

Stogner



OIL CONSERVATION DIV.

02 SEP 19 PM 12:34

EOG Resources, Inc.
P.O. Box 2267
Midland, TX 79702
(915) 686-3600

September 17, 2002

Ms. Lori Wrotenbery, Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
1220 South Saint Francis Drive
Santa Fe New Mexico 87505

Dr
FILE- EOR-63

Re: OCD Order No. R-11389-A
Enhanced Oil Recovery Project,
Pressure Maintenance Project in the Red Hills North Unit Area,
Lea County, New Mexico

Dear Ms. Wrotenbery,

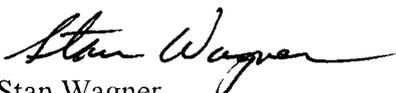
EOG Resources, Inc., operator of the Red Hills North Unit Pressure Maintenance Project as a qualified Enhanced Oil Recovery Project pursuant to OCD Order No. 11389-A wishes to provide notification that water injection commenced September 15, 2002 in the Phase I Area of the Red Hills North Unit.

Enclosed is a copy of the BLM Sundry notice that was mailed to the Roswell office and copied to the OCD-Hobbs office, September 16, 2002.

If additional information is required, please contact me at 915 686 3689.

Sincerely,

EOG RESOURCES, INC.


Stan Wagner
Regulatory Administrator

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

FORM APPROVED
OMB NO. 1004-0135
Expires: November 30, 2000

SUNDRY NOTICES AND REPORTS ON WELLS

Do not use this form for proposals to drill or to re-enter an abandoned well. Use Form 3160-3 (APD) for such proposals.

SUBMIT IN TRIPLICATE - Other instructions on reverse side

1. Type of Well <input type="checkbox"/> Oil Well <input type="checkbox"/> Gas Well <input checked="" type="checkbox"/> Other Water Injection		5. Lease Serial No. NNM 30400
2. Name of Operator EOG Resources Inc.		6. If Indian, Allottee or Tribe Name
3a. Address P.O. Box 2267 Midland, Texas 79702	3b. Phone No. (include area code) 915 686 3689	7. If Unit or CA/Agreement, Name and/or Red Hills North Unit NNM104037X
4. Location of Well (Footage, Sec., T., R., M., or Survey Description) 530 FSL & 1650 FEL Sec 6, T-25-S, R-34-E		8. Well Name and No. Red Hills North Unit 606
		9. API Well No. 30-025-35901
		10. Field and Pool, or Exploratory Area Red Hills Bone Spring
		11. County or Parish, State Lea NM

12. CHECK APPROPRIATE BOX(ES) TO INDICATE NATURE OF NOTICE, REPORT, OR OTHER DATA

TYPE OF SUBMISSION	TYPE OF ACTION			
<input type="checkbox"/> Notice of Intent	<input type="checkbox"/> Acidize	<input type="checkbox"/> Deepen	<input checked="" type="checkbox"/> Production (Start/Resume)	<input type="checkbox"/> Water Shut-Off
<input checked="" type="checkbox"/> Subsequent Report	<input type="checkbox"/> Alter Casing	<input type="checkbox"/> Fracture Treat	<input type="checkbox"/> Reclamation	<input type="checkbox"/> Well Integrity
<input type="checkbox"/> Final Abandonment Notice	<input type="checkbox"/> Casing Repair	<input type="checkbox"/> New Construction	<input type="checkbox"/> Recomplete	<input checked="" type="checkbox"/> Other <u>Frac</u>
	<input type="checkbox"/> Change Plans	<input type="checkbox"/> Plug and Abandon	<input type="checkbox"/> Temporarily Abandon	<u>Start Injection</u>
	<input type="checkbox"/> Convert to Injection	<input type="checkbox"/> Plug Back	<input type="checkbox"/> Water Disposal	

13. Describe Proposed or Completed Operation (clearly state all pertinent details, including estimated starting date of any proposed work and approximate duration thereof. If the proposal is to deepen directionally or recomplete horizontally, give subsurface locations and measured and true vertical depths of all pertinent markers and zone. Attach the Bond under which the work will be performed or provide the Bond No. on file with BLM/BIA. Required subsequent reports shall be filed within 30 days following completion of the involved operations. If the operation results in a multiple completion or recompletion in a new interval, a Form 3160-4 shall be filed once testing has been completed. Final Abandonment Notices shall be filed only after all requirements, including reclamation, have been completed, and the operator has determined that the final site is ready for final inspection.)

