

COMMUNITIZATION AGREEMENT

CONTRACT NO. _____

21-2-1988

3

9310

THIS AGREEMENT entered into as of the 1st day of January, 1988, by and between the parties subscribing, ratifying or consenting hereto, such parties being hereinafter referred to as "parties hereto".

W I T N E S S E T H:

WHEREAS, the Act of February 25, 1920 (41 Stat. 437), as amended and supplemented, authorizes communitization or drilling agreements communitizing or pooling a Federal Oil and Gas Lease, or any portion thereof, with other lands, whether or not owned by the United States, when separate tracts under such Federal lease cannot be independently developed and operated in conformity with an established well-spacing program for the field or area and such communitization or pooling is determined to be in the public interest; and

WHEREAS, the parties hereto own working, royalty or other leasehold interests, or operating rights under the oil and gas leases and lands subject to this Agreement which cannot be independently developed and operated in conformity with the well-spacing program established for the field or area in which said lands are located; and

WHEREAS, the parties hereto desire to communitize and pool their respective mineral interests in lands subject to this Agreement for the purpose of developing and producing communitized substances in accordance with the terms and conditions of this Agreement:

NOW, THEREFORE, in consideration of the premises and the mutual advantages to the parties hereto, it is mutually covenanted and agreed by and between the parties hereto as follows:

1. The lands covered by this Agreement (hereinafter referred to as "communitized area") are described as follows:

Township 18 South, Range 33 East, NMPM
Section 26: N/2

Lea County, New Mexico

Containing 320 acres, more or less, and this Agreement shall include only the Wolfcamp, Atoka, Strawn and Morrow Formations, underlying said land, and the dry gas associated liquid hydrocarbons (hereinafter referred to as "communitized substances") producible from such Formations.

This Agreement shall apply separately to the Wolfcamp, Atoka, Strawn and Morrow Formations in the same manner as though a separate Agreement for each Formation had been entered into.

2. Attached hereto, and made a part of this Agreement for all purposes is Exhibit B, designating the operator of the communitized area and showing the acreage, percentage and ownership of oil and gas interests in all lands within the communitized area, and the

authorization, if any, for communitizing or pooling any patented or fee lands within the communitized area.

3. All matters of operation shall be governed by the operator under and pursuant to the terms and provisions of this Agreement. A successor operator may be designated by the owners of the working interest in the communitized area and four (4) executed copies of a designation of successor operator shall be filed with the Area Oil and Gas Supervisor.
4. Operator shall furnish the Secretary of the Interior, or his authorized representative, with a log and history of any well drilled on the communitized area, monthly reports of operations, statements of oil and gas sales and royalties and such other reports as are deemed necessary to compute monthly the royalty due the United States, as specified in the applicable oil and gas operating regulations.
5. The communitized area shall be developed and operated as an entirety, with the understanding and agreement between the parties hereto that all communitized substances produced therefrom shall be allocated among the lease-

holds comprising said area in the proportion that the acreage interest of each leasehold bears to the entire acreage interest committed to this Agreement.

6. The royalties payable on communitized substances allocated to the individual leases comprising the communitized area and the rentals provided for in said leases shall be determined and paid on the basis prescribed in each of the individual leases. Payments of rentals under the terms of leases subject to this Agreement shall not be affected by this Agreement except as provided for under the terms and provisions of said leases or as may herein be otherwise provided. Except as herein modified and changed, the oil and gas leases subject to this Agreement shall remain in full force and effect as originally made and issued.

It is agreed that for any Federal Lease bearing a sliding- or step-scale rate of royalty, such rate shall be determined separately as to production from each communitization agreement to which such lease may be committed and separately as to any non-communitized lease production; provided, however, as to leases where the rate of royalty

for gas is based on total lease production per day, such rate shall be determined by the sum of all communitized production allocated to such a lease plus any non-communitized lease production.

7. There shall be no obligation on the lessees to offset any well or wells completed in the same Formation as covered by this Agreement on separate component tracts into which the communitized area is now or may hereafter be divided, nor shall any lessee be required to measure separately communitized substances by reason of the diverse ownership thereof, but the lessees hereto shall not be released from their obligation to protect said communitized area from drainage of communitized substances by a well or wells which may be drilled offsetting said area.

8. The commencement, completion, continued operation or production of a well or wells for communitized substances on the communitized area shall be construed and considered as the commencement, completion, continued operation or production on each and all of the lands within and comprising said communitized area, and operations or production pursuant to this Agreement shall be deemed to be operations or production as to each lease committed hereto.

9. Production of communitized substances and disposal thereof shall be in conformity with allocation, allotments, and quotas made or fixed by any duly authorized person or regulatory body under applicable Federal or State statutes. This Agreement shall be subject to all applicable Federal and State laws or executive orders, rules and regulations, and no party hereto shall suffer a forfeiture or be liable in damages for failure to comply with any of the provisions of this Agreement if such compliance is prevented by, or if such failure results from, compliance with any such laws, orders, rules or regulations.
10. This Agreement shall be effective as of the 1st day of January, 1988, and upon execution by the necessary parties, notwithstanding the date of execution, and upon approval by the Secretary of the Interior or by his duly authorized representative, and shall remain in full force and effect as to the Wolfcamp, Atoka, Strawn and Morrow Formations, individually, for a period of two (2) years and so long thereafter as communitized substances are or can be produced in paying quantities from communitized Formations or Formation; provided, that prior to production in paying quantities from the communitized area and

upon fulfillment of all requirements of the Secretary of the Interior, or his duly authorized representative, with respect to any dry hole or abandoned well, this Agreement may be terminated at any time by mutual agreement of the parties hereto. This Agreement shall not terminate upon cessation of production, if, within sixty (60) days thereafter, reworking or drilling operations on the communitized area are commenced and are thereafter conducted with reasonable diligence during the period of non-production. The two-year term of this Agreement will not in itself serve to extend the term of any Federal lease which would otherwise expire during said period.

