

**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. 12113
Order No. R-11207**

**APPLICATION OF GP II ENERGY, INC. FOR STATUTORY UNITIZATION,
EDDY COUNTY, NEW MEXICO**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on February 4, 1999, at Santa Fe, New Mexico before Examiner David R. Catanach.

NOW, on this 17th day of June, 1999, the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given and the Division has jurisdiction of this case and its subject matter.

(2) Division Cases No. 12112 and 12113 were consolidated at the hearing for the purpose of testimony.

(3) The applicant, GP II Energy, Inc., seeks the statutory unitization, pursuant to the Statutory Unitization Act, Sections 70-7-1 through 70-7-21, NMSA 1978, of 6,155.96 acres, more or less, being a portion of the Grayburg Jackson Seven Rivers-Queen-Grayburg-San Andres Pool, Eddy County, New Mexico, to be known as the North Square Lake Unit, (the "Unit Area"). The applicant further seeks approval of the Unit Agreement and the Unit Operating Agreement; which were submitted as evidence as applicant's Exhibits No. 3 and 4, in this case.

(4) The proposed Unit Area consists of State and Federal Leases located in Eddy County, New Mexico, described as follows:

TOWNSHIP 16 SOUTH, RANGE 30 EAST, NMPM

Section 25: E/2

Section 36: N/2

TOWNSHIP 16 SOUTH, RANGE 31 EAST, NMPM

Section 19: S/2
Section 20: S/2
Section 27: SW/4, W/2 SE/4, SE/4 SE/4, SW/4 NE/4,
S/2 NW/4, NW/4 NW/4
Sections 28 through 34: All

(5) The proposed vertical extent of the Unitized Formation is that interval underlying the Unit Area the vertical limits of which extend from the top of the Grayburg formation to the base of the San Andres formation from depths of 3,050 feet to 4,206 feet, respectively, as shown on the type log from the Zephyr "ZQ" State Well No. 1, located 330 feet from the North line and 2310 feet from the East line (Unit B) of Section 32, Township 16 South, Range 31 East, NMPM.

(6) Chase Oil Corporation of Artesia, Staples Oil Company and K. M. Jones Company, interest owners within the proposed North Square Lake Unit, appeared at the hearing through legal counsel and expressed some concern about the short negotiation period afforded them by the applicant.

(7) The applicant has consulted with the United States Bureau of Land Management (BLM) and the Commissioner of Public Lands for the State of New Mexico. As of the date of the hearing, the applicant had secured preliminary approval for unit operations from the BLM.

(8) Subsequent to the hearing, the applicant submitted a letter from the Commissioner of Public Lands for the State of New Mexico granting preliminary approval for the North Square Lake Unit.

(9) The Unit Area contains forty-five (45) separate tracts owned by approximately twenty-eight (28) different working interest owners.

(10) The applicant has made a good faith effort to secure voluntary unitization within the Unit Area and, as of the date of the hearing, the owners of over 80% of the working interest and over 45% of the royalty interest were effectively committed to the unit or had balloted to support the unit.

(11) GP II Energy, Inc. proposes to institute an enhanced oil recovery project for the secondary recovery of oil and associated gas, condensate, and liquifiable hydrocarbons within and to be produced from the proposed Unit Area (the subject of companion Case No. 12112).

(12) The unitized management, operation and further development of this secondary recovery project, 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 this pool.

(13) The estimated additional costs of operations will not exceed the estimated value of the additional oil recovered plus a reasonable profit.

(14) Unitization and adoption of applicant's proposed unitized method of operation will benefit the working interest owners and royalty interest owners within the proposed Unit Area.

(15) The applicant's Exhibits No. 3 and 4, should be incorporated by reference into this order.

(16) The North Square Lake Unit Agreement and the North Square Lake Unit Operating Agreement shall provide for unitization and unit operation upon terms and conditions that are fair, reasonable and equitable, and shall 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 that 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 operator;
- (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 such 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 its interest may be sold and the proceeds applied to the payment of its 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 that are just and reasonable, and that 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 under which each working interest owner shall have a voting interest equal to its unit participation; and
- (g) the time when the unit operation shall commence, the manner in which, and the circumstances under which, the operations shall terminate, and a provision for the settlement of accounts upon such termination.

(17) The statutory unitization of the Unit Area will prevent waste and protect the correlative rights of all interest owners within the proposed Unit Area, and should be approved.

IT IS THEREFORE ORDERED:

(1) The application of GP II Energy, Inc., for the statutory unitization of 6,155.96 acres, more or less, being a portion of the Grayburg Jackson Seven Rivers-Queen-Grayburg-San Andres Pool, Eddy County, New Mexico, to be known as the North Square Lake Unit (the "Unit Area"), is hereby approved for statutory unitization pursuant to the Statutory Unitization Act, Sections 70-7-1 through 70-7-21, NMSA 1978.

(2) The North Square Lake Unit shall comprise the following described 6,155.96 acres, more or less, of State and Federal lands in Eddy County, New Mexico:

TOWNSHIP 16 SOUTH, RANGE 30 EAST, NMPM

Section 25: E/2
Section 36: N/2

TOWNSHIP 16 SOUTH, RANGE 31 EAST, NMPM

Section 19: S/2
Section 20: S/2
Section 27: SW/4, W/2 SE/4, SE/4 SE/4, SW/4 NE/4,
S/2 NW/4, NW/4 NW/4
Sections 28 through 34: All

(3) The Unitized Formation shall comprise that interval underlying the Unit Area, the vertical limits of which extend from the top of the Grayburg formation to the base of the San Andres formation from depths of 3,050 feet to 4,206 feet, respectively, as shown on the type log from the Zephyr "ZQ" State Well No. 1, located 330 feet from the North line and 2310 feet from the East line (Unit B) of Section 32, Township 16 South, Range 31 East, NMPM.

(4) The North Square Lake Unit Agreement and North Square Lake Unit Operating Agreement submitted to the Division at the time of the hearing as Exhibits No. 3 and 4 are hereby incorporated by reference.

(5) The applicant shall institute a water injection program for the secondary recovery of oil and associated gas, condensate and liquefiable hydrocarbons within and produced from the Unit Area (the subject of companion Case No. 12112), provided however that injection shall not commence within the Unit Area until such time as the Division approves the proposed waterflood project and enters an order in Case No. 12112.

(6) This order shall not become effective unless and until the owners of 75% of the royalty interest in the Unit Area approve the plan for unit operations as required by Section 70-7-8 NMSA 1978.

(7) If the persons owning the required percentage of royalty interest in the Unit Area do not approve the plan for unit operations within a period of six months from the date of this order, this order shall cease to be effective, unless the Division shall extend the time for ratification for good cause shown.

(8) When the persons owning the required percentage of royalty interest in the 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.

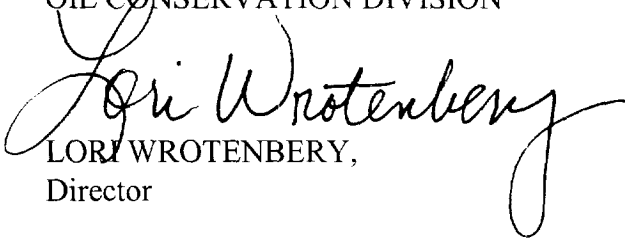
(9) The applicant, as Unit Operator, shall notify the Division in writing of its removal or the substitution of any other working interest owner within the Unit Area as Unit Operator.

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

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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

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