through date of rig or other unit release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive calendar 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 permanent sales outlet.
- (4) A one-well charge shall be made for the month in which plugging and abandonment operations are completed on any well. This one-well charge shall be made whether or not the well has produced except when drilling well rate applies.
- (5) All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.
- (3) The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

~~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 10 of Section II and all salvage credits.~~

~~(b) Operating~~

~~\_\_\_\_\_ Percent ( \_\_\_\_\_ %) of the cost of operating the Joint Property exclusive of costs provided under Paragraphs 2 and 10 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 rig and crew capable of drilling to the producing interval on the Joint Property; 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 \$ \_\_\_\_\_ :

- A. 5 % of first \$100,000 or total cost if less, plus  
B. 3 % of costs in excess of \$100,000 but less than \$1,000,000, plus  
C. 2 % of costs in excess of \$1,000,000.

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 and artificial lift equipment shall be excluded.

### 3. Catastrophe Overhead

To compensate Operator for overhead costs incurred in the event of expenditures resulting from a single occurrence due to oil spill, blowout, explosion, fire, storm, hurricane, or other catastrophes as agreed to by the Parties, which are necessary to restore the Joint Property to the equivalent condition that existed prior to the event causing the expenditures, Operator shall either negotiate a rate prior to charging the Joint Account or shall charge the Joint Account for overhead based on the following rates:

- A. 5 % of total costs through \$100,000; plus  
B. 3 % of total costs in excess of \$100,000 but less than \$1,000,000; plus  
C. 2 % of total costs in excess of \$1,000,000.

Expenditures subject to the overheads above will not be reduced by insurance recoveries, and no other overhead provisions of this Section III shall apply.

### 4. 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 hereto 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 reasons, 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 basis exclusive of cash discounts:

#### A. New Material (Condition A)

##### (1) Tubular Goods Other than Line Pipe

- (a) Tubular goods, sized 2 1/2 inches OD and larger, except line pipe, shall be priced at Eastern mill published carload base prices effective as of date of movement plus transportation cost using the 80,000 pound carload weight basis to the railway receiving point nearest the Joint Property for which published rail rates for tubular goods exist. If the 80,000 pound rail rate is not offered, the 70,000 pound or 90,000 pound rail rate may be used. Freight charges for tubing will be calculated from Lorain, Ohio and casing from Youngstown, Ohio.
- (b) For grades which are special to one mill only, prices shall be computed at the mill base of that mill plus transportation cost from that mill to the railway receiving point nearest the Joint Property as provided above in Paragraph 2.A.(1)(a). For transportation cost from points other than Eastern mills, the 30,000

1 pound Oil Field Haulers Association interstate truck rate shall be used.

2  
3 (c) Special end finish tubular goods shall be priced at the lowest published out-of-stock price, f.o.b. Houston,  
4 Texas, plus transportation cost, using Oil Field Haulers Association interstate 30,000 pound truck rate,  
5 to the railway receiving point nearest the Joint Property.

6  
7 (d) Macaroni tubing (size less than 2 $\frac{3}{4}$  inch OD) shall be priced at the lowest published out-of-stock prices  
8 f.o.b. the supplier plus transportation costs, using the Oil Field Haulers Association interstate truck rate  
9 per weight of tubing transferred, to the railway receiving point nearest the Joint Property.

10  
11 (2) Line Pipe

12  
13 (a) Line pipe movements (except size 24 inch OD and larger with walls  $\frac{3}{4}$  inch and over) 30,000 pounds or  
14 more shall be priced under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above.  
15 Freight charges shall be calculated from Lorain, Ohio.

16  
17 (b) Line pipe movements (except size 24 inch OD and larger with walls  $\frac{3}{4}$  inch and over) less than 30,000  
18 pounds shall be priced at Eastern mill published carload base prices effective as of date of shipment,  
19 plus 20 percent, plus transportation costs based on freight rates as set forth under provisions of tubular  
20 goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain,  
21 Ohio.

22  
23 (c) Line pipe 24 inch OD and over and  $\frac{3}{4}$  inch wall and larger shall be priced f.o.b. the point of  
24 manufacture at current new published prices plus transportation cost to the railway receiving point  
25 nearest the Joint Property.

26  
27 (d) Line pipe, including fabricated line pipe, drive pipe and conduit not listed on published price lists shall  
28 be priced at quoted prices plus freight to the railway receiving point nearest the Joint Property or at  
29 prices agreed to by the Parties.

30  
31 (3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable  
32 supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the  
33 railway receiving point nearest the Joint Property.

34  
35 (4) Unused new Material, except tubular goods, moved from the Joint Property shall be priced at the current  
36 new price, in effect on date of movement, as listed by a reliable supply store nearest the Joint Property, or  
37 point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint  
38 Property. Unused new tubulars will be priced as provided above in Paragraph 2.A.(1) and (2).

