



NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION
2040 South Pacheco Street
Santa Fe, New Mexico 87505
(505) 827-7131

November 15, 1996

Department of Taxation and Revenue
P.O. Box 630
Santa Fe, New Mexico 87509-0630

Attention: Mr. John Chavez, Secretary

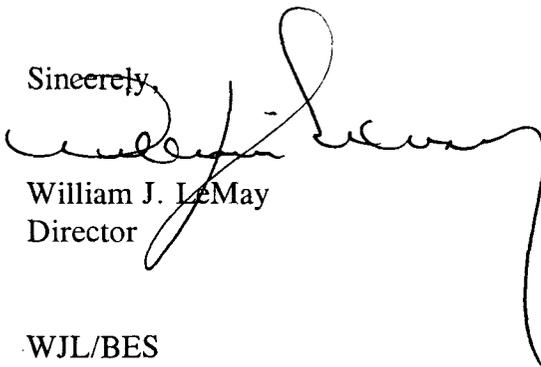
***RE: Certification of a Positive Production Response, Manzano Oil Corporation,
Benson Shugart Unit Waterflood Project.***

Dear Secretary Chavez:

Enclosed is a copy of a Division Certification which was issued on November 15, 1996. This document certifies that a positive production response has occurred within the Benson Shugart Unit Waterflood Project Area which is currently operated by Manzano Oil Corporation. In addition, this positive production response has occurred within the five year time limit as described within the "New Mexico Enhanced Oil Recovery Act". The Division has determined that all wells within the certified area producing from the Shugart Yates-Seven Rivers-Queen Pool are eligible for the recovered oil tax rate.

For your convenience we have also enclosed a summary page showing all pertinent data. If additional information is required please advise.

Sincerely,



William J. LeMay
Director

WJL/BES

Enclosures

POSITIVE PRODUCTION RESPONSE DATA

BENSON SHUGART UNIT WATERFLOOD PROJECT

NAME OF PROJECT

Benson Shugart Unit Waterflood Project

OPERATOR

Manzano Oil Corporation
P.O. Box 2107
Roswell, New Mexico 88202-2107
Attention: Mr. David Sweeney

POOL

Shugart Yates-Seven Rivers-Queen Pool

OCD ORDER NO. APPROVING WATERFLOOD PROJECT & DATE

R-9895, May 19, 1993

PROJECT AREA

TOWNSHIP 18 SOUTH, RANGE 30 EAST, NMPM

Section 25: W/2 NE/4 and S/2
Section 26: E/2
Section 35: NE/4 NE/4

TOWNSHIP 18 SOUTH, RANGE 31 EAST, NMPM

Section 30: Lots 3 and 4 (W/2 SW/4 equivalent), and E/2 SW/4

DATE WATER INJECTION COMMENCED

April 15, 1994

DATE CERTIFIED PROJECT TO TAXATION & REVENUE

April 11, 1994

*Positive Production Response
Manzano Oil Corporation
Benson Shugart Unit Waterflood
November 15, 1996
Page 2*

DATE POSITIVE PRODUCTION RESPONSE OCCURRED

November 1, 1995

CURRENT NUMBER OF WELLS WITHIN PROJECT AREA

Injection: 6
Production: 26



NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION
2040 South Pacheco Street
Santa Fe, New Mexico 87505
(505) 827-7131

November 15, 1996

Manzano Oil Corporation
P.O. Box 2107
Roswell, New Mexico 88202-2107

Attention: Mr. David Sweeney

*Certification of Positive Production Response,
Benson Shugart Unit Waterflood Project.*

Dear Mr. Sweeney:

Pursuant to your request dated September 30, 1996, please be advised that the Division hereby certifies that a positive production response occurred within the Benson Shugart Unit Waterflood Project on November 1, 1995.

All Shugart Yates-Seven Rivers-Queen Pool producing wells within the following described area shall be eligible for the recovered oil tax rate:

PROJECT AREA

TOWNSHIP 18 SOUTH, RANGE 30 EAST, NMPM

Section 25: W/2 NE/4 and S/2

Section 26: E/2

Section 35: NE/4 NE/4

TOWNSHIP 18 SOUTH, RANGE 31 EAST, NMPM

Section 30: Lots 3 and 4 (W/2 SW/4 equivalent), and E/2 SW/4

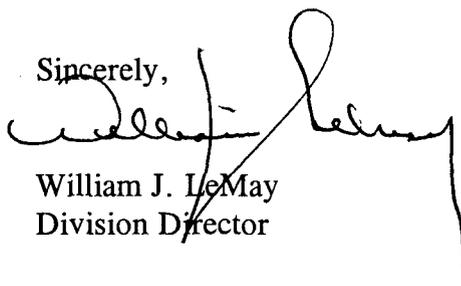
Manzano Oil Corporation shall notify the Division:

- a) of the change in status of any of the qualified producing wells;
- b) in the event new producing wells are drilled within the project area;
- c) of changes in operations within the unit which may affect the certification and resulting tax rate granted herein.

*Positive Production Response
Manzano Oil Corporation
Benson Shugart Unit Waterflood
November 15, 1996
Page 2*

The Division Director shall notify the Secretary of the New Mexico Taxation and Revenue Department of the certification granted herein.

Sincerely,

A handwritten signature in black ink, appearing to read "William J. LeMay", written over the typed name and title.

