

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

**APPLICATION OF DJR OPERATING,
LLC TO AMEND ORDER NO. R-828-A
AFFECTING THE CARSON UNIT, SAN
JUAN COUNTY, NEW MEXICO.**

CASE NO. _____

APPLICATION

DJR Operating, LLC, (“DJR”) (OGRID No. 371838) through its undersigned attorneys, files this application to amend Order No. R-828-A to (1) approve the terms of the amendment to the Carson Unit Agreement, attached hereto without attached exhibits as **Exhibit A**; (2) expand the geographic area of the Carson Unit; and (3) and modify the Unitized Interval. In support of its application, DJR states:

1. On June 22, 1956, the Oil Conservation Commission issued Order No. R-828 in Case No. 1085 approving formation of the Carson Unit comprising 23,045 acres, more or less, within San Juan County, New Mexico. As originally approved, the Carson Unit comprised the following-described acreage:

TOWNSHIP 25 NORTH, RANGE 11 WEST, NMPPM

Sections 5 through 8 All
Sections 17 through 20 All
Sections 29 through 32 All

TOWNSHIP 25 NORTH, RANGE 12 WEST, NMPPM

Sections 1 through 4 All
Sections 9 through 16 All
Sections 21 through 28 All
Sections 33 through 36 All

2. On September 13, 1956, the Commission issued Order No. R-828-A amending the Carson Unit Area down to 15,366 acres, more or less, to include the following-described acreage:

TOWNSHIP 25 NORTH, RANGE 11 WEST, NMPPM

Sections 5 through 8	All
Sections 17 through 20	All
Sections 29 through 32	All

TOWNSHIP 25 NORTH, RANGE 12 WEST, NMPPM

Section 1	All
Section 2	All
Sections 11 through 14	All
Sections 23 through 26	All
Section 35	All
Section 36	All

3. Effective December 1, 1961, the Carson Unit Area was contracted to cover the following-described acreage, comprising approximately 7,084.13 acres, more or less, of Federal and Allotted Indian lands (the "Contracted Carson Unit"):

TOWNSHIP 25 NORTH, RANGE 11 WEST, NMPPM

Section 7	Lots 3, 4, E/2 SW/4, S/2 SE/4
Sections 17 through 20	All
Section 30	Lot 1, NE/4 NW/4

TOWNSHIP 25 NORTH, RANGE 12 WEST, NMPPM

Section 10	E/2, E/2 SW/4
Section 11	NW/4 NW/4, S/2 NW/4, SW/4 NW/4, S/2
Section 12	SW/4, S/2 SE/4
Sections 13 through 14	All
Section 15	E/2, E/2 NW/4, SW/4
Section 22	NE/4 NE/4
Section 23	N/2 NW/4, SW/4 NW/4, NE/4, N/2 SE/4, SE/4 SE/4
Section 24	All
Section 25	N/2 N/2

4. DJR is the successor operator of the Carson Unit under the terms of the Carson Unit Agreement.

5. On October 26, 2022, DJR received approval from U.S. Bureau of Land Management and the Federal Indian Minerals Office to expand the Contracted Carson Unit, effective October 1, 2022, to include an additional 16,148.84 acres consisting of Federal, Indian Allotted and State Trust lands, more specifically described as follows (“Carson Expansion Lands”):

TOWNSHIP 25 NORTH, RANGE 11 WEST, NMPM

Section 5	W/2
Section 6	All
Section 7	Lots 1, 2, E/2 NW/4, NE/4, N/2 SE/4
Section 8	All
Section 9	W/2
Section 16	All
Section 21	N/2

TOWNSHIP 25 NORTH, RANGE 12 WEST, NMPM

Section 1	All
Section 3	SW/4
Sections 4 through 9	All
Section 10	NW/4, W/2 SW/4
Section 11	NE/4 NW/4, N/2 NE/4, SE/4 NE/4
Section 12	N/2, N/2 SE/4
Section 15	W/2 NW/4
Sections 16 through 18	All
Section 19	N/2
Sections 20 through 21	All
Section 22	W/2, N/2 NE/4, S/2 NE/4, SE/4
Section 23	SW/4 NW/4, SW/4, SW/4 SE/4
Section 25	S/2 N/2, S/2
Section 26	N/2, SE/4
Section 27	N/2
Section 28	N/2
Section 29	N/2

Section 35	NE/4, NE/4 SE/4
Section 36	All

TOWNSHIP 26 NORTH, RANGE 12 WEST, NMPM

Section 31	Lot 4, SE/4 SW/4, S/2 SE/4
Section 32	S/2 SW/4

5. The total acreage within the Carson Unit Area after expansion includes the Contracted Carson Unit lands (7.084.13 acres) and the lands encompassed by the Carson Expansion Lands (16,148.84 acres), and will total 23,232.97 acres, more or less (the “Carson Expanded Unit Area”).

