

CASE 2299: Application of NEWBONT
for an amendment of Orders Nos.
R-1110 and R-1110-A, Eddy County.

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2299

Application, Transcript,
and Exhibits, Etc.

No. 16-61

DOCKET: EXAMINER HEARING - WEDNESDAY, JUNE 7, 1961

9 A.M., - OIL CONSERVATION COMMISSION CONFERENCE ROOM
STATE LAND OFFICE BUILDING, SANTA FE, NEW MEXICO

The following cases will be heard before Daniel S. Nutter, examiner, or Elvis A. Utz, as alternate examiner:

CASE 2297:

Application of Pan American Petroleum Corporation for two non-standard oil proration units and two unorthodox oil well locations, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks the establishment of a 46.74-acre non-standard oil proration unit in the Cha Cha-Gallup Oil Pool consisting of the E/2 NE/4 SE/4 of Section 17, Township 29 North, Range 14 West, San Juan County, New Mexico, plus 20.73 acres in Lot 8 of said Section 17 and 6.01 acres lying North of the mid-channel of the San Juan River and along the South boundary of that portion of said Lot 8 included in the unit. Said unit is to be dedicated to the Frank L. Wood Well No. 1 at an unorthodox location 990 feet from the South line and 660 feet from the East line of said Section 17. Applicant further seeks the establishment of a 57.31-acre non-standard oil proration unit in said pool consisting of Lots 3, 4 and 5 of said Section 17 plus the S/2 of that portion of the San Juan River channel lying in the W/2 of said Section 17 and along the North boundary of Lots 3, 4 and 5. Said unit is to be dedicated to the Navajo Tribal "G" Well No. 8 at an unorthodox location 1415 feet from the South line and 335 feet from the West line of said Section 17.

CASE 2298:

Application of Chambers & Kennedy for a gas-oil dual completion, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order authorizing the dual completion of its Monument State Well No. 1, located in Unit J, Section 34, Township 19 South, Range 37 East, Lea County, New Mexico, in such a manner as to permit the production of gas from the Eumont Gas Pool and the production of oil from the Eunice-Monument Pool through the 5½-inch by 2½-inch casing-tubing annulus and through 2½-inch tubing respectively.

CASE 2299:

Application of Newmont Oil Company for an amendment of Orders Nos. R-1110 and R-1110-A, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an amendment of Orders Nos. R-1110 and R-1110-A, which authorized a pilot waterflood

project in the Square Lake Pool, Eddy County, New Mexico. to permit the expansion of said waterflood project to include lands in Sections 27, 28, 32, 33, and 34, all in Township 16 South, Range 31 East, Eddy County, New Mexico, and to further define the horizontal limits of said project. Applicant also seeks the establishment of special rules governing the expansion of said waterflood and providing for capacity allowables therein.

CASE 2300:

Application of Southwest Production Company for a non-standard gas proration unit, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks the establishment of a 321-acre non-standard gas proration unit in the Basin-Dakota Gas Pool consisting of the NE/4 NE/4 of Section 27 and all of the E/2 of Section 22, Township 30 North, Range 12 West, San Juan County, New Mexico, excepting from the E/2 of said Section 22 a 13-acre and a 26-acre tract owned by Dwight L. Millett, Gladys L. Millett, Julian Coffey and Pan American Petroleum Corporation. In the alternative, applicant seeks the establishment of a 281-acre non-standard gas proration unit in said pool consisting of all of the E/2 of said Section 22 excepting therefrom the aforesaid 13-acre and 26-acre tracts.

CASE 2301:

Application of the Murphy Corporation for approval of the Northwest Caprock Unit Agreement, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval of the Northwest Caprock Unit Agreement, which unit embraces approximately 1525 acres of State land in Townships 11 and 12 South, Range 32 East, Lea County, New Mexico.

CASE 2302:

Application of Atlantic Refining Company for an oil-oil-oil triple completion, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order authorizing the triple completion of its Carlson Federal "A" Well No. 1, located in Unit 1, Section 23, Township 25 South, Range 37 East, Lea County, New Mexico, in such a manner as to permit the production of oil from the Paddock formation adjacent to the Justis-Paddock Pool, the production of oil from the Justis-Blinebry Pool and the production of oil from the Justis-Tubb-Drinkard Pool, through parallel strings of 2-inch tubing.

CASE 2303:

Application of Redfern & Herd, Inc. for an unorthodox gas well location, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks permission to locate its

Airport Well No. 1 at an unorthodox gas well location in the Basin-Dakota Gas Pool at a point 200 feet from the North line and 500 feet from the East line of Section 8, Township 29 North, Range 13 West, San Juan County, New Mexico.

CONTINUED CASES

CASE 2286:

Application of Aztec Oil & Gas Company for an exception to Rule 309 (a), San Juan County, New Mexico. Applicant, in the above-styled cause, seeks permission to commingle the Totah-Gallup Pool production from the following-described leases, all in Township 29 North, Range 13 West, San Juan County, New Mexico.

Federal Lease No. SF 079065 in Sections 19, 20 and 29.

State Lease B-11017-23 comprising in pertinent part the SW/4 NW/4 of Section 20.

State Lease B-11017-21 comprising in pertinent part the NW/4 NW/4 of Section 20.

Smith-Eaton Lease comprising in pertinent part the NE/4 SE/4, SE/4 NE/4 and the E/2 NW/4 of Section 20.

Applicant proposes to commingle said production in a common tank battery located on the SW/4 of said Section 20 after separately metering the production from the State and fee leases only.

CASE 2287:

Application of Aztec Oil & Gas Company for an exception to Rule 309 (a), San Juan County, New Mexico. Applicant, in the above-styled cause, seeks permission to commingle the Totah-Gallup Pool production from five separate fee leases, all located in Section 18, Township 29 North, Range 13 West, San Juan County, New Mexico.

State of New Mexico
Oil Conservation Commission



STATE GEOLOGIST
A. L. PORTER, JR.
SECRETARY - DIRECTOR

June 22, 1961

Mr. Jack Campbell
Campbell & Russell
P. O. Drawer 640
Roswell, New Mexico

Re: CASE NO. 2299
ORDER NO. B-1110-B
APPLICANT:
Newmont Oil Company

Dear Sir:

(1)
Enclosed herewith are two copies of the above-referenced Commission order recently entered in the subject case.

Very truly yours,

A. L. Porter, Jr.
A. L. PORTER, JR.
Secretary-Director

ir/

Carbon copy of order also sent to:

Hobbs OCC x
Artesia OCC x
Aztec OCC

OTHER Mr. Clarence Hinkle

OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO

Date 6/8/61

CASE 2299

Hearing Date 9am 6/7/61

My recommendations for an order in the above numbered cases are as follows:
DSN @ SF

Enter an order defining the
Newmont Oil Company Square
Lake Waterflood Project as follows:

Township 16 South Range 31 East

- Sec 19: S/2 SE/4
Sec 28: W/2 SW/4
Sec 29: S/2 N/2 and S/2
Sec 30: NE/4 and E/2 SE/4
Sec 32: ~~NW/4~~ N/2
Sec 33: N/2, SE/4, and E/2 SW/4
Sec 34: S/2, W/2 NW/4, and SW/4 SE/4

Now finding that it is impracticable to include
the E/2 SE/4 of Sec 31 in the project at this time.
Find that ^{the conversion of additional wells under Rule 701} ~~this is a~~ legitimate expansion of
~~an area~~ a flood which was authorized prior to the
issuance of Order R-1525, and that this entire
area should therefore be
except from the allowable provisions of Rule 701 E.

