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June 5, 1997

Hand Delivered

David Catanach
New Mexico Oil Conservation Division
2040 South Pacheco Street
Santa Fe, New Mexico 87505

Re: Case 11724 (Application of Gillespie-Crow, Inc. for unit expansion, etc.)

Dear Mr. Catanach:

Enclosed are (i) the proposed order of Gillespie-Crow, Inc. and Enserch Exploration, Inc., (ii) a disc containing the proposed order, and (iii) a sheet containing oil in place figures, which you requested at hearing.

Very truly yours,



James Bruce

Attorney for Gillespie-Crow, Inc.

cc: counsel of record (with proposed order)

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. 11724
Order Nos. R-10448-B/R-10449-A/R-10608-B

APPLICATION OF GILLESPIE-CROW,
INC. FOR UNIT EXPANSION, STATUTORY
UNITIZATION, AND QUALIFICATION OF THE
EXPANDED UNIT AREA FOR THE RECOVERED
OIL TAX RATE AND CERTIFICATION OF A
POSITIVE PRODUCTION RESPONSE PURSUANT
TO THE "NEW MEXICO ENHANCED OIL
RECOVERY ACT," LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

(Proposed by Gillespie-Crow, Inc. and Enserch Exploration Inc.)

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on May 15, 1997,
at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this _____ day of June, 1997, 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) The applicant, Gillespie-Crow, Inc., seeks to expand the
West Lovington Strawn Unit ("WLSU") by adding thereto 160 acres of
land pursuant to the "Statutory Unitization Act," N.M. Stat. Ann.
(1995 Repl. Pamp.) §§ 70-7-1 through 70-7-21. The applicant also
requested that the tracts to be added to the WLSU 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), and that two wells located on the tracts to
be added to the WLSU be certified as having a positive production
response.

(3) The applicant is the operator of the WLSU, approved by Division Order No. R-10449, entered in Case No. 11195, which statutorily unitized the Strawn formation underlying the following lands located in Lea County, New Mexico:

TOWNSHIP 15 SOUTH, RANGE 35 EAST, N.M.P.M.

Section 33: All
Section 34: W½

TOWNSHIP 16 SOUTH, RANGE 35 EAST, N.M.P.M.

Section 1: Lots 1 through 8

TOWNSHIP 16 SOUTH, RANGE 36 EAST, N.M.P.M.

Section 6: Lots 3 through 5

Containing 1458.95 acres, more or less.

The vertical limits of the unitized formation are defined in Decretory ¶(3) of Order No. R-10449, which is incorporated herein by reference.

(4) Order No. R-10449 held that: (i) the Strawn formation underlying the WLSU was reasonably defined by development (Finding ¶(5)); (ii) the participation formula in the Unit Agreement is fair and reasonable (Finding ¶(29)); and (iii) the Unit Agreement, as amended by the order, and the Unit Operating Agreement for the WLSU provide for unitization and unit operation of the WLSU upon terms and conditions which are fair, reasonable, and equitable. (Decretory ¶(7)).

(5) The WLSU is subject to a natural gas injection pressure maintenance project, authorized by Division Order No. R-10448, entered in Case No. 11194. Said order also qualified the WLSU pressure maintenance project for the recovered oil tax rate pursuant to the "New Mexico Enhanced Oil Recovery Act." A positive production response for the WLSU was certified by Division Order No. R-10608, as amended.

(6) Since the WLSU became effective on October 1, 1995, the following wells have been completed in the Strawn formation on lands adjoining the WLSU: (i) the State "S" Well No. 1, located in the W½SE¼ of Section 34, Township 15 South, Range 35 East, completed in late October 1995; and (ii) the Chandler Well No. 1, located in the S¼SE¼ of Section 28, Township 15 South, Range 35 East, completed in March 1996. These additional wells are in communication with the wells in the WLSU. As a result, applicant requests that the WLSU be expanded to include the Strawn formation underlying the following lands:

TOWNSHIP 15 SOUTH, RANGE 35 EAST, N.M.P.M.

Section 28: S½SE¼
Section 34: W½SE¼

Containing 160 acres, more or less.

The proposed expanded unit area contains 1618.95 acres.