39  
40 B. Good Used Material (Condition B)

41  
42 Material in sound and serviceable condition and suitable for reuse without reconditioning:

43  
44 (1) Material moved to the Joint Property

45  
46 At seventy-five percent (75%) of current new price, as determined by Paragraph A.

47  
48 (2) Material used on and moved from the Joint Property

49  
50 (a) At seventy-five percent (75%) of current new price, as determined by Paragraph A, if Material was  
51 originally charged to the Joint Account as new Material or

52  
53 (b) At sixty-five percent (65%) of current new price, as determined by Paragraph A, if Material was  
54 originally charged to the Joint Account as used Material.

55  
56 (3) Material not used on and moved from the Joint Property

57  
58 At seventy-five percent (75%) of current new price as determined by Paragraph A.

59  
60 The cost of reconditioning, if any, shall be absorbed by the transferring property.

61  
62 C. Other Used Material

63  
64 (1) Condition C

65  
66 Material which is not in sound and serviceable condition and not suitable for its original function until  
67 after reconditioning shall be priced at fifty percent (50%) of current new price as determined by  
68 Paragraph A. The cost of reconditioning shall be charged to the receiving property, provided Condition  
69 C value plus cost of reconditioning does not exceed Condition B value.

(2) Condition D

Material, excluding junk, no longer suitable for its original purpose, but usable for some other purpose shall be priced on a basis commensurate with its use. Operator may dispose of Condition D Material under procedures normally used by Operator without prior approval of Non-Operators.

(a) Casing, tubing, or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe of comparable size and weight. Used casing, tubing or drill pipe utilized as line pipe shall be priced at used line pipe prices.

(b) Casing, tubing or drill pipe used as higher pressure service lines than standard line pipe, e.g. power oil lines, shall be priced under normal pricing procedures for casing, tubing, or drill pipe. Upset tubular goods shall be priced on a non upset basis.

(3) Condition E

Junk shall be priced at prevailing prices. Operator may dispose of Condition E Material under procedures normally utilized by 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 or unloading costs may be charged to the Joint Account at the rate of ~~twenty-five cents (25¢)~~ <sup>twenty-eight cents (28¢)</sup> per hundred weight on all tubular goods movements, in lieu of actual loading or unloading costs sustained at the stocking point. The above rate shall be adjusted as of the first day of April each year following January 1, 1985 by the same percentage increase or decrease used to adjust overhead rates in Section III, Paragraph 1.A.(3). Each year, the rate calculated shall be rounded to the nearest cent and shall be the rate in effect until the first day of April next year. Such rate shall be published each year by the Council of Petroleum Accountants Societies.

(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

Adjustments to the Joint Account resulting from the reconciliation of a physical inventory shall be made within six months following the taking of the inventory. Inventory adjustments shall be made by Operator to 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, change of interest, or change of Operator 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. In cases involving a change of Operator, all Parties shall be governed by such inventory.

### 4. Expense of Conducting Inventories

- A. The expense of conducting periodic inventories shall not be charged to the Joint Account unless agreed to by the Parties.
- B. The expense of conducting special inventories shall be charged to the Parties requesting such inventories, except inventories required due to change of Operator shall be charged to the Joint Account.

**EXHIBIT "C"**

Attached to and made a part of that certain EVGSAU/CVU Water Injection Agreement  
effective February 1, 2000, by and between  
Phillips Petroleum Company and Texaco Exploration and Production Inc.

## EXHIBIT "C"

### DISPUTE RESOLUTION PROCEDURE

1. **Resolution of Disputes.** The parties shall resolve any controversy or claim, whether based in contract, tort or otherwise, arising out of, relating to or in connection with the attached Agreement, including the scope, breach, or validity of such Agreement, ("Dispute") in accordance with this Dispute Resolution Procedure. The parties' agreement to resolve Disputes hereunder survives the expiration or termination of the attached Agreement.

2. **Negotiations between Area Managers.** The parties shall first seek to resolve any Disputes by negotiations between Area Managers.

2.1 **Prompt notification and referral to Area Managers.** The parties shall promptly seek to resolve any Dispute by negotiations between Area Managers of the parties who have authority to settle the controversy. When a party believes there is a Dispute under the Agreement, that party will give the other party written notice of the Dispute (the "Notice"). Within ten (10) days after receipt of the Notice, the receiving party shall submit to the other a written response. The Notice and response shall include (1) a statement of each party's position and a summary of the evidence and arguments supporting its position, (2) the supporting documentation as to the circumstances leading to the Dispute, (3) the name and title of the Area Managers who will represent that party and who are duly authorized to settle the Dispute (the "Area Managers"), and (4) a schedule of the availability of the party's Area Managers who shall negotiate the Dispute during the thirty (30) day period following the delivery of the Notice.

