

Model Form of Statutory Unit Operating Agreement

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MODEL FORM OF STATUTORY UNIT OPERATING AGREEMENT

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FOREWORD

The API Model Form of Statutory Unit Operating Agreement and the companion Model Form of Statutory Operating Agreement were issued as First Editions, March 1974. The revised Second Editions, April 1993, supersede and replace the First Editions of these model forms. The revised editions have been prepared to update these model forms to include revisions found from experience to be desirable.

These model forms are designed for use in states where so-called "fieldwide" units may be established by order of the appropriate regulatory agency for the purpose of increasing the ultimate recovery of oil and gas.

Because of similarities in accomplishing unitization, either voluntarily or under statutory authority, these model forms are patterned after *Model Form 5U01: Model Form of Voluntary Unit Agreement*, Fourth Edition, April 1993, and *Model Form 5U02: Model Form of Voluntary Unit Operating Agreement*, Fourth Edition, April, 1993. Appropriate modifications and footnotes reflect requirements and prohibitions of various state statutes. *Being general in nature, these forms require adaptation to conform to conditions of particular units and to requirements concerning execution, acknowledgment, and recordation.*

Statutes of some states contemplate that the Unit Agreement and Unit Operating Agreement will be consolidated into a single document for approval by participants and the appropriate regulatory agency. The single document would consist of two parts corresponding to the two model forms. In other states, the model forms can be used as separate documents.

The revised model forms were prepared by the Subcommittee on Unit Operations under the administration of the API Executive Committee on Drilling & Production Practices.

USERS ARE CAUTIONED that this suggested form may not contain all the provisions that may be required by parties to an actual agreement for unit operations. In addition, the form contains numerous provisions that must be completed by inserting appropriate time periods, number of parties, voting requirements, or dollar amounts and each party must determine appropriate inserts for its particular situation or application. This is especially critical with respect to the voting requirements relating to operation of the lease. Users of the model form or portions or variations thereof should seek the advice of counsel to ensure that the agreement reflects the actual interest of the parties, is proper under the applicable business circumstances, and is appropriate under the governing statute. Use of the form or any portion or variation thereof shall be at the sole discretion, risk, and liability of the user parties. American Petroleum Institute disclaims any and all interests or liability whatsoever for loss or damages that may result from use of the form or portions or variations thereof.

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UNIT OPERATING AGREEMENT¹

UNIT²

COUNTY,³

THIS AGREEMENT, entered into as of the ____ day of ____, 19 __, by the Parties who have signed the original of this instrument, a counterpart thereof, or other instrument agreeing to become a Party hereto,

WITNESSETH:

WHEREAS, the Parties hereto as Working Interest Owners have executed, as of the date hereof, an Agreement entitled "Unit Agreement, _____ Unit, _____ County,³ _____", herein referred to as "Unit Agreement", which, among other things, provides for a separate agreement to be entered into by Working Interest Owners to provide for Unit Operations as therein defined,

NOW, THEREFORE, in consideration of the mutual agreements herein set forth, it is agreed as follows:

ARTICLE 1⁴

CONFIRMATION OF UNIT AGREEMENT

1.1 Confirmation of Unit Agreement. The Unit Agreement is hereby confirmed and by reference made a part of this Agreement. The definitions in the Unit Agreement are adopted for all purposes of this Agreement. If there is any conflict between the Unit Agreement and this Agreement, the Unit Agreement shall govern.

ARTICLE 2

EXHIBITS

2.1 Exhibits. The following exhibits, as indicated below and attached hereto, are incorporated in and made a part hereof:

2.1.1 "Exhibit A" and "Exhibit B" of the Unit Agreement.

2.1.2 "Exhibit C" which is a schedule showing the Working Interest of each Working Interest Owner in each Tract, the portion of each Working Interest Owner's Unit

¹Nebraska and New Mexico: Add "(Operating Plan)" below title, "Unit Operating Agreement".

²Alaska, Arizona, Kansas, Michigan, Nevada, North Dakota and Oklahoma: Delete lines 4 through 14.

³Alaska: Use "Borough", Louisiana: Use "Parish", throughout this Agreement.

⁴Alaska, Arizona, Kansas, Michigan, Nevada, North Dakota, and Oklahoma: See Part I of Supplement.

⁵Louisiana: Add "and Exhibit C", and redesignate subsequent exhibits accordingly.

Participation attributable to each such interest, and the Unit Participation of each Working Interest Owner. "Exhibit C", or a revision thereof, shall not be conclusive as to the information therein, except it may be used as showing the Unit Participations of Working Interest Owners for purposes of this Agreement until shown to be in error and revised as herein authorized.

2.1.3 "Exhibit D" which is the Accounting Procedure applicable to Unit Operations.

2.1.4 "Exhibit E", Insurance.

2.1.5 "Exhibit F" which is a list of the wells contributed to the Unit.

2.1.6 "Exhibit G", Gas Balancing.

2.1.7 "Exhibit H", Non-discrimination and Certification of Non-segregated Facilities.

2.1.8 "Exhibit I", Memorandum of Unit Operating Agreement.

2.2 Inconsistencies. If any provision of any Exhibit, except "Exhibit G" and "Exhibit H", is inconsistent with any provision contained in the body of this Agreement, the provisions of the body of this Agreement shall prevail. The provisions of "Exhibit G" and "Exhibit H" shall prevail over the provisions contained in the body of this Agreement in the event there is an inconsistency.

2.3 Revision of Exhibits. Whenever "Exhibit A" and "Exhibit B" are revised, "Exhibit C" shall be revised accordingly and be effective as of the said date. Unit Operator shall also revise "Exhibit C" from time to time as required to conform to changes in ownership of which Unit Operator has been notified as provided in the Unit Agreement.

2.4 Reference to Exhibits. When reference is made herein to an exhibit, it is to the exhibit as originally attached or, if revised, to the last revision.

ARTICLE 3'

SUPERVISION OF OPERATIONS BY WORKING INTEREST OWNERS'

3.1 Overall Supervision. Working Interest Owners² shall exercise overall supervision and control of all matters pertaining to Unit Operations pursuant to this Agreement and the Unit Agreement. In the exercise of such authority, each Working Interest Owner shall act solely in its own behalf in the capacity of an individual owner and not on behalf of the owners as an entirety.

3.2 Specific Authority and Duties. The matters with respect to which Working Interest Owners² shall decide and take action shall include, but not be limited to, the following:

3.2.1 Method of Operation. The method of operation, including the type of recovery program to be employed.

3.2.2 Drilling of Wells. The drilling of any well whether for production of Unitized Substances, for use as an injection well, or for other purposes.

3.2.3 Well Recompletions and Change of Status. The recompletion, abandonment, or change of status of any well, or the use of any well for injection or other purposes.

3.2.4 Disposition of Unit Equipment. The selling or otherwise disposing of any item of surplus Unit Equipment, if the current price of new equipment similar thereto is

¹See Part V of Supplement.

²Alaska, Nevada, North Dakota, and Oklahoma: Insert "the Operating Committee" in lieu of "Working Interest Owners". The "Operating Committee" must be defined in the Unit Agreement.