

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

**IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:**

**CASE NO. 12250
ORDER NO. R-11275**

**APPLICATION OF THUNDERBOLT PETROLEUM, LLC FOR A WATERFLOOD
PROJECT AND QUALIFICATION FOR THE RECOVERED OIL TAX RATE
PURSUANT TO THE "NEW MEXICO ENHANCED OIL RECOVERY ACT", EDDY
COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on October 21, 1999, at Santa Fe, New Mexico, before Examiner Mark W. Ashley.

NOW, on this 9th day of November, 1999, the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

FINDS THAT:

- (1) Due public notice has been given and the Division has jurisdiction of this case and its subject matter.
- (2) The applicant, Thunderbolt Petroleum, LLC, seeks authority to institute a waterflood project on its Calmon State Lease, which comprises the SW/4 of Section 16, Township 18 South, Range 29 East, NMPM, Eddy County, New Mexico, by the injection of water into the Queen Grayburg and San Andres formations, Loco Hills-Queen Grayburg San Andres Pool, through two injection wells described in Exhibit "A" attached to this order.
- (3) The applicant currently operates five producing wells and one temporarily abandoned well within the proposed project area. Two of the producing wells, the Calmon State Well No. 1 located in Unit L of Section 16 and the Calmon State Well No. 3 located in Unit M are to be used as injection wells within the proposed waterflood project. The temporarily abandoned well, the Calmon State Well No. 4 located in Unit K, will remain temporarily abandoned. The three remaining wells, the Calmon State Well No. 2 located in Unit L, the Calmon State Well No. 5 located in Unit M, and the Calmon State Well No. 6 located in Unit N, will be utilized as producing wells within the proposed waterflood project.

(4) The producing wells within the proposed project area are in an advanced state of depletion and should properly be classified as “stripper” wells.

(5) The applicant’s testimony indicates that the applicant controls 100 percent of the working interest within the proposed project area.

(6) Applicant testified that the proposed waterflood operations within the project area should result in the recovery of an additional 115,000 barrels of oil that would otherwise not be recovered, thereby preventing waste.

(7) The estimated cost to implement the waterflood project is \$125,200 dollars.

(8) Approval of the proposed waterflood project will not violate correlative rights.

(9) The injection of water into the wells shown in Exhibit “A” should be accomplished through 2 3/8-inch internally plastic-lined tubing installed in a packer set within 100 feet of the uppermost injection perforations; the casing-tubing annulus should be filled with an inert fluid and a gauge or approved leak-detection device should be attached to the annulus in order to determine leakage in the casing, tubing or packer.

(10) The evidence presented by the applicant indicates that all of the wells within the “area of review” of the wells shown in Exhibit “A” are cased and cemented or plugged and abandoned in a manner to confine the injection fluid to the proposed injection interval.

(11) Prior to commencing injection operations into the wells in Exhibit “A”, the casing should be pressure tested throughout the interval from the surface down to the proposed packer setting depth to assure the integrity of such casing.

(12) The wells in Exhibit “A” should be equipped with a pressure control device or acceptable substitute that will limit the surface injection pressure to that shown on Exhibit “A.”

(13) The Division Director should have the authority to administratively authorize a pressure limitation in excess of the pressure limitation shown on Exhibit “A” upon a showing by the operator that such higher pressure will not result in the fracturing of the injection formation or confining strata.

(14) The operator should give advance notification to the supervisor of the Division’s Artesia District Office of the date and time of installation of the injection

equipment and performance of the mechanical integrity pressure test in order that the same may be witnessed.

(15) The proposed waterflood project should be approved and the project should be governed by the provisions of Division Rules No. 701 through 708.

(16) The injection authority granted herein for any well in Exhibit "A" should terminate one year after the effective date of this order if the operator has not commenced injection operations into the well, provided however, the Division, upon written request by the operator, may grant an extension thereof for good cause shown.

(17) The applicant further requested that the proposed waterflood project be approved by the Division as a qualified "Enhanced Oil Recovery Project" pursuant to the "New Mexico Enhanced Oil Recovery Act," Sections 7-29A-1 through 7-29A-5, NMSA 1978.

(18) The evidence presented indicates that the proposed waterflood project meets all the criteria for approval.

(19) The approved project area should comprise the SW/4 of Section 16.

(20) To be eligible for the enhanced oil recovery (EOR) tax rate the operator must request from the Division a Certificate of Qualification prior to commencing injection operations, which certificate will specify the project area as described above.

(21) At such time as a positive production response occurs and within five years from the date of the Certificate of Qualification, the applicant must apply to the Division for certification of positive production response. The application shall identify the area actually benefiting from enhanced recovery operations and the specific wells the operator believes are eligible for the tax rate. The Division may review the application administratively or set it for hearing. Based upon evidence presented, the Division will certify to the Department of Taxation and Revenue those lands and wells that are eligible for the tax rate.