William J. LeMay
Division Director

cc: Taxation and Revenue Department, Mr. John Chavez, Secretary
File: EOR-7

502 / PPR



NEW MEXICO OIL CONSERVATION DIVISION
RECEIVED

Manzano Oil Corporation

30 00
P.O. Box 21072
Roswell, New Mexico 88202-2107
(505) 623-1996
FAX (505) 625-2620

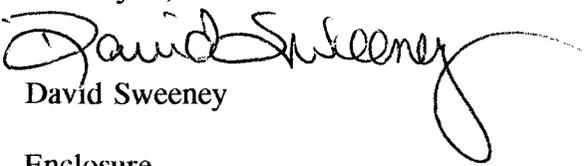
September 30, 1996

Mr. Ben Stone
New Mexico Oil Conservation Division
2040 S. Pacheco
Santa Fe, NM 87505

Re: Benson Shugart Waterflood Unit
T18S-R30E, T18S-R31E
Eddy County, New Mexico
Case #10686 Order #R-9895

Dear Mr. Stone:

The Certification of Enhanced Oil Recovery Project for recovered oil tax rate, has been approved by the NMOCD on the above captioned Unit. In order to qualify for the recovered oil tax rate, Manzano Oil Corporation is requesting a certificate of positive production on the above captioned Unit. As proof of positive production, please find attached graphs showing production prior to the increase and production to date since the increase. Also attached is production cumulative for 1995 and 1996. If you need further information or have any questions please feel free to contact me.

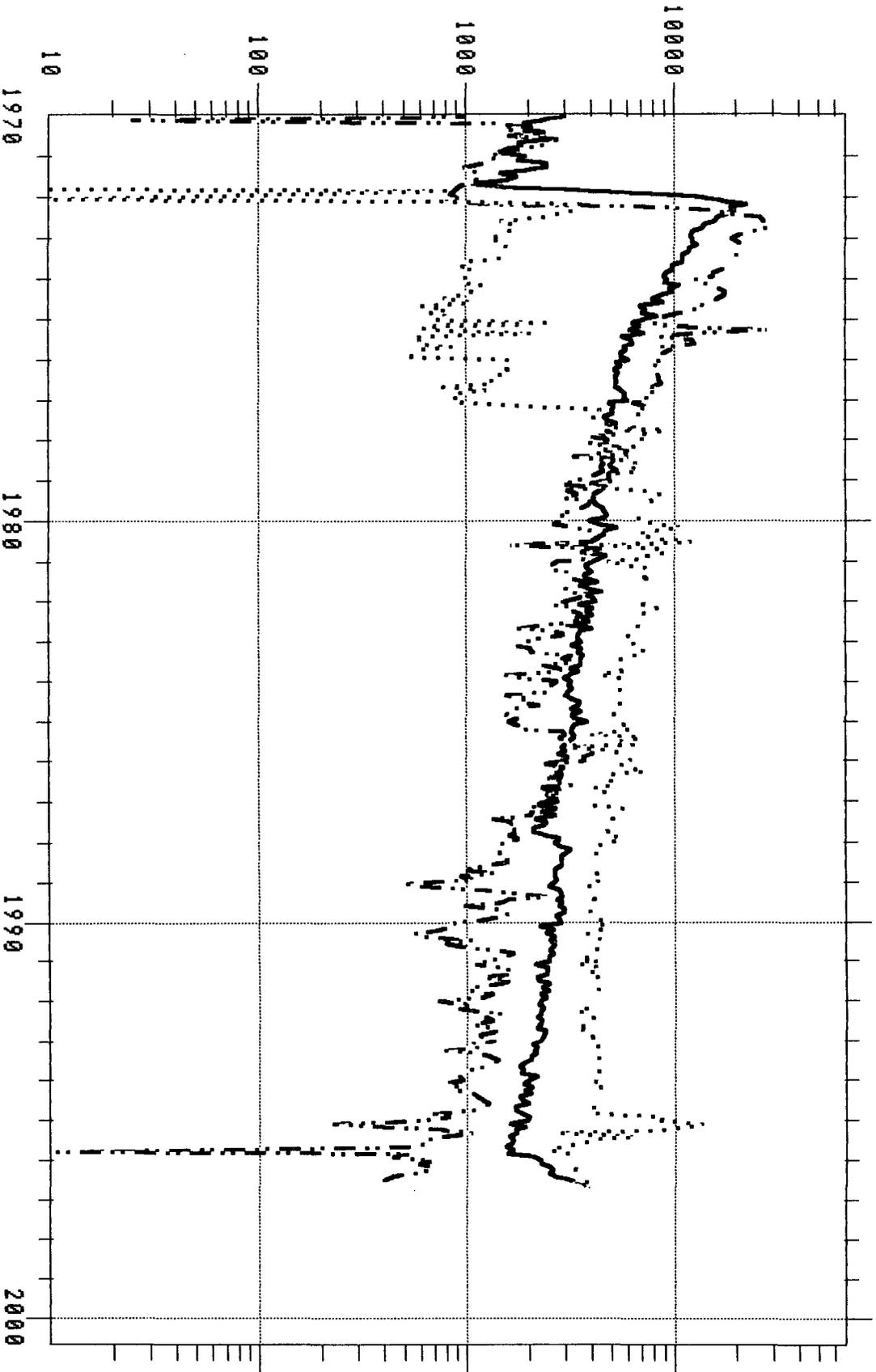
Thank you,

David Sweeney

Enclosure

Calculated
 Oil ———
 Gas - - - -
 Water

B.S.W.U.(SHUGART-Y-SR-QN.
 Production Rate vs Time
 Bbl/Mo or Mcf/Mo vs Months
 TOTAL WELLS
 For the Period 00/0000 to 00/0000

