



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

GARY E. JOHNSON

Governor

BETTY RIVERA

Cabinet Secretary

Lori Wrotenberg

Director

Oil Conservation Division

September 9, 2002

Phillips Petroleum Company
c/o Mr. W. Thomas Kellahin
P.O. Box 2265
Santa Fe, New Mexico 87504-2265

Re: Certification of Positive Production Response
State-35 Unit Tertiary Recovery/
Pressure Maintenance Project

Dear Mr. Kellahin:

Pursuant to your request dated June 19, 2002, please be advised that the Division hereby certifies that a positive production response occurred within the State-35 Unit Tertiary Recovery/Pressure Maintenance Project on September 1, 1998.

All Vacuum Grayburg-San Andres Pool producing wells within the following described area, which currently number twenty-four as shown on Exhibit "A" attached hereto, shall be eligible for the recovered oil tax rate.

PROJECT AREA

Township 17 South, Range 34 East, NMPM

Section 35: N/2, E/2 SW/4, SE/4

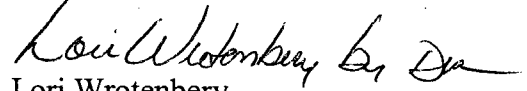
Phillips Petroleum Company shall notify the Division:

- (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; and
- (c) of changes in operations within the project area which may affect the certification and resulting tax rate granted herein.

*Positive Production Response Certification
Phillips Petroleum Company
State-35 Unit Tertiary Recovery/Pressure Maintenance Project
Page 2*

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

Sincerely,

A handwritten signature in cursive script, appearing to read "Lori Wrotenbery, Esq.", written in dark ink.

Lori Wrotenbery
Director

Xc: File-EOR-32

EXHIBIT "A"
 CERTIFICATION OF POSITIVE PRODUCTION RESPONSE
 STATE-35 UNIT TERTIARY RECOVERY/
 PRESSURE MAINTENANCE PROJECT
PRODUCING WELLS

<u>API NUMBER</u>	<u>WELL NAME & NUMBER</u>	<u>WELL LOCATION UL-S-T-R</u>
30-025-02225	State 35 Unit No. 1	Unit D, Section 35, T-17S, R-34E
30-025-02215	State 35 Unit No. 2	Unit B, Section 35, T-17S, R-34E
30-025-02214	State 35 Unit No. 3	Unit A, Section 35, T-17S, R-34E
30-025-28046	State 35 Unit No. 7	Unit H, Section 35, T-17S, R-34E
30-025-33489	State 35 Unit No. 8	Unit H, Section 35, T-17S, R-34E
30-025-02217	State 35 Unit No. 10	Unit G, Section 35, T-17S, R-34E
30-025-33415	State 35 Unit No. 11	Unit H, Section 35, T-17S, R-34E
30-025-02213	State 35 Unit No. 12	Unit H, Section 35, T-17S, R-34E
30-025-22955	State 35 Unit No. 13	Unit E, Section 35, T-17S, R-34E
30-025-33418	State 35 Unit No. 15	Unit K, Section 35, T-17S, R-34E
30-025-33419	State 35 Unit No. 18	Unit I, Section 35, T-17S, R-34E
30-025-02220	State 35 Unit No. 19	Unit K, Section 35, T-17S, R-34E
30-025-33416	State 35 Unit No. 20	Unit K, Section 35, T-17S, R-34E
30-025-02222	State 35 Unit No. 21	Unit J, Section 35, T-17S, R-34E
30-025-34277	State 35 Unit No. 38	Unit I, Section 35, T-17S, R-34E
30-025-30614	State 35 Unit No. 24	Unit N, Section 35, T-17S, R-34E
30-025-30615	State 35 Unit No. 26	Unit O, Section 35, T-17S, R-34E
30-025-33417	State 35 Unit No. 28	Unit P, Section 35, T-17S, R-34E
30-025-08455	State 35 Unit No. 31	Unit N, Section 35, T-17S, R-34E
30-025-30616	State 35 Unit No. 32	Unit N, Section 35, T-17S, R-34E
30-025-02223	State 35 Unit No. 33	Unit O, Section 35, T-17S, R-34E
30-025-30617	State 35 Unit No. 34	Unit P, Section 35, T-17S, R-34E
30-025-02221	State 35 Unit No. 35	Unit P, Section 35, T-17S, R-34E
30-025-20780	State 35 Unit No. 36	Unit P, Section 35, T-17S, R-34E



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

GARY E. JOHNSON
Governor
BETTY RIVERA
Cabinet Secretary

Lori Wrotenbery
Director
Oil Conservation Division

September 9, 2002

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

Attention: Mr. T. Glenn Ellington, Secretary

Re: Certification of a Positive Production Response
Phillips Petroleum Company
State 35 Unit Tertiary Recovery/Pressure Maintenance Project

Dear Secretary Ellington:

Enclosed is a copy of a Division Certification that was issued on September 9, 2002. This document certifies that a positive production response has occurred within the State 35 Unit Tertiary Recovery/Pressure Maintenance Project that is currently operated by Phillips Petroleum Company. In addition, this positive production response has occurred within the seven 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 Vacuum Grayburg-San Andres 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
Lori Wrotenbery
Director

LW/DRC

Xc: EOR-32

POSITIVE PRODUCTION RESPONSE DATA
STATE 35 UNIT TERTIARY RECOVERY/
PRESSURE MAINTENANCE PROJECT

NAME OF PROJECT

State 35 Unit Tertiary Recovery/Pressure Maintenance Project

OPERATOR

Phillips Petroleum Company
4001 Penbrook
Odessa, Texas 79762

POOL

Vacuum Grayburg-San Andres Pool

OCD ORDER NO. APPROVING PROJECT & DATE

R-10599-B, September 27, 1996

PROJECT AREA

Township 17 South, Range 34 East, NMPM

Section 35: N/2, E/2 SW/4, SE/4

DATE CO2/WATER INJECTION COMMENCED

November, 1996

DATE CERTIFIED PROJECT TO TAXATION & REVENUE

November 7, 1996

DATE POSITIVE PRODUCTION RESPONSE OCCURRED

September 1, 1998

CURRENT NUMBER OF WELLS WITHIN PROJECT AREA

Injection—11
Production—24

KELLAHIN AND KELLAHIN

ATTORNEYS AT LAW

EL PATIO BUILDING

117 NORTH GUADALUPE

POST OFFICE BOX 2265

SANTA FE, NEW MEXICO 87504-2265

TELEPHONE (505) 982-4285
TELEFAX (505) 982-2047

W. THOMAS KELLAHIN*

*NEW MEXICO BOARD OF LEGAL SPECIALIZATION
RECOGNIZED SPECIALIST IN THE AREA OF
NATURAL RESOURCES-OIL AND GAS LAW

JASON KELLAHIN (RETIRED 1991)

June 19, 2002

HAND DELIVERED

Mr. David R. Catanach
Oil Conservation Division
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

Re: APPLICATION FOR POSITIVE INJECTION RESPONSE
NMOCD Case 11523; ORDER P-10599-B
Phillips Petroleum Company
Tertiary Recovery-Pressure Maintenance Project
for the State-35 Unit

Dear Mr. Catanach::

On behalf of Phillips Petroleum Company, please find enclosed are application for a positive injection response for the reference project. The November 7, 19996 letter incorrect used a 5 year period then in fact this project is eligible for a 7 year period.

If you have any questions, please call me.

Regards,



W. Thomas Kellahin

cfx: Phillips Petroleum Company
Attn: Alfred H. Kent, Jr.
(915) 368-1450

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

**IN THE MATTER OF THE APPLICATION OF
PHILLIPS PETROLEUM COMPANY FOR
CERTIFICATION OF A POSITIVE PRODUCTION
RESPONSE OF ITS STATE 35 UNIT TERTIARY
RECOVERY/PRESSURE MAINTENANCE PROJECT
PURSUANT TO THE "NEW MEXICO ENHANCED
OIL RECOVERY ACT," LEA COUNTY, NEW MEXICO**

ADMINISTRATIVE APPLICATION

Comes now PHILLIPS PETROLEUM COMPANY, by its attorneys, Kellahin & Kellahin, and pursuant to the New Mexico "Enhanced Oil Recovery Act" and Division Order R-9708.E.2 applies to the New Mexico Oil Conservation Division for certification of a positive production response for its State 35 Unit Tertiary Recover/Pressure Maintenance Project, Lea County, New Mexico, and in support states:

(1) Phillips Petroleum Company ("Phillips") is the operator for the State 35 Unit Tertiary Recovery/Pressure Maintenance Project, a tertiary recovery project for an area comprising 560 acres, more or less, being the N/2, E/2 SW/4, and SE/4 Section 35, T17S, R34E, NMPM, State leases and identified as the "Project Area" on Exhibit "A" attached.

(2) Phillips controls 100% of the working interest ownership in the project area and is the current operator of all wells within that area.

(3) As of the 1st day of November, 1997, the producing wells in the Project Area demonstrated a positive production response. From this date to February 28, 2002, the total volume of oil produced by unit wells has been 832,000 barrels of oil.

(4) The Twenty-seven (27) producing wells and the Eleven (11) injection wells are as listed by name and location on Exhibit "B" attached.

(5) In accordance with Division Order R-9708, the following is submitted:

- (a) A copy of Division Order R-10599-B dated September 27, 1996;
- (b) A copy of the Division's certification of enhance oil recovery project for recovered oil tax rate dated November 7, 1996 (Certification date October 1, 1996);
- (c) A plat of the affected area showing all injection and producing wells with completion dates (Exhibit A);
- (d) Production graphs and supporting data demonstrating a positive production response and showing the volumes of water and gas that have been injected on these leases since initiation of the enhance recovery project (Figures 1 through 47).

Respectfully submitted

A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', with a stylized flourish at the end.

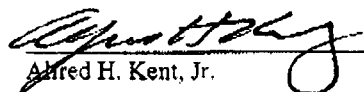
W. Thomas Kellahin
KELLAHIN & KELLAHIN
P. O. Box 2265
Santa Fe, New Mexico 87504
(505) 982-4285
ATTORNEYS FOR APPLICANT

NMOCD Application of
Phillips Petroleum Company
Page 3

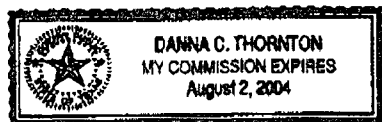
CERTIFICATION

STATE OF TEXAS)
) SS.
COUNTY OF ECTOR)

I, Alfred H. Kent, Jr., having been first duly sworn, state that I am a petroleum engineer, a duly authorized representative of Phillips Petroleum Company, have knowledge of the facts herein and therefore certify that the facts set forth in this Application are true and accurate to the best of my own knowledge and belief.


Alfred H. Kent, Jr.

The foregoing certificate was acknowledged before me this 17 day of June, 2002 by Alfred H. Kent, Jr..



My Commission Expires: 8-2-04



Danna C. Thornton
Notary Public

Exhibit A

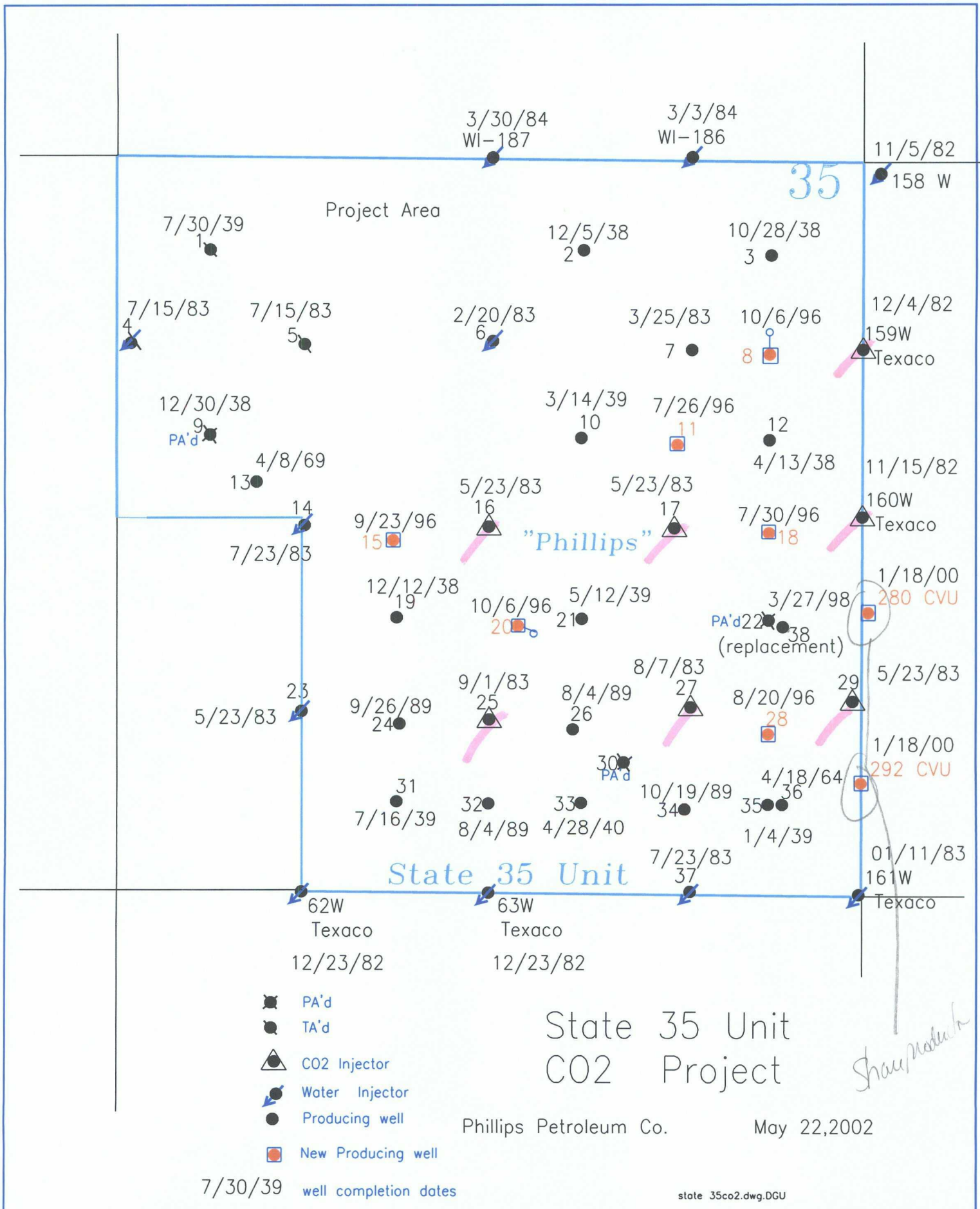


Exhibit B
Certification of a Positive Production Response
State 35 Unit Tertiary Recovery Project

List of Wells

Well Name	API	Location (feet from Section Line)	Unit Letter	Status
Producers				
State 35 Unit #1	3002502225	660 FN, 660 FW	D	TA'd
State 35 Unit #2	3002502215	660 FN, 1980 FE	B	
State 35 Unit #3	3002502214	660 FN, 660 FE	A	
State 35 Unit #7	3002528046	1345 FN, 1210 FE	H	PA'd
State 35 Unit #8	3002533489	1120 FN, 660 FE	H	
State 35 Unit #9	3002502224	1980 FN, 660 FW	E	
State 35Unit #10	3002502217	1980 FN, 1980 FE	G	
State 35 Unit #11	3002533415	2020 FN, 1310 FE	H	
State 35 Unit #12	3002502213	1980 FN, 660 FE	H	
State 35 Unit #13	3002522955	2310 FN, 990 FW	E	
State 35 Unit #15	3002533418	2527 FS, 1955 FW	K	
State 35 Unit #18	3002533419	2600 FS, 660 FE	I	
State 35 Unit #19	3002502220	1980 FS, 1980 FW	K	
State 35 Unit #20	3002533416	1926 FS, 2430 FE	K	PA'd
State 35 Unit #21	3002502222	1980 FS, 1980 FE	J	
State 35 Unit #22	3002502219	1980 FS, 660 FE	I	
State 35 Unit #38 (repl #22)	3002534277	1934 FS, 560 FE	I	
State 35 Unit #24	3002530614	1225 fS, 2000 FW	N	
State 35 Unit #26	3002530615	1194 FS, 2040 FE	O	
State 35 Unit #28	3002533417	1170 FS, 660 FE	P	
State 35 Unit #30	3002520782	960 FS, 1680 FE	O	
State 35 Unit #31	3002508455	660 FS, 1980 FW	N	
State 35 Unit #32	3002530616	650 FS, 2630 FW	N	
State 35 Unit #33	3002502223	600 FS, 1980 FE	O	PA'd
State 35 Unit #34	3002530617	620 FS, 1250 FE	P	
State 35 Unit #35	3002502221	660 FS, 660 FE	P	
State 35 Unit #36	3002520780	660 FS, 560 FE	P	
Injectors				
State 35 Unit #4	3002528054	1330 FN, 110 FW	E	TA'd
State 35 Unit #5	3002528053	1330 FN, 1310 FW	E	TA'd
State 35 Unit #6	3002528047	1295 FN, 2615 FW	C	
State 35 Unit #14	3002528057	2630 FS, 1330 FW	K	
State 35 Unit #16 (WAG)	3002528058	2630 FS, 2630 FW	K	
State 35 Unit #17 (WAG)	3002528059	2630 FS, 1330 FE	J	
State 35 Unit #23	3002528060	1310 FS, 1310 FW	N	
State 35 Unit #25 (WAG)	3002528055	1260 FS, 2630 FE	O	
State 35 Unit #27 (WAG)	3002528056	1360 FS, 1210 FE	I	
State 35 Unit #29 (WAG)	3002528061	1410 FS, 10 FE	I	
State 35 Unit #37	3002528062	10 FS, 1210 FE	P	

All Section 35 / T17S / R34E
WAG indicates wells that have had CO2 injection.

Application for Certification of a Postive Production Response State 35 Unit CO2 Project

Production Plots and Other Supporting Data

1. The NMOCD approved the enhanced recovery project on September 27, 1996, with Order No. R-10599-B (Case No. 11523), and on November 7, 1996, the NMOCD certified the project as an Enhanced Oil Recovery Project for Recovered Oil Tax Rate with a Certification Date of October 1, 1996. The project is a miscible gas augmented waterflood using a combination of purchased pure CO₂ and CO₂ contaminated produced gas ("Gas"). First Gas injection began on November 27, 1996.
2. Phillips and Texaco entered into an agreement on October 14, 1998, amending the Vacuum (Grayburg-San Andres) Cooperative Water Injection Agreement to facilitate injection of Gas into three wells located on the State 35 Unit / Central Vacuum Unit lease line (Central Vacuum Unit wells #159 and #160, and State 35 Unit well #29). Gas injection into these three lease line wells began in November 1998.
3. Phillips and Texaco entered into a lease line production agreement on December 7, 1999 with which they agreed to share the production from two new Texaco operated wells near the State 35 Unit / Central Vacuum Unit lease line (Central Vacuum Unit wells #280 and #292).
4. Exhibit A shows a map of all injection and production wells with completion dates for the State 35 Unit wells and Central Vacuum Unit wells on the State 35 Unit / Central Vacuum Unit lease line. Six new producers were drilled in 1996. One replacement producer (#38) was drilled in 1997. The two Texaco operated Central Vacuum Unit producers (#280 and #292) were drilled on the State 35 Unit lease line in December 1999. Five State 35 Unit injectors (#16, #17, #25, #27, and #29) and two Central Vacuum Unit injectors (#159 and #160) on the State 35 Unit lease line have had Gas injection
5. State 35 Unit production and injection is shown on Figure 1. Cumulative Gas injected into five unit wells is 12.1 BSCF, which includes purchased CO₂ and recycled gas.
6. Production and injection from the 2 producers and 2 injectors operated by on the State 35 Unit / Central Vacuum Unit lease line are shown on Figure 2. Cumulative Gas injected into the two Central Vacuum Unit lease line wells is 4.1 BSCF. Phillips, as owner and operator of State 35 Unit, receives 50% of the oil production from the two lease line production wells, and pays for 50% of the cost of Gas supplied to the two Texaco operated lease line injection wells. Central Vacuum Unit owners pay for 50% of the cost of Gas supplied to the State 35 Unit lease line injection well #29.
7. The first indication of positive production response from Gas injection occurred in State 35 Unit well #28 in November 1997, as shown on Figure 3. There is evidence of Gas response due to the increase in oil rate, increase in GOR, and decrease in water production. Graphs of production and injection volumes all other individual wells are shown on Figures 4 through 45. Other wells that show proof of positive response include #3, #7, #10, #11, #12, and #38.

VACUUM GRAYBURG-SAN ANDRES POOL
 (Grayburg and San Andres Tertiary Recovery/Pressure Maintenance Project)
 Lea County, New Mexico

Order No. R-10599-B, Authorizing Phillips Petroleum Company to Institute a Tertiary Recovery/Pressure Maintenance Project in the Grayburg and San Andres formations of the Vacuum Grayburg-San Andres Pool, Lea County, New Mexico, September 27, 1996.

Application of Phillips Petroleum Company for Approval of a Pressure Maintenance Project, to Qualify said Project for the Recovered Oil Tax Credit Pursuant to the "New Mexico Enhanced Oil Recovery Act", and for Three Unorthodox Oil Well Locations, Lea County, New Mexico.

Case No. 11523
 Order No. R-10599-B

ORDER OF THE DIVISION

BY THE DIVISION: This cause came on for hearing at 8:15 a.m. on May 2, 1996, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 27th day of September, 1996, the Division Director, having considered 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 time of the hearing Division Case Nos. 11522 and 11523 were consolidated for the purpose of testimony.

(3) By Division Order No. R-10599, issued in Case 11522 and dated May 10, 1996, as amended by Division Nunc Pro Tunc Order No. R-10599-A, dated September 16, 1996, the State-35 Unit Agreement and Area was approved for an area comprising 560 acres, more or less, of State lands underlying the N/2, E/2 SW/4, and SE/4 of Section 35, Township 17 South, Range 34 East, NMPM, Lea County, New Mexico. The "Unitized Formation" for this unit includes that stratigraphic interval underlying the Unit Area in the Vacuum-Grayburg San Andres Pool that extends from a measured depth of 4,000 feet (+ 21 feet sub-sea datum) to 4,950 feet (-929 feet sub-sea datum), both depths as identified on the Lane Wells Acoustic Log, dated March 12, 1964, for the Phillips M. E. Hale Well No. 8 (API No. 30-025-20780), located 660 feet from the South line and 560 feet from the East line (Unit P) of Section 35, Township 17 South, Range 34 East, NMPM, Lea County, New Mexico.

(4) The applicant in this matter, Phillips Petroleum Company ("Phillips"), seeks the following:

(a) authority to institute a tertiary recovery project or pressure maintenance project within its aforementioned State-35 Unit by the injection of water and carbon dioxide ("CO₂") into both the Grayburg and San Andres formations of the Vacuum Grayburg-San Andres Pool through sixteen (16) certain wells;

(b) approval for the drilling of three producing wells within said Unit Area at unorthodox oil well locations; and,

(c) to qualify this project for the recovered oil tax rate pursuant to the "New Mexico Enhanced Oil Recovery Act" (Law 1992, Chapter 38, Sections 1 through 5).

(5) Phillips as the proposed operator of the State-35 Unit Tertiary Recovery/Pressure Maintenance Project Area ("EOR Project Area") intends to recover additional oil by means of combined water and CO₂ gas injection ("WAG") into the Grayburg and San Andres formations of the Vacuum Grayburg-San Andres Pool within said Unit Area with seven (7) interior injection wells, nine (9) lease line injection wells and sixteen (16) producing wells.

↙ 560 acres!

(6) Within the proposed 56-acre EOR Project Area:

(a) the Phillips operated Mable lease comprising the W/2 NW/4 of said Section 35 and the Phillips operated Hale lease comprising the E/2 SW/4 and SE/4 of said Section 35 were the subject of Division Order Nos. R-7103, which order authorized the Phillips Hale-Mable Vacuum Pressure Maintenance Project by means of water injection within this 320 acres, and R-7103-A, which authorized the injection of polyacrylamide polymers into the Phillips Hale-Mable Vacuum Pressure Maintenance Project Area; and,

(b) Conoco, Inc. was granted similar approval for its Conoco State H-35 Vacuum Pressure Maintenance Project comprising the NE/4 and E/2 NW/4 of said Section 35 by Division Order Nos. R-7182 and R-7182-A (Phillips has since become operator of the H-35 lease).

(7) There are currently four active secondary recovery projects within the Vacuum Grayburg-San Andres Pool that immediately offset the proposed 560-acre EOR Project Area:

(a) the Texaco Exploration and Production, Inc. Central Vacuum Unit Pressure Maintenance Project (see Division Order Nos. R-5530, R-5530-A, R-5530-B, and R-5530-C), which is also a tertiary recovery project (see Division Order No. R-5530-D) in the S/2 of Section 25 and all of Section 30, both in Township 17 South, Range 34 East, NMPM, Central Vacuum Unit Area (approved by Division Order No. R-5496), Lea County, New Mexico;

(b) the Texaco Exploration and Production, Inc. Vacuum Grayburg-San Andres Pressure Maintenance Project (see Division Order Nos. R-4412 and R-6094), which is also a tertiary recovery project (see Division Order Nos. R-7010 and R-7010-A) comprising the W/2 SW/4 of Section 35, Township 17 South, Range 34 East, NMPM, and Sections 1, 2, the NE/4 NE/4 of Section 11, and the N/2 NW/4 of Section 12, Township 18 South, Range 34 East, NMPM, all within the Vacuum Grayburg San Andres Unit Area (approved by Division Order Nos. R-4433 and R-4433-A, as ex

(VACUUM GRAYBURG-SAN ANDRES (GRAYBURG AND SAN ANDRES TERTIARY RECOVERY/PRESSURE MAINTENANCE PROJECT) POOL - Cont'd.)

panded by letter from the New Mexico Oil Conservation Division dated December 9, 1980 and by letter from the new Mexico State Land Office dated February 2, 1981), Lea County, New Mexico;

(c) the Mobil Producing Texas and New Mexico, Inc. Bridges-State Waterflood Project (see Division Order Nos. R-1244, R-3496, R-3984, R-3984-A, R-4385, R-7361, and R-7361-A), a portion of which is also a tertiary recovery project (see Division Order No. R-7405) comprising in part all of Section 26 and the E/2 of Section 27, both in Township 17 South, Range 34 East, NMPM, Lea County, New Mexico; and,

(d) the Texaco Exploration and Production, Inc. West Vacuum Unit Waterflood Project (see Division Order Nos. R-3008 and R-4234) comprising in part all of Section 34, Township 17 South, Range 34 East, NMPM, West Vacuum Unit Area (approved by Division Order No. R-3007, as amended by Order No. R-3007-A), Lea County, New Mexico.

(8) Testimony presented by Phillips indicates that as of December 31, 1995, cumulative primary and secondary oil recovery from the proposed EOR Project Area had been 17,207,369 barrels of oil with an estimated additional one million barrels of oil to be recovered under the current mode of operations.

(9) Phillips further testified that the proposed EOR Project Area is currently producing at a rate of approximately 420 BOPD with approximately 95% watercut from sixteen (16) active producers. Further, there are currently ten (10) active lease line and four (4) active interior injector wells contributing to the current mode of operations within the two existing pressure maintenance projects within the subject 560 acres.

(10) Phillips seeks to institute tertiary recovery operations within the proposed EOR Project Area by means of a significant change in the process used for the displacement of crude oil by the initiation of the injection of water-alternate-gas injection ("WAG") by using water and carbon dioxide ("CO₂") in alternating slugs of produced gas and CO₂ and slugs of water to be injected at a 1.4 to 1 ratio with an estimated total of 45 BCF of CO₂ gas to be utilized or 40% pore volume ("PV") slug.

(11) As part of this EOR Project, Phillips intends to drill another six infill producing wells of which three are to be located at locations considered to be unorthodox pursuant to Rule 104.C(1) of the General Rules and Regulations of the New Mexico Oil Conservation Division ("Division"), revised by Division Order No. R-10533, issued by the Oil Conservation Commission in Case 11,351 on January 18, 1996, however Rule 104.F(1) provides for an administrative process whereby any well within an active secondary, enhanced, or pressure maintenance project can be granted authorization in most instances by submitting a Division Form C-102; therefore, that portion of this application for unorthodox locations should be dismissed at this time and Phillips can resubmit to the supervisor of the Hobbs District Office of the Division those requests for unorthodox locations applicable to said General Rule 104.F(1).

(12) The estimated amount of recoverable oil attributed to a positive production response from the expanded use of enhanced oil recovery technology for this proposed EOR Project is an estimated 7,122,000 barrels of additional oil.

(13) The applicant testified that the initiation of pressure maintenance operations utilizing the methodology set forth in Finding Paragraph No. (10) above, should result in the recovery of an additional 7,122,000 barrels of oil for a projected cost of approximately \$8,130,000.00 which includes the drilling of the 6 additional infill producing wells and 2 replacement wells, converting 7 interior and 9 lease line wells to water-alternate-gas (WAG) injection, construction of CO₂ compression and distribution facilities and upgrading of the present production and water injection facilities.

(14) At the time of the hearing Phillips requested a project allowable for the H-35 Unit of 5,000 barrels of oil per day in order to provide operational flexibility to maximize recovery from the unit and thereby prevent waste and protect correlative rights.

(15) In accordance with Division General Rule 701, the applicant provided evidence, exhibits and testimony which justifies the approval of the 16 proposed WAG injection wells all as identified on Exhibit "A" attached hereto and made a part hereof.

(16) Maximum injection pressures have been established for this project based upon actual San Andres fracture gradients and therefore the injection wells 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 1850 psig.

(17) Further evidence presented by Phillips indicated that the subject "Project Area" meets all the criteria for certification 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).

^{ERAR, State '35 (560 acres)}
(18) The certified "EOR Project Area" should initially comprise the area within the H-35 Unit Area as described in Finding Paragraph No. (3) above, provided, however, that the "Project Area" eligible for the recovered oil tax rate may be contracted and reduced dependent upon the evidence presented by the applicant in its demonstration of the occurrence of a positive production response.

★ (19) To be eligible for the EOR tax credit, the operator should advise the Division when WAG injection commences in the project area and requests the Division certify such phases or area to the New Mexico Taxation and Revenue Department.

★ (20) At such time as a positive production response occurs from WAG injection operations 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 benefiting from enhanced recovery operations. 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 with are eligible for the credit.

(VACUUM GRAYBURG-SAN ANDRES (GRAYBURG AND SAN ANDRES TERTIARY RECOVERY/PRESSURE MAINTENANCE PROJECT) POOL - Cont'd.)

(21) The proposed tertiary recovery/pressure maintenance project should result in the recovery of otherwise unrecoverable oil, thereby preventing waste.

(22) The applicant testified that there are no "problem wells" within the one-half mile "area of review" and a review of applicant's Form C-108 confirms that all plugged and abandoned wells and all producing wells are cemented in a manner adequate to confine the injected fluid to the proposed injection interval.

(23) Prior to commencing injection operations, the applicant should be required to submit to the Santa Fe Office of the Division an executed copy of an Injection Lease-Line Agreement with the offset projects currently operated by Texaco in the West Vacuum Unit, the Vacuum Grayburg San Andres Unit and the Central Vacuum Unit.

(24) If not previously equipped each of the injection wells shown on Exhibit "A" should be accomplished through internally plastic-lined tubing installed in a packer set within 100 feet of the uppermost injection perforation or casing shoe; 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.

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

(26) The 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.

(27) Approval of this application will prevent waste, result in the recovery of hydrocarbons which might not otherwise be recovered, protect corrective rights and promote the interests of conservation.

IT IS THEREFORE ORDERED THAT:

(1) The applicant, Phillips Petroleum Company ("Phillips"), is hereby authorized to institute a tertiary recovery/pressure maintenance project by means of combined water and carbon dioxide ("CO₂") gas injection ("WAG") in its State-35 Unit Area (approved by Division Order Nos. R-10599 and R-10599-A) comprising 560 acres, more or less, underlying the

N/2, E/2 SW/4, and SE/4 of Section 35, Township 17 South, Range 34 East, NMPM, Lea County, New Mexico, by the injection of water and carbon dioxide ("CO₂") into the Grayburg and San Andres formations of the Vacuum Grayburg-San Andres Pool, through the gross perforated and/or open hole interval that extends from a measured depth of 4,000 feet (+ 21 feet sub-sea datum) to 4,950 feet (-929 feet sub-sea datum), both depths as identified on the Lane Wells Acoustic Log, dated March 12, 1964, for the Phillips M. E. Hale Well No. 8 (API No. 30-025-20780), located 660 feet from the South line and 560 feet from the East line (Unit P) of Section 35, Township 17 South, Range 34 East, NMPM, Lea County, New Mexico, into sixteen (16) certain wells, all of which are existing, as shown on Exhibit "A", attached hereto and made a part hereof.

IT IS FURTHER ORDERED THAT:

(2) Any previous injection authority not in conflict with the provisions set forth in this order shall remain in full force and effect.

(3) WAG injection operations for the 16 subject injection wells shown on Exhibit "A" shall be accomplished through plastic lined tubing installed in a packer set within approximately 100 feet of the uppermost injection perforation or casing shoe; the casing-tubing annulus shall be filled with an inert fluid and a gauge or approved leak-detection device shall be attached to the annulus in order to determine leakage in the casing, tubing or packer.

(4) The 16 WAG injection wells or pressurization system shall be equipped with a pressure control device or acceptable substitute which will limit the surface injection pressure to not more than 1850 psig.

(5) The Division Director shall have the authority to administratively authorize a pressure limitation in excess of the above pressure limit 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 into the wells identified on Exhibit "A", the casing in each 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.

(7) Prior to commencing WAG injection operations, the applicant shall submit to the Santa Fe Office of the Division an executed copy of an Injection Lease-Line Agreement with Texaco Exploration and Producing, Inc., the operator of the offsetting waterflood/pressure maintenance project.

(8) 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 any applicable WAG injection equipment and of the mechanical integrity pressure tests, in order that the same may be witnessed.

(VACUUM GRAYBURG-SAN ANDRES (GRAYBURG AND SAN ANDRES TERTIARY RECOVERY/PRESSURE MAINTENANCE PROJECT) POOL - Cont'd.)

(9) 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 any of the injection wells, the leakage of water, natural gas, CO₂, or oil from or around any producing well, or the leakage of water, natural gas, CO₂, or oil from any plugged and abandoned well within the project area, and shall take such steps as may be necessary to correct such failure or leakage.