- 9/6/02 Perforate Third Bone Springs @ 16096, 16390, 16660, 16955, 17249, 17524, 17815, 18112.
Total 47 holes @ 60 degree phasing. Pumped 8000 gal 10% MSA and treated water while perforating.
Pumped total of 10290 gal.
- 9/7/02 Frac 16096-18112. Frac w/ 30# Delta Frac 200 & 16/30 Carbo Lite as follows:
30,768 gal 10# Water Frac G, 10,000 gal 7 1/2% HCL Spearhead acid.
31,134 gal Pad.
6502 gal pad w/ 0.5 ppg Carbo Lite
5165 gal pad w/ 1.0 ppg Carbo Lite
10892 gal pad w/ 2.0 ppg Carbo Lite
14702 gal pad w/ 3.0 ppg Carbo Lite
19057 gal pad w/ 3.5 ppg Carbo Lite
5097 gal 30# Gel Flush
Pump 8000 gal 10% MSA acid
- 9/10/02 Perforate Third Bone Springs @ 12730, 13020, 13316, 13607, 14339, 14633, 14927, 15202, 15493, 15790. Total 52 holes @ 60 degree phasing.

Pg 1 of 2

14. I hereby certify that the foregoing is true and correct Name (Printed/Typed) Stan Wagner	Title Reg Analyst
	Date 9/16/02

THIS SPACE FOR FEDERAL OR STATE OFFICE USE

Approved by	Title	Date
Conditions of approval, if any, are attached. Approval of this notice does not warrant or certify that the applicant holds legal or equitable title to those rights in the subject lease which would entitle the applicant to conduct operations thereon.	Office	

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

FORM APPROVED
OMB NO. 1004-0135
Expires: November 30, 2000

SUNDRY NOTICES AND REPORTS ON WELLS

Do not use this form for proposals to drill or to re-enter an abandoned well. Use Form 3160-3 (APD) for such proposals.

SUBMIT IN TRIPLICATE - Other instructions on reverse side

1. Type of Well
 Oil Well Gas Well Other **Water Injection**

2. Name of Operator
EOG Resources Inc.

3a. Address
P.O. Box 2267 Midland, Texas 79702

3b. Phone No. (include area code)
915 686 3689

4. Location of Well (Footage, Sec., T., R., M., or Survey Description)
**530 FSL & 1650 FEL
 Sec 6, T-25-S, R-34-E**

5. Lease Serial No.
NNM 30400

6. If Indian, Allottee or Tribe Name
NNM104037X

7. If Unit or CA/Agreement, Name and/or
Red Hills North Unit

8. Well Name and No.
Red Hills North Unit 606

9. API Well No.
30-025-35901

10. Field and Pool, or Exploratory Area
Red Hills Bone Spring

11. County or Parish, State
Lea NM

12. CHECK APPROPRIATE BOX(ES) TO INDICATE NATURE OF NOTICE, REPORT, OR OTHER DATA

TYPE OF SUBMISSION	TYPE OF ACTION			
<input type="checkbox"/> Notice of Intent	<input type="checkbox"/> Acidize	<input type="checkbox"/> Deepen	<input checked="" type="checkbox"/> Production (Start/Resume)	<input type="checkbox"/> Water Shut-Off
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	<input type="checkbox"/> Change Plans	<input type="checkbox"/> Plug and Abandon	<input type="checkbox"/> Temporarily Abandon	<u>Start Injection</u>
	<input type="checkbox"/> Convert to Injection	<input type="checkbox"/> Plug Back	<input type="checkbox"/> Water Disposal	

13. Describe Proposed or Completed Operation (clearly state all pertinent details, including estimated starting date of any proposed work and approximate duration thereof. If the proposal is to deepen directionally or recomplete horizontally, give subsurface locations and measured and true vertical depths of all pertinent markers and zone. Attach the Bond under which the work will be performed or provide the Bond No. on file with BLM/BIA. Required subsequent reports shall be filed within 30 days following completion of the involved operations. If the operation results in a multiple completion or recompletion in a new interval, a Form 3160-4 shall be filed once testing has been completed. Final Abandonment Notices shall be filed only after all requirements, including reclamation, have been completed, and the operator has determined that the final site is ready for final inspection.)