Staff Member

BEFORE THE
OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO
JUNE 7, 1961

EXAMINER HEARING

IN THE MATTER OF:

CASE 2299

Application of Newmont Oil Company
for an amendment of Orders Nos. R-
1110 and R-1110-A, Eddy County,
New Mexico.

TRANSCRIPT OF HEARING

DEARNLEY-MEIER REPORTING SERVICE, Inc.

PHONE CH 3-6691

ALBUQUERQUE, NEW MEXICO

BEFORE THE
OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO
JUNE 7, 1961

EXAMINER HEARING

IN THE MATTER OF

CASE 2299: Application of Newmont Oil Company for an amendment of Orders Nos. R-1110 and R-1110-A, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an amendment of Orders Nos. R-1110 and R-1110-A, which authorized a pilot waterflood project in the Square Lake Pool, Eddy County, New Mexico, to permit the expansion of said waterflood project to include lands in Sections 27, 28, 32, 33, and 34, all in Township 15 South, Range 31 East, Eddy County, New Mexico, and to further define the horizontal limits of said project. Applicant also seeks the establishment of special rules governing the expansion of said waterflood and providing for capacity allowables therein.

BEFORE:

Daniel S. Nutter, Examiner.

TRANSCRIPT OF PROCEEDINGS

MR. NUTTER: The hearing will come to order, please. The first case this afternoon will be 2299.

MR. MORRIS: Case 2299. Application of Newmont Oil Company for an amendment of Orders Nos. R-1110 and R-1110-A, Eddy County, New Mexico.



MR. CAMPBELL: Mr. Examiner, I am Jack M. Campbell, Campbell & Russell, Roswell, New Mexico, appearing on behalf of the applicant.

MR. NUTTER: Any other appearances in Case No. 2299?

MR. HINKLE: Clarence Hinkle, Hervey, Dow & Hinkle, Roswell, appearing on behalf of Humble.

MR. NUTTER: Any others? Would you proceed, Mr. Campbell?

(Whereupon, Newmont's Exhibits Nos. 1 through 4 were marked for identification)

MR. CAMPBELL: I have one witness.

(Witness sworn)

HERMAN LEDBETTER,

called as a witness, having been first duly sworn on oath, testified as follows:

DIRECT EXAMINATION

BY MR. CAMPBELL:

Q State your name, please.

A Herman Ledbetter.

Q Where do you live, Mr. Ledbetter?

A Artesia, New Mexico.

Q By whom are you employed and in what capacity?

A Newmont Oil Company as superintendent for their New Mexico operation.

Q Have you previously testified before this Commission, in



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your capacity. with Newmont Oil Company?

A Yes, sir.

Q Are you acquainted with the Square Lake Pool waterflood of Newmont Oil Company?

A Yes, sir.

Q Are you acquainted with the application in Case No. 2299?

A Yes, sir.

Q I hand you what has been identified as Exhibit No. 1, and ask you to state what that is.

A This map covers the eastern portion of the Square Lake oil field, and the acreage colored in yellow is the original Newmont waterflood acreage, and the acreage colored in blue-green is some additional acreage owned by Mr. Kennedy and the operations of which Newmont is going to take over.

Q It is now owned by Mr. Kennedy, is it not?

A Yes.

Q Is that area shown in blue a portion of the acreage covered by an agreement between Newmont and Mr. Kennedy?

A Yes, sir.

Q Referring, now, to Exhibit 1, again, is the northeast quarter of Section 32 involved in this application?

A Yes, sir.

Q Who owns that State Lease?

A Southern Petroleum.

Q Is there an agreement between Southern Petroleum and New-



mont in connection with that acreage?

A Yes, sir.

Q Will you refer to Exhibit 1 and point out to the Examiner the most recent injection wells that have been added in that flood?

A The No. 3 well located in the southwest of the northeast of Section 29, 16 South, Range 31 East, the No. 6 well located in the southwest of the southeast of Section 29, same Township, and the No. 3 well located in the northeast of the northwest of Section 32 in the same Township.

Q How long have those wells be on injection?

A Approximately two months.

Q Are you experiencing any reaction from producing wells offsetting those injection wells?

A Yes. We had increases in the direction of the original pilot before these were converted, and we expect increases in the areas on the outside of these wells within the relatively near future.

Q Then, you are approaching the area involved in this application with regard to expansion of your flood, is that correct?

A Yes, sir.

Q Has the pilot area flood project proved to be feasible?

A Yes.

Q What do you intend to do with regard to the expansion of this project in the event the application here is approved?

A We plan to expand this waterflood to cover all of the



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acreage mentioned.

Q All of that acreage outlined in dotted red line and the northeast quarter of Section 32, is that correct?

A Yes.

Q Have you entered into any agreements with the owners of the Kennedy acreage in connection with this proposed expansion?

A Yes, we have.

Q I hand you what's been identified as Newmont's Exhibit No. 2, and ask you to state what that is, please?

A This is an agreement between Newmont Oil Company and Kennedy whereby the operations of the waterflood in the area where the leases are contiguous, to be operated as a single waterflood.

Q I refer you particularly to Paragraph Roman Numeral IV on Page 3 of that agreement, and ask you to state whether the agreement provides that Newmont shall supervise the installation and operate the joint facilities, the operation of water input wells, the rate of injection of water, and other matters pertinent to the operation of the flood?

A Yes, they will.

Q Have you likewise entered into an agreement with Southern Petroleum Exploration Company, Inc. with regard to the operation of the northeast quarter of Section 32?

A Yes, we have.

Q I hand you what has been identified as Newmont's Exhibit No. 3. I will ask you to state if that is an executed copy, a



photostat of an executed copy of that agreement?

A Yes, it is.

Q Does that agreement likewise provide that Newmont shall be the operator of the waterflood properties of Southern Petroleum Exploration as an expansion of the Square Lake flood?

A Yes.

Q First, would you advise the Examiner, is the acreage owned by Kennedy all Federal acreage?

A Yes.

Q Has this matter been discussed with the United States Geological Survey?

A Yes, it has.

Q Have they approved the procedure --

A Yes.

Q -- and the cooperative agreement?

A Yes.

Q I hand you what has been identified as Newmont's Exhibit No. 4, and ask you to state what that is, please?

A This is a letter from the United States Geological Survey approving this agreement and cooperative flood.

Q In the event you are permitted to expand the flood in the manner in which you have requested, is it your intention to continue to conform to the Rules and Regulations of the Commission with regard to the rate of expansion?

A Yes, it is.



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Q Inasmuch as this is an expansion of an existing waterflood, are you seeking from the Commission authority to have capacity allowables on the expanded area?

A Yes.

MR. CAMPBELL: Mr. Examiner, I would like to make one correction in the application. In Paragraph III there's a typographical error, the third line, where it says "as to the east half, southwest quarter." That should be the west half of the southwest quarter.

MR. NUTTER: The west half of the southwest quarter?

MR. CAMPBELL: Right. Section 28. I would like to offer in evidence Applicant's Exhibits 1, 2, 3 and 4.

MR. NUTTER: Applicant's Exhibits 1 through 4 will be entered in evidence.

(Whereupon, Newmont's Exhibits Nos. 1 through 4 were received in evidence.)

MR. CAMPBELL: That's all the questions I have at this time.

MR. NUTTER: Are there any questions of Mr. Ledbetter?

