

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 8779
Order No. R-8117

APPLICATION OF MURPHY OPERATING
CORPORATION FOR STATUTORY UNITIZATION,
ROOSEVELT COUNTY, NEW MEXICO

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8 a.m. on December 4, 1985, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 6th day of January, 1986, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

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

(2) At the time of hearing Division Case No. 8779 and Division Case No. 8780 were consolidated for the purposes of testimony.

(3) The applicant, Murphy Operating Corporation, seeks the statutory unitization, pursuant to the "Statutory Unitization Act", Sections 70-7-1 through 70-7-21, NMSA, (1978), of 1800 acres, more or less, being a portion of the Bluit-San Andres Associated Pool, Roosevelt County, New Mexico, said portion to be known as the Bluit San Andres Unit; the applicant further seeks approval of the Unit Agreement and the Unit Operating Agreement which were submitted in evidence as applicant's Exhibit Nos. 3 and 4 in this case.

(4) The proposed unit area should be designated the Bluit San Andres Unit Area, and the horizontal limits of said unit area should be comprised of the following described federal lands:

TOWNSHIP 8 SOUTH, RANGE 37 EAST, NMPM

Section 11: SE/4 SE/4
Section 12: S/2 S/2
Section 13: All
Section 14: E/2 E/2
Section 24: N/2

TOWNSHIP 8 SOUTH, RANGE 38 EAST, NMPM

Section 18: W/2 NW/4 and SW/4
Section 19: NW/4 and W/2 NE/4

(5) Said unit has been approved by the Bureau of Land Management subject to the approval of statutory unitization by the Division.

(6) The horizontal limits of said unit are contained entirely within the boundaries of the Bluit-San Andres Associated Pool and have been reasonably defined by development.

(7) The vertical limits of said Bluit San Andres Unit Area should comprise the San Andres formation as found from a depth of 4,640 feet (643 feet below mean sea level) to a depth of 4,676 feet (679 feet below mean sea level) on the Nuclear Log run October 17, 1977, on the Murphy Operating Corporation Bluit Federal Well No. 3, located 660 feet from the South line and 1980 feet from the East line of Section 13, Township 8 South, Range 37 East, NMPM, Roosevelt County, New Mexico.

(8) The unit area contains eleven separate tracts owned by twenty different working interests.

(9) At the time of the hearing over 97 percent of the working interest owners and 100 percent of the royalty interest owners were effectively committed to the unit.

(10) All interested parties who have not agreed to unitization were notified of the hearing by the applicant, but no person entered an appearance or opposed the application at the hearing.

(11) The applicant proposes to institute a waterflood project for the secondary recovery of oil and associated gas, condensate, and all associated liquifiable hydrocarbons within and to be produced from the proposed unit area.

(12) The proposed secondary recovery operations should result in the additional recovery of approximately 1.7 million barrels of oil.

(13) The unitized management, operation and further development of the Bluit San Andres Unit Area, as proposed, is reasonably necessary to effectively carry on secondary recovery operations and will substantially increase the ultimate recovery of oil and gas from the unitized portion of the pool.

(14) The proposed unitized method of operation as applied to the Bluit San Andres Unit Area is feasible and will result with reasonable probability in the increased recovery of substantially more oil and gas from the unitized portion of the pool than would otherwise be recovered without unitization.

(15) The estimated additional investment costs of the proposed supplemental recovery operations are \$7.9 million which include an estimated initial capital investment of \$824,000 forecast to be spent in 1986 and 1987 to initiate the pilot program, and an additional \$7.1 million forecast to be spent during the nine years subsequent to 1987, contingent upon success of the pilot program.

(16) The additional recovery to be derived from the proposed supplemental recovery operations, based upon a successful pilot program, will have a resultant net profitability over the aforesaid additional costs and after taxes of approximately \$27 million.

(17) The estimated additional costs of the proposed operations (as described in Finding No. (14) above) will not exceed the estimated value of the additional oil and gas (as described in Finding No. (15) above) plus a reasonable profit.

(18) The applicant, the designated unit operator, pursuant to the Unit Agreement and the Unit Operating Agreement has made a good faith effort to secure voluntary unitization within the unit area.

(19) The Unit Agreement and Unit Operating Agreement have been approved by those persons who will be required initially to pay at least 75% of the costs of unit operations, and also by the owners of at least 75% of the production or proceeds thereof that will be credited to interests which are free of costs, such as royalties, overriding royalties, and production payments.

(20) The participation formula contained in the unitization agreement allocates the produced and saved unitized substances to the separately owned tracts in the unit area on a fair, reasonable and equitable basis.

(21) Unitization and the adoption of the proposed unitized method of operation will benefit the working interest owners and royalty owners of the oil and gas rights within the Bluit San Andres Unit Area.

(22) The granting of the application in this case will have no adverse effect upon other portions of the Bluit-San Andres Associated Pool.

(23) Applicant's Exhibits Nos. 3 and 4 in this case, being the Unit Agreement and the Unit Operating Agreement, respectively, should be incorporated by reference into this order.

