



NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION
2040 South Pacheco Street
Santa Fe, New Mexico 87505
(505) 827-7131

August 28, 1998

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

Attention: Mr. John Chavez, Secretary

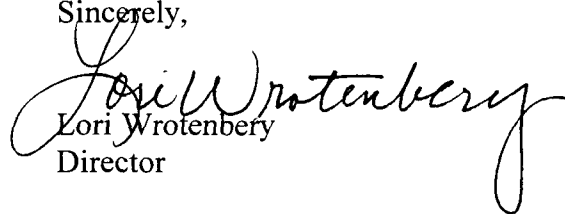
RE: Certification of a Positive
Production Response,
Seely Oil Company
Central E-K Queen Unit Waterflood Project

Dear Secretary Chavez:

Enclosed is a copy of a Division Certification which was issued on August 28, 1998. This document certifies that a positive production response has occurred within the Central E-K Queen Unit Waterflood Project Area which is currently operated by Seely Oil Company. In addition, this positive production response has occurred within the five year time limit as described within the "New Mexico Enhanced Oil Recovery Act". The Division has determined that all wells within the certified area producing from the E-K Yates-Seven Rivers-Queen Pool are eligible for the recovered oil tax rate. These wells are shown on Exhibit "A" to the Division Certification.

For your convenience we have also enclosed a summary page showing all pertinent data. If additional information is required please advise.

Sincerely,


Lori Wrotenbery
Director

LW/drc

POSITIVE PRODUCTION RESPONSE DATA
CENTRAL E-K QUEEN UNIT WATERFLOOD PROJECT

NAME OF PROJECT

Central E-K Queen Unit Waterflood Project

OPERATOR

Seely Oil Company
815 West Tenth Street
Fort Worth, Texas 76102
Attention: Mr. David L. Henderson

POOL

E-K Yates-Seven Rivers-Queen Pool

OCD ORDER NO. APPROVING WATERFLOOD PROJECT & DATE

R-9885-A, November 17, 1993

PROJECT AREA

TOWNSHIP 18 SOUTH, RANGE 34 EAST, NMPM

Section 7: Lots 2, 3 and 4, SW/4 NE/4, SE/4 NW/4, E/2 SW/4, and
SE/4
Section 8: SW/4 and S/2 SE/4
Section 9: W/2 SW/4
Section 17: N/2 N/2
Section 18: N/2 NE/4

DATE WATER INJECTION COMMENCED

July, 1994

DATE CERTIFIED PROJECT TO TAXATION & REVENUE

July 7, 1994

DATE POSITIVE PRODUCTION RESPONSE OCCURRED

August 1, 1996,

CURRENT NUMBER OF WELLS WITHIN PROJECT AREA

Injection: 6 Production: 8



NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION
2040 South Pacheco Street
Santa Fe, New Mexico 87505
(505) 827-7131

August 28, 1998

Seely Oil Company
815 West Tenth Street
Fort Worth, Texas 76102

Attention: Mr. David L. Henderson

Re: Certification of Positive Production Response
Central E-K Queen Unit Waterflood Project

Dear Mr. Henderson:

Pursuant to your request dated June 10, 1998, please be advised that the Division hereby certifies that a positive production response occurred within the Central E-K Queen Unit Waterflood Project on August 1, 1996.

All E-K Yates-Seven Rivers-Queen Pool producing wells within the following described area, which currently number eight as shown on Exhibit "A" attached hereto, shall be eligible for the recovered oil tax rate:

PROJECT AREA

TOWNSHIP 18 SOUTH, RANGE 34 EAST, NMPM

Section 7: Lots 2, 3 and 4, SW/4 NE/4, SE/4 NW/4, E/2 SW/4, and SE/4
Section 8: SW/4 and S/2 SE/4
Section 9: W/2 SW/4
Section 17: N/2 N/2
Section 18: N/2 NE/4

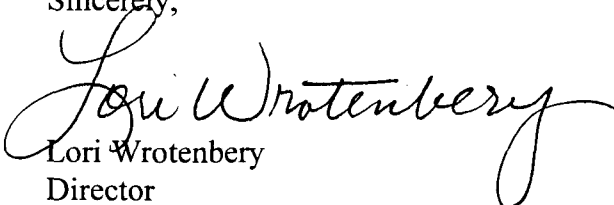
Seely Oil Company shall notify the Division:

- 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 project area;
- c) of changes in operations within the project area which may

affect the certification and resulting tax rate granted herein.

The Division Director will notify the Secretary of the New Mexico Taxation and Revenue Department of the certification granted herein.

Sincerely,


Lori Wrotenbery
Director

xc: File-EOR-5

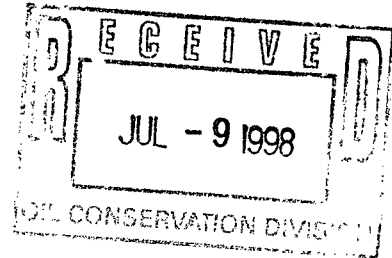
EXHIBIT "A"
CERTIFICATION OF POSITIVE PRODUCTION RESPONSE
CENTRAL E-K QUEEN UNIT WATERFLOOD PROJECT
PRODUCING WELLS

<u>API NUMBER</u>	<u>WELL NAME & NUMBER</u>	<u>WELL LOCATION-UL-S-T-R</u>
30-025-02311	Central E-K Queen Unit No. 1	O-8-18S-34E
30-025-02328	Central E-K Queen Unit No. 1	D-17-18S-34E
30-025-28285	Central E-K Queen Unit No. 1	M-8-18S-34E
30-025-02312	Central E-K Queen Unit No. 2	P-8-18S-34E
30-025-02314	Central E-K Queen Unit No. 2	N-8-18S-34E
30-025-29570	Central E-K Queen Unit No. 2	A-18-18S-34E
30-025-34181	Central E-K Queen Unit No. 13	N-7-18S-34E
30-025-34195	Central E-K Queen Unit No. 14	P-7-18S-34E