(7) At the hearing in this matter, Enserch Exploration Inc. ("Enserch") entered an appearance and presented evidence in support of the application. Phillips Petroleum Company entered an appearance in support of the application.

(8) Also at the hearing in this matter, Yates Petroleum Corporation ("Yates") and Hanley Petroleum Inc. ("Hanley") entered appearances and presented evidence in opposition to the application. Prior to the hearing, on April 22, 1997, Yates and Hanley proposed to expand the boundaries of the WLSU to include an additional 2640 acres of land. On the day of the hearing, the Yates/Hanley proposal was modified to request that the WLSU be expanded to include an additional 1430 acres of land, effectively doubling the size of the existing unit area. Also, on the day of the hearing, Yates and Hanley proposed that the tract participation formula for the WLSU be changed.

(9) Snyder Ranches, Inc. ("Snyder Ranches") and David Petroleum Corporation also entered appearances in this matter.

(10) Order No. R-10449 used the hydrocarbon pore volume ("HPV") map generated by Snyder Ranches to determine original oil in place ("OOIP") underlying each tract within the WLSU, and to assign tract participations (Finding ¶¶ (27), (30), and (31)).

(11) In Case No. 11195, the applicant and Snyder Ranches essentially agreed on the geology of the WLSU's reservoir, including the boundaries of the reservoir. In the present case, the applicant and Enserch presented geological evidence which used the Snyder Ranches HPV map as a starting point to re-map the reservoir, using new well control. Said parties also presented the following geologic evidence:

(a) The original WLSU boundaries incorporated the reservoir's boundaries as they were known in mid-1995. The proposed expansion reasonably defines the reservoir's boundaries in accord with previously accepted procedures, not with highly speculative and interpretive seismic data.

(b) The WLSU boundaries are defined by the following factors:

(i) An oil/water contact at a depth of -7617 subsea, clearly evidenced by the WLSU Well Nos. 10 and 11, and the Hanley Chandler Well No. 1 in the SW¼SE¼ §28. As a result, there is very little Strawn reservoir north of the existing WLSU;

(ii) The Amerind West State Well No. 1, in Lot 1 § 2-T16S-R35E, on the western border of the WLSU, which is dry in the Strawn;

(iii) The Gillespie State "D" Well No. 8, in Lot 12 §1-T16S-R35E, on the southwest border of the WLSU, which is completed in a separate Strawn reservoir;

(iv) The Gillespie Snyder EC Com. Well No. 1, in Lot 2 §6-T16S-R36E, on the southeastern border of the WLSU, which is a poor producer from the Strawn;

(v) The Bridge Oil Julia Culp Well No. 2, in the SE¼NE¼ §34-T15S-R35E, on the eastern border of the WLSU, which is dry in the Strawn; and

(vi) The Yates Chambers AQI State Well No. 1, in the NE¼SE¼ §27-T15S-R35E, on the northeastern boundary of the WLSU, which is dry in the Strawn.

(c) Additional drilling since the original unitization hearing has only added ± 5% to the WLSU reservoir's volume, and resulted in minor changes to the original geology accepted by the Division.

(d) Strawn reservoirs are normally very limited in extent, and thus only lands with wells drilled thereon will enable interest owners to accurately determine HPV under each tract, and provide the best basis for unit participation.

(e) The proposed tract participations for the expanded unit area, calculated from the Enserch HPV map (Enserch Exhibit 5B), are as follows:

<u>TRACT NUMBER</u>	<u>PARTICIPATION</u>
1 - 11 (WLSU)	95.2797924%
12 (NW¼SE¼ §34)	2.3161519%
13 (SW¼SE¼ §34)	2.1147842%
14 (S¼SE¼ §28)	<u>0.2892715%</u>
	100.0000000%

Pursuant to N.M. Stat. Ann. (1995 Repl. Pamp.) §70-7-10, the existing WLSU has been treated as one tract, and

production allocated thereto will be allocated among the original 11 tracts as specified in Order No. R-10449.

(f) If Tracts 12-14 had been brought into the unit in 1995, their tract participations would have been much smaller than currently proposed by applicant.

(g) Differences in OOIP between HPV values and material balance calculations exist due to thick, porous, undrilled highs within the heart of the reservoir, inside the existing WLSU (See Enserch Exhibit 3A), and secondary porosity which may produce oil below the 3% porosity cut-off.

