

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. 10062
Order No. R-9336

APPLICATION OF OXY USA, INC.
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 September 5, 1990, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 29th day of October, 1990, 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) Division Case Nos. 10062, 10063 and 10064 were consolidated at the time of the hearing for the purpose of testimony.

(3) The applicant, OXY USA, Inc., seeks the statutory unitization, pursuant to the "Statutory Unitization Act", Sections 70-7-1 through 70-7-21, NMSA (1978), of 1561.19 acres, more or less, being a portion of the Central Corbin-Queen Pool, Lea County, New Mexico, said portion to be known as the Central Corbin Queen Unit; the applicant further seeks approval of the Unit Agreement and the Unit Operating Agreement which were submitted in evidence as applicant's Exhibit Nos. 14 and 15 in this case.

(4) The horizontal limits of said unit area should be comprised of the following described Federal and Fee lands in Lea County, New Mexico:

TOWNSHIP 18 SOUTH, RANGE 33 EAST, NMPM

Section 3: Lot 4, SW/4 NW/4, and W/2 SW/4
Section 4: Lots 1, 2 and 3, S/2 N/2, and S/2
Section 8: E/2 NE/4
Section 9: N/2, N/2 SW/4, SE/4 SW/4, and SE/4
Section 10: W/2 NW/4 and NW/4 SW/4

(5) The horizontal limits of said unit are within the governing boundaries of the Central Corbin Queen Pool and have been reasonably defined by development.

(6) The vertical limits of said Unit Area should comprise that interval which extends from an upper limit described as 215 feet below mean sea level or at the top of the Queen formation, whichever is higher, to a lower limit at the base of the Queen formation; the geologic markers having been previously found to occur at 4200 feet and 4246 feet, respectively, in OXY USA, Inc.'s Federal AA Well No. 1, located 990 feet from the North line and 1980 feet from the East line (Unit B) of Section 9, Township 18 South, Range 33 East, NMPM, Lea County, New Mexico, as recorded on the Schlumberger CNL-LDT log taken on November 10, 1984, said log being measured from a kelly drive bushing elevation of 3985 feet above sea level.

(7) The unit area contains nine separate tracts of land owned by twenty-eight different working interest owners.

(8) The applicant has made a good faith effort to secure voluntary unitization within the Unit Area and at the time of the hearing 93.03 percent of the working interest owners and approximately 91.792 percent of the royalty interest owners were effectively committed to the unit.

(9) 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. 10063).

(10) Santa Fe Exploration Company, a 2.00833 percent working interest owner in said unit appeared at the hearing in opposition to this case but presented no new technical evidence for its opposition.

(11) The proposed secondary recovery operations should result in the additional recovery of approximately 550,000 barrels of oil.

(12) The unitized management, operation and further development of the Central Corbin Queen Unit 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 Central Corbin Queen Unit 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 Central Corbin Queen Unit Area.

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

(17) The applicant's Exhibit Nos. 14 and 15 in this case, being the Statutory Unit Agreement and the Unit Statutory Operating Agreement, respectively, should be incorporated by reference into this order.

(18) The Central Corbin Queen Unit Agreement and the Central Corbin Queen Unit Operating Agreement provide for unitization and unit operation of the Central Corbin Queen Unit Area upon terms and conditions that are fair, reasonable and equitable, and 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 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) Section 70-7-7.F. NMSA of said "Statutory Unitization Act" provides that any working interest owner who has not agreed in writing to participate in a unit could 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 has been repaid plus an additional 200 percent thereof as a non-consent penalty.

(20) At the time of the hearing, the applicant requested that no additional penalty be assessed these working interest owners in said unit who have not committed their interests.

(21) The statutory unitization of the Central Corbin Queen Unit 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 OXY USA, Inc. for the Central Corbin Queen Unit Agreement, covering 1561.19 acres, more or less, of Federal and Fee lands in the Central Corbin-Queen 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 lands covered by said Central Corbin Queen Unit Agreement shall be designated the Central Corbin Queen Unit Area and shall comprise the following described acreage in Lea County, New Mexico:

TOWNSHIP 18 SOUTH, RANGE 33 EAST, NMPM

Section 3: Lot 4, SW/4 NW/4, and W/2 SW/4
Section 4: Lots 1, 2 and 3, S/2 N/2, and S/2
Section 8: E/2 NE/4
Section 9: N/2, N/2 SW/4, SE/4 SW/4, and SE/4
Section 10: W/2 NW/4 and NW/4 SW/4

(3) The vertical limits of said Unit Area shall comprise that interval which extends from an upper limit described as 215 feet below mean sea level or at the top of the Queen formation, whichever is higher, to a lower limit at the base of the Queen formation; the geologic markers having been previously found to occur at 4200 feet and 4246 feet, respectively, in OXY USA, Inc.'s Federal AA Well No. 1, located 990 feet from the North line and 1980 feet from the East line (Unit B) of Section 9, Township 18 South, Range 33 East, NMPM, Lea County, New Mexico, as recorded on the Schlumberger CNL-LDT log taken on November 10, 1984, said log being measured from a kelly drive bushing elevation of 3985 feet above sea level.

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(4) 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 is the subject of Division Case No. 10063.

(5) The Central Corbin Queen Unit Agreement and the Central Corbin Queen Unit Operating Agreement, which were submitted to the Division at the time of the hearing as Exhibits 14 and 15, respectively, are hereby incorporated by reference into this order.

(6) The Central Corbin Queen Unit Agreement and the Central Corbin Queen Unit Operating Agreement provide for unitization and unit operation of the Central Corbin-Queen Pool upon terms and conditions that are fair, reasonable and equitable.

(7) Since 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.

(8) Any working interest owner who has not agreed in writing to participate in the unit prior to the date of this order shall be deemed to have relinquished to the unit operator all of his operating rights and working interest in and to the unit until his share of the costs has been repaid. Such repayment shall include no non-consent penalty (Section 70-7-7.F NMSA 1978).

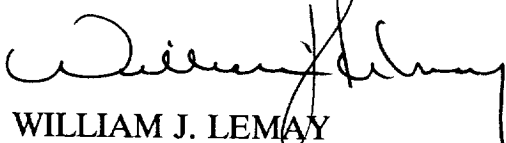
(9) The applicant as Unit Operator shall notify in writing the Division Director of any removal or substitution of said Unit Operator by any other working interest owner within the area.

(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 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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