

Entered June 30, 1982
JMR

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 7596
Order No. R-7011

APPLICATION OF YATES DRILLING
COMPANY FOR STATUTORY UNITIZATION,
EDDY COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on May 26, 1982,
at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 30th day of June, 1982, the Division
Director, having considered the testimony, the record, and the
recommendations of the Examiner, and being fully advised in the
premises,

FINDS:

(1) That due public notice having been given as required
by law, the Division has jurisdiction of this case and cause of
action and the subject matter hereof.

(2) That the applicant, Yates Drilling Company, seeks
the statutory unitization, pursuant to the "Statutory Unitiza-
tion Act," Sections 70-7-1 through 70-7-21, NMSA, 1978, of 1060
acres, more or less, being a portion of the Loco Hills Queen-
Grayburg-San Andres Pool, Eddy County, New Mexico, said portion
to be known as the South Loco Hills (Grayburg) Unit Area; that
applicant further seeks approval of the Unit Agreement and the
Unit Operating Agreement which were submitted in evidence as
applicant's Exhibits Nos. 2 and 3, respectively, in this case.

(3) That the proposed unit area should be designated the
South Loco Hills (Grayburg) Unit Area, and the horizontal limits
of said unit area should be comprised of the following described
lands:

TOWNSHIP 18 SOUTH, RANGE 29 EAST, NMPM
Section 19: NE/4 NW/4, NE/4 SW/4,
S/2 SW/4, and E/2
Section 20: W/2 and NW/4 NE/4
Section 29: N/2 NW/4
Section 30: N/2 N/2

(4) That the vertical limits of said South Loco Hills (Grayburg) Unit Area should comprise the stratigraphic interval extending from the top of the Grayburg formation to a point thirty (30) feet below the base of the Loco Hills Sand formation, said interval being more specifically the equivalent of the continuous interval occurring between the depths of 2272 feet and 2429 feet as shown on the Schlumberger Gamma Ray-Neutron Log run on July 21, 1981, in the S. P. and Martin Yates Alscott Federal Well No. 1, located 660 feet from the North line and 660 feet from the East line of Section 30, Township 18 South, Range 29 East, NMPM, Eddy County, New Mexico, said log being measured from a Kelly bushing elevation of 3517 feet above sea level.

(5) That the portion of the Loco Hills Queen-Grayburg-San Andres Pool proposed to be included in the aforesaid South Loco Hills (Grayburg) Unit Area has been reasonably defined by development.

(6) That the applicant proposes to institute a waterflood project for the secondary recovery of oil, gas, gaseous substances, sulfur contained in gas, condensate, distillate and all associated and constituent liquid or liquefied hydrocarbons within and to be produced from the proposed unit area, which waterflood project is the subject of Case No. 7597 and Division Order No. R-7012 entered therein on June 30, 1982.

(7) That the proposed enhanced recovery operations should result in the additional recovery of approximately 609 thousand barrels of oil.

(8) That the unitized management, operation and further development of the South Loco Hills (Grayburg) Unit Area, as proposed, is reasonably necessary to effectively carry on secondary recovery operations and will substantially increase the ultimate recovery of oil and gas from the unitized portion of the pool.

(9) That the proposed unitized method of operation as applied to the South Loco Hills (Grayburg) Unit Area is feasible and will result with reasonable probability in the increased recovery of substantially more oil and gas from the unitized portion of the pool than would otherwise be recovered without unitization.

(10) That the estimated additional investment and operating costs of the proposed enhanced recovery operations are \$3.65 million.

(11) That the estimated additional costs of the proposed operations (as described in Finding No. (10) above) will not exceed the estimated value of the additional oil and gas plus a reasonable profit.

(12) That the applicant, the designated Unit Operator pursuant to the Unit Agreement and the Unit Operating Agreement, has made a good faith effort to secure voluntary unitization within the South Loco Hills (Grayburg) Unit Area.

(13) That there are certain interest owners in the proposed unit area who have declined to voluntarily join the unit.

(14) That the participation formula contained in the unitization agreement allocates the produced and saved unitized substances to the separately owned tracts in the unit area on a fair, reasonable and equitable basis.

(15) That unitization and the adoption of the proposed unitized method of operation will benefit the working interest owners and royalty owners of the oil and gas rights within the South Loco Hills (Grayburg) Unit Area.

(16) That applicant's Exhibits Nos. 2 and 3 in this case, being the Unit Agreement and the Unit Operating Agreement, respectively, should be incorporated by reference into this Order.