(12) The applicant presented engineering evidence in this case which shows that:

(a) During 1992-93, Charles B. Gillespie, Jr. ("Gillespie") discovered and drilled nine wells within the West Lovington-Strawn Pool.

(b) In early 1994, Gillespie determined that the reservoir pressure within the West Lovington-Strawn Pool was declining to the point of nearing critical gas saturation. In an effort to delay the onset of this reservoir condition, Gillespie voluntarily curtailed production from all wells within the pool to 100 bopd per well.

(c) Since injection for the pressure maintenance project began, applicant has injected 2.4 BCF of gas into the West Lovington-Strawn Pool. The cost of injected gas has averaged \$2.08/mcf.

(d) Gas being injected into the WLSU Well No. 7 is effectively maintaining reservoir pressure within the West Lovington-Strawn Pool.

(e) The applicant's calculated pressure v. cumulative production projections, first modeled in 1994, were matched to actual reservoir performance, and the current injection and withdrawal volumes continue to match original projections.

(f) Due to the success of the pressure maintenance project, production from unit wells was increased in steps from 100 bopd to 120 bopd, then to 175 bopd, and subsequently to over 200 bopd. However, due to production from the State "S" Well No. 1 and the Chandler Well No. 1, production from WLSU wells had to be reduced from 200 bopd/well to 150 bopd/well in 1996 in order to maintain reservoir pressure. In addition, the unit

operator had to install a larger compressor to allow the injection of greater volumes of gas to compensate for the additional off-unit production from the reservoir.

(g) Since the State "S" Well No. 1 began production, it has produced over 140,000 barrels of oil, and its bottom hole pressure has remained constant. Said well is currently producing at top allowable (250 bopd), and is in pressure communication with the wells in the WLSU.

(h) The Chandler Well No. 1 originally produced 128 bopd; it is currently producing approximately 175 bopd and 300 bwpd, and has produced over 68,000 barrels of oil to date. Said well is in pressure communication with wells in the WLSU.

(i) If applicant had not reduced producing rates from wells within the WLSU in May 1994, the West Lovington-Strawn Pool would have been depleted by late 1995. If that had occurred, the State "S" Well No. 1 and the Chandler Well No. 1 would have produced substantially less than those wells have already produced, and probably would have been non-commercial.

(j) The working interest owners of the State "S" Well No. 1 and the Chandler Well No. 1 are benefitting from but not paying any of the costs of the WLSU pressure maintenance project. To date, production from the two wells has cost working interest owners in the WLSU approximately \$1,000,000 in injected gas to prevent pressure draw-down attributable to production from the wells. The State "S" Well No. 1 and the Chandler Well No. 1 are adversely affecting the ability of the WLSU to effectively continue the pressure maintenance project.

(k) If reservoir pressure is not maintained or increased, critical gas saturation will be reached prematurely, resulting in a reduction in reservoir recovery efficiency, leaving behind significant recoverable reserves, and causing waste.

(l) Original tract participations in the WLSU were based on hydrocarbon pore volume underlying a tract, less production through May 1995. The participations for the tracts sought to be added to the WLSU are based solely on hydrocarbon pore volume. Thus, the three tracts the applicant seeks to bring into the unit are not penalized for production from the wells thereon.

(m) Because reservoir pressure is being maintained, acreage outside the WLSU is not being drained.

(13) The applicant presented land evidence which shows that:

(a) Unitization of the WLSU originally took over a year to accomplish, even though there was unanimous consent of the working interest owners in the proposed unit.

(b) Negotiations with the interest owners in the State "S" Well No. 1 and the Chandler Well No. 1 regarding unit expansion have been unsuccessful, although they have continued for over 15 months. In fact, both Yates and Hanley informed the applicant in 1996¹ that they did not wish their interests to be included in the WLSU. In addition, title problems and delays in the hearing requested by Yates and Hanley have slowed the resolution of this matter.

(c) The proposed unit expansion has been approved by the Commissioner of Public Lands of the State of New Mexico and the United States Bureau of Land Management, the two largest royalty owners in the WLSU.

