

**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. 12153
ORDER NO. R-9747-A*

**APPLICATION OF ARCO PERMIAN FOR CERTIFICATION OF A POSITIVE
PRODUCTION RESPONSE WITHIN THE SOUTH JUSTIS UNIT WATERFLOOD
PROJECT, LEA COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on April 15, 1999 at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 2nd day of December, 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, ARCO Permian, seeks certification pursuant to Division Rule 30 of a positive production response within its South Justis Unit Waterflood Project Area, Lea County, New Mexico.

(3) By Order No. R-9746 entered in Case No. 10533 on October 23, 1992, the Division, upon the application of ARCO Oil and Gas Company, approved the South Justis Unit Area comprising the following described 5360 acres, more or less, of state, federal, and fee lands in Lea County, New Mexico:

TOWNSHIP 25 SOUTH, RANGE 37 EAST, NMPM

Section 11:	N/2, E/2 SW/4, and SE/4
Section 12:	W/2 and W/2 SE/4
Section 13:	All

Section 14:	E/2 and E/2 W/2
Section 23:	E/2, E/2 NW/4, and NE/4 SW/4
Sections 24 and 25:	All
Section 26:	NE/4, N/2 SE/4, and SE/4 SE/4
Section 35:	E/2 NE/4
Section 36:	All

TOWNSHIP 25 SOUTH, RANGE 38 EAST, NMPM

Section 19:	W/2 W/2
Section 30:	W/2 W/2
Section 31:	W/2 W/2

TOWNSHIP 26 SOUTH, RANGE 37 EAST, NMPM

Section 1:	N/2 NE/4
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(4) By Order No. R-9747 issued in Case No. 10554 on October 23, 1992, the Division: (i) authorized ARCO Oil and Gas Company to institute a waterflood project into the newly created Justis Blinbry-Tubb-Drinkard Pool (see Division Order No. R-9745 issued in Case No. 10552 and dated October 23, 1992) within the above-described South Justis Unit Area; (ii) designated this waterflood the South Justis Unit Waterflood Project; and (iii) qualified the South Justis Unit Waterflood Project Area as an "Enhanced Oil Recovery ("EOR") Project," pursuant to the "Enhanced Oil Recovery Act" (Sections 7-29A-1 through 7-29A-5 NMSA 1978).

(5) The South Justis Unit Waterflood Project's Phase I EOR Project Area was certified on July 26, 1993. No application for certification of a positive production response for the Phase I EOR Project Area was filed within five years of the date of this certification.

(6) The South Justis Unit Waterflood Project Phase IIA EOR Project Area was certified on January 5, 1994. The Phase IIA EOR Project Area includes the following described area in Lea County, New Mexico:

SOUTH JUSTIS UNIT WATERFLOOD PROJECT
PHASE IIA EOR PROJECT AREA

TOWNSHIP 25 SOUTH, RANGE 37 EAST, NMPM

Section 11:	E/2 SW/4, W/2 SW/4, and SE/4 SE/4
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Section 12: S/2 SW/4 and SW/4 SE/4
Section 13: NE/4, E/2 NE/4 NW/4, NE/4 SE/4 NW/4, N/2 NW/4
SE/4, and E/2 SE/4
Section 14: NE/4 NW/4
Section 24: E/2 NE/4

TOWNSHIP 25 SOUTH, RANGE 38 EAST, NMPM

Section 19: W/2 W/2
Section 30: W/2 NW/4 and SW/4 SW/4
Section 31: NW/4 NW/4

(7) The South Justis Unit Waterflood Project's Phase IIB and IIC EOR Project Areas were certified on May 1, 1995. The combined Phase IIB and IIC EOR Project Area in Lea County, New Mexico is described as follows:

SOUTH JUSTIS UNIT WATERFLOOD PROJECT
PHASE IIB AND IIC EOR PROJECT AREA

TOWNSHIP 25 SOUTH, RANGE 37 EAST, NMPM

Section 11: N/2 and NE/4 SE/4
Section 12: NW/4, N/2 SW/4 and NW/4 SE/4
Section 26: N/2 SE/4 and SE/4 SE/4
Section 35: E/2 NE/4
Section 36: S/2 N/2 and S/2

TOWNSHIP 25 SOUTH, RANGE 38 EAST, NMPM

Section 31: SW/4 NW/4 and W/2 SW/4

(8) Evidence and testimony presented by the applicant showed that the water injection commenced within the Phase IIA EOR Project Area in May, 1994 through six initial injection wells and within the Phases IIB and IIC EOR Project Area in May, 1995 through 12 initial injection wells. From 1994 through 1995, two additional injection wells were added in the Phase IIA EOR Project Area and three additional injection wells were added in the Phase IIB and IIC EOR Project Area.

(9) As of February 1999, 7,073, 945 barrels of water had been injected into the

Phase IIA EOR Project Area and 9,042,078 barrels of water had been injected in the Phase IIB and IIC EOR Project Area.

(10) The Phase IIA, IIB and IIC EOR Project Areas in the South Justis Unit Waterflood Project Area are fully developed with: (i) 22 producing wells, 8 injection wells, and 1 shut in well within the Phase IIA EOR Project Area; and (ii) 29 producing wells, 13 injection wells, and 3 shut in wells in the Phase IIB and IIC EOR Project Area.

(11) The production data submitted as evidence in this case indicates that a positive production response occurred immediately after injection commenced within the Phase IIA EOR Project Area in May, 1994 and in the Phase IIB and IIC EOR Project Area in May, 1995.

(12) A positive production response has occurred in the Phase IIA EOR Project Area and the Phase IIB and IIC EOR Project Area and the applications for certification of positive production responses for the Phase IIA, IIB, and IIC EOR Project Areas were timely filed with the Division on December 21, 1998, which was within the five-year time limit set by Division Rule 30.

(13) The producing wells shown on Exhibit "A" attached hereto should be eligible for the reduced tax rate.

(14) The operator of the South Justis Unit Waterflood Project should be required to notify the Division:

- (A) of the change in status of any of the producing wells shown on Exhibit "A";
- (B) in the event new producing wells are drilled within the Phase IIA, IIB, and IIC EOR Project Areas; and
- (C) of changes in operations within the South Justis Unit Waterflood Project's Phase IIA, IIB, and IIC EOR Project Areas that may affect the certification and resulting reduced tax rate granted herein.