(24) The Bluit San Andres Unit Agreement and the Bluit San Andres Unit Operating Agreement provide for unitization and unit operation of the Bluit San Andres Unit Area upon terms and conditions that are fair, reasonable and equitable, and which include:

(a) an allocation to the separately owned tracts in the unit area of all oil and gas that is produced from the unit area and which is saved, being the production that is not used in the conduct of unit operations or not unavoidably lost;

(b) a provision for the credits and charges to be made in the adjustment among the owners in the unit area for their respective investments in wells, tanks, pumps, machinery, materials and equipment contributed to the unit operations;

(c) a provision governing how the costs of unit operations including capital investments, shall be determined and charged to the separately owned tracts and how said costs shall be paid, including a provision providing when, how, and by whom the unit production allocated to an owner who does not pay his share of the costs of unit operations shall be charged to such owner, or the interest of such owner, and how his interest may be sold and the proceeds applied to the payment of his costs;

(d) a provision for carrying any working interest owner on a limited, carried or net-profits basis, payable out of production, upon terms and conditions which are just and reasonable, and which allow an appropriate charge for interest for such service payable out of production, upon such terms and conditions determined by the Division to be just and reasonable, and allowing an appropriate charge

for interest for such service payable out of such owner's share of production, providing that any nonconsenting working interest owner being so carried shall be deemed to have relinquished to the Unit Operator all of his operating rights and working interests in and to the unit until his share of the costs, service charge and interest are repaid to the Unit Operator;

(e) a provision designating the Unit Operator and providing for the supervision and conduct of the unit operations, including the selection, removal and substitution of an operator from among the working interest owners to conduct the unit operations;

(f) a provision for a voting procedure for the decision of matters to be decided by the working interest owners in respect to which each working interest owner shall have a voting interest equal to his unit participation; and

(g) the time when the unit operation shall commence and the manner in which, and the circumstances under which, the operations shall terminate and for the settlement of accounts upon such termination.

(25) The statutory unitization of the Bluit San Andres Unit Area is in conformity with the above findings, and will prevent waste and protect correlative rights of all interest owners within the proposed unit area, and should be approved.

IT IS THEREFORE ORDERED THAT:

(1) The Bluit San Andres Unit Area, comprising 1800 acres, more or less, in the Bluit-San Andres Associated Pool, Roosevelt County, New Mexico, is hereby approved for statutory unitization pursuant to the "Statutory Unitization Act", Sections 70-7-1 through 70-7-21, NMSA (1978).

(2) The lands included within the Bluit-San Andres Unit Area shall comprise:

TOWNSHIP 8 SOUTH, RANGE 37 EAST, NMPM

Section 11: SE/4 SE/4
Section 12: S/2 S/2
Section 13: All
Section 14: E/2 E/2
Section 24: N/2

TOWNSHIP 8 SOUTH, RANGE 38 EAST, NMPM

Section 18: W/2 NW/4 and SW/4
Section 19: NW/4 and W/2 NE/4

(3) The vertical limits of said Bluit San Andres Unit Area shall comprise the San Andres formation as found from a depth of 4,640 feet (643 feet below mean sea level) to a depth of 4,676 (679 feet below mean sea level) on the Nuclear Log run October 17, 1977 on the Murphy Operating Corporation Bluit Federal Well No. 3 located 660 feet from the South Line and 1980 feet from the East line of Section 13, Township 8 South, Range 37 East, NMPM, Roosevelt County, New Mexico.

(4) The applicant shall institute a waterflood project for the secondary recovery of oil and associated gas, condensate and all associated liquifiable hydrocarbons within and produced from the unit area, and said waterflood project is the subject of Case No. 8780.

(5) The Bluit San Andres Unit Agreement and the Bluit San Andres Unit Operating Agreement, being applicant's Exhibit Nos. 3 and 4 in this case, are hereby incorporated by reference into this Order.

(6) The Bluit San Andres Unit Agreement and Bluit San Andres Unit Operating Agreement provide for unitization and unit operation of the Bluit-San Andres Associated Pool upon terms and conditions that are fair, reasonable and equitable.

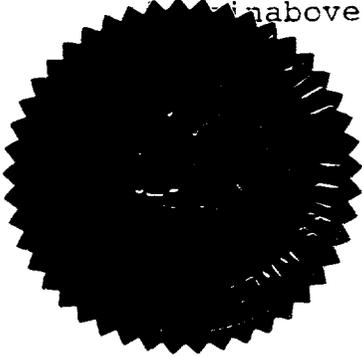
(7) Since the persons owning the required percentage of interest in the unit area have approved or ratified the Unit Agreement and the Unit Operating Agreement, the interests of all persons within the unit area are unitized whether or not such persons have approved the Unit Agreement or the Unit Operating Agreement in writing.

(8) The applicant as Unit Operator shall notify in writing the Division Director of any removal or substitution of said Unit Operator by any other working interest owner within the unit area.

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

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



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

Handwritten signature of R. L. Stamets in cursive script.

R. L. STAMETS,
Director