(10) The subject tertiary recovery/pressure maintenance project is hereby designated the State-35 Unit Tertiary Recovery/Pressure Maintenance Project and shall be governed by the provisions of Rules Nos. 701 through 708 of the Oil Conservation Division Rules and Regulations.

(11) Monthly progress reports of the tertiary recovery/pressure maintenance project herein authorized shall be submitted to the Division in accordance with Rules 706 and 1115 of the Division Rules and Regulations.

(12) The project allowable shall be established at 5,000 barrels of oil per day which may be produced from any combination of wells in the unit including the transfer of allowables between or among wells within the project area.

(13) The subject tertiary recovery/pressure maintenance project is hereby certified as a qualified "Enhanced Oil Recovery Project" pursuant to the "Enhanced Oil Recovery Act" (Laws 1992, Chapter 38, Sections 1 through 5).

(14) The certified and approved "EOR Project Area" shall initially coincide with the boundaries of the State-35 Unit, described in Decretory Paragraph No. (1), above, provided however, the "EOR Project Area" eligible for the recovered oil tax rate may be contracted and reduced dependent upon the evidence presented by the applicant in its demonstration of the occurrence of a positive production response.

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

(16) 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 benefiting from

enhanced recovery operations. 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.

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

(18) Jurisdiction is hereby 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.

EXHIBIT "A"
CASE NO. 11523
ORDER NO. R-10599-A
PHILLIPS PETROLEUM COMPANY
STATE-35 UNIT TERTIARY RECOVERY/PRESSURE MAINTENANCE REPORT

PROPOSED STATE-35 UNIT "WAG" INJECTION WELLS TO BE OPERATED BY PHILLIPS PETROLEUM COMPANY LOCATED IN SECTION 35, TOWNSHIP 17 SOUTH, RANGE 34 EAST, NMPM, VACUUM GRAYBURG SAN ANDRES POOL, LEA COUNTY, NEW MEXICO

FORMER WELL NAME AND NUMBER	API NO.	NEW WELL DESIGNATION	LOCATION FOOTAGE (UNIT)	CURRENT STATUS	PREVIOUS INJECTION AUTHORITY
STATE "H-35" NO. 15	30-025-28047	STATE "35" NO. 6W	1295' FNL - 2615' FWL (C)	TA INJ.	R-7182
STATE "H-35" NO. 14	30-025-28046	STATE "35" NO. 7W	1345' FNL - 1210' FEL (H)	PRODUCING	R-7182
M.E. HALE NO. 14	30-025-28057	STATE "35" NO. 14W	2630' FSL - 1330' FWL (K)	INJECTION	R-7103
M.E. HALE NO. 15	30-025-28058	STATE "35" NO. 16W	2630' FS & WL (K)	INJECTION	R-7103
M.E. HALE NO. 16	30-025-28059	STATE "35" NO. 17W	2630' FSL - 1330' FEL (J)	INJECTION	R-7103
M.E. HALE NO. 17	30-025-28060	STATE "35" NO. 23W	1310' FSL - 1330' FWL (N)	INJECTION	R-7103
M.E. HALE NO. 12	30-025-28055	STATE "35" NO. 25W	1260' FSL - 2630' FEL (O)	INJECTION	PMX-170
M.E. HALE NO. 21	30-025-30615	STATE "35" NO. 26W	1194' FSL - 2040' FEL (O)	PRODUCING	N/A
M.E. HALE NO. 13	30-025-28056	STATE "35" NO. 27W	1360' FSL - 1210' FEL (I)	INJECTION	PMX-170
M.E. HALE NO. 18	30-025-28061	STATE "35" NO. 29W	1410' FSL - 10' FEL (I)	INJECTION	R-7103
M.E. HALE NO. 19	30-025-28062	STATE "35" NO. 37W	10' FSL - 1210' FEL (P)	INJECTION	R-7103

PROPOSED NON-UNIT "WAG" INJECTION WELLS TO BE OPERATED BY TEXACO EXPLORATION AND PRODUCING, INC. LOCATED IN EITHER SECTION 36, TOWNSHIP 17 SOUTH, RANGE 34 EAST, NMPM OR IN SECTION 2, TOWNSHIP 18 SOUTH, RANGE 34 EAST, NMPM, VACUUM GRAYBURG SAN ANDRES POOL, LEA COUNTY, NEW MEXICO:

WELL NAME AND NUMBER	API NO.	FOOTAGE	LOCATION UNIT SECTION	CURRENT STATUS	PREVIOUS INJECTION AUTHORITY
CENTRAL VACUUM UNIT WELL NO. 159W	30-025-27969	1310' FNL - 100' FWL	(D) 36	INJECTION	PMX-121
CENTRAL VACUUM UNIT WELL NO. 160W	30-025-27970	2602' FNL - 35' FWL	(E) 36	INJECTION	PMX-121
CENTRAL VACUUM UNIT WELL NO. 161W	30-025-27971	180' FSL - 10' FWL	(M) 36	INJECTION	PMX-121
VACUUM GRAYBURG SAN ANDRES UNIT WELL NO. 62W	30-025-27973	65' FNL - 1330' FWL	(C) 2	INJECTION	PMX-120
VACUUM GRAYBURG SAN ANDRES UNIT WELL NO. 61W	30-025-27974	50' FNL - 2630' FEL	(B) 2	INJECTION	PMX-120



NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT

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

November 7, 1996

RECEIVED

NOV 18 1996

Phillips Petroleum Company
4001 Penbrook
Odessa, Texas 79762

LAND SECTION
PHILLIPS PETROLEUM CO
ODESSA, TEXAS

Attention: Jamie Welin

**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:	State-35 Unit Tertiary Recovery/ Pressure Maintenance Project
OCD ORDER NO.	R-10599-B
OPERATOR:	Phillips Petroleum Company Attn: Jamie Welin
ADDRESS:	4001 Penbrook Odessa, Texas 79762
CERTIFICATION DATE:	October 1, 1996

PROJECT AREA

TOWNSHIP 17 SOUTH, RANGE 34 EAST, NMPM

Section 35: N/2, E/2 SW/4 and SE/4

PROJECT PRODUCING WELLS ELIGIBLE FOR CREDIT

State-35 Wells

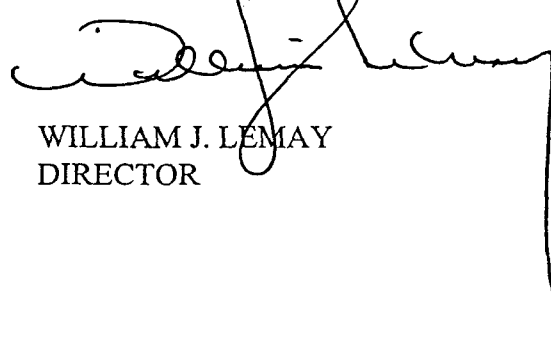
- 1) **Well No.1 (API No.30-025-02225)**
660 FNL & 660 FWL, Unit Letter 'D'
- 2) **Well No.2 (API No.30-025-02215)**
660 FNL & 1980 FEL, Unit Letter 'B'
- 3) **Well No.3 (API No.30-025-02214)**
660 FNL & 660 FEL, Unit Letter 'A'
- 4) **Well No.8 (API No. not assigned)**
1120 FNL & 660 FEL, Unit Letter 'H'
- 5) **Well No.9 (API No.30-025-02224)**
1980 FNL & 660 FWL, Unit Letter 'E'
- 6) **Well No.10 (API No.30-025-02217)**
1980 FNL & 1980 FEL, Unit Letter 'G'
- 7) **Well No.11 (API No. not assigned)**
2220 FNL & 1310 FEL, Unit Letter 'H'
- 8) **Well No.12 (API No.30-025-02213)**
1980 FNL & 660 FEL, Unit Letter 'H'
- 9) **Well No.13 (API No.30-025-22955)**
2310 FNL & 990 FWL, Unit Letter 'E'
- 10) **Well No.15 (API No. not assigned)**
2527 FSL & 1955 FWL, Unit Letter 'K'
- 11) **Well No.18 (API No. not assigned)**
2600 FSL & 660 FEL, Unit Letter 'I'
- 12) **Well No.19 (API No.30-025-02220)**
1980 FSL & 1980 FWL, Unit Letter 'K'
- 13) **Well No.20 (API No. not assigned)**
1926 FSL & 2430 FEL, Unit Letter 'K'
- 14) **Well No.21 (API No.30-025-02222)**
1980 FSL & 1980 FEL, Unit Letter 'J'
- 15) **Well No.22 (API No.30-025-02219)**
1980 FSL & 660 FEL, Unit Letter 'I'

- 16) **Well No.24 (API No.30-025-30614)**
1225 FSL & 2000 FWL, Unit Letter 'N'
- 17) **Well No.28 (API No. not assigned)**
1170 FSL & 660 FEL, Unit Letter 'P'
- 18) **Well No.30 (API No.30-025-20782)**
960 FSL & 1680 FEL, Unit Letter 'O'
- 19) **Well No.31 (API No.30-025-08455)**
660 FSL & 1980 FWL, Unit Letter 'N'
- 20) **Well No.32 (API No.30-025-30616)**
650 FSL & 2630 FWL, Unit Letter 'N'
- 21) **Well No.33 (API No.30-025-02223)**
600 FSL & 1980 FEL, Unit Letter 'O'
- 22) **Well No.34 (API No.30-025-30617)**
620 FSL & 1250 FEL, Unit Letter 'P'
- 23) **Well No.35 (API No.30-025-02221)**
660 FSL & 660 FEL, Unit Letter 'P'
- 24) **Well No.36 (API No.30-025-20780)**
660 FSL & 560 FEL, Unit Letter 'M'

ALL IN SECTION 35, TOWNSHIP 17 SOUTH, RANGE 34 EAST,
LEA COUNTY, NEW MEXICO

APPROVED BY:

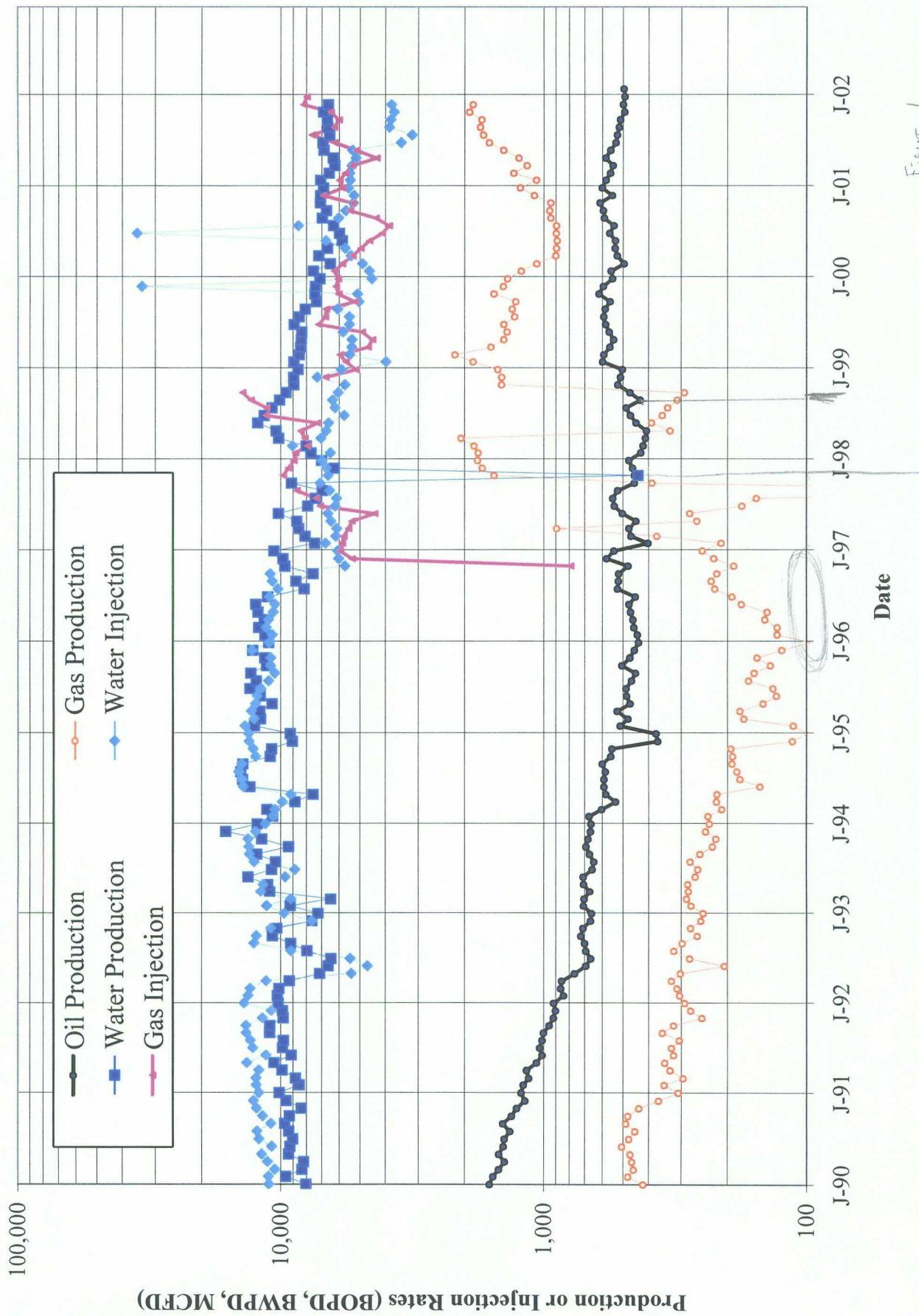
STATE OF NEW MEXICO
OIL CONSERVATION DIVISION



WILLIAM J. LEMAY
DIRECTOR

SEAL

State 35 Unit
100% of All Unit Wells (including #29)



Central Vacuum Unit Wells on State 35 Unit Lease Line
(Production Wells #280 and #292, Injection Wells #159 and #160)

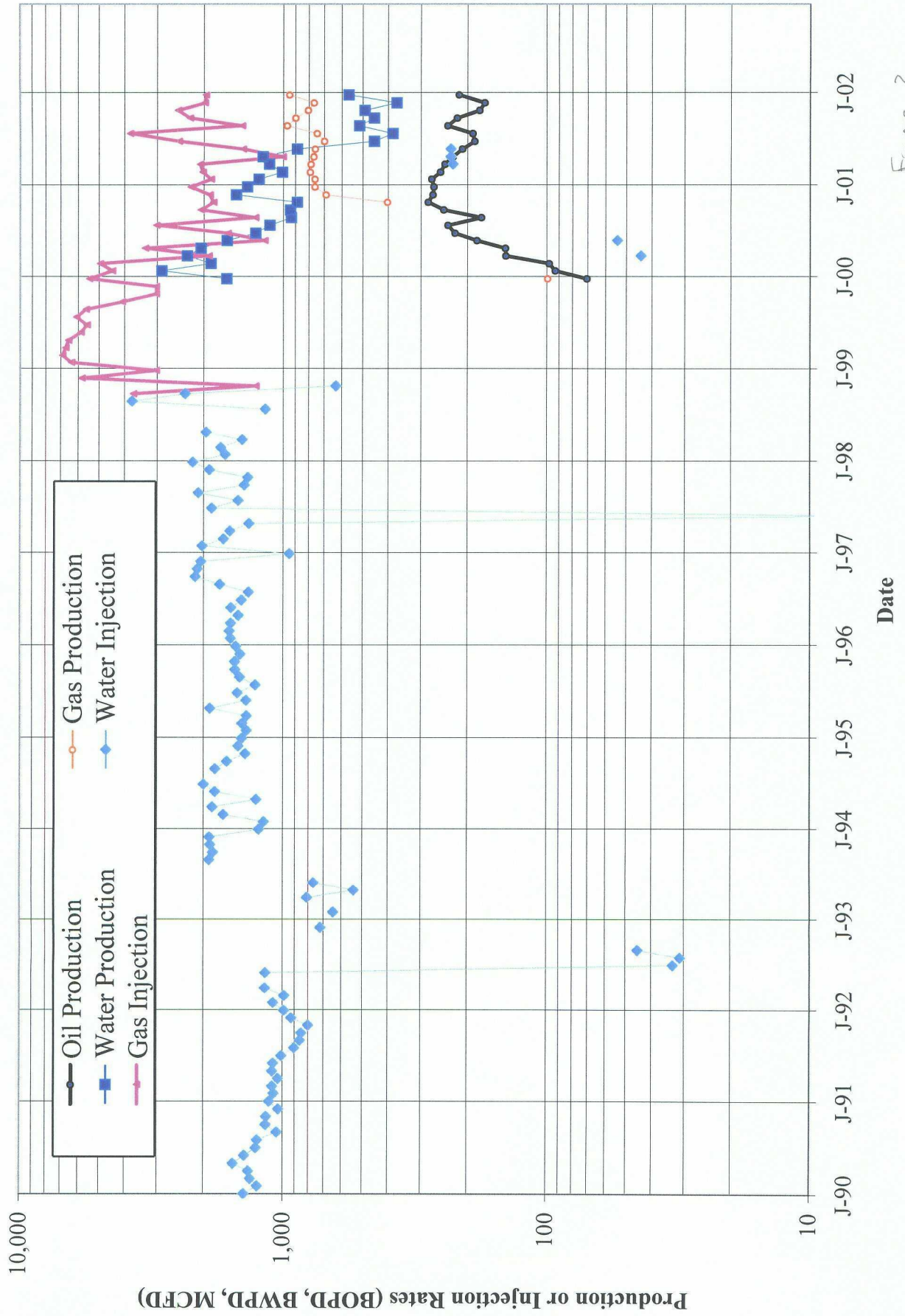
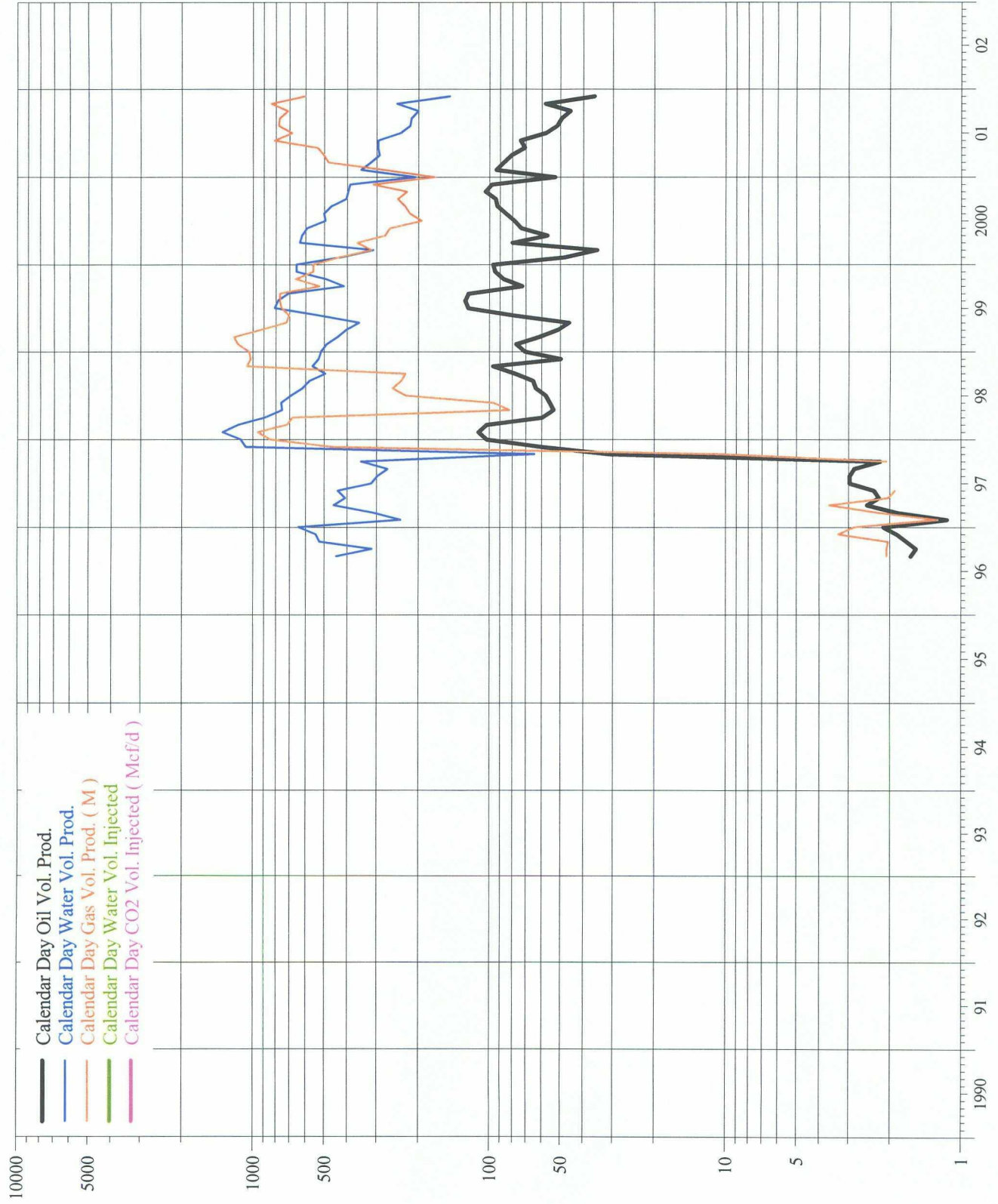


Figure 2

State 35 Unit

Well No. 028

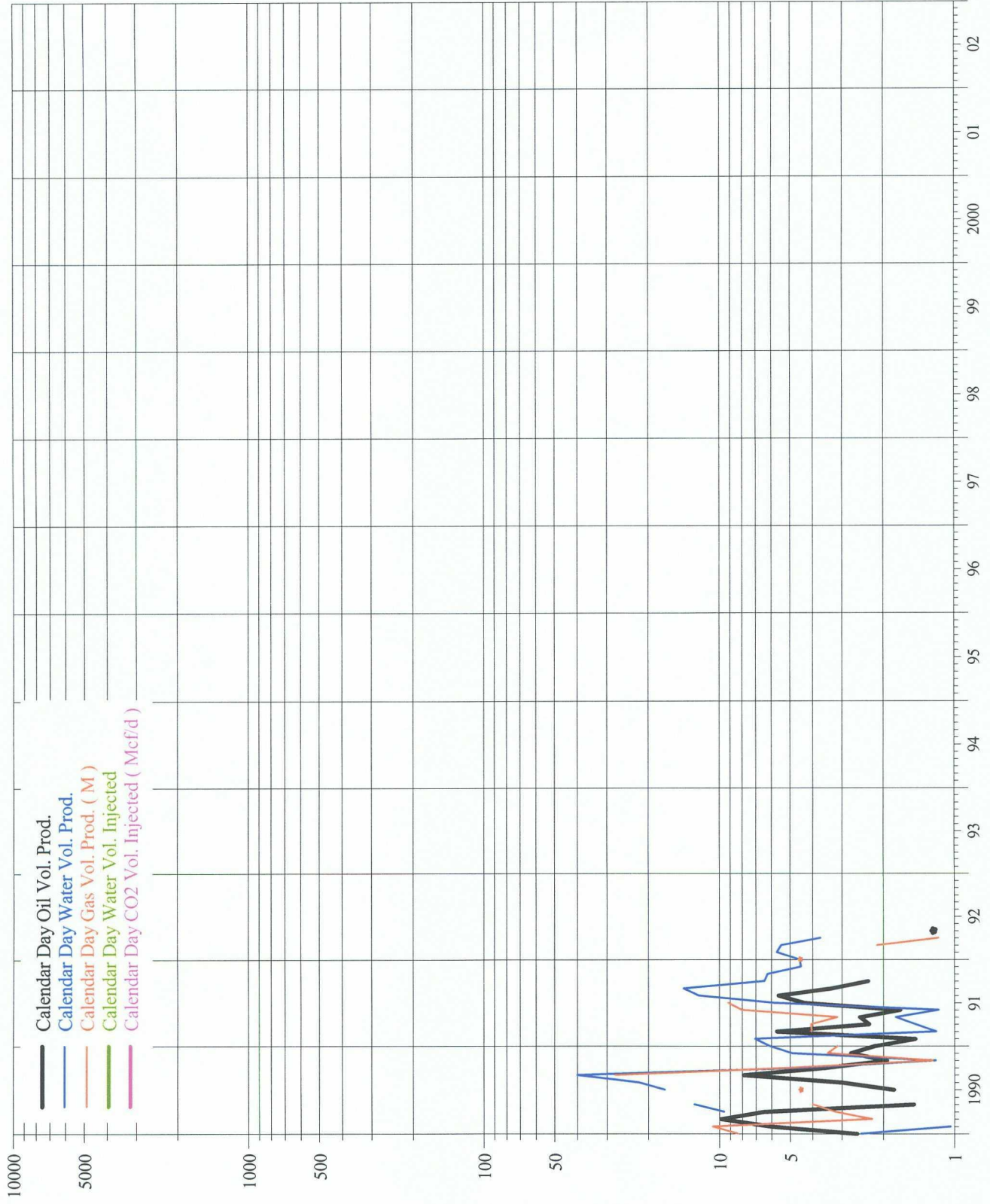
Rates (BPD), (SCFD)



State 35 Unit

Well No. 001

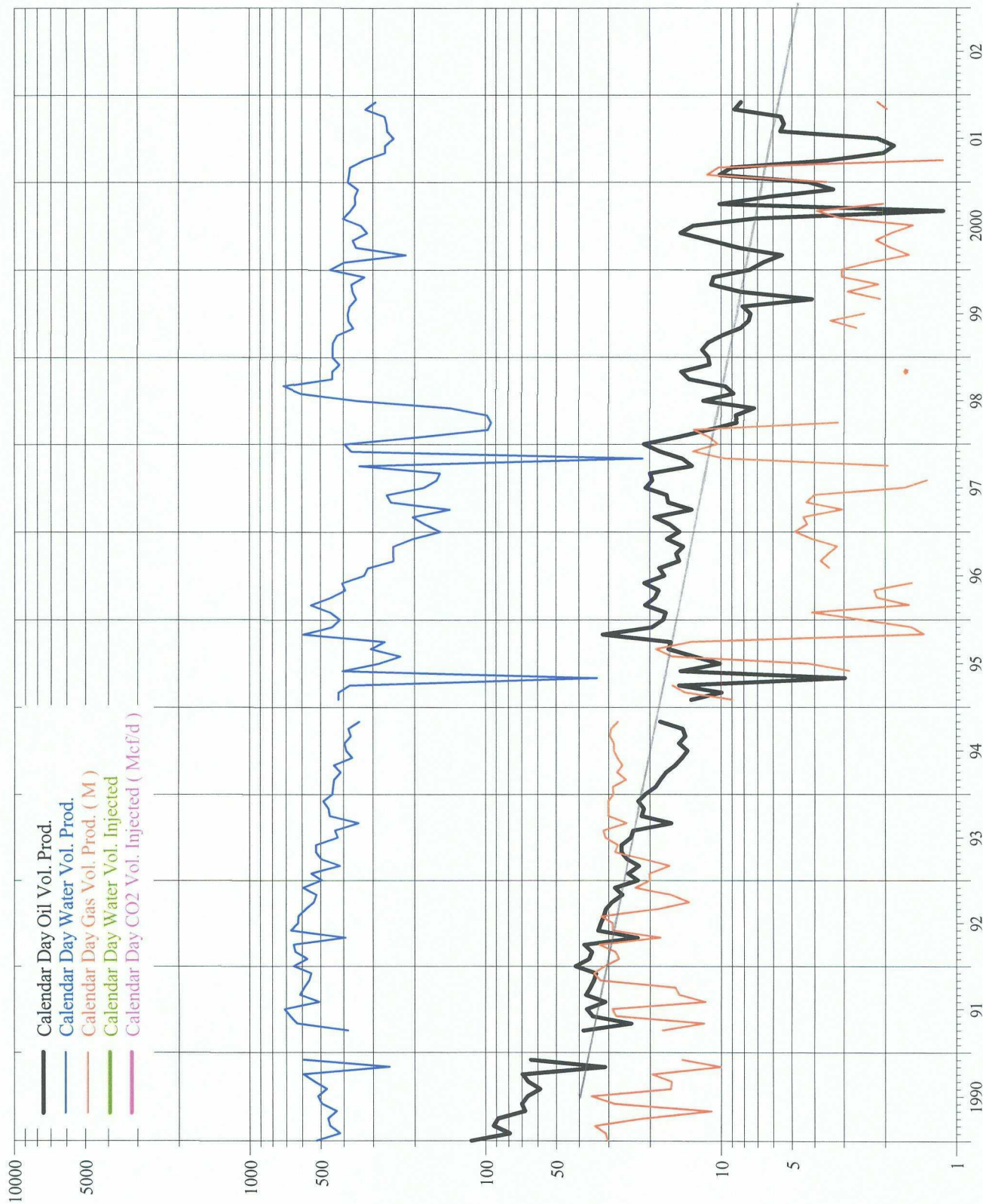
Rates (BPD), (SCFD)



State 35 Unit

Well No. 002

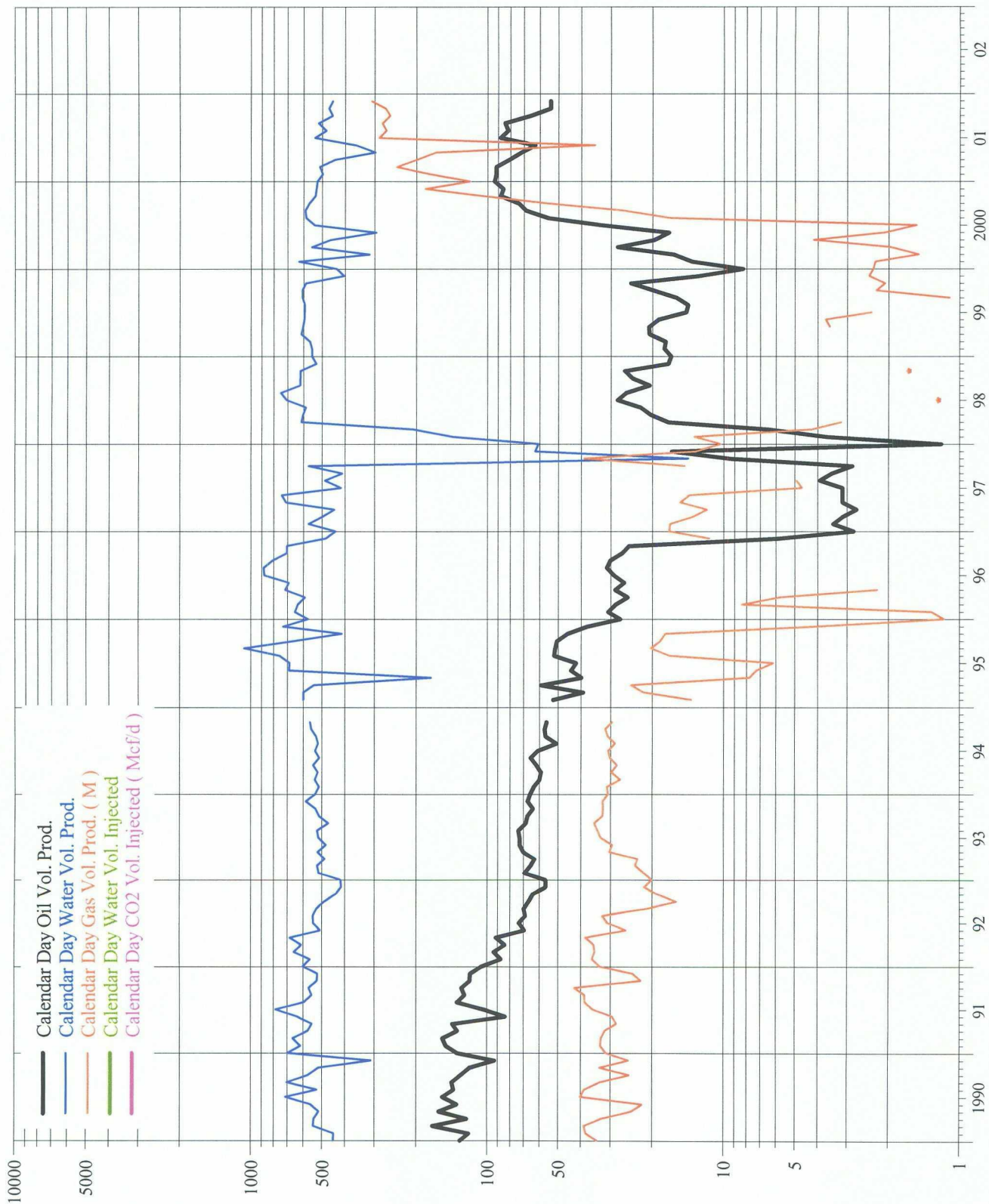
Rates (BPD), (SCFD)



