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William F. Carr

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May 29, 2002

**HAND DELIVERY**

Mr. Michael E. Stogner  
Hearing Examiner  
Oil Conservation Division  
New Mexico Department of Energy,  
Minerals and Natural Resources  
1220 South Saint Francis Drive  
Santa Fe, New Mexico 87505

COMM-FBI-504

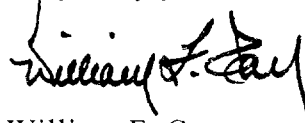
Re: Oil Conservation Division Case 12843: Application of EOG Resources, Inc. for Amendment of Division Order No. R-11389 to Authorize a Pressure Maintenance Project in the Red Hills North Unit Area, Establish Procedures for Approval of Additional Injection Wells, and for Qualification of the Project Area for the Recovered Oil Tax Rate Pursuant to the Enhanced Oil Recovery Act, Lea County, New Mexico.

Dear Mr. Stogner:

Pursuant to your request at the examiner hearing on the above-referenced application, enclosed in hard copy and on disc is EOG Resources, Inc.'s Proposed Order of the Division. As you will see, we have included references to the transcript and exhibits presented at the hearing to assist you in reviewing this draft.

If you need any additional information from EOG for your consideration of this matter, please advise.

Very truly yours,



William F. Carr

cc: Mr. Patrick Tower  
Mr. Randy Cate

**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:**

**APPLICATION OF EOG RESOURCES, INC. FOR AMENDMENT OF DIVISION  
ORDER NO. R-11389 TO AUTHORIZE A PRESSURE MAINTENANCE  
PROJECT IN THE RED HILLS NORTH UNIT AREA, ESTABLISH  
PROCEDURES FOR APPROVAL OF ADDITIONAL INJECTION WELLS, AND  
FOR QUALIFICATION OF THE PROJECT AREA FOR THE RECOVERED OIL  
TAX RATE PURSUANT TO THE ENHANCED OIL RECOVERY ACT, LEA  
COUNTY, NEW MEXICO.**

**CASE NO. 12843  
ORDER NO. R-11389-A**

**EOG RESOURCES, INC.'S  
PROPOSED ORDER OF THE DIVISION**

**BY THE DIVISION:**

This cause came on for hearing at 8:15 a. m. on March 21, 2002 at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this \_\_\_\_ day of May, 2002, 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) EOG Resources, Inc. (hereinafter referred to as "EOG") seeks amendment of Division Order No. R-11389, dated May 26, 2000, which approved a one-well pilot pressure maintenance project in the Red Hills North Unit Area to authorize a pressure maintenance project by water injection into the Third Bone Spring Sand of the Red Hills Bone Spring Pool (unitized interval) through new horizontal wells drilled for the purpose of injection and existing horizontal wells to be converted to injection. EOG seeks authorization for its Red Hills North Unit Well No. 606 to be horizontally drilled from a surface location 530 feet from the South line and 1650 feet from the East line of Section 6, Township 25 North, Range 334 East, NMPM, to a depth of approximately

12,200 feet and then in a west southwesterly direction approximately 7,000 feet in the Third Bone Spring Sand to a target point 1400 feet from the North line and 2150 feet from the West line of Section 12, Township 25 South, Range 33 East, NMPM all within the Red Hills North Unit Area. EOG also seeks an administrative procedure whereby additional horizontal injection wells within the Red Hills North Unit Area may be drilled and/or current horizontal producing wells may be recompleted as injection wells without the necessity of additional hearings. EOG further seeks to qualify the proposed pressure maintenance project for the Recovered Oil Tax Rate pursuant to the New Mexico Enhanced Oil Recovery Act.

(4) By Division Order No. R-11388, issued in Case 12329 and dated May 25, 2000, the Red Hills North Unit was approved pursuant to the "Statutory Unitization Act," Sections 70-7-1 through 70-7-21 NMSA 1978, for the purpose of establishing a secondary recovery project. The unit area comprises 3,478 acres, more or less, of state and federal lands located in the following described acreage in Lea County, New Mexico:

**TOWNSHIP 25 SOUTH, RANGE 33 EAST, NMPM**

Section 1: Lots 2 and 3, SW/4 NE/4,  
SE/4 NW/4, and S/2  
Section 12: All  
Section 13: N/2 and E/2 SE/4

**TOWNSHIP 25 SOUTH, RANGE 34 EAST, NMPM**

Section 6: Lots 6 and 7, E/2 SW/4,  
and W/2 SE/4  
Section 7: All  
Section 8: W/2 SW/4  
Section 17: SW/4 NE/4; W/2, and W/2 SE/4  
Section 18: All

(5) Pursuant to Section 70-7-8 NMSA 1978, sufficient ratifications of the Division's statutory unitization order were obtained from the interest owners in the Unit Area and the Unit became effective on July 1, 2000.

