

Entered November 27, 1978

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STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 6366
Order No. R-5871

APPLICATION OF PHILLIPS PETROLEUM
COMPANY FOR STATUTORY UNITIZATION,
LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on October 25, 1978, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 27th day of November, 1978, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

- (1) That due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.
- (2) That the applicant, Phillips Petroleum Company, seeks the statutory unitization, pursuant to the "Statutory Unitization Act," Sections 65-14-1 through 65-14-21, NMSA, 1953 Compilation, of 7,025.3 acres, more or less, of State lands, being a portion of the Vacuum Grayburg-San Andres Pool, Lea County, New Mexico, and approval of the plan of unitization and the proposed operating plan.
- (3) That the proposed unit area would be designated the East Vacuum Grayburg-San Andres Unit Area; that the vertical limits of said unit area would be the subsurface formation commonly known as the Grayburg-San Andres formation identified between the depths of 4,050 feet (103 feet sub-sea) and 5,050 feet (1103 feet sub-sea) on the Lane Wells Acoustilog, Run No. 1, dated April 14, 1964, in Exxon's New Mexico State "K" Well No. 19, located in the SE/4 SE/4 of Section 28, Township 17 South, Range 35 East, NMPM, Lea County, New Mexico, and is to include all subsurface points throughout the Unit area correlative to those identified depths, and that the unit area would comprise the following described lands:

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TOWNSHIP 17 SOUTH, RANGE 34 EAST, NMPM
Section 24: SE/4

TOWNSHIP 17 SOUTH, RANGE 35 EAST, NMPM
Section 18: W/2 SW/4 and SE/4 SW/4
Section 19: W/2, S/2 NE/4, and SE/4
Section 20: W/2 NW/4, SE/4 NW/4, SW/4,
SW/4 NE/4, W/2 SE/4 and SE/4 SE/4
Section 21: SW/4 SW/4, E/2 SW/4, and SE/4
Section 22: SW/4, W/2 SE/4, and SE/4 SE/4
Section 23: S/2 SW/4
Section 24: SW/4 SW/4
Section 25: W/2 NW/4
Section 26: N/2, SW/4, W/2 SE/4, and NE/4 SE/4
Sections 27, 28, and 29: All
Section 31: N/2 SE/4 and SE/4 SE/4
Sections 32 and 33: All
Section 34: N/2, SW/4, and NW/4 SE/4
Section 35: N/2 NW/4

TOWNSHIP 18 SOUTH, RANGE 35 EAST, NMPM
Section 4: N/2 NW/4 and NW/4 NE/4
Section 5: N/2 and NW/4 SW/4

(4) That the portion of the Vacuum Grayburg-San Andres Pool proposed to be included in the aforesaid East Vacuum Grayburg-San Andres Unit Area has been reasonably defined by development.

(5) That the applicant proposes to institute a pressure maintenance project for the secondary recovery of oil and gas in the proposed unit area.

(6) That the unitized management, operation and further development of the subject portion of the Vacuum Grayburg-San Andres Pool, as proposed, is reasonably necessary in order to effectively carry on secondary recovery operations and to substantially increase the ultimate recovery of oil from the pool.

(7) That the proposed unitized method of operation as applied to the East Vacuum Grayburg-San Andres Unit Area is feasible, will prevent waste, and will result with reasonable probability in the increased recovery of substantially more oil from the pool than would otherwise be recovered.

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

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(9) That such unitization and adoption of the proposed unitized method of operation will benefit the working interest owners and royalty owners of the oil and gas rights within the East Vacuum Grayburg-San Andres Unit Area.

(10) That the applicant has made a good faith effort to secure voluntary unitization within the Vacuum Grayburg-San Andres Pool.

(11) That the participation formula contained in the unitization agreement allocates the produced and saved unitized hydrocarbons to the separately owned tracts in the unit area on a fair, reasonable and equitable basis, and protects the correlative rights of all owners of interest within the unit area.

(12) That applicant's Exhibits Nos. 1 and 2 in this case, being the Unit Agreement and the Unit Operating Agreement should be incorporated by reference into this order.

(13) That applicant's Exhibit No. 2 in this case, being the Unit Operating Agreement, should be amended by the addition thereto of Exhibit "G", being applicant's Exhibit No. 13 in this case and entitled "Business Ethics Policy Compliance."

(14) That the Statutory Unitization of the East Vacuum Grayburg-San Andres Unit Area, in conformance to the above findings, will prevent waste and protect correlative rights and should be approved.

IT IS THEREFORE ORDERED:

(1) That the East Vacuum Grayburg-San Andres Unit Agreement, covering 7025.3 acres, more or less, of State lands in the Vacuum Grayburg-San Andres Pool, Lea County, New Mexico, is hereby approved for statutory unitization pursuant to the Statutory Unitization Act, Sections 65-14-1 through 65-14-21, NMSA, 1953 Compilation.

