

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. 9210
ORDER NO. R-8557

APPLICATION OF PELTO OIL COMPANY
FOR STATUTORY UNITIZATION, CHAVES
COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on September 9, 1987, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 2nd day of December, 1987, 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) At the time of the hearing this case was consolidated with Division Case No. 9211 for the purpose of testimony.

(3) The applicant, Pelto Oil Company, seeks the statutory unitization, pursuant to the "Statutory Unitization Act," Sections 70-7-1 through 70-7-21 NMSA 1978, of 4,863.82 acres, more or less, being a portion of the Twin Lakes - San Andres Associated Pool, Chaves County, New Mexico, said portion to be known as the Twin Lake San Andres Unit; applicant further seeks approval of the Unit Agreement and the Unit Operating Agreement which were submitted in evidence as applicant's Exhibits Nos. 3 and 4 presented at the time of the hearing.

(4) The proposed unit area should be designated the Twin Lakes San Andres Unit Area; and the horizontal limits of said unit area should be comprised of the following described State and Fee lands in Chaves County, New Mexico:

TOWNSHIP 8 SOUTH, RANGE 28 EAST, NMPM

Section 25: SE/4 NW/4, NE/4 SW/4, S/2 SW/4, and
SE/4

Section 26: SE/4 SE/4

Section 35: E/2 E/2

Section 36: All

TOWNSHIP 8 SOUTH, RANGE 29 EAST, NMPM

Section 30: Lots 3 and 4, E/2 SW/4, and SW/4 SE/4

Section 31: All

Section 32: W/2 SW/4

TOWNSHIP 9 SOUTH, RANGE 28 EAST, NMPM

Section 1: Lots 1 through 4, S/2 N/2, SE/4, and
E/2 SW/4

Section 2: Lot 1

Section 12: NE/4, E/2 SE/4 and NW/4 SE/4

TOWNSHIP 9 SOUTH, RANGE 29 EAST, NMPM

Section 5: Lots 3 and 4, S/2 NW/4, and SW/4

Sections 6 and 7: All

Section 8: N/2 NW/4 and SW/4 NW/4

Section 18: Lot 1, E/2 NW/4, and W/2 NE/4

(5) The horizontal limits of said unit are within the governing boundaries of the Twin Lakes - San Andres Associated Pool and have been reasonably defined by development.

(6) The vertical limits of said Unit Area should comprise the San Andres formation from a depth 2708 feet (+ 1259 feet sub-sea) to a depth of 2798 feet (+ 1169 feet sub-sea) as recorded on the Dual Laterolog/Compensated Neutron Log dated December 23, 1984, in the applicant's O'Brien "L" Well No. 16 located 2310 feet from the North line and 1675 feet from the East line (Unit G) of Section 6, Township 9 South, Range 29 East, NMPM, Chaves County, New Mexico.

(7) The unit area contains 35 separate tracts owned by 18 different working interests.

(8) The applicant has made a good faith effort to secure voluntary unitization within the Unit Area and at the time of the hearing over 87 percent of the working interest owners and 83.6 percent of the royalty interest owners were effectively committed to the unit.

(9) All interested parties who have not agreed to unitization were notified of the hearing by the applicant, but no person entered an appearance or opposed the application at the hearing.

(10) The applicant proposes to institute a waterflood project for the secondary recovery of oil and associated gas, condensate, and all associated liquifiable hydrocarbons within and to be produced from the proposed unit area, all as shown in Division Case No. 9211.

(11) The proposed secondary recovery operations should result in the additional recovery of approximately 2.9 million barrels of oil.

(12) The unitized management, operation and further development of the Twin Lakes San Andres Unit Area, as proposed, is reasonably necessary to effectively carry on secondary recovery operations and will substantially increase the ultimate recovery of oil and gas from the unitized portion of the pool.

(13) The proposed unitized method of operation as applied to the Twin Lakes San Andres Unit Area is feasible and will result with reasonable probability in the increased recovery of substantially more oil and gas from the unitized portion of the pool than would otherwise be recovered without unitization.

(14) The estimated additional costs of such operations will not exceed the estimated value of the additional oil so recovered plus reasonable profit.

(15) Such unitization and adoption of applicant's proposed unitized method of operation will benefit the working interest owners and royalty owners of the oil and gas rights within the Twin Lakes San Andres Unit Area.

(16) The granting of the application in this case will have no adverse effect upon the Twin Lakes - San Andres Associated Pool and/or the San Andres formation located outside of the proposed Twin Lakes Unit boundary.

(17) Applicant's Exhibits Nos. 3 and 4 in this case, being the Unit Agreement and the Unit Operating Agreement, respectively, should be incorporated by reference into this order.