(15) Pursuant to the provisions of Division Rule 30, the Division Director should notify the Secretary of the New Mexico Taxation and Revenue Department of the certification granted herein.

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to Division Rule 30, the applications of ARCO Permian for certification of a positive production response within its South Justis Unit Waterflood Project Phase IIA, IIB, and IIC EOR Project Areas in Lea County, New Mexico are hereby approved.

(2) Within the following described areas, all Justis Blinbry-Tubb-Drinkard producing oil wells, which currently number 31 within the Phase IIA EOR Project Area and 45 within the Phase IIB and IIC EOR Project Area, as shown on Exhibit "A" attached hereto, shall be eligible for the recovered oil tax rate:

SOUTH JUSTIS UNIT WATERFLOOD PROJECT
PHASE IIA EOR PROJECT AREA

TOWNSHIP 25 SOUTH, RANGE 37 EAST, NMPM

Section 11: E/2 SW/4, W/2 SW/4, and SE/4 SE/4
Section 12: S/2 SW/4 and SW/4 SE/4
Section 13: NE/4, E/2 NE/4 NW/4, NE/4 SE/4 NW/4, N/2 NW/4
SE/4, and E/2 SE/4
Section 14: NE/4 NW/4
Section 24: E/2 NE/4

TOWNSHIP 25 SOUTH, RANGE 38 EAST, NMPM

Section 19: W/2 W/2
Section 30: W/2 NW/4 and SW/4 SW/4
Section 31: NW/4 NW/4; and

SOUTH JUSTIS UNIT WATERFLOOD PROJECT
PHASE IIB AND IIC EOR PROJECT AREA

TOWNSHIP 25 SOUTH, RANGE 37 EAST, NMPM

Section 11: N/2 and NE/4 SE/4
Section 12: NW/4, N/2 SW/4 and NW/4 SE/4
Section 26: N/2 SE/4 and SE/4 SE/4
Section 35: E/2 NE/4

Section 36: S/2 N/2 and S/2

TOWNSHIP 25 SOUTH, RANGE 38 EAST, NMPM

Section 31: SW/4 NW/4 and W/2 SW/4

(3) Pursuant to the provisions of Division Rule 30, the Division Director shall notify the Secretary of the New Mexico Taxation and Revenue Department of the certification granted herein.

(4) The operator of the South Justis Unit Waterflood Project shall notify the Division:

- (A) of the change in status of any of the producing wells shown on Exhibit "A";
- (B) in the event new producing wells are drilled within the Phase IIA, IIB, and IIC EOR Project Areas; and
- (C) of changes in operations within the South Justis Unit Waterflood Project's Phase IIA, IIB, and IIC EOR Project Areas that may affect the certification and reduced tax rate.

(5) 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.



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


LORI WROTENBERY
Director

EXHIBIT A
CASE NO. 12153
DIVISION ORDER NO. R-9747-A
SOUTH JUSTIS UNIT WATERFLOOD PROJECT AREA
PHASE IIA, IIB, AND IIC ENHANCED OIL RECOVERY PROJECT AREAS

PHASE IIA EOR PROJECT AREA WELLS

<u>Well Name</u>	<u>Location</u>	<u>API Number</u>
B13	T-25-S, R-37-E, Sec. 11, 2160' FSL & 2310' FWL (K)	30-025-21078
B140	T-25-S, R-37-E, Sec. 11, 990' FSL & 2310' FWL (N)	30-025-21328
B150	T-25-S, R-37-E, Sec. 14, 330' FNL & 2310' FWL (C)	30-025-20848
C13	T-25-S, R-37-E, Sec. 11, 2310' FSL & 2310' FEL (J)	30-025-20544
C130	T-25-S, R-37-E, Sec. 11, 2500' FSL & 1650' FEL (J)	30-025-32316
C131	T-25-S, R-37-E, Sec. 11, 1655' FSL & 2200' FEL (J)	30-025-32322
C14	T-25-S, R-37-E, Sec. 11, 660' FSL & 1980' FEL (O)	30-025-20391
C140	T-25-S, R-37-E, Sec. 11, 1200' FSL & 1450' FEL (O)	30-025-32317
D14	T-25-S, R-37-E, Sec. 11, 355' FSL & 990' FEL (P)	30-025-20303
E14	T-25-S, R-37-E, Sec. 12, 990' FSL & 330' FWL (M)	30-025-22061
F14	T-25-S, R-37-E, Sec. 12, 450' FSL & 2010' FWL (N)	30-025-32342
F150	T-24-S, R-37-E, Sec. 13, 200' FNL & 2420' FWL (C)	30-025-32351
F160	T-25-S, R-37-E, Sec. 13, 1650' FNL & 2500' FWL (F)	30-025-32312
G14	T-25-S, R-37-E, Sec. 12, 430' FSL & 2310' FEL (O)	30-025-23838
G15	T-25-S, R-37-E, Sec. 13, 900' FNL & 2000' FEL (B)	30-025-32308
G16	T-25-S, R-37-E, Sec. 13, 2310' FNL & 1980' FEL (G)	30-025-11579
G172	T-25-S, R-37-E, Sec. 13, 2300' FSL & 1450' FEL (J)	30-025-32240
H15	T-25-S, R-37-E, Sec. 13, 990' FNL & 990' FEL (A)	30-025-25520
H16	T-25-S, R-37-E, Sec. 13, 2310' FNL & 990' FEL (H)	30-025-21461
H17	T-25-S, R-37-E, Sec. 13, 1650' FSL & 990' FEL (I)	30-025-11573
H18	T-25-S, R-37-E, Sec. 13, 660' FSL & 990' FEL (P)	30-025-11572
H19	T-25-S, R-37-E, Sec. 24, 675' FNL & 770' FEL (A)	30-025-32307
H20	T-25-S, R-37-E, Sec. 24, 1950' FNL & 650' FEL (H)	30-025-32306
I19	T-25-S, R-38-E, Sec. 19, 825' FNL & 330' FWL (D)	30-025-12419
I20	T-25-S, R-38-E, Sec. 19, 2310' FNL & 330" FWL (E)	30-025-12416
I21	T-25-S, R-38-E, Sec. 19, 2180' FSL & 330' FWL (L)	30-025-12422
I22	T-25-S, R-38-E, Sec. 19, 330' FSL & 330' FWL (M)	30-025-12408
I23	T-25-S, R-38-E, Sec. 30, 467' FNL & 467' FWL (D)	30-025-12437
I24	T-25-S, R-38-E, Sec. 30, 1650' FNL & 330' FWL (E)	30-025-12432
I260	T-25-S, R-38-E, Sec. 30, 330' FSL & 330' FWL (M)	30-025-12438
I27	T-25-S, R-38-E, Sec. 31, 330' FNL & 330' FWL (D)	30-025-12443

