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Ray M. Vaden
Land Representative
Interior Division
Land Department
Central Region

BEFORE EXAMINER CATANACH
OIL CONSERVATION DIVISION

CHEVRON EXHIBIT NO. 41

CASE NO. 10059-61

July 15, 1990

Lessees of Record and
Owners of Working Interests,
Royalty Interests, and Overriding
Royalty Interests in the
Eunice Monument South Unit,
Lea County, New Mexico

NOTICE

Proposed Statutory Expansion of
the Eunice Monument South Unit,
Lea County, New Mexico and OCD
Hearing for Unit Expansion
Scheduled on August 22, 1990

Dear Unit Interest Owner:

Notice

Chevron has scheduled a hearing with the New Mexico Oil Conservation Division (OCD) for the purpose of Expansion of the Eunice Monument South Unit. The hearing will be on August 22, 1990, in Santa Fe, New Mexico. You are notified that you have the right to appear at the hearing, to make a statement to the Division, to present evidence and cross-examine witnesses either in support of or in opposition to the proposed Expansion. You may contact the undersigned for more information. Should you desire to participate in the hearing you should file a written Prehearing Statement with the Division by 4 p.m. on August 17, 1990. If the OCD issues orders prescribing and approving the planned expansion, a copy of these orders along with notice of the agreed upon effective date for expansion and the commencement of unitized operations for the Expansion Area B will be sent to you. We hope to complete the unit expansion by the fourth quarter of 1990 and commence actual water injection by the 1st quarter of 1991.

Note: Your interests in production from the existing Eunice Monument South Unit (EMSU) are not affected by expansion. All production from the proposed expansion area will be allocated back to the owners of the expansion area, and all production from the existing EMSU will continue to be allocated to the owners thereof.

History of Unit

The EMSU was approved as a Federal/State Statutory Unit by order of the OCD in December of 1984. The Unit became effective with the commencement of unitized operations beginning at 7:00 A.M. on February 1, 1985.

As we explained in our Royalty Owner's Overview printed and distributed in 1984, the working interest owners are paying the costs to drill into San Andres Formation, at a depth greater than 3/4 of a mile beneath the surface, to produce non-potable salt water to inject into the Eunice Monument Oil bearing rocks above the San Andres Formation. The injected water forces additional oil out of small rock pores into offsetting producing wells. Water and oil are then

produced through the well casing, along with a small amount of casinghead gas, into treatment facilities, separators (to separate oil, water and gas) and storage facilities for pipeline sales. The produced water is reinjected into the ground and the oil, or proceeds from the sale of the oil, is allocated back to the tracts, and the appropriate owners thereof. The amount allocated to each tract is based upon each tract's participation (or percentage) of the total unit's production.

The underground reservoir for Eunice Monument Oil production is not yet completely filled with water. Our original prediction calling for increased response and production over the next four years, with peak response around 1995, appears to be accurate. The reservoir's waterflood response, as measured from selected wells in the unit, is currently exceeding predictions. This response has encouraged the working interest owners to expand the existing EMSU to include approximately 3000 acres into the existing 14,189.84 acre unit.

Unit Area and Ownership as Shown on Exhibits A&B

The area to be included into the unit by expansion is shown on the attached revised EMSU Exhibit "A" as Area B. The existing unit area is shown as Area A. The enclosed Exhibit "B" to the EMSU Unit Agreement shows the lands and ownership within the Existing Unit Area A (tracts 1 through 101) as well as in the proposed Expansion Area B (tracts 102 through 112). The six working interest owners in the expansion area are also working interest owners in the existing unit area. There are approximately 100 royalty or overriding royalty owners in the expansion area and many of these owners also have an interest in the existing unit area. There are over 500 owners in the existing Unit Area.

