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July 11, 2011

David K. Brooks
Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

Re: Lime Rock Resources A, L.P./Case 14563

Dear David:

This letter is in response to your e-mail of April 4th requesting additional land information. Lime Rock submits the following:

1. The affidavit of Chuck Reagan, the Lime Rock landman who testified at the hearing, is enclosed. Please let me know if this satisfies your land questions. One thing: Read & Stevens, Inc. owns a 12.5% working interest in the NW $\frac{1}{4}$ NW $\frac{1}{4}$ §60. I am in contact with them regarding a waiver.
2. As to cooperative projects, they are specifically authorized for state oil and gas leases for secondary recovery projects under NMSA 1978 §19-10-45 (copy enclosed). The agreements allow waterflood projects absent unitization, and allow multiple lessees and leases to be involved. In this case there are multiple leases, but Lime Rock is the 100% working interest owner as to the subject depths except as noted above. Also enclosed is Order No. R-12268, which approved a cooperative project among state and federal leases.
3. I do not think notice to overriding royalty owners is required. Division rules require notice to offset operators/working interest owners for injection wells, not to overriding royalty owners (absent unitization). As shown in Mr. Reagan's affidavit, there are overriding royalty interests in the leases which are the subject of this case. However, the intent is to increase production, which will benefit all interest owners. Working interest owners have an interest in preventing their overriding royalty owners from

suffering any harm to their interests, for liability purposes if nothing else. Notice to overriding royalty owners was not required in the case resulting in Order No. R-12268.

In addition, I'd point out the plat of the Northwest Artesia Unit (copy enclosed) -- the NW $\frac{1}{4}$ SE $\frac{1}{4}$ of Section 32 was excluded from the unit area even though it is completely surrounded by the unit. There have been no issues related to that tract since the unit was formed in 1974.

4. Next, I think the correspondence between Will Jones and Lime Rock's engineer showed that three proposed injection wells could not commence injection until remedial work was performed on certain offsetting wells (owned by third parties). The three injectors are as follows:

- a. Northwest 29 State No. 14, in the SE $\frac{1}{4}$ SE $\frac{1}{4}$ §29-17S-28E.
- b. Northwest 32 State No. 20, in the NE $\frac{1}{4}$ NE $\frac{1}{4}$ §32-17S-28E.
- c. Northwest 6 State No. 15, in the NE $\frac{1}{4}$ NE $\frac{1}{4}$ §6-18S-28E.

Lime Rock requests that the order allow injection into the other proposed injectors pending the remedial work. However, if the order would not so provide Lime Rock requests those wells be deleted from the order.

5. Finally, Lime Rock has decided to inject into the upper portion of the San Andres only, at depths of 2400-2950 feet subsurface, and requests that the order reflect that limitation.

Please contact me if you have any questions.

Very truly yours,



James Bruce

Attorney for Lime Rock Resources A, L.P.

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

**APPLICATION OF LIME ROCK RESOURCES A, L.P.
TO INSTITUTE A COOPERATIVE WATERFLOOD
PROJECT IN THE SAN ANDRES FORMATION, EDDY
COUNTY, NEW MEXICO.**

Case No. 14,563

AFFIDAVIT OF CHUCK REAGAN

COUNTY OF HARRIS)
) ss.
STATE OF TEXAS)

Chuck Reagan, being duly sworn upon his oath, deposes and states:

1. I am over the age of 18, and have personal knowledge of the matters stated herein.
2. I am a landman for Lime Rock Resources A, L.P.
3. The proposed Northwest State Cooperative Waterflood Project is designed as a cooperative waterflood project injecting produced water into the San Andres zone of the Artesia Queen-Grayburg-San Andres Pool at the approximate depths of 2400 - 2950 feet subsurface.
4. The lands and leases included in the proposed Northwest State Cooperative Waterflood Project are as follows:

(a) State Lease 647-405 insofar as it covers:

Township 17 South, Range 28 East, N.M.P.M.

Section 29: SE $\frac{1}{4}$ SE $\frac{1}{4}$

Section 31: E $\frac{1}{2}$ E $\frac{1}{2}$

Section 32: NE $\frac{1}{4}$ and SW $\frac{1}{4}$

Township 18 South, Range 28 East, N.M.P.M.

Section 6: NE $\frac{1}{4}$ NE $\frac{1}{4}$

(b) State Lease B-11538-17 insofar as it covers:

Township 17 South, Range 28 East, N.M.P.M.

Section 32: SW $\frac{1}{4}$ SE $\frac{1}{4}$

20-0647-0405

(c) State Lease B-2071-29 insofar as it covers:

Township 17 South, Range 28 East, N.M.P.M.
Section 32: E $\frac{1}{2}$ SE $\frac{1}{4}$

(d) State Lease B-5862-21 insofar as it covers:

Township 17 South, Range 28 East, N.M.P.M.
Section 32: NW $\frac{1}{4}$ NW $\frac{1}{4}$

(e) State Lease E-1717-3 insofar as it covers:

Township 17 South, Range 28 East, N.M.P.M.
Section 32: NW $\frac{1}{4}$ SE $\frac{1}{4}$

All of the foregoing leases are in force and effect as to all depths.

