

Gillespie-Crow, Inc.

*Oil & Gas
Exploration & Production
P.O. Box 2557
Midland, Texas 79702*

*(915) 683-5060
Fax (915) 683-1491*

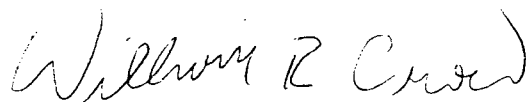
September 15, 1995

Mr. William LeMay
Oil Conservation Division
Post Office Box 2308
Santa Fe, NM 87502-2308

Dear Mr. LeMay:

Gillespie-Crow, Inc., the designated operator of the West Lovington Strawn Unit, pursuant to Division Order No. R-10449, hereby requests the Division to issue a Certificate of Qualification for the project area for the Unit, as approved in Division Order No. R-10448. The initial project area is described in Ordering Paragraph No. (1) of said Order. We desire to commence injection no later than October 1, 1995, and thus your attention to this matter is appreciated.

GILLESPIE-CROW, INC.



William R. Crow
President

Gillespie-Crow, Inc.
Attn: William R. Crow
Post Office Box 2557
Midland, Texas 79702

**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* (L. 1992, Ch. 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:	West Lovington Strawn Unit Pressure Maintenance Project
OCD ORDER NO.:	R-10448
OPERATOR AND ADDRESS:	Gillespie-Crow, Inc. Attn: William R. Crow Post Office Box 2557 Midland, Texas 79702
CERTIFICATION DATE:	September __, 1995

INITIAL PROJECT AREA:

Township 15 South, Range 35 East, NMPM

Section 33: All
Section 34: W½

Township 16 South, Range 35 East, NMPM

Section 1: Lots 1 through 8

Township 16 South, Range 36 East, NMPM

Section 6: Lots 3 through 5

APPROVED:

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

WILLIAM J. LeMAY
Director

Gillespie-Crow, Inc.
Attn: William R. Crow
Post Office Box 2557
Midland, Texas 79702

**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* (L. 1992, Ch. 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:	West Lovington Strawn Unit Pressure Maintenance Project
OCD ORDER NO.:	R-10448
OPERATOR AND ADDRESS:	Gillespie-Crow, Inc. Attn: William R. Crow Post Office Box 2557 Midland, Texas 79702
CERTIFICATION DATE:	September __, 1995

INITIAL PROJECT AREA:

Township 15 South, Range 35 East, NMPM

Section 33: All
Section 34: W½

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APPROVED:

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

WILLIAM J. LeMAY
Director

Gillespie-Crow, Inc.

Oil & Gas
Exploration & Production
P.O. Box 2557
Midland, Texas 79702

(915) 683-5060
Fax (915) 683-1491

January 18, 1996

Mr. William LeMay
Oil Conservation Division
P.O. Box 2308
Santa Fe, New Mexico 87502-2308

Re: West Lovington Strawn Unit
Lea County, New Mexico

Dear Mr. LeMay:

In reference to my letter dated September 15, 1995, whereby Gillespie-Crow, Inc., the designated Operator of the West Lovington Strawn Unit pursuant to the State of New Mexico Oil Conservation Division Order No. R-10449, requested the Division to issue a Certificate of Qualification for the Recovered Oil Tax Rate covering the project area for said Unit, as approved in the Division's Order No. R-10448, please be advised that the West Lovington Strawn Unit became effective October 1, 1995, and Gillespie-Crow, Inc. began injecting gas into the Strawn formation for the purpose of pressure maintenance on October 12, 1995.

The injection of gas into the Strawn reservoir at volumes capable of maintaining the current bottomhole pressure of the West Lovington Strawn Pool has allowed the Operator to increase production from all of the wells within the West Lovington Strawn Unit, thereby creating a positive production response of over 4000 barrels of oil per month throughout the entire project area. Beginning in January, 1996, the Operator plans to increase flow rates even more and a 20,000 barrels of oil per month increase in production is expected from the Unit.

All ten (10) of the producing wells within the West Lovington Strawn Unit, those being the WLSU Wells No. 1, 2, 3, 4, 5, 6, 8, 9, 10 and 11, should be eligible for the Enhanced Oil Recovery credit as of October, 1995, and therefore, Gillespie-Crow, Inc. hereby applies to the Division for administrative approval of Certification of Positive Production Response.

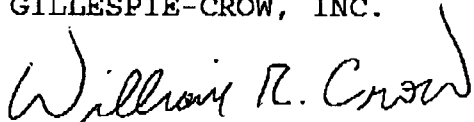
Oil Conservation Division
January 18, 1996
Page 2

Included herewith are copies of the Division's Order No. R-10448 approving this enhanced recovery project, a plat of the affected area within the West Lovington Strawn Unit showing the injection and producing wells within said Unit and a production graph for the Unit with supporting data demonstrating a positive production response and listing the volumes of gas that have been injected within the Unit since October, 1995.