Production
 Oil ———
 Gas - - - -
 Water



Reported Oil Production = 1499897 Bbls
 Reported Gas Production = 1467640 Mcf
 Reported Water Production = 1330450 Bbls

Monthly Production : B.S.W.U. (SHUGART-Y-SR-QN. TOTAL WELLS
 Auto-Cum Adjustment: On
 Year : 1995
 Cumulative Liquid (as of Jan. 1) : 1453877
 Cumulative Gas (as of Jan. 1) : 1456192
 Cumulative Water (as of Jan. 1) : 1227745

| | Liquid | Gas | Water | Allowable Prod. | # of Wells | Days on Prod. | Loss Factor |
|------|--------|-------|-------|-----------------|------------|---------------|-------------|
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Jan | 1943 | 608 | 8651 | 0 | 27 | 0 | |
| Feb | 1621 | 229 | 13773 | 0 | 27 | 0 | |
| Mar | 1909 | 449 | 11107 | 0 | 27 | 0 | |
| Apr | 1717 | 764 | 9499 | 0 | 27 | 0 | |
| May | 1737 | 1063 | 2742 | 0 | 27 | 0 | |
| June | 1606 | 771 | 6553 | 0 | 27 | 0 | |
| July | 1663 | 628 | 3946 | 0 | 27 | 0 | |
| Aug | 1630 | 625 | 3636 | 0 | 27 | 0 | |
| Sep | 1549 | 521 | 2818 | 0 | 27 | 0 | |
| Oct | 1667 | 0 | 2486 | 0 | 27 | 0 | |
| Nov | 1572 | 528 | 3006 | 0 | 27 | 0 | |
| Dec | 2109 | 445 | 3416 | 0 | 26 | 0 | |

<F1>Help <F3>Header <F4>Tests <F5>Reported Cums <F6>Calc'd Cums <F7>Disposition

Monthly Production : B.S.W.U. (SHUGART-Y-SR-QN. TOTAL WELLS
 Auto-Cum Adjustment: On
 Year : 1996
 Cumulative Liquid (as of Jan. 1) : 1474600
 Cumulative Gas (as of Jan. 1) : 1462823
 Cumulative Water (as of Jan. 1) : 1299378

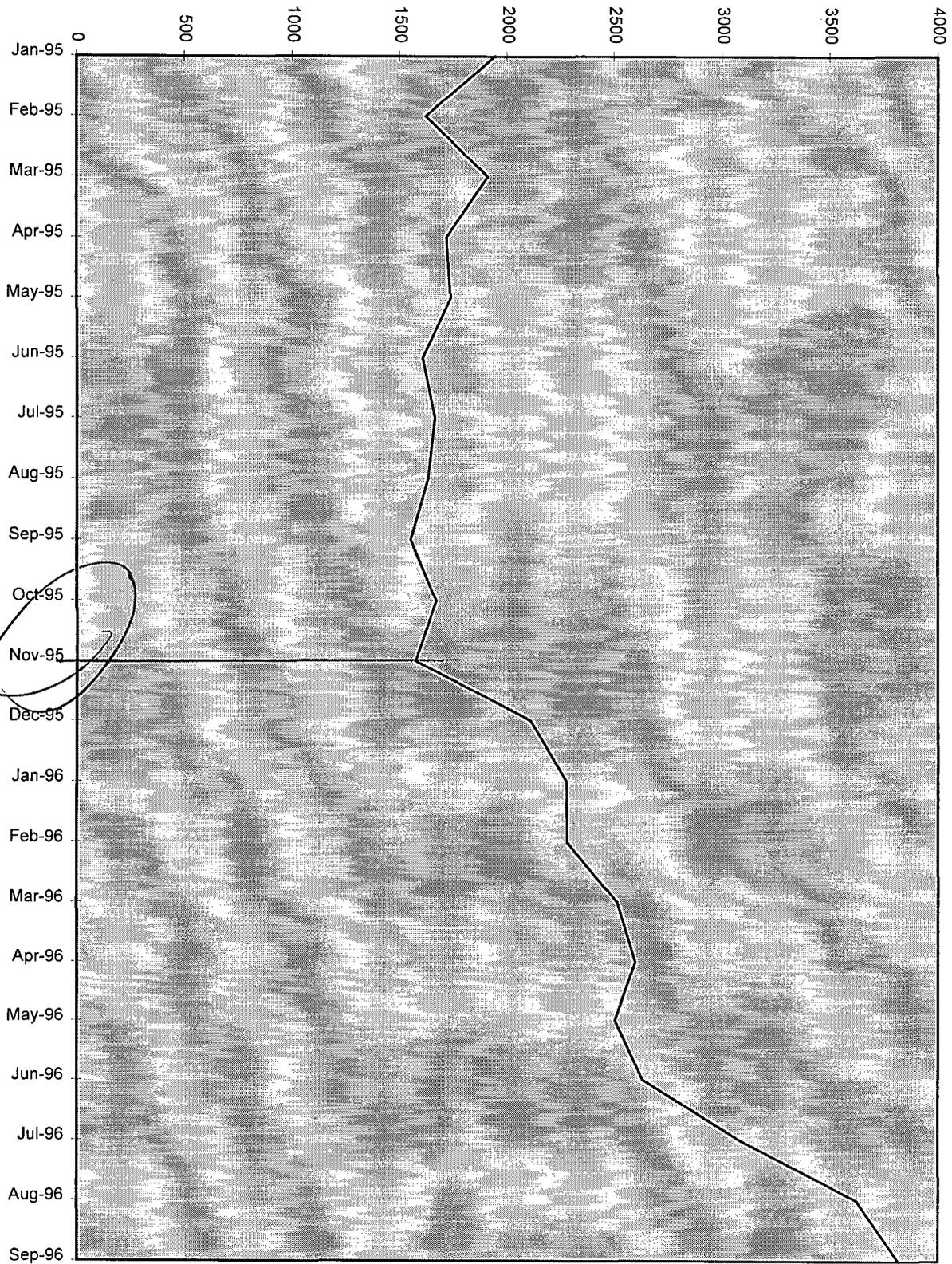
| | Liquid | Gas | Water | Allowable Prod. | # of Wells | Days on Prod. | Loss Factor |
|------|--------|-------|-------|-----------------|------------|---------------|-------------|
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Jan | 2275 | 681 | 3416 | 0 | 26 | 0 | |
| Feb | 2278 | 589 | 3196 | 0 | 26 | 0 | |
| Mar | 2509 | 684 | 3416 | 0 | 26 | 0 | |
| Apr | 2594 | 671 | 3306 | 0 | 26 | 0 | |
| May | 2499 | 552 | 3506 | 0 | 26 | 0 | |
| June | 2628 | 440 | 3363 | 0 | 26 | 0 | |
| July | 3077 | 400 | 3227 | 0 | 26 | 0 | |
| Aug | 3620 | 400 | 3863 | 0 | 26 | 0 | |
| Sep | 3817 | 400 | 3779 | 0 | 26 | 0 | |
| Oct | 0 | 0 | 0 | 0 | 0 | 0 | |
| Nov | 0 | 0 | 0 | 0 | 0 | 0 | |
| Dec | 0 | 0 | 0 | 0 | 0 | 0 | |