2.2 **Meetings among Area Managers.** The Area Managers shall meet at a mutually acceptable time and place within thirty (30) days after the date of the Notice and thereafter as often as they reasonably deem necessary to exchange relevant information and to attempt to resolve the Dispute. If an Area Manager intends to be accompanied at a meeting by an attorney, the other negotiator shall be given at least three (3) business days' notice of such intention and may also be accompanied by an attorney. All negotiations pursuant to this Dispute Resolution Procedure are confidential and shall be treated as compromise and settlement negotiations for the purposes of the Federal Rules of Evidence and state rules of evidence.

3. **Arbitration.** If the parties are unable to resolve the Dispute pursuant to the negotiation provisions of this Dispute Resolution Procedure within sixty (60) days following commencement of the negotiation proceeding, the Dispute shall be submitted to arbitration in accordance with the procedures set forth below.

3.1 **Initiation of Arbitration.** The arbitration shall be initiated by either party delivering to the other a Notice of Intention to Arbitrate as provided for in Section 6 of the AAA Commercial Arbitration Rules.

3.2 **AAA Guidelines.** The arbitration shall be conducted by the American Arbitration Association in accordance with the Commercial Arbitration Rules and the Supplementary Procedures for Large, Complex Disputes (collectively, the "AAA Guidelines"). In the event of a conflict between the AAA Guidelines and this Dispute Resolution Procedure, this Dispute Resolution Procedure shall govern.

3.3 **Location of arbitration.** If any Dispute is submitted to arbitration, the arbitration shall take place in Midland.

3.4 **Arbitration Tribunal.** Unless the parties agree to a single arbitrator, the arbitration shall be conducted before three (3) independent and impartial arbitrators, none of whom shall be appointed by either party. Rather, the arbitrators will be selected in accordance with the AAA Guidelines, and shall be attorneys at law who have practiced environmental or oil & gas law for at least fifteen (15) years. All arbitrators, prior to their service, shall disclose all actual or perceived conflicts of interest involving the Dispute or the parties. No arbitrator shall serve if such arbitrator has a conflict of interest involving the subject matter of the Dispute or with the parties. In the event the parties agree to a single arbitrator, the selection of the arbitrator shall be made by



mutual consent. The three (3) arbitrators (or the single arbitrator the parties so chose) selected shall constitute the "Tribunal."

**3.5 Procedures and governing law.** The arbitration shall be governed by the United States Arbitration Act, 9 U.S.C. § 1-16, to the exclusion of any provision of State law inconsistent therewith and which would produce a different result, and judgment upon the award rendered by the arbitrator(s) may be entered by any court having jurisdiction thereof. The Tribunal shall determine the claims of the parties and render their final award in accordance with the substantive law of the State of Texas exclusive of its conflict of law rules. The limitations on any actions will be determined under Texas law.

**3.6 Provisional remedies.** The Tribunal may, in the course of proceedings, order any provisional remedy or conservatory measure, including but not limited to attachment, preliminary injunction or the deposit of specified security, which they consider to be necessary, just and equitable. The failure of a party to comply with such an interim order, after due notice and opportunity to cure such noncompliance, may be treated by the Tribunal as a default and all or some of the claims or defenses of the defaulting party may be stricken and partial or final award entered against such party, or the Tribunal may award such lesser sanctions as they deem appropriate. A request for interim or provisional relief to a court shall not be deemed incompatible with the agreement to arbitrate or as a waiver of that agreement.

**3.7 Preliminary Hearing.** Within thirty (30) days after the Tribunal has been appointed, a preliminary hearing among the Tribunal and counsel for the parties shall be held for the purpose of developing a plan for the management of the arbitration, which shall then be memorialized in an appropriate order. The matters which shall be addressed include, in addition to those set forth in the AAA Guidelines, the following:

- (a) Definition of issues;
- (b) Scope, timing and types of discovery, if any;
- (c) Schedule and place(s) of hearings;
- (d) Setting of other timetables;
- (e) Submission of motions and briefs;
- (f) Whether and to what extent expert testimony shall be required, whether the Tribunal should engage one or more neutral experts, and whether, if this is done, engagement of experts by the parties can be obviated or minimized;
- (g) Whether and to what extent the direct testimony of witnesses shall be received by affidavit or written witness statement; and
- (h) Any other matters which may promote the efficient, expeditious, and cost-effective conducting of the proceeding.

**3.8 Management of the Arbitration.** The Tribunal shall actively manage the proceedings as it deems best so as to make the same expeditious, economical, and less burdensome and adversarial than litigation.

**3.9 Discovery.** The Tribunal shall permit and facilitate such discovery as it shall determine is appropriate in the circumstances, taking into account the needs of the parties and the desirability of making discovery expeditious and cost-effective. Such discovery may include pre-hearing depositions, particularly depositions of witnesses who will not appear personally before the tribunal to testify, if there is a substantial, demonstrated need therefor.

**3.10 Service of Papers and Documents.** Papers, documents, and written communications shall be served by the parties directly upon each other and the Tribunal.