9/11/02 **Frac 12730-15790 w/ 30# Delta Frac 200 & 16/30 Carbo Lite as follows:**
 34,282 gal 10# Water Frac G
 10,000 gal 7 1/2% HCL Spearhead acid
 43,383 gal pad
 8613 gal pad w/ 0.5 ppg Carbo Lite
 7178 gal pad w/ 1.0 ppg Carbo Lite
 14,956 gal pad w/ 2.0 ppg Carbo Lite
 18,595 gal pad w/ 3.0 ppg Carbo Lite
 13,871 gal pad w/ 3.5 ppg Carbo Lite
 4230 gal pad w/ 4.0 ppg Carbo Lite

9/14/02 **Ran 6.5# L80 2 7/8" tbg coated w/ Tuboscope TK-70 and packer to 11508. Pull test to 1500#. Ok.**
 9/15/02 **Started water injection @ 6:00 PM.
 Injection rate 2636 BWIPD @ 0-25 psi.**

OCD order No. R-11389-A, authority to inject.

Pg 2 of 2

14. I hereby certify that the foregoing is true and correct
 Name (Printed/Typed) **Stan Wagner** Title **Reg Analyst**

Stan Wagner Date **9/16/02**

THIS SPACE FOR FEDERAL OR STATE OFFICE USE

Approved by Title Date

Conditions of approval, if any, are attached. Approval of this notice does not warrant or certify that the applicant holds legal or equitable title to those rights in the subject lease which would entitle the applicant to conduct operations thereon. Office



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

GARY E. JOHNSON
Governor
BETTY RIVERA
Cabinet Secretary

Lori Wrotenbery
Director
Oil Conservation Division

September 19, 2002

Holland & Hart, L.L.P.
P.O. Box 2208
Santa Fe, New Mexico 87504-2208

Attention: Mr. William F. Carr

CERTIFICATION OF ENHANCED OIL RECOVERY PROJECT FOR RECOVERED OIL TAX RATE

The New Mexico Oil Conservation Division hereby certifies that the following Enhanced Oil Recovery Project has been approved by the Division as a secondary recovery project pursuant to the provisions of the "*New Mexico Enhanced Oil Recovery Act*," Sections 7-29A-1 through 7-29A-5, NMSA 1978. In order to qualify for the recovered oil tax rate, you must apply for certification of positive production response within five years from the date of this certification. Only production from that portion of the project area identified herein which is actually developed for enhanced recovery will qualify for the reduced tax rate.

If operation of this project is terminated for any reason, the operator of the project must notify this Division and the Secretary of the Taxation and Revenue Department not later than the thirtieth day after termination.

NAME OF PROJECT:	Red Hills North Unit Pressure Maintenance Project (Phase I)
OCD ORDER NO.	R-11389-A
OPERATOR:	EOG Resources, Inc.
ADDRESS:	P.O. Box 2267 Midland, Texas 79702
CERTIFICATION DATE:	September 19, 2002

EOR Project Certification
Red Hills North Unit
Pressure Maintenance Project

PHASE I
PROJECT AREA:

Township 25 South, Range 33 East, NMPM

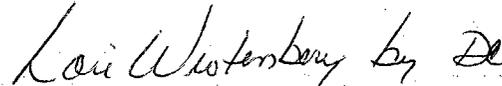
Section 1: Lots 2 & 3, SW/4 NE/4, SE/4 NW/4, S/2
Section 12: N/2

Township 25 South, Range 34 East, NMPM

Section 6: Lots 6 & 7, E/2 SW/4, W/2 SE/4
Section 7: N/2

APPROVED BY:

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION



LORI WROTENBERY
DIRECTOR

Xc: File-EOR 63
Mr. T. Glenn Ellington, Secretary
New Mexico Taxation and Revenue Department

HOLLAND & HART LLP
ATTORNEYS AT LAW

DENVER • ASPEN
BOULDER • COLORADO SPRINGS
DENVER TECH CENTER
BILLINGS • BOISE
CHEYENNE • JACKSON HOLE
SALT LAKE CITY • SANTA FE
WASHINGTON, D.C.

P.O. BOX 2208
SANTA FE, NEW MEXICO 87504-2208
110 NORTH GUADALUPE, SUITE 1
SANTA FE, NEW MEXICO 87501-6525

TELEPHONE (505) 988-4421
FACSIMILE (505) 983-6043

William F. Carr

wcarr@hollandhart.com

September 12, 2002

BY HAND DELIVERY

Ms. Lori Wrotenberg, Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

OIL CONSERVATION DIV.
02 SEP 12 PM 1:35

Re: Oil Conservation Division Order No. R-11389-A: Application of EOG Resources, Inc. for Amendment of Division Order No. R-11389 to authorize a pressure maintenance project in the Red Hills North Unit Area, to establish procedures for approval of additional injection wells, and for qualification of the project area for the Recovered Oil Tax Rate pursuant to the New Mexico Enhanced Oil Recovery Act, Lea County, New Mexico.