<F1>Help <F3>Header <F4>Tests <F5>Reported Cums <F6>Calc'd Cums <F7>Disposition

Benson STEGARD

Sheet1 Chart 2

PPR



Series 1



NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION
2040 South Pacheco Street
Santa Fe, New Mexico 87505
(505) 827-7131

March 27, 1996

Hanson Operating Company, Inc.
P.O. Box 1515
Roswell, New Mexico 88202-1515

Attn: Mr. David Sweeney

**RE: Injection Pressure Increase Benson Shugart Unit
Waterflood Project, Eddy County, New Mexico**

Dear Mr. Sweeney:

Reference is made to your request from a telephone call on March 25, 1996 to reconsider data previously submitted. The original data and request was submitted December 7, 1995 to increase the surface injection pressure on 4 wells in the above referenced waterflood project. This request is based on step rate tests conducted between November 7 and December 5, 1995. After further review by my staff, we feel an increase in injection pressure two of the wells is justified at this time.

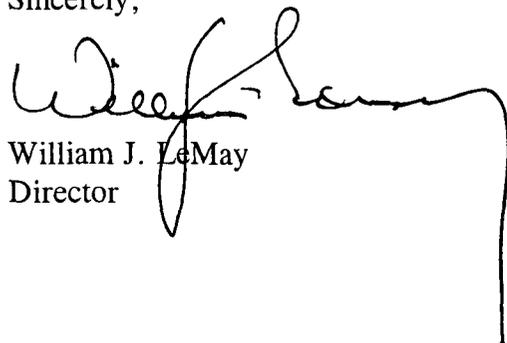
You are therefore authorized to increase the surface injection pressure on the following wells:

| Well and Location | Maximum Surface Injection Pressure |
|--|------------------------------------|
| Benson Shugart Unit Well No.5, Unit Letter A, Section 26 | 1090 PSIG |
| Benson Shugart Unit Well No.15, Unit Letter L, Section 25 | 1170 PSIG |
| Located Township 18 South, Range 31 East, Eddy County, New Mexico. | |

Benson Shugart Well Nos.6 and 7 shall remain at the injection pressures originally authorized by Division Order No.R-9895.

The Division Director may rescind this injection pressure increase if it becomes apparent that the injected water is not being confined to the injection zone or is endangering any fresh water aquifers.

Sincerely,



William J. LeMay
Director

Injection Pressure Increase
Hanson Operating Company, Inc.
March 27, 1996
Page 2

WJL/BES

cc: Oil Conservation Division - Artesia
Files: Case No.10686; EOR-7; PSI-X 3rd QTR 96



STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION



BRUCE KING
GOVERNOR

ANITA LOCKWOOD
CABINET SECRETARY

April 11, 1994

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87504
(505) 827-5800

Department of Taxation and Revenue
P.O. Box 630
Santa Fe, NM 87509-0630

Attention: Dick Minzner, Secretary

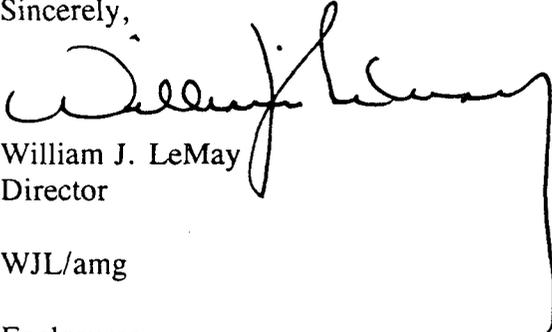
**RE: Certification of EOR Project
Hanson Operating Company, Inc.
Benson Shugart Waterflood Unit Project**

Dear Secretary Minzner:

Enclosed is a copy of the certification issued to Hanson Operating Company, Inc. for its Benson Shugart Waterflood Unit Project EOR project, certified by this Division on April 15, 1994, to be a qualified Enhanced Oil Recovery Project. If the operator applies for certification of positive production response within five years from that date, this project will be eligible for the *Recovered Oil Tax Rate* as provided in Laws of 1992, Chapter 38.