(17) That the South Loco Hills (Grayburg) Unit Agreement and the South Loco Hills (Grayburg) Unit Operating Agreement provide for unitization and unit operation of the South Loco Hills (Grayburg) Unit Area upon terms and conditions that are fair, reasonable and equitable and which include:

(a) an allocation to the separately owned tracts in the unit area of all oil and gas that is produced from the unit area and which is saved, being the production that is not used in the conduct of unit operations or not unavoidably lost;

(b) a provision for the credits and charges to be made in the adjustment among the owners in the unit area for their respective investments in wells, tanks, pumps, machinery, materials and equipment contributed to the unit operations;

(c) a provision governing how the costs of unit operations including capital investments shall be determined and charged to the separately owned tracts and how said costs shall be paid including a provision providing when, how, and by whom the unit production allocated to an owner who does not pay his share of the costs of unit operations shall be charged to such owner, or the interest of such owner, and how his interest may be sold and the proceeds applied to the payment of his costs;

(d) a provision for carrying any working interest owner on a limited, carried or net-profits basis, payable out of production, upon such terms and conditions determined by the division to be just and reasonable, and allowing an appropriate charge for interest for such service payable out of such owner's share of production, Provided that any nonconsenting working interest owner being so carried shall be deemed to have relinquished to the unit operator all of its operating rights and working interest in and to the unit until his share of of the costs, service charge and interest are repaid to the unit operator;

(e) a provision designating the Unit Operator and providing for the supervision and conduct of the unit operations, including the selection, removal or substitution of an operator from among the working interest owners to conduct the unit operations;

(f) a provision for a voting procedure for the decision of matters to be decided by the working interest owners in respect to which each working interest owner shall have a voting interest equal to his unit participation; and

(g) the time when the unit operation shall commence and the manner in which, and the circumstances under which, the operations shall terminate and for the settlement of accounts upon such termination.

(18) That the statutory unitization of the South Loco Hills (Grayburg) Unit Area in conformity with the above findings should be approved.

IT IS THEREFORE ORDERED:

(1) That the South Loco Hills (Grayburg) Unit Area, comprising 1060 acres, more or less, in the Loco Hills Queen-

Grayburg-San Andres Pool, Eddy County, New Mexico, is hereby approved for statutory unitization pursuant to the Statutory Unitization Act, Sections 70-7-1 through 70-7-21, NMSA, 1978.

(2) That the lands included within the South Loco Hills (Grayburg) Unit Area shall be comprised of:

TOWNSHIP 18 SOUTH, RANGE 29 EAST, NMPM
Section 19: NE/4 NW/4, NE/4 SW/4,
 S/2 SW/4, and E/2
Section 20: W/2 and NW/4 NE/4
Section 29: N/2 NW/4
Section 30: N/2 N/2

and that the above-described lands shall be designated as the South Loco Hills (Grayburg) Unit Area.

(3) That the vertical limits of said South Loco Hills (Grayburg) Unit Area shall comprise the stratigraphic interval extending from the top of the Grayburg formation to a point thirty (30) feet below the base of the Loco Hills Sand formation, said interval being more specifically the equivalent of the continuous interval occurring between the depths of 2272 feet and 2429 feet as shown on the Schlumberger Gamma Ray-Neutron Log run on July 21, 1981, in the S. P. and Martin Yates Alscott Federal Well No. 1, located 660 feet from the North line and 660 feet from the East line of Section 30, Township 18 South, Range 29 East, NMPM, Eddy County, New Mexico, said log being measured from a Kelly bushing elevation of 3517 feet above sea level.

(4) That the applicant shall institute a waterflood project for the secondary recovery of oil, gas, gaseous substances, sulfur contained in gas, condensate, distillate and all associated and constituent liquid or liquefied hydrocarbons within and produced from the unit area, and said waterflood project is the subject of Case No. 7597 and Division Order No. R-7012 entered therein on June 30, 1982.

(5) That the South Loco Hills (Grayburg) Unit Agreement and the South Loco Hills (Grayburg) Unit Operating Agreement, are approved and adopted and incorporated by reference into this Order subject to compliance with the appropriate ratification provisions of Section 70-7-8, NMSA 1978.

(6) That when the persons owning the required percentage of interest in the unit area have approved or ratified the Unit Agreement and the Unit Operating Agreement, the interests of

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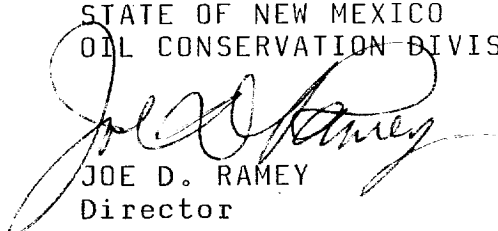
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all persons within the unit area are unitized whether or not such persons have approved the Unit Agreement or the Unit Operating Agreement in writing.

(7) That the applicant as Unit Operator shall notify in writing the Division Director of any removal or substitution of said Unit Operator by any other working interest owner within the unit area.

(8) That jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year herein-above designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

JOE D. RAMEY
Director

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