MR. MORRIS: Yes, sir.

MR. NUTTER: Mr. Morris.

CROSS-EXAMINATION

BY MR. MORRIS:

Q Mr. Ledbetter, in Newmont's application, you asked the Commission to define the proper limits of the waterflood project.



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Do I assume that the proper limits are the acreage surrounded by the dashed red line and also the acreage owned by Southern Petroleum --

A Yes.

Q -- on your Exhibit No. 1?

A Yes, in addition to the acreage colored yellow.

MR. CAMPBELL: Presently.

Q (By Mr. Morris) You also asked us to establish Rules for the expansion of the flood within the defined area. I was wondering if you had a recommendation as to the Rules, if any, that you wish for us to adopt.

A No Rules, in addition to those defined in the Rule 701 for the capacity waterflood.

Q Could you tell us at this time which wells you planned to use for injection, and which are to be producing wells in the area? Is that subject to a later determination?

A We can tell you what we plan right now, of course, subject to some possible change in plans, but our plans are now to follow the five spot pattern that started with the pilot in connection of alternate 40-acre locations, and to conform to what has been done and just carry this pattern completely out. For instance, on the Southern Petroleum acreage Nos. 2 and 4 would be injection wells, and you would just carry that same thing right on through.

Q Do you have any immediate plans, in the event this application is approved, for converting any of the wells in this extended



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area to injection, other than this No. 2 and 4 that you just mentioned?

A Of course, we feel that we'll expand this flood as allowed under the Rule 701 as quickly and feasibly as possible. Those are the only two that are likely right in the very near future; other than on the expanded area.

Q Mr. Ledbetter, who owns the acreage in the south half of Section 32?

A The southwest quarter is owned by Beall Trobough & Associates.

Q How about the southeast quarter?

A I'm not sure at this time. I don't believe there are any producing wells in that area.

Q Do you feel that the south half of 32 will be substantially affected by your operations here?

A It appears doubtful that the southeast quarter right now will be drilled. This area has been developed for a number of years, and it hasn't been drilled to this date now. We don't know if the sand carries into that area or not there. It would be a question.

Q How about the acreage in the west half of the southwest quarter of Section 33? What's the ownership of that?

A I believe that Beall Trobough & Associates.

Q Has any approach been made to Beall Trobough & Associates to come into a cooperative agreement with you?

A No, not as such. We have discussed waterflooding in this



area with Beall Trobough's representatives, but at this time their production is largely from new wells and not wells that would be considered for waterflood.

Q Mr. Ledbetter, geologically speaking, do you feel that this is an expansion of the existing flood? Is your sand even and continuous throughout this area?

A Yes. I'll say this: I'm not a geologist, but, however, as an engineer, I have studied the area, and feel that these sands definitely are in the same reservoir as the one we're flooding.

MR. MORRIS: No further questions. Thank you.

MR. HINKLE: Mr. Examiner, I have a question.

MR. NUTTER: Mr. Hinkle.

BY MR. HINKLE:

Q Mr. Ledbetter, I understood you to say that you were asking for capacity allowable on your expansion of this waterflood.

A Yes.

Q On what basis do you ask for that? What are your grounds for asking for capacity allowable?

A As an expansion of a flood that was started before the Rule 701.

Q Is that your only basis for asking for it, simply because you got your pilot approved before Rule 701 went into effect?

A Yes.

Q That's your only basis. In your original Order, which I

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believe was R-1110, and was supplemented, and by R-1110-A, did those Orders allow you capacity for your pilot flood at that time?

A I'm not sure about that.

Q Do you have any Order of the Commission granting you capacity allowable for the flood up to the present time, or before Rule 701 went into effect?

A No.

MR. HINKLE: That's all.

BY MR. NUTTER:

Q Mr. Ledbetter, this other acreage surrounding the acreage in yellow and blue and enclosed in the dotted red line, do you know of any other waterflood projects around the acreage in here?

A No definite plans. We have discussed waterflooding with all of our neighbors, but I don't know of any definite plans.

Q Well, now, does Newmont own any acreage on this plat, other than that which is colored yellow?

A Yes, they do. There's two 40's in Section 36, over in Range 30, 16 South, the southwest of the southwest, and the southwest of the northeast.

Q You are not seeking that that acreage be included in this project area?

A We don't have any plans for waterflooding that until we can work something out in this acreage.

Q Because of the detached acreage?

A Yes.

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Q You stated that the expanded flood would be a continuation of the five spot pattern. Would that mean that the Newmont No. 5 in the northeast of the southeast of 31 would be an injection well --

A Yes.

Q -- even though Western Oil Fields had not commenced a waterflood, or would you wait until Western has waterflood going on their acreage?

A Wait a minute.

Q No. 5 in the northeast of the southeast of 31. It would appear to be a continuation of the existing pattern?

A Well, of course, we have no control at this time over what Western Oil Fields will do, of course. Certainly, we would like to see them place that on injection.

Q Doesn't that yellow acreage there, that 80 acres, appear to be rather detached from the main body of the project area as you have colored it on the Exhibit?

A Yes, it is somewhat, I would say.

Q Do you know of any plans which may be under way at this present time for unitization of any of the acreage shown on the plat that you have presented here?

A No. As a complete unit of royalty and working interest, and I don't know of any.

Q At any rate, Newmont isn't negotiating with anyone for the formation of the unit in the area?



A No.

Q First of all, are these two agreements identical, the one with Southern Petroleum and the one with Kennedy?

A Essentially, they carry out the same purpose.

Q As I understand it, this is merely an operating agreement whereby Newmont Oil Corporation, or Newmont Oil Company, excuse me, is going to be operating wells belonging to Kennedy Oil Company and to Southern Petroleum Exploration Company for a fixed amount each month, is that correct?

A Yes. In a sense, in that we will have joint facilities involved in this thing, and the operations will be carried on together.

Q Will Newmont spend any money prior to the time that Kennedy or Southern Petroleum have approved an A.F.E. that Newmont prepares, would you wait for the other companies' approval prior to spending the money?

A Well, --

MR. CAMPBELL: Mr. Examiner, we would wait for the approval under the terms of the agreement.

MR. NUTTER: I see.

Q (By Mr. Nutter) For monies that are expended on Newmont's acreage, will Kennedy or Southern Petroleum share in the expenditures of monies on Newmont's acreage?

A We're going to have a joint injection pressure and injection plan, and, as such, why, there'll be some, depending on --



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and this will serve all of it, this will be shared, actually, whether it's located on whose acreage will be incidental, I think, to the actual operation.

Q If you were running a water line down in the southeast area into the checkerboard area there, for example, and this water line were going to supply injection wells on both Newmont and Kennedy's acreage, I presume that Newmont and Kennedy would share in the cost of that line?

A Yes. The well is on Kennedy's acreage.

Q If a well on Newmont's acreage requires working over, will Newmont share in working that over?

A No.

Q Will any oil be credited to a lease from which it wasn't produced?

A No.

Q The two companies will keep their accounts separate as far as production is concerned?

A The oil will be kept separate at all times.

MR. NUTTER: I believe that's all.

MR. HINKLE: One or two more questions.

MR. NUTTER: Mr. Hinkle.

BY MR. HINKLE:

Q Is it your opinion, Mr. Ledbetter, that these cooperative agreements that you have entered into will protect correlative rights for all the parties?

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A Yes, sir.

Q Are you operating this property, the pilot, at the present time at capacity allowables?

A Yes, sir.