Only oil production from that portion of the lands identified in the certification which is actually developed for enhanced recovery will be eligible for the reduced tax rate. At the time positive production response is certified, we will identify for you the specific lands and wells within the project which qualify for the *Recovered Oil Tax Rate*.

Sincerely,


William J. LeMay
Director

WJL/amg

Enclosures



STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION



BRUCE KING
GOVERNOR

ANITA LOCKWOOD
CABINET SECRETARY

April 11, 1994

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87504
(505) 827-5800

Hanson Operating Company, Inc.
P.O. Box 1515
Roswell, NM 88202
Attention: David Sweeney

**CERTIFICATION OF ENHANCED OIL RECOVERY PROJECT
FOR RECOVERED OIL TAX RATE**

The New Mexico Oil Conservation Division hereby certifies that the following Enhanced Oil Recovery Project has been approved by the Division as a secondary project, pursuant to the provisions of the *New Mexico Enhanced Oil Recovery Act* (Laws of 1992, Chapter 38). In order to qualify for the *Recovered Oil Tax Rate*, you must apply for certification of positive production response within five years from the date of this certification. Only production from that portion of the project area identified herein which is actually developed for enhanced recovery will qualify for the reduced tax rate.

If operation of this project is terminated for any reason, the operator of the project must notify this Division and the Secretary of the Taxation and Revenue Department not later than the thirtieth day after termination.

NAME OF PROJECT: Benson Shugart Waterflood Unit Project

OCD ORDER NO. R-9895

OPERATOR: Hanson Operating Company, Inc.
ADDRESS: P.O. Box 1515
Roswell, NM 88202
Attention: David Sweeney

CERTIFICATION DATE: April 15, 1994

PROJECT AREA:

Township 18 South, Range 30 East, NMPM
Section 25: W/2 NE/4 and S/2
Section 26: E/2
Section 35: NE/4 NE/4

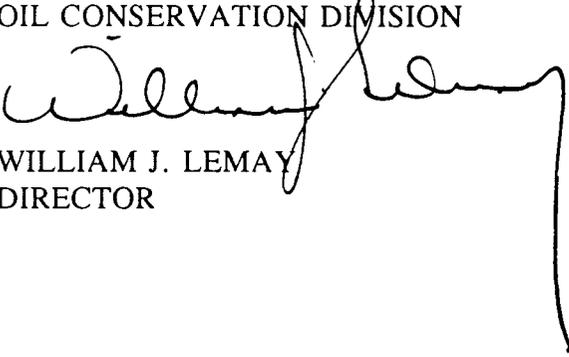
EOR Project Certification
Benson Shugart Waterflood Unit Project

Township 18 South, Range 31 East, NMPM

Section 30: Lots 3 and 4 (W/2 SW/4 equivalent) and E/2 SW/4

APPROVED BY:

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION



WILLIAM J. LEMAY
DIRECTOR

S E A L

CAMPBELL, CARR, BERGE
& SHERIDAN, P.A.
LAWYERS

MICHAEL B. CAMPBELL
WILLIAM F. CARR
BRADFORD C. BERGE
MARK F. SHERIDAN
WILLIAM P. SLATTERY

PATRICIA A. MATTHEWS
MICHAEL H. FELDEWERT
DAVID B. LAWRENZ
TANYA M. TRUJILLO

JACK M. CAMPBELL
OF COUNSEL

JEFFERSON PLACE
SUITE 1 - 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87504-2208
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

April 8, 1994

HAND-DELIVERED

APR - 8 1994

William J. LeMay, Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
State Land Office Building
Santa Fe, New Mexico 87503

Re: Hanson Operating Company, Inc., Benson Shugart Waterflood Unit Project,
Eddy County, New Mexico
Certification of Qualification for EOR Credit Under the New Mexico
Enhanced Oil Recovery Act

Dear Mr. LeMay:

By Order No. R-9895 the Oil Conservation Division authorized Hanson Operating Company, Inc., to initiate its Benson Shugart Waterflood Unit Project and found that the expanded area should be qualified as an "Enhanced Oil Recovery Project" pursuant to the "Enhanced Oil Recovery Act" (Finding 13, Order No. R-9895). This Order also provided that to be eligible for the EOR credit, prior to commencing injection operations Hanson Operating Company, Inc., must request a "Certificate of Qualification" from the Division.

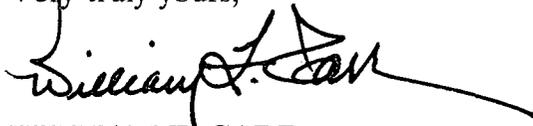
The purpose of this letter is to advise you that Hanson Operating Company, Inc., anticipates commencing injection operations in its Benson Shugart Waterflood Unit Project on or about April 15, 1994 and, therefore, pursuant to Finding 15 of Order No. R-9895 requests a Certificate of Qualification for this project.

I am enclosing a draft of a Certification for this project which is modeled after other certifications issued by the Division in recent months.

William J. LeMay, Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
April 8, 1994
Page 2

If you need anything further from Hanson Operating Company, Inc., to proceed with this matter, please advise.

Very truly yours,

A handwritten signature in black ink, appearing to read "William F. Carr", with a long horizontal flourish extending to the right.