(d) The proposed expanded WLSU contains 14 tracts. At the time of hearing, 98.05% of working interest owners and 74.36% of royalty interest owners had voluntarily agreed to join in the unit. Additional royalty interest joinders are anticipated.

(e) The applicant has fully complied with the requirements of the Statutory Unitization Act for notifying the owners of affected interests of its proposal to expand the unit.

(f) Yates and Hanley asserted that the WLSU was originally formed to exclude interest owners now sought to be included in the unit. However, the evidence shows that:

(i) Gillespie and Enserch collectively own all or a majority of the working interest in most offsetting acreage. Thus, adding additional acreage to the WLSU in 1995 would have increased the interests of Gillespie and Enserch; and

(ii) Gillespie has requested that his acreage to the south and southeast of the WLSU be excluded,

¹Hanley kept its well tight for several months after completion, and refused to trade pressure data with the applicant. Hanley's attorney also sent the applicant a letter in February 1996 objecting to unitization of the Hanley well. Yates sent a letter to the applicant in July 1996 stating its opposition to unitization of the State "S" Well No. 1.

because it may not be fair to other interest owners in the unit, even though it would increase his interest.

(g) Yates complained at hearing of the exclusion of the Snyder EC Com. Well No. 1 from the unit expansion. However, it was Yates who requested Gillespie to exclude the Snyder EC Com. Well No. 1 from the unit.

(14) Yates and Hanley presented the following evidence:

(a) Any well drilled outside the WLSU is essentially an exploratory well.

(b) Gas injection is pushing oil off the WLSU onto non-unit tracts.

(c) The acreage dedicated to the State "S" Well No. 1 and the Chandler Well No. 1 should be included in the WLSU. (Testimony of D. Boneau.)

(d) They could see no oil/water contact on the electric logs for the Chandler Well No. 1. Therefore, they theorized that the reservoir has multiple oil/water contacts, based on an analogy to a reservoir (the Lusk-Strawn) approximately 30 miles to the southwest.

However, the Chandler Well No. 1, structurally the lowest well in the Pool, produces 300 bwpd, while total water production from 10 producing wells in the WLSU is 25 bwpd.

Moreover, while Hanley presented data on WLSU Well Nos. 10 and 11, it presented no electric log calculations on its Chandler Well No. 1. Enserch Exhibit 30, the QLA II electric log calculations for the Chandler Well No. 1, clearly defines an oil/water contact based upon Hanley's own definition of a contact being a water saturation of $\geq 40\%$.

(e) There is substantial additional HPV outside the WLSU.

However, the bulk of the additional HPV theorized by Yates and Hanley is below the oil/water contact. Moreover, the Yates/Hanley geological maps do not tie together: For example, Yates/Hanley Exhibit 9 shows no seismic anomaly in the SE $\frac{1}{4}$ SE $\frac{1}{4}$ §28, and the structure map (Exhibit 10) shows that 40 acres to be extremely low (below the oil/water contact). Yet, the Yates/Hanley HPV map (Exhibit 17) credits that 40 acres with a substantial

amount of oil, even more oil than the 40 acre tract where the Chandler Well No. 1 is located (the SW¼SE¼ §28).

(f) In July 1996, Yates proposed tract participations for WLSU Tracts 12 and 13 based upon a geological map very similar to the maps presented by Enserch and the applicant at hearing (See applicant's Exhibit 28, Attachment 2). Yates' proposed participation (4.89%) is very close to the participation proposed by the applicant for those two tracts (4.43%).

At the hearing, Yates and Hanley presented a new geological map showing entirely new boundaries for the north, east, and west sides of the reservoir, despite having no new well control or seismic data to justify the changes.

(g) The Yates/Hanley reservoir interpretation is based on highly interpretive seismic data. This is evidenced by their structure map (Yates/Hanley Exhibit 9), which showed that the Amerind Mobil State Well No. 1, located in Lot 3 §2-T16S-R35E, should have encountered the top of the Strawn at -7387 feet subsea, while it actually encountered the top of the Strawn at -7511 subsea. Therefore, this interpretation of the seismic data can be unreliable.

Moreover, Hanley and Yates presented no geophysicist to validate their interpretations. Their consulting engineer testified that their methodology for interpreting the areal extent of the reservoir was based on extrapolations from seismic and well data.

