

Ray M. Vaden Land Representative Interior Division Land Department Central Region BEFORE EXAMINER CATANACH
OIL CONSERVATION DIVISION

CHEURONEXHIBIT NO. 39

CASE NO. 10059-61

August 9, 1990

Arco's Requested Changes to Addendum to Ratification and Joinder of Unit and Unit Operating Agreement for the Eunice Monument South Unit Lea County, New Mexico

Working Interest Owners Eunice Monument South Unit Expansion Area B

Gentlemen:

Please review and substitute the enclosed seven copies of the captioned Addendum for the Addendum mailed with the Ratification and Joinders by cover letter of July 6, 1990.

The attached Addendum reflects changes requested by Arco. These changes generally involve typographic corrections, and the only change of substance is in the wording of 3.b. (page 2) of the addendum. Arco's suggested changes will allow any three (rather than four) of the six working interest owners in the expansion area to cast deciding votes when such votes represent 65% or more of the working interest. It is an exception to Articles 4.3.2 of the Unit Operating Agreement, applicable to Expansion Area B only.

If you have any questions concerning the change, please call me or Mr. Larry K. Smith with Arco (915) 688-5200.

Very truly yours,

Ray M. Vaden Land Representative

Keym Vach

RMV:dm1006

Attachment

ADDENDUM TO RATIFICATION AND JOINDER OF UNIT AGREEMENT AND UNIT OPERATING AGREEMENT FOR UNIT EXPANSION AREA B OF THE EUNICE MONUMENT SOUTH UNIT, LEA COUNTY, NEW MEXICO

Whereas, Working Interest owners in the Eunice Monument South Unit (EMSU) have determined it to be desirable to expand the boundaries of the EMSU described in that certain Unit Agreement dated June 22, 1984, and effective February 1, 1985; and

Whereas, Working Interest Owners in said EMSU have, in accordance with the EMSU Unit Agreement and Unit Operating Agreement, agreed to expand said EMSU to include certain other lands described as Expansion Area B; and

Whereas, Working Interest Owners in Expansion Area B desire their interest be added to, included in, and made a part of an expanded EMSU, to be operated in accordance with the Unit Agreement and Unit Operating Agreement of said EMSU, subject to the terms and conditions of this Addendum attached thereto and made a part thereof;

Now, therefore, owners of interest in Expansion Area B do hereby agree to Ratification and Joinder of the EMSU Unit Agreement and Unit Operating Agreement, in accordance with the provisions herein contained.

It is the intent of the owners of interests executing the Ratification and Joinder attached hereto to approve and join in the expansion of the Eunice Monument South Unit for secondary and/or enhanced recovery operations by expansion of the existing unit to encompass the following lands hereinafter referred to as "Unit Area B", "Expansion Area B", or "Unit Expansion Area B".

Lands Encompassed in Unit Expansion Area B

Township 20 South, Range 36 East, N.M.P.M., Lea County, New Mexico

Section 10: E/2E/2

Section 11: W/2, W/2NE/4, SE/4

Section 13: W/2, S/2SE/4

A11 Section 14:

Section 15: NE/4NE/4

Section 23: All

Section 24: N/2, SW/4, W/2SE/4

Lands Encompassed in Existing Unit Area A

Township 20 South, Range 36 East, N.M.P.M.

Section 25: All Section 36: All

Township 20 South, Range 37 East, N.M.P.M.

Section 30: S/2, S/2N/2, NE/4NW/4 and NW/4NE/4 Section 31: All

Section 32: All

Township 21 South, Range 36 East, N.M.P.M.