(2) That the lands covered by said East Vacuum Grayburg-San Andres Unit Agreement shall be designated the East Vacuum Grayburg-San Andres Unit Area and shall comprise:

TOWNSHIP 17 SOUTH, RANGE 34 EAST, NMPM
Section 24: SE/4

TOWNSHIP 17 SOUTH, RANGE 35 EAST, NMPM

Section 18: W/2 SW/4 and SE/4 SW/4
Section 19: W/2, S/2 NE/4, and SE/4
Section 20: W/2 NW/4, SE/4 NW/4, SW/4,
SW/4 NE/4, W/2 SE/4, and SE/4 SE/4
Section 21: SW/4 SW/4, E/2 SW/4 and SE/4
Section 22: SW/4, W/2 SE/4, and SE/4 SE/4
Section 23: S/2 SW/4
Section 24: SW/4 SW/4
Section 25: W/2 NW/4
Section 26: N/2, SW/4, W/2 SE/4, and NE/4 SE/4
Sections 27, 28, and 29: All
Section 31: N/2 SE/4 and SE/4 SE/4
Sections 32 and 33: All
Section 34: N/2, SW/4, and NW/4 SE/4
Section 35: N/2 NW/4

TOWNSHIP 18 SOUTH, RANGE 35 EAST, NMPM

Section 4: N/2 NW/4 and NW/4 NE/4
Section 5: N/2 and NW/4 SW/4

(3) That the vertical limits of the East Vacuum Grayburg-San Andres Unit Area shall be the Grayburg-San Andres formation identified between the depths of 4,050 feet (103 feet sub-sea) and 5,050 feet (1103 feet sub-sea) on the Lane Wells Acoustilog, Run No. 1, dated April 14, 1964, in Exxon's New Mexico State "K" Well No. 19, located in the SE/4 SE/4 of Section 28, Township 17 South, Range 35 East, NMPM, Lea County, New Mexico, and is to include all subsurface points throughout the Unit area correlative to those identified depths.

(4) That applicant's Exhibit No. 1 in this case, being the East Vacuum Grayburg-San Andres Unit Agreement, is hereby incorporated by reference into this order.

(5) That applicant's Exhibit No. 2 in this case, being the East Vacuum Grayburg-San Andres Unit Operating Agreement, as amended by the addition thereto of "Exhibit G, Business Ethics Policy Compliance," being applicant's Exhibit No. 13 in this case, is hereby incorporated by reference into this order.

(6) That the East Vacuum Grayburg-San Andres Unit Agreement and the East Vacuum Grayburg-San Andres Unit Operating Agreement provide for unitization and unit operation of the subject portion of the Vacuum Grayburg-San Andres Pool upon terms and conditions that are fair, reasonable and equitable and include:

an allocation to the separately owned tracts in the unit area of all the oil and gas that is produced from the unit area and is saved, being the production that is not used in the conduct of operations on the unit area or not unavoidably lost;

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;

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 the share of the costs of unit operations charged to such owner, or the interest of such owner, may be sold and the proceeds applied to the payment of such costs;

a provision for carrying any working interest owner on a limited, carried or net-profits basis, payable out of production, upon such terms and conditions determined by the Division Director to be just and reasonable, and allowing an appropriate charge for interest for such service payable out of such owner's share of production, provided that any nonconsenting working interest owner being so carried 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, service charge and interest are repaid to the unit operator;

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;

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 its unit participation; and

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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;

and are therefore hereby adopted.

(7) That this order shall not become effective unless and until the appropriate ratification provisions of Section 65-14-8, NMSA, 1953 Compilation, are complied with.

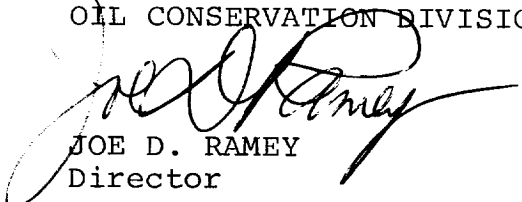
(8) That if the persons owning the required percentage of interest in the unit area as set out in Section 65-14-8, NMSA, 1953 Compilation, do not approve the plan for unit operations within a period of six months from the date of entry of this order, this order shall cease to be of further force and effect and shall be revoked by the Division, unless the Division shall extend the time for ratification for good cause shown.

(9) That the persons owning the required percentage of interest in the unit area have approved the plan for unit operations and the interests of all persons in the unit are unitized whether or not such persons have approved the plan of unitization in writing.

(10) That 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



JOE D. RAMEY
Director

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