PHASE IIB AND IIC EOR PROJECT AREA WELLS

<u>Well Name</u>	<u>Location</u>	<u>API Number</u>
293	T-25-S, R-37-E, Sec. 36, 1500' FSL & 1400' FWL (K)	30-025-32638
296	T-25-S, R-37-E, Sec. 36, 2450' FNL & 1450' FWL (F)	30-02532636
297	T-25-S, R-37-E, Sec. 36, 1400' SFL & 1180' FEL (I)	30-025-32702
A11	T-25-S, R-37-E, Sec. 11, 330' FNL & 990' FWL (D)	30-025-20533
A12	T-25-S, R-37-E, Sec. 11, 1650' FNL & 990' FWL (E)	30-025-20995
B11	T-25-S, R-37-E, Sec. 11, 330' FNL & 2310' FWL (C)	30-025-20275
B110	T-25-S, R-37-E, Sec. 11, 900' FNL & 1650' FWL (C)	30-025-32321
B12	T-25-S, R-37-E, Sec. 11, 1650' FNL & 2310' FWL (F)	30-025-20547
C11	T-25-S, R-37-E, Sec. 11, 660' FNL & 2310' FEL (B)	30-025-20130
C12	T-25-S, R-37-E, Sec. 11, 2310' FNL & 2310' FEL (G)	30-025-11541
C120	T-25-S, R-37-E, Sec. 11, 1500' FNL & 1550' FEL (G)	30-025-32318
D11	T-25-S, R-37-E, Sec. 11, 990' FNL & 990' FEL (A)	30-025-21188
D12	T-25-S, R-37-E, Sec. 11, 2310' FNL & 990' FEL (H)	30-025-21058
D120	T-25-S, R-37-E, Sec. 11, 1500' FENL & 135' FEL (H)	30-025-32347
D13	T-25-S, R-37-E, Sec. 11, 1650' FSL & 990' FEL (I)	30-025-20994
D130	T-25-S, R-37-E, Sec. 11, 2580' FNL & 330' FEL (H)	30-025-32348
D140	T-25-S, R-37-E, Sec. 11, 1300' FSL & 260' FEL (P)	30-025-32349
D28	T-25-S, R-37-E, Sec. 35, 1650' FNL & 330' FEL (H)	30-025-20993
E11	T-25-S, R-37-E, Sec. 12, 660' FNL & 990' FWL (D)	30-025-24722
E12	T-25-S, R-37-E, Sec. 12, 1980' FNL & 990' FWL (E)	30-025-24686
E13	T-25-S, R-37-E, Sec. 12, 2310' FSL & 330' FWL (L)	30-025-22129
E130	T-25-S, R-37-E, Sec. 12, 2450' FSL & 1200' FWL (L)	30-025-32403
E132	T-25-S, R-37-E, Sec. 12, 1200' FSL & 1150' FWL (L)	30-025-32404
E29	T-25-S, R-37-E, Sec. 36, 2310' FSL & 990' FWL (L)	30-025-11921
F11	T-25-S, R-37-E, Sec. 12, 990' FNL & 1650' FWL (C)	30-025-24627
F12	T-25-S, R-37-E, Sec. 12, 2310' FNL & 1650' FWL (F)	30-025-24326
F120	T-25-S, R-37-E, Sec. 12, 1470' FNL & 1200' FWL (E)	30-025-32405
F13	T-25-S, R-37-E, Sec. 12, 1650' FSL & 1750' FWL (K)	30-025-23648
F28	T-25-S, R-37-E, Sec. 36, 1980' FNL & 1980' FWL (F)	30-025-11909
F282	T-25-S, R-37-E, Sec. 36, 2550' FNL & 2580' FWL (F)	30-025-32637
F29	T-25-S, R-37-E, Sec. 36, 1980' FSL & 1980' FWL (K)	30-025-11915
F30	T-25-S, R-37-E, Sec. 36, 990' FSL & 1980' FWL (N)	30-025-11920
G13	T-25-S, R-37-E, Sec. 12, 1750' FSL & 2310' FEL (J)	30-025-24168
G28	T-25-S, R-37-E, Sec. 36, 1980' FNL & 1980' FEL (G)	30-025-11901
G280	T-25-S, R-37-E, Sec. 36, 2500' FNL & 1350' FEL (G)	30-025-32343
G29	T-25-S, R-37-E, Sec. 36, 1980' FSL & 1980' FEL (J)	30-025-11916
G290	T-25-S, R-37-E, Sec. 36, 1450' FSL & 2610' FEL (J)	30-025-32344
G30	T-25-S, R-37-E, Sec. 36, 990' FSL & 1980' FEL (O)	30-025-11919
H28	T-25-S, R-37-E, Sec. 36, 1650' FNL & 660' FEL (H)	30-025-11908
H280	T-25-S, R-37-E, Sec. 36, 2590' FNL & 150' FEL (H)	30-025-32408
H29	T-25-S, R-37-E, Sec. 36, 2100' FSL & 660' FEL (I)	30-025-11917
H30	T-25-S, R-37-E, Sec. 36, 990' FSL & 660' FEL (P)	30-025-11918
I28	T-25-S, R-38-E, Sec. 31, 1815' FNL & 330' FWL (E)	30-025-12445
I29	T-25-S, R-38-E, Sec. 31, 1980' FSL & 330' FWL (L)	30-025-12444
I30	T-25-S, R-38-E, Sec. 31, 660' FSL & 660' FWL (M)	30-025-12442



STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

2040 S. PACHECO
SANTA FE, NEW MEXICO 87505
(505) 827-7131

May 9, 1995

ARCO Permian
P.O. Box 1610
Midland, TX 79702-1610

Attention: Traci Scarbrough

**CERTIFICATION OF ENHANCED OIL RECOVERY PROJECT
FOR RECOVERED OIL TAX RATE**

The New Mexico Oil Conservation Division hereby certifies that the following Enhanced Oil Recovery Project has been approved by the Division as a secondary project, pursuant to the provisions of the *New Mexico Enhanced Oil Recovery Act* (Laws of 1992, Chapter 38). In order to qualify for the *Recovered Oil Tax Rate*, you must apply for certification of positive production response within five years from the date of this certification. (That date on which injection operations commence.) Only production from that portion of the project area identified herein which is actually developed for enhanced recovery will qualify for the reduced tax rate.

