

CERTIFICATION DETERMINATION

Pursuant to the authority vested in the Secretary of the Interior, the act approved February, 1920, 41 Stat. 437, as amended, 30 U.S.C. secs. 181, et seq., and delegated to the Deputy Conservation Managers of the United States Geological Survey, I do hereby:

- A. Approve the attached agreement for the development and operation of the El Alto Grande Unit Area, State of New Mexico
- B. Certify and determine that the unit plan of development and operation contemplated in the attached agreement is necessary and advisable in the public interest for the purpose of more properly conserving the natural resources.
- C. Certify and determine that the drilling, producing, rental, minimum royalty, and royalty requirements of all Federal leases committed to said agreement are hereby established, altered, changed, or revoked to conform with the terms and conditions of this agreement.

Deputy Conservation Manager, Oil and Gas  
United State Geological Survey

\_\_\_\_\_  
Dated

\_\_\_\_\_  
Contract Number

BEFORE EXAMINER STAMETS OIL CONSERVATION DIVISION	
<u>Amoco</u>	EXHIBIT NO. <u>4</u>
CASE NO. <u>7310</u>	
Submitted by <u>C.L. Raper</u>	
Hearing Date <u>7-29-81</u>	

UNIT AGREEMENT  
EL ALTO GRANDE UNIT AREA  
LEA COUNTY, NEW MEXICO  
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UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION  
OF THE  
EL ALTO GRANDE UNIT AREA  
COUNTY OF LEA  
STATE OF NEW MEXICO  
NO.

THIS AGREEMENT entered into as of the 1st day of February, 1981 by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as the "parties hereto".

WITNESSETH:

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

WHEREAS, the Mineral Leasing Act of February 25, 1920, 41 Stat. 437, as amended, 30 U.S.C. Secs. 181 et seq., authorizes Federal lessees and their representatives to unite with each other, or jointly or separately with others, in collectively adopting and operating a cooperative or unit plan of development or operations of any oil or gas pool, field, or like area, or any part thereof for the purpose of more properly conserving the natural resources thereof whenever determined and certified by the Secretary of the Interior to be necessary or advisable in the public interest; and

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

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

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

1           1.    ENABLING ACT AND REGULATIONS. The Mineral Leasing Act of  
2   February 25, 1920, as amended, supra, and all valid pertinent regulations,  
3   including operating and unit plan regulations, heretofore issued thereunder  
4   or valid, pertinent and reasonable regulations hereafter issued thereunder  
5   are accepted and made a part of this agreement as to Federal lands,  
6   provided such regulations are not inconsistent with the terms of this  
7   agreement.

8           2.    UNIT AREA. The area specified on the map attached hereto  
9   marked Exhibit "A" is hereby designated and recognized as constituting  
10   the unit area, containing 2,535.44 acres, more or less.

11          Exhibit "A" shows, in addition to the boundary of the unit area,  
12   the boundaries and identity of tracts and leases in said area to the  
13   extent known to the Unit Operator. Exhibit "B" attached hereto is a  
14   schedule showing to the extent known to the Unit Operator the acreage,  
15   percentage, and kind of ownership of oil and gas interests in all land  
16   in the unit area. However, nothing herein or in said schedule or map  
17   shall be construed as a representation by any party hereto as to the  
18   ownership of any interest other than such interest or interests as are  
19   shown in said map or schedule as owned by such party. Exhibits "A" and  
20   "B" shall be revised by the Unit Operator whenever changes in the unit  
21   area render such revision necessary, or when requested by the Deputy  
22   Conservation Manager, Oil and Gas, hereinafter referred to as "Deputy",  
23   and not less than five copies of the revised exhibits shall be filed  
24   with the Deputy.

25          The above-described unit area shall when practicable be expanded to  
26   include therein any additional lands or shall be contracted to exclude  
27   lands whenever such expansion or contraction is deemed to be necessary  
28   or advisable to conform with the purposes of this agreement. Such  
29   expansion or contraction shall be effected in the following manner:

30               a)   Unit Operator, on its own motion or on demand of the  
31           Director of the Geological Survey, hereinafter referred to as  
32           "Director", shall prepare a notice of proposed expansion or  
33           contraction describing the contemplated changes in the boundaries  
34           of the unit area, the reasons therefore, and the proposed effec-  
35           tive date thereof, preferably the first day of a month subsequent  
36           to the date of notice.

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

6           c) Upon expiration of the 30-day period provided in the  
7 preceding item (b) hereof, Unit Operator shall file with the  
8 Deputy evidence of mailing of the notice of expansion or contrac-  
9 tion and a copy of any objections thereto which have been filed  
10 with the Unit Operator, together with an application in sufficient  
11 number, for approval of such expansion or contraction and with  
12 appropriate joinders.

13           d) After due consideration of all pertinent information, the  
14 expansion or contraction shall, upon approval by the Deputy, become  
15 effective as of the date prescribed in the notice thereof.