(h) Hanley has been unwilling to drill an additional well in Section 28 to prove its acreage productive, even though it has had a location staked for more than 15 months in the SE¼SW¼ §28, and the Chandler Well No. 1 has paid out.

(i) Hanley and Yates propose adding acreage to the WLSU which contains wells which are dry in the Strawn. Hanley asserted that the Bridge Julia Culp Well No. 2 could have been productive in the Strawn. However, Yates was a working interest owner in that well, and never proposed that the well be completed, nor attempted to complete the well in the unitized Strawn interval.

(j) Hanley proposes to add most of Section 28, which it owns, to the unit.

This acreage, which Hanley refuses to drill, is below the oil/water contact. Moreover, said acreage is covered by

an expiring State of New Mexico lease. Hanley sought to hide the fact that the lease was expiring in land exhibits presented at the hearing.

(k) Hanley and Yates seek to change the participation formula to increase participation for tracts with producing wells, based on recent production. This proposal was not submitted until the second day of the hearing. They admitted that they provided no notice whatsoever to royalty interest owners of the proposed change to the participation formula.

The Yates/Hanley tract participation formula is unfair because it does not take into account:

(i) Voluntary restriction of production from unit wells (both before and after unitization) to prevent pressure draw-down and maintain reservoir balance;

(ii) Production from unit wells had to be further restricted while the State "S" Well No. 1 produced at 445 bopd and the Chandler Well no. 1 produced at 210 bopd, due to the limited capacity of the compressor on the WLSU Well No. 7 to inject gas;

(iii) Voluntary restriction of production from structurally high unit wells to reduce production of injected gas;

(iv) Hanley's Chandler Well No. 1 is not production-restricted;

(v) The contribution of the injection well (WLSU No. 7), without which reservoir pressure could not be maintained; and

(vi) Wells outside the WLSU are receiving artificial support for their present producing rates. Without gas injection, they would not have produced at constant or increasing rates since completion.

Moreover, the Yates/Hanley tract participation formula is not supported by Enserch and Gillespie, and thus has no chance of being ratified.

(l) Yates questioned the location of the State "S" Well No. 1, and why it was drilled so soon after unitization.

However, the well was drilled due to a lease expiration problem. If the well had not been drilled, a lease in

which Yates owns a working interest would have terminated. Also, the applicant and Enserch thought the well was in a separate reservoir.

(15) Based on the foregoing, the Division finds that:

(a) The Snyder Ranches HPV map reasonably defined the WLSU reservoir as it was known in mid-1995. Development since then has not substantially changed knowledge of the reservoir.

(b) The Strawn formation underlying the expanded unit area, as proposed by the applicant, has been reasonably defined by development, as required by the Statutory Unitization Act.

(c) The WLSU has instituted a highly successful pressure maintenance project which has benefitted unit and non-unit acreage. Without production restrictions and the pressure maintenance project, the reservoir would have been depleted prior to this hearing.

(d) The Statutory Unitization Act allows the unitization of less than an entire reservoir, so long as there is no adverse effect on non-unitized portions of the reservoir. N.M. Stat. Ann. (1995 Repl. Pamp.) §70-7-11. Yates' and Hanley's evidence shows that non-unit acreage is benefitting from unitization, and thus there is no adverse effect upon any portion of the reservoir which may be outside the WLSU.

(e) Because Strawn reservoirs are normally limited in extent, adding undrilled acreage to the unit could add barren acreage to the WLSU. Thus, the proposal by the applicant to add tracts to the WLSU as wells are drilled thereon, and are proved to be in communication with the WLSU reservoir, will result in orderly development of the WLSU.

Also, since wells are brought into the unit on a paid-out basis, parties who drill wells outside the unit are not harmed by applicant's proposal.

(f) The Yates/Hanley proposal to expand the unit boundaries was based on highly interpretive extrapolations from seismic data. The use of this methodology for establishing the areal extent of the reservoir is more appropriate for the creation of exploratory units, and should not be used as the basis for the expansion of secondary recovery units.