If operation of this project is terminated for any reason, the operator of the project must notify this Division and the Secretary of the Taxation and Revenue Department not later than the thirtieth day after termination.

NAME OF PROJECT: South Justis Unit - Phase II B and Phase II C

OCD ORDER NO. R-9747

OPERATOR: ARCO Permian
ADDRESS: P.O. Box 1610
Midland, TX 79702-1610
Attention: Traci Scarbrough

CERTIFICATION DATE: May 1, 1995

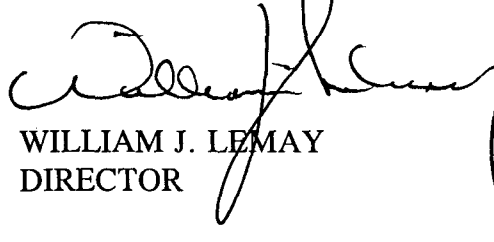
PROJECT AREA:

TOWNSHIP 25 SOUTH, RANGE 37 EAST, NMPM

Section 11: N/2, NE/4 SE/4
Section 12: NW/4, N/2 SW/4, NW/4 SE/4
Section 26: N/2 SE/4, SE/4 SE/4
Section 31: SW/4 NW/4, W/2 SW/4
Section 35: E/2 NE/4
Section 36: S/2, S/2 NW/4, S/2 NE/4

APPROVED BY:

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION



WILLIAM J. LEMAY
DIRECTOR

SEAL



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



BRUCE KING
GOVERNOR

ANITA LOCKWOOD
CABINET SECRETARY

January 24, 1994

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87504
(505) 827-5800

ARCO Oil and Gas Company
600 N. Marienfeld
Midland, TX 79701

Attention: Traci Scarbrough

**CERTIFICATION OF ENHANCED OIL RECOVERY PROJECT
FOR RECOVERED OIL TAX RATE**

The New Mexico Oil Conservation Division hereby certifies that the following Enhanced Oil Recovery Project has been approved by the Division as a secondary project, pursuant to the provisions of the *New Mexico Enhanced Oil Recovery Act* (Laws of 1992, Chapter 38). In order to qualify for the *Recovered Oil Tax Rate*, you must apply for certification of positive production response within five years from the date of this certification. Only production from that portion of the project area identified herein which is actually developed for enhanced recovery will qualify for the reduced tax rate.

If operation of this project is terminated for any reason, the operator of the project must notify this Division and the Secretary of the Taxation and Revenue Department not later than the thirtieth day after termination.

NAME OF PROJECT: South Justis Unit

OCD ORDER NO. R-9747

OPERATOR: ARCO Oil and Gas Company
ADDRESS: 600 N. Marienfeld
Midland, TX 79701
Attention: Traci Scarbrough

CERTIFICATION DATE: January 5, 1994

PROJECT AREA:

TOWNSHIP 25 SOUTH, RANGE 37 EAST, NMPM

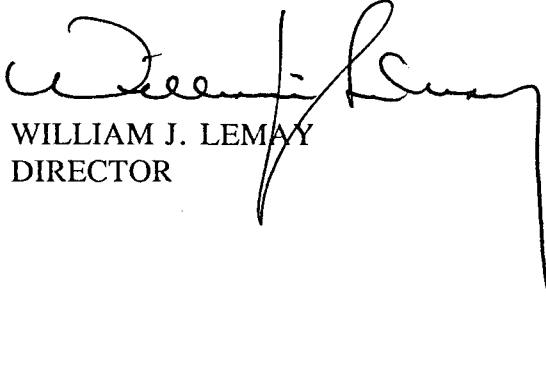
Section 11: E/2 SW/4, S/2 SE/4, NW/4 SE/4
Section 12: S/2 SW/4, SW/4 SE/4
Section 13: E/2 NE/4 NW/4, NE/4 SE/4 NW/4
NE/4, N/2 NW/4 SE/4, E/2 SE/4
Section 14: NE/4 NW/4
Section 24: E/2 NE/4

TOWNSHIP 25 SOUTH, RANGE 38 EAST, NMPM

Section 19: W/2 NW/4, W/2 SW/4
Section 30: W/2 NW/4, SW/4 SW/4
Section 31: NW/4 NW/4

APPROVED BY:

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


WILLIAM J. LEMAY
DIRECTOR

S E A L



STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION



BRUCE KING
GOVERNOR

ANITA LOCKWOOD
CABINET SECRETARY

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87504
(505) 827-5800

February 2, 1994

Department of Taxation and Revenue
P.O. Box 630
Santa Fe, NM 87509-0630

Attention: Dick Minzner, Secretary

**RE: *Certification of EOR Project
ARCO Oil and Gas Company
South Justis Unit***

Dear Secretary Minzner:

Enclosed is a copy of the certification issued to ARCO Oil and Gas Company for its South Justis Unit EOR project, certified by this Division on January 5, 1994, to be a qualified Enhanced Oil Recovery Project. If the operator applies for certification of positive production response within five years from that date, this project will be eligible for the *Recovered Oil Tax Rate* as provided in Laws of 1992, Chapter 38.

Only oil production from that portion of the lands identified in the certification which is actually developed for enhanced recovery will be eligible for the reduced tax rate. At the time positive production response is certified, we will identify for you the specific lands and wells within the project which qualify for the *Recovered Oil Tax Rate*.

Sincerely,

A handwritten signature in black ink, appearing to read "William J. LeMay".

