

SUGGESTED PROCEDURES FOR FORMULATING A FEDERAL SECONDARY RECOVERY UNIT AGREEMENT

Address application and unit agreement papers to the Chief, Branch of Fluid Minerals, Bureau of Land Management. An application for designation of unit area must be submitted in an **approvable** format two weeks prior to a hearing before the Utah Board of Oil Gas and Mining or we will formally protest the agreement. Review and processing of the proposal will be facilitated if the following suggestions are observed and negotiations with our office are commenced prior to submittal of the designation application (please allow four weeks):

A. APPLICATION FOR DESIGNATION OF UNIT AREA FOR SECONDARY RECOVERY OPERATIONS. (Submit original and 2 copies.)

The request should consist of an application letter accompanied by a supporting engineering and geologic report.

1. Application letter.

- a. Set out the benefits to be derived by the proposed operations.
- b. Set forth the proposed basis for allocating unitized production.
- c. Describe the proposed unit area by reference to a land ownership map (Exhibit A of the proposed unit agreement may be used). A legal description of all lands in the proposed unit area may also be included. The map and description should show any odd-sized lots and sections and surveyed tracts and the exact acreage in each. Lands being unitized should be divided into separate tracts for participation purposes on the basis of mineral ownership.
- d. List the serial number of all Federal leases, lease applications, and Indian leases on the land ownership map in sequence (grouped by Land Office identities).
- e. State whether engineering and geological data and discussions are to be held confidential.

2. Engineering and Geologic Report.

- a. The engineering and geological report should be designed to support the application for designation of a logical unit area boundary and the proposed participation formula.

b. Include a brief history of the field. Mention any unique features relating to the development of the field.

c. Tabulate production by tracts, showing the annual production from each tract since discovery and the monthly production from each tract during the 18 to 24 months immediately preceding the date of the application. (This requirement may be waived if production is not used in the participation formula).

d. Include copies of all logs, core analysis, and other well data which has not previously been submitted. Provide a table which indicates the reservoir top, reservoir bottom and reservoir thickness as interpreted by the engineering committee. Define the criteria used in interpreting the aforementioned data.

e. Submit structure and isopach maps which define the operators' interpretations of the reservoir conditions pertinent to the proposal. At least one of said maps should show all wells that have been drilled in the unit area and immediate vicinity thereof, the depth of each well, the reservoir thickness penetrated in each well, results of any well tests, the strike and throw of faults, and type of logs ran on each well. The map should also identify proposed injection wells to be drilled or converted.

f. Include pertinent geophysical interpretations.

g. Include schematic cross-sections and stratigraphic columns when appropriate.

h. Define the geological and engineering basis for selecting the boundary of the unit area, i. e., zero sand contour, fault trace or reservoir pinch-out and support the boundary with appropriate references to items d through g.

i. Identify your plan of development for the unit area for the first year of unitization. The plan will then be updated on a yearly basis. All drilling and completion operations within the unit area must be covered by an approved plan of development.

B. REQUEST FOR PRELIMINARY APPROVAL OF THE PROPOSED FORM OF UNIT AGREEMENT.

(This request is normally combined with the application for designation of the unit area).

The proposed form of unit agreement, with all deviations from the standard form plainly

marked and explained, should be submitted for preliminary approval by the Chief, Branch of Fluid Minerals. (Include Exhibits A, B, and C with the proposed form of unit agreement). Submit 2 copies of the proposed form of agreement. Additional copies may be needed if special type lands are involved.

Exhibit "A" should be based on the latest official public land survey (scale should be no less than 1 inch to 1 mile) and should show:

- a. The proposed unit area, the acreage and official number of each lot, tract, and section, and total acreage of the unit area.
- b. The boundary of each separate tract of land based on mineral ownership.
- c. The different types of land such as Federal, Indian, State, and Patented. Also, indicate different types of Federal and Indian lands, such as Forest, Fish and Wildlife, allotted Indian or Tribal.
- d. Working interest owners, lease numbers of Federal, Indian, and State leases, and owners of basic royalty interests under Indian and Patented lands.

2 . Exhibit "B"- Schedule of lands and ownerships.

- a. Area should be divided into tracts on the basis of mineral ownership and the ownership of the mineral interests under each tract should be clearly defined. (See sample Exhibit B in 43 CFR 3186.1-2).
- b. The lands in the unit area should be grouped in Exhibit B listing Federal tracts first, followed by Indian, State, and Patented tracts in that order.
- c. The Federal and Indian leases should be listed in Exhibit B by land office or Indian reservation in order of lease numbers.
- d. The subtotal of acreage for each type of land and its percentage of the total unit area should be shown in Exhibit B.

3. Exhibit "C"- Allocation Schedule

- a. List tracts in numerical order.
- b. Show allocation (percent of production) to be credited to each tract. If allocation formula incorporates more than one phase, show allocation to each tract during each phase. The percent of production should be

shown as a percent with a maximum of 5 decimal places i.e., 99.99999%.

c. Define basis for allocating production to the individual tracts.

Our designation letter will incorporate the following language which can be submitted as proof of our concurrence at the Board Hearing.

The form of unit agreement and Exhibits "A", "B" and "C" as submitted with your application will be accepted provided they are modified as indicated in red on the enclosed "marked copies".

In the absence of any objections not now apparent, a duly executed agreement, identical with said form, modified as indicated, will be approved if submitted in approvable status within a reasonable period of time (not to exceed six months from approval by the Utah Board of Oil, Gas and Mining).

C . SUBMITTAL OF EXECUTED UNIT AGREEMENT FOR FINAL APPROVAL

For approval all interest owners must executed the unit agreement, or sufficient interest as outlined in Sections 40-6-7 and 8, Utah Code Annotated and you have obtained approval by the Utah Board of Oil Gas and Mining.

When you are ready to proceed with secondary recovery operations, the executed agreement should be submitted to the Chief, Branch of Fluid Minerals with a request for final approval. The effective date of the agreement will be the first of the Month following our approval.

1. If no special types of land are involved, a minimum of four copies must be submitted, include one original and three copies. The original copy will be retained by our office. If special types of land are involved, ask how many agreements will be required. If more than one copy is to be returned to the operator increase the number of copies submitted for approval.
2. The text of the unit agreement should be identical to the form approved in the letter from the Chief, Branch of Fluid Minerals designating the unit area.
3. If there is more than one committed working interest owner, two copies of the unit operating agreement must accompany the executed unit agreement when it is submitted for final approval.
4. Every owner of an interest in the unit area must be invited to commit that interest to the unit agreement. If any interest owner declines to join the unit, submit evidence of reasonable effort to obtain a joinder. Try to obtain a letter giving the reasons for nonjoinder from any party who declines to commit his interests.

5. All signatures should be witnessed or acknowledged (notarized). If the signature is by an agent, attorney-in-fact, or other representative, submit evidence of authority to act for the principal. Execution by a corporate officer should show that official's title, and should carry proper attestation and the corporate seal.