WILLIAM F. CARR
ATTORNEY FOR HANSON OPERATING COMPANY, INC.

WFC:mlh

Enclosures

cc: David Sweeney (w/enclosures)

Hanson Operating Company, Inc.
Post Office Box 1515
Roswell, New Mexico 88202
Attn: David Sweeney

**CERTIFICATION OF ENHANCED OIL RECOVERY PROJECT
FOR RECOVERED OIL TAX RATE**

The New Mexico Oil Conservation Division hereby certifies that the following Enhanced Oil Recovery Project has been approved by the Division as a **secondary** project, pursuant to the provisions of the New Mexico *Enhanced Oil Recovery Act* (Laws of 1992, Chapter 38). In order to qualify for the *Recovered Oil Tax Rate*, you must apply for certification of positive production response within **five years** from the date of this certification. Only production from that portion of the project area identified herein which is actually developed for enhanced recovery will qualify for the reduced tax rate.

If operation of this project is terminated for any reason, the operator of the project must notify this Division and the Secretary of Taxation and Revenue not later than the thirtieth day after termination.

| | |
|---------------------|--|
| NAME OF PROJECT: | Benson Shugart Waterflood Unit Project |
| OCD ORDER NO.: | R-9895 |
| OPERATOR: | Hanson Operating Company, Inc. |
| ADDRESS: | Post Office Box 1515 Roswell, New Mexico 88202 Attn: David Sweeney |
| CERTIFICATION DATE: | April 15, 1994 |

EOR Project Certification
Benson Shugart Waterflood Unit Project

PROJECT AREA

Township 18 South, Range 30 East, NMPM

Section 25: W/2 NE/4 and S/2
Section 26: E/2
Section 35: NE/4 NE/4

Township 18 South, Range 31 East, NMPM

Section 30: Lots 3 and 4 (W/2 SW/4 equivalent)
and E/2 SW/4

APPROVED

William J. LeMay
Director

seal

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

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

Case No. 10686
Order No. R-9895

**APPLICATION OF HANSON OPERATING COMPANY, INC. FOR A WATERFLOOD
PROJECT, EDDY COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on March 18, 1993, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 19th day of May, 1993, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) At the time of the hearing this case was consolidated with Division Case No. 10685 for the purpose of testimony.

(3) The applicant, Hanson Operating Company, Inc., seeks authority to institute a waterflood project in its proposed Benson Shugart Waterflood Unit Area (Division Case No. 10685), Eddy County, New Mexico, by the injection of water into the Shugart-Yates-Seven Rivers-Queen-Grayburg Pool through the gross perforated interval from approximately 2,450 feet to 3,500 feet in six certain wells to either be drilled or converted from: producing wells to injectors, as further described in Exhibit "A" attached hereto and made a part hereof.

(4) It is proposed that the waterflood project area coincide with the boundary of the Benson Shugart Waterflood Unit Area in Eddy County, New Mexico, as further described below, which was the subject of Division Case No. 10685 and was heard in combination with this case:

TOWNSHIP 18 SOUTH, RANGE 30 EAST, NMPM

Section 25: W/2 NE/4 and S/2

Section 26: E/2

Section 35: NE/4 NE/4

TOWNSHIP 18 SOUTH, RANGE 31 EAST, NMPM

Section 30: Lots 3 and 4 (W/2 SW/4 equivalent)
and E/2 SW/4

(5) Subsequent to the time this matter was taken under advisement, Yates Petroleum Corporation in Case No. 10711 (heard on April 8, 1993) requested approval for its Creek "AL" Federal (Lease) Shugart Waterflood Project, which is proposed to comprise the E/2 SE/4 of Section 23, the NW/4 SW/4 and S/2 S/2 of Section 24, and the NW/4 and E/2 NE/4 of Section 25, Township 18 South, Range 30 East, NMPM, Eddy County, New Mexico. Both Shugart-Yates-Seven Rivers-Queen-Grayburg Pool waterflood projects are to be operated in conjunction with each other.

(6) The present Shugart oil producing wells within the subject project area are in an advanced state of depletion and should therefore be properly classified as "stripper wells".

(7) The proposed waterflood project should result in the recovery of otherwise unrecoverable oil, thereby preventing waste.

(8) The operator of the proposed Benson Shugart Waterflood Unit project should take all steps necessary to ensure that the injected water enters and remains confined to only the proposed injection interval and is not permitted to escape to other formations or onto the surface from injection, production, or plugged and abandoned wells.

(9) The previously plugged and abandoned Marbob Energy Corporation Pure Federal Well No. 1, located 330 feet from the North line and 844 feet from the West line (Unit D) of Section 31, Township 18 South, Range 31 East, NMPM, Eddy County, New Mexico, is located within the one-half mile "area of review" of its proposed Pueblo Federal (water inject) Well No. 1, located in Unit "M" of adjoining Section 30.

(10) Prior to commencement of injection into said Pueblo Federal Well No. 1, the operator should demonstrate to the satisfaction of the supervisor of the Division's District Office in Artesia that the Marbob Energy Corporation Pure Federal Well No. 1, as described above, has either been re-entered and re-plugged or has previously been plugged and abandoned in such a manner as to ensure that it does not provide an avenue of escape for waters from the proposed injection interval or that said wellbore will not otherwise serve for such escape.

