

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. 9231
Order No. R-8540

THE APPLICATION OF SHELL WESTERN
E & P, INC. FOR STATUTORY UNITIZATION,
LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on September 24, 1987, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 9th day of November, 1987, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and having been 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) Division Cases Nos. 9230, 9231, and 9232 were consolidated at the time of the hearing for the purpose of testimony.

(3) The applicant, Shell Western E & P, Inc. (Shell), seeks the statutory unitization, pursuant to the "Statutory Unitization Act", Sections 70-7-1 through 70-7-21, NMSA, (1978), of 4938 acres, more or less, embracing the entire North Eunice Blinebry-Tubb-Drinkard Oil and Gas Pool, Lea County, New Mexico, said unit to be known as the Northeast Drinkard Unit; the applicant further seeks approval of the Unit Agreement and the Unit Operating Agreement which were submitted in evidence as applicant's Exhibits Nos. 3 and 4 in this case.

-2-
Case No. 9231
Order No. R-8540

(4) The proposed unit area should be designated the Northeast Drinkard Unit Area, and the horizontal limits of said unit area should be comprised of the following described federal, state, and fee lands in Lea County, New Mexico:

TOWNSHIP 21 SOUTH, RANGE 37 EAST, NMPM

Section 2: All
Section 3: All
Section 4: Lots 1, 8, 9, and 16
Section 10: All
Section 11: SW/4
Section 14: NW/4
Section 15: All
Section 22: All
Section 23: All

(5) At the time of the hearing, the applicant requested the deletion of the W/2 SW/4 of Section 24 (Tract 31) from the proposed unit area by mutual agreement between Shell and the current operator of said tract, Bison Petroleum Corporation.

(6) The vertical limits of the Northeast Drinkard Unit Area should comprise the interval containing the Blinebry, Tubb, and Drinkard formations as found from a depth of 5530 feet (2101 feet sub-sea) to a depth of 6680 feet (3251 feet sub-sea) on the log run June 21, 1951 on the Shell Argo Well No. 8 located 660 feet from the South line and 2310 feet from the West line of Section 15, Township 21 South, Range 37 East, NMPM, Lea County, New Mexico, and having been defined by the Division by Order No. R-8539, entered in Case No. 9230, as the North Eunice Blinebry-Tubb-Drinkard Oil and Gas Pool.

(7) The unit area contains 30 separate tracts owned by 39 different working interests.

(8) At the time of the hearing, owners of over 89 percent of the working interest and owners of over 91 percent of the royalty interest were effectively committed to the unit.

(9) No interested party has objected to the proposed unitization or to the vertical limits of the proposed unit area.

(10) The North Eunice Blinebry-Tubb-Drinkard Oil and Gas Pool has reasonably been defined by development.

(11) The applicant proposes to institute a waterflood project for the secondary recovery of oil, gas, and 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 15 million barrels of oil.

(13) The unitized management, operation, and further development of the Northeast Drinkard Unit Area, as proposed, is feasible and reasonably necessary to effectively carry on secondary recovery operations and should substantially increase the ultimate recovery of oil and gas from the North Eunice Blinebry-Tubb-Drinkard Oil and Gas Pool.

(14) The estimated additional investment costs of the proposed supplemental recovery operations are \$24.2 million dollars which include an estimated initial capital investment of \$18.7 million, and an additional \$5.5 million to be spent during subsequent years for additional equipment.

(15) The additional recovery to be derived from the proposed supplemental recovery operations will have a resultant net profitability over the aforesaid additional costs, on a present value basis at a ten percent discount rate after federal income taxes, of \$38.2 million.

(16) 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.

(17) 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.

(18) The Unit Agreement and the 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.

(19) The Phase I and Phase II Oil, and Phase I and Phase II Gas participation formulas contained in the Unitization Agreement, allocate the produced and saved unitized substances to the separately owned tracts in the unit area on a fair, reasonable, and equitable basis.

(20) Unitization and the adoption of the proposed unitized method of operation will benefit the working interest owners and royalty interest owners of the oil and gas rights within the Northeast Drinkard Unit Area.

(21) The granting of the application in this case will have no adverse effect upon the Blinbry Oil and Gas Pool, the Tubb Oil and Gas Pool, and the Drinkard Oil Pool, all located outside the proposed unit boundary.

(22) The 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.

(23) The Northeast Drinkard Unit Agreement and the Northeast Drinkard Unit Operating Agreement provide for unitization and unit operation of the Northeast Drinkard Unit Area upon terms and conditions that are fair, reasonable, 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 provisions for 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 credited 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 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 interest 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 or 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 operations 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.

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

(25) The effective date of this order should be November 1, 1987, which coincides with the effective date of the Unit Agreement and the Unit Operating Agreement.

IT IS THEREFORE ORDERED THAT:

(1) The Northeast Drinkard Unit Area comprising 4938 acres, more or less, in the North Eunice Blinebry-Tubb-Drinkard Oil and Gas Pool, Lea 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 Northeast Drinkard Unit Area shall comprise:

TOWNSHIP 21 SOUTH, RANGE 37 EAST, NMPM

Section 2: All
Section 3: All
Section 4: Lots 1, 8, 9, and 16
Section 10: All
Section 11: SW/4
Section 14: NW/4
Section 15: All
Section 22: All
Section 23: All

(3) The vertical limits of the Northeast Drinkard Unit Area shall comprise the interval containing the Blinebry, Tubb, and Drinkard formations as found from a depth of 5530 feet (2101 feet sub-sea) to a depth of 6680 feet (3251 feet sub-sea) on the log run June 21, 1951 on the Shell Argo Well No. 8 located 660 feet from the South line and 2310 feet from the West line of Section 15, Township 21 South, Range 37 East, NMPM, Lea County, New Mexico, and having been defined by the Division by Order No. R-8539, entered in Case No. 9230, as the North Eunice Blinebry-Tubb-Drinkard Oil and Gas Pool.

(4) The applicant shall institute a waterflood project for the secondary recovery of oil, gas, and all associated liquifiable hydrocarbons within and produced from the unit area, said waterflood project being the subject of Case No. 9232.

(5) The Northeast Drinkard Unit Agreement and the Northeast Drinkard Unit Operating Agreement, being applicant's Exhibits Nos. 3 and 4 in this case, are hereby approved, adopted, and incorporated by reference into this order.

-7-
Case No. 9231
Order No. R-8540

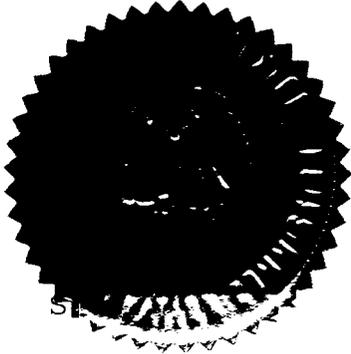
(6) Since the persons owning the required percentage of interest in the unit area have approved or ratified the Unit Agreement and the Unit Operating Agreement, the interests of all persons within the unit area are unitized whether or not such persons have approved the Unit Agreement or the Unit Operating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

(7) 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.

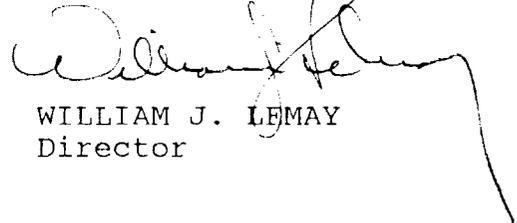
(8) The effective date of this order shall be November 1, 1987.

(9) Jurisdiction of this cause is 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