SEELY OIL COMPANY

815 WEST TENTH STREET
FORT WORTH, TEXAS 76102

June 10, 1998



State of New Mexico
Energy, Minerals and Natural Resources Dept.
Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87504

Re: Certification of Enhanced Oil Recovery
for Recovered Oil Tax Rate
Central EK Queen Unit
Lea County, New Mexico

Gentlemen:

Seely Oil Company is the Operator of the Central EK Queen Unit located in the EK Yates-Seven Rivers-Queen Field in Lea County, New Mexico. This Unit was formed effective October 1, 1993, for the purpose of waterflooding for secondary recovery by OCD Order #R-9885-A.

In a letter dated July 7, 1994, the Oil Conservation Division certified the Central EK Queen Unit as an enhanced oil recovery project for recovered oil tax rate.

This letter serves as notice that we have a positive production response for all the producing wells inside the Unit Area.

We respectfully request that the Oil Conservation Division grant Seely Oil Company the reduced tax rate for all future production from this Unit. In addition, Seely Oil Company requests that the severance tax exemption be retroactive to first response as shown on the attached production curve which is August 1, 1996.

Very truly yours,

SEELY OIL COMPANY

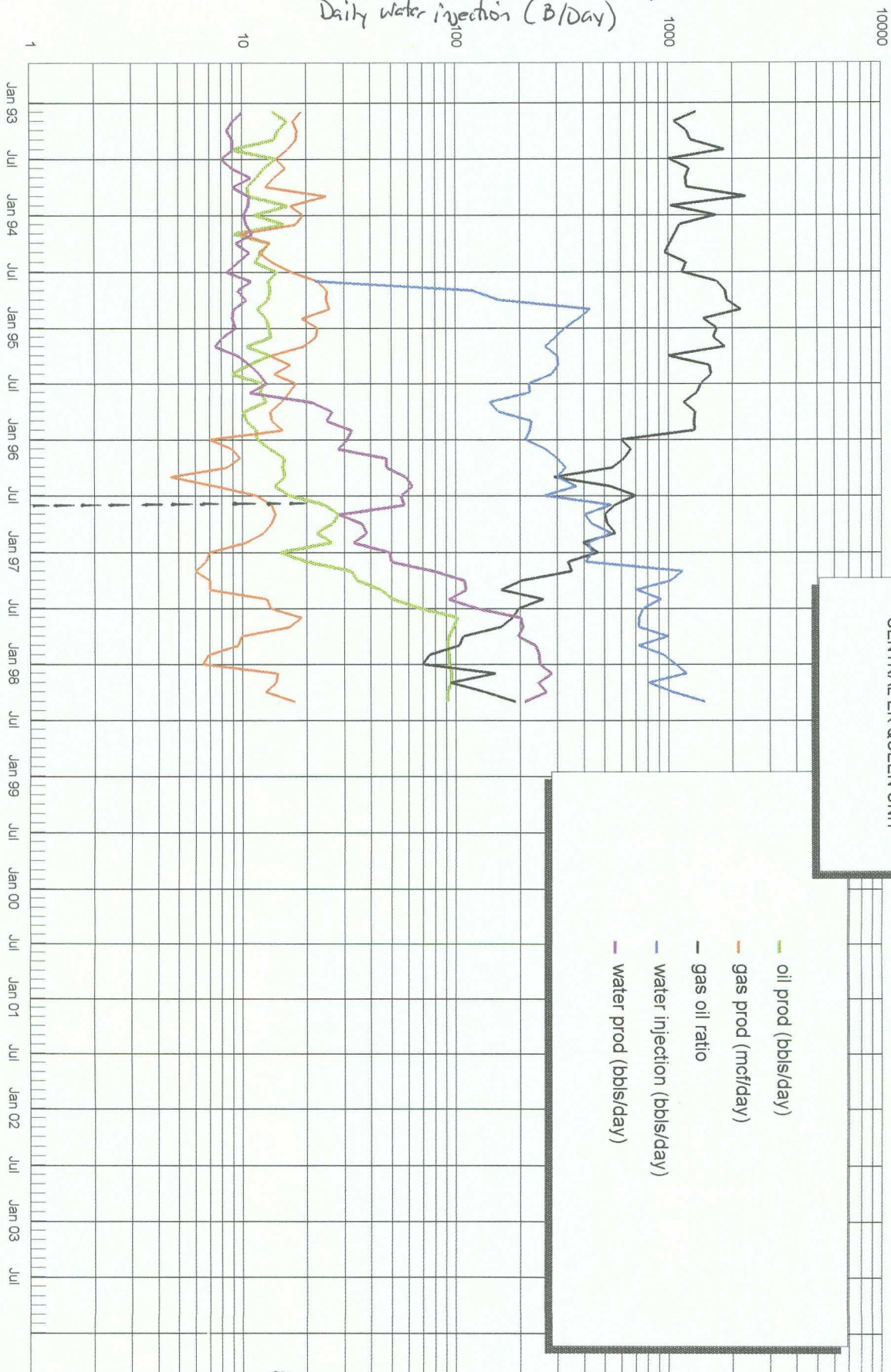
A handwritten signature in cursive script that reads "David L. Henderson".

David L. Henderson

DLH/ww
Attch.