State 35 Unit

Well No. 003

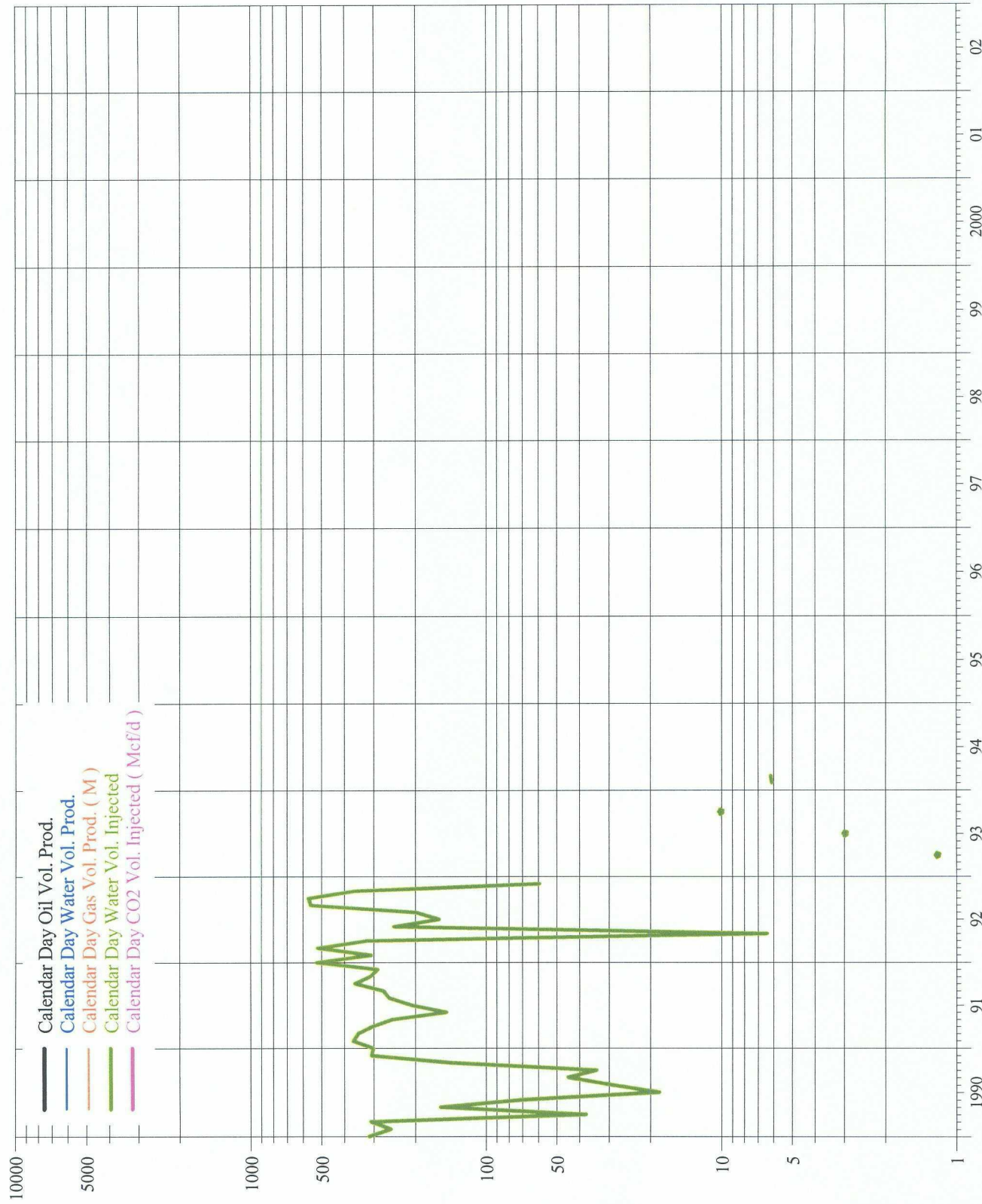
Rates (BPD), (SCFD)



State 35 Unit

Well No. W04

Rates (BPD), (SCFD)



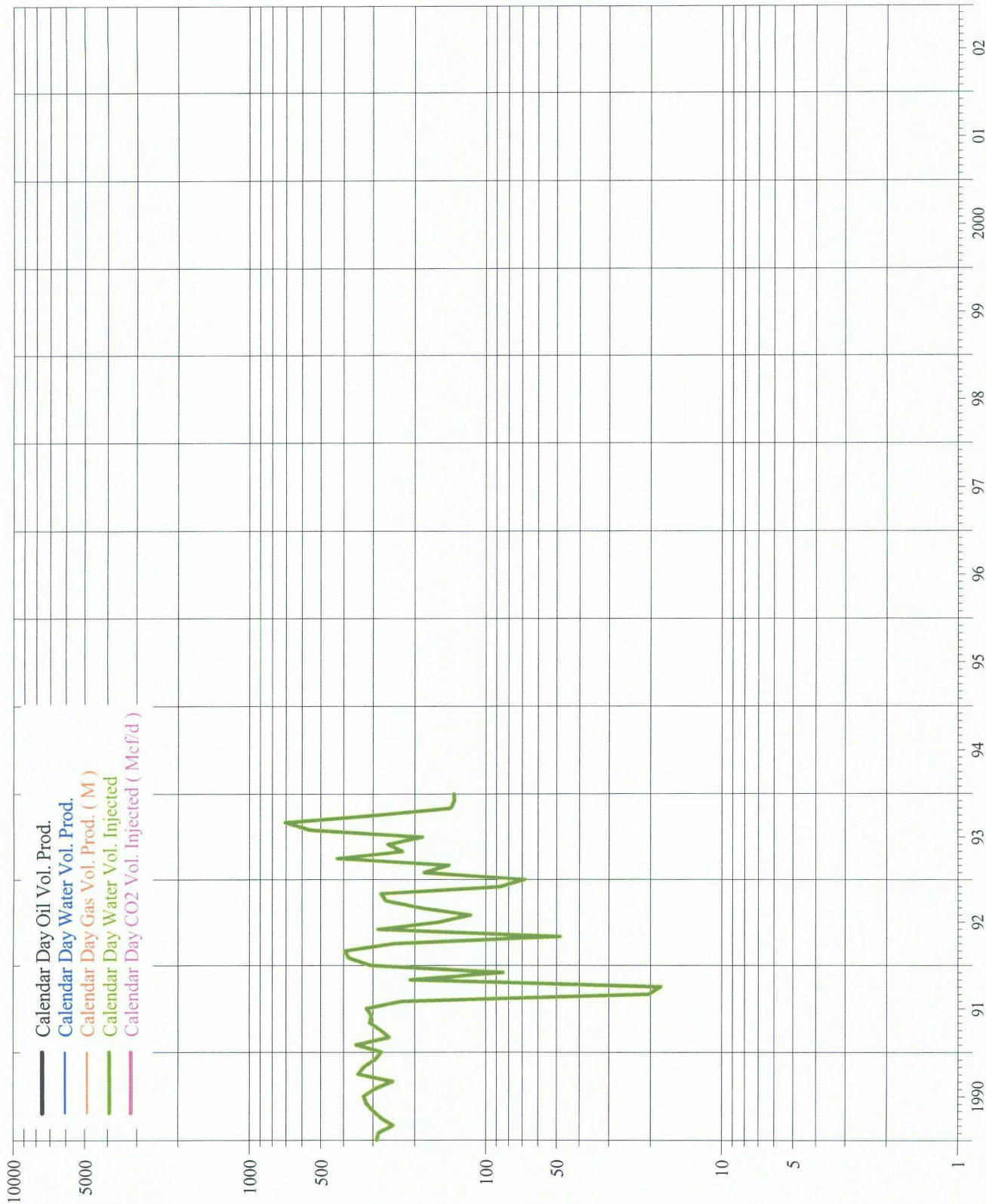
ahk May 21, 2002

Figure 7

State 35 Unit

Well No. W05

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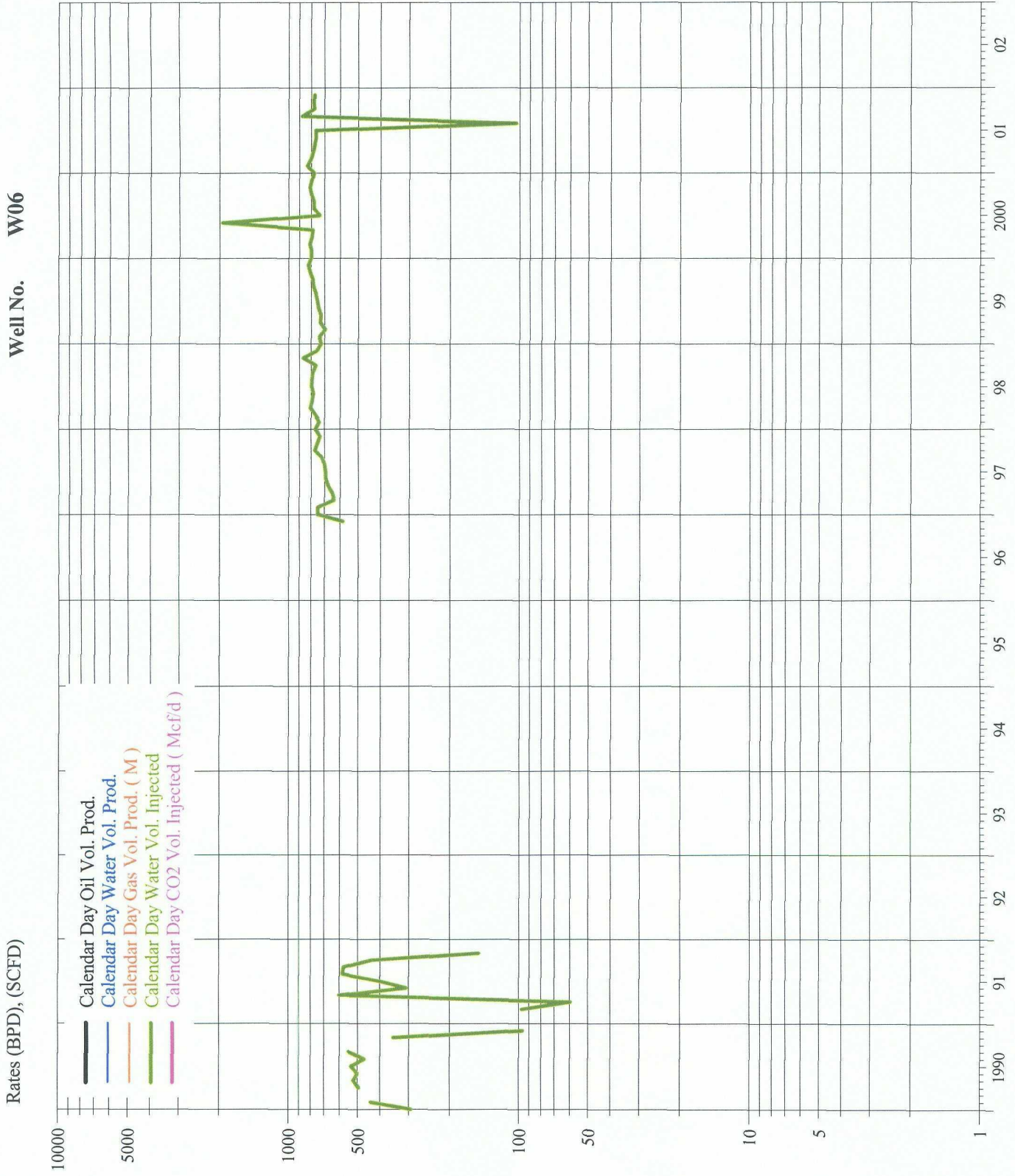


Year

ahk May 21, 2002

Figure 8

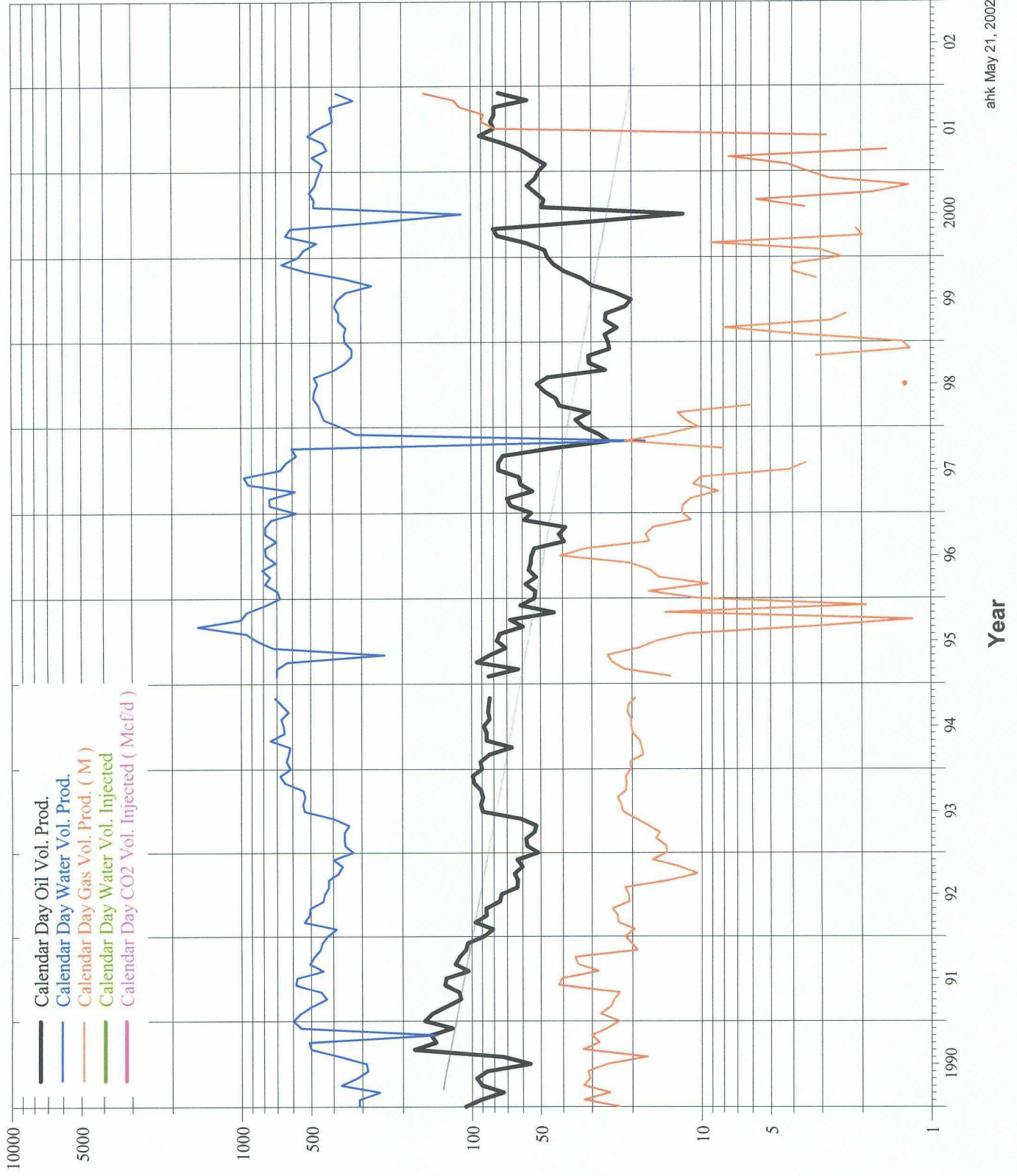
State 35 Unit



State 35 Unit

Well No. 007

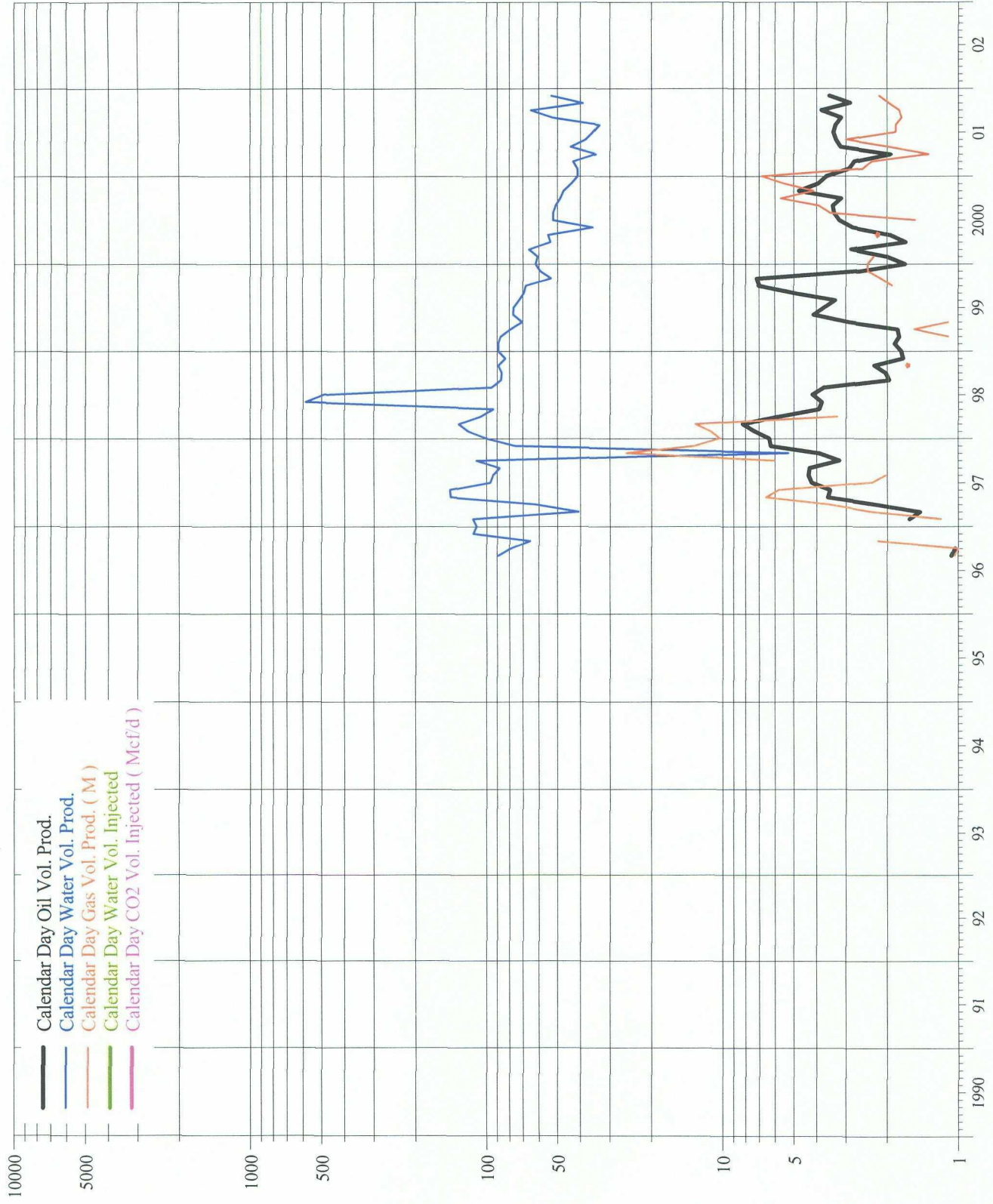
Rates (BPD), (SCFD)



State 35 Unit

Well No. 008

Rates (BPD), (SCFD)



Year

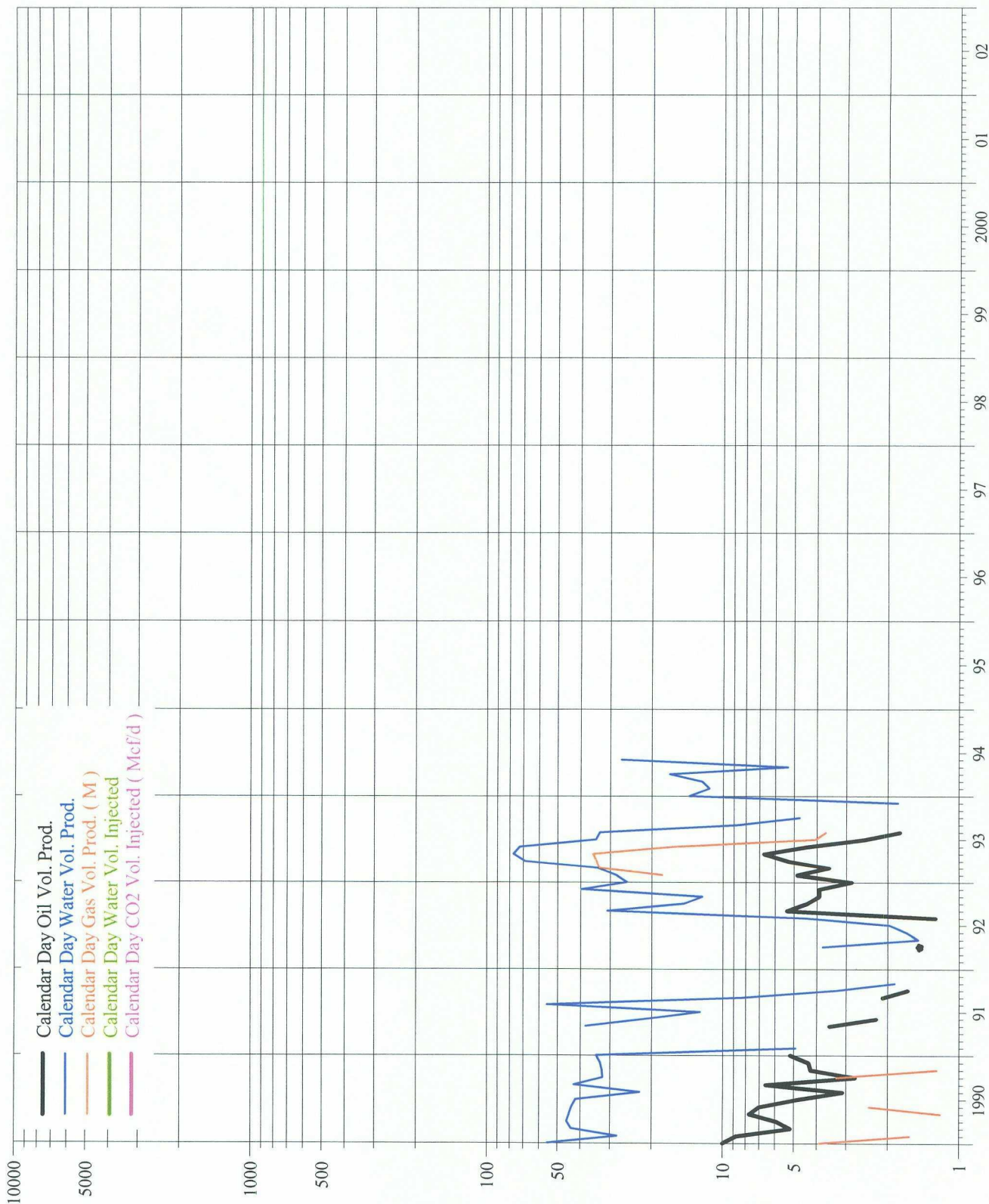
ahk May 21, 2002

Figure 11

State 35 Unit

Well No. 009

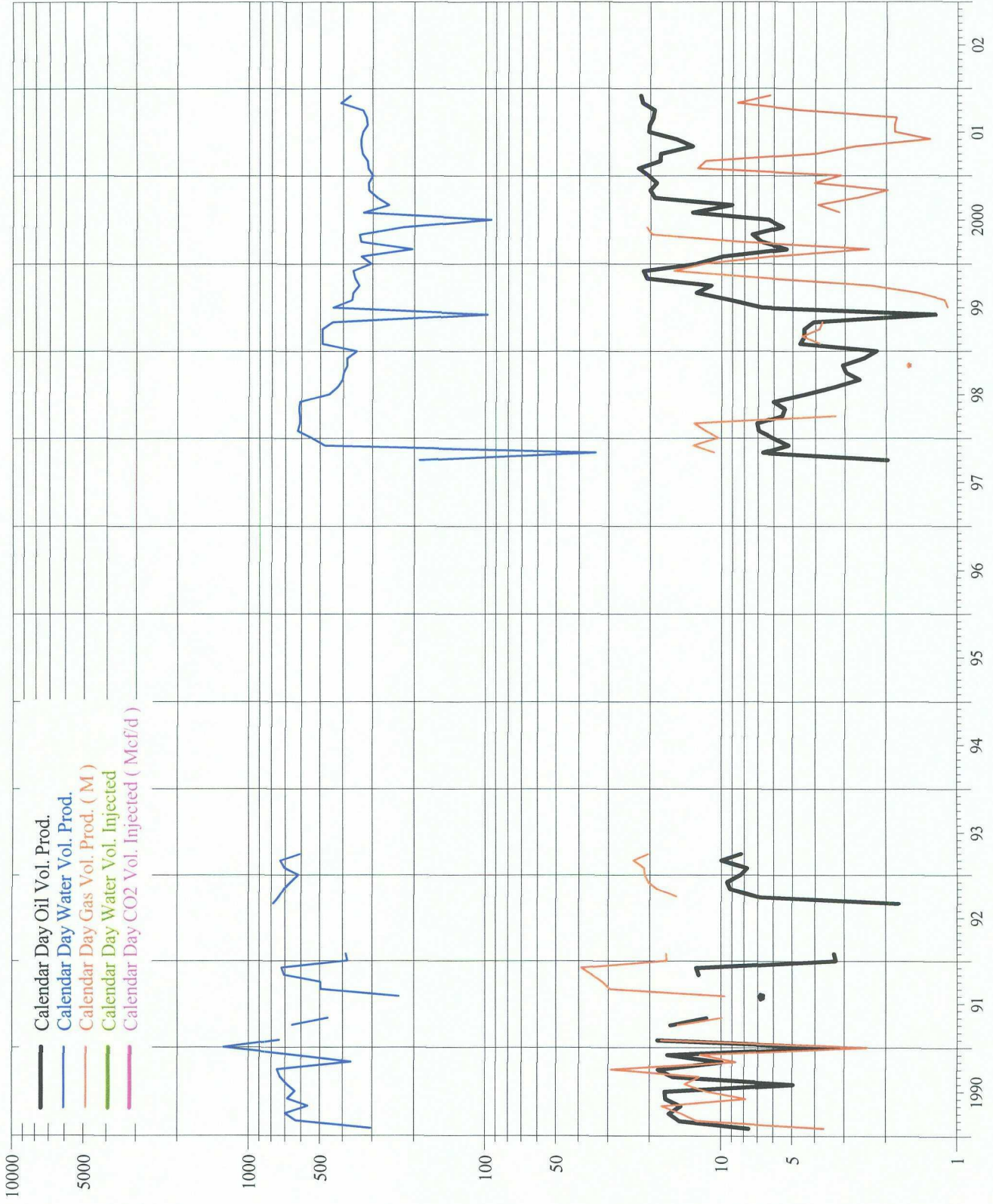
Rates (BPD), (SCFD)



State 35 Unit

Well No. 010

Rates (BPD), (SCFD)



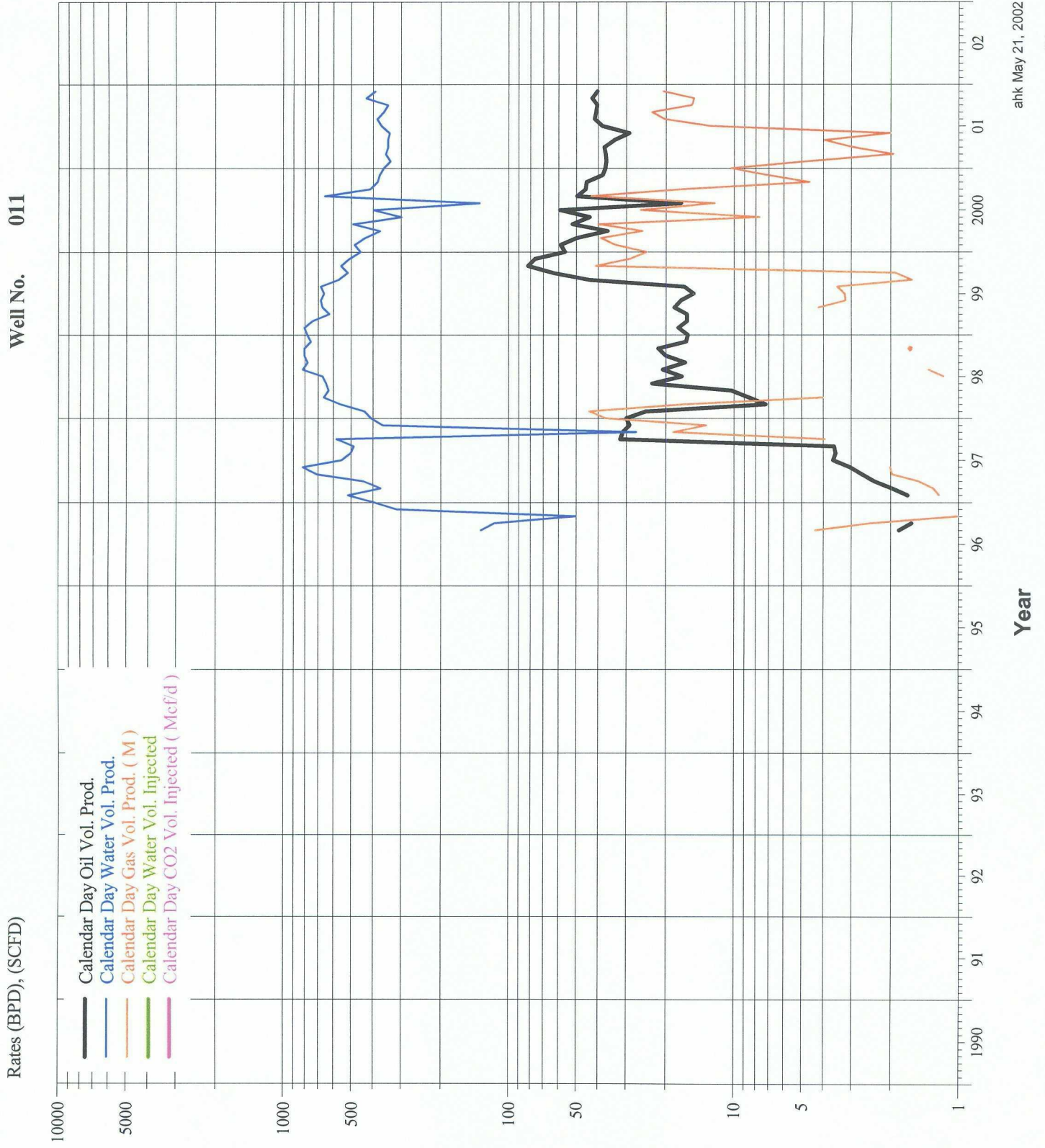
Year

ahk May 21, 2002

Figure 13

State 35 Unit

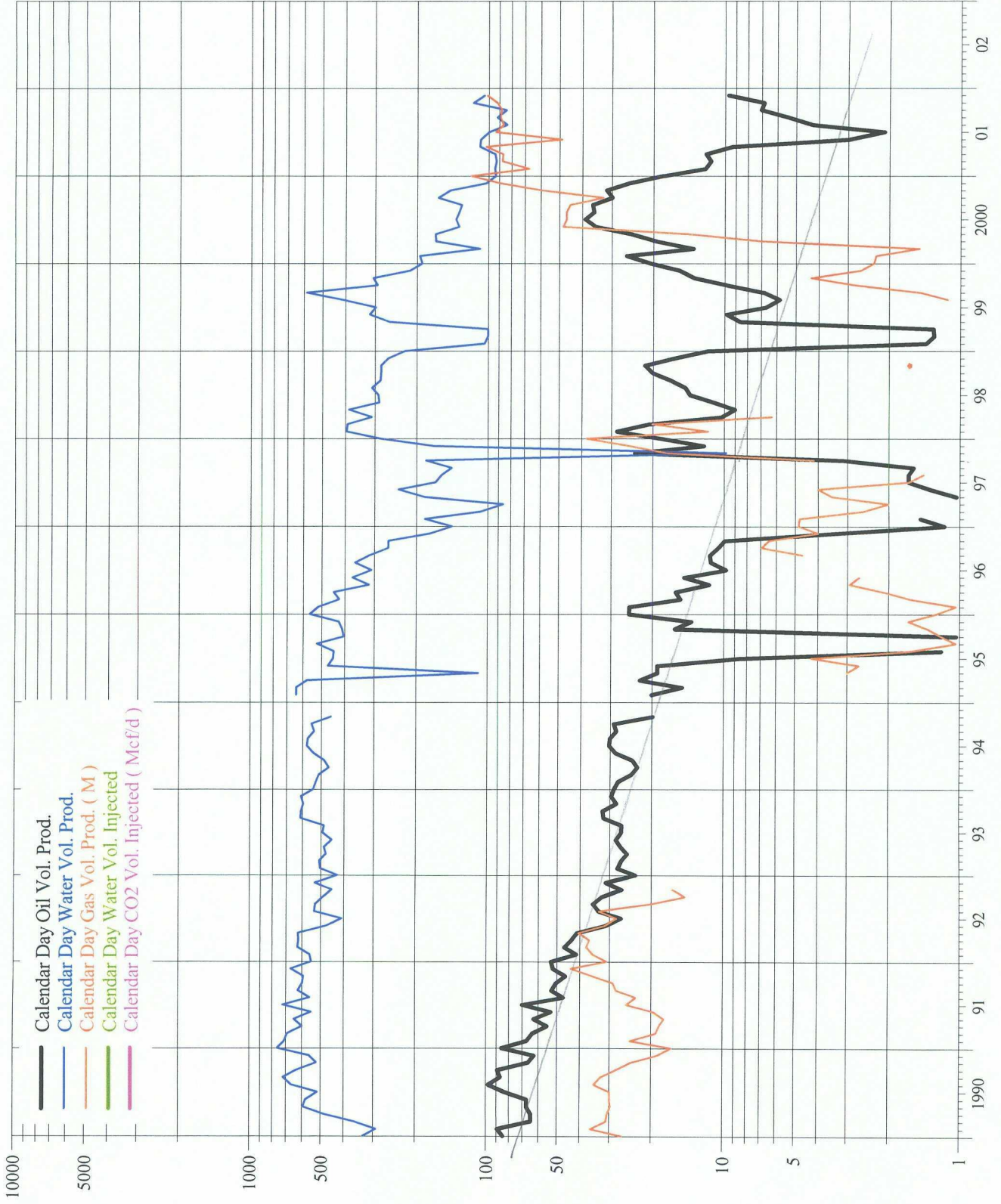
Well No. 011



State 35 Unit

Well No. 012

Rates (BPD), (SCFD)



