

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. 10642
ORDER NO. R-9075-B-1

**APPLICATION OF YATES DRILLING COMPANY FOR THE EXPANSION OF THE
CACTUS QUEEN (VOLUNTARY) UNIT WATERFLOOD PROJECT AREA, TO
AMEND DIVISION ORDER NO. R-9075-B, AND TO QUALIFY SAID EXPANSION
AREA FOR THE RECOVERED OIL TAX RATE PURSUANT TO THE "NEW MEXICO
ENHANCED OIL RECOVERY ACT", CHAVES COUNTY, NEW MEXICO**

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on December 17, 1992, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 26th day of January, 1993 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 Case No. 10641 for the purpose of testimony.

(3) Division Order No. R-9075-B, issued in Case No. 9810 and dated March 15, 1990, authorized, in part, Yates Drilling Company to institute a waterflood project in the Southeast Chaves Queen Gas Area Associated Pool designated the Cactus Queen (Voluntary) Unit Waterflood Project in a unit area with the same designation (approved by Division Order No. R-9075-A) both comprising the following described 320 acres in Township 12 South, Range 31 East, NMPM, Chaves County, New Mexico:

Section 27: NE/4 SW/4, S/2 SW/4, and W/2 SE/4
Section 34: NW/4 NE/4 and N/2 NW/4.

(4) The applicant, Yates Drilling Company, now seeks to expand the previously approved waterflood project area to include an additional 320 acres comprising the SW/4 NE/4, S/2 NW/4, SW/4, and NW/4 SE/4 of said Section 34, which would make the project area conterminous with the proposed expanded Cactus Queen (Voluntary) Unit Area, being the subject of Division Case No. 10641.

(5) The operator proposes to inject water into the Queen interval within said expanded area through the following Queen producing wells to be converted to injectors:

Well Name and Number	Footage Location	Unit	Perforated Interval (feet)
Burkitt Federal No. 2	1650' FNL - 990' FWL	E	2754 - 2760
Dave Federal No. 2	990' FS & WL	M	2723 - 2730
DeLuna Federal No. 1	1980' FSL - 660' FWL	L	2718 - 2724
Garner Federal No. 2	2310' FS & EL	J	2982 - 2990
Garner Federal No. 3	1980' FN & EL	G	2981 - 2986

(6) The wells in the proposed expanded area are in an advanced state of depletion and should be properly classified as "stripper" wells.

(7) Expansion of the project area as requested will serve the interests of conservation of oil and gas, should result in the recovery of otherwise unrecoverable oil, and will prevent waste.

(8) The expanded area, including the five proposed injection wells, should be subject to all applicable terms and requirements of Division Order No. R-9075-B.

(9) The applicant further seeks an order pursuant to the Rules and Procedures for Qualifications of Enhanced Oil Recovery Projects and Certification of Recovered Oil Tax Rates, as promulgated by Division Order No. R-9708, qualifying said expanded area for the recovered oil tax rate under the "Enhanced Oil Recovery Act" (Laws 1992, Chapter 38, Sections 1 through 5).

(10) Based on the record in Case No. 9810 and on the testimony presented in this case:

- (a) the application of water injection in the expanded area should result in an increase in the amount of crude oil ultimately recovered therefrom (an approximation of 250,000 barrels was given by the applicant as a rough estimate);
- (b) the project area has been so depleted that it is prudent to implement a waterflood to maximize the ultimate recovery of crude oil from the expanded area; and,
- (c) the proposed expanded waterflood project is economically and technically feasible and has not been prematurely filed.

(11) The subject expanded area should be qualified an "Enhanced Oil Recovery Project" (EOR) pursuant to the "Enhanced Oil Recovery Act" (Laws 1992, Chapter 38, Sections 1 through 5).

(12) To be eligible for the EOR credit, prior to commencing injection operations, the operator must request from the Division a Certificate of Qualification, which will specify the proposed project area as described above.

(13) At such time as a positive production response occurs and within five years from the date of Certification of Qualification, the applicant must apply to the Division for certification of positive production response, which application shall identify the area actually benefitting from enhanced recovery operations, and identifying the specific wells which the operator believes are eligible for credit. The Division may review the application administratively or set it for hearing. Based on the evidence presented, the Division will certify to the Department of Taxation and Revenue those lands and wells which are eligible for credit.

IT IS THEREFORE ORDERED THAT:

(1) The applicant, Yates Drilling Company, is hereby authorized to expand its Cactus Queen (Voluntary) Unit Waterflood Project Area, as defined and authorized by Division Order No. R-9075-B, issued in Case No. 9810 and dated March 15, 1990, to include an additional 320 acres, more or less, comprising the SW/4 NE/4, S/2 NW/4, SW/4 and NW/4 SE/4 of Section 34, Township 12 South, Range 31 East, NMPM, Southeast Chaves Queen Gas Area Associated Pool, Chaves County, New Mexico.

(2) Injection into the "expanded area" shall be through the following described five existing wells to be converted from producing wells to injectors:

Well Name and Number	Footage Location	Unit	Perforated Interval (feet)
Burkitt Federal No. 2	1650' FNL - 990' FWL	E	2754 - 2760
Dave Federal No. 2	990' FS & WL	M	2723 - 2730
DeLuna Federal No. 1	1980' FSL - 660' FWL	L	2718 - 2724
Garner Federal No. 2	2310' FS & EL	J	2982 - 2990
Garner Federal No. 3	1980' FN & EL	G	2981 - 2986

(3) The expanded area including the five above-described injection wells shall be subject to all applicable terms and requirements of Division Order No. R-9075-B.

IT IS FURTHER ORDERED THAT:

(4) The subject "enhanced oil recovery project area" shall initially comprise the following described area in Chaves County, New Mexico:

TOWNSHIP 12 SOUTH, RANGE 31 EAST, NMPM

Section 34: SW/4 NE/4, S/2 NW/4, SW/4 and NW/4 SE/4

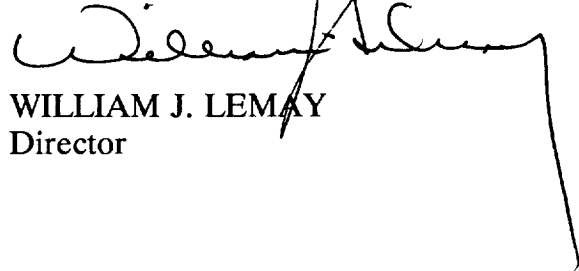
(5) To be eligible for the EOR credit, prior to commencing injection operations, the operator must request from the Division a Certificate of EOR Project, which certificate will specify the proposed project area as described above.

(6) At such time as a positive production response occurs, and within five years from the date of the Certificate of EOR Project, the applicant must apply to the Division for certificate of positive production response, which shall identify the area actually benefitting from enhanced recovery operations, and identifying the specific wells which the operator believes are eligible for credit. The Division may review the application administratively or set it for hearing. Based upon the evidence presented, the Division will certify to the Department of Taxation and Revenue those lands and wells which are eligible for credit.

(7) 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

A handwritten signature in black ink, appearing to read 'William J. Lemay', is written over the printed name and title. The signature is fluid and cursive, with a long, sweeping tail that extends downwards and to the right.

WILLIAM J. LEMAY
Director

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