

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. 10553  
Order No. R-9746

APPLICATION OF ARCO OIL AND GAS  
COMPANY FOR STATUTORY UNITIZATION,  
LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on September 17, 1992, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 23rd day of October, 1992, 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) Division Case Nos. 10552, 10553 and 10554 were consolidated at the time of the hearing for the purpose of testimony.
- (3) The applicant, ARCO Oil and Gas Company (ARCO), seeks the statutory unitization, pursuant to the "Statutory Unitization Act", Sections 70-7-1 through 70-7-21, NMSA, (1978), of 5360 acres, more or less, embracing the entire Justis Blinbry-Tubb-Drinkard Pool, Lea County, New Mexico, said unit to be known as the South Justis Unit; the applicant further seeks the approval of the Unit Agreement and the Unit Operating Agreement which were submitted in evidence as applicant's Exhibit Nos. 5 and 6 in this case.

(4) The proposed unit area should be designated the South Justis Unit Area, and the horizontal limits of said unit area should be comprised of the following described federal, state and fee lands in Lea County, New Mexico:

**TOWNSHIP 25 SOUTH, RANGE 37 EAST, NMPM**

Section 11: N/2, SE/4, E/2 SW/4  
Section 12: W/2, W/2 SE/4  
Section 13: All  
Section 14: E/2, E/2 W/2  
Section 23: E/2, E/2 NW/4, NE/4 SW/4  
Sections 24 and 25: All  
Section 26: NE/4, N/2 SE/4, SE/4 SE/4  
Section 35: E/2 NE/4  
Section 36: All

**TOWNSHIP 25 SOUTH, RANGE 38 EAST, NMPM**

Section 19: W/2 W/2  
Section 30: W/2 W/2  
Section 31: W/2 W/2

**TOWNSHIP 26 SOUTH, RANGE 37 EAST, NMPM**

Section 1: N/2 NE/4

(5) The vertical limits of the South Justis Unit Area should comprise the interval containing the Blinebry, Tubb and Drinkard formations as found from a depth of 4980 feet to a depth of 6180 feet on the log run on the ARCO Ida Wimberley Well No. 4 located 660 feet from the South line and 990 feet from the West line (Unit M) of Section 24, Township 25 South, Range 37 East, NMPM, Lea County, New Mexico, and having been defined by the Division by Order No. R-9745, entered in Case No. 10552, as the Justis Blinebry-Tubb-Drinkard Pool.

(6) The unit area contains 53 separate tracts owned by approximately 50 different working interest owners.

(7) As of the date of hearing, the owners of over 91 percent of the working interest and owners of over 80 percent of the royalty interest were effectively committed to the unit or have balloted to support the unit.

(8) No interested party appeared in opposition to the unitization nor to the vertical limits of the proposed unit area.

(9) The Justis Blinebry-Tubb-Drinkard Pool has reasonably been defined by development.

(10) The applicant proposes to institute an enhanced recovery project for the secondary recovery of oil, gas and associated liquefiable hydrocarbons within and to be produced from the proposed unit area (being the subject of Case No. 10554).

(11) Enhanced recovery operations by waterflood should result in additional recovery from the unit area of approximately 34 million barrels of oil.

(12) The unitized management, operation and further development of the South Justis Unit Area, as proposed, is feasible and reasonably necessary to effectively and efficiently carry on enhanced recovery operations and should substantially increase the ultimate recovery of oil and gas from the Justis Blinebry-Tubb-Drinkard Pool.

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

(14) The estimated additional cost of the proposed unitized operations within the unit area will not exceed the estimated value of the additional oil and gas plus a reasonable profit.

(15) The applicant, designated operator of the unit area pursuant to the Unit Agreement and Unit Operating Agreement, has made a good faith effort to secure voluntary unitization within the unit area.

(16) The participation formulas contained in the Unitization Agreement allocate the produced and saved unitized substances to the separately owned tracts in the unit area, on a fair, reasonable and equitable basis.

(17) Unitization and the adoption of the proposed unitized methods of operation will benefit the working interest owners and the royalty interest owners of the oil and gas rights within the South Justis Unit Area.

(18) The applicant's Exhibit Nos. 5 and 6 in this case, being the Unit Agreement and the Unit Operating Agreement, respectively, should be incorporated by reference into this order.

(19) The South Justis Unit Agreement and South Justis Unit Operating Agreement, as applied to the unit area, provide for unitization and unit operation of the South Justis Unit Area upon terms and conditions that are fair, reasonable, equitable, and which include:

- (a) an allocation to the separately owned tracts in 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 and 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 for when, how, and by whom the unit production allocated to an owner who does not pay his share of the costs of unit operations shall be credited 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 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, and providing that any non-consenting working interest owner being so carried shall be deemed to have relinquished to the unit operator all of his operating rights and working interest in and to the unit until his share of the costs, service charge and interest are repaid to the unit operator;

- (e) a provision designating the unit operator and providing for the supervision and conduct of the unit operations, including the selection, removal or 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 of 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 operations shall commence and the manner in which, and the circumstances under which, the unit operations shall terminate and for the settlement of accounts upon such termination.