Year

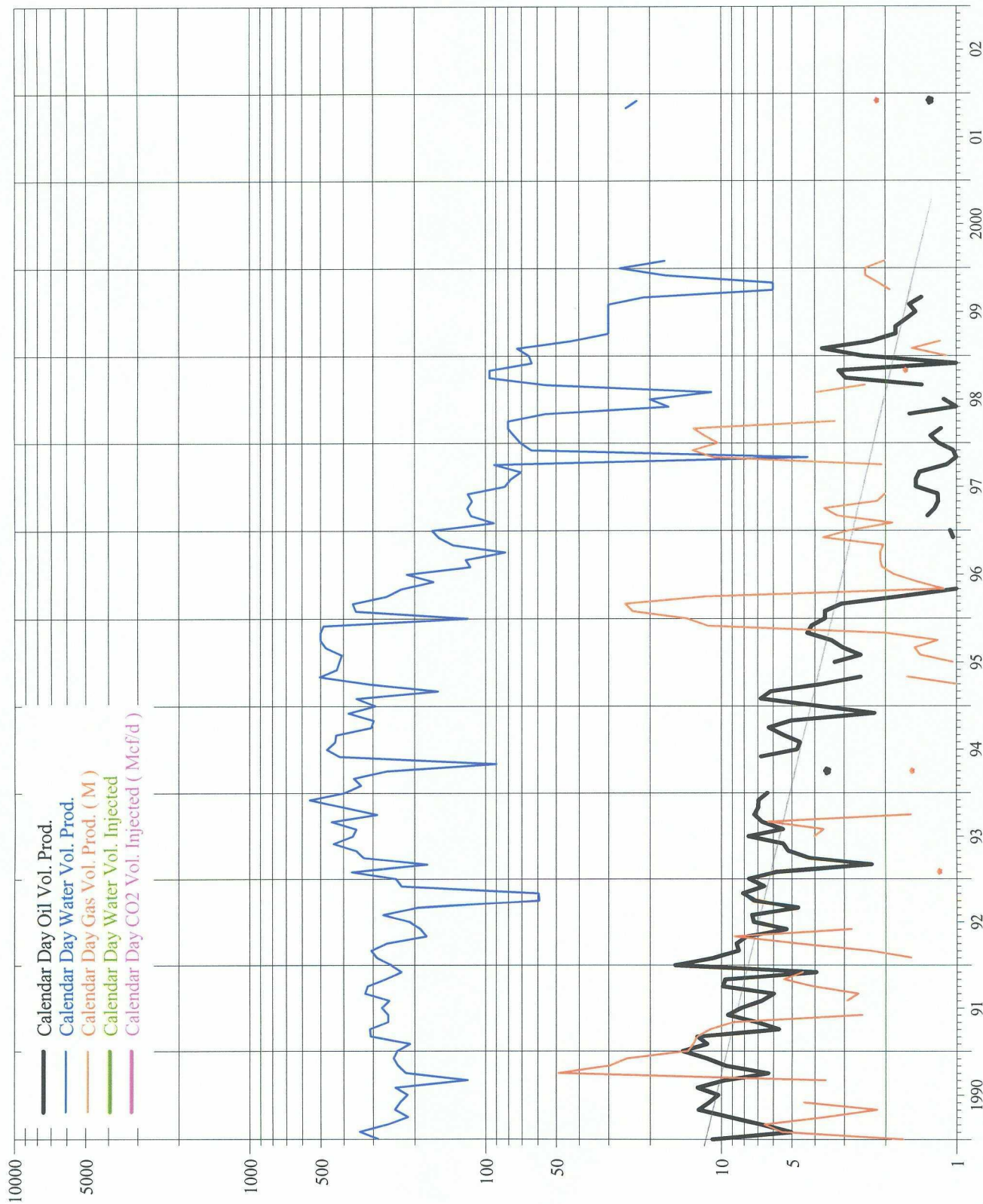
ahk May 21, 2002

Figure 15

State 35 Unit

Well No. 013

Rates (BPD), (SCFD)



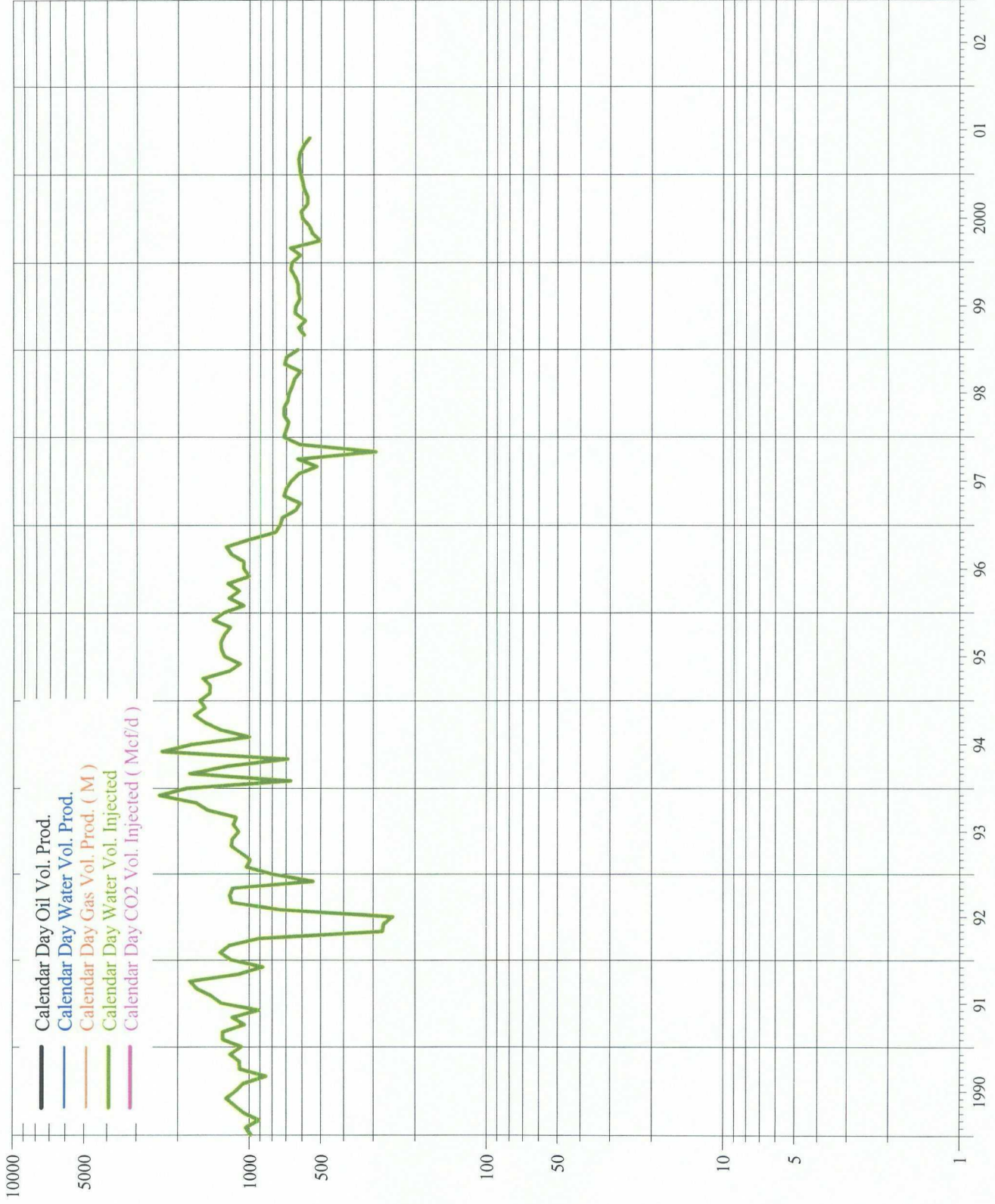
ahk May 21, 2002

Figure 16

State 35 Unit

Well No. W14

Rates (BPD), (SCFD)



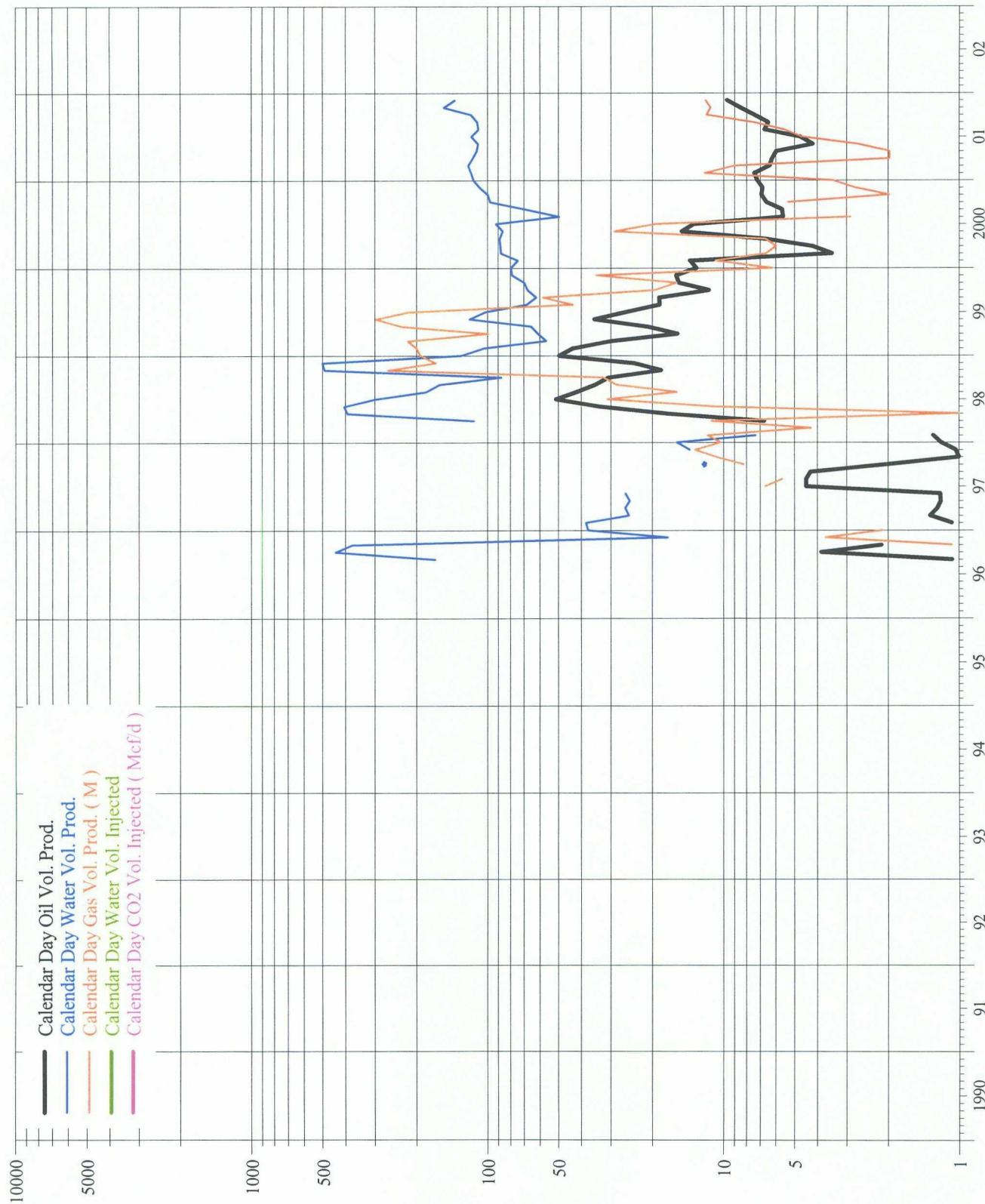
ahk May 21, 2002

Figure 17

State 35 Unit

Well No. 015

Rates (BPD), (SCFD)



ahk May 21, 2002

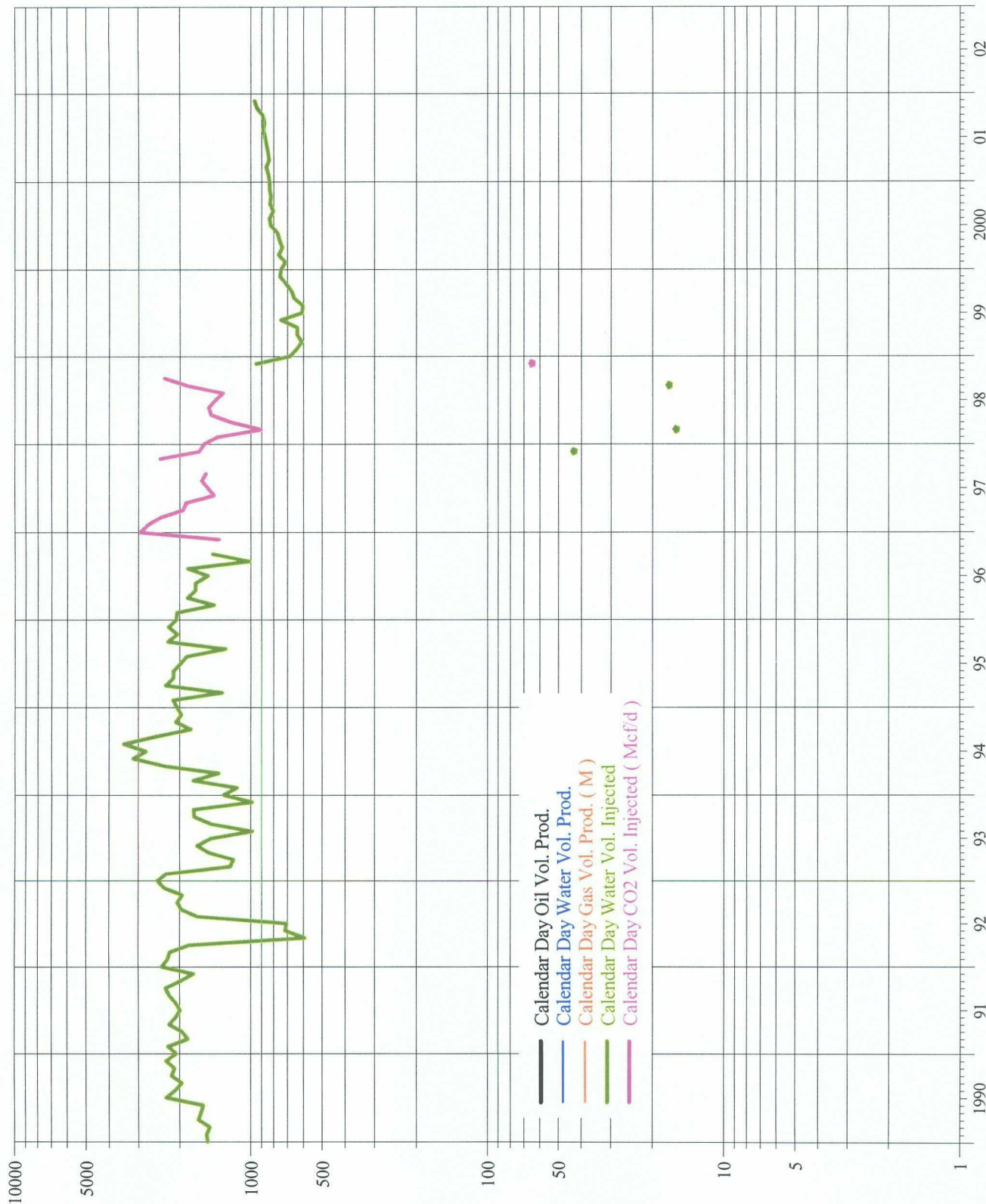
Year

Figure 18

State 35 Unit

Well No. C16

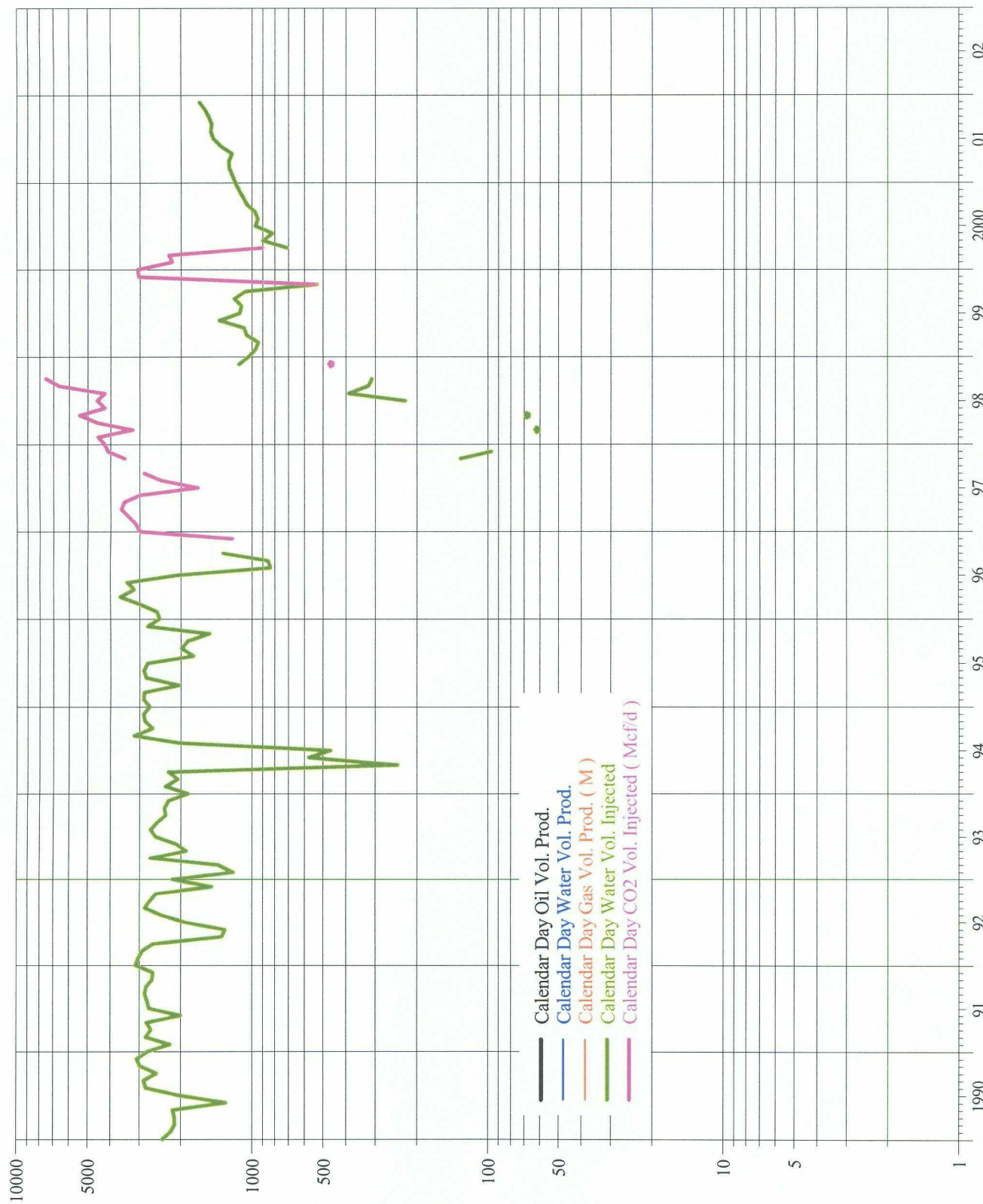
Rates (BPD), (SCFD)



State 35 Unit

Well No. C17

Rates (BPD), (SCFD)



ahk May 21, 2002

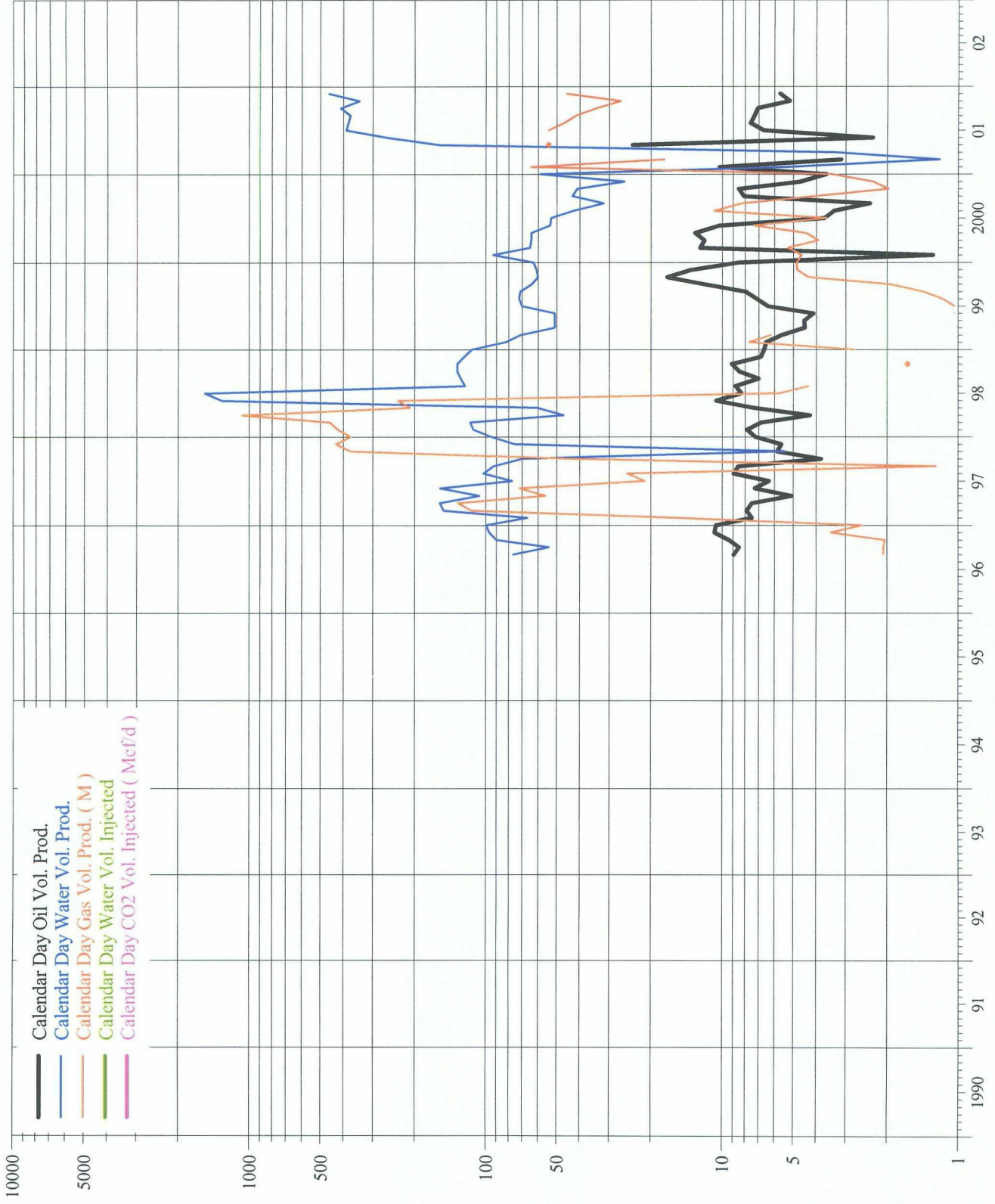
Year

Figure 20

State 35 Unit

Well No. 018

Rates (BPD), (SCFD)



Year

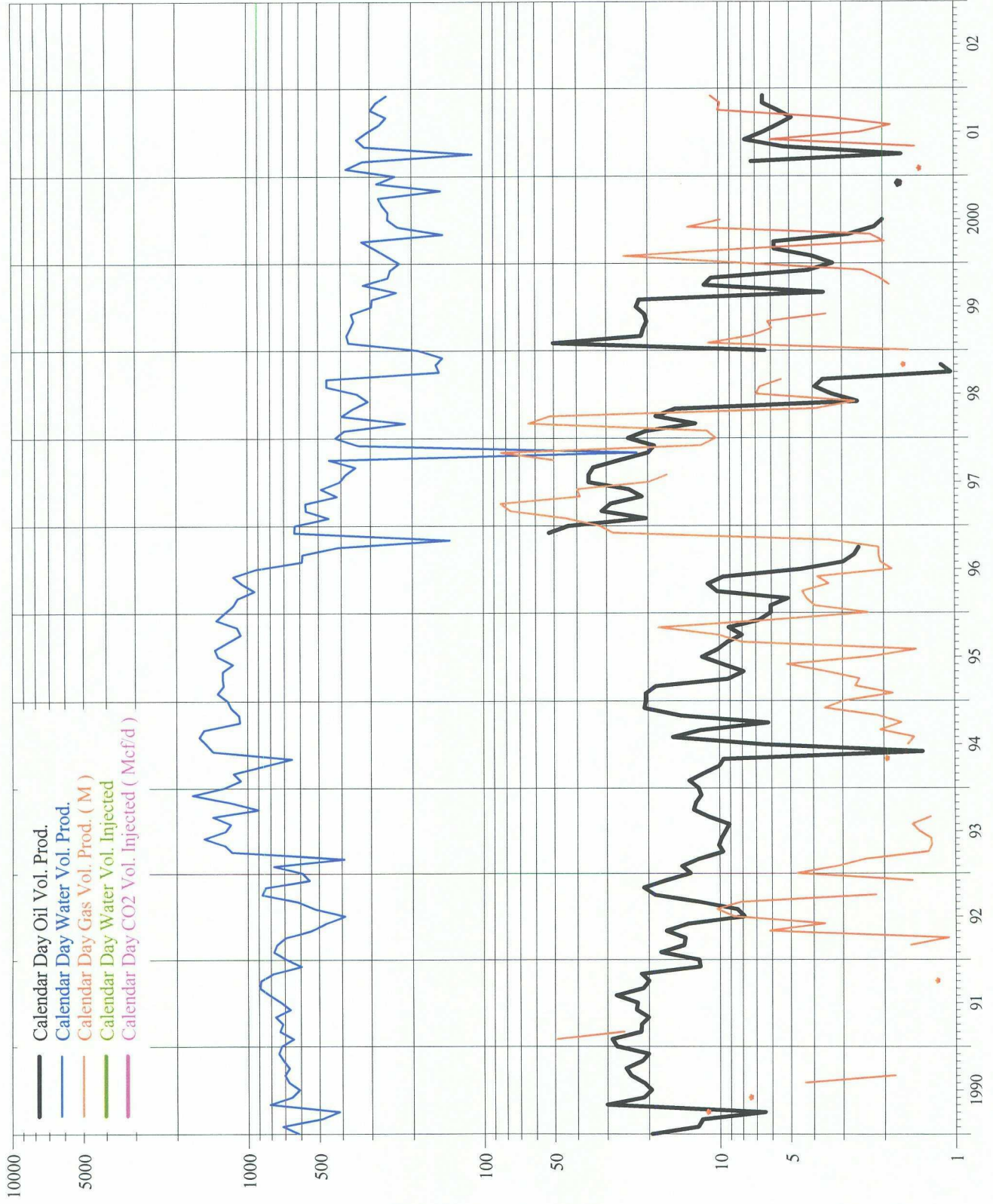
ahk May 21, 2002

Figure 21

State 35 Unit

Well No. 019

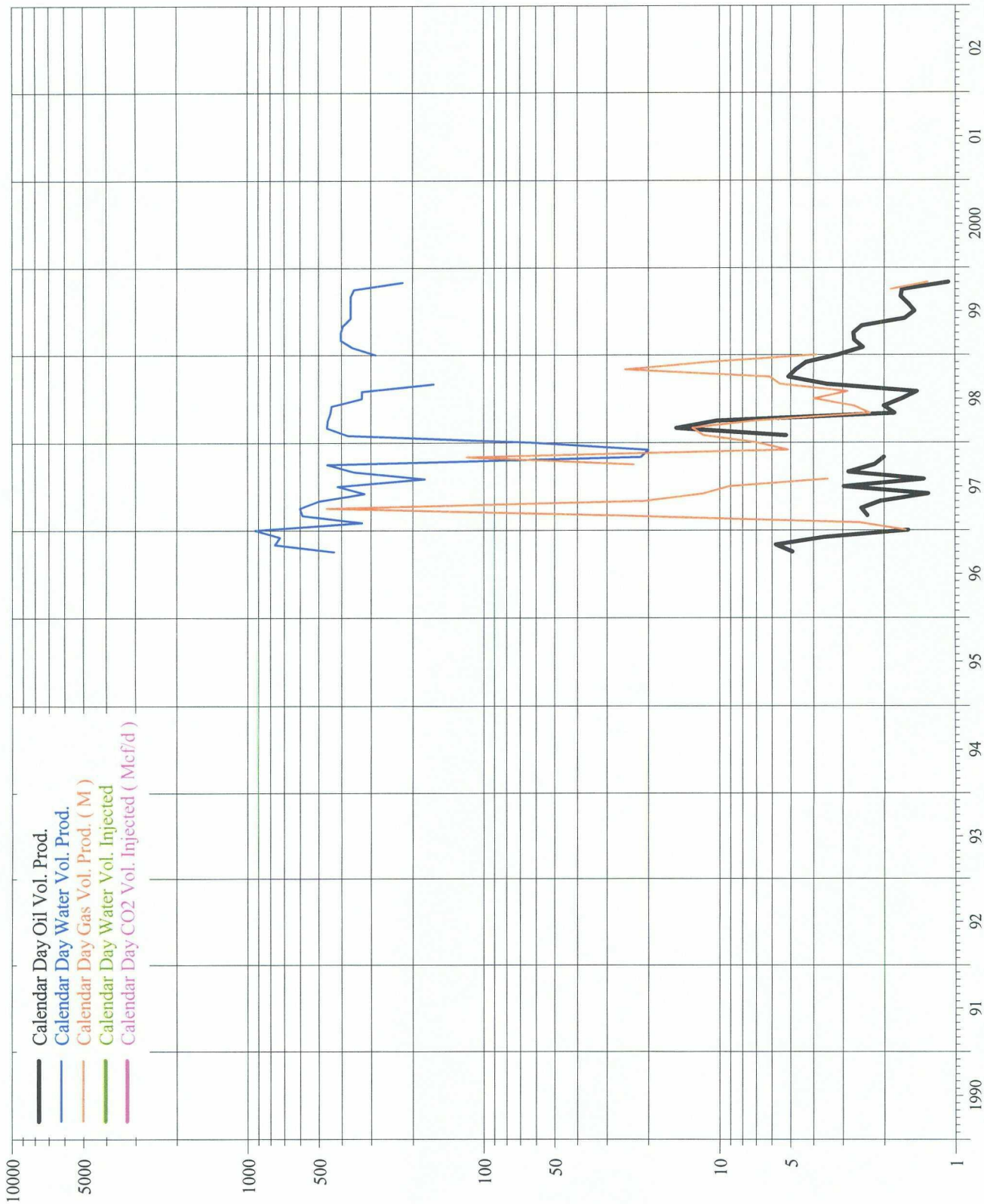
Rates (BPD), (SCFD)



State 35 Unit

Well No. 020

Rates (BPD), (SCFD)



Year

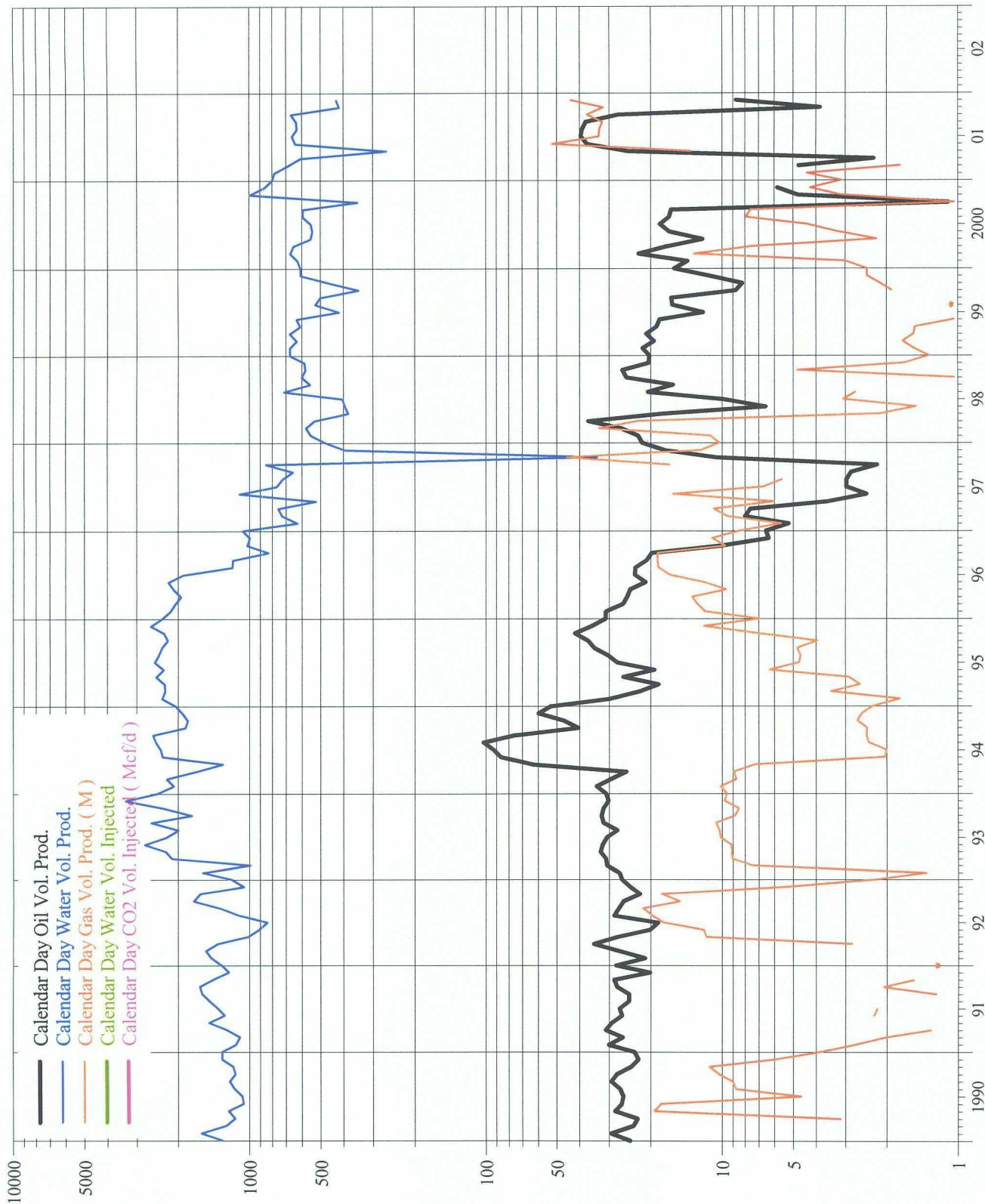
ahk May 21, 2002

Figure 23

State 35 Unit

Well No. 021

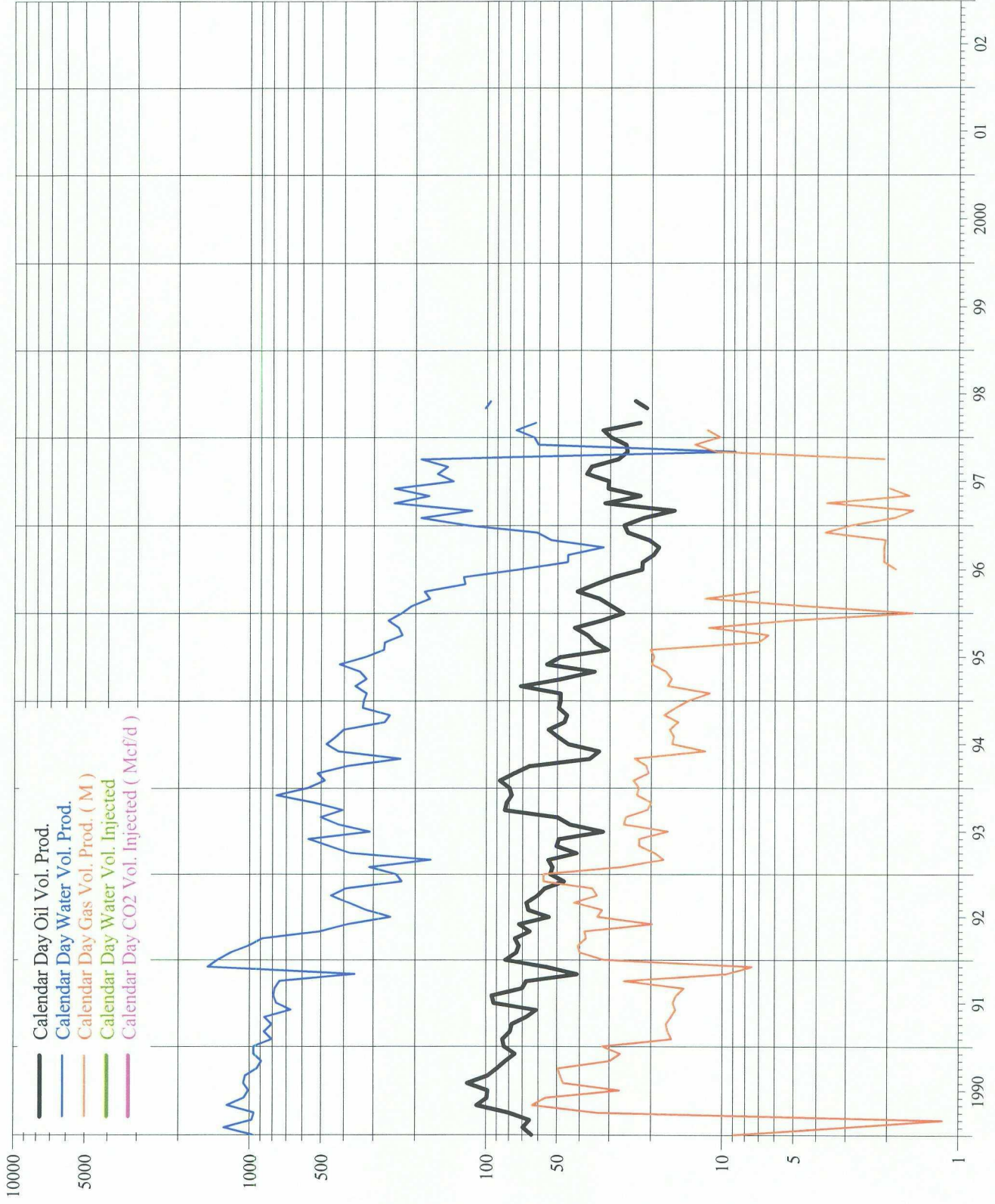
Rates (BPD), (SCFD)



