

BRIEF OF AGREEMENT

LEA COUNTY, NEW MEXICO

Texaco Exploration and Production Inc.
 Denver Division
 Permian West Business Unit
 North Hobbs Asset Team
 Hobbs Operating Unit

HOBBS OPERATING UNIT		
RSP	10/27	10/14
MCA	JWA	CRA
JXA	MAD	PWM
DJC	ADD	HMC
MCD	BCH	LLD
KUH	PLH	CLH
PSI	PDH	CDJ
BMM	LAK	RMH
RTM	JDL	TVS
LDR	MEM	HRG
MSS	CLM	CDT
WAS	FAS	RCB
KWS	JY	JAF
SDU	ELD	LML
Well File	Corp File	JAP
Copies Sent		

AGREEMENT:

Communitization Agreement

PROPERTY:

Coates Glorieta Fed. Com. No. 1
 FRSID 333000069060302

LAND FILES:

NM225171 - Fed LC-032650-(b)
 G5263 - Fed LC-032650-(a)

PARTIES:

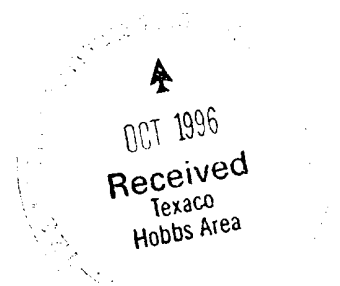
Texaco Exploration and Production Inc.	75%
Amerada Hess Corporation	25%

REMARKS:

TEPI's A. B. Coates "C" Well No. 27 was successfully recompleted as a gas well in the Glorieta formation. The well name has been changed to the Coates Glorieta Fed. Com. No. 1 Well. Communitized area is the S/2 of Section 24, T25S, R37E, Lea County, New Mexico, only as to gas and associated liquid hydrocarbons produced from the Glorieta formation.

DISTRIBUTION:

M. E. Brumley - Gas Operations - Midland
 I. A. Clifton - Land - Denver - Original
 D. J. Kuhl - Land - Denver
 T. G. Miller - Hobbs
 D. C. Morse - Land - Denver
 B. R. Smith - Gas Accounting - Houston
 N. A. Zambrano - Well File - Midland



Briefed by:
 Ron Lanning
 Texnet 672-4445
 October 10, 1996



United States Department of the Interior

BUREAU OF LAND MANAGEMENT
ROSWELL DISTRICT OFFICE
2909 West Second Street
Roswell, New Mexico 88202



IN REPLY REFER TO:

NMNM94504
3105.2 (06200)

OCT 08 1996

Texaco Exploration & Production Inc.
Attention: Mr. Ronald W. Lanning
P. O. box 3109
Midland, TX 79702

Gentlemen:

Enclosed is one approved copy of Communitization Agreement NMNM94504, involving 200.00 acres of land in Federal lease LC-032650-B, 40.00 acres of land in Federal lease LC-032650-A, and 80.00 acres of Fee land in Lea County, New Mexico, comprising a 320.00-acre well spacing unit.

The agreement communitizes all rights as to gas and associated liquid hydrocarbons producible from the Glorieta formation in the S1/2 section 24, T. 25 S., R. 37 E., NMPM, and is effective May 1, 1996.

Approval of this agreement does not warrant or certify that the operator, thereof, and other working interest owners hold legal or equitable title to the leases which are committed hereto.

If this well is producing, this approval requires the submission of a Payor Information Form MMS 4025 to the Minerals Management Service (MMS) within 30 days (30 CFR 210.51). Please notify the designated payor or payors (purchasers, working interest owners, or others) as soon as possible regarding this requirement. Any production royalties that are due must be reported and paid within 90 days of the Bureau of Land Management's approval date or the payors will be assessed interest for late payment under the Federal Oil and Gas Royalty Management Act of 1982 (See 30 CFR 218.54). If you need assistance or clarification, please contact the Minerals Management Service at 1-800-525-9167 or 303-231-3504.

Please furnish all interested principals with appropriate evidence of this approval.