SEELY OIL COMPANY
CENTRAL EK QUEEN UNIT

Daily Water Production (B/Day)
Daily oil Production (B/Day)
Daily Gas Production (mcf/Day)
Daily water injection (B/Day)



- oil prod (bbls/day)
- gas prod (mcf/day)
- gas oil ratio
- water injection (bbls/day)
- water prod (bbls/day)

First positive
Production Response

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. 10648
Order No. R-9885-A

**APPLICATION OF SEELY OIL COMPANY FOR A WATERFLOOD PROJECT, FOUR
UNORTHODOX INJECTION WELL LOCATIONS, AND QUALIFICATION FOR THE
RECOVERED OIL TAX CREDIT PURSUANT TO THE NEW MEXICO OIL
RECOVERY ACT, LEA COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on March 18 and April 22, 1993, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 17th day of November, 1993, 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) At the March 18, 1993 hearing this case was consolidated with Division Case No. 10647 for the purpose of testimony.

(3) By Order No. R-9885, issued in Case 10647 on April 27, 1993, the Division, upon application by Seely Oil Company, approved the statutory unitization of its Central "EK" Queen Unit, comprising the following described 988.40 acres, more or less, of State lands in Lea County, New Mexico:

TOWNSHIP 18 SOUTH, RANGE 34 EAST, NMPM

Section 7: Lots 2, 3 and 4, SW/4 NE/4, SE/4 NW/4, E/2 SW/4, and
SE/4

Section 8: SW/4 and S/2 SE/4

Section 9: W/2 SW/4

Section 17: N/2 N/2
Section 18: N/2 NE/4

(4) The applicant, Seely Oil Company, ("Seely") seeks authority to institute a waterflood project in said Central "EK" Queen Unit by the injection of water into the "Unitized Formation", as authorized in said Order No. R-9885 and defined in Decretory Paragraph No. (2) of said Order, which essentially consists of the Queen interval of the EK-Yates-Seven Rivers-Queen Pool. The applicant proposes to utilize five existing wells for water injection and to drill six new injection wells, four of which are considered to be unorthodox (lease-line) injection well locations, as follows:

- a) the Seely Oil Company State "OG" 2414 Well No. 1 (*Central "EK" Queen Unit, Tract 3, Well No. 1*), located 2310' FNL - 660' FWL (Unit E) of Section 7 is currently a producing oil well in the Yates portion of the subject pool (perfs. 3321' - 3447'); the current perforations are to be squeezed and the well is to be recompleted as an injection well in the perforated interval between 4361 feet to 4366 feet;
- b) the Murphy H. Baxter North "EK" Queen Unit, Tract 7, Well No. 2 (*Central "EK" Queen Unit, Tract 4, Well No. 1*), located 1650' FNL - 2176' FWL (Unit F) of Section 7 was last utilized as a water injection well (perfs. 4348' - 4355') in the Murphy H. Baxter North "EK" Queen Unit Waterflood Project, EK-Yates-Seven Rivers-Queen Pool, authorized by Division Order No. R-4009, dated August 12, 1970; this well was plugged and abandoned in late 1987; the applicant proposes to re-enter said well and utilize the former perforations for injection;
- c) the Murphy H. Baxter North "EK" Queen Unit, Tract 4, Well No. 7 (*Central "EK" Queen Unit, Tract 13, Well No. 1*), located 1650' FNL - 1980' FEL (Unit G) of Section 7 was last utilized as a water injection well (perfs. 4342' - 4360') in the Murphy H. Baxter North "EK" Queen Unit Waterflood Project, EK-Yates-Seven Rivers-Queen Pool, authorized by Division

Order No. R-4009, dated August 12, 1970; this well was also plugged and abandoned in late 1987; the applicant proposes to re-enter said well and utilize the former perforations for injection;

- d) the proposed ***Central "EK" Queen Unit, Tract 12, Well No. 1*** is to be drilled at an unorthodox (lease-line) injection well location 1370' FSL - 50' FWL (Unit L) of Section 7, with perforations from approximately 4350 feet to 4400 feet;
- e) the proposed ***Central "EK" Queen Unit, Tract 12, Well No. 2*** is to be drilled at an unorthodox (lease-line) injection well location 50' FS & WL (Unit M) of Section 7, with perforations from approximately 4350 feet to 4400 feet;
- f) the proposed ***Central "EK" Queen Unit, Tract 1, Well No. 2*** is to be drilled at an undetermined standard injection well location within the NW/4 SW/4 (Unit L) of Section 8, with perforations from approximately 4350 feet to 4400 feet;
- g) the Seely Oil Company State "HS" SWD Well No. 2 (***Central "EK" Queen Unit, Tract 6, Well No. 1***), located 1980' FSL - 660' FWL (Unit L) of Section 9 is being utilized as a salt water disposal well, under the authority of Division Administrative Order SWD-320, dated July 6, 1987, for injection of produced salt water into the subject pool through the perforated interval from 4380 feet to 4385 feet, no operational changes in said well are currently planned;
- h) the Seely Oil Company Rhodes State Well No. 1 (***Central "EK" Queen Unit, Tract 5, Well No. 1***), located 660' FS & WL (Unit M) of Section 9 is currently a producing oil well in the subject pool (perfs. 4387' - 4415'), this well is to be converted from a producing oil well to a water injection well with no change in the perforated interval;

- i) the proposed *Central "EK" Queen Unit, Tract 11, Well No. 2* is to be drilled at an undetermined standard injection well location within the NE/4 NE/4 (Unit A) of Section 17, with perforations from approximately 4350 feet to 4400 feet;
- j) the proposed *Central "EK" Queen Unit, Tract 7, Well No. 2* is to be drilled at an unorthodox (lease-line) injection well location 1270' FNL - 2590' FWL (Unit C) of Section 17, with perforations from approximately 4350 feet to 4400 feet; and,
- k) the proposed *Central "EK" Queen Unit, Tract 8, Well No. 3* is to be drilled at an unorthodox (lease-line) injection well location 1270' FNL - 50' FEL (Unit A) of Section 18, with perforations from approximately 4350 feet to 4400 feet.