3.11 **Confidentiality.** All papers, documents, briefs, written communication, testimony and transcripts as well as any and all Tribunal decisions shall be confidential and not disclosed to anyone other than the Tribunal, the parties, or the parties' attorneys and expert witnesses (where applicable to their testimony), except that upon prior written consent of both parties, such information may be divulged to additional third parties. All third parties shall agree in writing to keep such information confidential.

3.12 **Hearings.** The Tribunal may limit the issues so as to focus on the core of the Dispute, limit the time allotted to each party for presentation of its case, and exclude testimony and other evidence that it deems irrelevant, cumulative or inadmissible. Notwithstanding the parties' agreement regarding arbitration venue in Paragraph 3.3 of this Schedule, upon motion of a party, the Tribunal may temporarily relocate a hearing to a place designated by the Tribunal as may be necessary to hear the testimony of particular witnesses not subject to subpoena at the usual hearing site. The purpose of such temporary relocation is to permit a hearing at a place where such witnesses can be compelled to attend. With the consent of all parties, the testimony may be recorded before a single member of the Tribunal.

3.13 **Stenographic Record.** There shall be a stenographic transcript of the proceedings, the cost of which shall be borne equally by the parties pending the final award of the Tribunal.

3.14 **Damages.** The Tribunal is empowered to award only compensatory damages as they may be limited by the terms of the Agreement. Each party hereby irrevocably waives any damages in excess of compensatory damages, including a waiver of any punitive or multiple damages. The Tribunal may, in their discretion, grant pre-award interest and, if so, such interest may be at commercial rates during the relevant period. The Tribunal may award all or a part of a party's reasonable attorneys' fees and costs of arbitration, taking into account the final result of arbitration, the conduct of the parties and their counsel in the course of the arbitration, and other relevant factors. The Tribunal shall, in a final award, assess the amount of the costs of the proceedings.

3.15 **Draft of proposed award and final award.** Prior to rendering their final award, the Tribunal shall submit to the parties an unsigned draft of the proposed award and each party, within five (5) business days after receipt of such draft award, may serve on every other party and file with the Tribunal a written statement outlining any alleged errors of fact, law, computation, or otherwise ("Written Statement"). Within five (5) business days after receipt of the Written Statement of each party, the Tribunal shall render their final award. Any arbitration decision or award shall conform as closely as possible to the order or judgment which would be rendered by a court of the State of Texas. Any arbitration decision or award shall state the reasoning on which it rests, including both findings of fact and conclusions of law although such reasons shall not be used as a basis for appeal or other judicial proceeding.

3.16 **Consolidation proceedings.** If an arbitration proceeding is initiated by a party under the attached Agreement, and if a Tribunal or Tribunals have been previously selected in arbitration proceeding(s) under the attached Agreement which have not yet begun ("Existing Tribunal(s)"), then upon motion from either party, the first appointed Tribunal ("First Tribunal") shall determine whether the most junior arbitration will be consolidated for hearing with any Existing Tribunal. In ruling on such motion, the First Tribunal should order consolidation if there are one or more common questions of law and fact, and the interests of justice, expedition and economy would be served by consolidation.

3.17 **Res Judicata.** To the extent permitted by the law, any award by the Tribunal shall not be res judicata or have any binding effect in any unrelated litigation or arbitration where any party to the Agreement may also be a party.

4. **Deadlines.** All deadlines specified in this Dispute Resolution Procedure may be extended by mutual written agreement.

5. **Performance.** Each party is required to continue to perform its obligations under the Agreement pending final resolution of any Dispute.

6. **Injunctive Relief.** The procedures specified in this Dispute Resolution Procedure shall be the sole and exclusive procedure for the resolution of Disputes between the parties arising out of or relating to the attached Agreement. However, if equitable remedies are not available to a party because the Tribunal may not be timely convened as required for the relief sought, a party may seek a preliminary injunction or other preliminary judicial relief, if in the judgment of that party, such action is necessary to avoid irreparable damage or to preserve the status quo. Despite the initiation of any such judicial proceedings, the parties shall continue to participate in good faith in the procedures specified herein. As between the parties, all applicable statutes of limitation shall be tolled while the procedures specified in this Dispute Resolution Procedure are pending; the parties shall take all actions, if any, required to effectuate such tolling.

**CENTRAL VACUUM / EAST VACUUM GRAYBURG SAN ANDRES  
PRODUCERS COOPERATIVE UNIT LINE AGREEMENT**

THIS AGREEMENT, is entered into between Phillips Petroleum Company (Phillips) as Operator and on behalf of all working interest owners in the East Vacuum Grayburg San Andres Unit (EVGSAU) and Texaco Exploration and Production Inc (TEPI), as Operator and on behalf of all working interest owners in the Central Vacuum Unit (CVU).

OIL CONSERVATION DIV.  
FEB 25 PM 4:30

WITNESSETH:

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

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

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

I.

TEPI, for the joint account, will drill, equip, operate and maintain the wells listed below for the purpose of production of oil and gas from the Grayburg and San Andres formations.

