

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

**IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVA-
TION DIVISION FOR THE PURPOSE OF
CONSIDERING:**

**CASE NO. 11695
ORDER NO. R-10760**

**APPLICATION OF DEVON ENERGY
CORPORATION (NEVADA) TO
QUALIFY A WATERFLOOD
EXPANSION PROJECT FOR THE
RECOVERED OIL TAX RATE
PURSUANT TO THE "ENHANCED OIL
RECOVERY ACT", EDDY COUNTY,
NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on January 23, 1997, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 5th day of February, 1997, the Division Director, having considered the testimony, the record and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) By Order No. R-3769 dated May 28, 1969, the Division authorized Atlantic Richfield Company to institute a waterflood project in its East Shugart Unit Area, described as follows, by the injection of water into the Yates and Queen formations, Shugart Yates-Seven Rivers-Queen-Grayburg Pool, Eddy County, New Mexico, through eleven initial injection wells located in Sections 27, 34 and 35, Township 18 South, Range 31 East, NMPM:

TOWNSHIP 18 SOUTH, RANGE 31 EAST, NMPM

Section 27: SE/4 SE/4

Section 34: E/2, SE/4 NW/4, N/2 SW/4, SE/4 SW/4

Section 35: W/2, NE/4, W/2 SE/4

TOWNSHIP 19 SOUTH, RANGE 31 EAST, NMPM

Section 3: Lots 2 & 3, SE/4 NW/4, SW/4 NE/4

(3) The applicant, Devon Energy Corporation (Nevada), being the current operator of the East Shugart Unit, seeks to qualify the East Shugart Unit Waterflood Project for the recovered oil tax rate pursuant to the "Rules and Procedures for Qualification of Enhanced Oil Recovery ("EOR") Projects and Certification for the Recovered Oil Tax Rate", as promulgated by Division Order No. R-9708, and pursuant to the "Enhanced Oil Recovery Act" (Laws 1992, Chapter 38, Sections 1 through 5).

(4) According to applicant's evidence and testimony, active waterflood operations commenced within the East Shugart Unit in 1969 and continued until approximately the late 1980's.

(5) Division records indicate that at the time initial waterflood operations began within the East Shugart Unit, there were approximately twenty-nine producing wells and three injection wells. By the mid 1970's, there were approximately twenty-one producing wells and eleven injection wells.

(6) Division records further indicate that by 1988, there were only fourteen wells actively producing and eight wells actively injecting within the East Shugart Unit. In June, 1988, production averaged approximately 6.4 BOPD per producing well and injection averaged approximately 33 BWPD per injection well.

(7) As of January 1, 1989, cumulative production from the East Shugart Unit was approximately 3.6 MMBO and 1.9 BCFG.

(8) The applicant assumed operations of the East Shugart Unit in 1992.

(9) In mid-1993, applicant commenced an infill drilling program within the East Shugart Unit. To date, the applicant has drilled thirty-two new infill producing wells and has converted or otherwise re-activated ten injection wells within the unit area.

(10) Applicant testified that additional future development within the East Shugart Unit will include the drilling of an additional twelve infill producing wells, and the completion of a line-drive injection pattern.

(11) To date, applicant has invested approximately \$10 million dollars in its infill drilling and waterflood expansion program. In addition, applicant expects to incur an additional \$3.5 million dollars in capital costs completing its proposed infill drilling and waterflood expansion program.

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

- a) the line-drive injection pattern proposed to be utilized by the applicant within the East Shugart Unit represents a more efficient injection pattern than that previously utilized within this project;
- b) modern completion technology and the completion of zones previously not subject to waterflood/production operations will enhance the efficiency of the project;
- c) the reduction in the waterflood injection well pattern, increased producing well density and increased efficiency within the East Shugart Unit should result in the recovery of an additional 2.0 million barrels of oil from the unit area which would otherwise not be recovered;
- d) the East Shugart Unit has been so depleted that it is prudent to implement a waterflood injection well pattern reduction and infill drilling program to maximize the ultimate recovery of crude oil from said area; and,
- e) the proposed expansion is economically and technically feasible and has not been prematurely filed.

(13) The East Shugart Unit Waterflood Project should be qualified as an "Enhanced Oil Recovery Project" pursuant to the "Enhanced Oil Recovery Act" (Laws 1992, Chapter 38, Sections 1 through 5).

(14) To be eligible for the EOR credit, the operator should advise the Division when water injection into each additional injection well commenced or will commence and at such time request that the Division certify the subject expansion project to the New Mexico Taxation and Revenue Department.

(15) At such time as a positive production response occurs and within five years from the date of the Certificate of Qualification, the applicant must apply to the Division for certification of positive production response, which application shall identify the area actually benefitting from enhanced recovery operations, and identifying the specific wells which the operator believes are eligible for the credit. The Division may review the application administratively or set it for hearing. Based upon evidence presented, the Division will certify to The Department of Taxation and Revenue those lands and wells which are eligible for the credit.

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Devon Energy Corporation (Nevada), the East Shugart Unit Waterflood Project, described as follows, is hereby qualified as an "Enhanced Oil Recovery Project" pursuant to the "Enhanced Oil Recovery Act" (Laws 1992, Chapter 38, Sections 1 through 5):

TOWNSHIP 18 SOUTH, RANGE 31 EAST, NMPM

Section 27: SE/4 SE/4

Section 34: E/2, SE/4 NW/4, N/2 SW/4, SE/4 SW/4

Section 35: W/2, NE/4, W/2 SE/4

TOWNSHIP 19 SOUTH, RANGE 31 EAST, NMPM

Section 3: Lots 2 & 3, SE/4 NW/4, SW/4 NE/4

(2) The approved "project area" shall comprise the entire East Shugart Unit described in Finding No. (1) above.

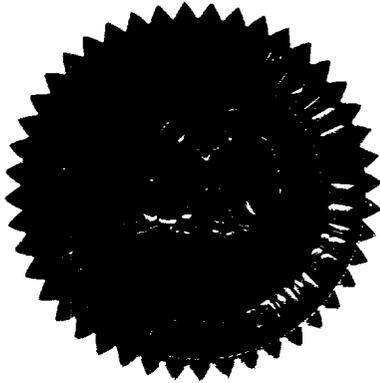
(3) To be eligible for the EOR credit, the operator shall advise the Division when water injection into each additional injection well commenced or will commence and at such time request that the Division certify the subject expansion project to the New Mexico Taxation and Revenue Department.

(4) At such time as a positive production response occurs and within five years from the date of the Certificate of Qualification, the operator must apply to the Division for certification of positive production response, which application shall identify the area actually benefitting from enhanced recovery operations, and identifying the specific wells which the operator believes are eligible for the credit. The Division may review the application administratively or set it for hearing. Based upon evidence presented, the Division will certify to The Department of Taxation and Revenue those lands and wells which are eligible for the credit.

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

CASE NO. 11695
Order No. R-10760
Page -5-

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



S E A L

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

WILLIAM J. LeMAY
Director