William J. LeMay
Director

WJL/amg

Enclosures



STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

2040 S. PACHECO
SANTA FE, NEW MEXICO 87505
(505) 827-7131

May 9, 1995

Department of Taxation and Revenue
P.O. Box 630
Santa Fe, NM 87509-0630

Attention: John Chavez, Secretary

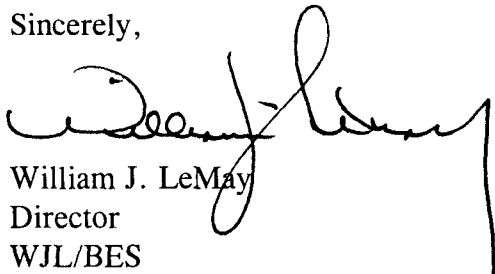
RE: *Certification of EOR Project*
ARCO Permian
South Justis Unit - Phase II B and Phase II C

Dear Secretary Chavez:

Enclosed is a copy of the certification issued to ARCO Permian for its South Justis Unit - Phase II B and Phase II C EOR project, approved by this Division on October 23, 1992 to be a qualified Enhanced Oil Recovery Project. If the operator applies for certification of positive production response within five years from the certification date (that date on which injection operations commence), this project will be eligible for the *Recovered Oil Tax Rate* as provided in Laws of 1992, Chapter 38.

Only oil production from that portion of the lands identified in the certification which is actually developed for enhanced recovery will be eligible for the reduced tax rate. At the time positive production response is certified, we will identify for you the specific lands and wells within the project which qualify for the *Recovered Oil Tax Rate*.

Sincerely,



William J. LeMay
Director
WJL/BES

Enclosures

N/R

CAMPBELL, CARR & BERGE, P.A.
LAWYERS

MICHAEL B. CAMPBELL
WILLIAM F. CARR
BRADFORD C. BERGE

MICHAEL H. FELDEWERT
TANYA M. TRUJILLO
NANCY A. RATH

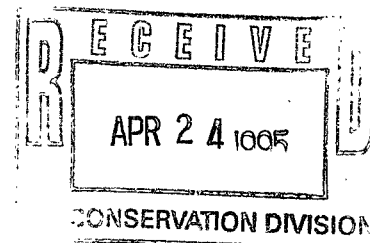
JACK M. CAMPBELL
OF COUNSEL

JEFFERSON PLACE
SUITE 1 - 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87504-2208
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

April 24, 1995

HAND-DELIVERED

William J. LeMay, Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
2040 South Pacheco Street
Santa Fe, New Mexico 87505



Re: ARCO Permian's South Justis Unit, Lea County, New Mexico
Certification of Qualification for EOR Credit Under the New Mexico
Enhanced Oil Recovery Act

Dear Mr. LeMay:

By Division Order No. R-9747, dated October 23, 1992, the Oil Conservation Division approved the ARCO South Justis Unit Waterflood Project and found that the unit area should be qualified as an "Enhanced Oil Recovery Project" pursuant to the "enhanced Oil Recovery Act" (Finding 20, Order No. R-9747). This Order also provided that to be eligible for the EOR credit, prior to commencing injection operations ARCO must request a "Certificate of Qualification" from the Division.

The purpose of this letter is to advise the Division that on or about May 1, 1995, ARCO Permian intends to commence injection operations in Phase II B and Phase II C, which includes areas in the following described acreage in the Justis-Blinbry-Tubb-Drinkard Pool, Lea County, New Mexico.

Township 25 South, Range 37 East, N.M.P.M.

Section 11: N/2, NE/4 SE/4
Section 12: NW/4, N/2 SW/4, NW/4 SE/4
Section 26: N/2 SE/4, SE/4 SE/4
Section 31: SW/4 NW/4, W/2 SW/4
Section 35: E/2 NE/4
Section 36: S/2, S/2 NW/4, S/2 NE/4

William J. LeMay, Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
April 24, 1995
Page 2

ARCO Permian hereby requests the Division certify to Phase II B and Phase II C waterflood areas (South Justis) to the New Mexico Taxation and Revenue Department on or before May 1, 1995.

I have enclosed a draft of a Certification for this project which is modeled after other certifications issued by the Division in the past.

If you need anything further from ARCO Permian to proceed with this request, please advise.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Wm F Carr", followed by the word "for" in a smaller, less distinct script.

WILLIAM F. CARR
ATTORNEY FOR ARCO PERMIAN
WFC:mlh

Enclosure

cc: Traci A. Scarbrough
Operations/Analytical Engineer
ARCO Permian
Post Office Box 1610
Midland, TX 79702

ARCO Permian
Post Office Box 1610
Midland, TX 79702
Attn: Traci A. Scarbrough

**CERTIFICATION OF ENHANCED OIL RECOVERY PROJECT
FOR RECOVERED OIL TAX RATE**

The New Mexico Oil Conservation Division hereby certifies that the following described acreage is located within an Enhanced Oil Recovery Project which has been approved by the Division as a **secondary** recovery project, pursuant to the provisions of the New Mexico *Enhanced Oil Recovery Act* (Laws of 1992, Chapter 38). In order to qualify for the *Recovered Oil Tax Rate*, you must apply for certification of positive production response within **five years** from the date of this certification. Only production from that portion of the project area identified herein which is actually developed for enhanced recovery will qualify for the reduced tax rate.

If operation of this project is terminated for any reason, the operator of the project must notify this Division and the Secretary of Taxation and Revenue not later than the thirtieth day after termination.

NAME OF PROJECT:	South Justis Unit (Phase II B and Phase II C waterflood areas)
OCD ORDER NO.:	R-9747
OPERATOR:	ARCO Permian
ADDRESS:	Post Office Box 1610 Midland, TX 79702 Attn: Traci A. Scarbrough

EOR Project Certification
South Justis Unit
(Phase II B and Phase II C waterflood areas)