16           e) All legal subdivisions of lands (i.e., 40 acres by  
17 Government survey or its nearest lot or tract equivalent; in  
18 instances of irregular surveys unusually large lots or tracts shall  
19 be considered in multiples of 40 acres or the nearest aliquot  
20 equivalent thereof), no parts of which are entitled to be in a  
21 participating area on or before the fifth anniversary of the  
22 effective date of the first initial participating area established  
23 under this unit agreement, shall be eliminated automatically from  
24 this agreement, effective as of said fifth anniversary, and such  
25 lands shall no longer be a part of the unit area and shall no  
26 longer be subject to this agreement, unless diligent drilling  
27 operations are in progress on unitized lands not entitled to  
28 participation on said fifth anniversary, in which event all such  
29 lands shall remain subject hereto so long as such drilling opera-  
30 tions are continued diligently with not more than 90 days' time  
31 elapsing between the completion of one well and the commencement of  
32 the next well. All legal subdivisions of lands not entitled to be  
33 in a participating area within 10 years after the effective date of  
34 the first initial participating area approved under this government  
35 shall be automatically eliminated from this agreement as of said  
36 tenth anniversary. All lands proved productive by diligent drilling

1 operations after the aforesaid 5-year period shall become partici-  
2 pating in the same manner as during said 5-year period. However,  
3 when such diligent drilling operations cease, all nonparticipating  
4 lands shall be automatically eliminated effective as of the 91st  
5 day thereafter. The Unit Operator shall, within 90 days after the  
6 effective date of any elimination hereunder, describe the area so  
7 eliminated to the satisfaction of the Deputy, and promptly notify  
8 all parties in interest.

9 If conditions warrant extension of the 10-year period specified in  
10 this subsection 2(e), a single extension of not to exceed 2 years may be  
11 accomplished by consent of the owners of 90% of the working interests in  
12 the current nonparticipating unitized lands and the owners of 60% of the  
13 basic royalty interests (exclusive of the basic royalty interests of the  
14 United States) in nonparticipating unitized lands with approval of the  
15 Director, provided such extension application is submitted to the Director  
16 not later than 60 days prior to the expiration of said ten-year period.

17 Any expansion of the unit area pursuant to this section which  
18 embraces lands theretofore eliminated pursuant to this subsection 2(c)  
19 shall not be considered automatic commitment or recommitment of such  
20 lands.

21 3. UNITIZED LANDS AND UNITIZED SUBSTANCES. All lands committed  
22 to this agreement shall constitute land referred to herein as "unitized  
23 land" or "land subject to this agreement". All oil and gas in any and  
24 all formations of the unitized land are unitized under the terms of this  
25 agreement and herein are called "unitized substances".

26 4. UNIT OPERATOR. AMOCO PRODUCTION COMPANY is hereby designated  
27 as Unit Operator and by signature hereto as Unit Operator agrees and  
28 consents to accept the duties and obligations of Unit Operator for the  
29 discovery, development and production of unitized substances as herein  
30 provided. Whenever reference is made herein to the Unit Operator, such  
31 reference means the Unit Operator acting in that capacity and not as an  
32 owner of interest in unitized substances, and the term "working interest  
33 owner" when used herein shall include or refer to Unit Operator as the  
34 owner of a working interest when such an interest is owned by it.

1           5.    RESIGNATION OR REMOVAL OF UNIT OPERATOR.   Unit Operator shall  
2   have the right to resign at any time prior to the establishment of a  
3   participating area or areas hereunder, but such resignation shall not  
4   become effective so as to release Unit Operator from the duties and  
5   obligations of Unit Operator and terminate Unit Operator's rights as  
6   such for a period of 6 months after notice of intention to resign has  
7   been served by Unit Operator on all working interest owners and the  
8   Deputy, and until all wells then drilled hereunder are placed in a  
9   satisfactory condition for suspension or abandonment whichever is  
10   required by the Deputy unless a new Unit Operator shall have been  
11   selected and approved and shall have taken over and assumed the duties  
12   and obligations of Unit Operator prior to the expiration of said period.

13           Unit Operator shall have the right to resign in like manner and  
14   subject to like limitations as above provided at any time a participating  
15   area established hereunder is in existence, but, in all instances of  
16   resignation or removal, until a successor Unit Operator is selected and  
17   approved as hereinafter provided, the working interest owners shall be  
18   jointly responsible for performance of the duties of Unit Operator, and  
19   shall, not later than 30 days before such resignation or removal becomes  
20   effective, appoint a common agent to represent them in any action to be  
21   taken hereunder.

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

25           The Unit Operator may, upon default or failure in the performance  
26   of its duties or obligations hereunder, be subject to removal by the  
27   same percentage vote of the owners of working interests as herein pro-  
28   vided for the selection of a new Unit Operator.   Such removal shall be  
29   effective upon notice thereof to the Deputy.

30           The resignation or removal of Unit Operator under this agreement  
31   shall not terminate its right, title or interest as the owner of a  
32   working interest or other interest in unitized substances, but upon the  
33   resignation or removal of Unit Operator becoming effective, such Unit  
34   Operator shall deliver possession of all wells, equipment, materials and  
35   appurtenances used in conducting the unit operations to the new duly  
36   qualified successor Unit Operator or to the common agent, if no such new

1 Unit Operator is elected, to be used for the purpose of conducting unit  
2 operations hereunder. Nothing herein shall be construed as authorizing  
3 removal of any material, equipment and appurtenances needed for the  
4 preservation of any wells.

5 6. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall  
6 tender his or its resignation as Unit Operator or shall be removed as  
7 hereinabove provided, or a change of Unit Operator is negotiated by  
8 working interest owners, the owners of the working interests in the  
9 participating area or areas according to their respective acreage inter-  
10 ests in such participating area or areas, or, until a participating area  
11 shall have been established, the owners of the working interests according  
12 to their respective acreage interests in all unitized land, shall by  
13 majority vote select a successor Unit Operator: Provided, That, if a  
14 majority but less than 75 percent of the working interests qualified to  
15 vote are owned by one party to this agreement, a concurring vote of one  
16 or more additional working interest owners shall be required to select a  
17 new operator. Such selection shall not become effective until

18 a) a Unit Operator so selected shall accept in writing the  
19 duties and responsibilities of Unit Operator, and

20 b) the selection shall have been approved by the Deputy.

