

BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

**APPLICATION OF VENDERA RESOURCES III, LP,
VENDERA MANAGEMENT III, LLC AND HIGHMARK
OPERATING, LLC TO APPROVE A FORM C-145
NAMING HIGHMARK ENERGY OPERATING, LLC
AS THE SUCCESSOR OPERATOR OF THE CENTRAL
VACUUM UNIT, LEA COUNTY, NEW MEXICO.**

Case No. _____

APPLICATION

Vendera Resources III, LP and Vendera Management III, LLC (collectively “Vendera”) and Highmark Energy Operating, LLC (“Highmark”) apply for an order approving a Form C-145 naming Highmark as successor unit operator of the Central Vacuum Unit (the “CVU”) and removing the current unit operator, and in support thereof, states:

1. The CVU was approved by Division Order No. R-5496 and covers 3,046.20 acres of State and fee lands in Lea County described in the order. The order is attached hereto as Exhibit A and is incorporated herein by reference. The unitized formation is the Vacuum-Grayburg-San Andres. The CVU was statutorily unitized, and thus there is 100% commitment of interests in the CVU.

2. The Unit Agreement and Unit Operating Agreement (the “Agreements”), approved by the Division, named Texaco Inc. as operator of the CVU. Chevron U.S.A. Inc. (“Chevron”) is the successor to Texaco Inc.

3. Section 7 of the Unit Agreement provides that “the Unit Operator may be removed at any time by the affirmative vote of Working Interest Owners having ninety percent (90%) or more of the Voting Interest remaining after excluding the voting interest of the Unit Operator.” Moreover, such removal shall be effective upon notice to the Commissioner of Public Lands.

4. The unit operator may be removed for any valid cause, or for no cause at all. A sufficient percentage of Working Interest Owners believed Chevron should be removed.

5. Vendera organized a vote to remove Chevron as unit operator. Sufficient votes were received by Vendera to replace Chevron as unit operator under Section 7 of the Unit Agreement, and the Commissioner of Public Lands (as well as Chevron) was so notified. However, Chevron has refused to step down as operator.

6. A Form C-145 has been prepared and signed by Highmark as the duly elected successor unit operator. Chevron has refused to execute the Form C-145.

7. NMAC 19.15.9 provides that changes of operator should be jointly signed and submitted by the current and successor operator. However, NMAC 19.15.9.B allows the Division to approve a Form C-145 not signed by the current operator of record. As a result, the Division should approve the Form C-145 even though not signed by Chevron.

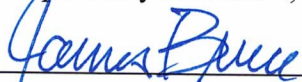
8. Vendera will provide evidence of its allegations at the hearing in this matter.

WHEREFORE, applicants request that, after notice and hearing, the Division enter its order:

A. Approve the Form C-145 naming Highmark as successor unit operator of the CVU, and removing Chevron as operator; and

b. Granting such further relief as the Division deems proper.

Respectfully submitted,



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Vendera Management III, LLC and
Highmark Energy Operating, LLC

R. W. Byram & Co., - Oct., 1977

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VACUUM-GRAYBURG-SAN ANDRES POOL
(Central Vacuum Unit)
Lea County, New Mexico

Order No. R-5496, Approving for Statutory Unitization the Central Vacuum Unit, Vacuum-Grayburg-San Andres Pool, Lea County, New Mexico, August 9, 1977.

Application of Texaco Inc. for Statutory Unitization and Pressure Maintenance, Vacuum-Grayburg-San Andres Pool, Lea County, New Mexico.

CASE NO. 5970
Order No. R-5496

ORDER OF THE COMMISSION

BY THE COMMISSION: This cause came on for hearing at 9 a.m. on June 22, 1977, at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 9th day of August, 1977, the Commission, a quorum being present, 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 Commission has jurisdiction of this cause and the subject matter thereof.

(2) That the applicant, Texaco Inc., seeks the statutory unitization, pursuant to the "Statutory Unitization Act," Sections 65-14-1 through 65-14-21, NMSA, 1953 Compilation, of 3,046.2 acres, more or less, of State and fee 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 Central Vacuum 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 3858 feet (plus 144 feet sub-sea) and 4858 feet (minus 856 feet sub-sea) on the Welex Acoustic Velocity Log, run on November 15, 1963, in Texaco's State of New Mexico "O" (NCT-1) Well No. 23, located in the SW/4 SE/4 of Section 36, Township 17 South, Range 34 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:

TOWNSHIP 17 SOUTH, RANGE 34 EAST, NMPM
Section 25: S/2 and SE/4 NE/4
Section 36: All

TOWNSHIP 17 SOUTH, RANGE 35 EAST, NMPM
Section 30: All
Section 31: N/2, SW/4, and SW/4 SE/4

TOWNSHIP 18 SOUTH, RANGE 34 EAST, NMPM
Section 12: N/2 NE/4

TOWNSHIP 18 SOUTH, RANGE 35 EAST, NMPM
Section 6: All
Section 7: NW/4 and NW/4 NE/4

(4) That the portion of the Vacuum-Grayburg-San Andres Pool proposed to be included in the aforesaid Central Vacuum 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 Central Vacuum 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.

(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 Central Vacuum 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. 8 and 9 in this case, being the Unit Agreement and the Unit Operating Agreement should be incorporated by reference into this order.

(13) That the Statutory Unitization of the Central Vacuum 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 Central Vacuum Unit Agreement, covering 3,046.2 acres, more or less, of State and fee 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 Central Vacuum Unit Agreement shall be designated the Central Vacuum Unit Area and shall comprise:

TOWNSHIP 17 SOUTH, RANGE 34 EAST, NMPM
Section 25: S/2 and SE/4 NE/4
Section 36: All

TOWNSHIP 17 SOUTH, RANGE 35 EAST, NMPM
Section 30: All
Section 31: N/2, SW/4, and SW/4 SE/4

TOWNSHIP 18 SOUTH, RANGE 34 EAST, NMPM
Section 12: N/2 NE/4

TOWNSHIP 18 SOUTH, RANGE 35 EAST, NMPM
Section 6: All
Section 7: NW/4 and NW/4 NE/4

EXHIBIT

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(VACUUM-GRAYBURG-SAN ANDRES (CENTRAL VACUUM UNIT) POOL - Cont'd.)

(3) That the vertical limits of the Central Vacuum Unit Area shall be the Grayburg-San Andres formation identified between the depths of 3858 feet (plus 144 feet sub-sea) and 4858 feet (minus 856 feet sub-sea) on the Welx Acoustic Velocity Log, run on November 15, 1963, in Texaco's State of New Mexico "O" (NCT-1) Well No. 23, located in the SW/4 SE/4 of Section 36, Township 17 South, Range 34 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. 8 in this case, being the Central Vacuum Unit Agreement, is hereby incorporated by reference into this order.

(5) That applicant's Exhibit No. 9 in this case, being the Central Vacuum Unit Operating Agreement, is hereby incorporated by reference into this order.

(6) That the Central Vacuum Unit Agreement and the Central Vacuum 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 Commission 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

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 Commission, unless the Commission shall extend the time for ratification for good cause shown.

(9) That when the persons owning the required percentage of interest in the unit area have approved the plan for unit operations, 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 Commission may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.