Should you require anything further regarding this application, please advise.

Yours very truly,

GILLESPIE-CROW, INC.

A handwritten signature in cursive script that reads "William R. Crow". The signature is written in dark ink and is positioned below the typed name.

William R. Crow
President



NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT

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

July 3, 1996

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,
Gillespie-Crow, Inc.
West Lovington Strawn Unit
Pressure Maintenance Project

Dear Secretary Chavez:

Enclosed is a copy of a Division Certification which was issued on June 12, 1996. This document certifies that a positive production response has occurred within the West Lovington Strawn Unit Pressure Maintenance Project Area which is currently operated by Gillespie-Crow, Inc. 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 West Lovington-Strawn 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,

A handwritten signature in dark ink, appearing to read "William J. LeMay", written over the typed name and title.

William J. LeMay
Director

WJL/drc

POSITIVE PRODUCTION RESPONSE DATA
WEST LOVINGTON STRAWN UNIT PRESSURE MAINTENANCE PROJECT

NAME OF PROJECT

West Lovington Strawn Unit
Pressure Maintenance Project

OPERATOR

Gillespie-Crow, Inc.
P.O. Box 2557
Midland, Texas 79702
Attention: Mr. William R. Crow

POOL

West Lovington-Strawn Pool

OCD ORDER NO. APPROVING WATERFLOOD PROJECT & DATE

R-10448, August 29, 1995

PROJECT AREA

TOWNSHIP 15 SOUTH, RANGE 35 EAST, NMPM

Section 33: All
Section 34: W/2

TOWNSHIP 16 SOUTH, RANGE 35 EAST, NMPM

Section 1: Lots 1 through 8

TOWNSHIP 16 SOUTH, RANGE 36 EAST, NMPM

Section 6: Lots 3 through 5

DATE GAS INJECTION COMMENCED

October, 1995

DATE CERTIFIED PROJECT TO TAXATION & REVENUE

June 3, 1996 (Retroactive to September 15, 1995)

DATE POSITIVE PRODUCTION RESPONSE OCCURRED

December 31, 1995,

CURRENT NUMBER OF WELLS WITHIN PROJECT AREA

Injection: 1

Production: 10

**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. 11531
Order No. R-10608**

**APPLICATION OF GILLESPIE-CROW, INC.
FOR CERTIFICATION OF A POSITIVE
PRODUCTION RESPONSE PURSUANT TO THE
"NEW MEXICO ENHANCED 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 May 16, 1996, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 12th day of June, 1996, 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) The applicant, Gillespie-Crow, Inc., seeks certification, pursuant to the Rules and Procedures for Qualifications of Enhanced Oil Recovery Projects and Certification for the Recovered Oil Tax Rate, as promulgated by Division Order No. R-9708, of a positive production response within its West Lovington Strawn Unit Pressure Maintenance Project, Lea County, New Mexico.

(3) By Order No. R-10448, dated August 29, 1995, the Division:

- a) authorized Gillespie-Crow, Inc., to institute a pressure maintenance project within its West Lovington Strawn Unit Area which currently comprises the area described below; and,

- b) qualified the West Lovington Strawn Unit Pressure Maintenance Project as an enhanced oil recovery project pursuant to "New Mexico Enhanced Oil Recovery Act" (Laws 1992, Chapter 38, Sections 1 through 5).

WEST LOVINGTON STRAWN UNIT PRESSURE MAINTENANCE PROJECT AREA

TOWNSHIP 15 SOUTH, RANGE 35 EAST, NMPM

Section 33: All

Section 34: W/2

TOWNSHIP 16 SOUTH, RANGE 35 EAST, NMPM

Section 1: Lots 1 through 8

TOWNSHIP 16 SOUTH, RANGE 36 EAST, NMPM

Section 6: Lots 3 through 5

(4) The Division certified that the West Lovington Strawn Unit Pressure Maintenance Project was approved as a qualified secondary recovery project to the New Mexico Taxation and Revenue Department on June 3, 1996, retroactive to date of application, September 15, 1995.

(5) Evidence and testimony presented by the applicant indicates that gas injection commenced within the project in October, 1995, through one initial injection well.

(6) Cumulative gas injection within the pressure maintenance project as of May, 1996, was approximately 785 MMCFG at an average daily rate of approximately 5.0 MMCFG.

(7) The West Lovington Strawn Unit Area currently contains one injection well and ten producing wells.