Dear Ms. Wrotenberg:

On August 16, 2002, the Oil Conservation Division entered Order No. R-11389-A, which Order approved the Red Hills North Unit Pressure Maintenance Project as a qualified Enhanced Oil Recovery Project pursuant to the Enhanced Oil Recovery Act. This order approved the project in two phases and provided "To be eligible for the EOR tax rate, prior to commencing pressure maintenance operations in each phase, the operator must request from the Division a Certificate of Qualification, which certificate will specify the area in the proposed project phase area as described above."

EOG Resources, Inc., operator of the Red Hills North Unit Pressure Maintenance Project, hereby requests a Certificate of Qualification from the Oil Conservation Division pursuant to the Enhanced Oil Recovery Act and Division Order No. 11389-A for the Phase I Area of the Red Hills North Unit. The acreage in Phase I includes the following lands in Lea County, New Mexico:

TOWNSHIP 25 SOUTH, RANGE 33 EAST, NMPM

Section 1: Lots 2 and 3, SW/4 NE/4,
SE/4 NW/4, and S/2
Section 12: N/2

HOLLAND & HART LLP
ATTORNEYS AT LAW

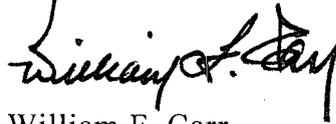
Ms. Lori Wrotenbery, Director
September 12, 2002
Page 2

TOWNSHIP 25 SOUTH, RANGE 34 EAST, NMPM

Section 6: Lots 6 and 7, E/2 SW/4, and W/2 SE/4
Section 7: N/2

EOG Resources Inc. will commence pressure maintenance operations by the injection of water into the Third Bone Spring Sand of the Red Hills Bone Spring Pool (unitized interval) in the Phase I Area of the Red Hills North Unit at approximately 7:00 am on September 13, 2002 and requests Phase I Certification pursuant to Order Paragraph (9) of Order No. R-11389-A.

Sincerely,



William F. Carr

cc: Michael E. Stogner
Engineer and Chief Hearing Examiner
Oil Conservation Division

Mr. Patrick J. Tower
EOG Resources, Inc.

HOLLAND & HART LLP
ATTORNEYS AT LAW

DENVER • ASPEN
BOULDER • COLORADO SPRINGS
DENVER TECH CENTER
BILLINGS • BOISE
CHEYENNE • JACKSON HOLE
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William F. Carr

wcarr@hollandhart.com

September 12, 2002

BY HAND DELIVERY

Ms. Lori Wrotenbery, Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

OIL CONSERVATION DIV.
02 SEP 12 PM 1:35

Re: Oil Conservation Division Order No. R-11389-A: Application of EOG Resources, Inc. for Amendment of Division Order No. R-11389 to authorize a pressure maintenance project in the Red Hills North Unit Area, to establish procedures for approval of additional injection wells, and for qualification of the project area for the Recovered Oil Tax Rate pursuant to the New Mexico Enhanced Oil Recovery Act, Lea County, New Mexico.

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Section 1: Lots 2 and 3, SW/4 NE/4,
SE/4 NW/4, and S/2
Section 12: N/2

HOLLAND & HART^{LLP}
ATTORNEYS AT LAW

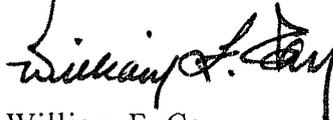
Ms. Lori Wrotenbery, Director
September 12, 2002
Page 2

TOWNSHIP 25 SOUTH, RANGE 34 EAST, NMPM

Section 6: Lots 6 and 7, E/2 SW/4, and W/2 SE/4
Section 7: N/2

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Sincerely,



William F. Carr

cc: Michael E. Stogner
Engineer and Chief Hearing Examiner
Oil Conservation Division

Mr. Patrick J. Tower
EOG Resources, Inc.