(5) By utilizing a peripheral water injection pattern for the subject acreage as proposed by the applicant, an ultimate recovery of approximately 1,230,000 barrels of oil can be expected from the Project Area; this represents an additional recovery of 786,000 barrels of oil over the approximate 444,000 barrels of cumulative oil shown to have already been recovered, thereby preventing waste of otherwise unrecoverable oil.

(6) A total of 20 wells have contributed to the above 444,000 barrel cumulative production figure, most of these producing wells were plugged as being non-commercial. There are currently eight remaining producing oil wells from the proposed Project Area, average production for the last month available at the time of the hearing (December, 1992) was far less than 5 barrels of oil per day per well. Such evidence indicates that within the confines of the proposed Unit Area oil production from the "Queen" interval of said pool is in a state of depletion.

(7) In addition to the above-described injection wells the applicant's plans for developing this waterflood includes the installation of a water injection system and the drilling of four additional producing wells. The applicant testified that the capital expenditures required will be \$2,375,000.00 and is scheduled to take three and one-half years for implementation.

(8) Seely's plans also include developing the eleven injection wells over the three-and-a-half year time frame in the following manner:

1993:

Reenter and/or Recomplete:	Tract 4, Well No. 1 Tract 13, Well No. 1
Convert:	Tract 3, Well No. 1
Drill and Complete:	Tract 12, Well No. 1

1994:

Drill and Complete:	Tract 12, Well No. 2 Tract 8, Well No. 3
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1995:

Drill and Complete:	Tract 11, Well No. 2
Convert:	Tract 5, Well No. 1 Tract 6, Well No. 1

1996:

Drill and Complete:	Tract 7, Well No. 2 Tract 1, Well No. 2
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(9) The four proposed unorthodox injection well locations should enhance and improve the "sweep efficiency" of the flood on the western and southern portions of the Project Area, which will further serve in the prevention of waste.

(10) The applicant, at the time of the hearing, requested a surface limitation pressure in excess of the Division's guidelines of 0.2 psi per foot of depth, but not in excess of 2,000 psi. The applicant however offered no evidence or needed testimony to support this request for assignment of a higher injection pressure.

(11) The operator of the proposed Central "EK" Queen Unit Waterflood Project should take all steps necessary to ensure that the injected water enters and remains confined to 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:

(a) *The previously plugged and abandoned (The) Ohio Oil Company State "EKA" Well No. 5, located 1980 feet from the North line and 660 feet from the West line (Unit E) of Section 17, Township 18 South, Range 34 East, NMPM, Lea County, New Mexico, is located within the one-half mile "area of review" of the proposed Central "EK" Queen Unit, Tract 7, Well No. 2, located in Unit "C" of said Section 17 and the proposed Central "EK" Queen Unit, Tract 8, Well No. 3, located in Unit "A" of Section 18, Township 18 South, Range 34 East, NMPM, Lea County, New Mexico.*

Prior to commencement of injection into either the Central "EK" Queen Unit, Tract 7, Well No. 2 or the Central "EK" Queen Unit, Tract 8, Well No. 3, as described above, the operator should demonstrate to the satisfaction of the supervisor of the Division's District Office in Hobbs that the previously plugged and abandoned (The) Ohio Oil Company State "EKE" Well No. 5, as described above, has either been re-entered and re-plugged or has previously been plugged and abandoned in such a manner as to ensure that it does not provide an avenue of escape for waters from the proposed injection interval or that said wellbore will not otherwise serve for such escape.

(b) *Likewise, the previously plugged and abandoned Santa Fe Exploration, Inc. Lee Ranch Well No. 1, located 1650 feet from the South line and 660 feet from the East line (Unit I) of Section 18, Township 18 South, Range 34 East, NMPM, Lea County, New Mexico, is also located within the one-half mile "area of review" of said Central "EK" Queen Unit, Tract 8, Well No. 3, located in Unit "A" of said Section 18.*

Prior to commencement of injection into said Central "EK" Queen Unit, Tract 8, Well No. 3, as described above, operator should demonstrate to the satisfaction of the supervisor of the Division's District Office in Hobbs that the previously plugged and abandoned Santa Fe Exploration, Inc. Lee Ranch Well No. 1, as described above, has either been re-entered and replugged or has previously been plugged and abandoned in such a manner as to ensure that it does not provide an avenue of escape for waters from the proposed injection interval or that said wellbore will not otherwise serve for such escape.

(c) *The previously plugged and abandoned T. J. Sivley Fox Well No. 2, located 660 feet from the North and West lines (Unit D) of Section 18, Township 18 South, Range 34 East, NMPM, Lea County, New Mexico, is located within the one-half mile "area of review" of the proposed Central*

"EK" Queen Unit, Tract 12, Well No. 1, located in Unit "L" and the proposed Central "EK" Queen Unit, Tract 12, Well No. 2, located in Unit "M", both in Section 7, Township 18 South, Range 34 East, NMPM, Lea County, New Mexico.

Prior to commencement of injection into either the Central "EK" Queen Unit, Tract 12, Well No. 1 or the Central "EK" Queen Unit, Tract 12, Well No. 2, as described above, the operator should demonstrate to the satisfaction of the supervisor of the Division's District Office in Hobbs that the previously plugged and abandoned T. J. Sivley Fox Well No. 2, as described above, has either been re-entered and replugged or has previously been plugged and abandoned in such a manner as to ensure that it does not provide an avenue of escape for waters from the proposed injection interval or that said wellbore will not otherwise serve for such escape.