(8) The evidence and testimony presented in this case indicates that:

- a) the West Lovington-Strawn Pool was created by Division Order No. R-9722, as amended, on September 23, 1992. The discovery well for the pool was the Charles B. Gillespie, Jr. (Gillespie) Hamilton Federal Well No. 1 located in Unit O of Section 33, Township 15 South, Range 35 East, NMPM;
- b) during 1992-93, Gillespie drilled an additional eight wells within the subject pool;
- c) in early 1994, Gillespie determined that the reservoir pressure within the West Lovington-Strawn Pool was declining to the point of nearing critical gas saturation. In an effort to delay the onset of this reservoir condition, Gillespie voluntarily curtailed production from its wells within the pool;
- d) during early 1995, Gillespie drilled an additional two wells within the pool; and,
- e) Gillespie-Crow, Inc., applied for and was granted Division approval to institute a pressure maintenance project within the West Lovington-Strawn Pool for the purpose of increasing ultimate oil recovery from the pool by maintaining reservoir pressure.

(9) The applicant's engineering evidence and testimony indicates that the gas being injected into the West Lovington Strawn Unit Well No. 7:

- a) is being confined to the reservoir and not being recycled to producing wells;
- b) is forming a gas cap within the reservoir; and,
- c) is effectively maintaining reservoir pressure within the West Lovington-Strawn Pool.

(10) In December, 1995, the applicant significantly increased production within the West Lovington Strawn Unit Area as a result of its determination that gas injection was being effective in maintaining reservoir pressure and that increased production would not be detrimental to the reservoir and/or reduce ultimate recovery from the pool.

(11) The engineering evidence and testimony presented supports the above-described determination.

(12) Applicant requested that December 31, 1995 should be established as the date a positive production response occurred within the subject pressure maintenance project.

(13) Applicant's request is reasonable and should be granted.

(14) The positive production response has occurred within the five year time limit described in Division Order No. R-9708.

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

(16) The applicant 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 unit;
- c) of changes in operations within the unit which may affect the certification and resulting reduced tax rate granted herein.

(17) Pursuant to the provisions of Division Order No. R-9708, 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 the Rules and Procedures for Qualifications of Enhanced Oil Recovery Projects and Certification for the Recovered Oil Tax Rate, as promulgated by Division Order No. R-9708, the application of Gillespie-Crow, Inc. for certification of a positive production response within its West Lovington Strawn Unit Pressure Maintenance Project is hereby approved.

(2) All West Lovington-Strawn Pool producing wells within the following described area, which currently number ten, as shown on Exhibit "A" attached hereto, shall be eligible for the recovered oil tax rate:

WEST LOVINGTON STRAWN UNIT PRESSURE MAINTENANCE PROJECT AREA

TOWNSHIP 15 SOUTH. RANGE 35 EAST. NMPM

Section 33: All
Section 34: W/2

TOWNSHIP 16 SOUTH. RANGE 35 EAST. NMPM

Section 1: Lots 1 through 8

TOWNSHIP 16 SOUTH. RANGE 36 EAST. NMPM

Section 6: Lots 3 through 5

(3) Pursuant to the provisions of Division Order No. R-9708, the Division Director shall notify the Secretary of the New Mexico Taxation and Revenue Department of the certification granted herein.

(4) The applicant shall notify the Division:

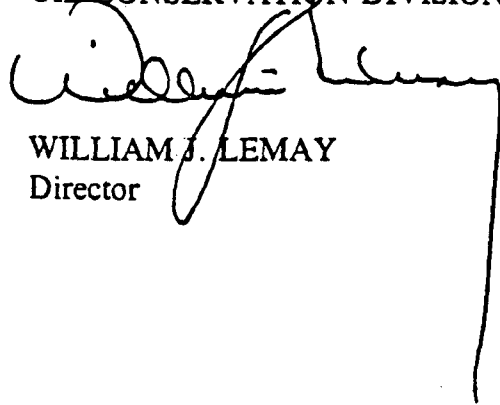
- a) of the change in status of any of the producing wells shown on Exhibit "A";
- b) in the event new producing wells are drilled within the unit;
- c) of changes in operations within the unit which may affect the certification and resulting reduced tax rate granted herein.

(5) Jurisdiction is hereby retained for the entry of such further orders as the Division may deem necessary.

CASE NO. 11531
Order No. R-10608
Page -6-

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. 11531
DIVISION ORDER NO. R-10608
WEST LOVINGTON STRAWN UNIT PRODUCING WELLS

<u>API NO.</u>	<u>WLSU WELL NO.</u>	<u>WELL LOCATION - UL-S-T-R</u>
30-025-31531	1	O-33-15S-35E
30-025-31767	2	P-33-15S-35E
30-025-32184	3	K-33-15S-35E
30-025-32230	4	N-33-15S-35E
30-025-31830	5	B-1-16S-35E
30-025-31831	6	A-1-16S-35E
30-025-32291	8	L-34-15S-35E
30-025-32812	9	M-34-15S-35E
30-025-32526	10	G-33-15S-35E
30-025-32852	11	B-33-15S-35E



NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT

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

June 3, 1996

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

Attention: John Chavez, Secretary

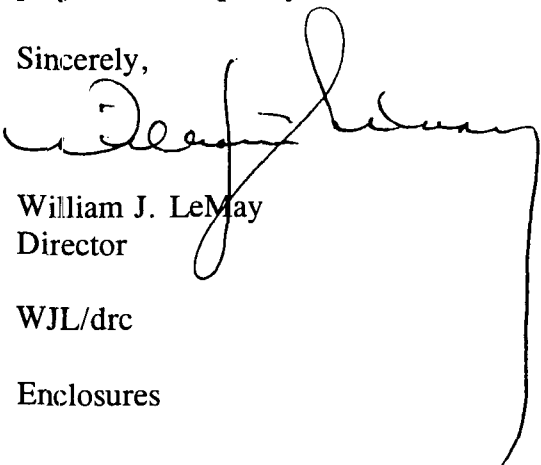
**RE: *Certification of EOR Project
Gillespie-Crow, Inc.
West Lovington Strawn Unit
Pressure Maintenance Project***

Dear Secretary Chavez:

Enclosed is a copy of the certification issued to Gillespie-Crow, Inc. for its West Lovington Strawn Unit Pressure Maintenance Project, certified by this Division on June 3, 1996, (Retroactive to Date of Application, September 15, 1995) to be a qualified Enhanced Oil Recovery Project. If the operator applies for certification of positive production response within five years from retroactive certification 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,


William J. LeMay
Director

WJL/drc

Enclosures



NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT

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

June 3, 1996

Gillespie-Crow, Inc.
P.O. Box 2557
Midland, TX 79702-2557

Attention: Mr. William R. Crow

**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: West Lovington Strawn Unit
Pressure Maintenance Project
OCD ORDER NO. R-10448
OPERATOR: Gillespie-Crow, Inc.
ADDRESS: P.O. Box 2557
Midland, TX 79702-2557
Attention: Mr. William R. Crow

CERTIFICATION DATE: September 15, 1995

PROJECT AREA:

TOWNSHIP 15 SOUTH, RANGE 35 EAST, NMPM

Section 33: All
Section 34: W/2

TOWNSHIP 16 SOUTH, RANGE 35 EAST, NMPM

Section 1: Lots 1 through 8

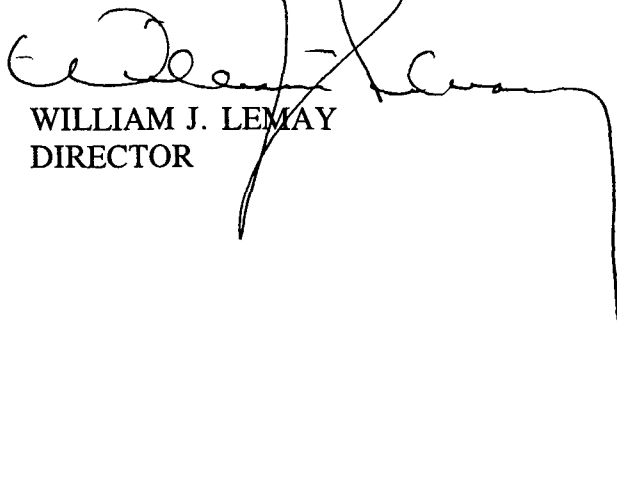
EOR Project Certification
West Lovington Strawn Unit
Pressure Maintenance Project

TOWNSHIP 16 SOUTH, RANGE 36 EAST, NMPM

Section 6: Lots 3 through 5

APPROVED BY:

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


WILLIAM J. LEMAY
DIRECTOR

S E A L

xc: Mr. James Bruce
Hinkle Law Firm
P.O. Box 2068
Santa Fe, New Mexico 87504-2068

Secretary, Taxation & Revenue Dept.



NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT

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

July 3, 1996

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,
Gillespie-Crow, Inc.
West Lovington Strawn Unit
Pressure Maintenance Project

Dear Secretary Chavez:

Enclosed is a copy of a Division Certification which was issued on June 12, 1996. This document certifies that a positive production response has occurred within the West Lovington Strawn Unit Pressure Maintenance Project Area which is currently operated by Gillespie-Crow, Inc. 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 West Lovington-Strawn 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,

William J. LeMay
Director

POSITIVE PRODUCTION RESPONSE DATA
WEST LOVINGTON STRAWN UNIT PRESSURE MAINTENANCE PROJECT

NAME OF PROJECT

West Lovington Strawn Unit
Pressure Maintenance Project

OPERATOR

Gillespie-Crow, Inc.
P.O. Box 2557
Midland, Texas 79702
Attention: Mr. William R. Crow

POOL

West Lovington-Strawn Pool

OCD ORDER NO. APPROVING WATERFLOOD PROJECT & DATE

R-10448, August 29, 1995

PROJECT AREA

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Section 33: All

Section 34: W/2

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DATE GAS INJECTION COMMENCED

October, 1995

DATE CERTIFIED PROJECT TO TAXATION & REVENUE

June 3, 1996 (Retroactive to September 15, 1995)

DATE POSITIVE PRODUCTION RESPONSE OCCURRED

December 31, 1995,

CURRENT NUMBER OF WELLS WITHIN PROJECT AREA

Injection: 1

Production: 10

Gillespie-Crow, Inc.

