

Entered May 9, 1984
JMR

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

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

CASE NO. 7945
Order No. R-7375-A

APPLICATION OF J. CLEO THOMPSON
AND JAMES CLEO THOMPSON, JR., A
PARTNERSHIP, FOR STATUTORY UNITI-
ZATION, EDDY COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8 a.m. on October 12, 1983, and April 11, 1984, at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 9th day of May, 1984, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

- (1) That due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.
- (2) That Division Order No. R-7375 entered on October 20, 1983, established the West Square Lake Unit as a voluntary unit agreement in Eddy County, New Mexico.
- (3) That the applicant, J. Cleo Thompson and James Cleo Thompson, Jr., a partnership, now seeks the statutory unitization, pursuant to the "Statutory Unitization Act," Sections 70-7-1 through 70-7-21, NMSA, 1978, of 3,320 acres, more or less, for purposes of secondary recovery, being the West Square Lake Unit; that applicant further seeks approval of the Unit Agreement and Unit Operating Agreement which were submitted in evidence as applicant's Exhibits Nos. 2 and 3, respectively, in this case.
- (4) That the horizontal limits of said West Square Lake Unit should be amended to comprise the following described

lands in Eddy County, New Mexico:

TOWNSHIP 16 SOUTH, RANGE 30 EAST, NMPM

Section 26: SE/4 and S/2 NE/4
Section 32: SE/4 NE/4 and E/2 SE/4
Sections 33 through 35: All
Section 36: SE/4, N/2 SW/4, and
SE/4 SW/4

TOWNSHIP 17 SOUTH, RANGE 30 EAST, NMPM

Section 2: N/2 N/2
Section 4: E/2, NW/4, N/2 SW/4, and
SE/4 SW/4

containing 3,320 acres, more or less.

(5) That the vertical limits of said West Square Lake Unit should comprise the stratigraphic interval underlying the Unit area which is productive of unitized substances having been heretofore found to occur in the Newmont Oil Company Etz "C" Well No. 1 (located in Section 34, Township 16 South, Range 30 East, NMPM, Eddy County, New Mexico) at an indicated depth of from 2,818 feet to 3,150 feet, as recorded on the Borehole Compensated Sonic Gamma log measured from a Kelley bushing elevation of 3,740 feet above sea level.

(6) That the acreage proposed to be included in the aforesaid West Square Lake Unit has been reasonably defined by development.

(7) That the applicant proposes to institute a waterflood project for the secondary recovery of oil, gas, gaseous substances, sulfur contained in gas, condensate, distillate and all associated and constituent liquid or liquefied hydrocarbons within and to be produced from the proposed unit area, pursuant to Orders Nos. R-1354, R-2823, R-3156, and amendments thereto.

(8) That the proposed secondary recovery operations should result in the additional recovery of not less than 30,000 barrels of oil for each ten acres, with the initial development program to be instituted within ten months of approval hereof by two five-well pilots.

(9) That the unitized management, operation and further development of the West Square Lake Unit, as proposed, is reasonably necessary to effectively carry on secondary recovery operations and will substantially increase the ultimate recovery of oil and gas from the unitized portion of the pool.

(10) That the proposed unitized method of operation as applied to the West Square Lake Unit is feasible and will result with reasonable probability in the increased recovery of substantially more oil and gas from the unitized portion of the pool than would otherwise be recovered without unitization.

(11) That the estimated additional investment and operating costs of the proposed secondary recovery operations in the initial development program is approximately \$700,000.

(12) That the estimated additional costs of the proposed operations (as described in Finding No. (11) above) will not exceed the estimated value of the additional oil and gas plus a reasonable profit.

(13) That the applicant, the designated Unit Operator pursuant to the Unit Agreement and the Unit Operating Agreement, has made a good faith effort to secure voluntary unitization within the West Square Lake Unit.

(14) That the unitization program and Unit Agreement have been executed by 100% of the working interest owners, and approximately 89% of the non-cost bearing interests, including fee overriding royalty owners, the State of New Mexico, and the Bureau of Land Management on behalf of the United States, subject to final approval.

(15) That there are certain interest owners in the proposed unit area who have declined to voluntarily join the unit.

(16) That the participation formula contained in the unitization agreement allocates the produced and saved unitized substances to the separately owned tracts in the unit area on a fair, reasonable and equitable basis.

(17) That unitization and the adoption of the proposed unitized method of operation will benefit the working interest owners and royalty owners of the oil and gas rights within the West Square Lake Unit Area.

(18) That applicant's Exhibits Nos. 2 and 3 in this case, being the Unit Agreement and the Unit Operating Agreement, respectively, should be incorporated by reference into this order.