Section 2: S/2S/2

Section 3: Lots 3, 4, 5, 6, 11, 12, 13, and 14 and S/2

Section 4 through 11: All

Section 12: W/2SW/4

Section 13: NW/4NW/4

Section 14 through 18: All

Section 21: N/2 and N/2S/2 Section 22: N/2 and N/2S/2

380203/01310/53 70190 The parties hereto agree to operate the existing Unit Area (Area A) and the Unit Expansion Area B as separate entities until such time as the Working Interest Owners of the existing Unit Area and the Unit Expansion Area B agree to consolidate facilities and operations under the terms and voting procedures of the Unit and Unit Operating Agreement in addition to obtaining the consent of the Authorized Officer of the BLM, the Land Commissioner and the Division. The total and proportionate allocation of said investment adjustment shall be in the amounts agreed upon and evidenced by ballot of the Working Interest Owners in compliance with the voting procedures adopted by such owners.

ADDENDOM

The parties further agree that Eunice Monument South Unit will be expanded under the general terms of Section 4 (Expansion) and Section 32 (Nonjoinder and subsequent joinder) of the Unit Agreement with the understanding that at least until such time as the above described actions have consolidated facilities and operations, the following additions or exceptions shall apply:

- 1. As a basis for admission into the existing Eunice Monument South Unit, the Working Interest Owners in Expansion Area B will pay to the owners of the existing Unit an agreed upon investment adjustment for acquisition of an interest in the existing Eunice Monument South Unit water injection plant, main trunk line, water supply wells, water disposal well and the related equipment and facilities previously constructed to serve the existing unit area. The agreed upon investment adjustment is \$1,060,785.53, contingent upon a first quarter, 1991 commencement of water injection in the Expansion Area B. In the event this water injection commencement is later than the first quarter of 1991, the investment adjustment will be revised for depreciation as approved by the Working Interest Owners in the Expansion Area B and accepted by the Working Interest Owners of the existing Unit Area "A" by ballot.
- 2. All direct capital costs necessary to implement secondary recovery operations for the Expansion Area B will be borne by the Working Interest Owners in the Expansion Area B based upon the unit participation listed on the attached Exhibit C-1 at no cost to the existing Unit Area A.
- 3. Working Interest Owners shall act upon and determine all matters coming before them in accordance with the voting procedure established in Article 4 of the Eunice Monument South Unit Operating Agreement with the following additions:
 - a. For items concerning only Unit Area A, only Working Interest Owners in Unit Area A will vote, with such vote being based on the participation factors applicable to Unit Area A only.
 - b. For items concerning only Expansion Area B, only Working Interest Owners in Expansion Area B will vote, with such vote being based on the participation factors applicable to Expansion Area B only, except that the affirmative vote of three or more Working Interest Owners having a COMBINED voting interest of at lease sixty-five percent (65%) shall be utilized in lieu of the four or more Working Interest Owners referenced in 4.B.2.
 - c. For items concerning both Unit Area A and Expansion Area B, all Working Interest Owners in both Areas A and B will vote, with such vote being based on the participation factors applicable to Areas A and B. Weighting of the vote will be as follows:
 - .8276 * (Area "A" Vote) + .1724 * (Area "B" Vote) = Total Unit Vote.
- 4. Future capital expenditures, as prescribed by the Internal Revenue Service Rules and Regulations then in effect, on the common injection system described above will be proportionately shared with 17.24% allocated to the expansion area and 82.76% allocated to the existing area; with the following exception:

Capital expenditures which benefit only one area (either expansion or existing area) will be borne solely (100%) by the area (either expansion or existing area) which initiated the expenditure. Capital expenditures on the common injection system shall be determined as benefitting solely one area by vote of the working interest owners in the affected area following the voting procedures established in Article 4 of the Unit Operating Agreement.

ADDENDUM 3

All expense and operating costs for the Unit Expansion Area B that are not related to the common injection system will be maintained separately from the costs and expenses of the existing Unit Area. All expenses and operating costs for the common injection system set forth in number 1 above, set forth in number 1 above, shall be calculated on a calendar month basis and will be shared proportionally between the existing Unit Area and the expansion area based on the percentage of monthly injection and monthly water supplied to the existing Unit Area and expansion area for the month so calculated. Monthly operating expenses on the common injection system will be proportioned based on the following direct measurement approach:

Injection Facility Monthly Expenses *Monthly Water Injection to an Area Total Monthly Injection to both areas

+ Water Supply Well Monthly Expenses *Monthly Water Supply to an Area Total Monthly Water Supplied to both areas

In the event of injection system interruptions, the operator of the common injection system will make every reasonable effort to proportion water to the Unit Area and Expansion Area B based on the injection take during the last month of full water delivery prior to the interruption.