(6) At the May 2000 examiner hearing in this case, EOG sought authorization to implement pressure maintenance operations in the Red Hills North Unit Area through a combination of vertical and horizontal wellbores.

(7) Division Order No. R-12389, approved a one-well pilot secondary recovery project for the Vaca "13" Federal Well No. 2 (API No. 30-025-32182) which is a vertical well located 660 feet from the North line and 1980 feet from the East line (Unit

B) of Section 13, Township 25 South, Range 33 East, NMPM, Lea County, New Mexico ("the Vaca Well") for the re-injection of produced water into the Third Bone Spring Sand of the Red Hills-Bone Spring Pool.

(8) EOG commenced injection operations in the Vaca Well on July 1, 2001 but, due to the tight character of the reservoir, was unable to inject sufficient volumes to even replace production from offset wells and, therefore, the pilot pressure maintenance project using this vertical injection well was unsuccessful. (Testimony of Tower, Tr. at 7; Testimony of Cate, Tr. at 14)

(9) Information acquired from the pilot injection well shows that for secondary recovery operations to be successful in the Unit Area significant changes or modifications in the pressure maintenance process used to produce crude oil from this reservoir are required. Due to the tight nature of this formation, injection must occur through horizontal injection wells which put a substantial volume of water over a large face in the reservoir, thereby efficiently implementing pressure maintenance. (Testimony of Cate at 18)

(10) EOG now seeks to modify its plans as presented at the May 2000 examiner hearing and seeks approval of pressure maintenance by injection through horizontal injection wells throughout the Unit Area. (Testimony of Tower, Tr. at 11)

(11) EOG proposes to implement pressure maintenance operations as follows:

- (A) Horizontal Producing Wells: The Red Hills North Unit Area currently contains five horizontal producing wells and EOG proposes to drill five additional horizontal producing wells in the Unit Area; and
- (B) Horizontal Injection Wells: EOG proposes to immediately drill its North Red Hills Unit Well No. 606 as a horizontal injection well and thereafter add eight additional horizontal injection wells to implement pressure maintenance operations in the Unit Area. (Testimony of Cate, Tr. 16, EOG Exhibit No. 3)

(12) EOG's evidence showed that injection through the Red Hills Unit North Well No. 606 is needed in the north half of the Unit Area due to the high gas-oil ratios being encountered in wells in this area, especially the offsetting Red Hills North Unit Well No. 212. (Testimony of Cate, Tr. at 16-19)

(13) EOG further requests that the subject pressure maintenance project be approved by the Division as a qualified Enhanced Oil Recovery Project ("EOR") pursuant to the "Enhanced Oil Recovery Act" (Laws 1992, Chapter 38, Sections 1 through 5). (See, Testimony of Cate, Tr. at 27; EOG Exhibit No. 5)

(14) The evidence presented indicates that the subject pressure maintenance project meets all criteria for approval.

(15) The project area should be approved in two phases with phase I comprised of all unitized lands in Sections 1, and the North half of Section 12 of Township 25 South Range 33 East, and Section 6 and the North half of Section 7 of Township 25 South, Range 34 East and Phase II comprised of all unitized lands in the South half of Section 12 and Section 13 of Township 25 South, Range 33 East and the South half of Section 7, and Sections 8, 17 and 18, Township 25 South, Range 34 East, NMPM. (Testimony of Cate, Tr. at 31, *See*, EOG Exhibit No. 5)

(16) To be eligible for the EOR credit, prior to commencing pressure maintenance operations in each phase, the operator must request from the Division a Certificate of Qualification, which Certificate will specify the area in the proposed project phase area as described above.

(17) At such time as a positive production response occurs and within five years from the date of the Certificate of Qualification, the operator must apply to the Division for certification of a positive production response, which application shall identify the area actually benefiting from enhanced recovery operations, and identify 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.

(18) 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.