- Central Vacuum Unit Well No. 295, located 669 feet FNL, 10 feet FEL of Section 6, T-18-S, R35-E.
- Central Vacuum Unit Well No. 286, located 634 feet FSL, 1,333 feet FEL of Section 31, T-17-S, R-35-E.

Phillips, for the joint account, will drill, equip, operate and maintain the wells listed below for the purpose of production of oil and gas from the Grayburg and San Andres formations.

- EVGSA Unit Well No. 3236-394, located 1980 feet FNL, 10 feet FWL, of Section 32, T-17-S, R-35-E.
- EVGSA Unit Well No. 3127-397, located 1910 feet FSL, 2630 feet FEL, of Section 31, T-17-S, R-35-E

The drilling of the subject wells shall be commenced within the later of, sixty (60) days from the date of approval by the New Mexico Oil Conservation Division, or March 31, 2000. The above

wells are located in Lea County, New Mexico as shown on Exhibit "A" attached hereto. Unless mutually agreed to by the undersigned, all wells drilled subject to the terms of this Agreement shall be drilled from a surface location within 25 feet of the locations stated above.

## II.

Except as otherwise provided herein, all TEPI operated wells hereunder will be governed by the applicable terms of the Operating Agreement for the CVU and all Phillips operated wells hereunder shall be governed by the applicable terms of the Operating Agreement for the EVGSAU, which are incorporated herein by reference. In the event there is a conflict between this Agreement, the Exhibits attached hereto and the respective Operating Agreements, the provisions of this Agreement shall prevail. All produced gas not sold from Phillips operated wells will be retained by EVGSAU, and all produced gas not sold from TEPI operated wells will be retained by CVU. All costs to drill, equip, operate, plug and abandon the wells, save and except produced gas dehydration and compression costs, and all revenue from oil, natural gas liquids, and hydrocarbon residue gas sales, if any, will be allocated and the wells will be owned as follows:

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

## III.

Volumes of oil and gas produced hereunder shall be computed in barrels per day, and thousands of cubic feet, respectively, and shall be measured on an allocated well-by-well basis at a base pressure of 14.65 psia and a base temperature of 60 degrees Fahrenheit by standard metering equipment installed, operated and maintained by TEPI and Phillips on their respectively operated wells. The volume of natural gas liquids recovered and sold from the gas produced hereunder shall be calculated from allocated gas volumes and the liquids sales to gas recovery ratio for the plant processing the gas, less a proportional share of any natural gas liquids sales retained by the processing plant as compensation for processing expenses. A monthly report shall be supplied by Phillips and TEPI to one another stating monthly production and sales volumes for each well.

## IV.

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

V.

This agreement shall remain in full force and effect for as long as there is commercial production from any of the wells provided for in Article I. However, unless the subject wells are drilled and completed by June 30, 2000, this Agreement shall terminate and be of no force or effect except as to those wells capable of producing in commercial quantities.

VI.

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

VII.

The parties agree that if any dispute arises between them related to this Agreement they will use the procedures outlined in Exhibit "B", attached hereto, to attempt to resolve such dispute prior to commencing legal proceedings; provided, however, that either party may seek a restraining order, temporary injunction, or other provisional judicial relief if such party in its sole judgement believes that such action is necessary to avoid irreparable injury or to preserve the status quo. The parties will continue to participate in good faith in the procedures despite any such request for provisional relief.


VIII.

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

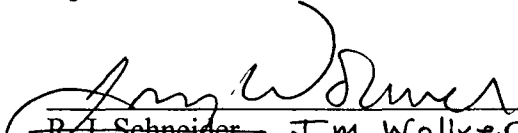
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IN WITNESS WHEREOF, the parties have executed this Agreement to be effective as of the 1st  
day of February, 2000.

PHILLIPS PETROLEUM COMPANY  
Operator of the East Vacuum Grayburg San Andres Unit

  
\_\_\_\_\_  
Mark W. Tompkins  
Attorney-in-Fact PHW

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

  
\_\_\_\_\_  
~~R. J. Schneider~~ J.M. Wolliver  
Attorney-in-Fact

STATE OF TEXAS       §  
                                  §  
COUNTY OF MIDLAND   §

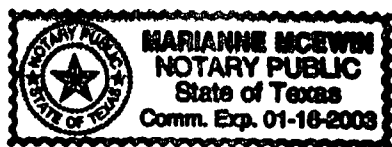
This agreement was acknowledged before me this 14 day of February, 2000,  
by J.M. WOLLIVER, Attorney-in-Fact for Texaco Exploration and  
Production Inc., a Delaware corporation.