Q The production at capacity. And you have no Order from the Commission to permit that. Is that what you stated in your previous testimony?

A I believe that's right.

MR. HINKLE: That's all.

MR. NUTTER: Any further questions? The witness may be excused.

(Witness excused)

MR. CAMPBELL: I have a statement I would like to make.

MR. NUTTER: Do you have any other witnesses, Mr. Campbell?

MR. CAMPBELL: No.

MR. NUTTER: Do you have anything further in this case, Mr. Campbell?

MR. CAMPBELL: A statement, yes, please. I would like to call to the attention of the Examiner some findings that were made in Order No. R-1525, which is now essentially Rule 701 of the Commission, with regard to waterflood projects that had theretofore been authorized. I might also say parenthetically that the allowables and the producing rate and the injection rate for these existing wells in this waterflood project had been reported to the



Commission, and the allowables had been authorized by the Commission. Finding No. 7 of that Order is that the evidence presented indicates that a relatively constant project injection rate is beneficial from the standpoint of economics and operation efficiency, and convenience, and that, thus, its maximum allowable for any particular waterflood project should, insofar as possible and practicable, remain constant. Based upon that finding and with a finding in regard to the institution of facilities for project, then in existence, the Commission concluded in its Order that the allowable provisions contained in revised Rule 701 shall not apply to waterflood projects heretofore authorized by the Commission or to legitimate expansions thereof.

If there is any purpose at all for provision, and certainly there must have been, since it's based on a finding by the Commission, it would appear to me that this is the type of situation to which the Commission must have had reference. Here, for some reason, apparently, the Commission has taken the position today that the expansion must be under the same operation or by the same operator. So long as it's in the same common source of supply, I find that a little hard to understand as a distinction, but thus far the Commission has made it for that reason along with other reasons of operating efficiency. This operator has undertaken to enter into an agreement, cooperative operating agreement with the owners of small tracts of acreage in order to develop this waterflood program and project in an orderly way. For all intents and



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purposes insofar as the operations are concerned and the efficiency of the flood and the maintenance of an orderly program of development, this is exactly the same as you would have under a unit agreement, except that the sharing of the production is not exactly the same, although the acreage is essentially equal, as can be seen from the plat. It seems to me that if it is the position of the Commission that these expansions must be done by the same operator in order to make it a legitimate expansion of an existing project, certainly that has been complied with in this case, and that the Order out of which Rule 701 was amended seems to me, too, to apply directly to a situation of this kind. I feel, therefore, that this is a legitimate request for an expansion of a waterflood project, which was authorized by the Commission prior to the time that Rule 701 was revised in connection with its allowable provisions. Otherwise, it would seem to me that the Commission, and I don't think it's their intention to completely stifle waterflood development in the State and protect correlative rights at the same time.

MR. NUTTER: Does anyone have anything further they wish to offer in Case 2299?

MR. HINKLE: I would like to make a statement.

MR. NUTTER: Mr. Hinkle.

MR. HINKLE: Mr. Examiner, I think the Commission well knows the position of the Humble in regard to capacity allowables in connection with waterflood. I don't think I need to go into that any more; we have gone into it a lot. The fact that this



pilot was approved by the Statewide Order, went into effect, 701, I don't think it entitles them to an exception at this time in a capacity allowable for the expansion of that flood, particularly when the Order, which approved the flood, did not provide for capacity allowable. The Humble is not singling out this particular case, but it would be against exceptions in any case to allow exceptions to your normal Rules for allowables in connection with waterflood projects.

MR. CAMPBELL: Mr. Examiner, Mr. Kennedy is here, and I believe has a statement he would like to make.

MR. KENNEDY: Well, at this time, on behalf of Kennedy Oil, I would like to bring up the point that with Newmont being able to produce at capacity allowable, referring there again to your map with the yellow acreage in mind, we, with the checkerboard acreage, which would be the blue acreage, would be in jeopardy with them producing at capacity, and we being at proration on the blue acreage, in all fairness, that would be why I think that consideration should certainly be given to Kennedy Oil Company for capacity allowable on our acreage involved.

MR. NUTTER: Are there any further statements in Case 2299? We will take the case under advisement, and call next Case 2301.

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STATE OF NEW MEXICO)
) ss
 COUNTY OF BERNALILLO)

I, ADA DEARNLEY, Court Reporter, in and for the County of Bernalillo, State of New Mexico, do hereby certify that the foregoing and attached Transcript of Proceedings before the New Mexico Oil Conservation Commission was reported by me in machine shorthand and reduced to typewritten transcript under my personal supervision, and that the same is a true and correct record, to the best of my knowledge, skill and ability.


WITNESS my Hand and Seal this, the 11th day of June, 1961, in the City of Albuquerque, County of Bernalillo, State of New Mexico.


 NOTARY PUBLIC

My Commission expires:

June 19, 1963

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 2299, heard by me on 6/7, 1961.

 Examiner
 New Mexico Oil Conservation Commission

DEARNLEY-MEIER REPORTING SERVICE, Inc.

PHONE CN 3-6691

ALBUQUERQUE, NEW MEXICO



**BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO**

**IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONSIDERING:**

**CASE No. 2299
Order No. R-1110-B**

**APPLICATION OF NEWMONT OIL
COMPANY FOR AN AMENDMENT
OF ORDERS NOS. R-1110 AND
R-1110-A, EDDY COUNTY,
NEW MEXICO.**

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 o'clock a.m. on ~~June~~ 7, 1961, at Santa Fe, New Mexico, before Daniel S. Nutter, Examiner duly appointed by the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission," in accordance with Rule 1214 of the Commission Rules and Regulations.

NOW, on this 22nd day of June, 1961, the Commission, a ~~quorum~~ being present, having considered the application, the evidence adduced, and the recommendations of the Examiner, Daniel S. Nutter, 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 Order No. R-1110 authorized the institution of a pilot waterflood project in the Square Lake Pool to inject water into the Lower Grayburg and the Upper San Andres formations in Sections 29, 30, and 32 of Township 16 South, Range 31 East, NMPM, Eddy County, New Mexico.

(3) That Order No. R-1110-A authorized the use of different water injection wells from those authorized in Order No. R-1110.

(4) That the applicant, Newmont Oil Company, seeks an amendment of Orders Nos. R-1110 and R-1110-A to permit the expansion of said waterflood project to include lands in Sections 28, 31, 32, 33, and 34, all in Township 16 South, Range 31 East, NMPM, Eddy County, New Mexico.

(5) That the applicant proposes to include in the expansion of said waterflood project certain lands in said Sections 28, 33, and 34 owned by the Kennedy Oil Company, to be operated by the applicant under an agreement with Kennedy Oil Company.

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CASE No. 2299

Order No. R-1110-B

(6) That the applicant proposes to include in the expansion of said waterflood project certain lands in said Section 32 owned by Southern Petroleum Exploration Company, Inc., to be operated by the applicant under an agreement with Southern Petroleum Exploration Company, Inc.

(7) That the conversion to water injection of wells in the area proposed to be included in the waterflood project will constitute a legitimate expansion of a waterflood project which was authorized prior to the issuance of Order No. R-1525, and that this entire area, therefore, should be exempt from the allowable provisions of Rule 701 E.

(8) That due to its location apart from the existing flood, it is impracticable to include the E/2 SE/4 of Section 31, Township 16 South, Range 31 East in the project at this time.