- 6. Plans of development, AFE's, budgets, and actual development costs for secondary and tertiary recovery operations in Expansion Area B shall be maintained separate from the existing Unit Area.
- 7. All production from the Expansion Area B shall be held separate from the existing Unit Area and will be accounted for, sold, and allocated back to the tracts within the Expansion Area B based upon the tract participation established for the Expansion Area B and listed in the attached Exhibit B.

This Ratification and Joinder to the Unit Agreement and Unit Operating Agreement for the Eunice Monument South Unit shall be treated as a subsequent joinder under the terms of Section 32 of that certain Unit Agreement for the Eunice Monument South Unit dated June 22, 1984, and recorded in Book 440, beginning at page 607 of the miscellaneous records of Lea County, New Mexico. Said unit became effective on February 1, 1985 as evidenced by the Certificate of Effectiveness dated February 12, 1985 and recorded in Book 442 at page 346 of the miscellaneous records of Lea County, New Mexico.

Notwithstanding the above, as subsequent joinders to the Unit and Unit Operating Agreement for the Eunice Monument South Unit, it is agreed and understood that under Section 24 as modified under Section 39 of the Unit Agreement, the effective date for unitization of Expansion Area B shall be in compliance with the Division's order or supplemental order, and will be a date as mutually agreed upon by the Unit Operator, the Authorized Officer of the BLM, the Land Commissioner, and the Division. The effective date of the unit expansion will be set out in the Certificate of Effectiveness, and filed of record in the miscellaneous records of Lea County, New Mexico. If this Ratification and Joinder and the Unit Agreement do not become effective as to Expansion Area B on or before June 1, 1991, it shall ipso facto expire on said date and thereafter be of no further force or effect. The statutory unitization of Expansion Area B and the inclusion of the same into the Eunice Monument South Unit shall also be in compliance with the terms of Sections 32 and 39 of the Unit Agreement. In a like manner the above referenced effective date for the Unit Expansion Area B shall apply to Articles 10, 11 and 19 of the Unit Operating Agreement for the Eunice Monument South Unit dated June 22, 1984 and recorded in book 440 beginning at page 672 of the miscellaneous records of Lea County, New Mexico. It is agreed and understood that the terms of Exhibits "D" (Insurance), "E" (Accounting Procedure for Joint Operations), "F" (Certificate of Compliance), and "G" (Gas Storage and Balancing Agreement) shall apply equally to all Working Interest Owners in both the original Unit Area and the Expansion Area B as of the effective date of expansion. The overhead rates and charges referenced in Exhibit "E", as applied to the Unit Expansion Area B, shall be the escalated charges currently charged the Working Interest Owners of the existing Unit Area and shall remain concurrent, and identical for both the existing Unit Area and the Expansion Area B.

380203/01310/53 70190

EXPANSION AREA "B" EMSU WORKING INTEREST OWNERS RATIFICATION, JOINDERS & REVISED ADDENDUM

AIRBORNE EXPRESS

Amerada Hess Corporation J. C. Hefley Manager of Unitization 218 West 6th Street Tulsa, Ok 74119

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Amoco Production Company U.S.A. Dan Janik 501 Westlake Park Blvd. Houston, Texas 77079

AIRBORNE EXPRESS

Arco Oil & Gas Company Larry K. Smith 600 N. Marienfield Midland, Texas 79701

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Jerry Hoover
Ten Desta Drive W.
Midland, Texas 79705

AIRBORNE EXPRESS

Shell Western E&P Inc. D. L. Barksdale 200 N. Dairy Ashford Houston, Texas 77079

AIRBORNE EXPRESS

Chevron U.S.A. Inc. R. C. Anderson Claydesta Bldg. 15 Smith Rd. Midland, Texas 79705

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