

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. 9809
Order No. R-9075

APPLICATION OF YATES DRILLING COMPANY
FOR STATUTORY UNITIZATION, CHAVES
COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on November 29, 1989, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 14th day of Decmber,1989, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) Division Case Nos. 9809, 9810 and 9823 were consolidated at the time of the hearing for the purpose of testimony.

(3) The applicant, Yates Drilling Company, seeks the statutory unitization, pursuant to the "Statutory Unitization Act", Sections 70-7-1 through 70-7-21, NMSA (1978), of 560.00 acres, more or less, being a portion of the Southeast Chaves Queen Gas Area Associated Pool, Chaves County, New Mexico, said portion to be known as the Cactus Queen (statutory) Unit; the applicant further seeks approval of the Unit Agreement and the Unit Operating Agreement which were submitted in evidence as applicant's Exhibit Nos. 3A and 4A in this case.

(4) The proposed (statutory) unit area should be designated the Cactus Queen Unit Area; and the horizontal limits of said unit area should be comprised of the following described Federal, State and Fee lands in Chaves County, New Mexico:

Case No. 9809
Order No. R-9075
Page 2

TOWNSHIP 12 SOUTH, RANGE 31 EAST, NMPM

Section 26: SW/4 SW/4
Section 27: NE/4 SW/4, S/2 SW/4, and SE/4
Section 34: N/2 NE/4, SE/4 NE/4, and N/2 NW/4
Section 35: NW/4 NW/4

(5) The horizontal limits of said unit are within the governing boundaries of the Southeast Chaves Queen Gas Area Associated Pool and have been reasonably defined by development.

(6) The vertical limits of the Cactus Queen (statutory) Unit Area should comprise that interval which extends from an upper limit described as 50 feet above the top of the Queen formation to a lower limit at the base of the Queen formation, said limits having been previously found to occur at 2930 feet and 3100 feet, respectively, in Yates Drilling Company's Doyle Well No. 1 located 660 feet from the North line and 990 feet from the East line (Unit A) of Section 34, Township 12 South, Range 31 East, NMPM, Chaves County, New Mexico.

(7) The unit area contains fourteen 40-acre separate tracts of land owned by seven different working interest owners.

(8) The applicant has made a good faith effort to secure voluntary unitization within the Unit Area and at the time of the hearing 100 percent of the working interest owners and approximately 42.23 percent of the royalty interest owners were effectively committed to the unit.

(9) The applicant proposes to institute a waterflood project for the secondary recovery of oil and associated gas, condensate, and all associated liquefiable hydrocarbons within and to be produced from the proposed unit area (being the subject of Division Case No. 9810).

(10) All interested parties who have not agreed to unitization were notified of the hearing by the applicant, but no person entered an appearance or opposed the application at the hearing.

(11) The proposed secondary recovery operations should result in the additional recovery of approximately 251,000 barrels of oil.

(12) The unitized management, operation and further development of the Cactus Queen (statutory) Unit Area, 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.

Case No. 9809
Order No. R-9075
Page 3

(13) The proposed unitized method of operation as applied to the Cactus Queen (statutory) Unit Area 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.

(14) The estimated additional costs of such operations will not exceed the estimated value of the additional oil so recovered plus a reasonable profit.

(15) Such unitization and adoption of applicant's proposed unitized method of operation will benefit the working interest owners and royalty owners of the oil and gas rights within the Cactus Queen (statutory) Unit Area.

(16) The granting of the application in this case will have no adverse effect upon the Southeast Chaves Queen Gas Area Associated Pool.

(17) The applicant's Exhibit Nos. 3A and 4A in this case, being the Statutory Unit Agreement and the Unit Statutory Operating Agreement, respectively, should be incorporated by reference into this order.