CERTIFICATION DATE: May 1, 1995

PROJECT AREA

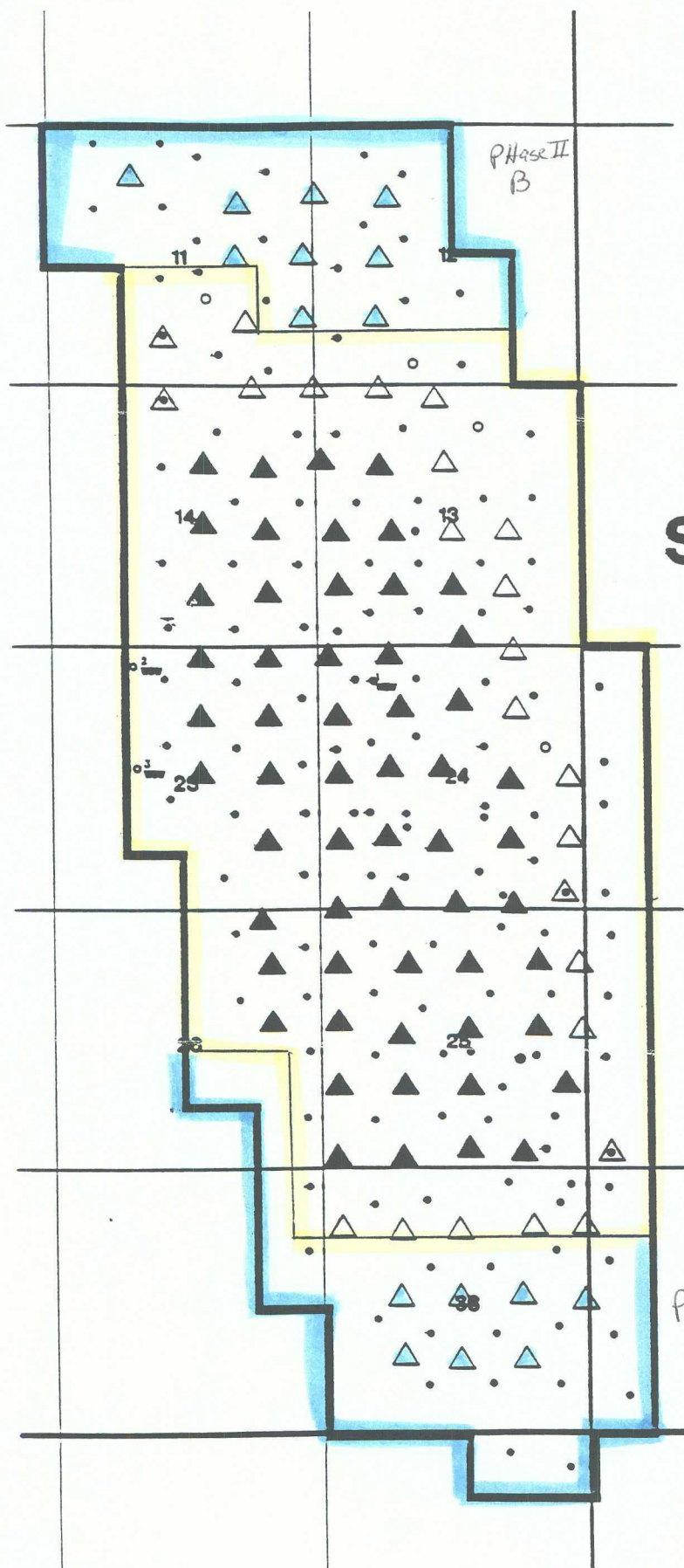
Township 25 South, Range 37 East, N.M.P.M.

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APPROVED

William J. LeMay
Director

seal



SOUTH JUSTIS UNIT

Lea County, New Mexico

WATERFLOOD PROJECT

LEGEND

BLINEBRY-TUBB-
DRINKARD COMPLETIONS

- Producers
- ▲ Phase I WIW
- △ Phase II WIW

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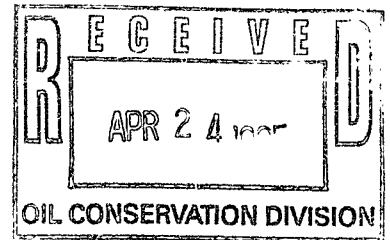
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April 24, 1995

HAND-DELIVERED

William J. LeMay, Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
2040 South Pacheco Street
Santa Fe, New Mexico 87505



Re: ARCO Permian's South Justis Unit, Lea County, New Mexico
Certification of Qualification for EOR Credit Under the New Mexico
Enhanced Oil Recovery Act

Dear Mr. LeMay:

By Division Order No. R-9747, dated October 23, 1992, the Oil Conservation Division approved the ARCO South Justis Unit Waterflood Project and found that the unit area should be qualified as an "Enhanced Oil Recovery Project" pursuant to the "enhanced Oil Recovery Act" (Finding 20, Order No. R-9747). This Order also provided that to be eligible for the EOR credit, prior to commencing injection operations ARCO must request a "Certificate of Qualification" from the Division.

The purpose of this letter is to advise the Division that on or about May 1, 1995, ARCO Permian intends to commence injection operations in Phase II B and Phase II C, which includes areas in the following described acreage in the Justis-Blinbry-Tubb-Drinkard Pool, Lea County, New Mexico.

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William J. LeMay, Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
April 24, 1995
Page 2

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I have enclosed a draft of a Certification for this project which is modeled after other certifications issued by the Division in the past.

If you need anything further from ARCO Permian to proceed with this request, please advise.

Very truly yours,

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WILLIAM F. CARR
ATTORNEY FOR ARCO PERMIAN
WFC:mlh

Enclosure

cc: Traci A. Scarbrough
Operations/Analytical Engineer
ARCO Permian
Post Office Box 1610
Midland, TX 79702

ARCO Permian
Post Office Box 1610
Midland, TX 79702
Attn: Traci A. Scarbrough

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FOR RECOVERED OIL TAX RATE**

The New Mexico Oil Conservation Division hereby certifies that the following described acreage is located within an Enhanced Oil Recovery Project which has been approved by the Division as a **secondary** recovery project, pursuant to the provisions of the New Mexico *Enhanced Oil Recovery Act* (Laws of 1992, Chapter 38). In order to qualify for the *Recovered Oil Tax Rate*, you must apply for certification of positive production response within **five years** from the date of this certification. Only production from that portion of the project area identified herein which is actually developed for enhanced recovery will qualify for the reduced tax rate.

If operation of this project is terminated for any reason, the operator of the project must notify this Division and the Secretary of Taxation and Revenue not later than the thirtieth day after termination.