(d) *Likewise, the previously plugged and abandoned T. J. Sivley Fox Well No. 3, located 330 feet from the North line and 2310 feet from the West line (Unit C) of Section 18, Township 18 South, Range 34 East, NMPM, Lea County, New Mexico, is also located within the one-half mile "area of review" of said Central "EK" Queen Unit, Tract 12, Well No. 2, located in Unit "M" of adjacent Section 7.*

Prior to commencement of injection into said Central "EK" Queen Unit, Tract 12, Well No. 2, as described above, operator should demonstrate to the satisfaction of the supervisor of the Division's District Office in Hobbs that the previously plugged and abandoned T. J. Sivley Fox Well No. 3, as described above, has either been re-entered and replugged or has previously been plugged and abandoned in such a manner as to ensure that it does not provide an avenue of escape for waters from the proposed injection interval or that said wellbore will not otherwise serve for such escape.

(12) The injection of water into the proposed injection wells should be accomplished through 2-3/8 inch internally plastic-lined tubing installed in a packer set within 100 feet of the uppermost injection perforation; 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.

(13) Prior to commencing injection operations into the proposed injection wells, the casing in each well should be pressure tested throughout the interval from the surface down to the proposed packer setting depth, to assure the integrity of such casing.

(14) The injection wells or pressurization system for each of the proposed injection wells should be so equipped at this time as to limit injection pressure at the wellhead to no more than the Division's established 0.2 psi per foot of depth to the uppermost injection perforation; however the operator should have the opportunity to request, at a later date, an increase in the injection pressure limitation placed upon any well upon a proper showing by the operator that such higher pressure will not result in the migration of the injected water from its respective interval or fracture the confining strata. Such authorization will however remain with the Division Director.

(15) The operator should give advance notification to the supervisor of the Hobbs District Office of the Division of the date and time of the installation of injection equipment and of the mechanical integrity pressure-tests in order that the same may be witnessed.

(16) No offset operator or interested party appeared at the hearing in opposition to this application.

(17) The proposed waterflood project is in the best interest of conservation and will serve to protect correlative rights, therefore this application should be approved and the project should be governed by the provisions of Rule Nos. 701 through 708 of the Oil Conservation Division Rules and Regulations.

(18) The applicant further requests that the subject waterflood project be approved by the Division as a qualified "Enhanced Oil Recovery Project" pursuant to the "Enhanced Oil Recovery Act" (Laws 1992, Chapter 38, Sections 1 through 5).

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

(20) The approved "project area" should initially comprise that area described in Finding Paragraph No. (3) above.

(21) To be eligible for the EOR credit, prior to commencing injection operations, the operator must request from the Division a Certificate of Qualification, which certificate will specify the proposed project area as described above.

(22) 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, which application shall identify the area actually benefitting from enhanced recovery operations, and identifying the specific wells which the operator believes are eligible for the credit. 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 which are eligible for the credit.

(23) The injection authority granted herein for each of the proposed injection wells should terminate on December 31st of the year therein designated in Finding Paragraph No. (8) above if the operator has not commenced injection operation into the subject well by that date, provided however, the Division, upon written request by the operator, may grant an extension thereof for good cause shown.

(24) The previous injection authority granted by the Division for the Murphy H. Baxter North "EK" Queen Unit, Tract 7, Well No. 2 (*Central "EK" Queen Unit, Tract 4, Well No. 1*), the Murphy H. Baxter North "EK" Queen Unit, Tract 4, Well No. 7 (*Central "EK" Queen Unit, Tract 13, Well No. 1*), and the Seely Oil Company State "HS" SWD Well No. 2 (*Central "EK" Queen Unit, Tract 6, Well No. 1*) by Division Administrative Order SWD-320 and Division Order No. R-4009 should be placed in abeyance or withdrawn at this time.

IT IS THEREFORE ORDERED THAT:

(1) The applicant, Seely Oil Company, is hereby authorized to institute a waterflood project in its Central "EK" Queen Unit Area, Lea County, New Mexico (approved by Division Order No. R-9885, issued in Case 10647 and dated April 27, 1993), by the injection of water into the "Unitized Formation", as defined in Decretory Paragraph No. (2) of said Order No. R-9885, which essentially consists of the Queen interval of the EK-Yates-Seven Rivers-Queen Pool through the gross perforated interval from approximately 4,342 feet to 4,400 feet in eleven certain wells, five existing and six to be drilled, four of which are to be drilled at unorthodox (lease-line) injection well locations, as further described in Exhibit "A" attached hereto and made a part hereof.

(2) The waterflood project, hereby designated the Central "EK" Queen Unit Waterflood Project, shall coincide with the boundary of the Central "EK" Queen Unit Area, as further described below, and was the subject of said Division Order No. R-9885:

**CENTRAL 'EK' QUEEN UNIT WATERFLOOD PROJECT AREA
LEA COUNTY, NEW MEXICO**

TOWNSHIP 18 SOUTH, RANGE 34 EAST, NMPM

Section 7: Lots 2, 3 and 4, SW/4 NE/4, SE/4 NW/4, E/2 SW/4, and SE/4
Section 8: SW/4 and S/2 SE/4
Section 9: W/2 SW/4
Section 17: N/2 N/2
Section 18: N/2 NE/4

(3) The applicant must take all steps necessary to ensure that the injected water only enters and remains confined to 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.

PROVIDED HOWEVER THAT:

(4) Injection into either the Central "EK" Queen Unit, Tract 7, Well No. 2, to be drilled in Unit "C" of Section 17 or the Central "EK" Queen Unit, Tract 8, Well No. 3, to be drilled in Unit "A" of Section 18, both in Township 18 South, Range 34 East, NMPM, Lea County, New Mexico, shall not commence until the plugged and abandoned (The) Ohio Oil Company State "EKE" Well No. 5, located 1980 feet from the North line and 660 feet from the West line (Unit E) of said Section 17, has either been re-entered and replugged or is shown to have been previously plugged and abandoned in such a manner that ensures it does not provide an avenue of escape for waters from the proposed injection interval to the supervisor of the Division's District Office in Hobbs.