State 35 Unit

Well No. 022

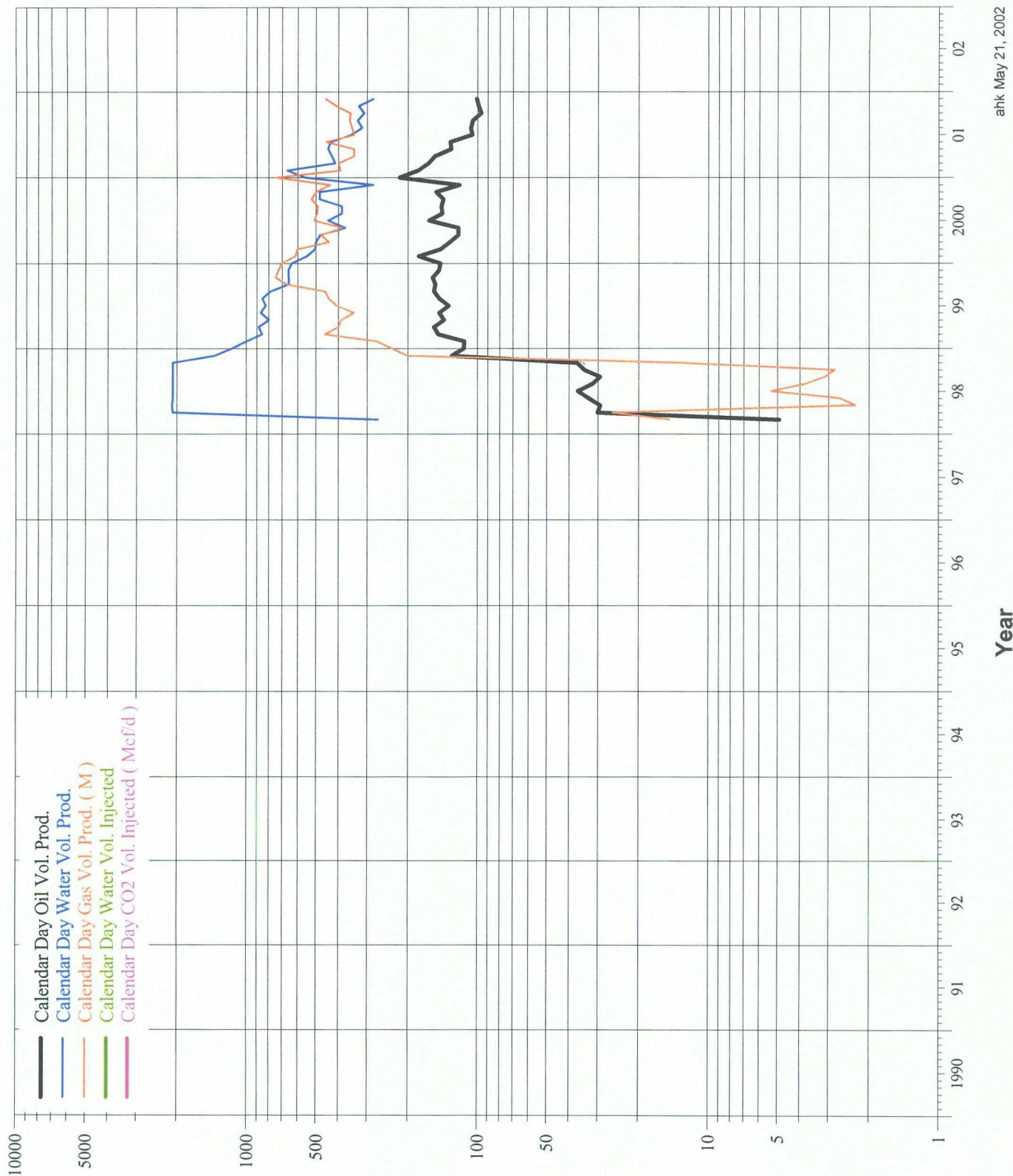
Rates (BPD), (SCFD)



State 35 Unit

Well No. 038

Rates (BPD), (SCFD)

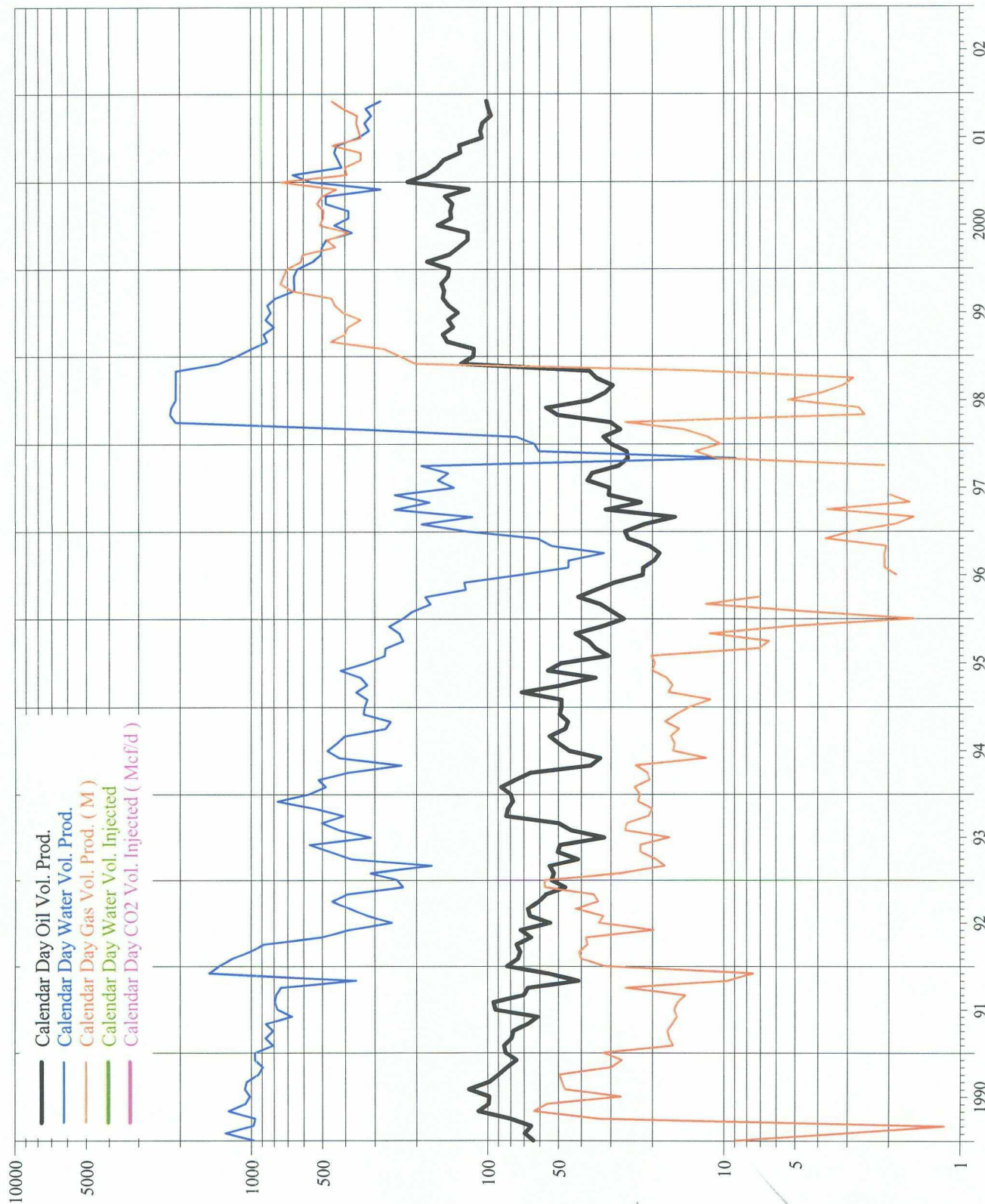


State 35 Unit

Wells #22 and #38

Well No.

Rates (BPD), (SCFD)

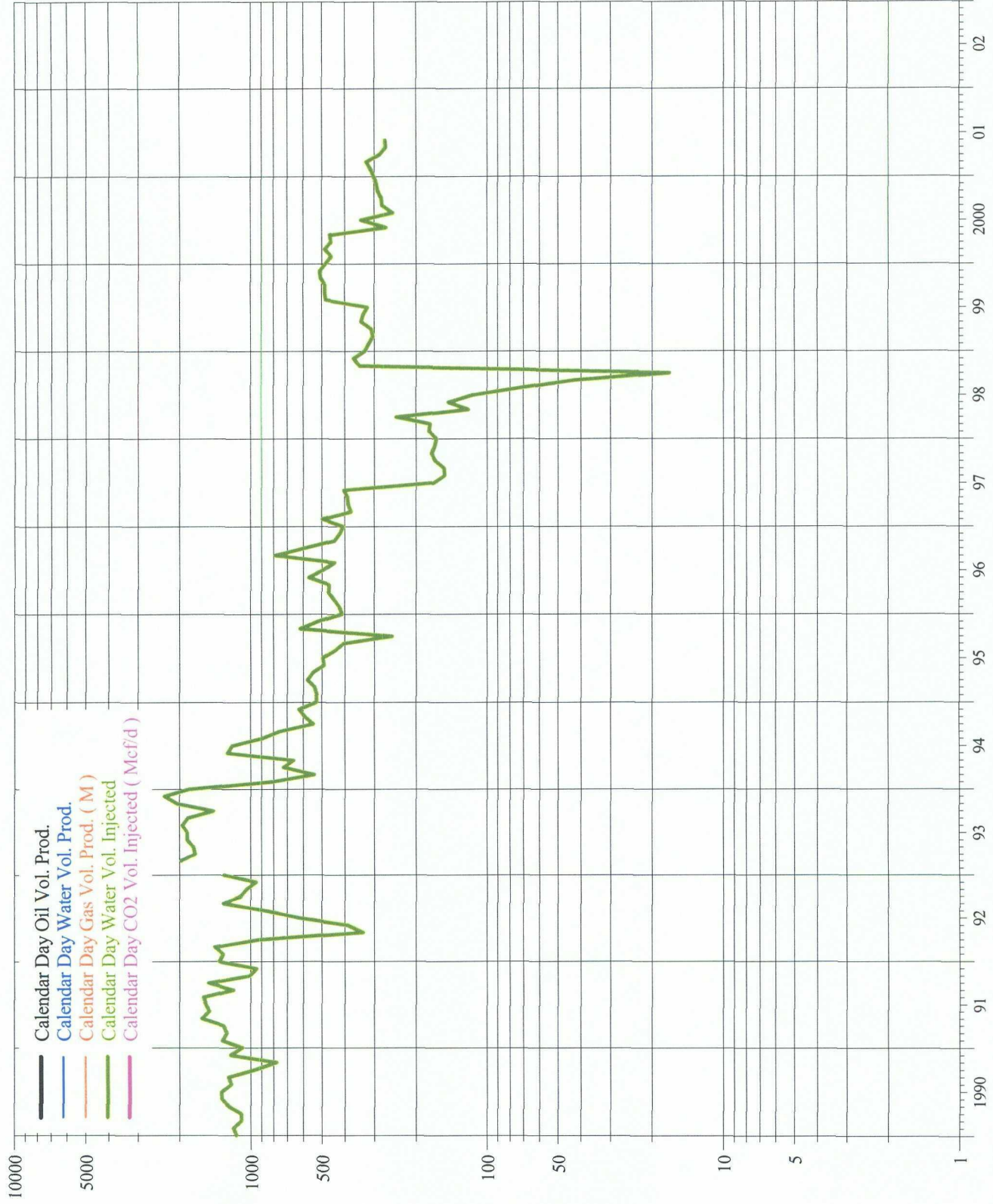


NOT
VALID

State 35 Unit

Well No. W23

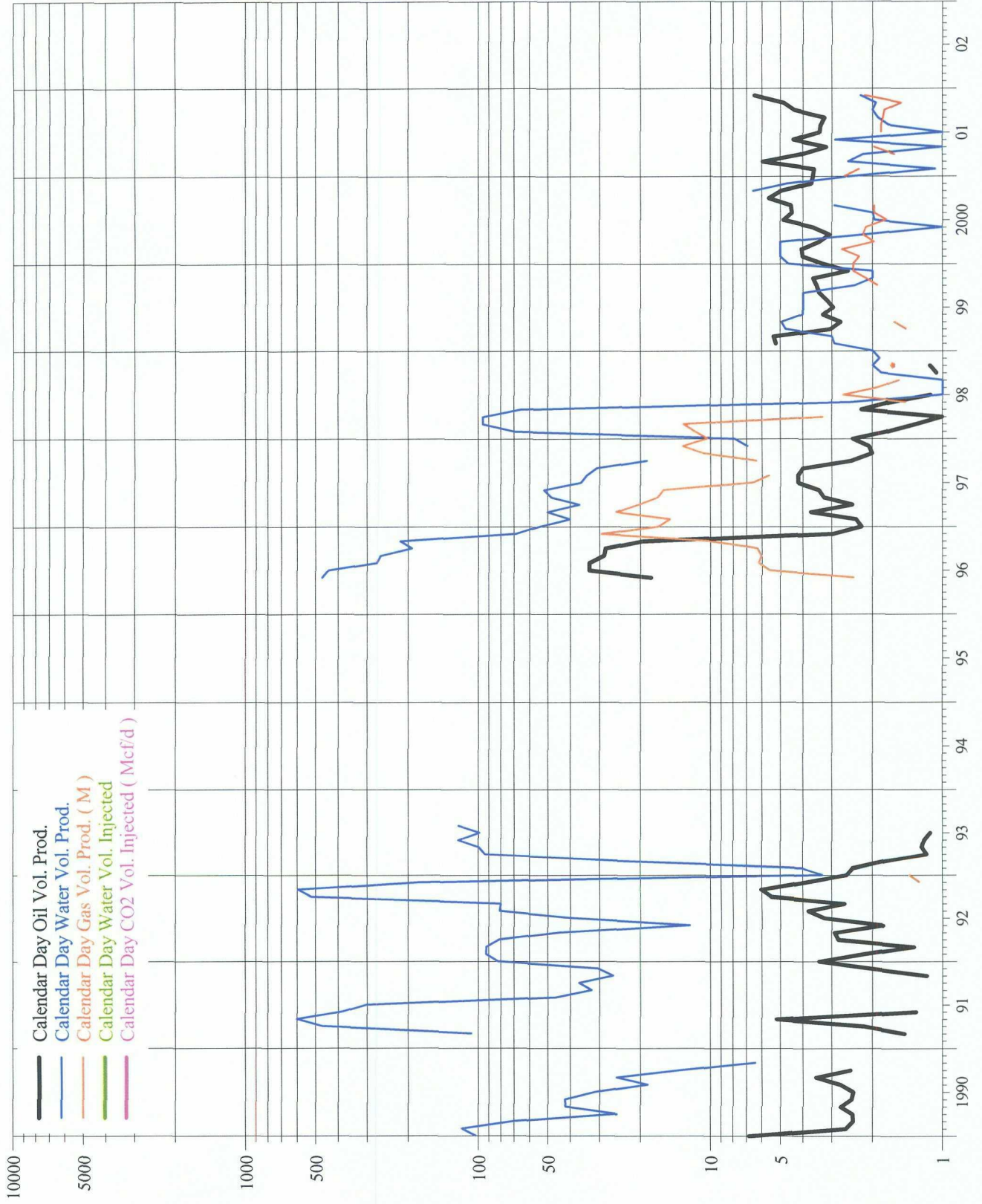
Rates (BPD), (SCFD)



State 35 Unit

Well No. 024

Rates (BPD), (SCFD)

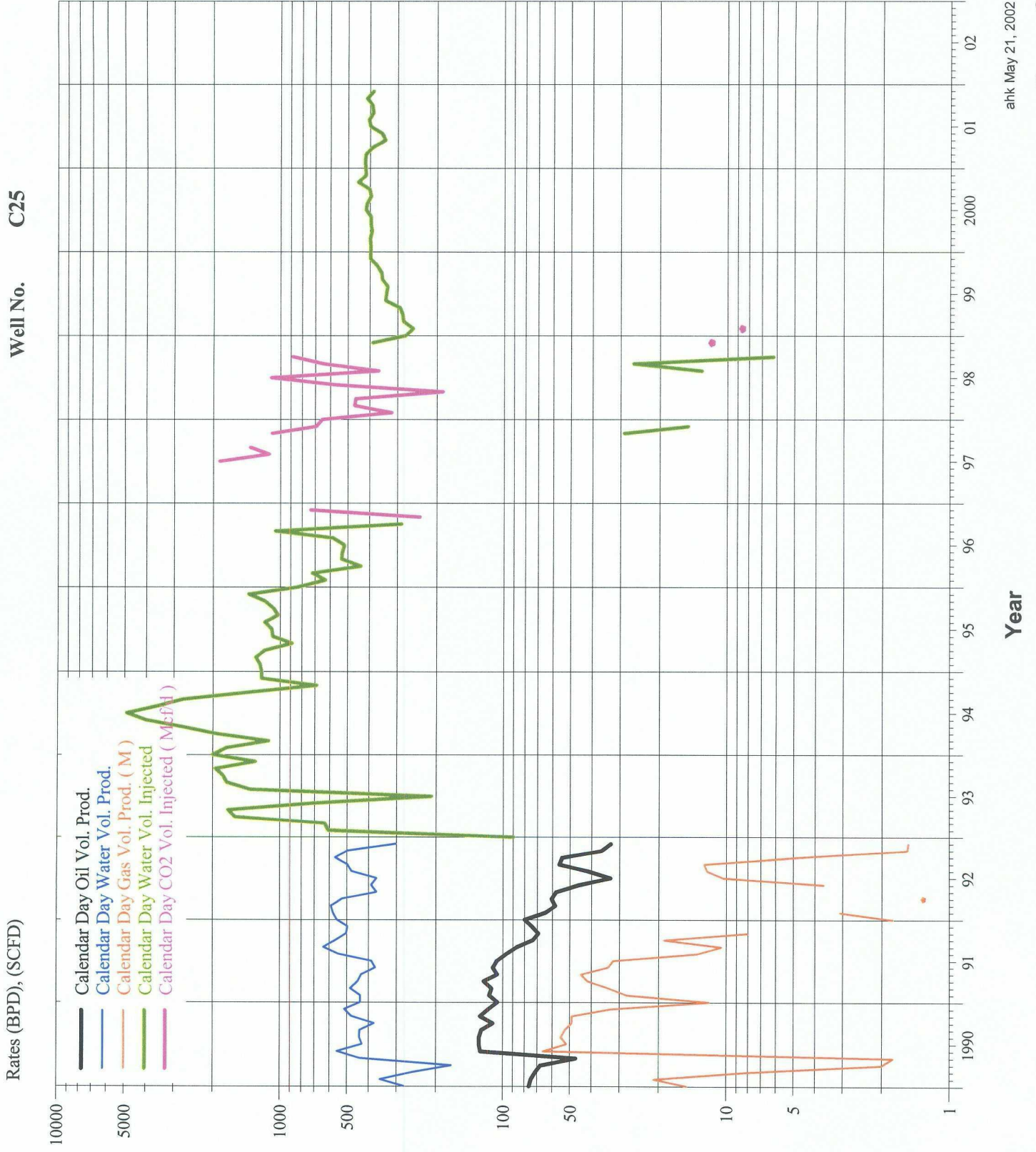


Year

ahk May 21, 2002

Figure 31

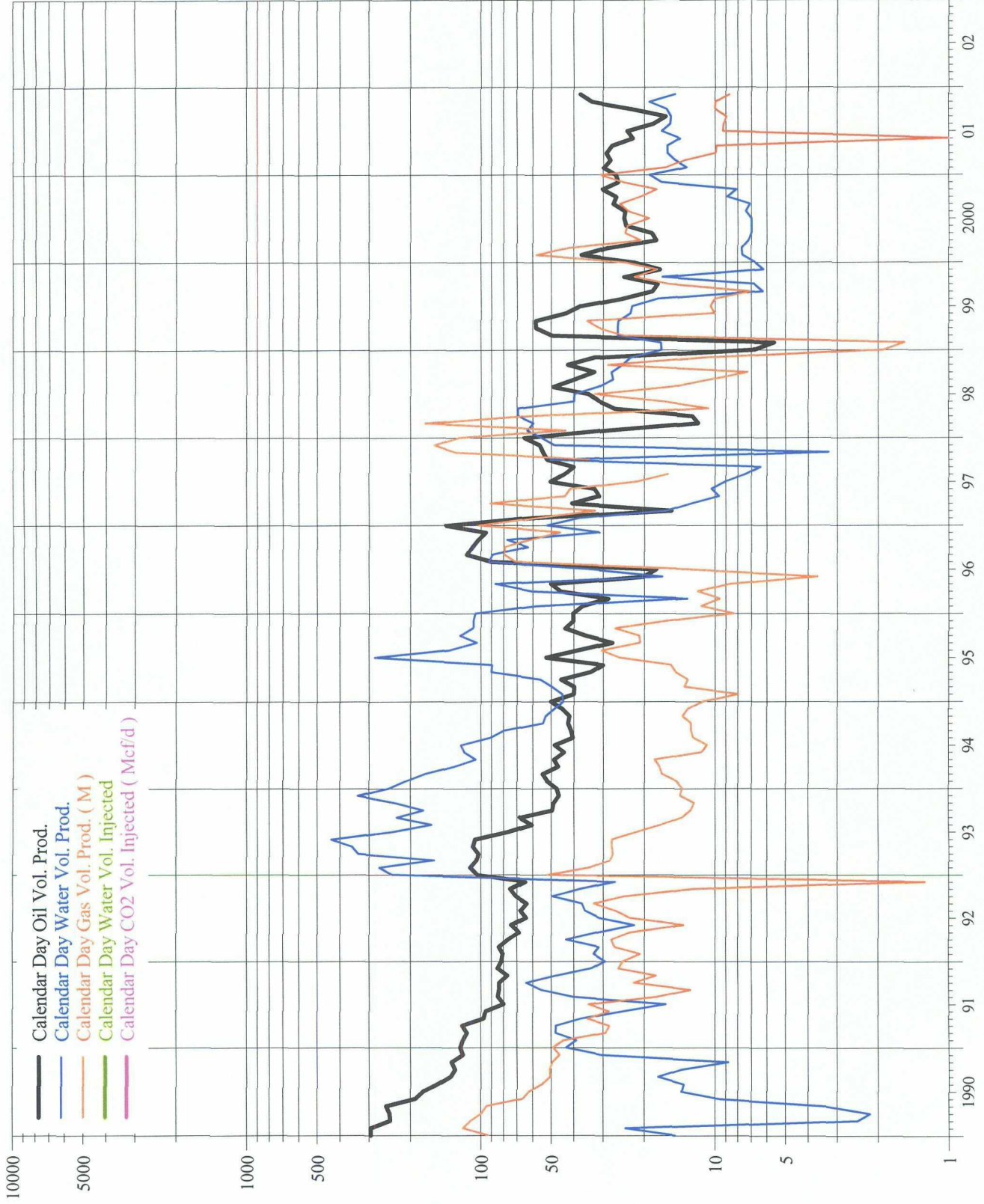
State 35 Unit



State 35 Unit

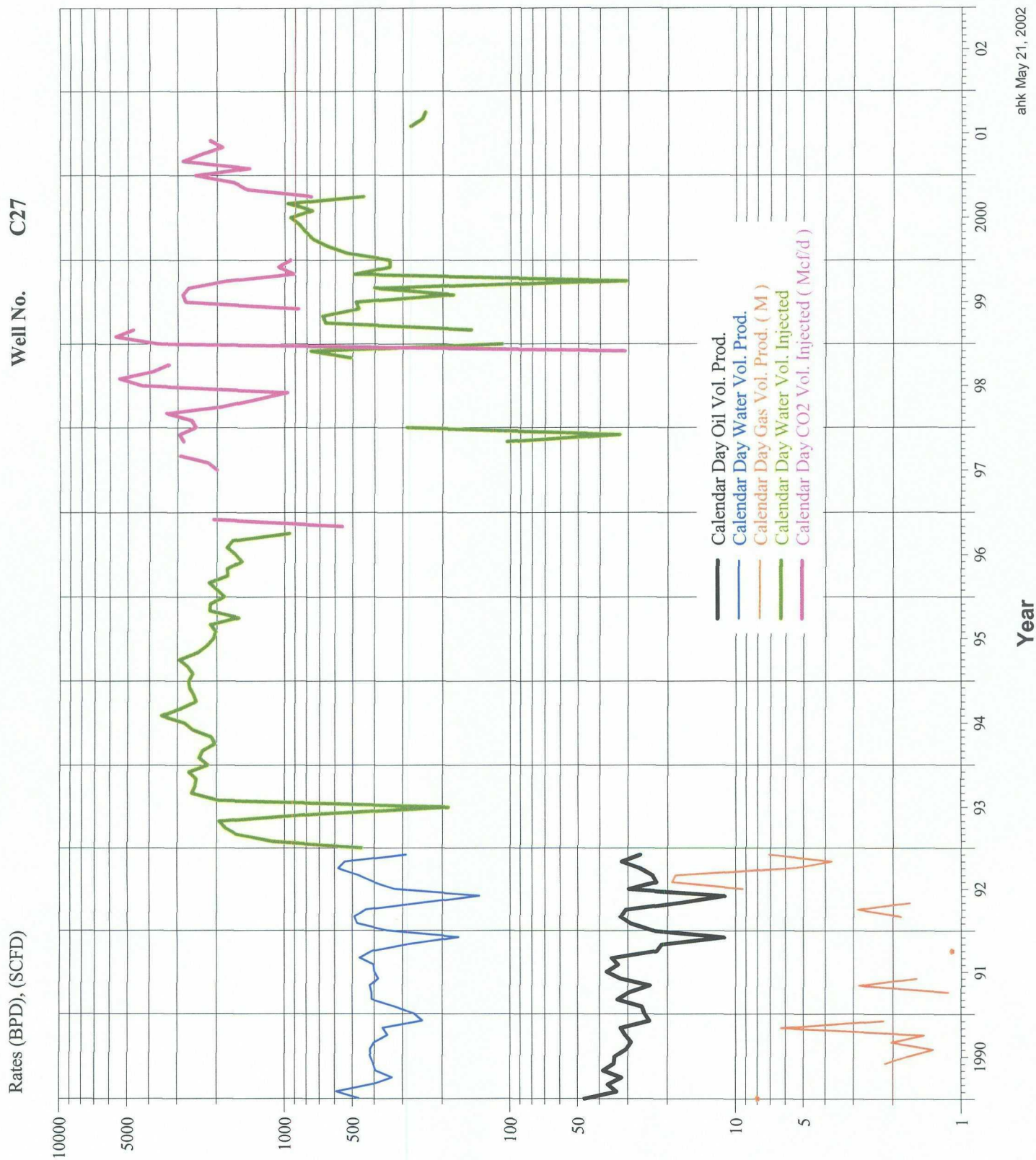
Well No. 026

Rates (BPD), (SCFD)



State 35 Unit

Well No. C27

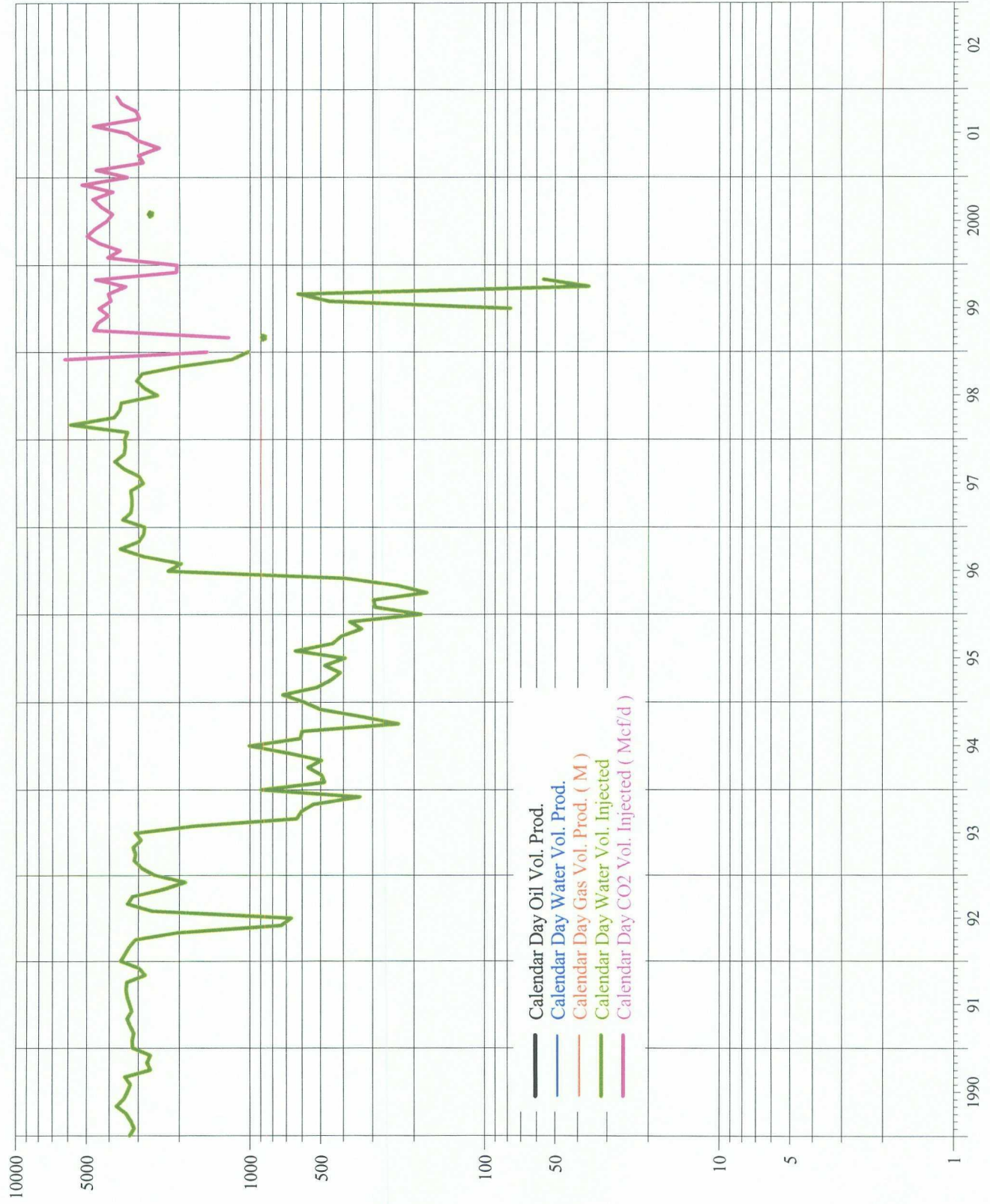


ahk May 21, 2002

State 35 Unit

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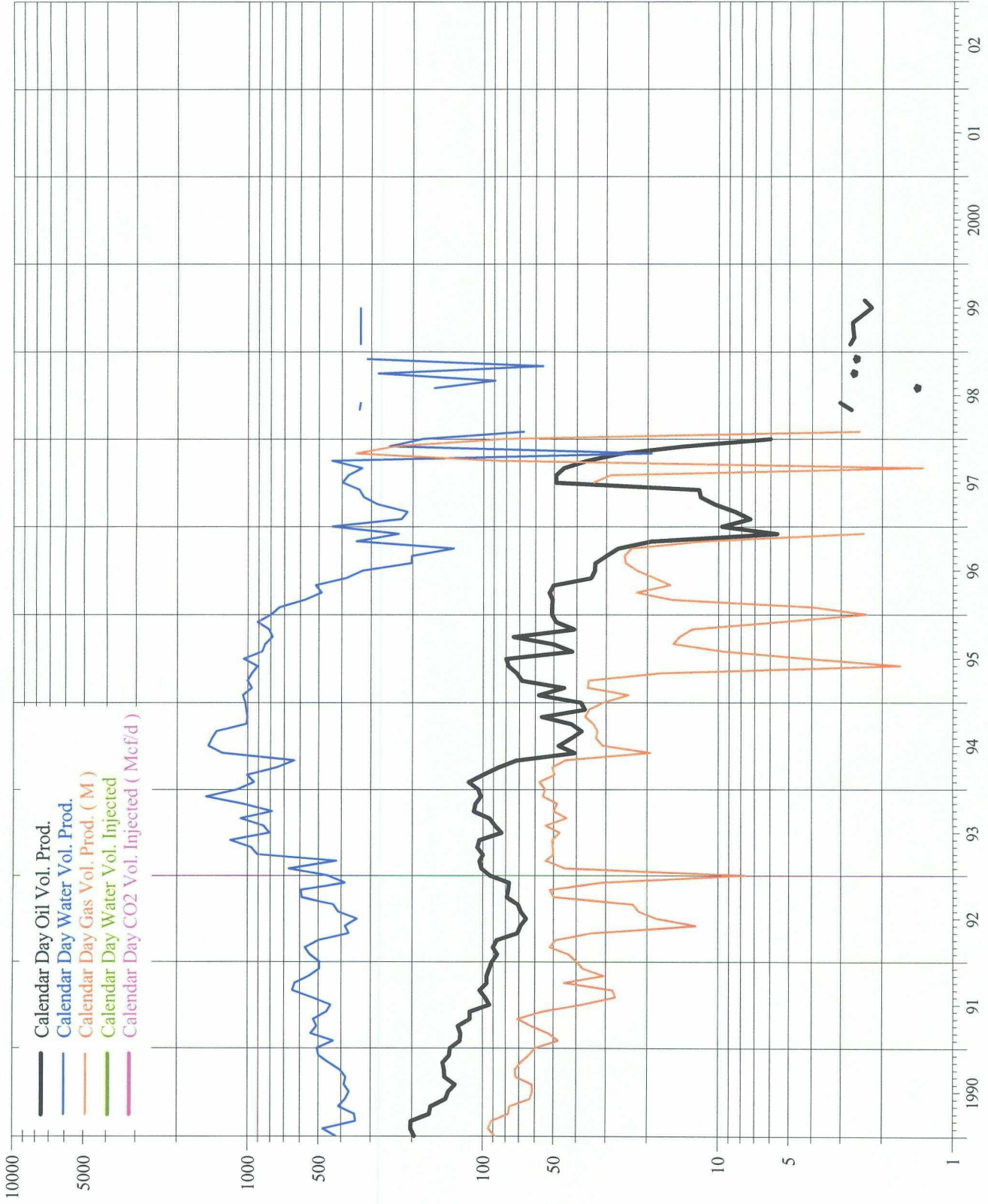
Rates (BPD), (SCFD)