(19) The application of EOG for amendment of Division Order No. R-11389 to authorize a pressure maintenance project by water injection in the Red Hills North Unit through horizontal injection wells, is reasonable, serves to effectively increase the ultimate recovery of oil and gas from the unit area, is in the best interest of conservation, exhibits sound engineering practices, prevents waste, will not impair correlative rights and should be **granted**.

**IT IS THEREFORE ORDERED THAT:**

(1) The application of EOG Resources, Inc. for amendment of Division Order No. R-12389 to authorize a pressure maintenance project by water injection into the Third Bone Spring Sand of the Red Hills Bone Spring Pool (unitized interval) through new horizontal wells drilled for the purpose of injection and existing horizontal wells to

be converted to injection as are subsequently permitted pursuant to the rules of the Division, is hereby **granted**.

(2) The application of EOG Resources, Inc. for approval of its proposed Red Hills North Unit Well No. 606 to be horizontally drilled as an injection well in the Third Bone Spring Sand of the Red Hills Bone Spring Pool from a surface location 530 feet from the South line and 1650 feet from the East line of Section 6, Township 25 North, Range 334 East, NMPM, to a depth of approximately 12,200 feet and then in a west southwesterly direction approximately 7,000 feet in the Third Bone Spring Sand to a target point 1400 feet from the North line and 2150 feet from the West line of Section 12, Township 25 South, Range 33 East, NMPM all within the Red Hills North Unit Area is hereby **granted**.

(3) Additional horizontal injection wells within the Red Hills North Unit Area may be drilled and/or current horizontal producing wells may be recompleted as injection wells without the necessity of additional hearings in accordance with the provisions of Division Rule 701.

(4) All other provision of Order No. R-11389 shall remain in force and effect.

(5) Applicant shall conduct injection in the subject pressure maintenance project, designated the "Red Hills North Unit Pressure Maintenance Project," in accordance with Division Rule Nos. 701 and 708 and shall submit monthly progress reports in accordance with Division Rules Nos. 706 and 1115.

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

(7) The certified "project area" shall initially comprise the area located in Lea County, New Mexico approved for statutory unitization by Division Order No. R-11388, and described as follows, provided however, the Phase I and Phase II areas within the project may be independently certified by the Division to the New Mexico of Taxation and Revenue Department:

**TOWNSHIP 25 SOUTH, RANGE 33 EAST, NMPM**

Section 1: Lots 2 and 3, SW/4 NE/4,  
SE/4 NW/4, and S/2  
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(8) To be eligible for the EOR tax rate, the operator shall advise the Division of the date and time water injection commences within each phase area in the pressure maintenance project. At such time the Division will certify that portion of the project area to the New Mexico Taxation and Revenue Department.

(9) 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 applicant must apply to the Division for certification of a positive production response. This application shall identify the area actually benefiting from enhanced oil recovery operations and shall identify the specific wells eligible for the tax credit. The Division may review the application administratively or set it for hearing. Based upon the evidence presented, the Division will certify to the New Mexico Taxation and Revenue Department those wells that are eligible for the EOR tax rate.

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

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

STATE OF NEW MEXICO  
OIL CONSERVATION DIVISION

LORI WROTENBERY,  
Director

S E A L

HOLLAND & HART<sup>LLP</sup>  
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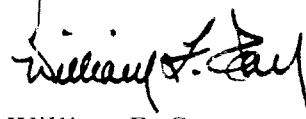
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NOW, on this \_\_\_\_ day of May, 2002, the Division Director, having considered the testimony, the record and the recommendations of the Examiner, and being fully advised in the premises,

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**IT IS THEREFORE ORDERED THAT:**

(1) The application of EOG Resources, Inc. for amendment of Division Order No. R-12389 to authorize a pressure maintenance project by water injection into the Third Bone Spring Sand of the Red Hills Bone Spring Pool (unitized interval) through new horizontal wells drilled for the purpose of injection and existing horizontal wells to

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(4) All other provision of Order No. R-11389 shall remain in force and effect.

(5) Applicant shall conduct injection in the subject pressure maintenance project, designated the "Red Hills North Unit Pressure Maintenance Project," in accordance with Division Rule Nos. 701 and 708 and shall submit monthly progress reports in accordance with Division Rules Nos. 706 and 1115.

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

STATE OF NEW MEXICO  
OIL CONSERVATION DIVISION

LORI WROTENBERY,  
Director

S E A L