(5) Likewise, injection into said Central "EK" Queen Unit, Tract 8, Well No. 3, as described above, shall not commence until the plugged and abandoned Santa Fe Exploration, Inc. Lee Ranch Well No. 1, located 1650 feet from the South line and 660 feet from the East line (Unit I) of Section 18, Township 18 South, Range 34 East, NMPM, Lea County, New Mexico, has either been re-entered and replugged or is shown to have been previously plugged and abandoned in such a manner that ensures it does not provide an avenue of escape for waters from the proposed injection interval to the supervisor of the Division's District Office in Hobbs.

(6) Injection into either the Central "EK" Queen Unit, Tract 12, Well No. 1, to be drilled in Unit "L" or the Central "EK" Queen Unit, Tract 12, Well No. 2, to be drilled in Unit "M", both in Section 7, Township 18 South, Range 34 East, NMPM, Lea County, New Mexico, shall not commence until the plugged and abandoned T. J. Sivley Fox Well No. 2, located 660 feet from the North and West lines (Unit D) of Section 18, Township 18 South, Range 34 East, NMPM, Lea County, New Mexico, has either been re-entered and replugged or is shown to have been previously plugged and abandoned

in such a manner that ensures it does not provide an avenue of escape for waters from the proposed injection interval to the supervisor of the Division's District Office in Hobbs.

(7) Likewise, injection into said Central "EK" Queen Unit, Tract 12, Well No. 2, as described above, shall not commence until the plugged and abandoned T. J. Sivley Fox Well No. 3, located 330 feet from the North line and 2310 feet from the West line (Unit C) of Section 18, Township 18 South, Range 34 East, NMPM, Lea County, New Mexico, has either been re-entered and replugged or is shown to have been previously plugged and abandoned in such a manner that ensures it does not provide an avenue of escape for waters from the proposed injection interval to the supervisor of the Division's District Office in Hobbs.

IT IS FURTHER ORDERED THAT:

(8) Injection shall be accomplished through 2-3/8 inch internally plastic-lined tubing installed in a packer set approximately within 100 feet of the uppermost injection perforation; the casing-tubing annulus in each well shall be filled with an inert fluid and equipped with an approved pressure gauge or attention-attracting leak detection device.

(9) The injection wells or pressurization system for each injection well shall be so equipped as to limit injection pressure at the wellhead to no more than 850 psi.

(10) The Division Director shall have the authority to administratively authorize an increase in the injection pressure limitation placed upon any well upon a proper showing by the operator that such higher pressure will not result in the migration of the injected water from its respective interval or fracture the confining strata.

(11) Prior to commencing injection operations, the casing in each injection well shall 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 applicant shall immediately notify the supervisor of the Hobbs District Office of the Division of the failure of the tubing, casing or packer in any of the injection wells, the leakage of water or oil from or around any producing well, or the leakage of water or oil 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.

(13) The operator of the Central "EK" Queen Unit Waterflood Project shall conduct injection operations in accordance with all applicable Division rules, regulations, and policies, including Division General Rules 701 through 708 and shall submit monthly progress reports in accordance with Division General Rules 706 and 1115.

(14) The portion of Division Order No. R-4009, dated August 12, 1970, which authorized water injection into the Murphy H. Baxter North "EK" Queen Unit, Tract 7, Well No. 2 (*Central "EK" Queen Unit, Tract 4, Well No. 1*) and the Murphy H. Baxter North "EK" Queen Unit, Tract 4, Well No. 7 (*Central "EK" Queen Unit, Tract 13, Well No. 1*), located in Units "F" and "G", respectively, of Section 7, Township 18 South, Range 34 East, NMPM, Lea County, New Mexico, and Division Administrative Order SWD-320, dated July 6, 1987, which order approved for salt water disposal the Seely Oil Company State "HS" SWD Well No. 2 (*Central "EK" Queen Unit, Tract 6, Well No. 1*), located in Unit "L" of Section 9, Township 18 South, Range 34 East, NMPM, Lea County, New Mexico, shall be placed in abeyance until further notice.

FURTHERMORE:

(15) The subject waterflood project is hereby approved as an "Enhanced Oil Recovery Project" pursuant to the "Enhanced Oil Recovery Act" (Laws 1992, Chapter 38, Sections 1 through 5).

(16) The approved "project area" shall initially comprise that area described in Decretory Paragraph No. (2) above.

(17) To be eligible for the EOR credit, prior to commencing injection operations, the operator must request from the Division a Certificate of Qualification, which certificate will specify the proposed project area as described above.

(18) 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, which application shall identify the area actually benefitting from enhanced recovery operations, and identifying the specific wells which the operator believes are eligible for the credit. 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 which are eligible for the credit.

(19) The injection authority granted herein for each of the proposed injection wells shall terminate on December 31st of the year designated below if the operator has not commenced injection operations into the subject well by that date, provided however, the Division, upon written request by the operator, may grant an extension thereof for good cause shown:

1993: Tract 4, Well No. 1
Tract 13, Well No. 1
Tract 3, Well No. 1
Tract 12, Well No. 1

1994: Tract 12, Well No. 2

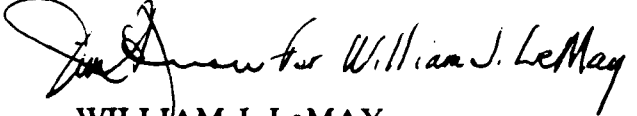
1995: Tract 11, Well No. 2
Tract 5, Well No. 1
Tract 6, Well No. 1

1996: Tract 7, Well No. 2
Tract 1, Well No. 2

(20) 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.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


WILLIAM J. LeMAY
Director

S E A L

Exhibit "A"
Case No. 10648
Order No. R-9885-A

Seely Oil Company
Proposed Water Injection Well Locations
Central "EK" Queen Unit Waterflood Project Area
Township 18 South, Range 34 East, NMPM, Lea County, New Mexico.