(11) Likewise, the Yates Petroleum Corporation Creek "AL" Well No. 10, located 330 feet from the South and East lines (Unit P) of Section 23, Township 18 South, Range 30 East, NMPM, Eddy County, New Mexico, is within the one-half mile "area of review" of the applicant's proposed Ginsberg Federal Well No. 17, located in Unit "A" of adjoining Section 26.

(12) Evidence presented at the time of the hearing and Division records indicate that said Creek "AL" Well No. 10 is currently listed as a "temporarily abandoned well". Said well was drilled in 1972 to a total depth (TD) of 3519 feet, other than an intermediate string of 8-5/8 inch casing cemented (circulated) at a depth of 1748 feet, the wellbore sets "open-holed" from TD to the intermediate casing seat.

(13) Prior to commencement of injection into said Ginsberg Federal Well No. 17, the operator should demonstrate that the Yates Creek "AL" Well No. 10, as described above, has either been properly cased and cemented or permanently plugged and abandoned in a manner that will prevent the migration of fluid from the proposed injection zone and as approved by the supervisor of the Division's Artesia District Office.

(14) The injection of water into the proposed injection wells should be accomplished through 2-3/8 inch internally plastic-lined tubing installed in a packer set within 100 feet of the uppermost injection perforation; the casing-tubing annulus should be filled with an inert fluid and a gauge or approved leak-detection device should be attached to the annulus in order to determine leakage in the casing, tubing or packer.

(15) Prior to commencing injection operations into the proposed injection wells, the casing in each well should be pressure tested throughout the interval from the surface down to the proposed packer setting depth, to assure the integrity of such casing.

(16) The injection wells or pressurization system for each well should be so equipped as to limit injection pressure at the wellhead to no more than 0.2 psi per foot of depth to the uppermost injection perforation or that pressure shown on said Exhibit "A".

(17) The Division Director should have the authority to administratively authorize an increase in the injection pressure limitation placed upon any well upon a proper showing by the operator that such higher pressure will not result in the migration of the injected water from its respective interval or fracture the confining strata.

(18) The operator should give advance notification to the supervisor of the Artesia District Office of the Division of the date and time of the installation of injection equipment and of the mechanical integrity pressure-tests in order that the same may be witnessed.

(19) The proposed waterflood project should be approved and the project should be governed by the provisions of Rule Nos. 701 through 708 of the Oil Conservation Division Rules and Regulations.

(20) The applicant further requests that the subject waterflood project be approved by the Division as a qualified "Enhanced Oil Recovery Project" pursuant to the "Enhanced Oil Recovery Act" (Laws 1992, Chapter 38, Sections 1 through 5).

(21) The evidence presented indicates that the subject waterflood project meets all the criteria for approval.

(22) The approved "project area" should initially comprise that area described in Finding Paragraph No. (4) above.

(23) To be eligible for the EOR credit, prior to commencing injection operations, the operator must request from the Division a Certificate of Qualification, which certificate will specify the proposed project area as described above.

(24) At such time as a positive production response occurs and within five years from the date of the Certificate of Qualification, the applicant must apply to the Division for certification of positive production response, which application shall identify the area actually benefitting from enhanced recovery operations, and identifying the specific wells which the operator believes are eligible for the credit. The Division may review the application administratively or set it for hearing. Based upon evidence presented, the Division will certify to the Department of Taxation and Revenue those lands and wells which are eligible for the credit.

(25) The injection authority granted herein for the proposed injection wells should terminate one year after the effective date of this order if the operator has not commenced injection operations into the subject wells, provided however, the Division, upon written request by the operator, may grant an extension thereof for good cause shown.

IT IS THEREFORE ORDERED THAT:

(1) The applicant, Hanson Operating Company, Inc., is hereby authorized to institute a waterflood project in its Benson Shugart Waterflood Unit Area (Division Case No. 10685), Eddy County, New Mexico, by the injection of water into the Shugart-Yates-Seven Rivers-Queen-Grayburg Pool through the gross perforated interval from approximately 2,450 feet to 3,500 feet in six certain wells to either be drilled or converted from producing wells to injectors, as further described in Exhibit "A" attached hereto and made a part hereof.

(2) The waterflood project, hereby designated the Benson Shugart Waterflood Unit Project, shall coincide with the boundary of the Benson Shugart Waterflood Unit Area, as further described below, and was the subject of Division Case No. 10685 which was heard in combination with this case:

**BENSON SHUGART WATERFLOOD UNIT PROJECT AREA
EDDY COUNTY, NEW MEXICO**

TOWNSHIP 18 SOUTH, RANGE 30 EAST, NMPM

Section 25: W/2 NE/4 and S/2
Section 26: E/2
Section 35: NE/4 NE/4

TOWNSHIP 18 SOUTH, RANGE 31 EAST, NMPM

Section 30: Lots 3 and 4 (W/2 SW/4 equivalent)
and E/2 SW/4

(3) The applicant must take all steps necessary to ensure that the injected water only enters and remains confined to the proposed injection interval and is not permitted to escape to other formations or onto the surface from injection, production, or plugged and abandoned wells.

PROVIDED HOWEVER THAT:

(4) Injection into the Pueblo Federal Well No. 1, located 930 feet from the South line and 660 feet from the West line (Unit M) of Section 30, Township 18 South, Range 31 East, NMPM, Eddy County, New Mexico, shall not commence until the previously plugged and abandoned Marbob Energy Corporation Pure Federal Well No. 1, located 330 feet from the North line and 844 feet from the West line (Unit D) of Section 31, Township 18 South, Range 31 East, NMPM, Eddy County, New Mexico, has either been re-entered and re-plugged or is shown to have been adequately plugged and abandoned in a manner that ensures it does not provide an avenue of escape for waters from the proposed injection interval to the satisfaction of the Supervisor of the Division's District Office in Artesia.