21 If no successor Unit Operator is selected and qualified as herein  
22 provided, the Director may declare this unit agreement terminated.

23 7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. If the  
24 Unit Operator is not the sole owner of working interest, costs and  
25 expenses incurred by Unit Operator in conducting unit operations here-  
26 under shall be paid and apportioned among and borne by the owners of  
27 working interests, all in accordance with the agreement or agreements  
28 entered into by and between the Unit Operator and the owners of working  
29 interests, whether one or more, separately or collectively. Any agree-  
30 ment or agreements entered into between the working interest owners and  
31 the Unit Operator as provided in this section, whether one or more, are  
32 herein referred to as the "unit operating agreement". Such unit operat-  
33 ing agreement shall also provide the manner in which the working interest  
34 owners shall be entitled to receive their respective proportionate and  
35 allocated share of the benefits accruing hereto in conformity with their  
36 underlying operating agreements, leases or other independent contracts,

1 and such other rights and obligations as between Unit Operator and the  
2 working interest owners as may be agreed upon by Unit Operator and the  
3 working interest owners; however, no such unit operating agreement shall  
4 be deemed either to modify any of the terms and conditions of this unit  
5 agreement or to relieve the Unit Operator of any right or obligation  
6 established under this unit agreement. and in case of any inconsistency  
7 or conflict between this unit agreement and the unit operating agreement,  
8 this unit agreement shall govern. Three true copies of any unit operating  
9 agreement executed pursuant to this section should be filed with the  
10 Deputy prior to approval of this unit agreement.

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

25 9. DRILLING TO DISCOVERY. Within 6 months after the effective  
26 date hereof, the Unit Operator shall begin to drill an adequate test  
27 well at a location approved by the Deputy, unless on such effective date  
28 a well is being drilled conformably with the terms hereof, and thereafter  
29 continue such drilling diligently until the Devonian formation has been  
30 tested or until at a lesser depth unitized substances shall be discovered  
31 which can be produced in paying quantities (to-wit: quantities sufficient  
32 to repay the costs of drilling, completing, and producing operations,  
33 with a reasonable profit) or the Unit Operator shall at any time establish  
34 to the satisfaction of the Deputy that further drilling of said well  
35 would be unwarranted or impracticable, provided, however, that Unit  
36 Operator shall not in any event be required to drill said well to a

1 depth in excess of 15,100 feet. Until the discovery of a deposit of  
2 unitized substances capable of being produced in paying quantities, the  
3 Unit Operator shall continue drilling one well at a time, allowing not  
4 more than 6 months between the completion of one well and the beginning  
5 of the next well, until a well capable of producing unitized substances  
6 in paying quantities is completed to the satisfaction of said Deputy, or  
7 until it is reasonably proved that the unitized land is incapable of  
8 producing unitized substances in paying quantities in the formations  
9 drilled hereunder. Nothing in this section shall be deemed to limit the  
10 right of the Unit Operator to resign as provided in Section 5 hereof, or  
11 as requiring Unit Operator to commence or continue any drilling during  
12 the period pending such resignation becoming effective in order to  
13 comply with the requirements of this section. The Deputy may modify the  
14 drilling requirements of this section by granting reasonable extensions  
15 of time when, in his opinion, such action is warranted. Upon failure to  
16 commence any well provided for in this section within the time allowed,  
17 including any extension of time granted by the Deputy, this agreement  
18 will automatically terminate; upon failure to continue drilling dili-  
19 gently any well commenced hereunder, the Deputy may, after 15 days  
20 notice to the Unit Operator, declare this unit agreement terminated.

21 10. PLAN OF FURTHER DEVELOPMENT AND OPERATION. Within 6 months  
22 after completion of a well capable of producing unitized substances in  
23 paying quantities, the Unit Operator shall submit for the approval of  
24 the Deputy an acceptable plan of development and operation for the  
25 unitized land which, when approved by the Deputy, shall constitute the  
26 further drilling and operating obligations of the Unit Operator under  
27 this agreement for the period specified therein. Thereafter, from time  
28 to time before the expiration of any existing plan, the Unit Operator  
29 shall submit for the approval of the Deputy a plan for an additional  
30 specified period for the development and operation of the unitized land.

31 Any plan submitted pursuant to this section shall provide for the  
32 exploration of the Unitized area and for the diligent drilling necessary  
33 for determination of the area or areas thereof capable of producing  
34 unitized substances in paying quantities in each and every productive

1 formation and shall be as complete and adequate as the Deputy may deter-  
2 mine to be necessary for timely development and proper conservation of  
3 the oil and gas resources of the unitized area and shall:

4 a) specify the number and locations of any wells to be  
5 drilled and the proposed order and time for such drilling; and

6 b) to the extent practicable, specify the operating prac-  
7 tices regarded as necessary and advisable for proper conservation  
8 of natural resources.

9 Separate plans may be submitted for separate productive zones, subject  
10 to the approval of the Deputy.

11 Plans shall be modified or supplemented when necessary to meet  
12 changed conditions or to protect the interests of all parties to this  
13 agreement. Reasonable diligence shall be exercised in complying with  
14 the obligations of the approved plan of development. The Deputy is  
15 authorized to grant a reasonable extension of the 6-month period herein  
16 prescribed for submission of an initial plan of development where such  
17 action is justified because of unusual conditions or circumstances.

18 After completion hereunder of a well capable of producing any unitized  
19 substances in paying quantities, no further wells, except such as may be  
20 necessary to afford protection against operations not under this agree-  
21 ment and such as may be specifically approved by the Deputy, shall be  
22 drilled except in accordance with a plan of development approved as  
23 herein provided.