(18) The Twin Lakes San Andres Unit Agreement and the Twin Lakes San Andres Unit Operating Agreement provide for unitization and unit operation of the Twin Lakes San Andres Unit Area upon terms and conditions that are fair, reasonable and equitable, and which include:

- (a) an allocation to the separately owned tracts of the unit area of all oil and gas that is produced from the unit area and which is saved, being the production that is not used in the conduct of unit operations or not unavoidably lost;
- (b) a provision for the credits and charges to be made in the adjustment among the owners in the unit area for their respective investments in wells, tanks, pumps, machinery, materials and equipment contributed to the unit operations;
- (c) a provision governing how the costs of unit operations including capital investments shall be determined and charged to the separately-owned tracts and how said costs shall be paid, including a provision providing when, how and by whom the unit production allocated to an owner who does not pay his share of the cost of the unit operations shall be charged to such owner, or the interest of such owner, and how his interest may be sold and the proceeds applied to the payment of his costs;
- (d) a provision for carrying any working interest owner on a limited, carried or net-profits basis, payable out of production, upon terms and conditions which are just and reasonable, and which allow an appropriate charge for interest for such service payable out of production, upon such terms and conditions determined by the Division to be just and reasonable.
- (e) a provision designating the Unit Operator and providing for the supervision and conduct of the unit operations, including the selection, removal and substitution of an operator from

among the working interest owners to conduct the unit operations;

- (f) a provision for a voting procedure for the decision on matters to be decided by the working interest owners in respect to which each working interest owner shall have a voting interest equal to his unit participation; and
- (g) the time when the unit operation shall commence and the manner in which, and the circumstances under which, the operations shall terminate and for the settlement of accounts upon such termination.

(19) Any working interest owner who has not agreed in writing to participate in the unit prior to the date of this order should be deemed to have relinquished to the unit operator all of its operating rights and working interest in and to the unit until his share of the costs have been repaid, plus an additional 200 percent thereof as a non-consent penalty (Section 70-7-7.F. NMSA 1978.)

(20) The statutory unitization of the Twin Lakes San Andres Unit Area is in the conformity with the above findings, and will prevent waste and protect correlative rights of all interest owners within the proposed unit area, and should be approved.

IT IS THEREFORE ORDERED THAT:

(1) The Twin Lakes San Andres Unit Agreement, covering 4,863.82 acres, more or less, of State and Fee lands in the Twin Lakes - San Andres Associated Pool, Chaves County, New Mexico, is hereby approved for statutory unitization pursuant to the "Statutory Unitization Act", Sections 70-7-1 through 70-7-21, NMSA (1978).

(2) The lands covered by said Twin Lakes San Andres Unit Agreement shall be designated the Twin Lakes San Andres Unit Area and shall comprise the following described acreage in Chaves County, New Mexico:

TOWNSHIP 8 SOUTH, RANGE 28 EAST, NMPM

Section 25: SE/4 NW/4, NE/4 SW/4, S/2 SW/4, and
SE/4

Section 26: SE/4 SE/4

Section 35: E/2 E/2

Section 36: All

TOWNSHIP 8 SOUTH, RANGE 29 EAST, NMPM

Section 30: Lots 3 and 4, E/2 SW/4, and SW/4 SE/4

Section 31: All

Section 32: W/2 SW/4

TOWNSHIP 9 SOUTH, RANGE 28 EAST, NMPM

Section 1: Lots 1 through 4, S/2 N/2, SE/4, and
E/2 SW/4

Section 2: Lot 1

Section 12: NE/4, E/2 SE/4, and NW/4 SE/4

TOWNSHIP 9 SOUTH, RANGE 29 EAST, NMPM

Section 5: Lots 3 and 4, S/2 NW/4, and SW/4

Sections 6 and 7: All

Section 8: N/2 NW/4 and SW/4 NW/4

Section 18: Lot 1, E/2 NW/4, and W/2 NE/4

(6) The vertical limits of said Unit Area shall comprise the San Andres formation as found from a depth of 2708 feet (+ 1259 feet sub-sea) to a depth of 2798 feet (+ 1169 feet sub-sea) as recorded on the Dual Laterolog/Compensated Neutron Log dated December 23, 1984, in Pelto Oil Company's O'Brien "L" Well No. 16 located 2310 feet from the North line and 1675 feet from the East line (Unit G) of Section 6, Township 9 South, Range 29 East, NMPM, Chaves County, New Mexico.

(4) The applicant shall institute a waterflood project for the secondary recovery of oil and associated gas, condensate and all associated liquifiable hydrocarbons within

and produced from the unit area, and said waterflood project is the subject of Division Case No. 9211.

(5) The Twin Lakes San Andres Unit Agreement and the Twin Lakes San Andres Unit Operating Agreement, being applicant's Exhibit Nos. 3 and 4 in this case, are hereby incorporated by reference into this Order.

(6) The Twin Lakes San Andres Unit Agreement and the Twin Lakes San Andres Unit Operating Agreement provide for unitization and unit operation of the Twin Lakes - San Andres Associated Pool upon terms and conditions that are fair, reasonable and equitable.

(7) Since the persons owning the required statutory minimum percentage of interest in the unit area have approved or ratified the Unit Agreement and the Unit Operating Agreement, the interests of all persons within the unit area are unitized whether or not such persons have approved the Unit Agreement or the Unit Operating Agreement in writing.

(8) Any working interest owner who has not agreed in writing to participate in the unit prior to the date of this order shall be deemed to have relinquished to the unit operator all of its operating rights and working interest in and to the unit until his share of the costs have been repaid, plus an additional 200 percent thereof as a non-consent penalty (Section 70-7-7.F. NMSA 1978.)

(9) The applicant as Unit Operator shall notify in writing the Division Director of any removal or substitution of said Unit Operator by any other working interest owner within the unit area.

(10) 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