6. DJR seeks to amend Order No. R-828-A to revise the lands covered by said Order to encompass Federal, Indian Allotted, and State Trust lands comprising the Carson Expanded Unit Area 23,232.97 acres, more or less.

7. In addition, DJR seeks to amend Order No. R-828-A to modify the Unitized Interval within the Carson Expanded Unit Area to interval approved by U.S. Bureau of Land Management and Federal Indian Minerals Office, being the Mancos formation, defined as being that interval located from below the stratigraphic equivalent of the top of the Mancos Shale (base of Mesaverde Group) identified at 3,736 feet measured depth to the stratigraphic equivalent of the base of the Mancos Shale (base of Greenhorn Limestone) identified at 5,526 feet measured depth as shown in the Central Bisti SWD 161 well (API# 30-045-31606) located in Township 25 North, Range 12 West, Section 16, San Juan County, New Mexico. A copy of the type log depicting the Unitized Interval is attached as **Exhibit B**.

8. DJR controls operations over committed tracts covering 92% of the to the Carson Expanded Unit Area, which ensures effective control of unit operations following the expansion.

9. Notice of this Application will be provided to the Indian Allottee owners of mineral interests underlying Bureau of Indian Affairs leases within the Carson Expansion Lands.

Notice of this Application also will be provided to the U.S. Bureau of Land Management, the Federal Indian Minerals Office, and the State Land Office.

10. Approval of this Application will be in the best interests of conservation, the prevention of waste, and the protection of correlative rights.

WHEREFORE, DJR Operating, LLC requests that this Application be set for hearing before an Examiner of the Oil Conservation Division on January 5, 2023, and that after notice and hearing as required by law, the Division enter its order granting this Application.

Respectfully submitted,

HOLLAND & HART LLP



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ATTORNEYS FOR DJR OPERATING, LLC

CASE _____: **Application of DJR Operating, LLC to amend Order No. R-828-A Affecting the Carson Unit, San Juan County, New Mexico.** Applicant seeks an order amending Order No. R-828-A (1) approve the terms of the amendment to the Carson Unit Agreement; (2) expand the geographic area of the Carson Unit; and (3) and modify the Unitized Interval . The expansion area includes approximately 16,148.84 acres, more or less, of Federal, Allotted Indian, and State Trust lands in all or parts of the following Sections: Sections 5 through 9, and Sections 16 and 21 in Township 25 North, Range 11 West; Sections 1, Sections 3 through 12, Sections 15 through 23, Sections 25 through 29, and Sections 35 through 36 in Township 25 North, Range 12 West; and Sections 31 and 32 in Township 26 North, Range 12 West, all in San Juan County, New Mexico. In addition, Applicant seeks to amend the Unitized Interval for the Expanded Unit Area to be limited to the Mancos formation, which is defined as being that interval located from below the stratigraphic equivalent of the top of the Mancos Shale (base of Mesaverde Group) identified at 3,736 feet measured depth to the stratigraphic equivalent of the base of the Mancos Shale (base of Greenhorn Limestone) identified at 5,526 feet measured depth as shown in the Central Bisti SWD 161 well (API# 30-045-31606) located in Township 25 North, Range 12 West, Section 16, San Juan County, New Mexico. The subject acreage is located approximately 20 miles northwest of Nageezi, New Mexico.

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AMENDMENT TO UNIT AGREEMENT CARSON UNIT NMNM 078385X

This Amendment to Unit Agreement (“Amendment”) is made and entered into by and among the signatory parties hereto and made effective as of July 1, 2022. The signatory parties hereto may sometimes be referred to herein as “Parties”.

WITNESSETH:

THAT, WHEREAS, the Carson Unit Agreement, designated Serial Number NMNM 078385X (“Unit Agreement”), was entered into effective November 15, 1956 to cover all depths and formations underlying the lands committed thereto and currently covers 7,084.13 surface acres, more or less and has been vertically contracted to only cover the “Mancos Formation” as further defined below (the “Unit”); and,

WHEREAS, Carson Unit Gallup Participating Area, designated Serial Number NMNM 078385A, was established effective December 1, 1961 and currently encompasses 7,084.13 surface acres, more or less, and remains active producing participating area under the Unit, and has been renamed the Carson Unit Mancos Participating Area; and,