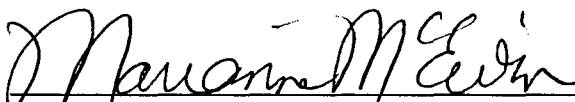


  
\_\_\_\_\_  
Notary Public

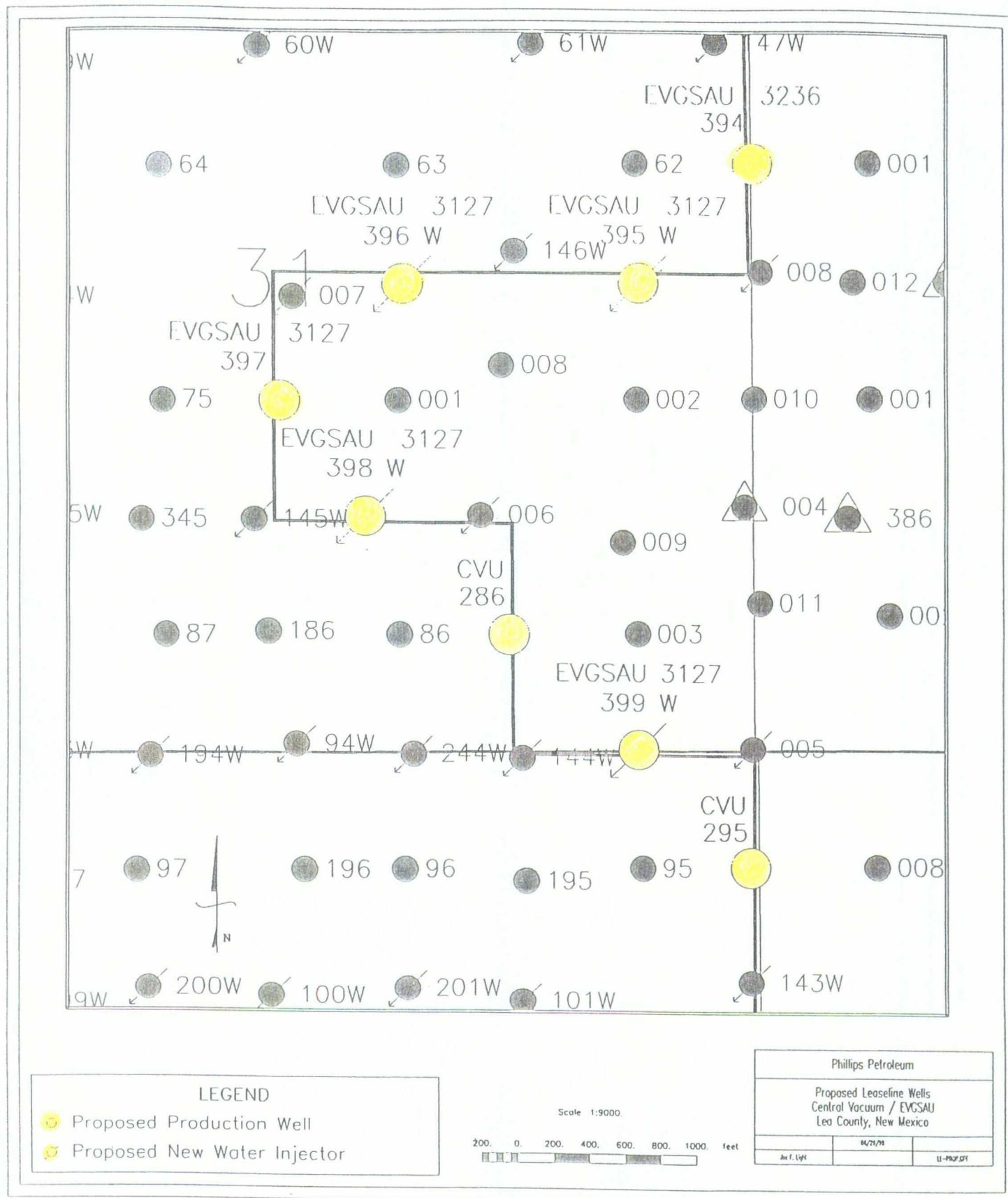
STATE OF TEXAS       §  
                                  §  
COUNTY OF ECTOR     §

This agreement was acknowledged before me this 10<sup>th</sup> day of February, 2000,  
by Mark W. Tompkins, Attorney-in-Fact for Phillips Petroleum Company, a  
Delaware corporation.



  
\_\_\_\_\_  
Notary Public

## MAP





## EXHIBIT "B"

### DISPUTE RESOLUTION PROCEDURE

1. **Resolution of Disputes.** The parties shall resolve any controversy or claim, whether based in contract, tort or otherwise, arising out of, relating to or in connection with the attached Agreement, including the scope, breach, or validity of such Agreement, ("Dispute") in accordance with this Dispute Resolution Procedure. The parties' agreement to resolve Disputes hereunder survives the expiration or termination of the attached Agreement.

2. **Negotiations between Area Managers.** The parties shall first seek to resolve any Disputes by negotiations between Area Managers.