Sincerely,

Tony L. Ferguson
Assistant District Manager,
Minerals Support Team

Enclosure:

1 - Communitization Agreement

Determination - Approval - Certification

Pursuant to the authority vested in the Secretary of the Interior under Section 17(j) of the Mineral Leasing Act of 1920, as amended (74 Stat. 784; 30 U.S.C. 226(j)), and delegated to the authorized officer of the Bureau of Land Management, I do hereby:

- A. Determine that the Federal lease or leases as to the lands committed to the attached agreement 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 that consummation and approval of the agreement will be in the public interest. Approval of this agreement does not warrant or certify that the operator thereof and other holders of operating rights hold legal or equitable title to those rights in the subject leases which are committed hereto.
- B. Approve the attached communitization agreement covering the S½ section 24 T. 25 S., R. 37 E., NMPM, Lea County, New Mexico, as to gas and associated liquid hydrocarbons producible from the Glorieta formation. This approval will become invalid if the public interest requirements under section 3105.2-3(e) are not met.
- C. Certify and determine that the drilling, producing, rental, minimum royalty and royalty requirements of the Federal lease or leases committed to said agreement are hereby established, altered, changed, or revoked to conform with the terms and conditions of the agreement.

Approved: October 8, 1996



Authorized Officer

Effective: May 1, 1996

Contract No.: Com. Agr. NMNM94504

COMMUNITIZATION AGREEMENT

Contract No. NMNM 94504

THIS AGREEMENT, entered into as of the date shown in Section 10 hereof 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 portions 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 Commissioner of Public Lands of the State of New Mexico, herein called "the Commissioner", is authorized to consent to and approve agreements pooling state oil and gas leases or any portion thereof, when separate tracts under such state leases cannot be independently developed and operated economically in conformity with well-spacing and gas proration rules and regulations established for the field or area and such 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 land 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 the 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 25 South, Range 37 East, N.M.P.M.

Section 24: S/2

Lea County, New Mexico

containing 320 acres, more or less, and this agreement shall include only the Glorieta formation underlying said lands and the gas and associated liquids (hereinafter referred to as "communitized substances:) producible from such formation. hydrocarbons

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 three (3) executed copies of a designation of successor operator shall be filed with the Authorized Officer ~~and three (3) additional executed copies thereof shall be filed with the Commissioner.~~
4. Operator shall furnish the Secretary of the Interior, or his authorized representative, ~~and the Commissioner, 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 ~~and the State of New Mexico,~~ 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 leaseholds comprising said area in the proportion that the acreage interest of 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 noncommunitized 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 noncommunitized 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 is such failure results from, compliance with any such laws, orders, rules or regulations.
10. The date of this agreement is May 1 19 96,
(Month) (day) (year)
and it shall become effective as of this date or from the onset of production of communitized substances, whichever is earlier upon execution of the necessary parties, notwithstanding the date of execution, and upon approval by the Secretary of Interior, or his duly authorized representative, ~~and by the Commissioner or his duly authorized representative~~, and shall remain in force and effect for a period of two (2) years and so long thereafter as communitized substances are produced or can be produced from the communitized area in paying quantities; provided, that 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; provided further that prior to production in paying quantities from the communitized area and upon fulfillment of all requirements of the Secretary of Interior, or his duly authorized representative, and ~~all requirements of the Commissioner~~, 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 the capability of production if, within sixty (60) days thereafter, reworking or drilling operations on the communitized area are commenced and are thereafter conducted and prosecuted with reasonable diligence. ~~As to lands owned by the State of New Mexico, written notice of intention to commence such operations shall be filed with the Commissioner within thirty (30) days after the cessation of such capability of production, and a report of the status of such operations shall be made by the operator to the Commissioner every thirty (30) days, and the cessation of such operations for more than twenty (20) consecutive days shall be considered as an abandonment of such operations as to any lease from the State of New Mexico included in this agreement.~~
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 interest 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 lands shall be subject to approval by the Secretary of the Interior, ~~and as to State of New Mexico lands shall be subject to approval by the Commissioner.~~
12. It is agreed by 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 gas

leases under which the United States of America is lessor, and in the applicable oil and gas operating regulations of the Department of the Interior. ~~It is further agreed between the parties hereto that the Commissioner shall have the right of supervision over all operations to the same extent and degree as provided in the oil and gas leases under which the State of New Mexico is lessor and in the applicable oil and gas statutes and regulations of the State of New Mexico.~~

13. The 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 had signed the same document.
15. Nondiscrimination: 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 written and have set opposite their respective names the date of execution.

DATE:

5/31/96

ATTEST:

DATE:

6/27/96

Texaco Exploration and Production Inc.

BY:

[Signature]
Attorney-in-Fact

Amerada Hess Corporation

BY:

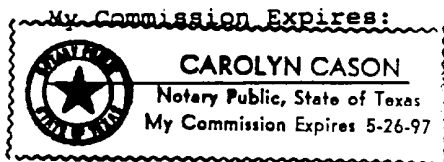
[Signature]
RANDY J. PHARR

[Signature] DCS

TITLE: Attorney-in-Fact

STATE OF TEXAS SS
COUNTY OF MIDLAND SS

The foregoing instrument was acknowledged before me this 31st day of May, 19 96, by R. J. Schneider as Attorney-in-Fact on behalf of Texaco Exploration and Production Inc.