IT IS THEREFORE ORDERED:

(1) That the Square Lake Waterflood Project, to be operated by the applicant, Newmont Oil Company, shall comprise the following-described acreage:

TOWNSHIP 16 SOUTH, RANGE 31 EAST, NUPH
EDDY COUNTY, NEW MEXICO

Section 19: S/2 SE/4
Section 28: W/2 SW/4
Section 29: S/2 E/2 and S/2
Section 30: NE/4 and E/2 SE/4
Section 32: E/2
Section 33: E/2, SE/4 and E/2 SW/4
Section 34: S/2, W/2 NW/4 and
SW/4 NE/4

(2) That all of the above-described acreage which was not included in the previously authorized Square Lake Waterflood Project is hereby designated a legitimate expansion of said project, and shall be exempt from the allowable provisions of Rule 701 E.

(3) That the provisions of Orders Nos. R-1110 and R-1110-A shall remain in full force and effect.

(4) That the waterflood project as expanded by this order shall be operated in accordance with the provisions of Rule 701 E of the Commission Rules and Regulations, except as provided in Paragraph 2 above.

(5) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

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CASE No. 2299

Order No. E-1110-B

DONE at Santa Fe, New Mexico, on the day and year herein-
above designated.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

E. L. Meehan

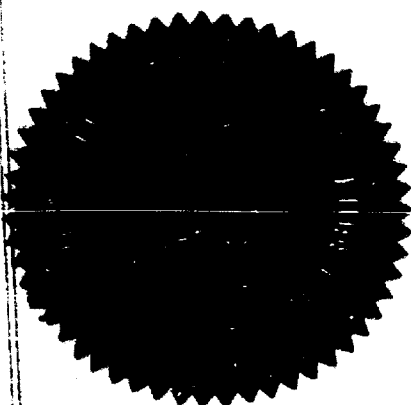
ERWIN L. MEEHAN, Chairman

E. S. Walker

E. S. WALKER, Member

A. L. Foster, Jr.

A. L. FOSTER, JR., Member & Secretary



est/

STATE OF NEW MEXICO

Case No.

3. Applicant has an agreement with Southern Petroleum Exploration Company (as to the NE $\frac{1}{4}$ of Section 32) and Kennedy Oil Company (as to the ^{W $\frac{1}{2}$ S $\frac{1}{2}$ T $\frac{1}{4}$} E $\frac{1}{2}$ SW $\frac{1}{4}$ - Section 28; E $\frac{1}{2}$ NW $\frac{1}{4}$, E $\frac{1}{2}$ NE $\frac{1}{4}$, W $\frac{1}{2}$ SE $\frac{1}{4}$ - Section 33; W $\frac{1}{2}$ SW $\frac{1}{4}$, W $\frac{1}{2}$ SE $\frac{1}{4}$, SW $\frac{1}{4}$ NE $\frac{1}{4}$ - Section 34) whereby the Applicant, as Operator, will expand the pilot area to include the above-described and other tracts (owned by Applicant), under proper orders of the Commission.

4. Orders R-1110 and R-1110-A were entered prior to the revisions of Rule 701 and this Application involves a legitimate expansion of a then-existing waterflood project.

WHEREFORE, Applicant requests the Commission to set this matter down for hearing before an Examiner, publish notice as required by law and, after hearing, to issue its order:

1. Defining the proper limits of the Square Lake Pool waterflood project;
- ✓ 2. Establishing rules for expansion of the flood within the defined area; and
- ✓ 3. Providing for capacity allowables for the area in a like manner as such allowables are now being permitted in the pilot area.

Respectfully submitted

NEWMONT OIL COMPANY

By Jack M. Campbell
Jack M. Campbell, for
CAMPBELL & RUSSELL
P. O. Drawer 640
Roswell, New Mexico

Attorneys for Applicant

DATED: May 8, 1961

AGREEMENT FOR COOPERATIVE WATERFLOOD

EAST SQUARE LAKE FIELD, EDDY COUNTY, NEW MEXICO

THIS AGREEMENT, made and entered into this the 9th day of MAY, 1961, by and between NEWMONT OIL COMPANY, a Delaware Corporation, hereinafter referred to as NEWMONT, and the KENNEDY OIL COMPANY, a New Mexico Corporation, hereinafter referred to as KENNEDY,

W I T N E S S E T H:

WHEREAS, Kennedy is the owner of the operating rights under certain oil and gas leases more particularly described in Exhibit "A" attached hereto and made a part of hereof, from which leases Kennedy is presently producing oil from the San Andres and Grayburg producing horizons but with respect to which as of this date no waterflooding permit has been granted nor has an application for a permit granting the right to develop such leases by waterflooding permitting capacity allowables been filed before the Oil Conservation Commission of New Mexico; and,

WHEREAS, Newmont Oil Company is the owner of the operating rights under certain oil and gas leases more particularly described in said Exhibit "A" on which leases Newmont is engaged in a waterflooding project for the purpose of producing oil from the San Andres and Grayburg producing horizons under the authority of a permit Newmont holds from the Oil Conservation Commission of New Mexico granting to Newmont the right to waterflood such leases and produce oil therefrom with no limitation on allowables; and,

WHEREAS, Newmont has recently expanded from its initial pilot area by converting and placing on injection two additional wells and as a result of the increased oil production to date from its waterflooding activities, Newmont intends to continue the orderly expansion of its waterflood until all of its above described acreage which will respond to such method of production is encompassed and being produced by such waterflood activities; and,

WHEREAS, the parties hereto recognize that in the orderly expansion of Newmont's flood activities Kennedy's acreage shown on the attached Exhibit "B", as being in the area here designated and hereafter referred to in this agreement as the "cooperative area" will likewise become subject to waterflooding as a natural expansion of Newmont's waterflooding activities; and,

BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
EXHIBIT NO. <u>2</u>
CASE NO. <u>2299</u>

WHEREAS, the parties hereto desire to operate and develop the leasehold acreage described in Exhibit "A" which is located in the cooperative area as shown on Exhibit "B" so that the wells located on such acreage in this area will be used and operated on a cooperative and efficient basis for the secondary production of oil by waterflooding the presently producing San Andres and Grayburg formations;

NOW, THEREFORE, in consideration of the mutual covenants herein contained and other benefits to be derived by the parties hereto, the parties hereto agree as follows:

I.

Kennedy hereby authorizes Newmont to make and prosecute an application to the Oil Conservation Commission of New Mexico for authority to operate and produce Kennedy's properties involved in this agreement and described in Exhibit "A" attached hereto upon the same basis permitted to Newmont under present authority from the Commission.

If such authority is not obtained on or before 90 days from the date of this agreement then in that event this agreement at the option of either of the parties hereto shall be null and void.

II.

As Newmont's expansion of its present waterflood project progresses and additional wells located in the cooperative area need to be converted to and operated as water input wells in order to maintain an orderly expansion program, each party shall without delay complete the conversion and equipping of such necessary water input wells on its own acreage as its sole cost, risk and expense immediately after both parties agree that such action is appropriate and necessary.

III.