State 35 Unit

Well No. 030

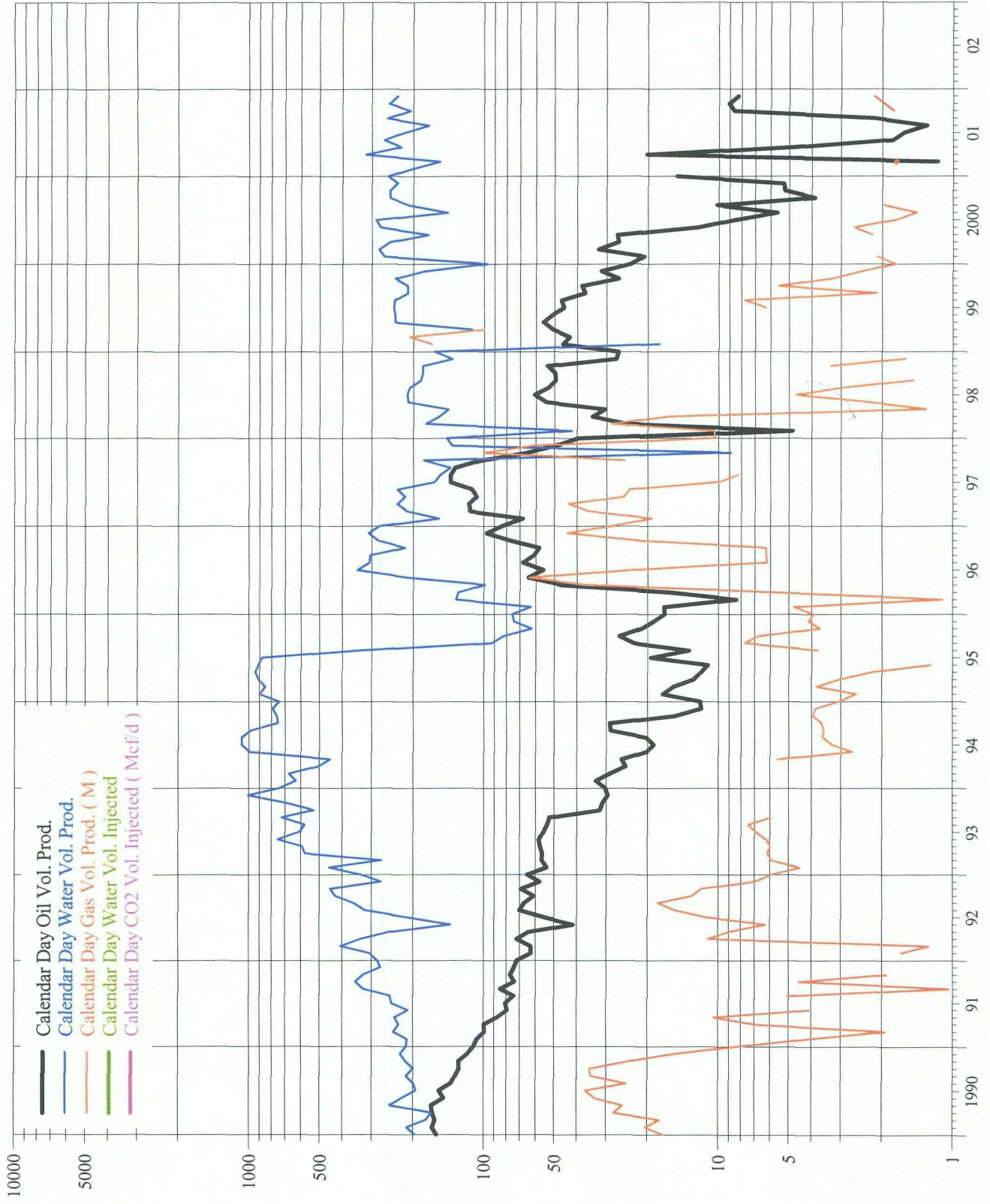
Rates (BPD), (SCFD)



State 35 Unit

Well No. 031

Rates (BPD), (SCFD)



Year

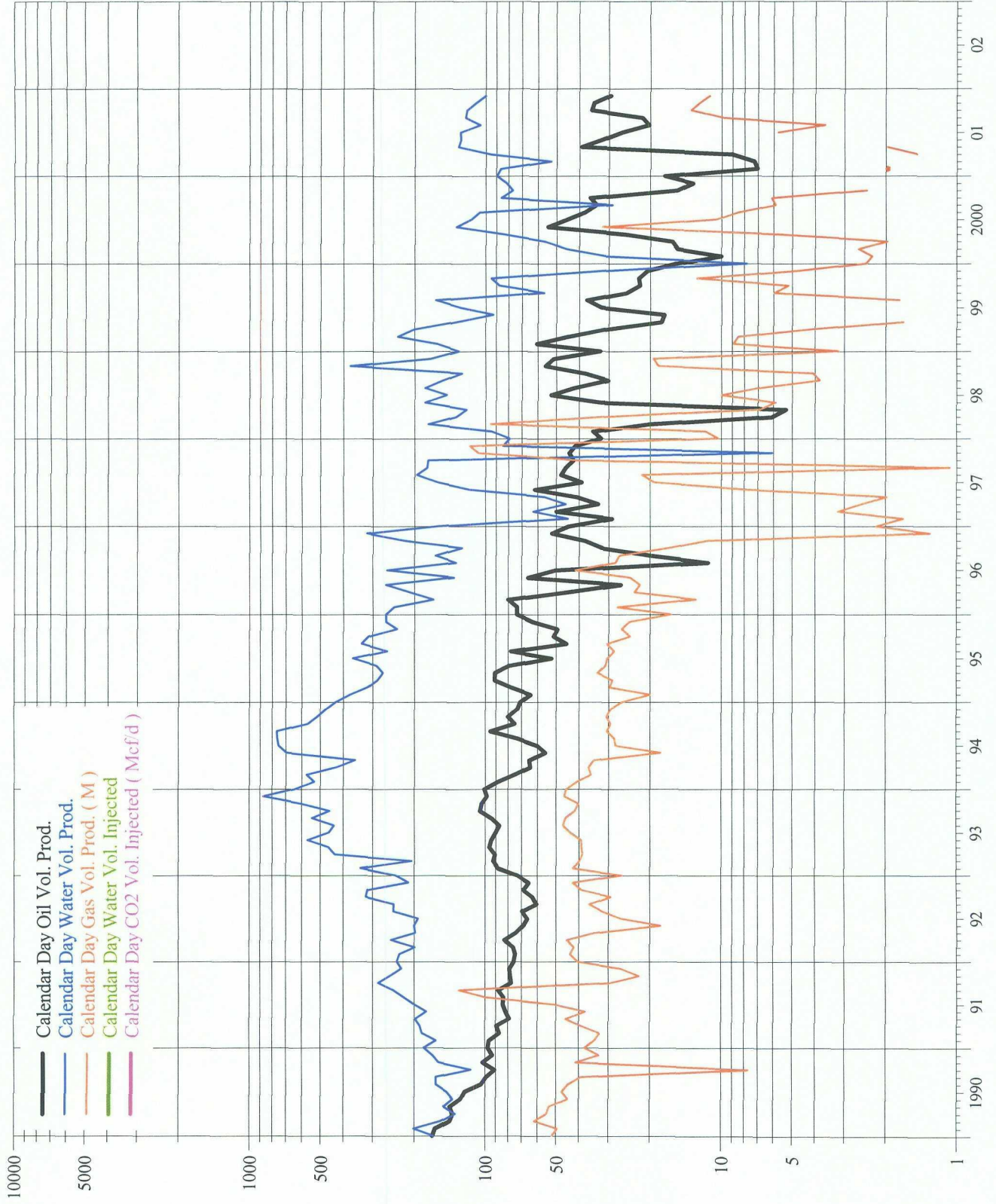
ahk May 21, 2002

Figure 37

State 35 Unit

Well No. 032

Rates (BPD), (SCFD)



Year

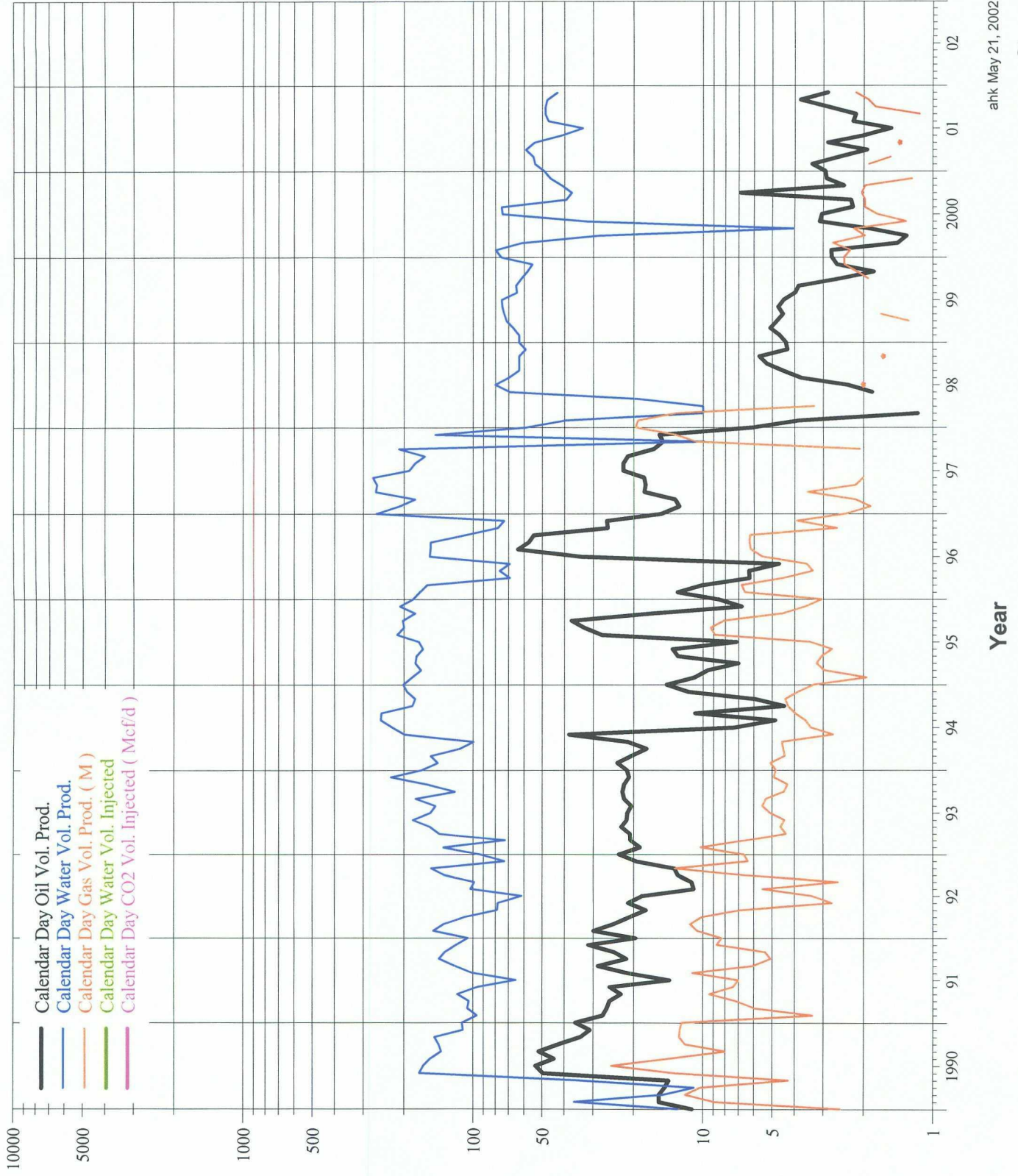
ahk May 21, 2002

Figure 38

State 35 Unit

Well No. 033

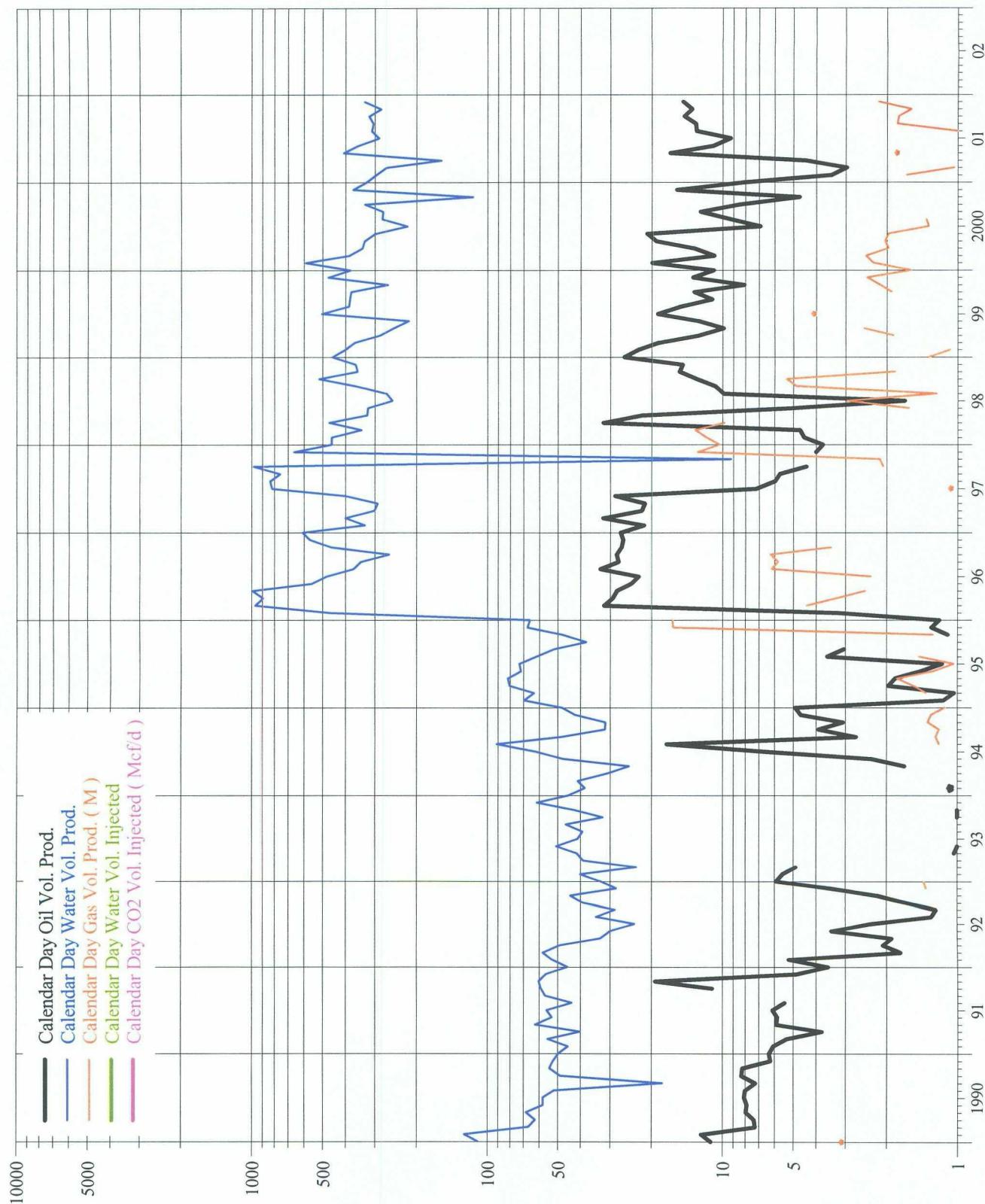
Rates (BPD), (SCFD)



State 35 Unit

Well No. 034

Rates (BPD), (SCFD)



ahk May 21, 2002

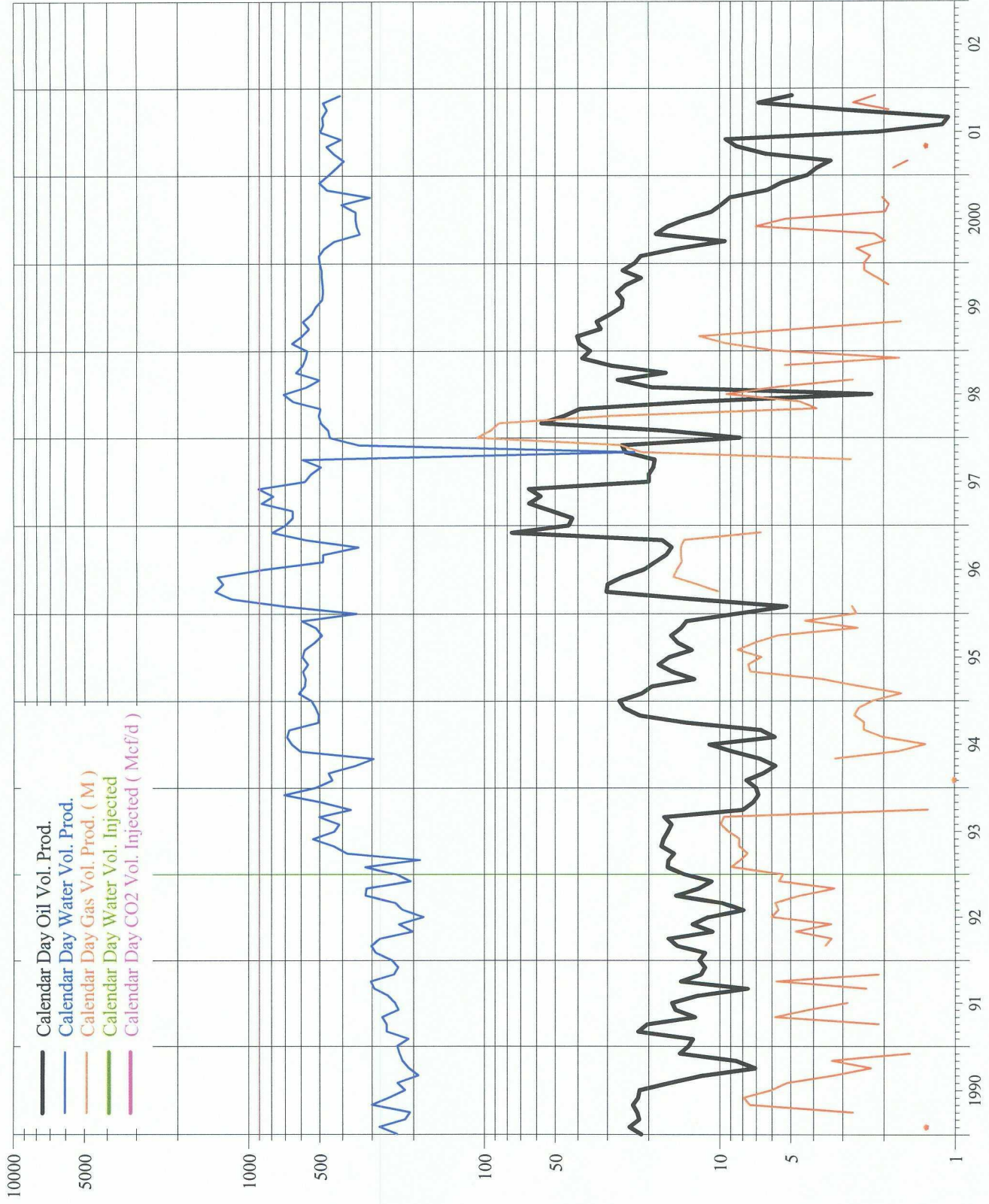
Year

Figure 40

State 35 Unit

Well No. 035

Rates (BPD), (SCFD)



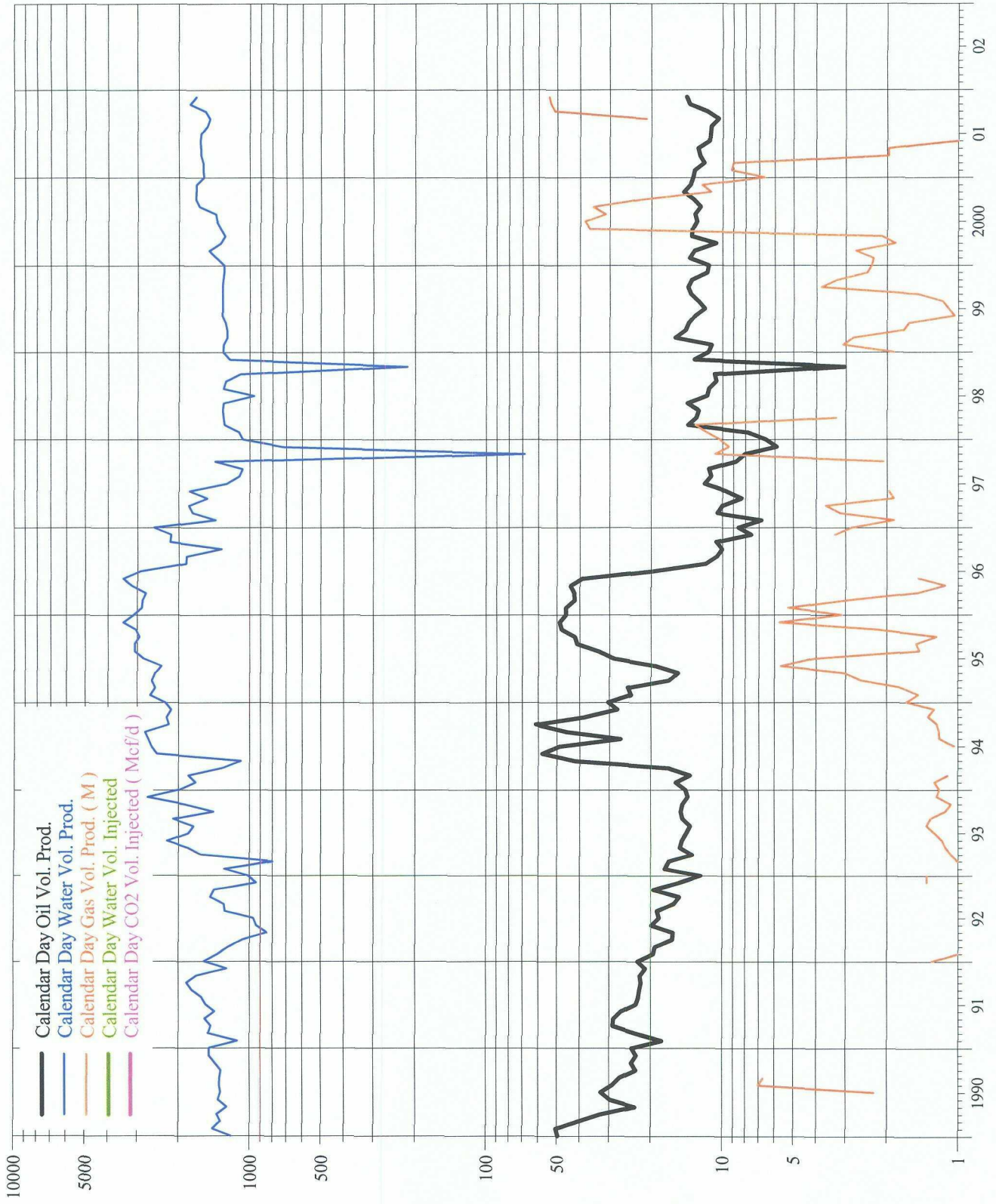
ahk May 21, 2002

Figure 41

State 35 Unit

Well No. 036

Rates (BPD), (SCFD)



ahk May 21, 2002

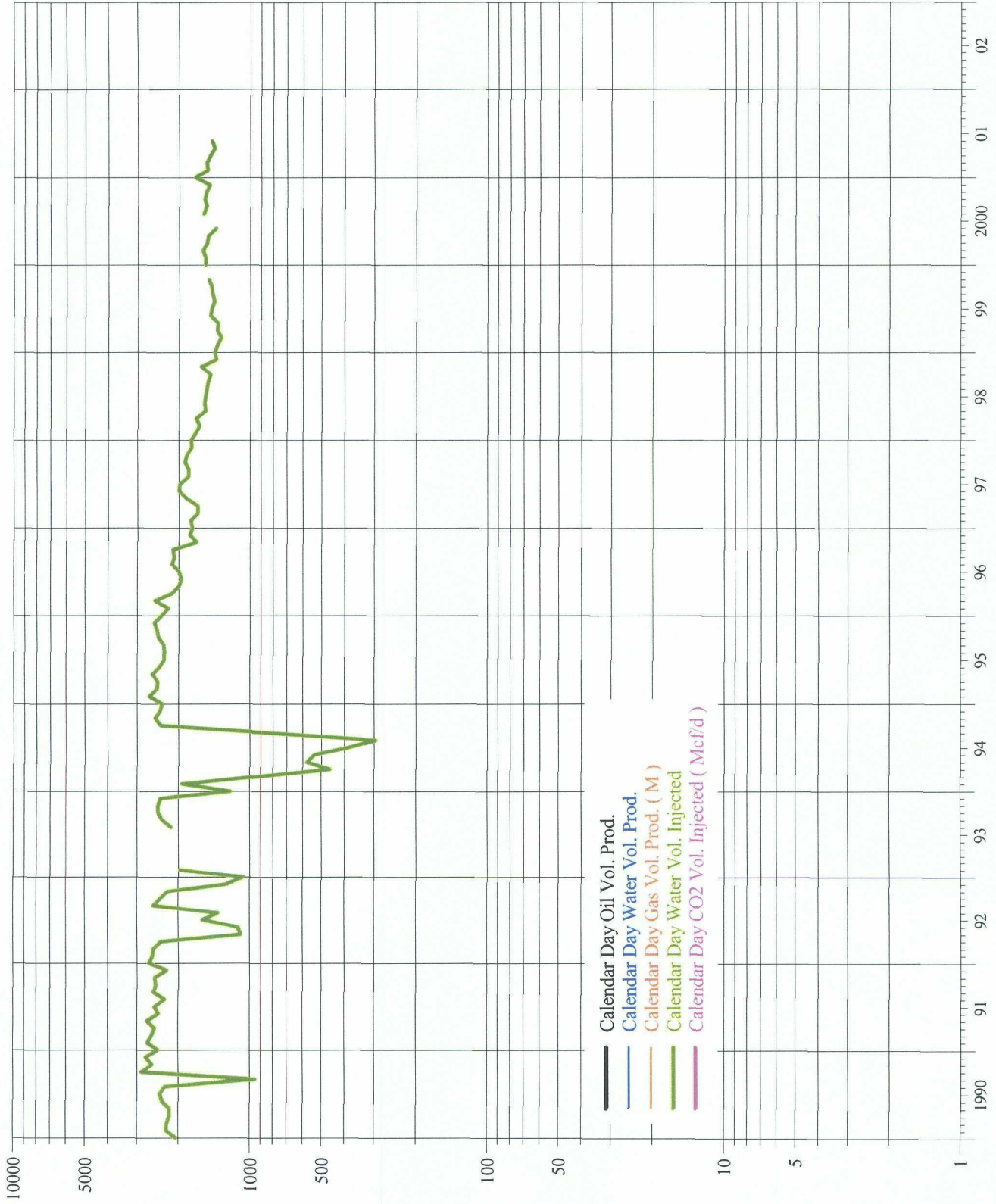
Figure 42

State 35 Unit

Rates (BPD), (SCFD)

Well No.