(g) Adding the acreage requested by Yates and Hanley will add non-reservoir acreage to the WLSU, as indicated by its request to add tracts with Strawn dry holes. Once a tract in a secondary recovery unit has been allocated a share of production, that allocation cannot be changed without 100% approval of the working and royalty interest owners. N.M. Stat. Ann. (1995 Repl. Pamp.) §70-7-9(B). Thus, contraction of secondary recovery units is highly unlikely to occur. In fact, the Unit Agreement does not provide for contraction of the unit. As a result, the Yates/Hanley proposed unit enlargement is improper because acreage later proved non-productive will still be entitled to a share of unit production.

(h) The correlative rights of the interest owners in the WLSU are being impaired by leaving the State "S" Well No. 1 and Chandler Well No. 1 out of the unit.

(i) The "application" of Yates and Hanley to expand the unit boundaries and change the tract participation formula for the WLSU did not conform with the Statutory Unitization Act in the following respects:

(i) Yates and Hanley did not submit an application nor provide timely notice as required by N.M. Stat. Ann. (1995 Repl. Pamp.) §§70-7-5, 6(A) and NMAC 15.N.1203, 1205, and 1207. Further, except for the description of the 2640 acre possible expansion area, Yates and Hanley failed to include any of the information required by §70-7-5(A)-(F).

(ii) Yates and Hanley failed to comply with the requirements of N.M. Stat. Ann. (1995 Repl. Pamp.) §70-7-9(B), which requires the consent of all working interest and royalty interest owners before changing the participation formula.

(iii) Yates and Hanley further failed to comply with the requirements of N.M. Stat. Ann. (1995 Repl. Pamp.) §70-7-6 for the following reasons:

(1) They failed to demonstrate how unit expansion into the additional 1430 acres was reasonably necessary to carry on pressure maintenance or secondary recovery operations;

(2) They failed to demonstrate how expansion would substantially increase the ultimate recovery of reserves;

(3) They failed to demonstrate how their proposed expansion would benefit the interest owners in the expanded unit as a whole;

(4) They failed to demonstrate that they had made a good faith effort to secure the voluntary unitization of interests within the proposed 1430 acre expansion area and the existing WLSU; and

(5) They failed to demonstrate that their proposed participation formula allocates hydrocarbons on a fair, reasonable, and equitable basis.

(16) The unitized management, operation, and further development of the Strawn formation underlying the expanded unit area is reasonably necessary in order to effectively carry on pressure maintenance operations and to substantially increase the ultimate recovery of oil and gas therefrom.

(17) The existing pressure maintenance operation, as applied to the Strawn formation underlying the expanded unit area, is feasible, will prevent waste, and will result with reasonable probability in the increased recovery of substantially more oil from the Strawn formation than would otherwise be recovered.

(18) The estimated additional costs, if any, of conducting unitized operations will not exceed the estimated value of the additional oil recovered thereby, plus a reasonable profit.

(19) Applicant has made a good faith effort to secure voluntary unitization of the Strawn formation underlying the expanded unit area.

(20) The tract participation formula in the Unit Agreement for the WLSU allocates produced and saved unitized hydrocarbons to the separate tracts in the expanded unit on a fair, reasonable, and equitable basis.

(21) Unitization, as proposed by the applicant, and adoption of the current unitized methods of operation will benefit the working, royalty, and overriding royalty interest owners of the oil and gas rights within the expanded WLSU.

(22) The plan of unitization for the expanded unit area, embodied in the Unit Agreement approved by the Division in Case No. 11195 (Order No. R-10449), as modified by revised Exhibits "A", "B", and "C" (the applicant's Exhibits 1, 19&20, and 17, respectively), which agreement is incorporated herein by reference, is fair, reasonable, and equitable.

(23) The operating plan for the expanded unit area, covering the manner in which the expanded unit area will be supervised and managed, and costs allocated and paid, is embodied in the Unit Operating Agreement approved by the Division in Case No. 11195 (Order No. R-10449), which agreement is incorporated herein by reference.

(24) Finding ¶¶(39)-(43) in Order No. R-10449 are incorporated herein by reference.