2.1 **Prompt notification and referral to Area Managers.** The parties shall promptly seek to resolve any Dispute by negotiations between Area Managers of the parties who have authority to settle the controversy. When a party believes there is a Dispute under the Agreement, that party will give the other party written notice of the Dispute (the "Notice"). Within ten (10) days after receipt of the Notice, the receiving party shall submit to the other a written response. The Notice and response shall include (1) a statement of each party's position and a summary of the evidence and arguments supporting its position, (2) the supporting documentation as to the circumstances leading to the Dispute, (3) the name and title of the Area Managers who will represent that party and who are duly authorized to settle the Dispute (the "Area Managers"), and (4) a schedule of the availability of the party's Area Managers who shall negotiate the Dispute during the thirty (30) day period following the delivery of the Notice.

2.2 **Meetings among Area Managers.** The Area Managers shall meet at a mutually acceptable time and place within thirty (30) days after the date of the Notice and thereafter as often as they reasonably deem necessary to exchange relevant information and to attempt to resolve the Dispute. If an Area Manager intends to be accompanied at a meeting by an attorney, the other negotiator shall be given at least three (3) business days' notice of such intention and may also be accompanied by an attorney. All negotiations pursuant to this Dispute Resolution Procedure are confidential and shall be treated as compromise and settlement negotiations for the purposes of the Federal Rules of Evidence and state rules of evidence.

3. **Arbitration.** If the parties are unable to resolve the Dispute pursuant to the negotiation provisions of this Dispute Resolution Procedure within sixty (60) days following commencement of the negotiation proceeding, the Dispute shall be submitted to arbitration in accordance with the procedures set forth below.

3.1 **Initiation of Arbitration.** The arbitration shall be initiated by either party delivering to the other a Notice of Intention to Arbitrate as provided for in Section 6 of the AAA Commercial Arbitration Rules.

3.2 **AAA Guidelines.** The arbitration shall be conducted by the American Arbitration Association in accordance with the Commercial Arbitration Rules and the Supplementary Procedures for Large, Complex Disputes (collectively, the "AAA Guidelines"). In the event of a conflict between the AAA Guidelines and this Dispute Resolution Procedure, this Dispute Resolution Procedure shall govern.

3.3 **Location of arbitration.** If any Dispute is submitted to arbitration, the arbitration shall take place in Midland.

3.4 **Arbitration Tribunal.** Unless the parties agree to a single arbitrator, the arbitration shall be conducted before three (3) independent and impartial arbitrators, none of whom shall be appointed by either party. Rather, the arbitrators will be selected in accordance with the AAA Guidelines, and shall be attorneys at law who have practiced environmental or oil & gas law for at least fifteen (15) years. All arbitrators, prior to their service, shall disclose all actual or perceived conflicts of interest involving the Dispute or the parties. No arbitrator shall serve if such arbitrator has a conflict of interest involving the subject matter of the Dispute or with the parties. In the event the parties agree to a single arbitrator, the selection of the arbitrator shall be made by

mutual consent. The three (3) arbitrators (or the single arbitrator the parties so chose) selected shall constitute the "Tribunal."

**3.5 Procedures and governing law.** The arbitration shall be governed by the United States Arbitration Act, 9 U.S.C. § 1-16, to the exclusion of any provision of State law inconsistent therewith and which would produce a different result, and judgment upon the award rendered by the arbitrator(s) may be entered by any court having jurisdiction thereof. The Tribunal shall determine the claims of the parties and render their final award in accordance with the substantive law of the State of Texas exclusive of its conflict of law rules. The limitations on any actions will be determined under Texas law.

**3.6 Provisional remedies.** The Tribunal may, in the course of proceedings, order any provisional remedy or conservatory measure, including but not limited to attachment, preliminary injunction or the deposit of specified security, which they consider to be necessary, just and equitable. The failure of a party to comply with such an interim order, after due notice and opportunity to cure such noncompliance, may be treated by the Tribunal as a default and all or some of the claims or defenses of the defaulting party may be stricken and partial or final award entered against such party, or the Tribunal may award such lesser sanctions as they deem appropriate. A request for interim or provisional relief to a court shall not be deemed incompatible with the agreement to arbitrate or as a waiver of that agreement.

**3.7 Preliminary Hearing.** Within thirty (30) days after the Tribunal has been appointed, a preliminary hearing among the Tribunal and counsel for the parties shall be held for the purpose of developing a plan for the management of the arbitration, which shall then be memorialized in an appropriate order. The matters which shall be addressed include, in addition to those set forth in the AAA Guidelines, the following:

- (a) Definition of issues;
- (b) Scope, timing and types of discovery, if any;
- (c) Schedule and place(s) of hearings;
- (d) Setting of other timetables;
- (e) Submission of motions and briefs;
- (f) Whether and to what extent expert testimony shall be required, whether the Tribunal should engage one or more neutral experts, and whether, if this is done, engagement of experts by the parties can be obviated or minimized;
- (g) Whether and to what extent the direct testimony of witnesses shall be received by affidavit or written witness statement; and
- (h) Any other matters which may promote the efficient, expeditious, and cost-effective conducting of the proceeding.