24 11. PARTICIPATION AFTER DISCOVERY. Upon completion of a well  
25 capable of producing unitized substances in paying quantities or as soon  
26 thereafter as required by the Deputy, the Unit Operator shall submit for  
27 approval by the Deputy a schedule, based on subdivisions of the public  
28 land survey or aliquot parts thereof, of all land then regarded as  
29 reasonably proved to be productive in paying quantities; all lands in  
30 said schedule on approval of the Deputy to constitute a participating  
31 area, effective as of the date of completion of such well or the effec-  
32 tive date of this unit agreement, whichever is later. The acreages of  
33 both Federal and non-Federal lands shall be based upon appropriate  
34 computations from the courses and distances shown on the last approved  
35 public land survey as of the effective date of each initial participating

1 area. Said schedule shall also set forth the percentage of unitized  
2 substances to be allocated as herein provided to each tract in the  
3 participating area so established, and shall govern the allocation of  
4 production commencing with the effective date of the participating area.  
5 A separate participating area shall be established for each separate  
6 pool or deposit of unitized substances or for any group thereof which is  
7 produced as a single pool or zone, and any two or more participating  
8 areas so established may be combined into one, on approval of the Deputy.  
9 When production from two or more participating areas, so established, is  
10 subsequently found to be from a common pool or deposit said participating  
11 areas shall be combined into one effective as of such appropriate date  
12 as may be approved or prescribed by the Deputy. The participating area  
13 or areas so established shall be revised from time to time, subject to  
14 like approval, to include additional land then regarded as reasonably  
15 proved to be productive in paying quantities or necessary for unit  
16 operations, or to exclude land then regarded as reasonably proved not to  
17 be productive in paying quantities and the schedule of allocation percents  
18 shall be revised accordingly. The effective date of any revision  
19 shall be the first day of the month in which is obtained the knowledge  
20 or information on which such revision is predicated, provided, however,  
21 that a more appropriate effective date may be used if justified by the  
22 Unit Operator and approved by the Deputy. No land shall be excluded  
23 from a participating area on account of depletion of the unitized  
24 substances, except that any participating area established under the  
25 provisions of this unit agreement shall terminate automatically whenever  
26 all completions in the formation on which the participating area is  
27 based are abandoned.

28 It is the intent of this section that a participating area shall  
29 represent the area known or reasonably estimated to be productive in  
30 paying quantities, but, regardless of any revision of the participating  
31 area, nothing herein contained shall be construed as requiring any  
32 retroactive adjustment for production obtained prior to the effective  
33 date of the revision of the participating area.

34 In the absence of agreement at any time between the Unit Operator  
35 and the Deputy as to the proper definition or redefinition of a  
36 participating area, or until a participating area has, or areas have,

1 been established as provided herein, the portion of all payments  
2 affected thereby shall be impounded in a manner mutually acceptable to  
3 the owners of working interests and the Deputy. Royalties due the  
4 United States shall be determined by the Deputy and the amount thereof  
5 shall be deposited, as directed by the Deputy, to be held as unearned  
6 money until a participating area is finally approved and then applied as  
7 earned or returned in accordance with a determination of the sum due as  
8 Federal royalty on the basis of such approved participating area.

9 Whenever, it is determined, subject to the approval of the Deputy,  
10 that a well drilled under this agreement is not capable of production in  
11 paying quantities and inclusion of the land on which it is situated in a  
12 participating area is unwarranted, production from such well shall, for  
13 the purposes of settlement among all parties other than working interest  
14 owners, be allocated to the land on which the well is located unless  
15 such land is already within the participating area established for the  
16 pool or deposit from which such production is obtained. Settlement for  
17 working interest benefits from such a well shall be made as provided in  
18 the unit operating agreement.

19 12. ALLOCATION OF PRODUCTION. All unitized substances produced  
20 from each participating area established under this agreement, except  
21 any part thereof used in conformity with good operating practices within  
22 the unitized area for dilling, operating, camp and other production or  
23 development purposes, for repressuring or recycling in accordance with a  
24 plan of development approved by the Deputy, or unavoidably lost, shall  
25 be deemed to be produced equally on an acreage basis from the several  
26 tracts of unitized land of the participating area established for such  
27 production and, for the purpose of determining any benefits accruing  
28 under this agreement, each such tract of unitized land shall have  
29 allocated to it such percentage of said production as the number of  
30 acres of such tract included in said participating area bears to the  
31 total acres of unitized land in said participating area, except that  
32 allocation of production hereunder for purposes other than for settle-  
33 ment of the royalty, overriding royalty, or payment out of production  
34 obligations of the respective working interest owners, shall be on the  
35 basis prescribed in the unit operating agreement whether in conformity  
36 with the basis of allocation herein set forth or otherwise. It is

1 hereby agreed that production of unitized substances from a partici-  
2 pating area shall be allocated as provided herein regardless of whether  
3 any wells are drilled on any particular part or tract of said partici-  
4 pating area. If any gas produced from one participating area is used  
5 for repressuring or recycling purposes in another participating area,  
6 the first gas withdrawn from such last mentioned participating area for  
7 sale during the life of this agreement shall be considered to be the gas  
8 so transferred until an amount equal to that transferred shall be so  
9 produced for sale and such gas shall be allocated to the participating  
10 area from which initially produced as such area was last defined at the  
11 time of such final production.

12 13. DEVELOPMENT OR OPERATION OF NON-PARTICIPATING LAND OR FORMATION.