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

**IT IS THEREFORE ORDERED THAT:**

(1) The South Justis Unit Area comprising 5360 acres, more or less, in the South Justis Blinbry-Tubb-Drinkard Pool, Lea 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 included within the South Justis Unit Area shall comprise:

**TOWNSHIP 25 SOUTH, RANGE 37 EAST, NMPM**

Section 11: N/2, SE/4, E/2 SW/4  
Section 12: W/2, W/2 SE/4  
Section 13: All  
Section 14: E/2, E/2 W/2  
Section 23: E/2, E/2 NW/4, NE/4 SW/4  
Sections 24 and 25: All  
Section 26: NE/4, N/2 SE/4, SE/4 SE/4  
Section 35: E/2 NE/4  
Section 36: All

**TOWNSHIP 25 SOUTH, RANGE 38 EAST, NMPM**

Section 19: W/2 W/2  
Section 30: W/2 W/2  
Section 31: W/2 W/2

**TOWNSHIP 26 SOUTH, RANGE 37 EAST, NMPM**

Section 1: N/2 NE/4

(3) The vertical limits of the South Justis Unit Area shall comprise the interval containing the Blinebry, Tubb and Drinkard formations as found from a depth of 4980 feet to a depth of 6180 feet on the log run on the ARCO Ida Wimberley Well No. 4 located 660 feet from the South line and 990 feet from the West line (Unit M) of Section 24, Township 25 South, Range 37 East, NMPM, Lea County, New Mexico, and having been defined by the Division by Order No. R-9745, entered in Case No. 10552, as the Justis Blinebry-Tubb-Drinkard Pool.

(4) The applicant shall institute a waterflood project for the secondary recovery of oil, gas and all associated liquefiable hydrocarbons within and produced from the unit area, (said waterflood project being the subject of Case No. 10554).

(5) The South Justis Unit Agreement and the South Justis Unit Operating Agreement, being applicant's Exhibit Nos. 5 and 6 in this case, are hereby incorporated by reference into this order.

(6) The Unit Agreement and the Unit Operating Agreement for the South Justis Unit provide for unitization and unit operation of the unit area upon terms and conditions that are fair, reasonable and equitable and include:

- (a) an allocation to the separately owned tracts in 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 and 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 for when, how, and by whom the unit production allocated to an owner who does not pay his share of the costs of unit operations shall be credited 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 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, and providing that any non-consenting working interest owner being so carried shall be deemed to have relinquished to the unit operator all of his operating rights and working interest in and to the unit until his share of the costs, service charge and interest are repaid to the unit operator;

- (e) a provision designating the unit operator and providing for the supervision and conduct of the unit operations, including the selection, removal or 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 of 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 operations shall commence and the manner in which, and the circumstances under which, the unit operations shall terminate and for the settlement of accounts upon such termination.

(7) This order shall not become effective unless and until the owners of seventy-five (75) percent of the working interest and seventy-five (75) percent of the royalty interest in the South Justis Unit Area have approved the plan for unit operations as required by Section 70-7-8 NMSA, (1978) Comp.

(8) If the persons owning the required percentage of interest in the South Justis Unit Area as set out in Section 70-7-8 NMSA, (1978) Comp., do not approve the plan for unit operations within a period of six (6) months from the date of entry of this order, this order shall cease to be of further force and effect and shall be revoked by the Division, unless the Division shall extend the time for ratification for good cause shown.

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

(10) 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.

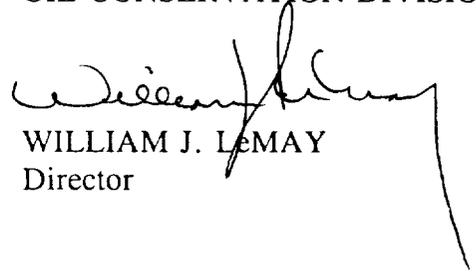
(11) Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

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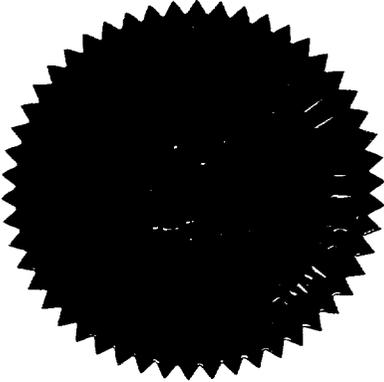
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DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO  
OIL CONSERVATION DIVISION



WILLIAM J. LEMAY  
Director



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