Oil & Gas
Exploration & Production
P.O. Box 2557
Midland, Texas 79702

(915) 683-5060
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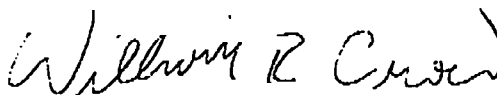
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Mr. William LeMay
Oil Conservation Division
Post Office Box 2308
Santa Fe, NM 87502-2308

Dear Mr. LeMay:

Gillespie-Crow, Inc., the designated operator of the West Lovington Strawn Unit, pursuant to Division Order No. R-10449, hereby requests the Division to issue a Certificate of Qualification for the project area for the Unit, as approved in Division Order No. R-10448. The initial project area is described in Ordering Paragraph No. (1) of said Order. We desire to commence injection no later than October 1, 1995, and thus your attention to this matter is appreciated.

GILLESPIE-CROW, INC.



William R. Crow
President

Gillespie-Crow, Inc.
Attn: William R. Crow
Post Office Box 2557
Midland, Texas 79702

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

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OCD ORDER NO.:	R-10448
OPERATOR AND ADDRESS:	Gillespie-Crow, Inc. Attn: William R. Crow Post Office Box 2557 Midland, Texas 79702
CERTIFICATION DATE:	September __, 1995

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APPROVED:

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

WILLIAM J. LeMAY
Director



NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT

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

July 3, 1996

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
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Gillespie-Crow, Inc.
West Lovington Strawn Unit
Pressure Maintenance Project

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

Sincerely,

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William J. LeMay
Director

WJL/drc

POSITIVE PRODUCTION RESPONSE DATA
WEST LOVINGTON STRAWN UNIT PRESSURE MAINTENANCE PROJECT

NAME OF PROJECT

West Lovington Strawn Unit
Pressure Maintenance Project

OPERATOR

Gillespie-Crow, Inc.
P.O. Box 2557
Midland, Texas 79702
Attention: Mr. William R. Crow

POOL

West Lovington-Strawn Pool

OCD ORDER NO. APPROVING WATERFLOOD PROJECT & DATE

R-10448, August 29, 1995

PROJECT AREA

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Section 33: All

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June 3, 1996 (Retroactive to September 15, 1995)

DATE POSITIVE PRODUCTION RESPONSE OCCURRED

December 31, 1995,

CURRENT NUMBER OF WELLS WITHIN PROJECT AREA

Injection: 1

Production: 10

**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. 11531
Order No. R-10608**

**APPLICATION OF GILLESPIE-CROW, INC.
FOR CERTIFICATION OF A POSITIVE
PRODUCTION RESPONSE PURSUANT TO THE
"NEW MEXICO ENHANCED 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 May 16, 1996, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 12th day of June, 1996, 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) The applicant, Gillespie-Crow, Inc., seeks certification, pursuant to the Rules and Procedures for Qualifications of Enhanced Oil Recovery Projects and Certification for the Recovered Oil Tax Rate, as promulgated by Division Order No. R-9708, of a positive production response within its West Lovington Strawn Unit Pressure Maintenance Project, Lea County, New Mexico.

(3) By Order No. R-10448, dated August 29, 1995, the Division:

- a) authorized Gillespie-Crow, Inc., to institute a pressure maintenance project within its West Lovington Strawn Unit Area which currently comprises the area described below; and,

- b) qualified the West Lovington Strawn Unit Pressure Maintenance Project as an enhanced oil recovery project pursuant to "New Mexico Enhanced Oil Recovery Act" (Laws 1992, Chapter 38, Sections 1 through 5).

WEST LOVINGTON STRAWN UNIT PRESSURE MAINTENANCE PROJECT AREA

TOWNSHIP 15 SOUTH, RANGE 35 EAST, NMPM

Section 33: All
Section 34: W/2

TOWNSHIP 16 SOUTH, RANGE 35 EAST, NMPM

Section 1: Lots 1 through 8

TOWNSHIP 16 SOUTH, RANGE 36 EAST, NMPM

Section 6: Lots 3 through 5

(4) The Division certified that the West Lovington Strawn Unit Pressure Maintenance Project was approved as a qualified secondary recovery project to the New Mexico Taxation and Revenue Department on June 3, 1996, retroactive to date of application, September 15, 1995.