5. Lime Rock Resources A, L.P. owns 100% of working interest in the leases and lands described in Paragraph 4 as to depths from 2400 - 2950 feet subsurface, except in the following acreage:

State Lease B-5862-21 insofar as it covers:

Township 17 South, Range 28 East, N.M.P.M.

Section 32: NW $\frac{1}{4}$ NW $\frac{1}{4}$: Lime Rock Resources A, L.P. owns 87.5% of the working interest, and Read & Stevens, Inc. owns 12.5% of the working interest.

6. The SW $\frac{1}{4}$ NW $\frac{1}{4}$ of Section 32, Township 17 South, Range 28 East, N.M.P.M. was erroneously included by the attorney in the application filed in this case. That land, covered by State Lease E-6945-2, is operated by BP America Production Company. BP America Production Company was notified of this application, as shown in Exhibit 3 submitted at hearing.

7. The Northwest Artesia Unit, a waterflood unit injecting into the interval from 1180-2100 feet subsurface, covers the following state lands:

Township 17 South, Range 28 East, N.M.P.M.

Section 29: SE $\frac{1}{4}$ SE $\frac{1}{4}$

Section 31: SE $\frac{1}{4}$ NE $\frac{1}{4}$ and E $\frac{1}{2}$ SE $\frac{1}{4}$

Section 32: NE $\frac{1}{4}$, SW $\frac{1}{4}$, SW $\frac{1}{4}$ SE $\frac{1}{4}$, and E $\frac{1}{2}$ SE $\frac{1}{4}$

Township 18 South, Range 28 East, N.M.P.M.

Section 6: NE $\frac{1}{4}$ NE $\frac{1}{4}$

Lime Rock Resources A, L.P. operates the Northwest Artesia Unit, and owns the vast majority of the working interest in the unit.

8. Yates Petroleum Corporation owns a small working interest in the unit, but does not own a working interest in the leases and lands in the proposed Northwest State Cooperative Waterflood Project as to depths from 2400-2950 feet subsurface.

9. Overriding owners in each of the tracts within the proposed Northwest State Cooperative Waterflood Project are listed on Exhibit A attached hereto. Lime Rock Resources A, L.P. proposed this project to increase production from the above-described project area, and thus overriding royalty owners will not be adversely affected by approval of this application.

Chuck Reagan
Chuck Reagan

SUBSCRIBED AND SWORN TO before me this 7th day of July, 2011 by Chuck Reagan.

My Commission Expires: 5-16-2015

Sherrri Dewalt
Notary Public

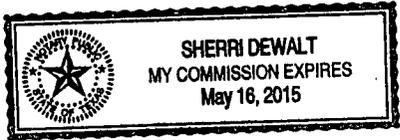


Exhibit "A"

Attached to and by reference made a part of that certain Affidavit of Chuck Reagan acknowledged on July 7/1, 2011

Overriding Royalty Interest Owners for the Northwest State Wells

1. All Tracts except the NE $\frac{1}{4}$ NE $\frac{1}{4}$ §31-17S-28E.

BNM, Inc. 1
Fred C. Corey 2
Khody Land & Minerals Co. 3
Mayhill Oil Corp. 4
John Syptak 5
Tay-Mor Enterprises, Inc. 6
Yates Petroleum Corporation 7
Yates Brothers 8
ZPC Delaware I LLC 9

2. The NE $\frac{1}{4}$ NE $\frac{1}{4}$ §31-17S-28E.

BNM, Inc. 1
Fred C. Corey 2
Khody Land & Minerals Co. 3
Mayhill Oil Corp. 4
Tay-Mor Enterprises, Inc. 6
Yates Petroleum Corporation 7
Yates Brothers 8
ZPC Delaware I LLC 9

19-10-45. Cooperative agreements for development or operation of oil and gas pools between lessees and others.

For the purpose of more properly conserving the oil and gas resources of the state, the commissioner of public lands may consent to and approve the development or operation of state lands under agreements made by lessees of state land jointly or severally with other lessees of state lands, with lessees of the United States or with others, including the consolidation or combination of two or more leases of state lands held by the same lessee. The agreements may provide for one or more of the following: for the cooperative or unit operation or development of part or all of any oil or gas pool, field or area; for reduction of gas-oil ratios; for repressuring or secondary recovery operations, or for the storing of gas regardless of where such gas is produced, including the use of wells on state lands as input wells; for the allocation of production and the sharing of proceeds from the whole or any specified part of the area covered by the agreement on an acreage or other basis, regardless of the particular tract from which production is obtained or proceeds are derived; for considering for all purposes the drilling or operation of a well on any part of the area included in the agreement, as being drilled or operated on each tract included in the agreement; for the payment of advance royalties in such sum or sums as shall be fixed by the commissioner; or for commingling of oil or gas from a well or wells or from one or more leases.

History: 1941 Comp., § 8-1138, enacted by Laws 1943, ch. 88, § 1; 1953 Comp., § 7-11-39; Laws 1961, ch. 176, § 1.

Cross references. — For state participation in pooling and communitization agreements, see 19-10-53 NMSA 1978.

For cooperative development or operation of geothermal resources lands, see 19-13-14 NMSA 1978.

Am. Jur. 2d, A.L.R. and C.J.S. references. — Secondary recovery of oil and gas, 19 A.L.R.4th 1182.

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