(25) The two additional wells within the proposed expanded unit area are entitled to be qualified for the recovered oil tax rate and certified for a positive production response. These wells, and the acreage dedicated thereto, are as follows:

<u>WELL NAME</u>	<u>WELL UNIT</u>
State "S" Well No. 1 (WLSU No. 12)	WLSU Tracts 12 and 13
Chandler Well No. 1 (WLSU No. 13)	WLSU Tract 14

(26) The statutory unitization of the expanded WLSU, as proposed by Gillespie-Crow, Inc., is in conformity with the above findings, and will prevent waste and protect the correlative rights of all interest owners within the proposed unit, as expanded, and should be approved.

(27) The expansion of the WLSU and the revision of the unit's participation formula proposed by Yates and Hanley should be denied.

IT IS THEREFORE ORDERED THAT:

(1) The expanded West Lovington Strawn Unit Area comprising 1618.95 acres, more or less, of State, Federal, and Fee lands in the West Lovington-Strawn Pool, Lea County, New Mexico, is hereby approved for statutory unitization pursuant to the Statutory Unitization Act, N.M. Stat. Ann. (1995 Repl. Pam.) §§70-7-1 through 70-7-21.

(2) The lands included within the expanded West Lovington Strawn Unit Area shall comprise:

TOWNSHIP 15 SOUTH, RANGE 35 EAST, N.M.P.M

Section 28: S½SE¼
Section 33: All
Section 34: W½, W½SE¼

TOWNSHIP 16 SOUTH, RANGE 35 EAST, N.M.P.M.

Section 1: Lots 1 through 8

TOWNSHIP 16 SOUTH, RANGE 36 EAST, N.M.P.M.

Section 6: Lots 3 through 5

(3) The vertical limits of the expanded West Lovington Strawn Unit Area are described in Decretory ¶(3) of Order No. R-10449, which is incorporated herein by reference.

(4) The secondary recovery project for the expanded unit is hereby approved. The transfer of allowables between wells in the expanded project area should be permitted.

(5) The West Lovington Strawn Unit Agreement and the West Lovington Strawn Unit Operating Agreement, approved by Division Order No. R-10449, as modified by the new Exhibits "A", "B", and "C" thereto, are incorporated by reference into this order.

(6) The tract participations for the expanded West Lovington strawn Unit Area are hereby established as follows:

<u>TRACT NUMBER</u>	<u>TRACT PARTICIPATION</u>
1-11	95.2797924%
12	2.3161519%
13	2.1147842%
14	0.2892715%

(7) The Unit Agreement approved by Order No. R-10449, as amended by revised Exhibits "A", "B", and "C" thereto, and the Unit Operating Agreement for the West Lovington Strawn Unit provide for unitization and unit operation of the expanded Unit Area upon terms and conditions that are fair, reasonable, and equitable and which include the provisions described in Finding ¶(39) of Order No. R-10449, incorporated herein by reference.

(8) This order shall not become effective unless and until the owners of seventy-five (75) percent of the working interest and seventy-five percent (75) of the royalty interest in the expanded West Lovington Strawn Unit have approved the plan for unit operations as required by N.M. Stat. Ann. (1995 Repl. Pamp.) §70-7-8.

(9) If the persons owning the required percentage of interest in the expanded West Lovington Strawn Unit Area as set out in N.M. Stat. Ann. (1995 Repl. Pamp.) §70-7-8 do not approve the plan for unit operations within 6 months from the date of entry of this order, this order shall cease to be of any further force and effect and shall be revoked by the Division, unless the Division shall

extend the time for good cause shown. Any failure to obtain the required percentage approval shall not affect the validity of Order Nos. R-10449 and R-10448, as they are in effect prior to the date of this order.

(10) When persons owning the required percentage of interest in the expanded West Lovington Strawn Unit Area have approved the plan for unit operations, the interests of all persons in the expanded unit area are unitized whether or not such persons have approved the plan of unitization in writing.

(11) The applicant as Unit Operator shall notify the Division Director of any removal or substitution of said Unit Operator by any working interest owner within the expanded Unit Area.

(12) A non-consent penalty of 200 percent is hereby adopted in this case. The applicant shall be authorized to recover from unit production each non-consenting working interest owner's share of unit expense plus 200 percent thereof.

(13) The expansion of the West Lovington Strawn Unit and the revision of the participation formula proposed by Yates and Hanley are hereby denied.

(14) 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