(5) Evidence and testimony presented by the applicant indicates that gas injection commenced within the project in October, 1995, through one initial injection well.

(6) Cumulative gas injection within the pressure maintenance project as of May, 1996, was approximately 785 MMCFG at an average daily rate of approximately 5.0 MMCFG.

(7) The West Lovington Strawn Unit Area currently contains one injection well and ten producing wells.

(8) The evidence and testimony presented in this case indicates that:

- a) the West Lovington-Strawn Pool was created by Division Order No. R-9722, as amended, on September 23, 1992. The discovery well for the pool was the Charles B. Gillespie, Jr. (Gillespie) Hamilton Federal Well No. 1 located in Unit O of Section 33, Township 15 South, Range 35 East, NMPM;
- b) during 1992-93, Gillespie drilled an additional eight wells within the subject pool;
- c) in early 1994, Gillespie determined that the reservoir pressure within the West Lovington-Strawn Pool was declining to the point of nearing critical gas saturation. In an effort to delay the onset of this reservoir condition, Gillespie voluntarily curtailed production from its wells within the pool;
- d) during early 1995, Gillespie drilled an additional two wells within the pool; and,
- e) Gillespie-Crow, Inc., applied for and was granted Division approval to institute a pressure maintenance project within the West Lovington-Strawn Pool for the purpose of increasing ultimate oil recovery from the pool by maintaining reservoir pressure.

(9) The applicant's engineering evidence and testimony indicates that the gas being injected into the West Lovington Strawn Unit Well No. 7:

- a) is being confined to the reservoir and not being recycled to producing wells;
- b) is forming a gas cap within the reservoir; and,
- c) is effectively maintaining reservoir pressure within the West Lovington-Strawn Pool.

(10) In December, 1995, the applicant significantly increased production within the West Lovington Strawn Unit Area as a result of its determination that gas injection was being effective in maintaining reservoir pressure and that increased production would not be detrimental to the reservoir and/or reduce ultimate recovery from the pool.

(11) The engineering evidence and testimony presented supports the above-described determination.

(12) Applicant requested that December 31, 1995 should be established as the date a positive production response occurred within the subject pressure maintenance project.

(13) Applicant's request is reasonable and should be granted.

(14) The positive production response has occurred within the five year time limit described in Division Order No. R-9708.

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

(16) The applicant 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 unit;
- c) of changes in operations within the unit which may affect the certification and resulting reduced tax rate granted herein.

(17) Pursuant to the provisions of Division Order No. R-9708, 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 the Rules and Procedures for Qualifications of Enhanced Oil Recovery Projects and Certification for the Recovered Oil Tax Rate, as promulgated by Division Order No. R-9708, the application of Gillespie-Crow, Inc. for certification of a positive production response within its West Lovington Strawn Unit Pressure Maintenance Project is hereby approved.

(2) All West Lovington-Strawn Pool producing wells within the following described area, which currently number ten, as shown on Exhibit "A" attached hereto, shall be eligible for the recovered oil tax rate:

WEST LOVINGTON STRAWN UNIT PRESSURE MAINTENANCE PROJECT AREA

TOWNSHIP 15 SOUTH. RANGE 35 EAST. NMPM

Section 33: All
Section 34: W/2

TOWNSHIP 16 SOUTH. RANGE 35 EAST. NMPM

Section 1: Lots 1 through 8

TOWNSHIP 16 SOUTH. RANGE 36 EAST. NMPM

Section 6: Lots 3 through 5

(3) Pursuant to the provisions of Division Order No. R-9708, the Division Director shall notify the Secretary of the New Mexico Taxation and Revenue Department of the certification granted herein.

(4) The applicant shall notify the Division:

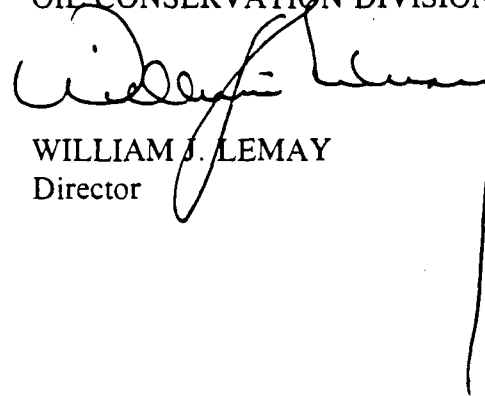
- a) of the change in status of any of the producing wells shown on Exhibit "A";
- b) in the event new producing wells are drilled within the unit;
- c) of changes in operations within the unit which may affect the certification and resulting reduced tax rate granted herein.

(5) Jurisdiction is hereby retained for the entry of such further orders as the Division may deem necessary.