Within thirty (30) days after each party has approved plans, applications and cost estimates submitted by Newmont, the parties shall commence the installation of the equipment necessary for the pressuring and delivering of pressured water in volumes adequate to develop the properties subject to this agreement for the secondary recovery of oil through waterflood development. The cost of such installation and equipment, including, for example but not by way of limitation, the central water pressuring plant, water-storage

tanks, water supply lines from Newmont's source of water, and water supply lines to the injection wells on both the Newmont and Kennedy leases, shall be borne by the parties hereto in the same ratio as their ownership of these "active" wells in the cooperative area to be served by such facilities bears to the total number of these "active" wells in the cooperative area shown on Exhibit "B" to be served by such facilities. After the installation of and payment for these facilities the ratio of ownership shall remain constant as between the parties hereto during the cooperative flooding of this project, regardless of any future fluctuation in the number of "active" wells in the cooperative area. For the purposes of this agreement, "active" wells are defined as wells in the cooperative area which are used either for water injection purposes or as producers of oil. The cooperative area for the purposes of this agreement is that area shown on Exhibit "B" as the cooperative area.

All other equipment (excepting those jointly installed and paid for as above provided) now in or on said leases, shall be and remain the property of the party operating such leases. Any equipment hereafter placed in or on said leases shall be at the sole expense of the party operating the lease upon which said equipment is placed and title to such equipment shall remain in such party.

Costs of the joint facilities shall be submitted to Kennedy on "Authorization for Expenditure" (AFE) and Kennedy shall promptly approve such AFE's as are substantially within the approved estimated costs and return the same together with his check for his proportionate part of such costs to Newmont. Thereafter Newmont shall proceed with the work covered by such AFE's.

IV.

Newmont shall advise upon and supervise the conversion of all wells in the cooperative area, and supervise the installation and operation of the joint facilities, the operation of water input wells, the rate of injection of water into each of said wells, and all other matters pertinent to the operation of said central water facilities and the wells in the cooperative area. Newmont shall have the right of ingress and egress on each of Kennedy's leases, insofar as Kennedy is able to so provide, for the purpose of supervising the waterflood project.

Newmont shall conduct such supervision in a manner consistent with good engineering practices, and shall furnish to Kennedy monthly progress reports setting out all pertinent information with regard thereto.

Newmont, as Supervisor of the cooperative area, shall make weekly well tests of the producing wells located on all tracts to determine the amount of oil and water being produced therefrom, the pump diameter, pump strokes per minute, the number of hours tested and any other information pertinent to the operation of the waterflood project in the cooperative area.

Newmont shall not be liable for any loss or damage to Kennedy arising out of Newmont's advice or supervision in the absence of gross negligence, bad faith or fraud.

V.

During the life of this agreement a meeting of the parties shall be held in each calendar quarter to consider and approve Newmont's plan of operation and budget therefor for the succeeding quarter and to discuss such other matters in connection with the operation of the cooperative area as either party then deems desirable. After approval of such plan and budget Newmont shall submit an AFE to Kennedy based on such plan and budget for Kennedy's proportionate part of all approved expenditures estimated on a monthly basis. Within five (5) days after the receipt of such AFE Kennedy shall approve and return it to Newmont together with Kennedy's check for its share of the first month's authorized estimated expenditure. Newmont shall in each calendar month during the term of this agreement furnish Kennedy with a statement supported by proper receipts or vouchers covering all expenditures made during the previous calendar month for the account of Kennedy, and setting forth the estimated expenditures for the current calendar month as previously authorized by the outstanding AFE and increased or decreased by the amount the actual expenditures the previous month were greater or less than the estimate for that month. Kennedy within five (5) days after receipt of such statement shall forward its check to Newmont covering the estimated authorized expenditures as so adjusted for the current month.

Notwithstanding the foregoing Newmont may from time to time without specific prior authority expend such sums as it considers necessary or advisable for Kennedy's account up to \$1,000 per expenditure; and in the case of an emergency Newmont may expend such sum in excess of \$1,000 without prior authorization as it considers necessary. Newmont shall notify Kennedy of any such previously unauthorized expenditure as made and as soon thereafter as convenient shall submit

a statement to Kennedy for such expenditure. Kennedy within five (5) days after receipt of same shall pay such statement.

VI.

To compensate Newmont for its supervision of the waterflood project and to reimburse it for its expense in connection therewith, a monthly charge shall be made to Kennedy on the following basis:

- (a) An administrative overhead charge of \$ 30⁰⁰ per well per month for each injection and producing well located on any Kennedy tract in the cooperative area. This rate shall commence on the effective date of this agreement, and shall continue until construction of any of the joint facilities provided in Paragraph III above has actually commenced; thereafter this rate shall terminate, and during the remaining term of this agreement the rate shall be as follows:
- (b) An administrative overhead charge of \$ 60⁰⁰ per well per month for each injection and producing well located on any Kennedy tract in the cooperative area.

In addition, Newmont shall bill Kennedy and Kennedy shall pay each month (at the price Newmont pays) for one-half ($\frac{1}{2}$) of all the water metered at the point of entry into the central plant facilities servicing this project.

Each party shall pay all direct costs of operating the wells located on its tracts in the cooperative area, including the salary and expenses of any and all personnel up through and including the pumper lever. In the event one pumper can service all of the active wells in the cooperative area, Newmont shall employ such pumper and his salary and the expense of maintaining such employee shall be paid for by the parties in the same ratio as the active wells owned by each party hereto and serviced by such pumper bears to the total number of active wells serviced by such pumper.

All charges covered by this paragraph shall be estimated and included and made a part of the quarterly budget submitted by Newmont as provided in Paragraph V hereof.

Newmont is hereby granted a lien on Kennedy's interest in the jointly owned waterflood facilities and equipment to secure the payment of all amounts due or to become due from Kennedy to Newmont. Such lien may be enforced by and at the option of Newmont as a mortgage lien or as any other lien afforded by the law of the state in such cases.

VII.

In the event this waterflood project should not be successful and

both parties hereto desire to abandon the same, Newmont shall, upon the parties mutually agreeing in writing, cease waterflood operations, proceed to salvage the jointly owned equipment, sell the same and distribute the proceeds to the parties in accordance with the ownership therein, less the cost of salvaging the same. Thereafter, this agreement shall become null and void and of no further force and effect, except as to any obligation theretofore incurred by either party.

VIII.

This cooperative agreement may be extended to include additional leases adjacent to the area covered hereby, and to additional operators, under the terms and conditions to be mutually agreed upon by the parties hereto and any other parties seeking to participate in the cooperative waterflooding of the San Andres and Grayburg producing horizons in the Square Lake Field.

IX.

At any time after one year from the effective date hereof, if either party so desires, it may withdraw from this agreement upon sixty (60) days' written notice to the other party.

X.

When and if any third party owning an interest in a tract of land in any of the cooperative area covered in this agreement files or presents any claim for damages to such tract, surface or sub-surface, by reason of the operations thereon as provided hereunder the party operating the lease or leases on any such tract and who is a party hereto shall be solely responsible and liable for any such claims for damages, and will hold the other party hereto harmless therefrom, and will take whatever action is necessary to defend or settle any such claim or claims to the end that the other party hereto incurs no liability or expense in connection therewith.

In the event any such claim arises on a tract or tracts on which neither of the parties hereto owns an operating interest, then the party or parties hereto operating a lease or leases on the tract or tracts, the operation of which under the terms hereof forms the basis for such claim, shall be solely responsible and liable for any such claim and shall settle or defend the same so that the other party hereto shall not be liable therefor, or incur any expense in connection therewith.

XI.

This agreement shall in no way affect the obligations of either of the parties hereto to produce the oil from their own wells, and each party shall continue to own and be entitled to all production from its own wells and leases. The duties, liabilities and obligations of the parties hereto are intended to be several and not joint or collective, and nothing herein contained shall ever be construed to impose a partnership obligation or liability with regard to the parties hereto. Each party shall be individually responsible only for its obligation as set out herein, and be liable only for its proportionate share of the costs and expenses as herein stipulated.