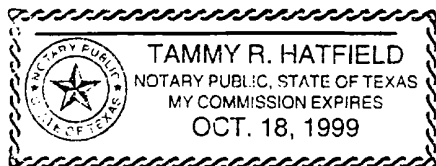


Carolyn Cason
NOTARY PUBLIC in and for
Midland County, Texas
(Typed Name)

STATE OF TEXAS SS
COUNTY OF HARRIS SS

The foregoing instrument was acknowledged before me on this 27th day of June, 19 96, by RANDY J. PHARR as Attorney-in-Fact of Amerada Hess Corporation ~~on behalf of said~~

My Commission Expires:



Tammy R. Hatfield
NOTARY PUBLIC in and for
Harris County, Texas
(Typed Name)

24

TRACT 3

TRACT 1
LC 032650 (b)

TRACT 2
LC 032650 (a)



EXHIBIT 'A'

**COATES GLORIETA
FEDERAL COM NO. 1**

**Plat of Communitized Area
Covering the S/2 Section 24
T25S, R37E, Lea County, NM**

EXHIBIT "B"

To Communitization Agreement dated May 1, 1996, embracing the S/2 of Section 24, T25S, R37E, NMPM, Lea County, New Mexico.

Operator of Communitized Area: Texaco Exploration and Production Inc.

DESCRIPTION OF LEASES COMMITTED

Tract No. 1

Lease Serial No.:	LC-032650-(b)
Lease Date:	April 24, 1936
Lessor:	United States of America
Original Lessee:	Tide Water Oil Company
Present Lessee:	Texaco Exploration and Production Inc.
Land Description:	NE/4 SW/4, SE/4, Section 24, T25S, R37E
Number of Acres:	200
Royalty Rate:	12.5% <i>Sliding Scale - Sch. D</i>
ORRI Owners:	None
WI Owners:	Texaco Exploration and Production Inc. 100%

Tract No. 2

Lease Serial No.:	LC-032650-(a)
Lease Date:	July 1, 1955
Lessor:	United States of America
Original Lessee:	Tide Water Associated Oil Company

Present Lessee: Texaco Exploration and Production Inc.
Land Description: SE/4 SW/4 Section 24, T25S, R37E
Number of Acres: 40
Royalty Rate: 12.5% - 25% Sch. C
ORRI Owners: None
WI Owners: Texaco Exploration and Production Inc. 100%

Tract No. 3

Lease Date: August 5, 1940
Lessor: Ida May Wimberly, et al
Original Lessee: Amerada Petroleum Corporation
Present Lessee: Amerada Hess Corporation
Land Description: W/2 SW/4 Section 24, T25S, R37E
Number of Acres: 80
Pooling Clause: Lease Agreement dated August 2, 1958

Lessee, at its option, is hereby given the right and power to pool or combine the acreage covered by this lease, or any portion thereof, as to gas only, with other land, lease or leases in the immediate vicinity thereof to the extent hereinafter stipulated, and irrespective of whether authority similar to this exists with respect to such other land, lease or leases, when in Lessee's judgment it is necessary or advisable to do so in order properly to explore, or to develop or operate said leased premises, or when to do so would, in the judgment of Lessee, promote the conservation of gas in and under and that may be produced from said premises. Units pooled for gas hereunder shall not substantially exceed in area 320 acres each, provided that should governmental authority having jurisdiction prescribe or permit the creation of units larger than those specified, units thereafter created may conform substantially in size with those prescribed by governmental regulations. Lessee under the provisions hereof may pool or combine acreage covered by this lease, or any portion thereof as above provided as to gas in any one or more strata. The units formed by pooling as to any stratum or strata need not conform in size or area with the unit or units into which the lease is pooled or combined as to any other stratum or strata. The pooling in one or more instances shall not exhaust the

