

APPLICATION OF MURPHY OPERATING CORPORATION FOR UNIT APPROVAL AND FOR AUTHORITY TO INSTITUTE A WATERFLOOD PROJECT, CHAVES AND ROOSEVELT COUNTIES, NEW MEXICO.

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Murphy Operating Corporation hereby applies to the New Mexico Oil Conservation Division for an order approving the unitization of the area and formation known as the Haley Chaveroo San Andres Unit, Chaves and Roosevelt Counties, New Mexico, and authorizing applicant to institute a waterflood project for the Haley Chaveroo San Andres Unit, and in support thereof, states:

1. Statutory authority for the proposed Haley Chaveroo San Andres Unit is found in Section 19-10-45, et seq. N.M.S.A. 1978 Comp., and the proposed waterflood project meets the criteria set forth in Section I, Rule 701, et seq. of the Rules and Regulations of the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico.

2. The proposed area for which application is made for unitized operations pursuant to the Act is known as the Haley Chaveroo San Andres Unit, Chaves and Roosevelt Counties, New Mexico (the "Unit Area"), and consists of 1840.7 acres, more or less, in Chaves and Roosevelt Counties, New Mexico, as more particularly delineated on a map of the Unit Area attached hereto as Exhibit "A". Exhibit "B" attached hereto contains a legal description of the locations of each of the leases within the proposed Unit Area together with corresponding ownership and unit participation factors.

3. The formation for which application is made (the "Unitized Formation") is the subsurface portion of the Unit Area known as the San Andres formation, and the vertical limits thereof are found in the interval between 4158 and 4470 feet as measured on the compensated formation density log run in the Murphy Operating Corporation Hobbs "T" Well No. 15 on March 23, 1966, said well located 990 feet from the South line and 1980 feet from the East line of Section 34, Township 7 South, Range 33 East, Roosevelt County, New Mexico. The Unitized Formation shall further include all subsurface points throughout the Unit Area correlative to the aforementioned identified depths.

4. The wells located in the proposed Haley Chaveroo San Andres Unit have reached an advanced stage of depletion and are currently regarded as "stripper wells".

5. Murphy Operating Corporation proposes to institute a waterflood project for the secondary recovery of oil and gas from the Unitized Formation within the Unit Area.

6. The proposed plan of unitization is embodied in the Unit Agreement, a true copy of which is attached hereto as Exhibit "C", and the plan is fair, reasonable and equitable.

7. The proposed operating plan covering the manner in which the Unit will be supervised and managed and costs allocated and paid is embodied in the Unit Operating Agreement, a true copy of which is attached hereto as Exhibit "D".

8. The owners of 100% of the working interest within the proposed Haley Chaveroo San Andres Unit have consented to voluntary unitization of the unitized formation within the Unit Area, and have agreed to the Unit Agreement and Unit Operating Agreement attached on Exhibit "C" and "D" hereto.

9. The method of operation which is proposed in the Unit Operating Agreement is feasible and will tend to promote the conservation of oil or gas and the better utilization of reservoir energy. Under the operations proposed, the State and each beneficiary of the lands involved will receive its fair share of the recoverable oil or gas in place under its lands in the area effected, and the proposed Unit and waterflood project is in all other respects for the best interest of the State, and will prevent waste and protect correlative rights.

10. By the conversion of certain presently producing wells, Murphy Operating Corporation proposes to inject fluids into the above-described San Andres formation in the Haley Chaveroo San Andres Unit. Attached hereto as Exhibit "E" is a plat showing the location of all wells located within the Unit which are ultimately proposed to be used as producing or injection wells, with the proposed injection wells circled in red. In addition, Exhibit "E" shows all wells and leases that are located within a two-mile radius of the proposed injection wells.

11. The water to be used for injection for the waterflood project shall be acquired from the closest and most economical of several commercial sources in the immediate area of the proposed Unit. It is projected that an average of 4,200 barrels of water per day (equivalent to 600 barrels of water per well per day) will be initially injected. If successful, a maximum of 13,800 barrels of water per day will be injected.

12. It is proposed that water will be injected at an average surface pressure of 800 psig and at a maximum surface pressure of 0.2 psi per foot of depth to top of injection zone, provided that surface pressure in excess of 0.2 psi per foot of depth to injection zone may be approved by administrative application pursuant to Oil Conservation Division rules and regulations.

13. Approval of the waterflood project will substantially increase recoverable reserves to be produced within the useful life of production facilities, thereby preventing waste and protecting correlative rights.

WHEREFORE, Murphy Operating Corporation requests that this application be set for hearing before the Division at the earliest practicable date and that the Division enter its order approving the Unit Agreement and Unit Operating Agreement, providing for the unitized management, operation and further development of the Unitized Formation and the Unit Area in accordance with the Act, and approving the waterflood project.

Murphy Operating Corporation further requests the establishment of a project allowable in accordance with Rule 701 and also the establishment of an administrative procedure for any change in, or additional, injection wells which might prove to be necessary, and for a procedure for administrative approval for the expansion of the waterflood project and the conversion of additional wells to injection.

Respectfully submitted,

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Dated: August 18, 1988

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FOR UNIT APPROVAL AND FOR AUTHORITY TO INSTITUTE A WATERFLOOD PROJECT,
PROPOSED HALEY CHAVEROO SAN ANDRES UNIT,
CHAVES AND ROOSEVELT COUNTIES, NEW MEXICO.

INDEX OF EXHIBITS

FILE 1.

- Exhibit A. - Map of Unit Area.
- Exhibit B. - Schedule of Ownership and Leases.
- Exhibit C. - Unit Agreement.
- Exhibit D. - Unit Operating Agreement.
- Exhibit E. - Area of Review Map.