

**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. 12148
Order No. R-11211*

**APPLICATION OF THE WISER OIL COMPANY TO QUALIFY THE SKELLY
UNIT AREA WATERFLOOD EXPANSION PROJECT FOR THE RECOVERED
OIL TAX RATE, EDDY COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on March 18, 1999, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 12th 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) Cases No. 12147, 12148, 12149 and 12150 were consolidated at the time of the hearing for the purpose of testimony.
- (3) The applicant, The Wiser Oil Company (Wiser), seeks an order pursuant to the OCD Enhanced Oil Recovery Project rule attached to Division Order No. R-9708, now set forth in OCD Rule 30 (effective 6/15/99), certifying that its Skelly Unit Area Waterflood Expansion Project in Eddy County, New Mexico is a qualified enhanced oil recovery project eligible for the recovered oil tax rate.
- (4) At the time of the hearing, the applicant further requested certification pursuant to Rule 30 of a positive production response within the Skelly Unit Area Waterflood Expansion Project.
- (5) The Skelly Unit Area Waterflood Expansion Project currently comprises the following described acreage in Eddy County, New Mexico:

TOWNSHIP 17 SOUTH, RANGE 31 EAST, NMPM

Sections 14 and 15:	All
Sections 21 through 23:	All
Section 26:	N/2 NW/4
Section 27:	N/2
Section 28:	N/2, N/2 S/2

(6) Pursuant to the application of Skelly Oil Company, a pilot waterflood project within the Skelly Unit area was approved by Division Order No. R-2900 on May 4, 1965. By Order No. R-3214 issued in Case No. 3547 on April 11, 1967, the Division authorized Skelly Oil Company to expand its pilot waterflood project in the Skelly Unit area by converting twenty-four (24) additional wells to injection.

(7) Waterflood operations continued within the Skelly Unit area from approximately 1965 through 1988, at which time injection of make-up water ceased.

(8) The applicant presented evidence and testimony in this case which demonstrate that:

- a) Wiser acquired the Skelly Unit from Texaco Exploration & Production Inc. in 1995. At that time, production within the Skelly Unit area was approximately 250 barrels of oil per day and 650 barrels of water per day from sixty-six (66) active producing wells. Produced water at that time was being re-injected into the reservoir through eighteen active injection wells;
- b) during the period from 1996 through 1998, Wiser commenced a major development program within the Skelly Unit area in an effort to increase oil recovery. This development program included:
 - i) infill drilling seventy-eight (78) producing wells on 20-acre spacing;
 - ii) converting forty-five (45) active or shut-in producing wells to injection wells;
 - iii) re-entering eleven (11) temporarily abandoned or plugged and abandoned wells and converting these wells to injection;
 - iv) drilling three new injection wells; and
 - v) reactivating or performing workover operations on fifteen (15) active or shut-in injection wells;

- c) the injection rate within the Skelly Unit area increased from September, 1995 through mid-1998, at which time full injection within the unit was achieved;
- d) production from the Skelly Unit area peaked in 1997 followed by a sharp decline. Additional development work stabilized production in late 1997; and
- e) in November, 1998, production from the Skelly Unit area averaged 1,036 barrels of oil per day and 7,308 barrels of water per day from one hundred-eight (108) active producing wells. Injection averaged 14,756 barrels of water per day into eighty-one (81) active injection wells.

(9) The applicant presented additional evidence which indicates that to date it has spent approximately \$25.2 million on the expansion and development of the secondary recovery project within the Skelly Unit.

(10) The applicant requests certification of the project area on the contention that it has expanded the use of enhanced oil recovery technology within the Skelly Unit Area Waterflood Expansion Project and that such expansion has increased the size of the geologic area being flooded.

(11) NMSA 1978, Section 7-29A-3(A) states that:

Crude oil severed and sold from an enhanced recovery project or the expansion of an existing project shall qualify for the recovered oil tax rate if, before the enhanced recovery project or expansion begins operation, the division approves the project or expansion and designates the area to be affected by the project or expansion, but no project or expansion approved by the division prior to the effective date of the Enhanced Oil Recovery Act shall qualify for the recovered oil tax rate.

(12) In accordance with the above-cited statute, applications must be filed before operation begins.

(13) The applicant failed to seek certification of the Skelly Unit Area Waterflood Expansion Project as a qualified enhanced oil recovery project prior to commencing infill drilling operations and reduction in waterflood injection patterns.

(14) The application does not meet the requirements for approval set forth within NMSA 1978, Section 7-29A-3(A), and should therefore be denied.

IT IS THEREFORE ORDERED THAT:

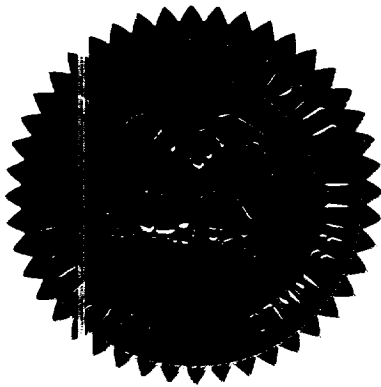
(1) The application of The Wiser Oil Company, pursuant to OCD Rule 30, for an order certifying that its Skelly Unit Area Waterflood Expansion Project in Eddy County, New Mexico is a qualified enhanced oil recovery project eligible for the recovered oil tax rate is hereby denied.

(2) Jurisdiction is hereby 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


LORI WROTENBERY
Director



S E A L