**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. 12843
ORDER NO. R-11389-A**

**APPLICATION OF EOG RESOURCES, INC. FOR AMENDMENT OF DIVISION
ORDER NO. R-11389 TO AUTHORIZE A PRESSURE MAINTENANCE PROJECT
IN THE RED HILLS NORTH UNIT AREA, TO ESTABLISH PROCEDURES FOR
APPROVAL OF ADDITIONAL INJECTION WELLS, AND FOR QUALIFICATION
OF THE PROJECT AREA FOR THE RECOVERED OIL TAX RATE PURSUANT
TO THE NEW MEXICO ENHANCED OIL RECOVERY ACT, LEA COUNTY, NEW
MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on March 21, 2002 at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 16th day of August, 2002, 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) The applicant, EOG Resources, Inc. ("EOG") seeks amendment of Division Order No. R-11389, issued in Case No. 12399 on May 26, 2000, which order approved a one-well pilot pressure maintenance project in the Red Hills North Unit Area, to authorize expansion of its operations and injection of water into the Third Bone Spring Sand of the Red Hills Bone Spring Pool (unitized interval) through new horizontal wells drilled for the purpose of injection and existing horizontal wells to be converted to injection. Further, EOG seeks to qualify the current injection operations and proposed expansion of this pressure maintenance project as a qualified Enhanced Oil Recovery Project ("EOR") to be eligible for the Recovered Oil Tax Rate pursuant to the "New Mexico Enhanced Oil Recovery Act" (Laws 1992, Chapter 38, Sections 1 through 5).

(3) EOG proposes to drill its Red Hills North Unit Well No. 606 from a surface location 530 feet from the South line and 1650 feet from the East line (Unit O) of Section 6, Township 25 North, Range 34 East, NMPM, Lea County, New Mexico, vertically to a depth of approximately 12,200 feet, kick-off in a west-southwesterly direction, and drill horizontally a distance of approximately 7,000 feet in the Third Bone Spring Sand, bottoming the well at a target point 1400 feet from the North line and 2150 feet from the West line (Unit C) of Section 12, Township 25 South, Range 33 East, NMPM, Lea County, New Mexico all within the Red Hills North Unit Area.

(4) EOG also seeks with this application an administrative procedure whereby additional horizontal injection wells within the Red Hills North Unit Area may be drilled and/or current horizontal producing wells may be recompleted as injection wells without the necessity of additional hearings. In as much as Division Rule 111.A adequately addresses such high angle/horizontal development within secondary recovery projects, this portion of EOG's application should be dismissed.

(5) By Order No. R-11388 issued in Case No. 12329 on May 25, 2000, the Division, upon application of EOG, approved Statutory Unitization for the Red Hills North Unit Area comprising the following-described 3,551.81 acres, more or less, of state (80.00 acres or 2.25 %) and federal (3,475.81 acres or 97.75 %) lands in Lea County, New Mexico:

TOWNSHIP 25 SOUTH, RANGE 33 EAST, NMPM

Section 1: Lots 2 and 3, SW/4 NE/4, SE/4 NW/4, and S/2
Section 12: All
Section 13: N/2 and E/2 SE/4

TOWNSHIP 25 SOUTH, RANGE 34 EAST, NMPM

Section 6: Lots 6 and 7, E/2 SW/4, and W/2 SE/4
Section 7: All
Section 8: W/2 SW/4
Section 17: SW/4 NE/4, W/2, and W/2 SE/4
Section 18: All.

(6) Pursuant to Section 70-7-8 NMSA 1978, sufficient ratifications of the Division's statutory unitization order were obtained from the interest owners in the Red Hills North Unit Area, and the Unit became effective on July 1, 2000.

(7) Division Order No. R-11389 approved a one-well pilot secondary recovery project for the Vaca "13" Federal Well No. 2 (API No. 30-025-32182), which is a vertical well located 660 feet from the North line and 1980 feet from the East line (Unit B) of Section

13, Township 25 South, Range 33 East, NMPM, Lea County, New Mexico, for the re-injection of produced water into the Third Bone Spring Sand of the Red Hills-Bone Spring Pool.

(8) At the May, 2000 hearing EOG introduced plans for future development of the Unit Area with its proposed secondary recovery operations that included a combination of vertical and horizontal wellbores. Division Order No. R-11389 designated the project as the "*Red Hills North Unit Pressure Maintenance Project.*"

(9) EOG commenced injection operations in the Vaca "13" Federal Well No. 2 on July 1, 2001 but, due to the tight character of the reservoir, was unable to inject sufficient volumes to even replace production from offset wells and, therefore, the pilot pressure maintenance project using this vertical injection well was deemed unsuccessful.