WHEREAS, Carson Unit Dakota Participating Area, designated Serial Number NMNM 078385B, was established effective July 25, 1973 encompassing 360.00 surface acres, more or less, has been terminated; and,

WHEREAS, Carson Unit WAW Fruitland-PC Participating Area, designated Serial Number NMNM 078385C, was established effective August 13, 1977 and encompassing 1,000.00 surface acres, more or less, has been terminated; and,

WHEREAS, Carson Unit Basin Fruitland Participating Area, designated Serial Number NMNM 078385D, was established effective June 1, 1990 and encompassing 600.00 surface acres, more or less, has been terminated; and,

WHEREAS, the Parties as the owners of one hundred percent (100%) title to the leasehold working interest rights in the under the oil and gas leases committed to the Unit desire to amend the Unit Agreement to create a unitized environment to support the continued development of the Mancos Formation (defined below) through horizontal drilling.

NOW, THEREFORE, in consideration of the mutual covenants, promises and undertakings set forth herein, and for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties do hereby agree that the Unit Agreement for the Unit shall be amended as follows:

1. The following terms, as used in the Unit Agreement or this Amendment, shall be defined as follows:

“Supervisor” or “Director of the Geological Survey” or “Director” or “Authorized Officer” or “AO” shall mean the authorized officer delegated by the Bureau of Land Management to perform the action(s) or duty(ies) provided herein.

“State Land Commissioner” or “Land Commissioner” shall mean the Commissioner of Public Lands of the State of New Mexico or his/her agent, representative or authorized officer delegated or authorized to perform the action(s) or duty(ies) provided herein.

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“Commission” shall mean the New Mexico Oil Conservation Division (sometimes referred to as “New Mexico Oil Conservation Commission”) or the agent, representative or authorized officer delegated by it to perform the action(s) or duty(ies) provided herein.

“Indian Commissioner” or “Commissioner of Indian Affairs” or “FIMO Director” shall mean the agent, representative, or authorized officer delegated by the Bureau of Indian Affairs (sometimes referred to as “BIA”) or Federal Indian Minerals Office (sometimes referred to as “FIMO”), as applicable, to perform the action(s) or duty(ies) provided herein.

2. SECTION 1. ENABLING ACT AND REGULATIONS. Section 1. Of the Unit Agreement shall be revised by insertion of the following paragraph as second paragraph to Section 1.

“The participation and governing authority of any agency (or its agent, representative or authorized officer thereof) referred to in this agreement, including the management or application of the terms and provisions of this agreement shall be limited to and affect only those lands, leases and/or interests committed to this agreement that are under the governing authority of such agency and limited only as to such time period for which such lands, leases and/or interests are committed hereto.”

3. SECTION 2. UNIT AREA. Section 2. of the Unit Agreement shall be revised by the inclusion of subsection (f) as follows:

(f) Any expansion of the unit area that is proposed and approved subsequent to expiration of the ten (10) year period (including any applicable extension(s)) provided in Section 2. (e) hereinabove, may, at the discretion of the AO, be subject to the terms and conditions of this Section 2. (f). The tracts or lands included in the unit area and committed to this agreement under any such approved unit expansion are hereinafter referred to as “unit expansion lands” or “unit expansion area”.

On the fifth anniversary of the effective date of the first participating area establishment or revision affecting the unit expansion lands, all legal subdivisions of unitized lands (i.e., 40 acres by Government survey or its nearest lot or tract equivalent in instance of irregular surveys; however, usually large lots or tracts shall be considered in multiples of 40 acres, or the nearest aliquot equivalent thereof, for the purpose of elimination under this subsection) no parts of which are entitled to be in a participating area, shall be eliminated automatically from this agreement, effective as of the first day thereafter, and such lands shall no longer be a part of the unit area and shall no longer be subject to this agreement unless at the expiration of said fifth anniversary, diligent drilling operations are conducted on such unit expansion lands not entitled to inclusion in participating area on said fifth anniversary, in which event all such tracts or lands shall remain subject hereto as long as diligent drilling operations are continued. As used herein, the term “diligent drilling operations” shall mean the drilling of not less than two (2) wells per anniversary year (or a total of ten (10) wells within a five (5) year period) drilled on expansion lands not entitled to inclusion in participating area or until all unitized lands are included or entitled for inclusion in a participating area. All legal subdivisions of unit expansion lands not entitled to become participating under the applicable provisions of this agreement within ten (10) years after the effective date of the first participating area establishment or revision affecting the unit expansion area, shall be eliminated from this agreement as above specified. The Unit Operator shall, within ninety (90) days after the effective date of any elimination hereunder, describe the area so eliminated to the satisfaction of the AO and promptly notify all parties in interest. Unit expansion

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lands eliminated from the unit area pursuant to this subsection (f) shall no longer be a part of the unit area and shall no longer be subject to this agreement effective as of the first day following final approval of elimination.