NAME OF PROJECT:	South Justis Unit (Phase II B and Phase II C waterflood areas)
OCD ORDER NO.:	R-9747
OPERATOR:	ARCO Permian
ADDRESS:	Post Office Box 1610 Midland, TX 79702 Attn: Traci A. Scarbrough

EOR Project Certification
South Justis Unit
(Phase II B and Phase II C waterflood areas)

CERTIFICATION DATE: May 1, 1995

PROJECT AREA

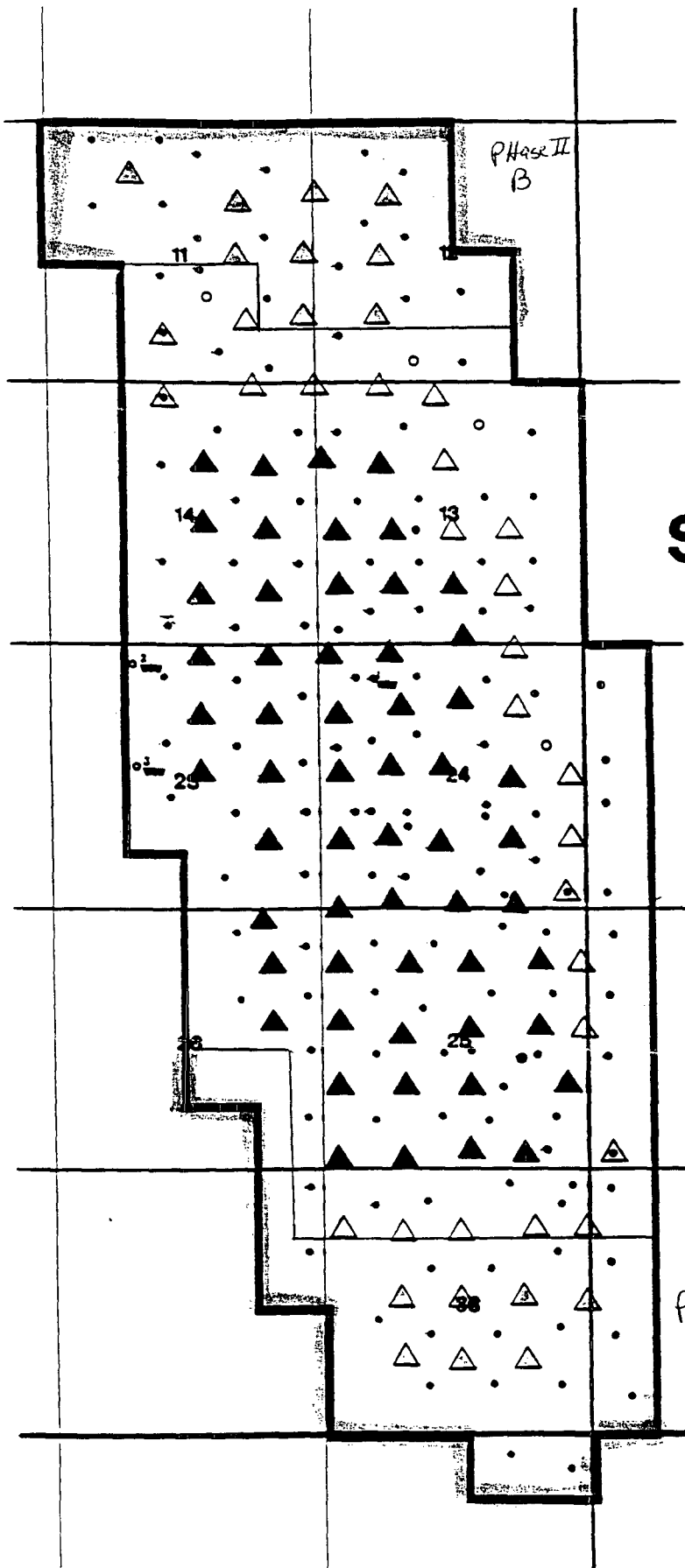
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APPROVED

William J. LeMay
Director

seal



SOUTH JUSTIS UNIT

Lea County, New Mexico

WATERFLOOD PROJECT

LEGEND

BLINEBRY-TUBBS-
DRINKARD COMPLETIONS

- Producers
- ▲ Phase I WIW
- △ Phase II WIW

CAMPBELL, CARR & BERGE, P.A.
LAWYERS

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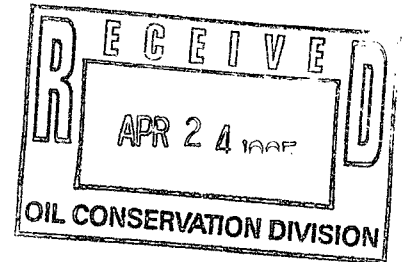
JACK M. CAMPBELL
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TELEPHONE: (505) 988-4421
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April 24, 1995

HAND-DELIVERED

William J. LeMay, Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
2040 South Pacheco Street
Santa Fe, New Mexico 87505



Re: ARCO Permian's South Justis Unit, Lea County, New Mexico
Certification of Qualification for EOR Credit Under the New Mexico
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William J. LeMay, Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
April 24, 1995
Page 2

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WILLIAM F. CARR
ATTORNEY FOR ARCO PERMIAN
WFC:mlh
Enclosure

cc: Traci A. Scarbrough
Operations/Analytical Engineer
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Post Office Box 1610
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**CERTIFICATION OF ENHANCED OIL RECOVERY PROJECT
FOR RECOVERED OIL TAX RATE**

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NAME OF PROJECT:	South Justis Unit (Phase II B and Phase II C waterflood areas)
OCD ORDER NO.:	R-9747
OPERATOR:	ARCO Permian
ADDRESS:	Post Office Box 1610 Midland, TX 79702 Attn: Traci A. Scarbrough

EOR Project Certification
South Justis Unit
(Phase II B and Phase II C waterflood areas)