Well Name	Footage Location	Injection Interval	Type of Well
Central "EK" Queen Unit, Tract 3, Well No. 1 (Seely Oil Company State "OG" 2414 Well No. 1)	2310' FNL - 660' FWL (Unit E) of Section 7	4361-4366	Conversion
Central "EK" Queen Unit, Tract 4, Well No. 1 (Murphy H. Baxter N. "EK" Queen Unit, Tract 7, Well No. 2)	1650' FNL - 2176' FWL (Unit F) of Section 7	4348-4355	Re-entry/Recompletion
Central "EK" Queen Unit, Tract 13, Well No. 1 (Murphy H. Baxter N. "EK" Queen Unit, Tract 4, Well No. 7)	1650' FNL - 1980' FEL (Unit G) of Section 7	4342-4360	Re-entry/Recompletion
Central "EK" Queen Unit, Tract 12, Well No. 1	1370' FSL - 50' FWL (Unit L) of Section 7 *	4350-4400	New Drill
Central "EK" Queen Unit, Tract 12, Well No. 2	50' FS & WL (Unit M) of Section 7*	4350-4400	New Drill
Central "EK" Queen Unit, Tract 1, Well No. 2	NW/4 SW/4 (Unit L) of Section 8	4350-4400	New Drill
Central "EK" Queen Unit, Tract 6, Well No. 1 (Seely Oil Company State "HS" SWD Well No. 2)	1980' FSL - 660' FWL (Unit L) of Section 9	4380-4385	Existing Salt Water Disposal Well
Central "EK" Queen Unit, Tract 5, Well No. 1 (Seely Oil Company Rhodes State Well No. 1)	660' FS & WL (Unit M) of Section 9	4387-4415	Conversion

Well Name	Footage Location	Injection Interval	Type of Well
Central "EK" Queen Unit, Tract 11, Well No. 2	NE/4 NE/4 (Unit A) of Section 17	4350-4400	New Drill
Central "EK" Queen Unit, Tract 7, Well No. 2	1270' FNL - 2590' FWL (Unit C) of Section 17 *	4350-4400	New Drill
Central "EK" Queen Unit, Tract 8, Well No. 3	1270' FNL - 50' FEL (Unit A) of Section 18 *	4350-4400	New Drill

* Denotes an *unorthodox* injection well location.

County, _____

Township _____ Range _____

Township _____ Range _____

Township _____ Range _____

Township _____ Range _____

Form 104—(Four on Township)

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6	5	4	3	2	1	6	5	4	3	2	1
7	8	9	10	11	12	7	8	9	10	11	12
18	17	16	15	14	13	18	17	16	15	14	13
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31	32	33	34	35	36	31	32	33	34	35	36

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NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION
2040 South Pacheco Street
Santa Fe, New Mexico 87505
(505) 827-7131

ADMINISTRATIVE ORDER NO. WFX-693

**APPLICATION OF SEELY OIL COMPANY TO EXPAND ITS WATERFLOOD PROJECT IN
THE 'EK'-YATES-SEVEN RIVERS-QUEEN POOL IN LEA COUNTY, NEW MEXICO**

**ADMINISTRATIVE ORDER
OF THE OIL CONSERVATION DIVISION**

Under the provisions of Division Order No. R-9885, Seely Oil Company has made application to the Division on September 27, 1996 for permission to expand its Central 'EK' Queen Unit Waterflood Project in the 'EK'-Yates-Seven Rivers-Queen Pool in Lea County, New Mexico.

THE DIVISION DIRECTOR FINDS THAT:

- (1) The application has been filed in due form.
- (2) Satisfactory information has been provided that all offset operators have been duly notified of the application.
- (3) No objection has been received within the waiting period as prescribed by Rule 701(B).
- (4) The proposed expansion of the above referenced Central 'EK' Queen Unit Waterflood Project will not cause waste nor impair correlative rights.
- (5) The proposed expansion is part of an approved Enhanced Oil Recovery waterflood project pursuant to the "New Mexico Oil Recovery Act".
- (6) The application should be approved.

IT IS THEREFORE ORDERED THAT:

The applicant, Seely Oil Company, be and the same is hereby authorized to inject water into the Queen formation at approximately 4462 feet to approximately 4476 feet through 2 3/8-inch plastic lined tubing set in a packer at approximately 4362 feet to accomplish injection in the following described well for purposes of secondary recovery to wit:

Central 'EK' Queen Unit Tract 7 Well No.1
330' FNL and 2310' FWL - Unit Letter 'C'
Section 17, Township 18 South, Range 34 East, NMPM
Lea County, New Mexico

IT IS FURTHER ORDERED THAT:

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.

Prior to commencing injection operations into the well, the casing shall be pressure tested from the surface to the packer setting depth to assure the integrity of said casing.

The casing-tubing annulus shall be loaded with an inert fluid and equipped with a pressure gauge at the surface or left open to the atmosphere to facilitate detection of leakage in the casing, tubing or packer.

The injection well or system shall be equipped with a pressure limiting device which will limit the wellhead pressure to no more than 892 psi.

