

**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. 13134
ORDER NO. R-12034**

**APPLICATION OF CONOCOPHILLIPS COMPANY FOR APPROVAL OF A
COOPERATIVE LEASE LINE INJECTION AGREEMENT FOR AN
"EXPANDED USE AREA" WITHIN THE EAST VACUUM (GRAYBURG-SAN
ANDRES) UNIT PRESSURE MAINTENANCE PROJECT AREA, AND
QUALIFICATION OF THE ACREAGE WITHIN THE "EXPANDED USE
AREA" FOR THE RECOVERED OIL TAX RATE PURSUANT TO THE NEW
MEXICO ENHANCED OIL RECOVERY ACT, LEA COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a. m. on August 21, 2003, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 30th day of September, 2003, the Division Director, having considered the record and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of this case and its subject matter.

(2) The applicant, ConocoPhillips Company ("ConocoPhillips"), seeks an order approving a cooperative lease line injection agreement between the ConocoPhillips-operated East Vacuum (Grayburg-San Andres) Unit Pressure Maintenance Project and the ChevronTexaco-operated Central Vacuum (Grayburg-San Andres) Unit Pressure Maintenance Project, Lea County, New Mexico. The subject cooperative lease line injection agreement applies to the following-described eight injection wells within the Vacuum Grayburg-San Andres Pool, all located in Township 17 South, Range 35 East, NMPM, Lea County, New Mexico:

<u>Well Name & Number</u>	<u>API Number</u>	<u>Well Location</u>
EVGSAU No. 395	30-025-34832	2630' FSL & 575' FEL (Unit I), Section 31
EVGSAU No. 396	30-025-34833	2630' FSL & 1950' FEL (Unit J), Section 31
EVGSAU No. 398	30-025-34835	1415' FSL & 2140' FEL (Unit J), Section 31
EVGSAU No. 399	30-025-34836	10' FSL & 660' FEL (Unit P), Section 31
EVGSAU No. 005	30-025-26862	10' FSL & 10' FEL (Unit P), Section 31
EVGSAU No. 006	30-025-26863	1330' FSL & 1530' FEL (Unit J), Section 31
EVGSAU No. 007	30-025-26864	2560' FSL & 2550' FEL (Unit J), Section 31
EVGSAU No. 008	30-025-26865	2590' FNL & 50' FWL (Unit E), Section 32

(3) By Order No. R-5871, issued in Case No. 6366 on November 27, 1978, the Division, upon the application of Phillips Petroleum Company ("Phillips"), statutorily unitized 7,025.3 acres of state lands for the purpose of instituting a water injection pressure maintenance project. This unit, designated the East Vacuum Grayburg-San Andres Unit, comprises the following-described area:

TOWNSHIP 17 SOUTH, RANGE 34 EAST, NMPM

Section 24: SE/4

TOWNSHIP 17 SOUTH, RANGE 35 EAST, NMPM

Section 18: W/2 SW/4, SE/4 SW/4
 Section 19: W/2, S/2 NE/4, SE/4
 Section 20: W/2 NW/4, SE/4 NW/4, SW/4,
 SW/4 NE/4, W/2 SE/4, SE/4 SE/4
 Section 21: SW/4 SW/4, E/2 SW/4, SE/4
 Section 22: SW/4, W/2 SE/4, SE/4 SE/4
 Section 23: S/2 SW/4
 Section 24: SW/4 SW/4
 Section 25: W/2 NW/4
 Section 26: N/2, SW/4, W/2 SE/4, NE/4 SE/4
 Sections 27, 28, 29: All
 Section 31: N/2 SE/4, SE/4 SE/4
 Sections 32, 33: All
 Section 34: N/2, SW/4, NW/4 SE/4
 Section 35: N/2 NW/4

TOWNSHIP 18 SOUTH, RANGE 35 EAST, NMPM

Section 4: N/2 NW/4, NW/4 NE/4
Section 5: N/2, NW/4 SW/4

(4) By Order No. R-5897 issued in Case No. 6367 on January 16, 1979, the Division authorized Phillips to institute pressure maintenance operations in the East Vacuum Grayburg-San Andres Unit Area by the injection of water into the San Andres formation, Vacuum Grayburg-San Andres Pool. The project was designated the East Vacuum (Grayburg-San Andres) Unit Pressure Maintenance Project.

(5) By Order No. R-6856 issued in Case No. 7426 on December 16, 1981, the Division authorized Phillips to commence carbon dioxide injection within a portion of the East Vacuum (Grayburg-San Andres) Unit Pressure Maintenance Project. Pursuant to the Crude Oil Windfall Profits Tax Act of 1980, the area proposed for carbon dioxide injection, described as follows, was designated as a "Qualified Tertiary Recovery Project Area." The re-injection of hydrocarbon-contaminated carbon dioxide within this area was approved by Order No. R-6856-A issued in Case No. 7426 (Reopened) on September 19, 1990.