CERTIFICATION DATE: May 1, 1995

PROJECT AREA

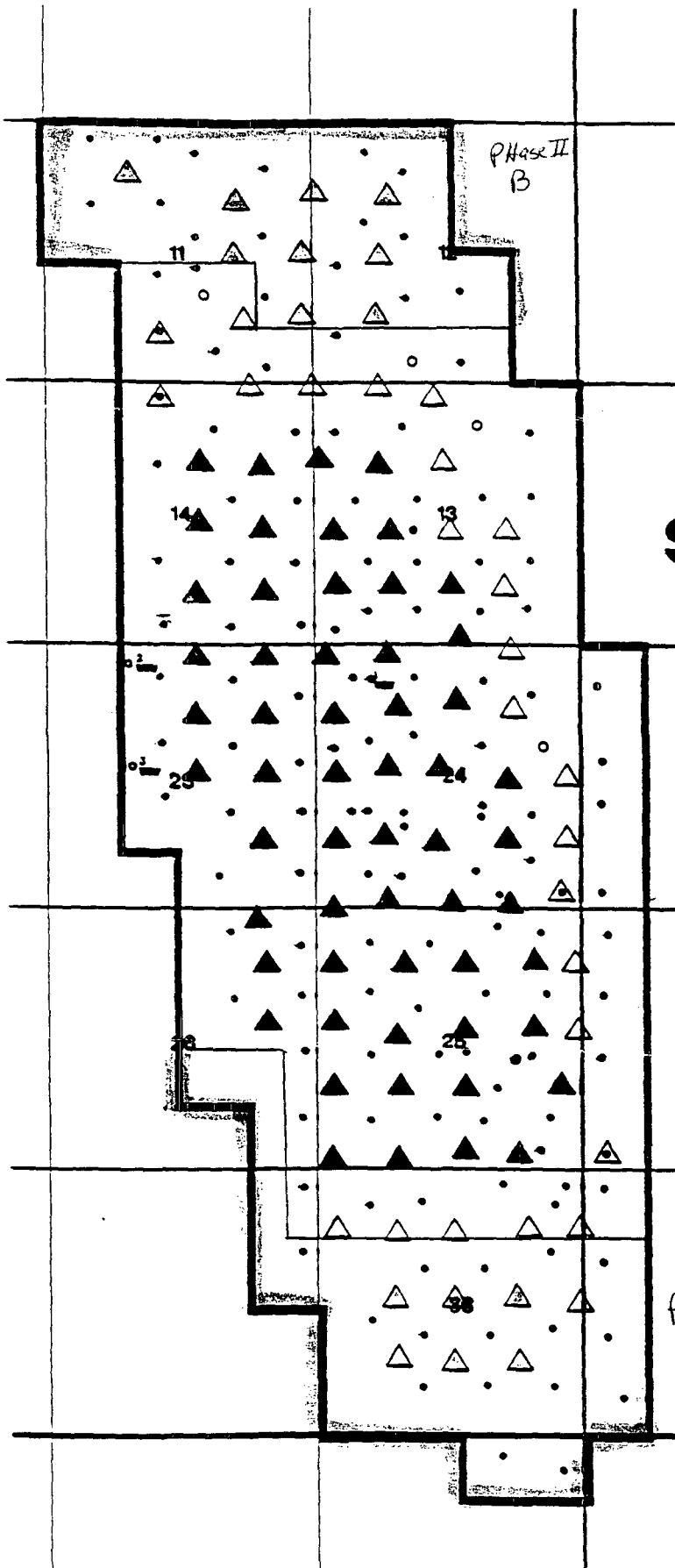
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Section 31: SW/4 NW/4, W/2 SW/4
Section 35: E/2 NE/4
Section 36: S/2, S/2 NW/4, S/2 NE/4

APPROVED

William J. LeMay
Director

seal



SOUTH JUSTIS UNIT

Lea County, New Mexico

WATERFLOOD PROJECT

LEGEND

**BLINEBRY-TUBB-
DRINKARD COMPLETIONS**

- Producers
- ▲ Phase I WTW
- △ Phase II WTW



STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION



BRUCE KING
GOVERNOR

ANITA LOCKWOOD
CABINET SECRETARY

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87504
(505) 827-5800

ARCO Oil and Gas Company
ATTN: Richard S. Prentice
600 N. Marienfeld
Midland, TX 79701

**CERTIFICATION OF ENHANCED OIL RECOVERY PROJECT
FOR RECOVERED OIL TAX RATE**

The New Mexico Oil Conservation Division hereby certifies that the following Enhanced Oil Recovery Project has been approved by the Division as a **secondary** project, pursuant to the provisions of the New Mexico *Enhanced Oil Recovery Act* (Laws of 1992, Chapter 38). In order to qualify for the *Recovered Oil Tax Rate*, you must apply for certification of positive production response within **five years** from the date of this certification. Only production from that portion of the project area identified herein which is actually developed for enhanced recovery will qualify for the reduced tax rate.

If operation of this project is terminated for any reason, the operator of the project must notify this Division and the Secretary of Taxation and Revenue not later than the thirtieth day after termination.

NAME OF PROJECT:	South Justis Unit
OCD ORDER NO.:	R-9747
OPERATOR:	ARCO Oil and Gas Company
ADDRESS:	Attn: Richard S. Prentice 600 N. Marienfeld Midland, TX 79701
CERTIFICATION DATE:	July 26, 1993

EOR Project Certification
South Justis Unit

PHASE I
PROJECT AREA

Township 25 South, Range 37 East, N.M.P.M.

Section 13: SW/4, W/2 NW/4, W/2 E/2 NW/4
SE/4 SE/4 NW/4, SW/4 SE/4 S/2 NW/4 SE/4
Section 14: E/2, E/2 SW/4, SE/4 NW/4
Section 23: E/2, E/2 NW/4, NE/4 SW/4
Section 24: W/2, SE/4, W/2 NE/4
Section 25: All
Section 26: NE/4, E/2 E/2 SE/4
Section 35: E/2 NE/4 NE/4
Section 36: N/2 N/2

Township 25 South, Range 38 East, N.M.P.M.

Section 30: W/2 NW/4 SW/4

APPROVED

William J. LeMay
William J. LeMay
Director

seal

CAMPBELL, CARR, BERGE
& SHERIDAN, P.A.
LAWYERS

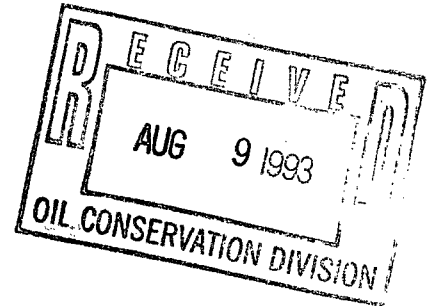
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TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

August 9, 1993



HAND-DELIVERED

Robert G. Stovall
General Counsel
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
State Land Office Building
Santa Fe, New Mexico 87503

Re: Certification of South Justis Unit as an Enhanced Oil Recovery Project for the
Recovered Oil Tax Rate

Dear Bob:

Enclosed is a hard copy and disk which contain the Certification of the South Justis Unit
which we discussed on this date.

Based on our conversation of July 29, 1993 I have advised ARCO that the effective date of
this Certification will be July 26, 1993. I hope that does not pose a problem for the Division.

If you have questions concerning the enclosed, please advise.

Very truly yours,

WILLIAM F. CARR

WFC:mlh
Enclosure