rights of the Lessee hereunder to pool this lease or portions thereof into other units. Lessee shall file for record in the appropriate records of the county in which the leased premises are situated an instrument describing and designating the pooled acreage as a pooled unit. Lessee may at its election exercise its pooling option after commencing operations for or completing a gas well on the leased premises, and the pooled unit may include, but it is not required to include, land or leases upon which a well capable of producing gas in paying quantities has theretofore been completed or upon which operation for the drilling of a well for gas have theretofore been commenced. Operations for drilling on or production of gas from any part of the pooled unit which includes all or a portion of the land covered by this leases regardless of whether such operations for drilling were commenced or such production was secured before or after the execution of this instrument or the instrument designating the pooled unit, shall be considered as operations for drilling on or production of gas from land covered by this lease whether or not the well or wells be located on the premises covered by this lease, and the entire acreage constituting such unit or units, as herein provided, shall be treated for all purposes, except the payment of royalties on production from the pooled unit, as if the same were included in this lease. For the purpose of computing the royalties to which owners of royalties and payments out of production and each of them, shall be entitled on production of gas from the pooled unit, there shall be allocated to the land covered by this lease and included in said unit a pro rata portion of the gas produced from the pooled unit after deducting that used for operations on the pooled unit. Such allocation shall be on an acreage basis – that is to say, there shall be allocated to the acreage covered by this lease and included in the pooled unit that pro rata portion of the gas produced the pooled unit which the number of surface acres covered by this lease and included in the pooled unit bears to the total number of surface acres included in the pooled unit. Royalties hereunder shall be computed on the portion of such production so allocated to the land covered by this lease and included in the unit just as though such production were from such land. Whether a well is an oil well or a gas well shall be determined by the classification thereof by the New Mexico Oil Conservation Commission; all hydro-carbons produced from a well so classified as a gas well shall be considered as gas within the meaning of this lease.

Royalty Rate:	12.5%
ORRI Owners:	None
WI Owners:	Amerada Hess Corporation 100%

Lease Date:	August 5, 1940
Lessor:	Lewie Elane Wimberly and Gurvis Earl Wimberly, by and through Ida May Wimberly, Guardian

Original Lessee:	Amerada Petroleum Corporation
Present Lessee:	Amerada Hess Corporation
Land Description:	W/2 SW/4 Section 24, T25S, R37E
Number of Acres:	80
Pooling Clause:	Lease Agreement dated August 2, 1958

Lessee, at its option, is hereby given the right and power to pool or combine the acreage covered by this lease, or any portion thereof, as to gas only, with other land, lease or leases in the immediate vicinity thereof to the extent hereinafter stipulated, and irrespective of whether authority similar to this exists with respect to such other land, lease or leases, when in Lessee's judgment it is necessary or advisable to do so in order properly to explore, or to develop or operate said leased premises, or when to do so would, in the judgment of Lessee, promote the conservation of gas in and under and that may be produced from said premises. Units pooled for gas hereunder shall not substantially exceed in area 320 acres each, provided that should governmental authority having jurisdiction prescribe or permit the creation of units larger than those specified, units thereafter created may conform substantially in size with those prescribed by governmental regulations. Lessee under the provisions hereof may pool or combine acreage covered by this lease, or any portion thereof as above provided as to gas in any one or more strata. The units formed by pooling as to any stratum or strata need not conform in size or area with the unit or units into which the lease is pooled or combined as to any other stratum or strata. The pooling in one or more instances shall not exhaust the rights of the Lessee hereunder to pool this lease or portions thereof into other units. Lessee shall file for record in the appropriate records of the county in which the leased premises are situated an instrument describing and designating the pooled acreage as a pooled unit. Lessee may at its election exercise its pooling option after commencing operations for or completing a gas well on the leased premises, and the pooled unit may include, but it is not required to include, land or leases upon which a well capable of producing gas in paying quantities has theretofore been completed or upon which operation for the drilling of a well for gas have theretofore been commenced. Operations for drilling on or production of gas from any part of the pooled unit which includes all or a portion of the land covered by this lease regardless of whether such operations for drilling were commenced or such production was secured before or after the execution of this instrument or the instrument designating the pooled unit, shall be considered as operations for drilling on or production of gas from land covered by this lease whether or not the well or wells be located on the premises covered by this lease, and the entire acreage constituting such unit or units, as herein provided, shall be treated for all purposes, except the payment of royalties on production from the pooled unit, as if the same were included in this lease. For the purpose of computing the royalties to which owners of royalties and payments out of production and each of them, shall be entitled on production of gas from the pooled unit, there shall be allocated to

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Royalty Rate: 12.5%

ORRI Owners: None

WI Owners: Amerada Hess Corporation 100%

Amerada Hess Corporation also contributes its unleased 1/2 mineral interest in Tract 3.

RECAPITULATION

Tract No.	Number of Acres	Percentage of Interest in Communitized Area
1	200	62.5%
2	40	12.5%
3	80	25.0%