(5) ALSO, injection into the Ginsberg Federal Well No. 17, located 990 feet from the North and East lines (Unit A) of Section 26, Township 18 South, Range 30 East, NMPM, Eddy County, New Mexico, shall not commence until the Yates Petroleum Corporation Creek "AL" Well No. 10, located 330 feet from the South and East lines (Unit P) of Section 23, Township 18 South, Range 30 East, NMPM, Eddy County, New Mexico, has either been properly cased and cemented or permanently plugged and abandoned in a manner that will prevent the migration of fluid from the proposed injection zone and as approved by the supervisor of the Division's Artesia District Office.

IT IS FURTHER ORDERED THAT:

(6) Injection shall be accomplished through 2-3/8 inch internally plastic-lined tubing installed in a packer set approximately within 100 feet of the uppermost injection perforation; the casing-tubing annulus in each well shall be filled with an inert fluid and equipped with an approved pressure gauge or attention-attracting leak detection device.

(7) The injection wells or pressurization system for each injection well shall be so equipped as to limit injection pressure at the wellhead to no more than 0.2 psi per foot of depth to the uppermost injection perforation or that pressure shown on said Exhibit "A".

(8) The Division Director shall have the authority to administratively authorize an increase in the injection pressure limitation placed upon any well upon a proper showing by the operator that such higher pressure will not result in the migration of the injected water from its respective interval or fracture the confining strata.

(9) Prior to commencing injection operations, the casing in each injection well shall be pressure-tested throughout the interval from the surface down to the proposed packer setting depth, to assure the integrity of such casing.

(10) The operator shall give advance notification to the supervisor of the Artesia District Office of the Division of the date and time of the installation of injection equipment and of the mechanical integrity pressure-test in order that the same may be witnessed.

(11) The applicant shall immediately notify the supervisor of the Artesia District Office of the Division of the failure of the tubing, casing or packer in any of the injection wells, the leakage of water or oil from or around any producing well, or the leakage of water or oil from any plugged and abandoned well within the project area, and shall take such steps as may be timely and necessary to correct such failure or leakage.

(12) The applicant shall conduct injection operations in accordance with Division Rule Nos. 701 through 708 and shall submit monthly progress reports in accordance with Division Rule Nos. 706 and 1115.

FURTHERMORE:

(13) The subject waterflood project is hereby approved as an "Enhanced Oil Recovery Project" pursuant to the "Enhanced Oil Recovery Act" (Laws 1992, Chapter 38, Sections 1 through 5).

(14) The approved "project area" shall initially comprise that area described in Decretory Paragraph No. (2) above.

(15) To be eligible for the EOR credit, prior to commencing injection operations, the operator must request from the Division a Certificate of Qualification, which certificate will specify the proposed project area as described above.

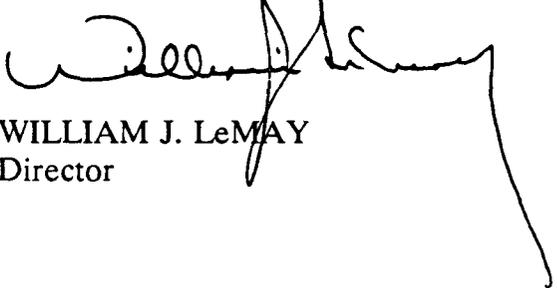
(16) At such time as a positive production response occurs and within five years from the date of the Certificate of Qualification, the applicant must apply to the Division for certification of positive production response, which application shall identify the area actually benefitting from enhanced recovery operations, and identifying the specific wells which the operator believes are eligible for the credit. The Division may review the application administratively or set it for hearing. Based upon evidence presented, the Division will certify to the Department of Taxation and Revenue those lands and wells which are eligible for the credit.

(17) The injection authority granted herein for the proposed injection wells shall terminate one year after the effective date of this order if the operator has not commenced injection operations into the subject wells, provided however, the Division, upon written request by the operator, may grant an extension thereof for good cause shown.

(18) 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 hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION



WILLIAM J. LeMAY
Director

S E A L

EXHIBIT "A"

CASE NO. 10686
ORDER NO. R-9895

Hanson Operating Company, Inc.

**Proposed Injection Well Locations
Benson Shugart Waterflood Unit Area
Eddy County, New Mexico**

| Well Name, Number and Location | Proposed Injection Interval (Feet) | Maximum Surface Injection Pressure (PSI) | Classification |
|---|---|---|-----------------------|
| Pueblo Federal Well No. 1 930' FSL - 660' FWL (Unit M) 30-18S-31E | 2469 - 2487 | 495 | Conversion |
| Ute Federal Well No. 1 930' FSL - 2310' FWL (Unit N) 25-18S-30E | 2469 - 2487 | 495 | Conversion |
| Ginsberg Federal Well No. 17 990' FN & EL (Unit A) 26-18S-31E | 3074 - 3398 | 615 | Conversion |
| Ginsberg Federal Well No. 18 SE/4 NE/4 (Unit H) 26-18S-30E | 3160 - 3460 | 630 | New Drill |
| Ginsberg Federal Well No. 19 NE/4 SE/4 (Unit I) 26-18S-30E | 3190 - 3490 | 640 | New Drill |
| Keinath Federal Well No. 6 NW/4 SW/4 (Unit L) 25-18S-30E | 3180 - 3480 | 635 | New Drill |