CASE NO. 11531
Order No. R-10608
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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

CASE NO. 11531
Order No. R-10608
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EXHIBIT "A"
CASE NO. 11531
DIVISION ORDER NO. R-10608
WEST LOVINGTON STRAWN UNIT PRODUCING WELLS

<u>API NO.</u>	<u>WLSU WELL NO.</u>	<u>WELL LOCATION - UL-S-T-R</u>
30-025-31531	1	O-33-15S-35E
30-025-31767	2	P-33-15S-35E
30-025-32184	3	K-33-15S-35E
30-025-32230	4	N-33-15S-35E
30-025-31830	5	B-1-16S-35E
30-025-31831	6	A-1-16S-35E
30-025-32291	8	L-34-15S-35E
30-025-32812	9	M-34-15S-35E
30-025-32526	10	G-33-15S-35E

**HINKLE, COX, EATON, COFFIELD & HENSLEY,
L.L.P.**

ATTORNEYS AT LAW

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RICHARD E. OLSON
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THOMAS S. MCBRIDE
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GREGORY J. NIBERT
FRED W. SCHWENDIMANN
JAMES M. HUDSON
JEFFREY S. BAIRD*

May 23, 1996

Via Hand Delivery

David Catanach
New Mexico Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico

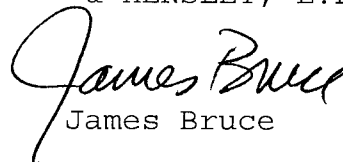
Re: Case No. 11531

Dear Mr. Catanach:

Enclosed are copies of two letters from Gillespie-Crow, Inc. to the Division, dated September 15, 1995 and January 18, 1996, requesting certification for the recovered oil tax rate for the West Lovington Strawn Unit pressure maintenance project.

Very truly yours,

HINKLE, COX, EATON, COFFIELD
& HENSLEY, L.L.P.


James Bruce

ocdltr.4

**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. 11194
Order No. R-10448**

**APPLICATION OF GILLESPIE-CROW INC.
FOR APPROVAL OF A PRESSURE MAINTENANCE
PROJECT AND QUALIFICATION FOR THE
RECOVERED OIL TAX RATE PURSUANT TO
THE "NEW MEXICO ENHANCED 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 June 15, 1995, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 29th day of August, 1995, 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. 11194 and 11195 were consolidated at the time of the hearing for the purpose of testimony.

(3) The applicant, Gillespie-Crow, Inc., seeks authority to institute a pressure maintenance project within its West Lovington Strawn Unit Area (being the subject of Division Case No. 11195) comprising the following described area in Lea County, New Mexico, by the injection of gas into the Strawn formation, West Lovington-Strawn Pool, through the perforated interval from approximately 11,424 feet to 11,434 feet in its Speight Fee Well No. 1 located 660 feet from the North line and 2310 feet from the West line (Unit C) of Section 1, Township 16 South, Range 35 East, NMPM:

TOWNSHIP 15 SOUTH. RANGE 35 EAST. NMPM

Section 33: All
Section 34: W/2

TOWNSHIP 16 SOUTH. RANGE 35 EAST. NMPM

Section 1: Lots 1 through 8

TOWNSHIP 16 SOUTH. RANGE 36 EAST. NMPM

Section 6: Lots 3 through 5

(4) The West Lovington-Strawn Pool was created by Division Order No. R-9722 on September 23, 1992. The pool was discovered by the Charles B. Gillespie, Jr. Hamilton Federal Well No. 1 located in Unit O of Section 33, Township 15 South, Range 35 East, NMPM.

(5) The West Lovington-Strawn Pool is nearly fully developed with eleven producing wells, all of which are operated by Gillespie-Crow, Inc.

(6) The engineering evidence presented by the applicant indicates that:

- a) the West Lovington-Strawn Pool is a solution gas-drive reservoir whose pressure has declined to the point that the reservoir is rapidly approaching critical gas saturation;
- b) additional decline in reservoir pressure will result in the release of additional gas from solution which will be mobile and will flow into wellbores. As this occurs, producing gas-oil ratios will rapidly increase, oil producing rates will decrease and the reservoir energy will rapidly dissipate. The premature dissipation of reservoir energy will result in reduced ultimate oil recoveries from the West Lovington-Strawn Pool; and,
- c) the applicant proposes to inject gas into a single well at the highest portion of the Strawn structure. As a result of this injection, a gas cap will be created and the depletion of reservoir energy will be slowed, thereby resulting in the recovery of additional oil from the reservoir.

(7) Applicant testified that the proposed pressure maintenance project should result in the recovery of an additional 1.6-2.3 million barrels of oil from the project area which may otherwise not be recovered, thereby preventing waste.

(8) Initial capital investment to initiate the proposed pressure maintenance project is projected to be approximately \$50,000.

(9) Testimony indicates that due to the nature of the reservoir, a single injection well located as proposed will enable the applicant to efficiently carry on the proposed pressure maintenance project.

(10) The proposed pressure maintenance project should be approved.