(10) Information acquired from the pilot injection well shows that for secondary recovery operations to be successful in the Unit Area, significant changes or modifications in the pressure maintenance process used to produce crude oil from this reservoir are required. Due to the tight nature of this formation, injection through horizontal injection wells would serve to put a substantial volume of water over a large face in the reservoir, thereby increasing the efficiency of the pressure maintenance operations.

(11) EOG now is proposing to modify its plans as presented at the May, 2000 examiner hearing and intends to proceed to develop its pressure maintenance project by injecting through horizontal wellbores throughout the Unit Area.

(12) EOG proposes to implement pressure maintenance operations as follows:

(A) Horizontal Producing Wells: The Red Hills North Unit Area currently contains five horizontal producing wells, and EOG proposes to drill five additional horizontal producing wells in the Unit Area; and

(B) Horizontal Injection Wells: EOG proposes to immediately drill its North Red Hills Unit Well No. 606 as a horizontal injection well and thereafter to add eight additional horizontal injection wells to implement pressure maintenance operations in the Unit Area.

(13) EOG presented evidence showing that injection through the Red Hills Unit North Well No. 606 is needed in the north half of the Unit Area due to the high gas-oil ratios being encountered in wells in this area, especially its offsetting Red Hills North Unit Well No. 212 (API No. 30-045-35363) located 202 feet from the North line and 2189 feet from the West line (Unit C) of Section 12, Township 25 South, Range 34 East, NMPM, Lea

County, New Mexico.

(14) At the time of the hearing EOG requested that the pressure limitation of 2,450 psi included in Division Order No. R-11389 [see Ordering Paragraph No. (8) on page 6] be increased for the Red Hills North Unit Pressure Maintenance Project.

(15) A step-rate test run on the Vaca "13" Federal Well No. 2 demonstrated that injection at a surface pressure of 3,265 psi will not damage the reservoir and is needed to create a proper sweep for the proposed horizontal injection wells.

(16) Testimony presented by EOG indicates that the proposed pressure maintenance should yield an additional 17 million barrels of oil above the primary 15 million barrels that is anticipated to be produced. This represents an estimated \$369,000,000.00 worth of production over the lifetime of the project.

(17) EOG estimates that the initial cost to fully implement this project is \$40,000,000.00.

(18) The evidence presented by EOG indicates that the subject pressure maintenance project meets all criteria for approval by the Division as a qualified Enhanced Oil Recovery Project ("EOR") pursuant to the "Enhanced Oil Recovery Act" [NMSA Sections 7-29A-1 through 7-29A-5].

(19) At the request of the applicant the proposed EOR Project Area should be approved in two phases with Phase I comprised of all unitized lands in Section 1 and the N/2 of Section 12 of Township 25 South, Range 33 East, NMPM, Lea County, New Mexico, and all unitized lands in Section 6 and the N/2 of Section 7 of Township 25 South, Range 34 East, NMPM, Lea County, New Mexico and Phase II comprised of all unitized lands in the S/2 of Section 12 and the N/2 of Section 13 of Township 25 South, Range 33 East and the unitized lands in the S/2 of Section 7, and in Sections 8, 17 and 18, Township 25 South, Range 34 East, NMPM, Lea County, New Mexico.

(20) To be eligible for the EOR tax rate, prior to commencing pressure maintenance operations in each phase, the operator must request from the Division a Certificate of Qualification, which certificate will specify the area in the proposed project phase area as described above.

(21) At such time as a positive production response occurs and within five years from the date of the Certificate of Qualification, the operator must apply to the Division for certification of a positive production response, which application shall identify the area actually benefiting from enhanced recovery operations, and identify the specific wells the

operator believes are eligible for the EOR tax rate. The Division may review the application administratively or set it for hearing. Based upon evidence presented, the Division will certify to the New Mexico Department of Taxation and Revenue those lands and wells which are eligible for the EOR tax rate.

(22) The injection authority granted herein for each of the proposed injection wells should terminate one year after the effective date of this order if the operator has not commenced injection operations into the well, provided however, the Division, upon written request by the operator, may grant an extension thereof for good cause.

(23) The application of EOG for amendment of Division Order No. R-11389 to authorize a pressure maintenance project by water injection in the Red Hills North Unit through horizontal injection wells is reasonable, serves to effectively increase the ultimate recovery of oil and gas from the unit area, is in the best interest of conservation, exhibits sound engineering practices, prevents waste, will not impair correlative rights and should be approved.