Qualified Tertiary Recovery Project Area

TOWNSHIP 17 SOUTH, RANGE 35 EAST, NMPM

Section 26: W/2, NE/4, W/2 SE/4, NE/4 SE/4
Sections 27, 28, 29: All
Section 31: N/2 SE/4, SE/4 SE/4
Sections 32, 33: All
Section 34: N/2, SW/4, NW/4 SE/4
Section 35: N/2 NW/4

TOWNSHIP 18 SOUTH, RANGE 35 EAST, NMPM

Section 4: N/2 NW/4, NW/4 NE/4
Section 5: N/2, NW/4 SW/4

(6) By Order No. R-6856-B issued in Case No. 10779 on November 12, 1993, the Division qualified five "Expanded Use Areas" within the "Qualified Tertiary Recovery Project Area" of the East Vacuum (Grayburg-San Andres) Unit Pressure Maintenance Project as "Enhanced Oil Recovery Projects" pursuant to the "Enhanced Oil Recovery Act" (Sections 7-29A-1 through 7-29A-5 NMSA 1978).

(7) ConocoPhillips now seeks to implement carbon dioxide gas injection within an additional 156-acre, more or less, "Expanded Use Area" within the Qualified Tertiary Recovery Project Area of the East Vacuum (Grayburg-San Andres) Unit Pressure Maintenance Project, described as follows:

TOWNSHIP 17 SOUTH, RANGE 34 EAST, NMPM

Section 31: NW/4 SE/4, W/2 NE/4 SE/4,
NE/4 NE/4 SE/4, NW/4 SE/4 SE/4,
S/2 SE/4 SE/4
Section 32: SW/4 SW/4 NW/4, NW/4 NW/4 SW/4,
SW/4 SW/4 SW/4

TOWNSHIP 18 SOUTH, RANGE 35 EAST, NMPM

Section 5: NW/4 NW/4 NW/4

(8) The proposed "Expanded Use Area" is contained within the "Qualified Tertiary Recovery Project Area"; however, no injection of carbon dioxide has occurred within the proposed "Expanded Use Area."

(9) The wells that ConocoPhillips propose to utilize for carbon dioxide injection within the new "Expanded Use Area" have previously been authorized by the Division for this type of fluid injection.

(10) The East Vacuum Grayburg-San Andres Unit adjoins and shares a common boundary with the Central Vacuum Unit. The Central Vacuum Unit, which is currently operated by ChevronTexaco, was approved by Division Order No. R-5496 issued in Case No. 5970 on August 9, 1977.

(11) By Order No. R-5530 issued in Case No. 6008 on September 20, 1977, the Division authorized Texaco, Inc. to institute a pressure maintenance project within the Central Vacuum Unit by the injection of water into the San Andres formation, Vacuum Grayburg-San Andres Pool. The project was designated the Central Vacuum Unit Pressure Maintenance Project.

(12) By Order No. R-5530-E issued in Case No. 11650 on April 30, 1997, the Division authorized Texaco Exploration and Production, Inc. to institute an enhanced oil recovery project within the Central Vacuum Unit by the injection of water, carbon dioxide and produced gas into the Vacuum Grayburg-San Andres Pool.

(13) ConocoPhillips' proposed "Expanded Use Area" is on the boundary of the East Vacuum Grayburg-San Andres Unit and is contiguous with the Central Vacuum Unit.

(14) ConocoPhillips now seeks:

- (a) approval of the Central Vacuum Unit and East Vacuum Grayburg-San Andres Unit Cooperative Leaseline Injection Agreement; and
- (b) to qualify the "Expanded Use Area" within the East Vacuum (Grayburg- San Andres) Unit Pressure Maintenance Project identified in Finding No. (7) above as an "Enhanced Oil Recovery Project" pursuant to the "Enhanced Oil Recovery Act" (Sections 7-29A-1 through 7-29A-5, NMSA 1978).

(15) Water has been injected along the common boundary between the East Vacuum Grayburg-San Andres Unit and the Central Vacuum Unit in accordance with previously executed lease line injection agreements between Phillips Petroleum Company and Texaco Exploration and Production, Inc.

(16) ConocoPhillips and ChevronTexaco have entered into a new cooperative lease line injection agreement to take the place of prior injection agreements, and to provide for the injection of water, carbon dioxide, produced gas, or any combination thereof.