13 Any party hereto owning or controlling the working interest in any  
14 unitized land having thereon a regular well location may with the approval  
15 of the Deputy as to Federal land at such party's sole risk, cost and  
16 expense, drill a well to test any formation for which a participating  
17 area has not been established or to test any formation for which a  
18 participating area has been established if such location is not within  
19 said participating area, unless within 90 days of receipt of notice from  
20 said party of his intention to drill the well the Unit Operator elects  
21 and commences to drill such a well in like manner as other wells are  
22 drilled by the Unit Operator under this agreement.

23 If any well drilled as aforesaid by a working interest owner results  
24 in production such that the land upon which it is situated may properly  
25 be included in a participating area, such participating area shall be  
26 established or enlarged as provided in this agreement and the well shall  
27 thereafter be operated by the Unit Operator in accordance with the terms  
28 of this agreement and the unit operating agreement.

29 If any well drilled as aforesaid by a working interest owner obtains  
30 production in quantities insufficient to justify the inclusion of the  
31 land upon which such well is situated in a participating area, such well  
32 may be operated and produced by the party drilling the same subject to  
33 the conservation requirements of this agreement. The royalties in  
34 amount or value of production from any such well shall be paid as speci-  
35 fied in the underlying lease and agreement affected.

1        14. ROYALTY SETTLEMENT. The United States and any State and any  
2 royalty owner who is entitled to take in kind a share of the substances  
3 now unitized hereunder shall hereafter be entitled to the right to take  
4 in kind its share of the unitized substances, and the Unit Operator, or  
5 the working interest owner in case of the operation of a well by a  
6 working interest owner as herein provided for in special cases, shall  
7 make deliveries of such royalty share taken in kind in conformity with  
8 the applicable contracts, laws and regulations. Settlement for royalty  
9 interest not taken in kind shall be made by working interest owners  
10 responsible therefore under existing contracts, laws and regulations, or  
11 by the Unit Operator, on or before the last day of each month for unitized  
12 substances produced during the preceding calendar month; provided,  
13 however, that nothing herein contained shall operate to relieve the  
14 lessees of any land from their respective lease obligations for the  
15 payment of any royalties due under their leases.

16        If gas obtained from lands not subject to this agreement is intro-  
17 duced into any participating area hereunder, for use in repressuring,  
18 stimulation of production, or increasing ultimate recovery, in conform-  
19 ity with a plan of operations approved by the Deputy, a like amount of  
20 gas, after settlement as herein provided for any gas transferred from  
21 any other participating area and with appropriate deduction for loss  
22 from any cause, may be withdrawn from the formation in which the gas is  
23 introduced, royalty free as to dry gas, but not as to any products which  
24 may be extracted therefrom; provided that such withdrawal shall be at  
25 such time as may be provided in the approval plan of operations or as  
26 may otherwise be consented to by the Deputy as conforming to good  
27 petroleum engineering practice; and provided further, that such right of  
28 withdrawal shall terminate on the termination of this unit agreement.

29        Royalty due the United States shall be computed as provided in the  
30 operating regulations and paid in value or delivered in kind as to all  
31 unitized substances on the basis of the amounts thereof allocated to  
32 unitized Federal land as provided herein at the rate specified in the  
33 respective Federal leases, or at such lower rate or rates as may be  
34 authorized by law or regulation; provided, that for leases on which the  
35 royalty rate depends on the daily average production per well, said

1 average production shall be determined in accordance with the operating  
2 regulations as though each participating area were a single consolidated  
3 lease.

4 15. RENTAL SETTLEMENT. Rental or minimum royalties due on leases  
5 committed hereto shall be paid by working interest owners responsible  
6 therefor under existing contracts, laws and regulations, provided that  
7 nothing herein contained shall operate to relieve the lessees of any  
8 land from their respective lease obligations for the payment of any  
9 rental or minimum royalty due under their leases. Rental or minimum  
10 royalty for lands of the United States subject to this agreement shall  
11 be paid at the rate specified in the respective leases from the United  
12 States unless such rental or minimum royalty is waived, suspended or  
13 reduced by law or by approval of the Secretary or his duly authorized  
14 representative.

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

19 17. DRAINAGE. The Unit Operator shall take such measures as the  
20 Deputy deems appropriate and adequate to prevent drainage of unitized  
21 substances from unitized land by wells on land not subject to this  
22 agreement.

23 18. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms,  
24 conditions and provisions of all leases, subleases and other contracts  
25 relating to exploration, drilling, development or operations for oil or  
26 gas on lands committed to this agreement are hereby expressly modified  
27 and amended to the extent necessary to make the same conform to the  
28 provision hereof, but otherwise to remain in full force and effect; and  
29 the parties hereto hereby consent that the Secretary shall by his approval  
30 hereof, or by the approval hereof by his duly authorized representative,  
31 does hereby establish, alter, change or revoke the drilling, producing,  
32 rental, minimum royalty and royalty requirements of Federal leases committed  
33 hereto and the regulations in respect thereto to conform said requirements  
34 to the provisions of this agreement, and, without limiting the generality  
35 of the foregoing, all leases, subleases, and contracts are particularly  
36 modified in accordance with the following:

1           a) The development and operation of lands subject to this  
2 agreement under the terms hereof shall be deemed full performance  
3 of all obligations for development and operation with respect to  
4 each and every separately owned tract subject to this agreement,  
5 regardless of whether there is any development of any particular  
6 tract of the unit area.

7           b) Drilling and producing operations performed hereunder  
8 upon any tract of unitized land will be accepted and deemed to be  
9 performed upon and for the benefit of each and every tract of  
10 unitized land, and no lease shall be deemed to expire by reason of  
11 failure to drill or produce wells situated on the land therein  
12 embraced.

