

BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

OIL CONSERVATION DIV.

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APPLICATION OF GILLESPIE OIL, 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.

No. 12171

APPLICATION

Applicant Gillespie Oil, Inc., formerly known as Gillespie-Crow, Inc., for its application, states:

1. Applicant is engaged in the business of producing and selling oil and gas as defined by the Statutory Unitization Act, NMSA 1978 §§70-7-1 through 21 (1996 Supp.) ("the Act").

2. Applicant is the operator of the West Lovington Strawn Unit ("WLSU"), as expanded, approved by Division Order Nos. R-10449 and R-10864, 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 28: S½SE¼
- Section 33: All
- Section 34: W½ and 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

Containing 1618.95 acres, more or less.

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

3. Certain lands outside the unit appear to be in communication with the unitized formation. 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: S $\frac{1}{2}$ SW $\frac{1}{4}$
- Section 32: E $\frac{1}{2}$ NE $\frac{1}{4}$
- Section 34: NE $\frac{1}{4}$ and E $\frac{1}{2}$ SE $\frac{1}{4}$
- Section 35: SW $\frac{1}{4}$

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

- Section 1: Lots 9-12

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

- Section 5: Lots 3-6
- Section 6: Lots 1, 2, and 6-8

Containing 1123.95 acres, more or less.

A map of the proposed expanded unit area, containing 2742.90 acres, more or less, is attached hereto as Exhibit 1. The Strawn formation underlying the expanded unit area has been reasonably defined by development.

4. The WLSU is subject to a natural gas injection pressure maintenance project, authorized by Division Order Nos. R-10448 and R-10864. Said orders also qualified the WLSU pressure maintenance project for the recovered oil tax rate pursuant to the "New Mexico Enhanced Oil Recovery Act" (Laws 1992, Chapter 38, Sections 1 through 5).

5. The plan of unitization for the expanded unit area, modified as described below, is embodied in the Unit Agreement approved by the Division in Order Nos. R-10449 and R-10864, which agreement is incorporated herein by reference. The plan of unitization would be modified by changing Article 13 (Tract Participation) as set forth on Exhibit 2 attached hereto. Such modification would change tract participations to those set forth on Exhibit 3 attached hereto.

6. 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 Order Nos. R-10449 and R-10864, which agreement is incorporated herein by reference.

7. 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.

8. 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.

9. 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.

10. By Order No. R-10608, as amended, the Division certified a positive production response for the wells within the WLSU. There are two additional wells within the proposed expanded unit area which 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>
Snyder "EC" Com. No. 1	WLSU Tract 16
Snyder "C" No. 4	WLSU Tract 17

11. The granting of this application is in the interests of conservation and the prevention of waste.

WHEREFORE, applicant requests that, after notice and hearing, the Division enter its order:

- A. Approving the expansion of the WLSU to include the lands described in ¶3 above;
- B. Statutorily unitizing the expanded unit area;
- C. Approving the tract participations for the expanded unit area as described in ¶5 above;
- D. Approving the WLSU Unit Agreement, as amended, and the WLSU Unit Operating Agreement for the expanded unit area;
- E. Qualifying the expansion area of the WLSU for the recovered oil tax rate and certifying the wells described in ¶10 for a positive production response; and
- F. Granting such further relief as the Division deems proper.

Respectfully submitted,

A handwritten signature in cursive script that reads "James Bruce". The signature is written in black ink and is positioned above a horizontal line.

James Bruce
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Attorney for Applicant

SECTION 13. TRACT PARTICIPATION (EXPANDED UNIT). The percentages of Tract Participation for each Tract within the Unit Area have been calculated and determined in accordance with the following formulas:

1. October 1, 1995 - October 31, 1997 (Original Unit).

Tract Participations for Tracts 1-11 (the original Unit Area) are those calculated under the Unit Agreement, as approved and amended by Oil Conservation Division Order No. R-10449.

