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William F. Carr

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September 29, 2003

VIA HAND DELIVERY

RECEIVED

SEP 29 2003

Oil Conservation Division

David Catanach, Examiner
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

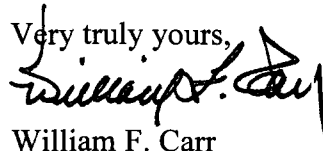
Re: New Mexico Oil Conservation Division Case No. 13134: Application of ConocoPhillips company for approval of a cooperative lease line injection agreement for an "Expanded Use Area" within the East Vacuum Grayburg-San Andres Unit Pressure Maintenance Project Area, and qualification of the acreage within the "Expanded Use Area" for the Recovered Oil Tax Rate pursuant to the New Mexico Enhanced Oil Recovery Act, Lea County, New Mexico.

Dear Mr. Catanach:

As testified to by ConocoPhillips at the August 21st hearing on the above-referenced application, pursuant to its contract with its CO2 supplier, ConocoPhillips must commence injection of CO2 prior to October 1, 2003 or the price it will have to pay for CO2 substantially increases and adversely impacts the economics of this project. Work has been completed on the subject injection wells and as soon as Division approval is obtained, ConocoPhillips is ready to change from water to carbon dioxide injection.

Enclosed is a Proposed Order in the above-referenced case that I have attempted to draft in accordance with recent similar orders of the Division. I have also provided this draft by e-mail. I hope it will be of assistance to you in your consideration of this matter. If you need anything further from ConocoPhillips, please advise.

Very truly yours,



William F. Carr

Enclosure

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

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

SEP 29 2003

Oil Conservation Division

CASE NO. 13134
ORDER NO. R-_____

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 ___ 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 its East Grayburg-San Andres Unit and the ChevronTexaco operated Central Vacuum Unit and qualification of an "Expanded Use Area" within the East Vacuum Grayburg-San Andres Unit Area, Lea County, New Mexico.

(3) By Order No. R-5871, issued in Case No. 6366 on November 27, 1978, the Division, on the application of Phillips Petroleum Company, created the East Vacuum Grayburg-San Andres Unit pursuant to the Statutory Unitization Act. The unit is comprised of 7,025.3 acres of State of New Mexico lands described as follows:

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 Petroleum Company 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 Unit Pressure Maintenance Project.

(5) By Order No. R-6856 issued in Case No. 7426 on December 16, 1981 carbon dioxide injection was authorized in a "Qualified Tertiary Project Area" within the approved Pressure maintenance Project Area. The re-injection of hydrocarbon contaminated carbon dioxide in this area was approved by Order No. R-6856-A issued in Case No. 7426 (Reopened) on September 19, 1990. The "Qualified Tertiary Project Area" includes that lands in the New "Expanded Use Area" that is the subject of this application.

(6) By Order No. R-6856-B issued in Case No. 10779 on July 29, 1993, the Division qualified five "Expanded Use Areas" within the "Qualified Tertiary Project Area" of the East Vacuum Grayburg-San Andres Unit Pressure Maintenance Project as

“Enhanced Oil Recovery Projects” pursuant to the New Mexico Enhanced Oil Recovery Act.

(7) ConocoPhillips now seeks to implement carbon dioxide gas injection in an additional “Expanded Use Area” within the Qualified Tertiary Recovery Area of the Grayburg-San Andres Unit Pressure Maintenance Project Area to include the following 156 acres, more or less:

TOWNSHIP 17 SOUTH, RANGE 34 EAST, NMPM

- Section 31: NW/4 SE/4 equivalent,
W/2 NE/4 SE/4 equivalent,
NE/4 NE/4 SE/4 equivalent,
NW/4 SE/4 SE/4 equivalent, and
the S/2 SE/4 SE/4 equivalent
- Section 32: SW/4 SW/4 NW/4 equivalent,
NW/4 NW/4 SW/4 equivalent,
SW/4 SW/4 SW/4 equivalent

TOWNSHIP 18 SOUTH, RANGE 35 EAST, NMPM

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

This acreage has not previously been included in an “Expanded Use Area” nor has there been any carbon dioxide injection activity in the new “Expanded Use Area”.

(8) The wells that ConocoPhillips proposes to use for injection in the new “Expanded Use Area” have been approved by Division Administrative Order No. PMX-203 dated March 27, 2000 and Permits PMX-101, PMX-95, PMX-88, PMX-90, PMX-91 and PMX-95 dated November 28, 2001.

(9) The East Vacuum Grayburg-San Andres Unit adjoins and shares a common boundary with the Central Vacuum Unit that is operated by Chevron U.S.A. Inc. (“Chevron”) as Successor in Interest to Texaco Exploration and Production Inc. The New “Expanded Use Area” is on the boundary of the East Vacuum Grayburg San Andres Unit and is contiguous with the Central Vacuum Unit. (10) By Order No. R-5496 issued in Case No. 5970 on August 9, 1977, the Division on the application of Texaco Inc. created the Central Vacuum Unit pursuant to the Statutory Unitization Act. The unit is comprised of 3,046.2 acres, more or less, of State of New Mexico and fee lands described as follows:

TOWNSHIP 17 SOUTH, RANGE 34 EAST, NMPM

- Section 25: S/2, SE/4 NE/4
Section 36: All

TOWNSHIP 17 SOUTH, RANGE 35 EAST, NMPM

Section 30: All

Section 31: N/2, SW/4, and SW/4 SE/4

TOWNSHIP 18 SOUTH, RANGE 34 EAST, NMPM

Section 12: N/2 NE/4

TOWNSHIP 18 SOUTH, RANGE 35 EAST, NMPM

Section 6: All

Section 7: NW/4 and NW/4 NE/4

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

(11) The Applicant, 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 Unit Pressure Maintenance Project identified in Finding No. (7) above as an "Enhanced Oil Recovery Project" pursuant to the "Enhanced Oil Recovery Act," (NMSA 1978, Sections 7-29A-1 through 7-29A-5.)

(12) Water has been injected along the common boundary between the East Vacuum Grayburg-San Andres Unit and the Central Vacuum Unit pursuant to the Vacuum (Grayburg-San Andres) Cooperative Water Injection Agreement, effective March 10, 1980, and the EVGSAU/CVU Water Injection Agreement effective February 1, 2000.

(13) ConocoPhillips and Chevron 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.

(14) 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.

(15) 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.

(16) The evidence presented indicates 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;"
- (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.

Accordingly, the proposed tertiary recovery operations meet all criteria for approval under the Enhanced Oil Recovery Act and Rule 30 (19 NMAC 15.A.30).

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

(18) 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.

(19) At such time as a positive production response occurs from carbon dioxide injection operations and within five 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) The Central Vacuum Unit and the East Vacuum (Grayburg San Andres) Unit Cooperative Leaseline Injection Agreement, which is effective on April 1, 2002, and presented as Exhibit No. 5 in this case, is hereby approved.

(2) The subject "Expanded Use Area" within the Qualified Tertiary Recovery Area of the 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," (NMSA 1978 Sections 7-29A-1 through 7-29A-5) and Division Rule 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 equivalent,
W/2 NE/4 SE/4 equivalent,
NE/4 NE/4 SE/4 equivalent,
NW/4 SE/4 SE/4 equivalent, and
the S/2 SE/4 SE/4 equivalent
- Section 32: SW/4 SW/4 NW/4 equivalent,
NW/4 NW/4 SW/4 equivalent,
SW/4 SW/4 SW/4 equivalent

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 five 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 Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

LORI WROTENBERY
Director

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