13           c) Suspension of drilling or producing operations on all  
14 unitized lands pursuant to direction or consent of the Secretary or  
15 his duly authorized representatives shall be deemed to constitute  
16 such suspension pursuant to such direction or consent as to each  
17 and every tract of unitized land. A suspension of drilling or  
18 producing operations limited to specified lands shall be applicable  
19 only to such lands.

20           d) Each lease, sublease or contract relating to the explora-  
21 tion, drilling, development or operation for oil or gas of lands  
22 other than those of the United States committed to this agreement,  
23 which, by its terms might expire prior to the termination of this  
24 agreement, is hereby extended beyond any such term so provided  
25 therein so that it shall be continued in full force and effect for  
26 and during the term of this agreement.

27           e) Any Federal lease for a fixed term of twenty (20) years  
28 or any renewal thereof or any part of such lease which is made  
29 subject to this agreement shall continue in force beyond the term  
30 provided therein until the termination hereof. Any other Federal  
31 lease committed hereto shall continue in force beyond the term so  
32 provided therein or by law as to the land committed so long as such  
33 lease remains subject hereto, provided that production is had in  
34 paying quantities under this unit agreement prior to the expiration  
35 date of the term of such lease, or in the event actual drilling  
36 operations are commenced on unitized lands, in accordance with the

1 provisions of this agreement, prior to the end of the primary term  
2 of such lease and are being diligently prosecuted at that time,  
3 such lease shall be extended for two years and so long thereafter  
4 as oil or gas is produced in paying quantities in accordance with  
5 the provisions of the Mineral Leasing Act Revision of 1960.

6 f) Each sublease or contract relating to the operation and  
7 development of unitized substances from lands of the United States  
8 committed to this agreement, which by its terms would expire prior  
9 to the time at which the underlying lease, as extended by the  
10 immediately preceding paragraph, will expire, is hereby extended  
11 beyond any such term so provided therein so that it shall be con-  
12 tinued in full force and effect for and during the term of the  
13 underlying lease as such term is herein extended.

14 g) The segregation of any Federal lease committed to this  
15 agreement is governed by the following provisions in the fourth  
16 paragraph of Sec. 17(j) of the Mineral Leasing Act, as amended by  
17 the Act of September 2, 1960 (74 Stat. 781-784): "Any (Federal)  
18 lease heretofore or hereafter committed to any such (unit) plan  
19 embracing lands that are in part within and in part outside of the  
20 area covered by any such plan shall be segregated into separate  
21 leases as to the lands committed and the lands not committed as of  
22 the effective date of unitization: Provided, however, That any  
23 such lease as to the nonunitized portion shall continue in force  
24 and effect for the term thereof but for not less than two years  
25 from the date of such segregation and so long thereafter as oil or  
26 gas is produced in paying quantities."

27 h) Any lease, other than a Federal lease, having only a  
28 portion of its lands committed hereto shall be segregated as to the  
29 portion committed and the portion not committed, and the provisions  
30 of such lease shall apply separately to such segregated portions  
31 commencing as of the effective date hereof. In the event any such  
32 lease provides for a lump sum rental payment, such payment shall be  
33 prorated between the portions so segregated in proportion to the  
34 acreage of the respective tracts.

1        19. COVENANTS RUN WITH LAND. The covenants herein shall be con-  
2        strued to be covenants running with the land with respect to the interest  
3        of the parties hereto and their successors in interest until this agree-  
4        ment terminates, and any grant, transfer, or conveyance of interest in  
5        land or leases subject hereto shall be and hereby is conditioned upon  
6        the assumption of all privileges and obligations hereunder by the grantee,  
7        transferee or other successor in interest. No assignment or transfer of  
8        any working interest, royalty, or other interest subject hereto shall be  
9        binding upon Unit Operator until the first day of the calendar month  
10       after Unit Operator is furnished with the original, photostatic, or  
11       certified copy of the instrument of transfer.

12       20. EFFECTIVE DATE AND TERM. This agreement shall become effective  
13       upon approval by the Secretary, or his duly authorized representative  
14       and shall terminate five (5) years from said effective date unless:

15           a) such date of expiration is extended by the Director, or

16           b) it is reasonably determined prior to the expiration of  
17       the fixed term or any extension thereof that the unitized land is  
18       incapable of production of unitized substances in paying quantities  
19       in the formations tested hereunder and after notice of intention to  
20       terminate the agreement on such ground is given by the Unit Operator  
21       to all parties in interest at their last known addresses, the  
22       agreement is terminated with the approval of the Deputy, or

23           c) a valuable discovery of unitized substances has been made  
24       or accepted on unitized land during said initial term or any exten-  
25       sion thereof, in which event the agreement shall remain in effect  
26       for such term and so long as unitized substances can be produced in  
27       quantities sufficient to pay for the cost of producing same from  
28       wells on unitized land within any participating area established  
29       hereunder and, should production cease, so long thereafter as  
30       diligent operations are in progress for the restoration of produc-  
31       tion or discovery of new production and so long thereafter as  
32       unitized substances so discovered can be produced as aforesaid, or

33           d) it is terminated as heretofore provided in this agreement.

34       This agreement may be terminated at any time by not less than 75  
35       per centum, on an acreage basis, of the working interest owners

1        signatory hereto, with the approval of the Deputy; notice of any  
2        such approval to be given by the Unit Operator to all parties  
3        hereto.