W37



Year

ahk May 21, 2002

Figure 43

CVU Well #159

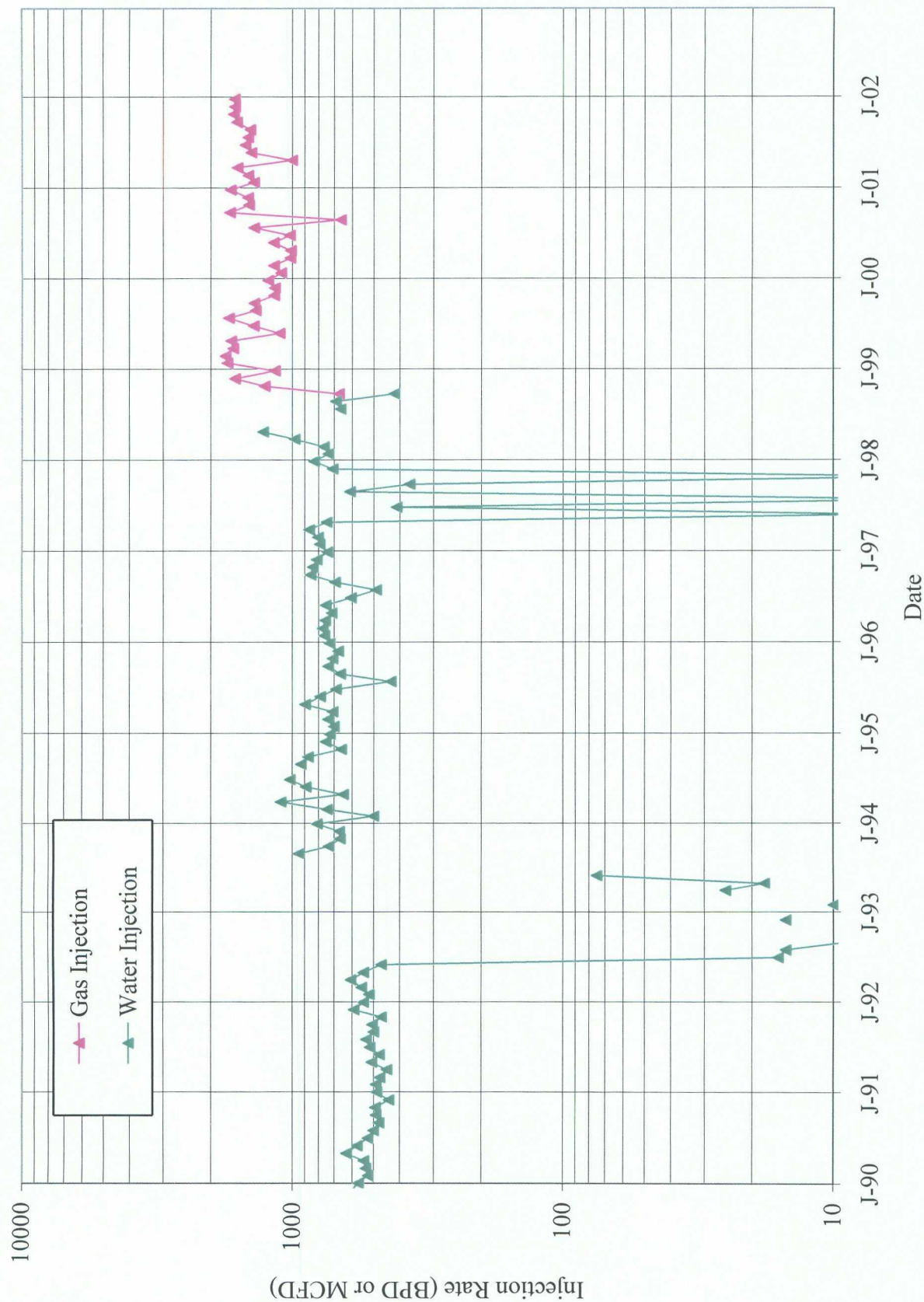


Figure 44

CVU Well #160

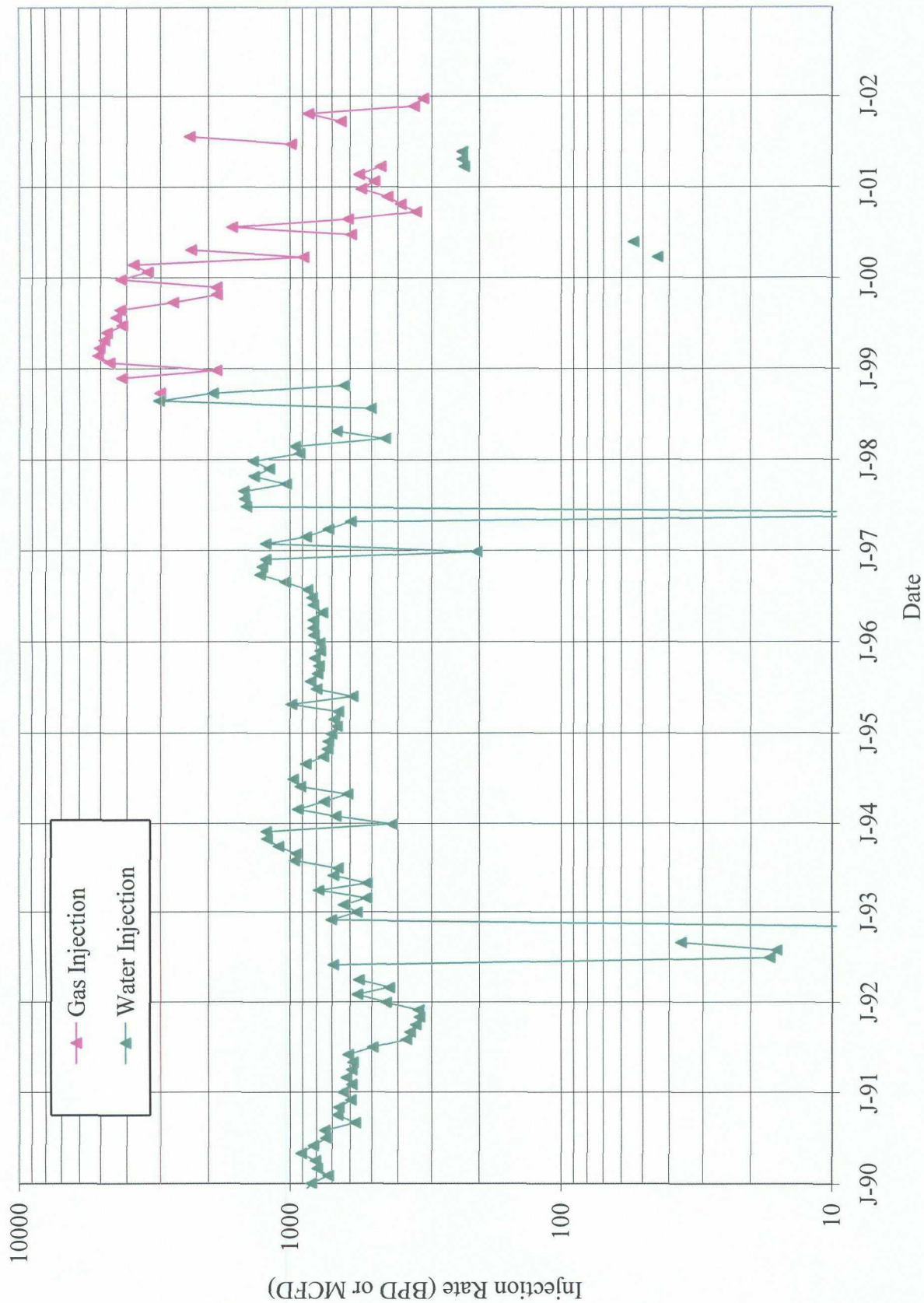
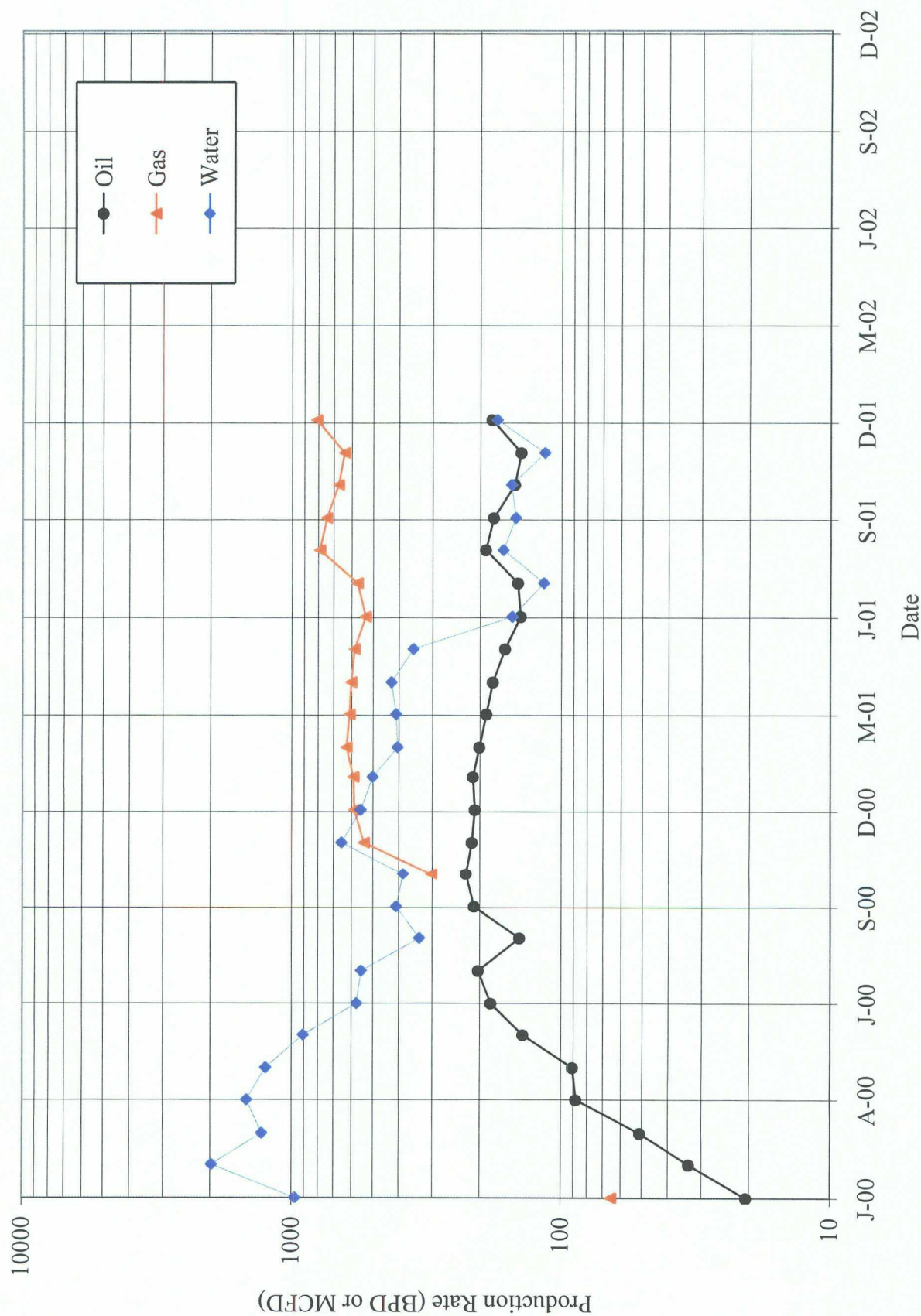


Figure 45

CVU Well #280



CVU Well #292

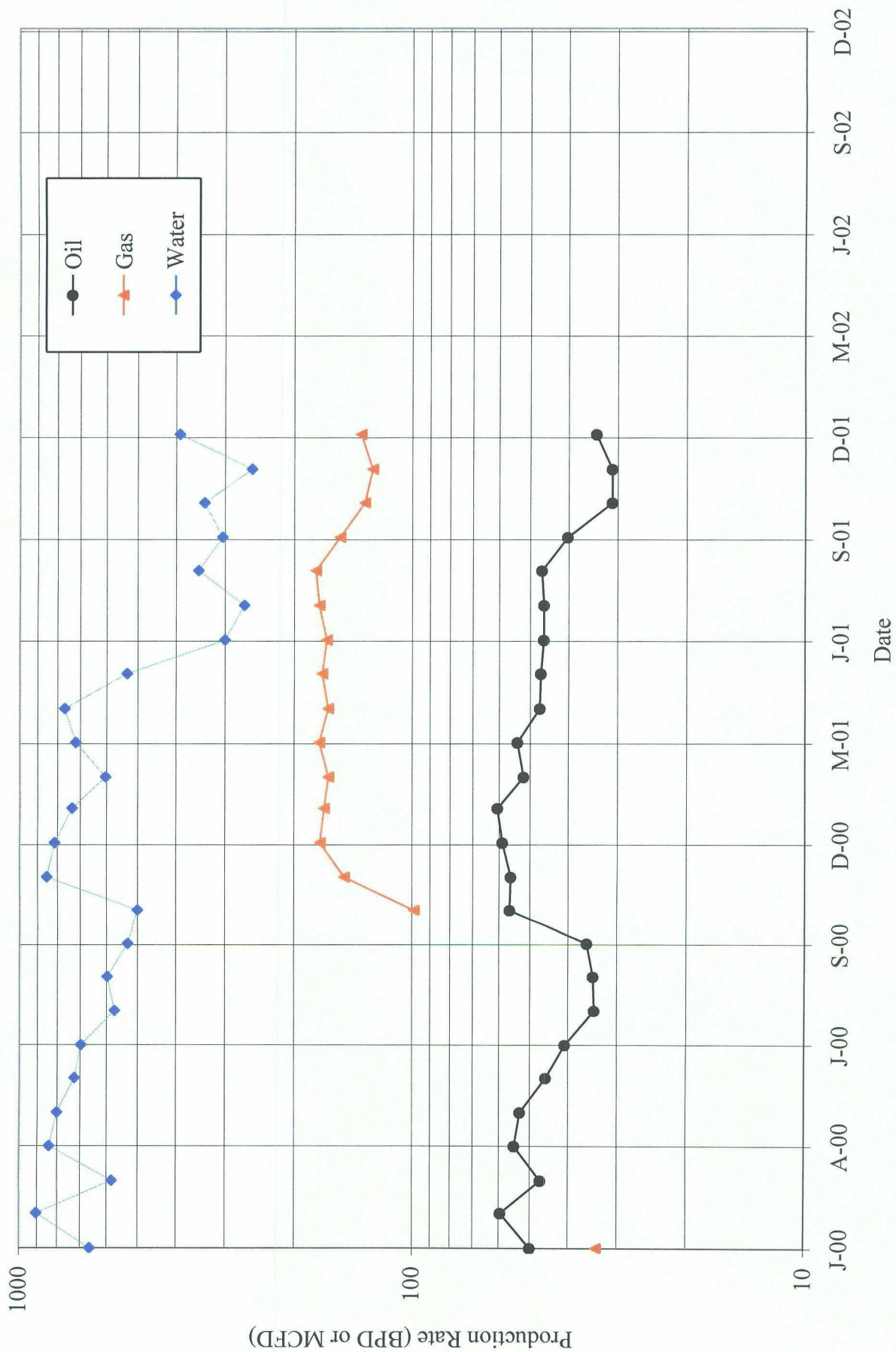


Figure 47

Exhibit B
Certification of a Positive Production Response
State 35 Unit Tertiary Recovery Project

List of Wells

	Well Name	API	Location (feet from Section Line)	Unit Letter	Status
Producers					
<i>Not Prod</i>	— State 35 Unit #1	3002502225	660 FN, 660 FW	D	TA'd
<i>NR</i>	— State 35 Unit #2	3002502215	660 FN, 1980 FE	B	
<i>1/2000</i>	— State 35 Unit #3	3002502214	660 FN, 660 FE	A	
<i>8/1999</i>	— State 35 Unit #7	3002528046	1345 FN, 1210 FE	H	
<i>NR</i>	— State 35 Unit #8	3002533489	1120 FN, 660 FE	H	
<i>Not Prod</i>	— State 35 Unit #9	3002502224	1980 FN, 660 FW	BE	PA'd
<i>7/1999</i>	— State 35 Unit #10	3002502217	1980 FN, 1980 FE	G	
<i>7/1999</i>	— State 35 Unit #11	3002533415	2020 FN, 1310 FE	H	
<i>11/97</i>	— State 35 Unit #12	3002502213	1980 FN, 660 FE	H	
<i>7/98</i>	— State 35 Unit #13	3002522955	2310 FN, 990 FW	E	
<i>11/98</i>	— State 35 Unit #15	3002533418	2527 FS, 1955 FW	K	
<i>6/99</i>	— State 35 Unit #18	3002533419	2600 FS, 660 FE	I	
<i>12/96</i>	— State 35 Unit #19	3002502220	1980 FS, 1980 FW	K	
<i>2/98</i>	— State 35 Unit #20	3002533416	1926 FS, 2430 FE	K	
<i>11/98</i>	— State 35 Unit #21	3002502222	1980 FS, 1980 FE	J	
<i>Not Prod</i>	— State 35 Unit #22	3002502219	1980 FS, 660 FE	BE	PA'd
<i>10/98</i>	— State 35 Unit #38 (repl #22)	3002534277	1934 FS, 560 FE	I	
<i>1/99</i>	— State 35 Unit #24	3002530614	1225 FS, 2000 FW	N	
<i>?</i>	— State 35 Unit #26	3002530615	1194 FS, 2040 FE	O	
<i>11/97</i>	— State 35 Unit #28	3002533417	1170 FS, 660 FE	P	
<i>Not Prod</i>	— State 35 Unit #30	3002520782	960 FS, 1680 FE	BE	PA'd
<i>6/96</i>	— State 35 Unit #31	3002508455	660 FS, 1980 FW	N	
	— State 35 Unit #32	3002530616	650 FS, 2630 FW	N	
	— State 35 Unit #33	3002502223	600 FS, 1980 FE	O	
<i>2/96</i>	— State 35 Unit #34	3002530617	620 FS, 1250 FE	P	
<i>3/96</i>	— State 35 Unit #35	3002502221	660 FS, 660 FE	P	
<i>?</i>	— State 35 Unit #36	3002520780	660 FS, 560 FE	P	
Injectors					
	State 35 Unit #4	3002528054	1330 FN, 110 FW	E	TA'd
	State 35 Unit #5	3002528053	1330 FN, 1310 FW	E	TA'd
	State 35 Unit #6	3002528047	1295 FN, 2615 FW	C	
	State 35 Unit #14	3002528057	2630 FS, 1330 FW	K	
<i>11/96</i>	— State 35 Unit #16 (WAG)	3002528058	2630 FS, 2630 FW	K	
<i>11/96</i>	— State 35 Unit #17 (WAG)	3002528059	2630 FS, 1330 FE	J	
	State 35 Unit #23	3002528060	1310 FS, 1310 FW	N	
<i>11/96</i>	— State 35 Unit #25 (WAG)	3002528055	1260 FS, 2630 FE	O	
<i>11/96</i>	— State 35 Unit #27 (WAG)	3002528056	1360 FS, 1210 FE	I	
<i>11/96</i>	— State 35 Unit #29 (WAG)	3002528061	1410 FS, 10 FE	I	
<i>11/96</i>	State 35 Unit #37	3002528062	10 FS, 1210 FE	P	

All Section 35 / T17S / R34E
WAG indicates wells that have had CO2 injection.

SEPT, 1998

W. THOMAS KELLAHIN

NEW MEXICO BOARD OF LEGAL SPECIALIZATION
RECOGNIZED SPECIALIST IN THE AREA OF
NATURAL RESOURCES-OIL AND GAS LAW

JASON KELLAHIN (RETIRED 1991)

KELLAHIN AND KELLAHIN

ATTORNEYS AT LAW

EL PATIO BUILDING

117 NORTH GUADALUPE

POST OFFICE BOX 2265

SANTA FE, NEW MEXICO 87504-2265

TELEPHONE (505) 982-4288
TELEFAX (505) 982-2047

June 19, 2002

HAND DELIVERED

Mr. David R. Catanach
Oil Conservation Division
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

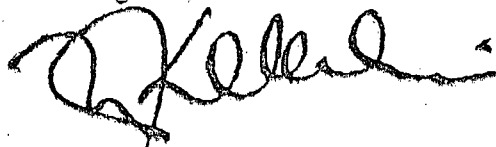
Re: APPLICATION FOR POSITIVE INJECTION RESPONSE
NMOCD Case 11523; ORDER P-10599-B
Phillips Petroleum Company
Tertiary Recovery Pressure Maintenance Project
for the State-35 Unit

Dear Mr. Catanach::

On behalf of Phillips Petroleum Company, please find enclosed are application for a positive injection response for the reference project. The November 7, 1999 letter incorrect used a 5 year period then in fact this project is eligible for a 7 year period.

If you have any questions, please call me.

Regards,



W. Thomas Kellahin

cfx: Phillips Petroleum Company
Attn: Alfred H. Kent, Jr.
(915) 368-1450

JACK LONDER
915-368-1609

8/21/02
David
what should
I tell them
About STATUS
Th



NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT

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

November 7, 1996

Phillips Petroleum Company
4001 Penbrook
Odessa, Texas 79762

Attention: Jamie Welin

**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:	State-35 Unit Tertiary Recovery/ Pressure Maintenance Project
OCD ORDER NO.	R-10599-B
OPERATOR:	Phillips Petroleum Company Attn: Jamie Welin
ADDRESS:	4001 Penbrook Odessa, Texas 79762
CERTIFICATION DATE:	October 1, 1996

PROJECT AREA

TOWNSHIP 17 SOUTH, RANGE 34 EAST, NMPM

Section 35: N/2, E/2 SW/4 and SE/4

PROJECT PRODUCING WELLS ELIGIBLE FOR CREDIT

State-35 Wells

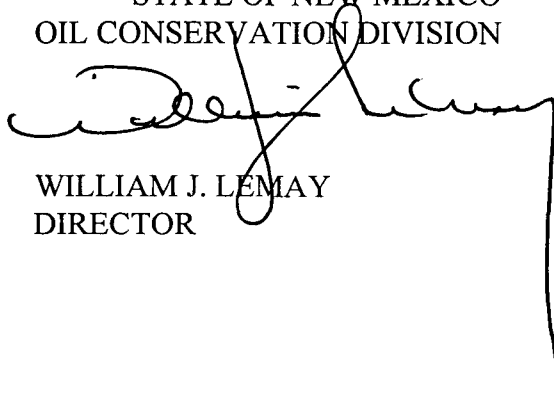
- 1) **Well No.1 (API No.30-025-02225)**
660 FNL & 660 FWL, Unit Letter 'D'
- 2) **Well No.2 (API No.30-025-02215)**
660 FNL & 1980 FEL, Unit Letter 'B'
- 3) **Well No.3 (API No.30-025-02214)**
660 FNL & 660 FEL, Unit Letter 'A'
- 4) **Well No.8 (API No. not assigned)**
1120 FNL & 660 FEL, Unit Letter 'H'
- 5) **Well No.9 (API No.30-025-02224)**
1980 FNL & 660 FWL, Unit Letter 'E'
- 6) **Well No.10 (API No.30-025-02217)**
1980 FNL & 1980 FEL, Unit Letter 'G'
- 7) **Well No.11 (API No. not assigned)**
2220 FNL & 1310 FEL, Unit Letter 'H'
- 8) **Well No.12 (API No.30-025-02213)**
1980 FNL & 660 FEL, Unit Letter 'H'
- 9) **Well No.13 (API No.30-025-22955)**
2310 FNL & 990 FWL, Unit Letter 'E'
- 10) **Well No.15 (API No. not assigned)**
2527 FSL & 1955 FWL, Unit Letter 'K'
- 11) **Well No.18 (API No. not assigned)**
2600 FSL & 660 FEL, Unit Letter 'I'
- 12) **Well No.19 (API No.30-025-02220)**
1980 FSL & 1980 FWL, Unit Letter 'K'
- 13) **Well No.20 (API No. not assigned)**
1926 FSL & 2430 FEL, Unit Letter 'K'
- 14) **Well No.21 (API No.30-025-02222)**
1980 FSL & 1980 FEL, Unit Letter 'J'
- 15) **Well No.22 (API No.30-025-02219)**
1980 FSL & 660 FEL, Unit Letter 'I'

- 16) **Well No.24 (API No.30-025-30614)**
1225 FSL & 2000 FWL, Unit Letter 'N'
- 17) **Well No.28 (API No. not assigned)**
1170 FSL & 660 FEL, Unit Letter 'P'
- 18) **Well No.30 (API No.30-025-20782)**
960 FSL & 1680 FEL, Unit Letter 'O'
- 19) **Well No.31 (API No.30-025-08455)**
660 FSL & 1980 FWL, Unit Letter 'N'
- 20) **Well No.32 (API No.30-025-30616)**
650 FSL & 2630 FWL, Unit Letter 'N'
- 21) **Well No.33 (API No.30-025-02223)**
600 FSL & 1980 FEL, Unit Letter 'O'
- 22) **Well No.34 (API No.30-025-30617)**
620 FSL & 1250 FEL, Unit Letter 'P'
- 23) **Well No.35 (API No.30-025-02221)**
660 FSL & 660 FEL, Unit Letter 'P'
- 24) **Well No.36 (API No.30-025-20780)**
660 FSL & 560 FEL, Unit Letter 'M'

ALL IN SECTION 35, TOWNSHIP 17 SOUTH, RANGE 34 EAST,
LEA COUNTY, NEW MEXICO

APPROVED BY:

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION



WILLIAM J. LEMAY
DIRECTOR

SEAL



NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT

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

November 7, 1996

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

Attention: John Chavez, Secretary

**RE: *Certification of EOR Project
Phillips Petroleum Company
State-35 Unit Tertiary Recovery/
Pressure Maintenance Project***

Dear Secretary Chavez:

Enclosed is a copy of the certification issued to Phillips Petroleum Company for its State-35 Unit Tertiary Recovery/Pressure Maintenance EOR project, certified by this Division on October 1, 1996, 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", with a long, sweeping vertical line extending downwards from the end of the signature.

William J. LeMay
Director

WJL/BES

Enclosures

EOR Cert.

KELLAHIN AND KELLAHIN

ATTORNEYS AT LAW

EL PATIO BUILDING

117 NORTH GUADALUPE

POST OFFICE BOX 2265

SANTA FE, NEW MEXICO 87504-2265

W. THOMAS KELLAHIN*

*NEW MEXICO BOARD OF LEGAL SPECIALIZATION
RECOGNIZED SPECIALIST IN THE AREA OF
NATURAL RESOURCES-OIL AND GAS LAW

JASON KELLAHIN (RETIRED 1991)

TELEPHONE (505) 982-4285
TELEFAX (505) 982-2047

October 1, 1996

HAND DELIVERED

Mr. Ben Stone
Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico 87505

RECEIVED

OCT 1 1996

Re: **NMOCD Case 11523 (Order R-10599-B)** Oil Conservation Division
Request for Certification of Qualification
for an Enhanced Oil Recovery Project
for Phillips Petroleum Company

Dear Mr. Stone:

On behalf of Phillips Petroleum Company and in accordance with Division Order R-10599-B (copy enclosed), I hereby request from the Division a Certificate of Qualification for the following described project:

Project Name:

State-35 Unit Tertiary Recovery/Pressure Maintenance Project

Project Operator:

Phillips Petroleum Company
4001 Penbrook
Odessa, Texas 79762

Project Area:

The Grayburg and San Andres formations of the Vacuum Grayburg-San Andres Pool within the following project area in Lea County, New Mexico, containing 560 acres, more or less and described as follows:

Oil Conservation Division
October 1, 1996
Page 2.

Township 17 South, Range 34 East, NMPM

Section 35: N/2, E/2SW/4 and SE/4

SEE EXHIBIT A ATTACHED

Project wells eligible for credit:

SEE EXHIBIT B ATTACHED

Project injection wells:

SEE EXHIBIT C ATTACHED.

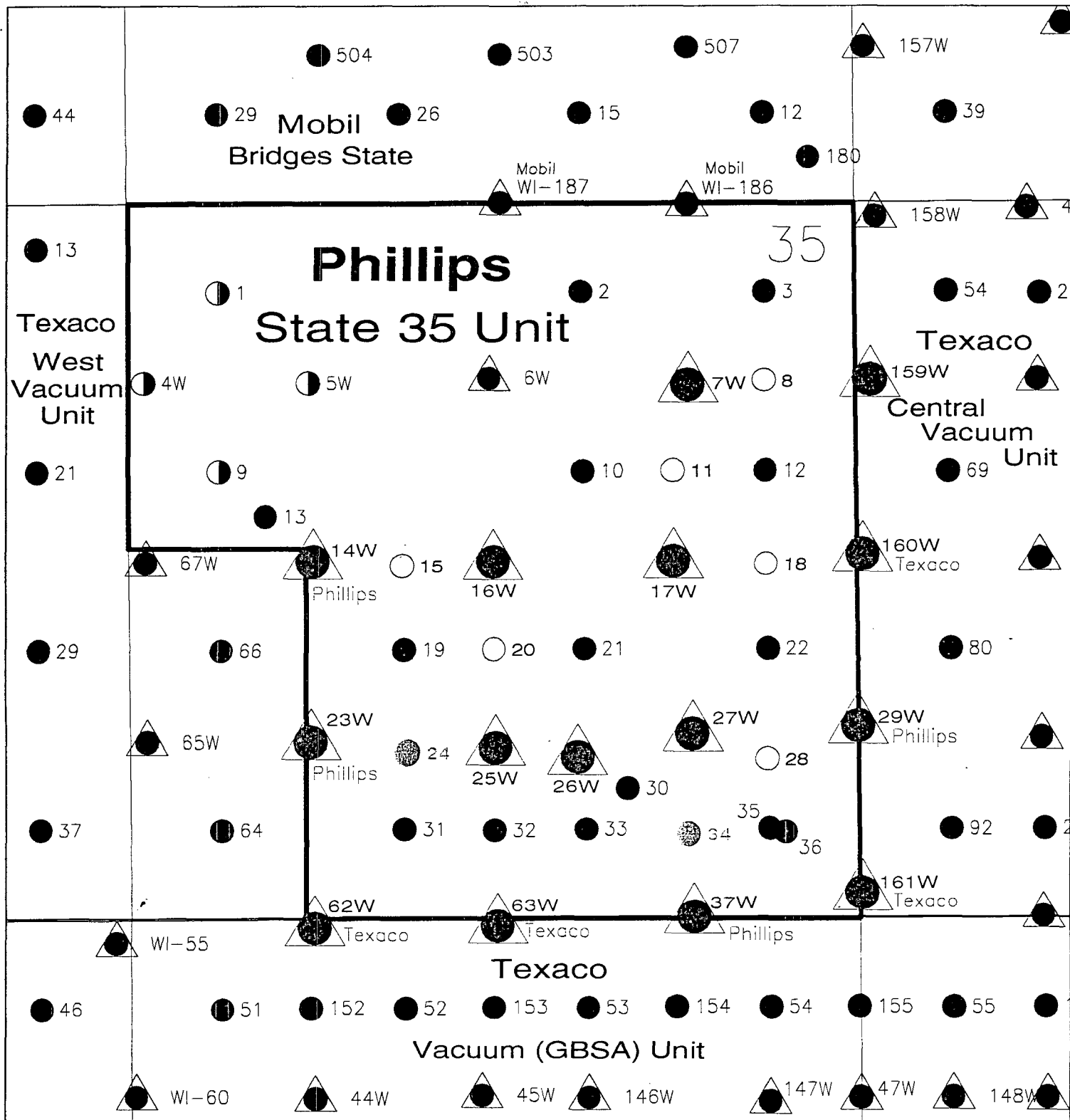
Please let me know if you require anything further.

Very truly yours,

A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', written over the typed name below.

W. Thomas Kellahin

cc: Phillips Petroleum Company
Attn: Jamie Welin



LEGEND

- New Producers
- ▲ WAG Injectors (Large Triangles)
- Producers
- ▲ Water Injectors (Small Triangles)
- TA'd



200. 0. 200. 400. 600. 800. 1000. feet



Phillips Petroleum

Proposed State 35 Unit
New Well Numbering
Lea County, New Mexico

For: NMET

Graf: J.S. McCollum

Sc

EXHIBIT

A

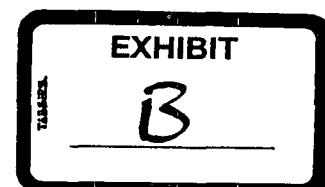
STATE 35 UNIT

ATTACHMENT III TO FORM C-108 APPLICATION FOR AUTHORIZATION TO INJECT

PROPOSED WELL NUMBERING SCHEME

New Well Designation	Lease & Well No.	API Number	Unit Letter	Sec-Tn-Rq	Footage	Former Operator	Current Status
State 35 # 1	Mable 2	3002502225	D	35-17S-34E	660' FN, 660' FW	Phillips	TA
State 35 # 2	H-35 3	3002502215	B	35-17S-34E	660' FN, 1980' FE	Phillips	PROD
State 35 # 3	H-35 2	3002502214	A	35-17S-34E	660' FN, 660' FE	Phillips	PROD
State 35 # 4W	Mable 5W	3002528054	E	35-17S-34E	1330' FN, 110' FW	Phillips	SI
State 35 # 5W	Mable 4W	3002528053	E	35-17S-34E	1330' FN, 1310' FW	Phillips	SI
State 35 # 6W	H-35 15W	3002528047	C	35-17S-34E	1295' FN, 2615' FW	Phillips	TA
State 35 # 7W	H-35 14	3002528046	H	35-17S-34E	1345' FN, 1210' FE	Phillips	PROD
State 35 # 8			H	35-17S-34E	1120' FN, 660' FE	Phillips	*
State 35 # 9	Mable 1	3002502224	E	35-17S-34E	1980' FN, 660' FW	Phillips	TA
State 35 # 10	H-35 5	3002502217	G	35-17S-34E	1980' FN, 1980' FE	Phillips	TA
State 35 # 11			H	35-17S-34E	2220' FN, 1310' FE	Phillips	*
State 35 # 12	H-35 1	3002502213	H	35-17S-34E	1980' FN, 660' FE	Phillips	PROD
State 35 # 13	Mable 3	3002522955	E	35-17S-34E	2310' FN, 990' FW	Phillips	PROD
State 35 # 14W	Hale 14W	3002528057	K	35-17S-34E	2630' FS, 1330' FW	Phillips	WAT. INJ.
State 35 # 15			K	35-17S-34E	2527' FS, 1955' FW	Phillips	*
State 35 # 16W	Hale 15W	3002528058	K	35-17S-34E	2630' FSL, 2630' FWL	Phillips	WAT. INJ.
State 35 # 17W	Hale 16W	3002528059	J	35-17S-34E	2630' FS, 1330' FE	Phillips	WAT. INJ.
State 35 # 18			I	35-17S-34E	2600' FS, 660' FE	Phillips	*
State 35 # 19	Hale 2	3002502220	K	35-17S-34E	1980' FS, 1980' FW	Phillips	PROD
State 35 # 20			K	35-17S-34E	1926' FS, 2430' FE	Phillips	*
State 35 # 21	Hale 5	3002502222	J	35-17S-34E	1980' FS, 1980' FE	Phillips	PROD
State 35 # 22	Hale 1	3002502219	I	35-17S-34E	1980' FS, 660' FE	Phillips	PROD
State 35 # 23W	Hale 17W	3002528060	N	35-17S-34E	1310' FS, 1310' FW	Phillips	WAT. INJ.
State 35 # 24	Hale 20	3002530614	N	35-17S-34E	1225' FS, 2000' FW	Phillips	PROD
State 35 # 25W	Hale 12W	3002528055	O	35-17S-34E	1260' FS, 2630' FE	Phillips	WAT. INJ.
State 35 # 26W	Hale 21	3002530615	O	35-17S-34E	1194' FS, 2040' FE	Phillips	PROD
State 35 # 27W	Hale 13W	3002528056	I	35-17S-34E	1360' FS, 1210' FE	Phillips	WAT. INJ.
State 35 # 28			P	35-17S-34E	1170' FS, 660' FE	Phillips	*
State 35 # 29W	Hale 18W	3002528061	I	35-17S-34E	1410' FS, 10' FE	Phillips	WAT. INJ.
State 35 # 30	Hale 10	3002520782	O	35-17S-34E	960' FS, 1680' FE	Phillips	PROD
State 35 # 31	Hale 4	3002508455	N	35-17S-34E	660' FS, 1980' FW	Phillips	PROD
State 35 # 32	Hale 22	3002530616	N	35-17S-34E	650' FS, 2630' FW	Phillips	PROD
State 35 # 33	Hale 6	3002502223	O	35-17S-34E	600' FS, 1980' FE	Phillips	PROD
State 35 # 34	Hale 23	3002530617	P	35-17S-34E	620' FS, 1250' FE	Phillips	PROD
State 35 # 35	Hale 3	3002502221	P	35-17S-34E	660' FS, 660' FE	Phillips	PROD
State 35 # 36	Hale 8	3002520780	P	35-17S-34E	660' FS, 560' FE	Phillips	PROD
State 35 # 37W	Hale 19W	3002528062	P	35-17S-34E	10' FS, 1210' FE	Phillips	WAT. INJ.

* New drill producer locations - Pending final staking & NMCCD approval



STATE 35 UNIT

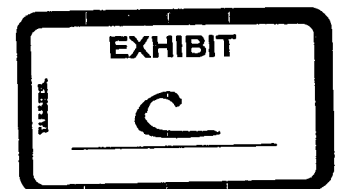
ATTACHMENT III TO FORM C-108 APPLICATION FOR AUTHORIZATION TO INJECT

PROPOSED UNIT INJECTION WELLS

<u>New Well Designation</u>	<u>Operator</u>	<u>Lease & Well No.</u>	<u>API Number</u>	<u>Sec-Tn-Rq</u>	<u>Footage</u>	<u>Current Status</u>
State 35 # 6W	Phillips	H-35 # 15	3002528047	35 17S 35E	1295' FN, 2615' FW	TA Inj.
State 35 # 7W	Phillips	H-35 # 14	3002528046	35 17S 35E	1345' FN, 1210' FE	SA Prod
State 35 # 14W	Phillips	Hale # 14	3002528057	35 17S 35E	2630' FS, 1330' FW	SA Inj.
State 35 # 16W	Phillips	Hale # 15	3002528058	35 17S 35E	2630' FSL, 2630' FW	SA Inj.
State 35 # 17W	Phillips	Hale # 16	3002528059	35 17S 35E	2630' FS, 1330' FE	SA Inj.
State 35 # 23W	Phillips	Hale # 17	3002528060	35 17S 35E	1310' FS, 1310' FW	SA Inj.
State 35 # 25W	Phillips	Hale # 12	3002528055	35 17S 35E	1260' FS, 2630' FE	SA Inj.
State 35 # 26W	Phillips	Hale # 21	3002530615	35 17S 35E	1194' FS, 2040' FE	SA Prod
State 35 # 27W	Phillips	Hale # 13	3002528056	35 17S 35E	1360' FS, 1210' FE	SA Inj.
State 35 # 29W	Phillips	Hale # 18	3002528061	35 17S 35E	1410' FS, 10' FE	SA Inj.
State 35 # 37W	Phillips	Hale # 19	3002528062	35 17S 35E	10' FS, 1210' FE	SA Inj.