2. November 1, 1997 - March 31, 1999 (First Expansion).

Tract Participations for this period are those approved by Oil Conservation Division Order No. R-10864, as follows:

Tracts 1-11:	95.2797924%
Tract 12:	2.3161519%
Tract 13:	2.1147842%
Tract 14:	0.2892715%

Production allocated to Tracts 1-11 was apportioned among said Tracts in the proportions set forth in Oil Conservation Division Order No. R-10449.

There shall be no retroactive changes in Tract Participations or in allocation of production of Unitized Substances for any period prior to April 1, 1999.

3. Effective April 1, 1999 (Second Expansion).

(a) Tract Participation Percentage = (80% x HPV) + (20% x WF), adjusted as described in subparagraph (c) below.

HPV = Hydrocarbon Pore Volume: Determined by volumetric original oil in place in the Unitized Formation under each Tract divided by volumetric original oil in place in the Unitized Formation under the expanded Unit Area.

Original oil in place is calculated from hydrocarbon pore volume using 100% of the density porosity electric log response with a 3% porosity cutoff, with an $R_w = 0.48$.

WF = Wellbore Factor: Determined by (i) the number of wells on a Tract, (ii) multiplied by the maximum average daily producing rate during a consecutive six (6) month producing period divided by the allowable for the West Lovington-Strawn Pool (250 BOPD/well), (iii)



divided by the cumulative sum of all Well Factors in the Unit Area.

Tracts 1-11 shall have a cumulative Wellbore Factor of 11 assigned thereto.

(b) Tract Participations for Tracts 12-14 shall be calculated under the subparagraph (a) formula for the period commencing April 1, 1999.

(c) After the calculations in subparagraph (a) are made, Tract 14's Tract Participation shall be increased to 3% by means of the other Tracts proportionately contributing a portion of their participation percentages as necessary for Tract 14 to achieve said 3% interest. The collective contribution of Tracts 1-11 shall be 82.3271757% of the amount necessary to increase Tract 14's interest to 3%. The individual contribution of each of Tracts 1-11 shall be in the proportions set forth in Oil Conservation Division Order No. R-10449.

(d) After the foregoing numbers are calculated, Tracts 1-11 shall be allocated 81.1529828% of Unitized Substances produced from the Unit Area, as expanded, which shall be apportioned among said Tracts in the proportions set forth in Oil Conservation Division Order No. R-10449.

The participations for each Tract in the expanded Unit Area are set forth in Exhibit "C" (Second Revision) attached hereto.

The Tract Participation percentages have been calculated upon the basis of all Tracts within the Unit Area, as expanded, being committed to this Agreement as of the effective date of unit expansion (being April 1, 1999), and such Tract Participations shall govern the allocation of Unitized Substances produced from the Unit Area after April 1, 1999; subject, however, to any revisions of the Unit Area and Exhibit "C" (Second Revision) in accordance with the provisions hereof.

If, subsequent to the effective date of unit expansion, any additional tract becomes committed hereto under the provisions of Section 4 (Expansion), Unit Operator shall revise Exhibits "B" and "C," or the latest revisions thereof, to show the new percentage participations of the then committed tracts, which revised exhibits shall, upon their approval by the Commissioner, Authorized Officer, and Division, supersede, as of their effective date, the last previously effective Exhibits "B" and "C." In any revision of Exhibit "C," the revised percentage participations of the respective tracts listed in the previously effective Exhibit "C" shall remain in the same ratio one to the other.

EXHIBIT "C" (SECOND REVISION)

<u>Tract No:</u>	<u>Tract Participation</u>
1-11	81.1529828%
12	1.9209371%
13	2.1752086%
14	3.0000000%
15	1.3604302%
16	0.9250416%
17	2.8805334%
18	2.8397964%
19	0.5007412%
20	0.2771667%
21	1.1632921%
22	1.0857725%
23	0.1378454%
24	0.2182614%
25	0.1469958%
26	0.1896112%
27	0.0253479%