(11) The applicant submitted data on the proposed injection well, water wells in the area, and all other wells which penetrate the zone of interest within 1/2-mile of the proposed injection well. This data shows that wells in the area are cased and plugged so as to protect fresh water and prevent fluid migration from the injection zone, and includes testimony indicating no evidence of open faults or any other hydrologic connection between the injection zone and the fresh water resources in the area.

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

(13) The injection of gas into the proposed injection well should be accomplished through 2 7/8 inch tubing installed in a packer set at approximately 11,275 feet; 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.

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

(15) The injection well or pressurization system should be initially equipped with a pressure control device or acceptable substitute which will limit the surface injection pressure to no more than 2700 psi.

(16) The Division Director should have the authority to administratively authorize a pressure limitation in excess of the pressure limitation described above upon a showing by the operator that such higher pressure will not result in the fracturing of the injection formation or confining strata.

(17) 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 test in order that the same may be witnessed.

(18) The proposed pressure maintenance project 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.

(19) The project allowable should be equal to top unit allowable for the West Lovington-Strawn Pool (445 barrels of oil per day) times the number of developed (production or injection) proration units within the project area. Unless additional producing or injection wells are drilled within the project area, the allowable should be established at 4,895 barrels of oil per day.

(20) The transfer of allowable between wells within the project area should be permitted.

(21) The applicant further requested that the subject pressure maintenance 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).

(22) The evidence presented indicates that the subject pressure maintenance project meets all the criteria for approval.

(23) The approved "project area" should initially comprise the entire West Lovington Strawn Unit Area as described in Finding No. (3) above.

(24) 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.

(25) 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.

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

IT IS THEREFORE ORDERED THAT:

(1) The applicant, Gillespie-Crow, Inc., is hereby authorized to institute a pressure maintenance project within its West Lovington Strawn Unit Area comprising the following described area in Lea County, New Mexico, by the injection of gas into the Strawn formation, West Lovington-Strawn Pool, through the perforated interval from approximately 11,424 feet to 11,434 feet in its Speight Fee Well No. 1 located 660 feet from the North line and 2310 feet from the West line (Unit C) of Section 1, Township 16 South, Range 35 East, NMPM:

TOWNSHIP 15 SOUTH. RANGE 35 EAST. NMPM

Section 33: All
Section 34: W/2

TOWNSHIP 16 SOUTH. RANGE 35 EAST. NMPM

Section 1: Lots 1 through 8

TOWNSHIP 16 SOUTH. RANGE 36 EAST. NMPM

Section 6: Lots 3 through 5

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

(3) Injection shall be accomplished through 2 7/8 inch tubing installed in a packer set at approximately 11,275 feet; the casing-tubing annulus shall be filled with an inert fluid and equipped with an approved pressure gauge or attention-attracting leak detection device.

(4) The injection well or pressurization system shall be equipped with a pressure control device or acceptable substitute which will limit the surface injection pressure to no more than 2700 psi.

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

(6) Prior to commencing injection operations, the casing shall be pressure-tested throughout the interval from the surface down to the proposed packer setting depth, to assure the integrity of such casing.

(7) The operator shall 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 test in order that the same may be witnessed.

(8) 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 the injection well, the leakage of water, oil or gas from or around any producing well, or the leakage of water, oil or gas from any plugged and abandoned well within the project area, and shall take such steps as may be timely and necessary to correct such failure or leakage.

(9) The subject pressure maintenance project is hereby designated the West Lovington Strawn Unit Pressure Maintenance Project, and the operators shall conduct injection operations in accordance with Division Rule Nos. 701 through 708 and shall submit monthly progress reports in accordance with Division Rule Nos. 706 and 1115.

(10) The subject pressure maintenance 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).

(11) The approved "project area" shall initially comprise the entire West Lovington Strawn Unit Area as described in Finding No. (3) above.

(12) 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.

(13) At such time as a positive production response occurs and within five years from the date of the Certificate of Qualification, the operator 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.

(14) The project allowable shall be equal to top unit allowable for the West Lovington-Strawn Pool (445 barrels of oil per day) times the number of developed (production or injection) proration units within the project area. Unless additional producing or injection wells are drilled within the project area, the allowable shall be established at 4,895 barrels of oil per day.

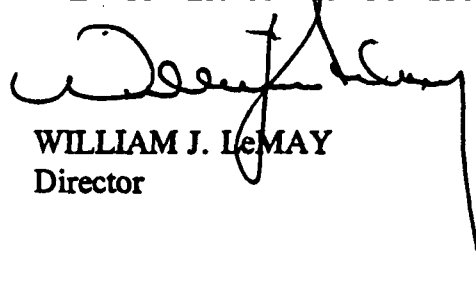
(15) The transfer of allowable between wells within the project area shall be permitted.

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

(17) 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