(17) Notice of this application for approval of this lease line injection agreement was provided to all working interest owners in the East Vacuum Grayburg-San Andres Unit Area and to all working interest owners in the Central Vacuum Unit Area, and no owner appeared in opposition to the application.

(18) To assure that the interest owners in the East Vacuum Grayburg-San Andres Unit and the Central Vacuum Unit Area continue to receive their fair and reasonable share of the reserves produced from each of these units, the Central Vacuum Unit and East Vacuum Grayburg-San Andres Unit Cooperative Leaseline Injection Agreement effective April 1, 2003, which was presented as Exhibit No. 5 in this case, should be approved.

(19) The evidence presented demonstrates that:

- (a) the proposed tertiary recovery operations should result in an increase in the amount of crude oil that may be ultimately recovered from this "Expanded Use Area";

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- (b) the project area has been so depleted that it is prudent to apply tertiary recovery techniques to maximize the ultimate recovery of crude oil; and
 - (c) the proposed tertiary recovery project is economically and technically feasible, and the application has not been prematurely filed.

(20) The proposed tertiary recovery operations within the "Expanded Use Area" meet all criteria for approval under the "Enhanced Oil Recovery Act" and Rule 30 (19 NMAC 15.A.30).

(21) The certified "Enhanced Oil Recovery Project Area" should be approved and comprise the "Expanded Use Area" described in Finding No. (7) above.

(22) To be eligible for the EOR tax rate, the operator should advise the Division of the date and time carbon dioxide injection commences within the "Expanded Use Area." At that time the Division will certify the project to the New Mexico Taxation and Revenue Department.

(23) At such time as a positive production response occurs from carbon dioxide injection operations and within seven years from the date the project was certified to the New Mexico Taxation and Revenue Department, the applicant must apply to the Division for certification of a positive production response. This application shall identify the area benefiting from tertiary recovery operations and the specific wells eligible for the EOR tax rate. The Division may review the application administratively or set it for hearing. Based upon evidence presented, the Division will certify to the New Mexico Taxation and Revenue Department those wells that are eligible for the EOR tax rate.

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of ConocoPhillips Company, the Central Vacuum Unit and the East Vacuum Grayburg-San Andres Unit Cooperative Leaseline Injection Agreement, which is effective on April 1, 2003, and presented as Exhibit No. 5 in this case, is hereby approved.

(2) ConocoPhillips Company's proposed "Expanded Use Area" within the Qualified Tertiary Recovery Project Area of the East Vacuum (Grayburg-San Andres) Unit Pressure Maintenance Project Area is hereby certified as a qualified "Enhanced Oil Recovery Project" pursuant to the "Enhanced Oil Recovery Act" (Sections 7-29A-1 through 7-29A-5 NMSA 1978) and Division Rule No. 30 (19 NMAC 15.A.30).

(3) The certified and approved "EOR Project Area" shall include those lands described as follows:

TOWNSHIP 17 SOUTH, RANGE 34 EAST, NMPM

Section 31: NW/4 SE/4, W/2 NE/4 SE/4,
NE/4 NE/4 SE/4, NW/4 SE/4 SE/4,
S/2 SE/4 SE/4
Section 32: SW/4 SW/4 NW/4, NW/4 NW/4 SW/4,
SW/4 SW/4 SW/4

TOWNSHIP 18 SOUTH, RANGE 35 EAST, NMPM

Section 5: NW/4 NW/4 NW/4

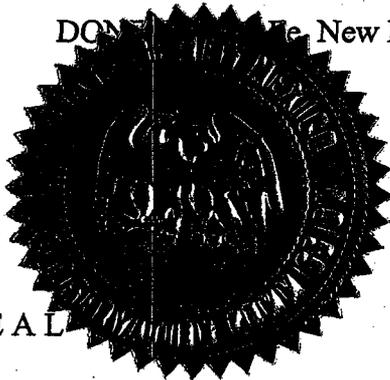
(4) To be eligible for the EOR tax rate, the operator should advise the Division of the date and time carbon dioxide injection commences within the "Expanded Use Area." At that time the Division will certify the project to the New Mexico Taxation and Revenue Department.

(5) At such time as a positive production response occurs and within seven years from the date the project was certified to the New Mexico Taxation and Revenue Department, the operator must apply to the Division for certification of a positive production response. This application shall identify the area benefiting from enhanced recovery operations and the specific wells eligible for the EOR tax rate. The Division may review the application administratively or set it for hearing. Based upon evidence presented, the Division will certify to the New Mexico Taxation and Revenue Department those wells that are eligible for the EOR tax rate.

(6) Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

Done at the City of Santa Fe, New Mexico, on the day and year hereinabove designated.

SEAL



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

Lori Wrotenbery
LORI WROTENBERY, Director