4        21. RATE OF PROSPECTING, DEVELOPMENT AND PRODUCTION. The Director  
5        is hereby vested with authority to alter or modify from time to time in  
6        his discretion the quantity and rate of production under this agreement  
7        when such quantity and rate is not fixed pursuant to Federal or State  
8        law or does not conform to any statewide voluntary conservation or  
9        allocation program, which is established, recognized and generally  
10       adhered to by the majority of operators in such State, such authority  
11       being hereby limited to alteration or modification in the public inter-  
12       est, the purpose thereof and the public interest to be served thereby to  
13       be stated in the order of alteration or modification. Without regard to  
14       the foregoing, the Director is also hereby vested with authority to  
15       alter or modify from time to time in his discretion the rate of pros-  
16       pecting and development and the quantity and rate of production under  
17       this agreement when such alteration or modification is in the interest  
18       of attaining the conservation objectives stated in this agreement and is  
19       not in violation of any applicable Federal or State law.

20       Powers in this section vested in the Director shall only be exer-  
21       cised after notice to Unit Operator and opportunity for hearing to be  
22       held not less than 15 days from notice.

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

32       23. NOTICES. All notices, demands or statements required here-  
33       under to be given or rendered to the parties hereto shall be deemed  
34       fully given if given in writing and personally delivered to the party or  
35       sent by postpaid registered or certified mail, addressed to such party

1 or parties at their respective addresses set forth in connection with  
2 the signatures hereto or to the ratification or consent hereof or to  
3 such other address as any such party may have furnished in writing to  
4 party sending the notice, demand or statement.

5 24. NO WAIVER OF CERTAIN RIGHTS. Nothing in this agreement con-  
6 tained shall be construed as a waiver by any party hereto of the right  
7 to assert any legal or constitutional right or defense as to the validity  
8 or invalidity of any law of the State wherein said unitized lands are  
9 located, or of the United States, or regulations issued thereunder in  
10 any way affecting such party, or as a waiver by any such party of any  
11 right beyond his or its authority to waive.

12 25. UNAVOIDABLE DELAY. All obligations under this agreement  
13 requiring the Unit Operator to commence or continue drilling or to  
14 operate on or produce unitized substances from any of the lands covered  
15 by this agreement shall be suspended while the Unit Operator, despite  
16 the exercise of due care and diligence, is prevented from complying with  
17 such obligations, in whole or in part, by strikes, acts of God, Federal,  
18 State or municipal law or agencies, unavoidable accidents, uncontrollable  
19 delays in transportation, inability to obtain necessary materials in  
20 open market, or other matters beyond the reasonable control of the Unit  
21 Operator whether similar to matters herein enumerated or not. No unit  
22 obligation which is suspended under this section shall become due less  
23 than thirty (30) days after it has been determined that the suspension  
24 is no longer applicable. Determination of creditable "Unavoidable  
25 Delay" time shall be made by the Unit Operator subject to approval of  
26 the Deputy.

27 26. NONDISCRIMINATION. In connection with the performance of work  
28 under this agreement, the operator agrees to comply with all of the  
29 provisions of Section 202 (1) to (7) inclusive of Executive Order 11246  
30 (30 F. R. 12319), as amended, which are hereby incorporated by reference  
31 in this agreement.

32 27. LOSS OF TITLE. In the event title to any tract of unitized  
33 land shall fail and the true owner cannot be induced to join in this  
34 unit agreement, such tract shall be automatically regarded as not com-  
35 mitted hereto and there shall be such readjustment of future costs and  
36 benefits as may be required on account of the loss of such title. In

1 the event of a dispute as to title to any royalty, working interest or  
2 other interests subject thereto, payment or delivery on account thereof  
3 may be withheld without liability for interest until the dispute is  
4 finally settled; provided, that, as to Federal land or leases, no pay-  
5 ments of funds due the United States should be withheld, but such funds  
6 shall be deposited as directed by the Deputy to be held as unearned  
7 money pending final settlement of the title dispute, and then applied as  
8 earned or returned in accordance with such final settlement.

9 Unit Operator as such is relieved from any responsibility for any  
10 defect or failure of any title hereunder.

11 28. NON-JOINDER AND SUBSEQUENT JOINDER. If the owner of any  
12 substantial interest in a tract within the unit area fails or refuses to  
13 subscribe or consent to this agreement, the owner of the working inter-  
14 est in that tract may withdraw said tract from this agreement by written  
15 notice delivered to the Deputy and the Unit Operator prior to the approval  
16 of this agreement by the Deputy. Any oil or gas interests in lands  
17 within the unit area not committed hereto prior to submission of this  
18 agreement for final approval may thereafter be committed hereto by the  
19 owner or owners thereof subscribing or consenting to this agreement,  
20 and, if the interest is a working interest, by the owner of such interest  
21 also subscribing to the unit operating agreement. After operations are  
22 commenced hereunder, the right of subsequent joinder, as provided in this  
23 section, by a working interest owner is subject to such requirements or  
24 approvals, if any, pertaining to such joinder, as may be provided for in  
25 the unit operating agreement. After final approval hereof, joinder by a  
26 non-working interest owner must be consented to in writing by the working  
27 interest owner committed hereto and responsible for the payment of any  
28 benefits that may accrue hereunder in behalf of such non-working interest.  
29 A non-working interest may not be committed to this unit agreement unless  
30 the corresponding working interest is committed hereto. Joinder to the  
31 unit agreement by a working interest owner, at any time, must be accom-  
32 panied by appropriate joinder to the unit operating agreement, if more  
33 than one committed working interest owner is involved, in order for the  
34 interest to be regarded as committed to this unit agreement. Except as  
35 may otherwise herein be provided, subsequent joinders to this agreement  
36 shall be effective as of the first day of the month following the filing

1 with the Deputy of duly executed counterparts of all or any papers  
2 necessary to establish effective commitment of any tract to this agree-  
3 ment unless objection to such joinder is duly made within 60 days by the  
4 Deputy.