11. The covenants herein shall be construed to be covenants running with the land with respect to the communitized interests of the parties hereto and their successors in interests until this Agreement terminates and any grant, transfer or conveyance of any such land or interest subject hereto, whether voluntary or not, shall be and hereby is conditioned upon the assumption of all obligations hereunder by the grantee, transferee, or other successor in interest, and as to Federal land shall be subject to approval by the Secretary of the Interior.

12. It is agreed between the parties hereto that the Secretary of the Interior, or his duly authorized representative, shall have the right of supervision over all operations within the communitized area to the same extent and degree as provided in the oil and leases under which the United States of America is lessor and in the applicable oil and gas regulations of the Department of the Interior.

13. This Agreement shall be binding upon the parties hereto and shall extend to and be binding upon their respective heirs, executors, administrators, successors and assigns.

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

15. Non-Discrimination: In connection with the performance of work under this Agreement, the


operator agrees to comply with all of the provisions of Section 202(1) to (7) inclusive of Executive Order 11246 (30 F.R. 12319) as amended, which are hereby incorporated by reference in this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written and have set opposite their respective names, the date of execution.

RECORD TITLE HOLDERS

SANTA FE EXPLORATION COMPANY

By _____


William A. McAlpine, Jr.
President

ENRON OIL AND GAS COMPANY
(formerly HNG Oil Company)

By _____

APPROVED AND AGREED TO by the following owners of leasehold
operating rights:

SUN OPERATING LIMITED PARTNERSHIP

By _____

TENNECO OIL COMPANY

By _____

SANTA FE EXPLORATION COMPANY

By William A. McAlpine, Jr.
William A. McAlpine, Jr.
President

STATE OF TEXAS)
) ss
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1988, by _____ on behalf of SUN OPERATING LIMITED PARTNERSHIP, a partnership.

Notary Public

My commission expires: _____

STATE OF TEXAS)
) ss
COUNTY OF _____)

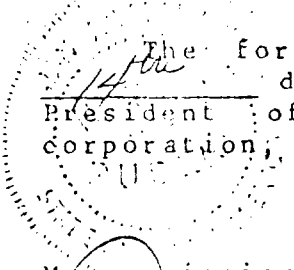
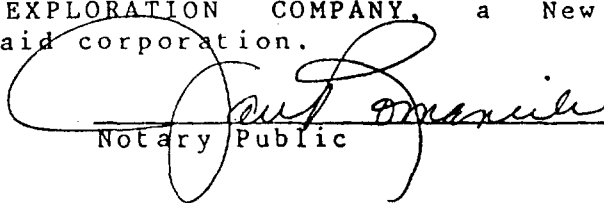
The foregoing instrument was acknowledged before me this _____ day of _____, 1988, by _____ of TENNECO OIL COMPANY, a _____ corporation, on behalf of said corporation.

Notary Public

My commission expires: _____

STATE OF NEW MEXICO)
) ss
COUNTY OF CHAVES)

The foregoing instrument was acknowledged before me this 14th day of January, 1988, by William A. McAlpine, Jr., President of SANTA FE EXPLORATION COMPANY, a New Mexico corporation, on behalf of said corporation.

Notary Public

My commission expires: Jan 19 1990

EXHIBIT A

Plat of communitized area covering N/2,
Section 26, Township 18 South, Range 33 East,
NMPM, Corbin field, Lea
County, New Mexico.

T.18S. R.33E.

TRACT 2 NM 55152 ENRON OTC Co. USA	TRACT 1 - NM 57534 SANTA FE Exploration Company - U.S.A. 26

EXHIBIT B

To Communitization Agreement dated JANUARY 1, 1988
embracing Township 18 South, Range 33 East, NMPM
Section 26: N/2
Lea County, New Mexico

Operator of Communitized Area: SUN OPERATING LIMITED PARTNERSHIP

DESCRIPTION OF LEASES COMMITTED

Tract No. 1

Lease Serial No.: NM 57534
Lease Date: April 1, 1984
Lease Term: 10 years
Lessor: United States of America
Original Lessee: Glenn E. McMurray
Present Lessee: Santa Fe Exploration Company

Description of Land Committed:

Township 18 South, Range 33 East, NMPM
Section 26 : NE/4, E/2NW/4

Number of Acres: 240.00
Royalty Rate: 12.5%
Name and Percent ORRI Owners: McWill, Inc. 6.0%
Santa Fe Expl. Co. 1.5%

Name and Percent WI Owners: Santa Fe Expl. Co. 20%
(100 feet below Queen Sand) Sun Operating Ltd Partnership 45%
Tenneco Oil Company 35%

Tract No. 2

Lease Serial No.: NM 55152
Lease Date: April 1, 1983
Lease Term: 5 ~~XX~~ years
Lessor(s): United States of America
Original Lessee: HNG Oil Company
Present Lessee: Enron Oil and Gas Company

Description of Land Committed:

Township 18 South , Range 33 East , NMPM

Section 26 : W/2NW/4

Number of Acres: 80.00

Royalty Rate: 12 1/2 percent (sliding scale up to 25%

Name and
Percent ORRI Owners: None

Name and
Percent WI Owners: Enron Oil and Gas Company 100%

R E C A P I T U L A T I O N

<u>Tract No.</u>	<u>No. of Acres Committed</u>	<u>Percentage of Interest in Communitized Area</u>
1	<u>240.00</u>	<u>75.00%</u>
2	<u>80.00</u>	<u>25.00%</u>
Total	<u>320.00</u>	<u>100.00%</u>