(19) That the West Square Lake Unit Agreement and the West Square Lake Unit Operating Agreement provide for unitization and unit operation of the West Square Lake Unit Area

upon terms and conditions that are fair, reasonable and equitable and which include:

(a) an allocation to the separately owned tracts in the unit area of all oil and gas that is produced from the unit area and which is saved, being the production that is not used in the conduct of unit operations or not unavoidably lost;

(b) a provision for the credits and charges to be made in the adjustment among the owners in the unit area for their respective investments in wells, tanks, pumps, machinery, materials and equipment contributed to the unit operations;

(c) a provision governing how the costs of unit operations, including capital investments, shall be determined and charged to the separately owned tracts and how said costs shall be paid, including a provision providing when, how and by whom the unit production allocated to an owner who does not pay his share of the costs of unit operations shall be charged to such owner, or the interest of such owner, and how his interest may be sold and the proceeds applied to the payment of his costs;

(d) a provision for carrying any working interest owner on a limited, carried or net-profits basis, payable out of production, upon such terms and conditions determined by the division to be just and reasonable, and allowing an appropriate charge for interest for such service payable out of such owner's share of production; provided that any non-consenting working interest owner being so carried shall be deemed to have relinquished to the unit operator all of its operating rights and working interest in and to the unit until his share of the costs, service charge and interest are repaid to the unit operator;

(e) a provision designating the unit operator and providing for the supervision and conduct of the unit operations, including the selection, removal or substitution of an operator from among the working interest owners to conduct the unit operations;

(f) a provision for a voting procedure for the decision of matters to be decided by the working interest owners in respect to which each working interest owner

shall have a voting interest equal to his unit participation; and

(g) the time when the unit operations shall commence and the manner in which, and the circumstances under which, the operations shall terminate and for the settlement of accounts upon such termination.

(20) That the statutory unitization of the West Square Lake Unit in conformity with the above findings should be approved.

IT IS THEREFORE ORDERED:

(1) That the West Square Lake Unit, comprising 3,320 acres, more or less, Eddy County, New Mexico, is hereby approved for statutory unitization pursuant to the Statutory Unitization Act, Sections 70-7-1 through 70-7-21, NMSA, 1978.

(2) That the lands included within the West Square Lake Unit shall be comprised of the following described lands in Eddy County, New Mexico:

TOWNSHIP 16 SOUTH, RANGE 30 EAST, NMPM

Section 26: SE/4 and S/2 NE/4
Section 32: SE/4 NE/4 and E/2 SE/4
Sections 33 through 35: All
Section 36: SE/4, N/2 SW/4, and
SE/4 SW/4

TOWNSHIP 17 SOUTH, RANGE 30 EAST, NMPM

Section 2: N/2 N/2
Section 4: E/2, NW/4, N/2 SW/4, and
SE/4 SW/4

containing 3,320 acres, more or less.

(3) That the vertical limits of said West Square Lake Unit shall comprise the stratigraphic interval underlying the Unit Area which is productive of unitized substances having been heretofore found to occur in the Newmont Oil Company Etz "C" Well No. 1 (located in Section 34, Township 16 South, Range 30 East, NMPM, Eddy County, New Mexico) at an indicated depth of from 2,818 feet to 3,150 feet, as recorded on the Borehole Compensated Sonic Gamma log measured from a Kelley bushing elevation of 3,740 feet above sea level.

(4) That the applicant shall institute a waterflood project for the secondary recovery of oil, gas, gaseous substances,

sulfur contained in gas, condensate, distillate and all associated and constituent liquid or liquefied hydrocarbons within and produced from the unit area, pursuant to Orders Nos. R-1354, R-2823, R-3156, and amendments thereto.

(5) That the West Square Lake Unit Agreement and the West Square Lake Unit Operating Agreement are approved and adopted and incorporated by reference into this Order subject to compliance with the appropriate ratification provisions of Section 70-7-8, NMSA, 1978.

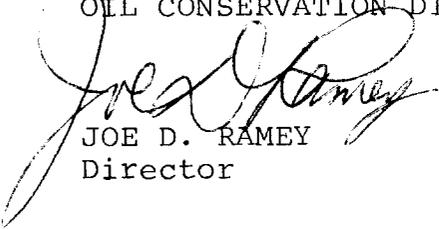
(6) That when the persons owning the required percentage of interest in the unit area have approved or ratified the Unit Agreement and the Unit Operating Agreement, the interests of all persons within the unit area are unitized whether or not such persons have approved the Unit Agreement or the Unit Operating Agreement in writing.

(7) That the applicant as Unit Operator shall notify in writing the Division Director of any removal or substitution of said Unit Operator by any other working interest owner within the unit area.

(8) That 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



JOE D. RAMEY
Director

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