IT IS THEREFORE ORDERED THAT:

(1) The application of EOG Resources, Inc. ("EOG") to amend Division Order No. R-11389, issued in Case No. 12399 on May 26, 2000, to authorize expansion of its operations and injection of water into the Third Bone Spring Sand of the Red Hills Bone Spring Pool (unitized interval) through new horizontal wells drilled for the purpose of injection and existing horizontal wells to be converted to injection as are subsequently permitted pursuant to the rules of the Division, is hereby approved.

(2) The application of EOG for approval to drill its Red Hills North Unit Well No. 606 as an injection well from a surface location 530 feet from the South line and 1650 feet from the East line (Unit O) of Section 6, Township 25 North, Range 34 East, NMPM, Lea County, New Mexico, vertically to a depth of approximately 12,200 feet, kick-off in a west-southwesterly direction, and drill horizontally a distance of approximately 7,000 feet in the Third Bone Spring Sand, bottoming the well at a target point 1400 feet from the North line and 2150 feet from the West line (Unit C) of Section 12, Township 25 South, Range 33 East, NMPM, Lea County, New Mexico all within the Red Hills North Unit Area is hereby approved.

(3) Additional horizontal injection wells within the Red Hills North Unit Area may be drilled, and/or current horizontal producing wells may be recompleted as injection wells, in accordance with the provisions of Division Rules 111.A and 701.

(4) EOG's request for a special surface injection pressure for the Red Hills North

Unit Pressure Maintenance Project of 3,265 psi is hereby approved.

(5) All other provision of Order No. R-11389 shall remain in force and effect until further notice.

(6) The operator shall conduct injection in the Red Hills North Unit Pressure Maintenance Project in accordance with Division Rules No. 701 and 708 and shall submit monthly progress reports in accordance with Division Rules No. 706 and 1115.

IT IS FURTHER ORDERED THAT:

(7) The Red Hills North Unit Pressure Maintenance Project is hereby qualified as an "Enhanced Oil Recovery Project" pursuant to the "Enhanced Oil Recovery Act" [NMSA Sections 7-29A-1 through 7-29A-5].

(8) The certified "project area" shall initially comprise the area located in Lea County, New Mexico approved for statutory unitization by Division Order No. R-11388, and described as follows, provided however, the Phase I and Phase II areas within the project may be independently certified by the Division to the New Mexico Taxation and Revenue Department:

TOWNSHIP 25 SOUTH, RANGE 33 EAST, NMPM

Section 1: Lots 2 and 3, SW/4 NE/4, SE/4 NW/4, and S/2
Section 12: All
Section 13: N/2 and E/2 SE/4

TOWNSHIP 25 SOUTH, RANGE 34 EAST, NMPM

Section 6: Lots 6 and 7, E/2 SW/4, and W/2 SE/4
Section 7: All
Section 8: W/2 SW/4
Section 17: SW/4 NE/4, W/2, and W/2 SE/4
Section 18: All.

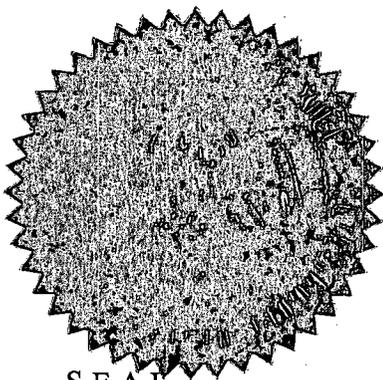
(9) To be eligible for the EOR tax rate, the operator shall advise the Division of the date and time water injection commences within each phase area in the pressure maintenance project. At such time the Division will certify that portion of the project area to the New Mexico Taxation and Revenue Department.

(10) At such time as a positive production response occurs and within five years from the date the project area was certified to the New Mexico Taxation and Revenue Department, the applicant must apply to the Division for certification of a positive

production response. This application shall identify the area actually benefiting from enhanced oil recovery operations and shall identify the specific wells eligible for the tax rate. The Division may review the application administratively or set it for hearing. Based upon the evidence presented, the Division will certify to the New Mexico Taxation and Revenue Department those wells that are eligible for the EOR tax rate.

(11) Jurisdiction of this case 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.



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

Lori Wrottenbery

LORI WROTENBERY
Director