PROPOSED NON-UNIT INJECTION WELLS

Texaco	CVU # 159	3002527969	36 17S 35E	1310' FN, 100' FW	SA Inj.
Texaco	CVU # 160	3002527970	36 17S 35E	2602' FN, 35' FW	SA Inj.
Texaco	CVU # 161	3002527971	36 17S 35E	180' FS, 10' FW	SA Inj.
Texaco	Vac GBSAU # 62	3002527973	02 18S 34E	65' FN, 1330' FW	SA Inj.
Texaco	Vac GBSAU # 63	3002527974	01 18S 34E	50' FN, 2630' FE	SA Inj.



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. 11523
ORDER NO. R-10599-B*

**APPLICATION OF PHILLIPS PETROLEUM COMPANY FOR APPROVAL OF A
PRESSURE MAINTENANCE PROJECT, TO QUALIFY SAID PROJECT FOR THE
RECOVERED OIL TAX CREDIT PURSUANT TO THE "NEW MEXICO
ENHANCED OIL RECOVERY ACT", AND FOR THREE UNORTHODOX OIL
WELL LOCATIONS, LEA COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on May 2, 1996, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 27th day of September, 1996, the Division Director, having considered 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 time of the hearing Division Case Nos. 11522 and 11523 were consolidated for the purpose of testimony.

(3) By Division Order No. R-10599, issued in Case 11522 and dated May 10, 1996, as amended by Division Nunc Pro Tunc Order No. R-10599-A, dated September 16, 1996, the State-35 Unit Agreement and Area was approved for an area comprising 560 acres, more or less, of State lands underlying the N/2, E/2 SW/4, and SE/4 of Section 35, Township 17 South, Range 34 East, NMPM, Lea County, New Mexico. The "Unitized Formation" for this unit includes that stratigraphic interval underlying the Unit Area in the Vacuum-Grayburg San Andres Pool that extends from a measured depth of 4,000 feet (+ 21 feet sub-sea datum) to 4,950 feet (-929 feet sub-sea datum), both depths

as identified on the Lane Wells Acoustic Log, dated March 12, 1964, for the Phillips M. E. Hale Well No. 8 (API No. 30-025-20780), located 660 feet from the South line and 560 feet from the East line (Unit P) of Section 35, Township 17 South, Range 34 East, NMPM, Lea County, New Mexico.

(4) The applicant in this matter, Phillips Petroleum Company ("Phillips"), seeks the following:

(a) authority to institute a tertiary recovery project or pressure maintenance project within its aforementioned State-35 Unit by the injection of water and carbon dioxide ("CO₂") into both the Grayburg and San Andres formations of the Vacuum Grayburg-San Andres Pool through sixteen (16) certain wells;

(b) approval for the drilling of three producing wells within said Unit Area at unorthodox oil well locations; and,

(c) to qualify this project for the recovered oil tax rate pursuant to the "New Mexico Enhanced Oil Recovery Act" (Law 1992, Chapter 38, Sections 1 through 5).

(5) Phillips as the proposed operator of the State-35 Unit Tertiary Recovery/Pressure Maintenance Project Area ("EOR Project Area") intends to recover additional oil by means of combined water and CO₂ gas injection ("WAG") into the Grayburg and San Andres formations of the Vacuum Grayburg-San Andres Pool within said Unit Area with seven (7) interior injection wells, nine (9) leaseline injection wells and sixteen (16) producing wells.

(6) Within the proposed 560-acre EOR Project Area:

(a) the Phillips operated Mable lease comprising the W/2 NW/4 of said Section 35 and the Phillips operated Hale lease comprising the E/2 SW/4 and SE/4 of said Section 35 were the subject of Division Order Nos. R-7103, which order authorized the Phillips Hale-Mable Vacuum Pressure Maintenance Project by means of water injection within this 320 acres, and R-7103-A, which authorized the injection of polyacrylamide polymers into the Phillips Hale-Mable Vacuum Pressure Maintenance Project Area; and,

(b) Conoco. Inc. was granted similar approval for its Conoco State H-35 Vacuum Pressure Maintenance Project comprising the NE/4 and E/2 NW/4 of said Section 35 by Division Order Nos. R-7182 and R-7182-A (Phillips has since become operator of the H-35 lease).

(7) There are currently four active secondary recovery projects within the Vacuum Grayburg-San Andres Pool that immediately offset the proposed 560-acre EOR Project Area:

(a) the Texaco Exploration and Production, Inc. Central Vacuum Unit Pressure Maintenance Project (see Division Order Nos. R-5530, R-5530-A, R-5530-B, and R-5530-C), which is also a tertiary recovery project (see Division Order No. R-5530-D) in the S/2 of Section 25 and all of Section 30, both in Township 17 South, Range 34 East, NMPM, Central Vacuum Unit Area (approved by Division Order No. R-5496), Lea County, New Mexico;

(b) the Texaco Exploration and Production, Inc. Vacuum Grayburg-San Andres Pressure Maintenance Project (see Division Order Nos. R-4442 and R-6094), which is also a tertiary recovery project (see Division Order Nos. R-7010 and R-7010-A) comprising the W/2 SW/4 of Section 35, Township 17 South, Range 34 East, NMPM, and Sections 1, 2, the NE/4 NE/4 of Section 11, and the N/2 NW/4 of Section 12, Township 18 South, Range 34 East, NMPM, all within the Vacuum Grayburg San Andres Unit Area (approved by Division Order Nos. R-4433 and R-4433-A, as expanded by letter from the New Mexico Oil Conservation Division dated December 9, 1980 and by letter from the new Mexico State Land Office dated February 2, 1981), Lea County, New Mexico;

(c) the Mobil Producing Texas and New Mexico, Inc. Bridges-State Waterflood Project (see Division Order Nos. R-1244, R-3496, R-3984, R-3984-A, R-4385, R-7361, and R-7361-A), a portion of which is also a tertiary recovery project (see Division Order No. R-7405) comprising in part all of Section 26 and the E/2 of Section 27, both in Township 17 South, Range 34 East, NMPM, Lea County,

New Mexico; and,

(d) the Texaco Exploration and Production, Inc. West Vacuum Unit Waterflood Project (see Division Order Nos. R-3008 and R-4234) comprising in part all of Section 34, Township 17 South, Range 34 East, NMPM, West Vacuum Unit Area (approved by Division Order No. R-3007, as amended by Order No. R-3007-A), Lea County, New Mexico.

(8) Testimony presented by Phillips indicates that as of December 31, 1995, cumulative primary and secondary oil recovery from the proposed EOR Project Area had been 17,207,369 barrels of oil with an estimated additional one million barrels of oil to be recovered under the current mode of operations.

(9) Phillips further testified that the proposed EOR Project Area is currently producing at a rate of approximately 420 BOPD with approximately 95% watercut from sixteen (16) active producers. Further, there are currently ten (10) active lease line and four (4) active interior injector wells contributing to the current mode of operations within the two existing pressure maintenance projects within the subject 560 acres.

(10) Phillips seeks to institute tertiary recovery operations within the proposed EOR Project Area by means of a significant change in the process used for the displacement of crude oil by the initiation of the injection of water-alternate-gas injection ("WAG") by using water and carbon dioxide ("CO₂") in alternating slugs of produced gas and CO₂ and slugs of water to be injected at a 1.4 to 1 ratio with an estimated total of 45 BCF of CO₂ gas to be utilized or 40% pore volume ("PV") slug.

(11) As part of this EOR Project, Phillips intends to drill another six infill producing wells of which three are to be located at locations considered to be unorthodox pursuant to Rule 104.C(1) of the General Rules and Regulations of the New Mexico Oil Conservation Division ("Division"), revised by Division Order No. R-10533, issued by the Oil Conservation Commission in Case 11,351 on January 18, 1996, however Rule 104.F(1) provides for an administrative process whereby any well within an active secondary, enhanced, or pressure maintenance project can be granted authorization in most instances by submitting a Division Form C-102; therefore, that portion of this application for unorthodox locations should be dismissed at this time and Phillips can resubmit to the supervisor of the Hobbs District Office of the Division those requests for unorthodox locations applicable to said General Rule 104.F(1).

(12) The estimated amount of recoverable oil attributed to a positive production response from the expanded use of enhanced oil recovery technology for this proposed EOR Project is an estimated 7,122,000 barrels of additional oil.

(13) The applicant testified that the initiation of pressure maintenance operations utilizing the methodology set forth in Finding Paragraph No. (10) above, should result in the recovery of an additional 7,122,000 barrels of oil for a projected cost of approximately \$8,130,000.00 which includes the drilling of the 6 additional infill producing wells and 2 replacement wells, converting 7 interior and 9 lease line wells to water-alternate-gas (WAG) injection, construction of CO₂ compression and distribution facilities and upgrading of the present production and water injection facilities.

(14) At the time of the hearing Phillips requested a project allowable for the H-35 Unit of 5,000 barrels of oil per day in order to provide operational flexibility to maximize recovery from the unit and thereby prevent waste and protect correlative rights.

(15) In accordance with Division General Rule 701, the applicant provided evidence, exhibits and testimony which justifies the approval of the 16 proposed WAG injection wells all as identified on Exhibit "A" attached hereto and made a part hereof.

(16) Maximum injection pressures have been established for this project based upon actual San Andres fracture gradients and therefore the injection wells 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 1850 psig.

(17) Further evidence presented by Phillips indicated that the subject "Project Area" meets all the criteria for certification 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).

(18) The certified "EOR Project Area" should initially comprise the area within the H-35 Unit Area as described in Finding Paragraph No. (3) above, provided, however, that the "Project Area" eligible for the recovered oil tax rate may be contracted and reduced dependent upon the evidence presented by the applicant in its demonstration of the occurrence of a positive production response.

(19) To be eligible for the EOR tax credit, the operator should advise the Division when WAG injection commences in the project area and requests the Division certify such phases or area to the New Mexico Taxation and Revenue Department.

(20) At such time as a positive production response occurs from WAG injection operations 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. 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 which are eligible for the credit.

(21) The proposed tertiary recovery/pressure maintenance project should result in the recovery of otherwise unrecoverable oil, thereby preventing waste.

(22) The applicant testified that there are no "problem wells" within the one-half mile "area of review" and a review of applicant's Form C-108 confirms that all plugged and abandoned wells and all producing wells are cemented in a manner adequate to confine the injected fluid to the proposed injection interval.

(23) Prior to commencing injection operations, the applicant should be required to submit to the Santa Fe Office of the Division an executed copy of an Injection Lease-Line Agreement with the offset projects currently operated by Texaco in the West Vacuum Unit, the Vacuum Grayburg San Andres Unit and the Central Vacuum Unit.

(24) If not previously equipped each of the injection wells shown on Exhibit "A" should be accomplished through internally plastic-lined tubing installed in a packer set within 100 feet of the uppermost injection perforation or casing shoe; 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.

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

(26) The 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.

(27) Approval of this application will prevent waste, result in the recovery of hydrocarbons which might not otherwise be recovered, protect corrective rights and promote the interests of conservation.

IT IS THEREFORE ORDERED THAT:

(1) The applicant, Phillips Petroleum Company ("Phillips"), is hereby authorized to institute a tertiary recovery/pressure maintenance project by means of combined water and carbon dioxide ("CO₂") gas injection ("WAG") in its State-35 Unit Area (approved by Division Order Nos. R-10599 and R-10599-A) comprising 560 acres, more or less, underlying the N/2, E/2 SW/4, and SE/4 of Section 35, Township 17 South, Range 34 East, NMPM, Lea County, New Mexico, by the injection of water and carbon dioxide ("CO₂") into the Grayburg and San Andres formations of the Vacuum Grayburg-San Andres Pool, through the gross perforated and/or open hole interval that extends from a measured depth of 4,000 feet (+ 21 feet sub-sea datum) to 4,950 feet (-929 feet sub-sea datum), both depths as identified on the Lane Wells Acoustic Log, dated March 12, 1964, for the Phillips M. E. Hale Well No. 8 (API No. 30-025-20780), located 660 feet from the South line and 560 feet from the East line (Unit P) of Section 35, Township 17 South, Range 34 East, NMPM, Lea County, New Mexico, into sixteen (16) certain wells, all of which are existing, as shown on Exhibit "A", attached hereto and made a part hereof.

IT IS FURTHER ORDERED THAT:

(2) Any previous injection authority not in conflict with the provisions set forth in this order shall remain in full force and effect.

(3) WAG injection operations for the 16 subject injection wells shown on Exhibit "A" shall be accomplished through plastic lined tubing installed in a packer set within approximately 100 feet of the uppermost injection perforation or casing shoe; the casing-tubing annulus shall be filled with an inert fluid and a gauge or approved leak-detection device shall be attached to the annulus in order to determine leakage in the casing, tubing or packer.

(4) The 16 WAG injection wells or pressurization system shall be equipped with a pressure control device or acceptable substitute which will limit the surface injection pressure to not more than 1850 psig.

(5) The Division Director shall have the authority to administratively authorize a pressure limitation in excess of the above pressure limit 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 into the wells identified on Exhibit "A", the casing in each 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.

(7) Prior to commencing WAG injection operations, the applicant shall submit to the Santa Fe Office of the Division an executed copy of an Injection Lease-Line Agreement with Texaco Exploration and Producing, Inc., the operator of the offsetting waterflood/pressure maintenance project.

(8) 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 any applicable WAG injection equipment and of the mechanical integrity pressure tests, in order that the same may be witnessed.

(9) 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 any of the injection wells, the leakage of water, natural gas, CO₂, or oil from or around any producing well, or the leakage of water, natural gas, CO₂, or oil from any plugged and abandoned well within the project area, and shall take such steps as may be necessary to correct such failure or leakage.

(10) The subject tertiary recovery/pressure maintenance project is hereby designated the State-35 Unit Tertiary Recovery/Pressure Maintenance Project and shall be governed by the provisions of Rules Nos. 701 through 708 of the Oil Conservation Division Rules and Regulations.

(11) Monthly progress reports of the tertiary recovery/pressure maintenance project herein authorized shall be submitted to the Division in accordance with Rules 706 and 1115 of the Division Rules and Regulations.

(12) The project allowable shall be established at 5,000 barrels of oil per day which may be produced from any combination of wells in the unit including the transfer of allowables between or among wells within the project area.

(13) The subject tertiary recovery/pressure maintenance project is hereby certified as a qualified "Enhanced Oil Recovery Project" pursuant to the "Enhanced Oil Recovery Act" (Laws 1992, Chapter 38, Sections 1 through 5).

(14) The certified and approved "EOR Project Area" shall initially coincide with the boundaries of the State-35 Unit, described in Decretory Paragraph No. (1), above, provided however, the "EOR Project Area" eligible for the recovered oil tax rate may be contracted and reduced dependent upon the evidence presented by the applicant in its demonstration of the occurrence of a positive production response.

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

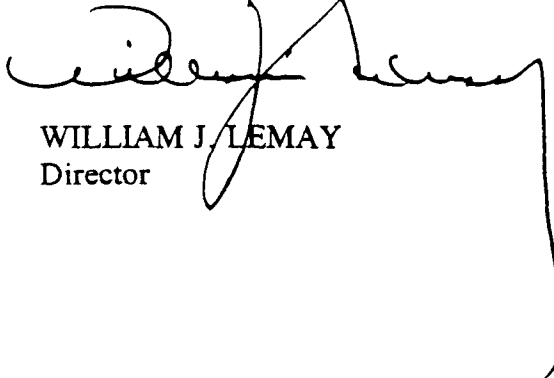
(16) At such time as a positive production response occurs and within five years from the date of the Certificate of Qualification, the operator must apply to the Division for certification of positive production response, which application shall identify the area actually benefitting from enhanced recovery operations. 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.

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

(18) Jurisdiction is hereby 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. 11523
ORDER NO. R-10599-A
PHILLIPS PETROLEUM COMPANY
STATE -35 UNIT TERTIARY RECOVERY/PRESSUREMAINTENANCE REPORT

PROPOSED STATE-35 UNIT "WAG" INJECTION WELLS TO BE OPERATED BY PHILLIPS PETROLEUM COMPANY LOCATED IN SECTION 35, TOWNSHIP 17 SOUTH, RANGE 34 EAST, NMPM, VACUUM GRAYBURG SAN ANDRES POOL, LEA COUNTY, NEW MEXICO

FORMER WELL NAME AND NUMBER	API NO.	NEW WELL DESIGNATION	LOCATION FOOTAGE (UNIT)	CURRENT STATUS	PREVIOUS INJECTION AUTHORITY
STATE "H-35" NO. 15	30-025-28047	STATE "35" NO. 6W	1295' FNL - 2615' FWL (C)	TA INJ.	R-7182
STATE "H-35" NO. 14	30-025-28046	STATE "35" NO. 7W	1345' FNL - 1210' FEL (H)	PRODUCING	R-7182
M.E. HALE NO. 14	30-025-28057	STATE "35" NO. 14W	2630' FSL - 1330' FWL (K)	INJECTION	R-7103
M.E. HALE NO. 15	30-025-28058	STATE "35" NO. 16W	2630' FS & WL (K)	INJECTION	R-7103
M.E. HALE NO. 16	30-025-28059	STATE "35" NO. 17W	2630' FSL - 1330' FEL (J)	INJECTION	R-7103
M.E. HALE NO. 17	30-025-28060	STATE "35" NO. 23W	1310' FSL - 1330' FWL (N)	INJECTION	R-7103
M.E. HALE NO. 12	30-025-28055	STATE "35" NO. 25W	1260' FSL - 2630' FEL (O)	INJECTION	PMX-170
M.E. HALE NO. 21	30-025-30615	STATE "35" NO. 26W	1194' FSL - 2040' FEL (O)	PRODUCING	N/A
M.E. HALE NO. 13	30-025-28056	STATE "35" NO. 27W	1360' FSL - 1210' FEL (I)	INJECTION	PMX-170
M.E. HALE NO. 18	30-025-28061	STATE "35" NO. 29W	1410' FSL - 10' FEL (I)	INJECTION	R-7103
M.E. HALE NO. 19	30-025-28062	STATE "35" NO. 37W	10' FSL - 1210' FEL (P)	INJECTION	R-7103

EXHIBIT "A"
PAGE TWO

PROPOSED NON-UNIT "WAG" INJECTION WELLS TO BE OPERATED BY TEXACO EXPLORATION AND PRODUCING, INC. LOCATED IN EITHER SECTION 36, TOWNSHIP 17 SOUTH, RANGE 34 EAST, NMPM OR IN SECTION 2, TOWNSHIP 18 SOUTH, RANGE 34 EAST, NMPM, VACUUM GRAYBURG SAN ANDRES POOL, LEA COUNTY, NEW MEXICO:

WELL NAME AND NUMBER	API NO.	FOOTAGE	LOCATION UNIT SECTION	CURRENT STATUS	PREVIOUS INJECTION AUTHORITY
CENTRAL VACUUM UNIT WELL NO. 159W	30-025-27969	1310' FNL - 100' FWL	(D) 36	INJECTION	PMX-121
CENTRAL VACUUM UNIT WELL NO. 160W	30-025-27970	2602' FNL - 35' FWL	(E) 36	INJECTION	PMX-121
CENTRAL VACUUM UNIT WELL NO. 161W	30-025-27971	180' FSL - 10' FWL	(M) 36	INJECTION	PMX-121
VACUUM GRAYBURG SAN ANDRES UNIT WELL NO. 62W	30-025-27973	65' FNL - 1330' FWL	(C) 2	INJECTION	PMX-120
VACUUM GRAYBURG SAN ANDRES UNIT WELL NO. 63W	30-025-27974	50' FNL - 2630' FEL	(B) 2	INJECTION	PMX-120

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
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(b) approval for the drilling of three producing wells within said Unit Area at unorthodox oil well locations; and,

(c) to qualify this project for the recovered oil tax rate pursuant to the "New Mexico Enhanced Oil Recovery Act" (Law 1992, Chapter 38, Sections 1 through 5).

(5) Phillips as the proposed operator of the State-35 Unit Tertiary Recovery/Pressure Maintenance Project Area ("EOR Project Area") intends to recover additional oil by means of combined water and CO₂ gas injection ("WAG") into the Grayburg and San Andres formations of the Vacuum Grayburg-San Andres Pool within said Unit Area with seven (7) interior injection wells, nine (9) lease line injection wells and sixteen (16) producing wells.

(6) Within the proposed 560-acre EOR Project Area:

(a) the Phillips operated Mable lease comprising the W/2 NW/4 of said Section 35 and the Phillips operated Hale lease comprising the E/2 SW/4 and SE/4 of said Section 35 were the subject of Division Order Nos. R-7103, which order authorized the Phillips Hale-Mable Vacuum Pressure Maintenance Project by means of water injection within this 320 acres, and R-7103-A, which authorized the injection of polyacrylamide polymers into the Phillips Hale-Mable Vacuum Pressure Maintenance Project Area; and,

(b) Conoco, Inc. was granted similar approval for its Conoco State H-35 Vacuum Pressure Maintenance Project comprising the NE/4 and E/2 NW/4 of said Section 35 by Division Order Nos. R-7182 and R-7182-A (Phillips has since become operator of the H-35 lease).

(7) There are currently four active secondary recovery projects within the Vacuum Grayburg-San Andres Pool that immediately offset the proposed 560-acre EOR Project Area:

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(c) the Mobil Producing Texas and New Mexico, Inc. Bridges-State Waterflood Project (see Division Order Nos. R-1244, R-3496, R-3984, R-3984-A, R-4385, R-7361, and R-7361-A), a portion of which is also a tertiary recovery project (see Division Order No. R-7405) comprising in part all of Section 26 and the E/2 of Section 27, both in Township 17 South, Range 34 East, NMPM, Lea County,

New Mexico; and,

(d) the Texaco Exploration and Production, Inc. West Vacuum Unit Waterflood Project (see Division Order Nos. R-3008 and R-4234) comprising in part all of Section 34, Township 17 South, Range 34 East, NMPM, West Vacuum Unit Area (approved by Division Order No. R-3007, as amended by Order No. R-3007-A), Lea County, New Mexico.

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(13) The applicant testified that the initiation of pressure maintenance operations utilizing the methodology set forth in Finding Paragraph No. (10) above, should result in the recovery of an additional 7,122,000 barrels of oil for a projected cost of approximately \$8,130,000.00 which includes the drilling of the 6 additional infill producing wells and 2 replacement wells, converting 7 interior and 9 lease line wells to water-alternate-gas (WAG) injection, construction of CO₂ compression and distribution facilities and upgrading of the present production and water injection facilities.

(14) At the time of the hearing Phillips requested a project allowable for the H-35 Unit of 5,000 barrels of oil per day in order to provide operational flexibility to maximize recovery from the unit and thereby prevent waste and protect correlative rights.

(15) In accordance with Division General Rule 701, the applicant provided evidence, exhibits and testimony which justifies the approval of the 16 proposed WAG injection wells all as identified on Exhibit "A" attached hereto and made a part hereof.

(16) Maximum injection pressures have been established for this project based upon actual San Andres fracture gradients and therefore the injection wells 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 1850 psig.

(17) Further evidence presented by Phillips indicated that the subject "Project Area" meets all the criteria for certification 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).

(18) The certified "EOR Project Area" should initially comprise the area within the H-35 Unit Area as described in Finding Paragraph No. (3) above, provided, however, that the "Project Area" eligible for the recovered oil tax rate may be contracted and reduced dependent upon the evidence presented by the applicant in its demonstration of the occurrence of a positive production response.

(19) To be eligible for the EOR tax credit, the operator should advise the Division when WAG injection commences in the project area and requests the Division certify such phases or area to the New Mexico Taxation and Revenue Department.

(20) At such time as a positive production response occurs from WAG injection operations 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. 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 which are eligible for the credit.

(21) The proposed tertiary recovery/pressure maintenance project should result in the recovery of otherwise unrecoverable oil, thereby preventing waste.

(22) The applicant testified that there are no "problem wells" within the one-half mile "area of review" and a review of applicant's Form C-108 confirms that all plugged and abandoned wells and all producing wells are cemented in a manner adequate to confine the injected fluid to the proposed injection interval.

(23) Prior to commencing injection operations, the applicant should be required to submit to the Santa Fe Office of the Division an executed copy of an Injection Lease-Line Agreement with the offset projects currently operated by Texaco in the West Vacuum Unit, the Vacuum Grayburg San Andres Unit and the Central Vacuum Unit.

(24) If not previously equipped each of the injection wells shown on Exhibit "A" should be accomplished through internally plastic-lined tubing installed in a packer set within 100 feet of the uppermost injection perforation or casing shoe; 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.

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

(26) The 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.

(27) Approval of this application will prevent waste, result in the recovery of hydrocarbons which might not otherwise be recovered, protect corrective rights and promote the interests of conservation.

IT IS THEREFORE ORDERED THAT:

(1) The applicant, Phillips Petroleum Company ("Phillips"), is hereby authorized to institute a tertiary recovery/pressure maintenance project by means of combined water and carbon dioxide ("CO₂") gas injection ("WAG") in its State-35 Unit Area (approved by Division Order Nos. R-10599 and R-10599-A) comprising 560 acres, more or less, underlying the N/2, E/2 SW/4, and SE/4 of Section 35, Township 17 South, Range 34 East, NMPM, Lea County, New Mexico, by the injection of water and carbon dioxide ("CO₂") into the Grayburg and San Andres formations of the Vacuum Grayburg-San Andres Pool, through the gross perforated and/or open hole interval that extends from a measured depth of 4,000 feet (+ 21 feet sub-sea datum) to 4,950 feet (-929 feet sub-sea datum), both depths as identified on the Lane Wells Acoustic Log, dated March 12, 1964, for the Phillips M. E. Hale Well No. 8 (API No. 30-025-20780), located 660 feet from the South line and 560 feet from the East line (Unit P) of Section 35, Township 17 South, Range 34 East, NMPM, Lea County, New Mexico, into sixteen (16) certain wells, all of which are existing, as shown on Exhibit "A", attached hereto and made a part hereof.

IT IS FURTHER ORDERED THAT:

(2) Any previous injection authority not in conflict with the provisions set forth in this order shall remain in full force and effect.

(3) WAG injection operations for the 16 subject injection wells shown on Exhibit "A" shall be accomplished through plastic lined tubing installed in a packer set within approximately 100 feet of the uppermost injection perforation or casing shoe; the casing-tubing annulus shall be filled with an inert fluid and a gauge or approved leak-detection device shall be attached to the annulus in order to determine leakage in the casing, tubing or packer.

(4) The 16 WAG injection wells or pressurization system shall be equipped with a pressure control device or acceptable substitute which will limit the surface injection pressure to not more than 1850 psig.

(5) The Division Director shall have the authority to administratively authorize a pressure limitation in excess of the above pressure limit 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 into the wells identified on Exhibit "A", the casing in each 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.

(7) Prior to commencing WAG injection operations, the applicant shall submit to the Santa Fe Office of the Division an executed copy of an Injection Lease-Line Agreement with Texaco Exploration and Producing, Inc., the operator of the offsetting waterflood/pressure maintenance project.

(8) 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 any applicable WAG injection equipment and of the mechanical integrity pressure tests, in order that the same may be witnessed.

(9) 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 any of the injection wells, the leakage of water, natural gas, CO₂, or oil from or around any producing well, or the leakage of water, natural gas, CO₂, or oil from any plugged and abandoned well within the project area, and shall take such steps as may be necessary to correct such failure or leakage.

(10) The subject tertiary recovery/pressure maintenance project is hereby designated the State-35 Unit Tertiary Recovery/Pressure Maintenance Project and shall be governed by the provisions of Rules Nos. 701 through 708 of the Oil Conservation Division Rules and Regulations.

(11) Monthly progress reports of the tertiary recovery/pressure maintenance project herein authorized shall be submitted to the Division in accordance with Rules 706 and 1115 of the Division Rules and Regulations.

(12) The project allowable shall be established at 5,000 barrels of oil per day which may be produced from any combination of wells in the unit including the transfer of allowables between or among wells within the project area.

(13) The subject tertiary recovery/pressure maintenance project is hereby certified as a qualified "Enhanced Oil Recovery Project" pursuant to the "Enhanced Oil Recovery Act" (Laws 1992, Chapter 38, Sections 1 through 5).

(14) The certified and approved "EOR Project Area" shall initially coincide with the boundaries of the State-35 Unit, described in Decretory Paragraph No. (1), above, provided however, the "EOR Project Area" eligible for the recovered oil tax rate may be contracted and reduced dependent upon the evidence presented by the applicant in its demonstration of the occurrence of a positive production response.

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

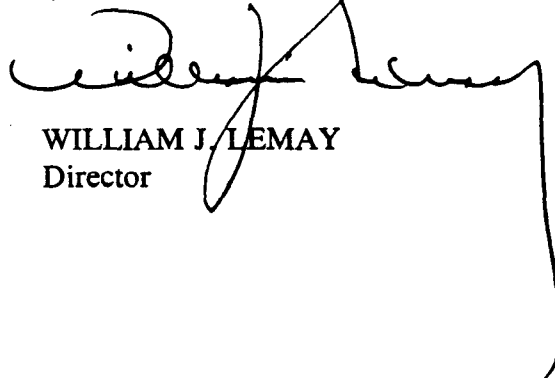
(16) At such time as a positive production response occurs and within five years from the date of the Certificate of Qualification, the operator must apply to the Division for certification of positive production response, which application shall identify the area actually benefitting from enhanced recovery operations. 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.

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

(18) Jurisdiction is hereby 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. 11523
ORDER NO. R-10599-A
PHILLIPS PETROLEUM COMPANY
STATE -35 UNIT TERTIARY RECOVERY/PRESSUREMAINTENANCEE REPORT

PROPOSED STATE-35 UNIT "WAG" INJECTION WELLS TO BE OPERATED BY PHILLIPS PETROLEUM COMPANY LOCATED IN SECTION 35, TOWNSHIP 17 SOUTH, RANGE 34 EAST, NMPM, VACUUM GRAYBURG SAN ANDRES POOL, LEA COUNTY, NEW MEXICO

FORMER WELL NAME AND NUMBER	API NO.	NEW WELL DESIGNATION	LOCATION FOOTAGE (UNIT)	CURRENT STATUS	PREVIOUS INJECTION AUTHORITY
STATE "H-35" NO. 15	30-025-28047	STATE "35" NO. 6W	1295' FNL - 2615' FWL (C)	TA INJ.	R-7182
STATE "H-35" NO. 14	30-025-28046	STATE "35" NO. 7W	1345' FNL - 1210' FEL (H)	PRODUCING	R-7182
M.E. HALE NO. 14	30-025-28057	STATE "35" NO. 14W	2630' FSL - 1330' FWL (K)	INJECTION	R-7103
M.E. HALE NO. 15	30-025-28058	STATE "35" NO. 16W	2630' FS & WL (K)	INJECTION	R-7103
M.E. HALE NO. 16	30-025-28059	STATE "35" NO. 17W	2630' FSL - 1330' FEL (J)	INJECTION	R-7103
M.E. HALE NO. 17	30-025-28060	STATE "35" NO. 23W	1310' FSL - 1330' FWL (N)	INJECTION	R-7103
M.E. HALE NO. 12	30-025-28055	STATE "35" NO. 25W	1260' FSL - 2630' FEL (O)	INJECTION	PMX-170
M.E. HALE NO. 21	30-025-30615	STATE "35" NO. 26W	1194' FSL - 2040' FEL (O)	PRODUCING	N/A
M.E. HALE NO. 13	30-025-28056	STATE "35" NO. 27W	1360' FSL - 1210' FEL (I)	INJECTION	PMX-170
M.E. HALE NO. 18	30-025-28061	STATE "35" NO. 29W	1410' FSL - 10' FEL (I)	INJECTION	R-7103
M.E. HALE NO. 19	30-025-28062	STATE "35" NO. 37W	10' FSL - 1210' FEL (P)	INJECTION	R-7103

EXHIBIT "A"
PAGE TWO

PROPOSED NON-UNIT "WAG" INJECTION WELLS TO BE OPERATED BY TEXACO EXPLORATION AND PRODUCING, INC. LOCATED IN EITHER SECTION 36, TOWNSHIP 17 SOUTH, RANGE 34 EAST, NMPM OR IN SECTION 2, TOWNSHIP 18 SOUTH, RANGE 34 EAST, NMPM, VACUUM GRAYBURG SAN ANDRES POOL, LEA COUNTY, NEW MEXICO:

WELL NAME AND NUMBER	API NO.	LOCATION FOOTAGE	UNIT SECTION	CURRENT STATUS	PREVIOUS INJECTION AUTHORITY
CENTRAL VACUUM UNIT WELL NO. 159W	30-025-27969	1310' FNL - 100' FWL	(D) 36	INJECTION	PMX-121
CENTRAL VACUUM UNIT WELL NO. 160W	30-025-27970	2602' FNL - 35' FWL	(E) 36	INJECTION	PMX-121
CENTRAL VACUUM UNIT WELL NO. 161W	30-025-27971	180' FSL - 10' FWL	(M) 36	INJECTION	PMX-121
VACUUM GRAYBURG SAN ANDRES UNIT WELL NO. 62W	30-025-27973	65' FNL - 1330' FWL	(C) 2	INJECTION	PMX-120
VACUUM GRAYBURG SAN ANDRES UNIT WELL NO. 63W	30-025-27974	50' FNL - 2630' FEL	(B) 2	INJECTION	PMX-120

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. 11575
Order No. R-10673

APPLICATION OF NEARBURG EXPLORATION
COMPANY FOR COMPULSORY POOLING, EDDY
COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on September 26, 1996, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 30th day of September, 1996, the Division Director, having considered the record and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

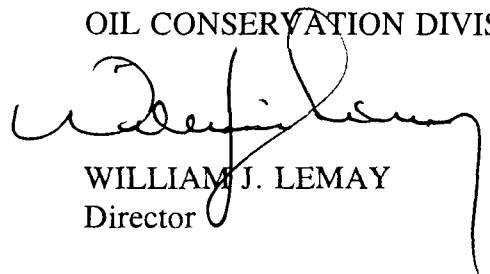
The applicant's request for dismissal should be granted.

IT IS THEREFORE ORDERED THAT:

Case No. 11575 is hereby dismissed.

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