The interest of each royalty and overriding royalty owner, as shown in Exhibit B, was provided to Chevron by the working interest owner who is responsible for paying royalty and overriding royalty owners for their share of each tract's allotted production. You are paid in accordance with the division pay order that you received, signed and returned to the company distributing your checks. The ownership information shown on Exhibit B was compiled from information received within the past 45 days from the company distributing your unit proceeds. If you believe it is incorrect, please contact the company now sending your oil payment check, and also ask them to send Chevron instructions to correct your interest on the EMSU Exhibit B. Even after unitization the responsibility for disbursing royalty or overriding royalty payments will be the responsibility of the working interest owner or company currently making payments to you. Chevron as unit operator, will simply provide the manpower, technical expertise, equipment, contract supervision, and services necessary to operate the unit area for and on behalf of all the working interest owners in the unit.

Unit Expansion Area Boundaries

The boundaries for Expansion Area B were based upon geological reservoir characteristics that are similar to the existing EMSU. These boundaries have been approved by the working interest owners of both the existing unit area and the expansion area. They have also received preliminary approval from the Bureau of Land Management (BLM), and the State Land Office. Seventy-six percent (76%) of the lands in the expansion area are federal lands and thirteen percent (13%) are state lands. The remaining eleven percent (11%) are private or patented fee lands.

Reason for Expansion

The working interest owners of the existing unit and of the proposed expansion area have agreed that the expansion of the EMSU will provide the proposed unit area B with more expedient waterflood capabilities than they would realize if they formed a new separate unit.

By utilizing some of the existing water supply wells (San Andres formation brackish water), lines and equipment, it will also conserve resources and costs and prevent the drilling of unnecessary wells without apparent adverse affects to the existing unit operations.

Basis of Admission for Expansion Area

The working interest owners of the existing unit have invested over 50 million dollars in equipment and facilities to facilitate the existing waterflood operations in the EMSU. As a "Basis of Admission" the Working Interest Owners in both the existing unit area and the working interest owners in the expansion area have agreed that the expansion area working interest owners will pay to the working interest owners of the existing unit area an agreed upon amount to utilize some of the existing unit facilities for the expansion area. They have also agreed upon an equitable and fair method of allocating cost by and between the working interest owners of the existing unit area and the expansion area. The details of the working interest owners allocation of costs and credits must receive OCD approval (as a fair and equitable plan) before an order approving the unit expansion will be issued.

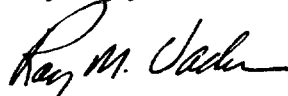
Separation of Unit Area A Costs and Production from that of Unit Area B

During the time secondary oil is being recovered through waterflooding, the working interest owners have agreed to measure and separately account for all oil produced from both the existing unit area and the expansion area. Therefore, although both areas would be operated by Chevron under a common unit and unit operating agreement (or plan) the production from Unit Area B (tracts 102 through 112) will be allocated back to each of the tracts within Unit Area B. The existing unit production from Area A will continue (unchanged) to be allocated back to each of the tracts in the existing Unit Area A (tract 1 through 101) in the same manner as currently approved by the owners and the OCD. Therefore, your working interests, royalty interests or overriding royalty interests in production will not change by virtue of this expansion. The working interest owners who pay the capital and operating costs for the unit have also agreed to what they believe is a fair and equitable method of allocating costs separately to the working interest owners of each area, and to a separate expenditure (voting) approval procedure to control the operations within each unit area.

Authorization for Unit Expansion - Objections Thereto

Various sections of the EMSU Unit Agreement provide for and authorize the proposed unit expansion. This notice is in compliance with the terms of Section 4 of the Eunice Monument South Unit Agreement, and is also provided in reference to the provisions of the New Mexico Statutory Unitization Act (70-7-1 through 70-7-21 N.M.S.A., 1978, Ann.). Section 4 (b) 2. of the EMSU Unit Agreement requires that this notice be sent to the New Mexico OCD, the Land Commissioner, the Authorized Officer of the Bureau of Land Management, the Working Interest Owners, and the Lessees and Lessors whose interests are affected. It also requires that 30 days be allowed for you to submit to Chevron, as unit operator, any objections to the proposed expansion. Therefore, please submit any objections that you may have to this expansion to my attention within 30 days from the date hereof.

Very truly yours,



Ray M. Vaden
Land Representative

Attachment