XII.

This agreement shall not constitute a partnership and each party elects to be excluded from the application of all of Sub-Chapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1954, pursuant to Section 761 thereof.

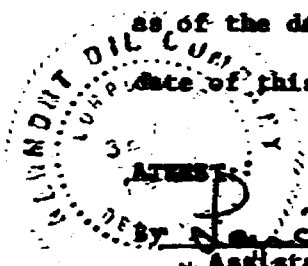
XIII.

No assignment of this agreement shall be made or become effective unless the written consent of the non-assigning party is first obtained. Subject hereto, and subject to the provisions of the leases, the terms and provisions hereof shall be covenants running with the lands and leases covered hereby, and shall be binding upon and inure to the benefit of the respective parties hereto, their heirs, successors, legal representatives and assigns.

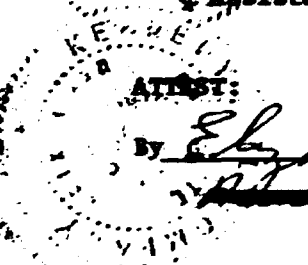
Any sale or transfer by any of the parties hereto of an interest in any lease committed to this agreement shall be made expressly subject to the terms hereof.

IN WITNESS WHEREOF, the parties hereto have executed this agreement

as of the date first above written, which is for all purposes the effective date of this agreement.



ATTEST:
By Janice Warren
Assistant Secretary



ATTEST:
By Elizabeth J. Kennedy
Secretary

NEWMONT OIL COMPANY

By Charles D. Dugan
Vice President

KENNEDY OIL COMPANY

By Robert Kennedy
Vice President

EXHIBIT "A", ATTACHED TO AND
MADE A PART OF AN AGREEMENT
DATED MAY 9, 1961,
BETWEEN KENNEDY OIL COMPANY
AND NEWMONT OIL COMPANY

I. Kennedy Oil Company Leases

1. Oil and Gas Lease made December 27, 1937, between the United States and S. P. Johnson, bearing Las Cruces Serial No. 060548(b), insofar as it covers the following lands in Eddy County, New Mexico:

Township 16 South, Range 31, East, N.M.P.M.

Section 33: E/2 NW/4

and containing 80 acres, more or less, together with
Wells No. 1 and 3 thereon.

2. Oil and Gas Lease made December 27, 1937, between the United States and S.P. Johnson, bearing Las Cruces Serial No. 065561, insofar as it covers the following lands in Eddy County, New Mexico:

Township 16 South, Range 31 East, N.M.P.M.

Section 34: SW/4 NE/4

and containing 40 acres, more or less, together with
Well No. 17 thereon.

3. Operating Agreement made August 26, 1943, between Fullerton Oil Company and G. B. Suppes, insofar as it covers Oil and Gas Lease made December 27, 1937, between the United States and S.P. Johnson, bearing Las Cruces Serial No. 056302(b), insofar as said Operating Agreement and oil and Gas Lease cover the following lands in Eddy County, New Mexico:

Township 16 South, Range 31 East, N.M.P.M.

Section 28: W/2 SW/4

Section 33: E/2 NE/4, W/2 SE/4

Section 34: W/2 SE/4, W/2 SW/4

and containing 400 acres, more or less, together with
Wells Nos. 2,4,5,6,8,10,11,12,13,15 and 16 thereon.

II. Newmont Oil Company Leases

1. Oil and Gas Lease made December 27, 1937, between the United States and S. P. Johnson, bearing Las Cruces Serial No. 063368, insofar as it covers the following lands in Eddy County, New Mexico:

Township 11 South, Range 31 East, N.M.P.M.

Section 33: W/2 NW/4, W/2 NE/4, E/2 SE/4, E/2 SW/4

and containing 320 acres, more or less, together with
Well Nos. 1,2,3,4,5,6,7, and 8 thereon.

2. Oil and Gas Lease made December 27, 1937, between the United States and S. P. Johnson, bearing Las Cruces Serial No. 065561-A, insofar as it covers the following lands in Eddy County, New Mexico:

Township 16 South, Range 31 East, N.M.P.M.

Section 34: E/2 SE/4, W/2 NW/4

and containing 160 acres, more or less, together with

Wells Nos. 1, 2, 3 and 4 thereon.

3. Oil and Gas Lease made December 27, 1937, between the United States and S. P. Johnson, bearing Las Cruces Serial No. 029438(b), insofar as it covers the following lands in Eddy County, New Mexico:

Township 16 South, Range 31 East, N.M.P.M.

Section 34: E/2 SW/4

containing 80 acres, more or less, together with

Wells Nos. 5 and 6, thereon.

AGREEMENT FOR COOPERATIVE WATERFLOOD

EAST SQUARE LAKE FIELD, HUBY COUNTY, NEW MEXICO

THIS AGREEMENT, made and entered into this the 23rd day of May, 1961, by and between NEWMONT OIL COMPANY, a Delaware Corporation, hereinafter referred to as NEWMONT, and Southern Petroleum Exploration Company, Inc., a Delaware Corporation, hereinafter referred to as Southern Petroleum.

W I T N E S S E T H:

WHEREAS, Southern Petroleum is the owner of that certain oil and gas lease dated April 10, 1934, bearing Serial No. B-2721 executed by the State of New Mexico as Lessor to Southern Petroleum Exploration Company, Inc., as Lessee, covering among other lands the Northeast Quarter of Section 32, Township 16 South, Range 31 East (hereafter referred to as Subject Acreage) and from which Southern Petroleum is presently producing primary oil from the San Andres and the Grayburg producing horizons, but with respect to which as of this date no waterflooding permit has been granted, nor has an application for such permit been made; and,

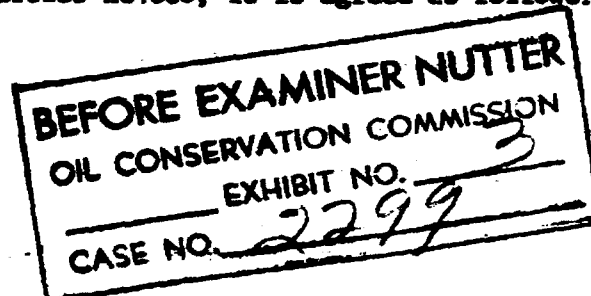
WHEREAS, Newmont Oil Company is the owner of the operating rights under certain oil and gas leases abutting the Southern Petroleum Company acreage on the north, east and west, and on which such leases Newmont is engaged in a waterflooding project for the purpose of producing oil from the San Andres and Grayburg producing horizons under the authority of a permit Newmont holds from the Oil Conservation Commission of New Mexico granting to Newmont the right to waterflood such leases and produce oil therefrom; and,

WHEREAS, Newmont has recently expanded from its initial pilot area and is presently injecting water into two wells, each of which constitute direct offsets to the Subject Acreage; and,

The parties hereto recognize that in the orderly expansion of Newmont's flood activities the Subject Acreage will become subject to waterflooding as a natural expansion of Newmont's waterflooding activities; and,

WHEREAS, Southern Petroleum desires to have Newmont develop and operate the Subject Acreage so that such acreage may become subject to secondary production by waterflooding at the earliest possible date.

NOW, THEREFORE, in consideration of the mutual covenants herein contained and other benefits to be derived by the parties hereto, it is agreed as follows:



I.