If conditions warrant extension of the ten (10) year period specified in this subsection 2. (f), a single extension of not to exceed two (2) years may be accomplished by consent of the owners of seventy percent (70%) of the working interest in the unit expansion area with approval of the AO, provided such extension application is submitted not later than sixty (60) days prior to the expiration of said ten (10) year period.

4. SECTION 3. UNITIZED LAND AND UNITIZED SUBSTANCES. Shall be deleted in its entirety and replaced with the following:

“All land now or hereafter committed to this agreement shall constitute land referred to herein as “unitized land” or “land subject to this agreement.” In addition, for the purposes used in this agreement, the term “unitized land” shall include all Federal lands, which shall, upon AO’s approval of the unit, participate under this agreement in the limited capacity as provided hereinbelow to support the development of unitized substances thereunder. Nothing in this agreement shall be deemed to grant rights to the use of the surface or penetration of any horizons underlying any unleased Federal lands through drilling operations unless and until such lands become leased. All oil and gas in only the Mancos Formation underlying the unitized land are unitized under the terms of this agreement and are herein called “unitized substances”. The Mancos Formation is defined as that interval located from below the stratigraphic equivalent of the top of the Mancos Shale (base of Mesaverde Group) identified at 3,736’ MD to the stratigraphic equivalent of the base of the Mancos Shale (base of Greenhorn Limestone) identified at 5,526’ MD as shown in the Central Bisti SWD 161 well (API# 30-045-31606) located in Township 25 North, Range 12 West, Section 16, San Juan County, New Mexico, more specifically depicted on the type log shown in Exhibit “C” to this agreement; provided, however, that it is the specific intent of the parties hereto not to cause or effectuate any horizontal segregation of any Federal, Indian or State lease committed hereto as a consequence of the aforementioned depth limitations to the “unitized substances”.”

Exhibit “C” to Unit Agreement as referenced herein is attached hereto as Exhibit “6”.

5. Carson Unit Gallup Participating Area, designated Serial Number NMNM 078385A, by approved application, has been vertically expanded to cover the Mancos Formation, as defined herein, now known as “Carson Unit Mancos Participating Area “A””. Attached hereto as Exhibit “1” is the schedule which sets forth the description of tracts and leases comprising the vertically expanded Mancos Participating Area “A” for Carson Unit.

6. SECTION 11. PARTICIPATION AFTER DISCOVERY. The last paragraph contained in Section 11. of the Unit Agreement shall be deleted in its entirety and replaced with the following:

“Whenever it is determined, subject to the approval of the Supervisor, as to wells on Federal or Indian Land, and the State Land Commissioner as to wells drilled on State land, that a well drilled under this agreement is not capable of production in paying quantities and inclusion of the land on which it is situated in a participating area is unwarranted, production from such well shall, for purposes of settlement among all parties other than working interest owners, be allocated to the land contained in an area designated for the well using the guidelines provided for developing standard spacing units for horizontal wells under New Mexico Oil Conservation Division Rules

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under 19.15.16.15 NMAC, and if several leases are within the standard spacing unit, an approved Communitization Agreement (CA) will establish the allocation method between leases within said spacing unit, as long as such land is not within a participating area established for the pool or deposit from which the production is obtained. Settlement for working interest benefits from such well shall be made as provided in the unit operating agreement."

7. SECTION 12. ALLOCATION OF PRODUCTION. Section 12 of the Unit Agreement shall be deleted in its entirety and replaced with the provision(s) of SECTION 12 ALLOCATION OF PRODUCTION set forth in the Exhibit "2" attached hereto.

8. SECTION 13. DEVELOPMENT OR OPERATOIN OF NONPARTICIPATING LAND OR FORMATIONS. The last paragraph of Section 13. Of the Unit Agreement shall be deleted in its entirety and replaced with the following:

"If any well drilled as aforesaid by a working interest owner obtains production in quantities insufficient to justify the inclusion in a participating area of the land upon which such well is situated, such well may be operated and produced by the party drilling the same subject to the conservation requirements of this agreement. The royalties in amount or value of production from any such well shall be paid as specified in the underlying lease and agreements associated with the land designated for the well by the method prescribed in Section 11 herein for wells not capable of production in paying quantities."

9. SECTION 17. DRAINAGE. Section 17 of the Unit Agreement shall be deleted in its entirety and replaced with the provision(s) of SECTION 17 DRAINAGE set forth in Exhibit "3" attached hereto.