(18) The Cactus Queen (statutory) Unit Agreement and the Cactus Queen (statutory) Unit Operating Agreement provide for unitization and unit operation of the Cactus Queen (statutory) Unit Area upon terms and conditions that are fair, reasonable and equitable, and include:

- (a) an allocation to the separately owned tracts of 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 operators;
- (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 such costs 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;

Case No. 9809
 Order No. R-9075
 Page 4

- (d) a provision for carrying any working interest owner on a limited, carried or net-profits basis, payable out of production, upon terms and conditions which are just and reasonable, and which allow an appropriate charge for interest for such service payable out of production, upon such terms and conditions determined by the Division to be just and reasonable;
- (e) a provision designating the Unit Operator and providing for supervision and conduct of the unit operations, including the selection, removal and substitution of an operator from among the working interest owners to conduct the unit operations;
- (f) a provision for a voting procedure for decisions on 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 operation 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.

(19) The statutory unitization of the Cactus Queen Unit Area is in conformity with the above findings, and will prevent waste and protect correlative rights of all interest owners within the proposed unit area, and should be approved.

IT IS THEREFORE ORDERED THAT:

(1) The application of Yates Drilling Company for the Cactus Queen (statutory) Unit Agreement, covering 560.00 acres, more or less, of Federal, State and Fee lands in the Southeast Chaves Queen Gas Area Associated Pool, Chaves 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) The lands covered by said Cactus Queen (statutory) Unit Agreement shall be designated the Cactus Queen (statutory) Unit Area and shall comprise the following described acreage in Chaves County, New Mexico:

TOWNSHIP 12 SOUTH, RANGE 31 EAST, NMPM

Section 26: SW/4 SW/4
 Section 27: NE/4 SW/4, S/2 SW/4, and SE/4
 Section 34: N/2 NE/4, SE/4 NE/4, and N/2 NW/4
 Section 35: NW/4 NW/4

Case No. 9809
Order No. R-9075
Page 5

(3) The vertical limits of the Cactus Queen (statutory) Unit Area shall comprise that interval which extends from an upper limit described as 50 feet above the top of the Queen formation to a lower limit at the base of the Queen formation, said limits having been previously found to occur at 2930 feet and 3100 feet, respectively, in Yates Drilling Company's Doyle Well No. 1 located 660 feet from the North line and 990 feet from the East line (Unit A) of Section 34, Township 12 South, Range 31 East, NMPM, Chaves County, New Mexico.

(4) The applicant shall institute a waterflood project for the secondary recovery of oil and associated gas, condensate and all associated liquefiable hydrocarbons within and produced from the unit area, and said waterflood project is the subject of Division Case No. 9810.

(5) The Cactus Queen (statutory) Unit Agreement and the Cactus Queen (statutory) Unit Operating Agreement, which were submitted to the Division at the time of the hearing as Exhibits 3A and 4A, respectively, are hereby incorporated by reference into this order.

(6) The Cactus Queen (statutory) Unit Agreement and the Cactus Queen (statutory) Unit Operating Agreement provide for unitization and unit operation of the Southeast Chaves Queen Gas Area Associated Pool upon terms and conditions that are fair, reasonable and equitable.

(7) Under the terms of the "Statutory Unitization Act," Section 70-7-8.A. and C., this order shall not become effective until such time as the owners of at least seventy-five percent of the interests in the unit which are free of cost have approved in writing the Unit Agreement.

IT IS FURTHER ORDERED THAT:

(8) If the required percentage of said interest owners in the area do not approve the Unit Agreement within a period of six months from the date of this order, this order shall cease to be of further force and effect and shall be revoked by the Division.

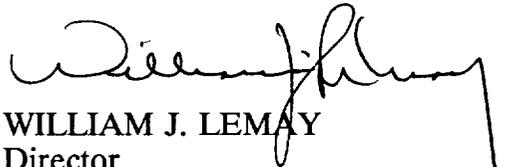
(9) The applicant as Unit Operator shall notify the Division Director in writing of any removal or substitution of said Unit Operator by any other working interest owner within the unit area.

(10) Jurisdiction of this cause 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.

Case No. 9809
Order No. R-9075
Page 6

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION



WILLIAM J. LEMAY
Director