5 29. COUNTERPARTS. This agreement may be executed in any number of  
6 counterparts no one of which needs to be executed by all parties or may  
7 be ratified or consented to by separate instrument in writing specifically  
8 referring hereto and shall be binding upon all those parties who have  
9 executed such a counterpart, ratification, or consent hereto with the  
10 same force and effect as if all such parties had signed the same document  
11 and regardless of whether or not it is executed by all other parties  
12 owning or claiming an interest in the lands within the above described  
13 unit area.

14 30. NO PARTNERSHIP. It is expressly agreed that the relation of  
15 the parties hereto is that of independent contractors and nothing in  
16 this agreement contained, expressed or implied, nor any operations  
17 conducted hereunder, shall create or be deemed to have created a part-  
18 nership or association between the parties hereto or any of them.

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

UNIT OPERATOR AND WORKING INTEREST OWNER

AMOCO PRODUCTION COMPANY

DATE: \_\_\_\_\_

ADDRESS: P. O. Box 3092  
Houston, TX

BY: \_\_\_\_\_  
Attorney-in-Fact

WORKING INTEREST OWNERS

GULF OIL EXPLORATION AND PRODUCTION COMPANY

DATE: \_\_\_\_\_

BY: \_\_\_\_\_

ADDRESS: P. O. Box 1150  
Midland, Texas 79701

MOUNTAIN FUEL SUPPLY COMPANY

DATE: \_\_\_\_\_

BY: \_\_\_\_\_

ADDRESS: P. O. Box 11368  
Salt Lake City, UT 84139

THE STATE OF TEXAS     ↓  
COUNTY OF HARRIS     ↓

The foregoing instrument was acknowledged before me this \_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, by \_\_\_\_\_ as Attorney-in-Fact on behalf of AMOCO PRODUCTION COMPANY.

My Commission Expires:

\_\_\_\_\_  
Notary Public in and for  
Harris County, Texas

THE STATE OF \_\_\_\_\_ I  
COUNTY OF \_\_\_\_\_ I

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, by \_\_\_\_\_, \_\_\_\_\_ of GULF OIL EXPLORATION AND PRODUCTION COMPANY, a \_\_\_\_\_ corporation, on behalf of said corporation.

My Commission Expires:

\_\_\_\_\_  
Notary Public in and for  
\_\_\_\_\_

THE STATE OF \_\_\_\_\_ I  
COUNTY OF \_\_\_\_\_ I

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, by \_\_\_\_\_, \_\_\_\_\_ of MOUNTAIN FUEL SUPPLY COMPANY, a \_\_\_\_\_ corporation, on behalf of said corporation.

My Commission Expires:

\_\_\_\_\_  
Notary Public in and for  
\_\_\_\_\_

# EXHIBIT "A"

## EL ALTO GRANDE UNIT AGREEMENT

LEA COUNTY, NEW MEXICO

R-33-E

R-34-E

22  
S

N

### FEDERAL LEASES

NM-17441  
NM-14334  
NM-18512  
NM-12846

Mtn. 25  
FUEL SUPPLY  
6-1-83

4

GULF  
1-1-81

5

AMOCO  
2-1-83

Pt. 1

Mtn.  
FUEL SUPPLY  
6-1-83

Pt. 4

AMOCO  
2-1-83

Pt. 1

R-33-E

R-34-E

### LEGEND

UNIT BOUNDARY

FEDERAL LAND 2219.72 Ac. 87.548 %

OPEN FEDERAL 315.72 Ac. 12.452 %

2 TRACT NUMBER 2535.44 Acres 100.000 %

EXHIBIT "B"  
EL ALTO GRANDE UNIT AREA  
T-22-S, R-34-E, AND T-22-S, R-33-E, N.M.P.M.  
LEA COUNTY, NEW MEXICO

TRACT NO.	DESCRIPTION OF LAND	NUMBER ACRES	SERIAL NO. & EXPIRATION DATE OF LEASES	BASIC ROYALTY OWNERSHIP %	LESSEE OF RECORD	OVERRIDING ROYALTY & PRODUCTION PAYMENT OWNERSHIP %	WORKING INTEREST & PERCENTAGE
<u>Township 22 South, Range 34 East</u>							
1	Section 18: Lots 1, 2, E/2 NW/4, NE/4						
	Section 19: Lots 1, 2, E/2 NW/4, SW/4 NE/4						
	Section 30: Lots 1-4, E/2 W/2, NE/4	1303.36	NM-17441 2-1-83	USA 12.5%	Amoco Production Company	Pat H. Ladner, et ux	4% Amoco: 100%
<u>Township 22 South, Range 34 East</u>							
2	Section 18: Lots 3, 4, E/2 SW/4, SE/4						
	Section 19: E/2 NE/4, NW/4 NE/4	436.36	NM-14334 9-1-81	USA 12.5%	Gulf Oil Exp. & Prod. Co.	D.N. Fitzgerald, et ux	5% Gulf: 100%
<u>Township 22 South, Range 34 East</u>							
3	Section 19: Lots 3, 4, E/2 SW/4, SE/4	315.72			Open-USA		
<u>Township 22 South, Range 33 East</u>							
4	Section 25: NW/4						
<u>Township 22 South, Range 34 East</u>							
	Section 30: SE/4	320.00	NM-18512 6-1-83	USA 12.5%	Mountain Fuel Supply Company	None	MFSC: 100%
<u>Township 22 South, Range 33 East</u>							
5	Section 25: SE/4	160.00	NM-12846 1-1-81	USA 12.5%	Gulf Oil Exp. & Prod. Co.	John J. Turner, et ux	3% Gulf: 100%
<u>Extended by Operations</u>							
TOTAL: 5 TRACTS -		2535.44					