10. SECTION 18. LEASES AND CONTRACTS CONFORMED AND EXTENDED.

- Section 18. (g) shall be deleted in its entirety and replaced with the following:

"The segregation of any Federal Lease committed to this agreement is governed by the following provision in the fourth paragraph of Sec 17(m) of the Mineral Leasing Act, as amended by the Act of September 2, 1960 (74 Stat. 781-784) (30 U.S.C. 226(m)):

"Any (Federal) lease heretofore or hereafter committed to any such (unit) plan embracing lands that are in part within and in part outside of the area covered by such plan shall be segregated into separate leases as to the lands committed and the lands not committed as of the effective date of unitization: Provided, however, that any such lease as to the non-unitized portion shall continue in force and effect for the term thereof but not for less than two years from the date of such segregation and so long thereafter as oil or gas is produced in paying quantities"

If the public interest requirement is not satisfied, the segregation of a lease and/or extension of a lease pursuant to 43 CPR 3107.3-2 and 43 CPR 3107.4, respectively, shall not be effective.

- The following provisions shall be added to the Unit Agreement as Section 18. (i) and (j) respectively:

"(i) Any Indian lease committed in part to any such cooperative agreement (unit agreement) shall be segregated into a separate lease or leases as to the lands committed and lands not committed to the agreement.

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(j) Any lease, other than a Federal or Indian lease, having only a portion of its lands committed hereto shall be segregated as to the portion committed and the portion not committed, and the provisions of such lease shall apply separately to such segregated portions commencing as of the effective date hereof. In the event such lease provides for a lump-sum rental payment, such payment shall be prorated between the portions so segregated in proportion to the acreage of the respective tracts.

Any lease embracing lands of the State of New Mexico of which only a portion is committed hereto shall be segregated as to the portion committed and as to the portion not committed and the terms of such leases shall apply separately as two separate leases as to such segregated portions, commencing as of the effective date hereof. Notwithstanding any of the provisions of this agreement to the contrary, any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto shall continue in full force and effect beyond the term provided therein as to all lands embraced within the unitized area and committed to this agreement, in accordance with the terms of this agreement. If oil and gas, or either of them, are discovered and are being produced in paying quantities from some part of the lands embraced in such lease which part is committed to this agreement at the expiration of the fixed term of such lease, such production shall not be considered as production from lands embraced in such lease which are not within the unitized area, and which are not committed thereto, and drilling or reworking operations upon some part of the lands embraced within the unitized area and committed to this agreement shall be considered drilling and reworking operations only as to lands embraced within the unit agreement and not as to lands embraced within the lease and not committed to this unit agreement; provided, however, as to any lease embracing lands of the State of New Mexico having only a portion of its lands committed to this agreement, and are being produced in paying quantities prior to the expiration of the fixed term of such lease, such production in paying quantities shall serve to continue such lease in full force and effect in accordance with its terms as to all of the lands embraced in said lease."

11. The Exhibit "A" to the Unit Agreement shall be replaced by the Exhibit "A" attached hereto as Exhibit "4" reflecting the current surface area Unit configuration limited to the Mancos Formation.

12. The Exhibit "B" to the Unit Agreement shall be replaced by the Exhibit "B" attached hereto as Exhibit "5" reflecting the current status of the oil and gas leases covering the surface area of the Unit and the current ownership thereunder, limited to the Mancos Formation.

The Parties hereby ratify the Unit Agreement, as amended hereby, and represent and warrant to each other that, except for the changes contained in this Amendment, the terms and conditions of the Unit Agreement shall remain unchanged and the Unit Agreement continues in full force and effect, as amended herein.

In witness hereof, the Parties have executed this Amendment on the date(s) contained in the acknowledgements below but effective for all purposes as of the Effective Date.

UNIT OPERATOR

DJR Operating, LLC

By: 
Kurt S. Froistad, Land Manager

EXHIBIT A

NON-OPERATORS

DJR Nominee Corporation

By: Kurt S. Froistad mlb
Kurt S. Froistad, Land Manager

BUREAU OF LAND MANAGEMENT

Approval and joinder to this Amendment by Bureau of Land Management is established by decision letter issued by agent or officer authorized to represent and bind Federal interests.

FEDERAL INDIAN MINERALS OFFICE

Approval and joinder to this Amendment by the Federal Indian Minerals Office is established by decision letter issued by its Director.

EXHIBIT B

EXHIBIT "6"

Attached to and made part of Amendment to Unit Agreement for Carson Unit dated effective March 18, 2020.

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