The Director of the Division may authorize an increase in injection pressure upon a proper showing by the operator of said well that such higher pressure will not result in migration of the injected fluid from the Queen formation. Such proper showing shall consist of a valid step-rate test run in accordance with and acceptable to this office.

The operator shall notify the supervisor of the Hobbs district office of the Division of the date and time of the installation of injection equipment and of the mechanical integrity tests so that the same may be inspected and witnessed.

The operator shall immediately notify the supervisor of the Hobbs district office of the Division of the failure of the tubing, casing or packer in said well and shall take such steps as may be timely and necessary to correct such failure or leakage.

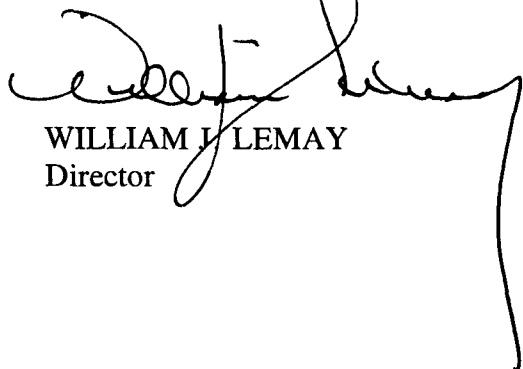
The subject well shall be governed by all provisions of Division Order No. R-9885, as amended and Rules 702-706 of the Division Rules and Regulations not inconsistent herewith.

PROVIDED FURTHER THAT, jurisdiction of this cause is hereby retained by the Division for the entry of such further order or orders as may be deemed necessary or convenient for the prevention of waste and/or protection of correlative rights; upon failure of the operator to conduct operations in a manner which will ensure the protection of fresh water or in a manner inconsistent with the requirements set forth in this order, the Division may, after notice and hearing, terminate the injection authority granted herein.

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

DONE at Santa Fe, New Mexico, on this 16th day of October, 1996.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION



WILLIAM J. LEMAY
Director

S E A L

WJL/BES

cc: NM Department of Taxation and Revenue - Mr. John Chavez, Secretary
Oil Conservation Division - Hobbs
Files: Case No.10648; EOR-5



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

July 7, 1994

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

Attention: Dick Minzner, Secretary

**RE: *Certification of EOR Project
Seely Oil Company
Central EK Queen Unit Waterflood Project***

Dear Secretary Minzner:

Enclosed is a copy of the certification issued to Seely Oil Company for its Central EK Queen Unit Waterflood Project EOR project, certified by this Division on July 7, 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



BRUCE KING
GOVERNOR

ANITA LOCKWOOD
CABINET SECRETARY

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

July 7, 1994

Seely Oil Company
815 West Tenth Street
Fort Worth, TX 76102

Attention: David L. Henderson

**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: Central EK Queen Unit Waterflood Project

OCD ORDER NO. R-9885-A

OPERATOR: Seely Oil Company
ADDRESS: 815 West Tenth Street
Fort Worth, TX 76102
Attention: David L. Henderson

CERTIFICATION DATE: July 7, 1994

EOR Project Certification
Central EK Queen Unit Waterflood Project

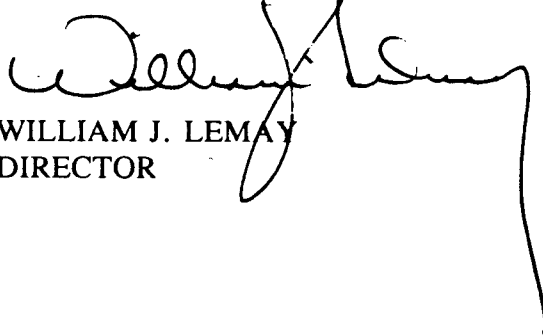
PROJECT AREA:

TOWNSHIP 18 SOUTH, RANGE 34 EAST, NMPM

Section 7: Lots 2, 3 and 4, SW/4 NE/4, SE/4 NW/4, E/2 SW/4, and SE/4
Section 8: SW/4 and S/2 SE/4
Section 9: W/2 SW/4
Section 17: N/2 N/2
Section 18: N/2 NE/4

APPROVED BY:

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in black ink, appearing to read 'William J. Lemay', is written over the printed name and title.

WILLIAM J. LEMAY
DIRECTOR

S E A L

SEELY OIL COMPANY

615 WEST TENTH STREET
FORT WORTH, TEXAS 76102

July 6, 1994

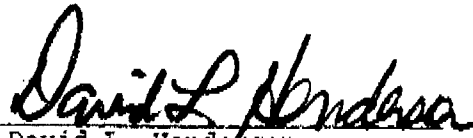
Mr. William J. LeMay
Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87504

Dear Mr. LeMay:

SEELY OIL COMPANY, the Operator of the Central EK Queen Unit pursuant to Order No. R-9885, hereby requests the Division to issue a Certificate of Qualification under the Enhanced Oil Recovery Act for the project area for the Unit, as approved in Division Order No. R-9885-A. The project area is described in Ordering Paragraph No. (3) of said Order No. R-9885-A. SEELY OIL COMPANY wishes to commence injection by July 9, 1994, and thus your attention to this matter is appreciated.

Very truly yours,

SEELY OIL COMPANY

By 
David L. Henderson
Vice-President

DLH/ww

SEELY OIL COMPANY
OIL CONSERVATION DIVISION
815 WEST TENTH STREET
FORT WORTH, TEXAS 76102

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July 6, 1994

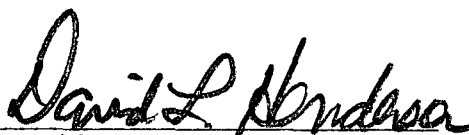
Mr. William J. LeMay
Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87504

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Very truly yours,

SEELY OIL COMPANY

By 

David L. Henderson

Vice-President

DLH/ww