

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. 10959
ORDER NO. R-10123*

**APPLICATION OF MEWBOURNE OIL 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 April 28, 1994 at Santa Fe, New Mexico, before Examiner Jim Morrow.

NOW, on this 31st day of May, 1994 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. 10960 for the purpose of testimony.
- (3) The applicant, Mewbourne Oil Company, seeks the statutory unitization, 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, of all mineral interests in the Querecho Plains Queen Associated Pool, underlying its proposed Querecho Plains-Queen Associated Unit Area, comprising 1520 acres, more or less, of Federal lands in Lea County, New Mexico, said unit to henceforth be known as the Querecho Plains Associated Sand Unit Area; the applicant further seeks approval of the plan of unitization which includes the unit agreement and the unit operating agreement and which was submitted at the time of the hearing in evidence as applicant's Exhibit Nos. 2, 3 and 4 with amendments as set out in Exhibit Nos. 8 and 9.

(4) The applicant proposes that said unit comprise the following described area in Lea County, New Mexico:

TOWNSHIP 18 SOUTH, RANGE 32 EAST, NMPM

Section 21: S/2 SE/4
Section 22: S/2
Section 23: S/2 and S/2 NW/4
Section 26: N/2 N/2
Section 27: N/2 and N/2 SW/4
Section 28: NE/4 SE/4, N/2 NE/4, and SE/4 NE/4

(5) The proposed unit area includes all the wells which are currently completed in and assigned to the Querecho Plains-Queen Associated Pool.

(6) The proposed "unitized formation" is the common source of supply included in the stratigraphic interval underlying the unit area and commonly known as the Queen-Penrose Sand. The top of the unitized formation is defined as all points underlying the unit area correlative to a depth of 3886 feet and the base of the unitized formation is defined as all points correlative to a depth of 4222 feet. Both depths are identified on the Welex Compensated Acoustic Velocity Log run on July 15, 1983 in the Mewbourne Oil Company Federal "E" Well No. 7 located 330 feet from the North line and 990 feet from the East line of Section 27, Township 18 South, Range 32 East, NMPM, Lea County, New Mexico.

(7) The proposed Unit Area contains twenty-one separate tracts of land owned by twenty-four different working interests. The applicant, Mewbourne Oil Company and Curtiss W. Mewbourne operate sixteen of the twenty-one tracts with the remaining tracts operated by two other companies. There is only one royalty interest owner, the United States government, and seventy-six overriding royalty interest owners.

(8) At the time of the hearing 97.4 percent of the working interest owners and 95.5 percent of the overriding royalty interest owners had joined the unit. The U.S. Bureau of Land Management owns 100 percent of the royalty interest and has indicated its preliminary approval by designating the unit as logical for conducting secondary recovery operations.

(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 therefore has made a good faith effort to secure voluntary unitization within the above-described Unit Area.

(11) The applicant proposes to institute a waterflood project for the secondary recovery of oil and associated gas, condensate, and all associated liquefiable hydrocarbons within and to be produced from the proposed unit area (being the subject of Division Case No. 10960).

(12) The unitized management, operation and further development of the Querecho Plains Sand Unit Waterflood 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 Querecho Plains Queen Associated Sand Unit Waterflood 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 a 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 Querecho Plains Queen Associated Sand Unit Waterflood Area.

(16) The granting of the application in this case will have no adverse effect upon the Querecho Plains-Queen Associated Pool.

(17) The applicant's Exhibit Nos. 2, 3, 4, 8 and 9 in this case, containing the Unit Agreement, as amended, and the Unit Operating Agreement should be incorporated by reference into this order.

(18) The Querecho Plains Queen Associated Sand Unit Agreement and the Querecho Plains Queen Associated Sand Unit Operating Agreement provide for unitization and unit operation of the Querecho Plains Queen Associated Sand Unit Waterflood Area upon terms and conditions that are fair, reasonable and equitable, and include:

- (a) a participation formula which will result in fair, reasonable and equitable 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 operators;
- (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 such costs 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 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 decisions 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) The statutory unitization of the Querecho Plains Queen Associated Sand Unit Waterflood Area is in 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 application of Mewbourne Oil Company for the Querecho Plains Queen Associated Sand Unit, covering 1520 acres, more or less, of federal lands in the Querecho Plains-Queen Associated 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 Querecho Plains Queen Associated Sand Unit Agreement, as amended, and the Querecho Plains Queen Associated Sand Unit Operating Agreement, which were submitted to the Division at the time of the hearing as Exhibits 2, 3, 4, 8 and 9 are hereby incorporated by reference into this order.

(3) The lands herein designated the Querecho Plains Queen Associated Sand Unit Area shall comprise the following described acreage in Lea County, New Mexico:

TOWNSHIP 18 SOUTH, RANGE 32 EAST, NMPM

Section 21: S/2 SE/4

Section 22: S/2

Section 23: S/2 and S/2 NW/4

Section 26: N/2 N/2

Section 27: N/2 and N/2 SW/4

Section 28: NE/4 SE/4, N/2 NE/4, and SE/4 NE/4

(4) The vertical limits of said unitized area shall comprise the common source of supply included in the stratigraphic interval underlying the unit area and commonly known as the Queen-Penrose Sand. The top of the unitized formation is defined as all points underlying the unit area correlative to a depth of 3886 feet and the base of the unitized formation is defined as all points correlative to a depth of 4222 feet. Both depths are identified on the Welex Compensated Acoustic Velocity Log run on July 15, 1983 in the Mewbourne Oil Company Federal "E" Well No. 7 located 330 feet from the North line and 990 feet from the East line of Section 27, Township 18 South, Range 32 East, NMPM, Lea County, New Mexico.

(5) The applicant shall institute a waterflood project for the secondary recovery of oil and associated gas, condensate and all associated liquefiable hydrocarbons within and produced from the unit area and said waterflood project which is the subject of Division Case No. 10960.

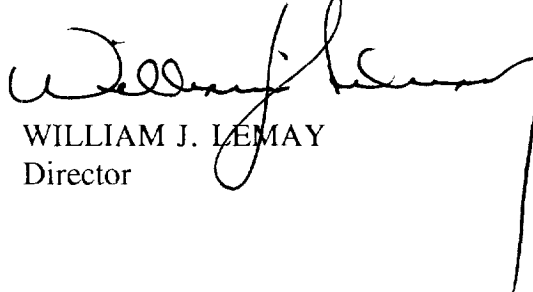
(6) Since the persons owning the required statutory minimum percentage of interest in the unit area have approved or ratified the Unit Agreement and the Unit Operating Agreement, the interests of all persons within the Unit Area are hereby unitized whether or not such persons have approved the Unit Agreement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

(7) The applicant, hereby designated 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.

(8) 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

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