IT IS THEREFORE ORDERED THAT:

(1) The applicant, Thunderbolt Petroleum, LLC, is hereby authorized to institute a waterflood project on its Calmon State Lease, which comprises the SW/4 of Section 16, Township 18 South, Range 29 East, NMPM, Eddy County, New Mexico, by the injection of water into the Queen Grayburg and San Andres formations, Loco Hills-Queen Grayburg San Andres Pool, through two injection wells described in Exhibit "A" attached to this order.

(2) The operator shall take all steps necessary to ensure that the injected water enters only the proposed injection interval and is not permitted to escape to other formations or onto the surface from injection, production, or plugged and abandoned wells.

(3) The injection of water into the wells shown in Exhibit "A" shall be accomplished through 2 3/8-inch internally plastic-lined tubing installed in a packer set within 100 feet of the uppermost injection perforations; the casing-tubing annulus shall be filled with an inert fluid and a gauge or approved leak-detection device shall be attached to the annulus in order to determine leakage in the casing, tubing or packer.

(4) Prior to commencing injection operations into the wells shown in Exhibit "A", the casing shall be pressure tested throughout the interval from the surface down to the proposed packer setting depth to assure the integrity of such casing.

(5) The wells in Exhibit "A" shall be equipped with a pressure control device or acceptable substitute that will limit the surface injection pressure to that shown on Exhibit "A."

(6) The Division Director shall have the authority to administratively authorize a pressure limitation in excess of the pressure limitation shown on Exhibit "A" upon a showing by the operator that such higher pressure will not result in the fracturing of the injection formation or confining strata.

(7) The operator shall give advance notification to the supervisor of the Division's Artesia District Office of the date and time of installation of the injection equipment and performance of the mechanical integrity pressure test in order that the same may be witnessed.

(8) The operator shall immediately notify the supervisor of the Division's Artesia District Office of the failure of the tubing, casing or packer in any injection well, the leakage of water, oil or gas from or around any producing well, or the leakage of water, oil or gas from any plugged and abandoned well within the project area, and shall take such steps as may be timely and necessary to correct such failure or leakage.

(9) The project is hereby designated the Calmon State Waterflood Project.

(10) The operator shall conduct injection operations in accordance with Division Rules No. 701 through 708 and shall submit monthly progress reports in accordance with Division Rules No. 706 and 1115.

(11) The Calmon State Waterflood Project is hereby approved as an "Enhanced Oil Recovery Project" pursuant to the "New Mexico Enhanced Oil Recovery Act," Sections 7-29A-1 through 7-29A-5, NMSA 1978.

(12) The approved project area shall comprise the SW/4 of Section 16 of Section 34.

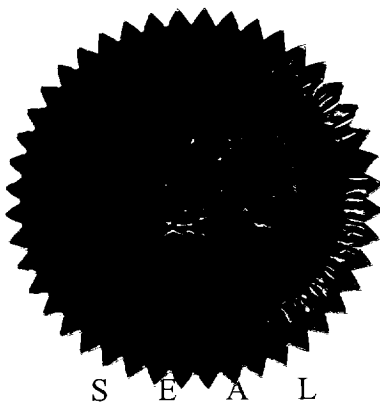
(13) To be eligible for the enhanced oil recovery (EOR) tax rate, the operator must request from the Division a Certificate of Qualification prior to commencing injection operations, which certificate will specify the project area as described above.

(14) At such time as a positive production response occurs and within five years from the date of the Certificate of Qualification, the applicant must apply to the Division for certification of positive production response. The application shall identify the area actually benefiting from enhanced recovery operations and the specific wells the operator believes are eligible for the tax rate. The Division may review the application administratively or set it for hearing. Based upon evidence presented, the Division will certify to the Department of Taxation and Revenue those lands and wells that are eligible for the tax rate.

(15) The injection authority granted herein for any well in Exhibit "A" shall terminate one year after the effective date of this order if the operator has not commenced injection operations into the well, provided however, the Division, upon written request by the operator, may grant an extension thereof for good cause shown.

(16) Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

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



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

Lori Wrotenbery
LORI WROTENBERY
Director

EXHIBIT “A”
DIVISION ORDER NO. R-11275
APPROVED INJECTION WELLS
CALMON STATE WATERFLOOD PROJECT

Well Name & Number	Location	Injection Interval	Packer Setting Depth	Max. Surface Inj. Pressure
Calmon State No. 1	2310 FSL & 990 FWL, Unit L, Section 16, Township 18 South, Range 29 East	2,265’ – 2,679’	2,176’	453 PSIG
Calmon State No. 3	990 FSL & 990 FWL, Unit M, Section 16, Township 18 South, Range 29 East	2,264’ – 2,599’	2,180’	453 PSIG