Southern Petroleum hereby authorizes Newmont to make and prosecute an application to the Oil Conservation Commission of New Mexico for authority to operate and produce Southern Petroleum's properties involved in this agreement and described in Exhibit "A" attached hereto upon the same basis permitted to Newmont under present authority from the Commission.

If such authority is not obtained on or before 90 days from the date of this agreement then in that event this agreement at the option of either of the parties hereto shall be null and void.

II.

Newmont on the effective date of this agreement will take over Subject Acreage and thereafter perform or have performed such work on the wells located thereon as Newmont deems advisable so that Wells Nos. 2 and 4 may be converted to water input wells just as soon as permission for such conversion of wells can be secured from the Oil Conservation Commission of New Mexico. Newmont will thereafter operate this acreage during the term of this agreement pursuant to the provisions hereof and in a manner consistent with good engineering practices. Newmont shall have such right of ingress and egress on Subject properties as is necessary for it to assume and discharge its obligations recited herein.

III.

Newmont shall not be liable for any loss or damage to Southern Petroleum arising out of Newmont's operations hereunder in the absence of gross negligence, bad faith or fraud.

IV.

As soon as possible after the effective date of this agreement Newmont will submit to a representative of Southern Petroleum (hereafter designated) a plan (together with budget) to convert Wells Nos. 2 and 4 to water input wells and the connection of such wells to Newmont's central water pressuring facilities. Such budget will be in the form of an Authorization for Expenditure (A.F.E.) which, if acceptable, will be approved and returned to Newmont together with Southern Petroleum's check for the first month's estimated expenditure. Thereafter, Newmont will bill Southern Petroleum monthly for the estimated expenditure for the succeeding month on the basis of the expense authorized by such A.F.E.

Southern Petroleum within five days after receipt of such estimates will submit its check in payment of such estimated expenditures.

Except for this initial plan, budget and A.F.E. which will cover the major expenditures in connection with the development of Subject Acreage, it is not contemplated that any additional plans or budgets for the operating of subject acreage will be submitted for approval during the term of this agreement.

It is understood, however, that Newmont may spend without prior specific authority such sums as it deems necessary or advisable for Southern Petroleum's account up to \$1,000.00 per expenditure; and in the case of an emergency Newmont may expend such sum in excess of \$1,000.00 without prior authorization as it considers necessary. Newmont will notify Southern Petroleum of any such previously unauthorized expenditure as made and as soon thereafter as convenient shall submit a statement to Southern Petroleum for such expenditure. Southern Petroleum within five (5) days after receipt of same shall pay such statement.

V.

Newmont shall furnish Southern Petroleum monthly progress reports setting out all pertinent information with regard to the operation of Subject Acreage.

VI.

To compensate Newmont for its operation and supervision of Subject Acreage and to reimburse it for its expenses in connection therewith, a monthly charge of \$240.00 shall be made to Southern Petroleum.

In addition Newmont shall bill Southern Petroleum and Southern Petroleum shall pay each month for all the water metered into Southern Petroleum's water input wells. The charge for the water will be at the per barrel rate equal to the amount Newmont pays Yucca Water Company for such water plus an extra charge of 1¢ per barrel to defray Newmont's expense of pressuring such water for injection purposes.

Southern Petroleum in addition will pay as direct charges all other costs and expenses of developing and operating Subject Acreage, including the salary and expenses of any and all personnel up through and including the pumper level. If Newmont, as contemplated, furnishes the pumper who will take care of the wells on Subject Acreage, Southern Petroleum will be charged a pro-rata share of the cost of maintaining such employee based on the direct ratio between Southern

Petroleum's wells operated by such pumper and the total number of wells for which such pumper is responsible.

Newmont is hereby granted a lien on Southern Petroleum's interest in the Subject Acreage together with the equipment and facilities located thereon to secure the payment of all amounts due or to become due from Southern Petroleum to Newmont. Such lien may be enforced by and at the option of Newmont as a mortgage lien or as any other lien afforded by the law of the State in such cases.

VII.

In the event any claim for damages is made by a third party or a lawsuit is filed by any third party as a result of the development and operation of Subject Acreage under the terms hereof, Southern Petroleum will defend such claim or lawsuit and will hold Newmont harmless in the absence of gross negligence on the part of Newmont.

VIII.

This agreement shall in no way affect the obligations of either of the parties hereto to produce the oil from their own wells, and each party shall continue to own and be entitled to all production from its own wells and leases. The duties, liabilities and obligations of the parties hereto are intended to be several and not joint or collective, and nothing herein contained shall ever be construed to impose a partnership obligation or liability with regard to the parties hereto. Each party shall be individually responsible only for its obligation as set out herein, and be liable only for its proportionate share of the costs and expenses as herein stipulated.

IX.

This agreement shall not constitute a partnership and each party elects to be excluded from the application of all of Sub-Chapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1954, pursuant to Section 761 thereof.

X.

R. S. Gaston, whose address is P. O. Box 515, Hobbs, New Mexico is hereby designated by Southern Petroleum as its representative for all purposes under the terms of this agreement.

XI.

No assignment of this agreement shall be made or become effective

unless the written consent of the non assigning party is first obtained.

Subject hereto, and subject to the provisions of the leases, the terms and provisions hereof shall be covenants running with the lands and leases covered hereby, and shall be binding upon and inure to the benefit of the respective parties hereto, their heirs, successors, legal representatives and assigns.

Any sale or transfer by any of the parties hereto of an interest in any lease committed to this agreement shall be made expressly subject to the terms hereof.

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the date first above written. The effective date however will be June 1, 1961.

ATTEST:

By Ronile Warren
Assistant Secretary

ATTEST:

By L. J. Gandy
SECRETARY

MEMMONT OIL COMPANY

By Charles C. Snyder
Vice President

SOUTHERN PETROLEUM EXPLORATION CO., INC.

By John C. Wright
PRESIDENT



UNITED STATES
DEPARTMENT OF THE INTERIOR
GEOLOGICAL SURVEY
Drawer 1857
Roswell, New Mexico

IN REPLY REFER TO:

May 29, 1961

Newmont Oil Company
Fort Worth National Bank Building
Fort Worth 2, Texas

Attention: Mr. Charles C. Langdon

Gentlemen:

Your letter of May 12, 1961, requests approval to initiate a cooperative waterflood in the Grayburg formation in the East Square Lake Field, Eddy County, New Mexico, which will include the following Federal leases:

NM 08131	LC 060528
LC 029426-A	LC 060543
LC 029426-B	LC 060723
LC 029431	LC 060971
LC 029437	LC 063368
LC 029438-B	LC 065561-A
LC 056302-B	LC 068064

You have furnished a plat showing the proposed injection pattern to be used in the cooperative waterflood program which involves staggered injection wells across the individual Federal and State lease lines.

Your proposal is approved as to the above described Federal leases subject to the condition that the oil produced from each Federal lease shall be individually measured and sold.

The appropriate notices to convert wells to water injection wells should be filed with the District Engineer, U. S. Geological Survey, Drawer U, Artesia, New Mexico. Duplicate copies of a monthly progress report should be submitted to this office including the amount of water injected into each well and average injection pressures.

Very truly yours,

John A. Anderson
Acting Supervisor

JOHN A. ANDERSON
Regional Oil and Gas Supervisor

BEFORE EXAMINER NUTTER	
OIL CONSERVATION COMMISSION	
EXHIBIT NO.	<i>Newmont</i>
CASE NO.	<i>2299</i>

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