**3.8 Management of the Arbitration.** The Tribunal shall actively manage the proceedings as it deems best so as to make the same expeditious, economical, and less burdensome and adversarial than litigation.

**3.9 Discovery.** The Tribunal shall permit and facilitate such discovery as it shall determine is appropriate in the circumstances, taking into account the needs of the parties and the desirability of making discovery expeditious and cost-effective. Such discovery may include pre-hearing depositions, particularly depositions of witnesses who will not appear personally before the tribunal to testify, if there is a substantial, demonstrated need therefor.

**3.10 Service of Papers and Documents.** Papers, documents, and written communications shall be served by the parties directly upon each other and the Tribunal.

**3.11 Confidentiality.** All papers, documents, briefs, written communication, testimony and transcripts as well as any and all Tribunal decisions shall be confidential and not disclosed to anyone other than the Tribunal, the parties, or the parties' attorneys and expert witnesses (where applicable to their testimony), except that upon prior written consent of both parties, such information may be divulged to additional third parties. All third parties shall agree in writing to keep such information confidential.

**3.12 Hearings.** The Tribunal may limit the issues so as to focus on the core of the Dispute, limit the time allotted to each party for presentation of its case, and exclude testimony and other evidence that it deems irrelevant, cumulative or inadmissible. Notwithstanding the parties' agreement regarding arbitration venue in Paragraph 3.3 of this Schedule, upon motion of a party, the Tribunal may temporarily relocate a hearing to a place designated by the Tribunal as may be necessary to hear the testimony of particular witnesses not subject to subpoena at the usual hearing site. The purpose of such temporary relocation is to permit a hearing at a place where such witnesses can be compelled to attend. With the consent of all parties, the testimony may be recorded before a single member of the Tribunal.

**3.13 Stenographic Record.** There shall be a stenographic transcript of the proceedings, the cost of which shall be borne equally by the parties pending the final award of the Tribunal.

**3.14 Damages.** The Tribunal is empowered to award only compensatory damages as they may be limited by the terms of the Agreement. Each party hereby irrevocably waives any damages in excess of compensatory damages, including a waiver of any punitive or multiple damages. The Tribunal may, in their discretion, grant pre-award interest and, if so, such interest may be at commercial rates during the relevant period. The Tribunal may award all or a part of a party's reasonable attorneys' fees and costs of arbitration, taking into account the final result of arbitration, the conduct of the parties and their counsel in the course of the arbitration, and other relevant factors. The Tribunal shall, in a final award, assess the amount of the costs of the proceedings.

**3.15 Draft of proposed award and final award.** Prior to rendering their final award, the Tribunal shall submit to the parties an unsigned draft of the proposed award and each party, within five (5) business days after receipt of such draft award, may serve on every other party and file with the Tribunal a written statement outlining any alleged errors of fact, law, computation, or otherwise ("Written Statement"). Within five (5) business days after receipt of the Written Statement of each party, the Tribunal shall render their final award. Any arbitration decision or award shall conform as closely as possible to the order or judgment which would be rendered by a court of the State of Texas. Any arbitration decision or award shall state the reasoning on which it rests, including both findings of fact and conclusions of law although such reasons shall not be used as a basis for appeal or other judicial proceeding.

**3.16 Consolidation proceedings.** If an arbitration proceeding is initiated by a party under the attached Agreement, and if a Tribunal or Tribunals have been previously selected in arbitration proceeding(s) under the attached Agreement which have not yet begun ("Existing Tribunal(s)"), then upon motion from either party, the first appointed Tribunal ("First Tribunal") shall determine whether the most junior arbitration will be consolidated for hearing with any Existing Tribunal. In ruling on such motion, the First Tribunal should order consolidation if there are one or more common questions of law and fact, and the interests of justice, expedition and economy would be served by consolidation.

**3.17 Res Judicata.** To the extent permitted by the law, any award by the Tribunal shall not be res judicata or have any binding effect in any unrelated litigation or arbitration where any party to the Agreement may also be a party.

**4. Deadlines.** All deadlines specified in this Dispute Resolution Procedure may be extended by mutual written agreement.

**5. Performance.** Each party is required to continue to perform its obligations under the Agreement pending final resolution of any Dispute.

6. **Injunctive Relief.** The procedures specified in this Dispute Resolution Procedure shall be the sole and exclusive procedure for the resolution of Disputes between the parties arising out of or relating to the attached Agreement. However, if equitable remedies are not available to a party because the Tribunal may not be timely convened as required for the relief sought, a party may seek a preliminary injunction or other preliminary judicial relief, if in the judgment of that party, such action is necessary to avoid irreparable damage or to preserve the status quo. Despite the initiation of any such judicial proceedings, the parties shall continue to participate in good faith in the procedures specified herein. As between the parties, all applicable statutes of limitation shall be tolled while the procedures specified in this Dispute Resolution Procedure are pending; the parties shall take all actions, if any, required to effectuate such tolling.