



STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

GARREY CARRUTHERS  
GOVERNOR

June 28, 1989

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SANTA FE, NEW MEXICO 87504  
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Mr. William F. Carr  
Campbell & Black  
Attorneys at Law  
Post Office Box 2208  
Santa Fe, New Mexico

Re: CASE NO. 9673  
ORDER NO. R-8957

Applicant:

Grand Resources, Inc.

Dear Sir:

Enclosed herewith are two copies of the above-referenced  
Division order recently entered in the subject case.

Sincerely,

*Florene Davidson*

FLORENE DAVIDSON  
OC Staff Specialist

Copy of order also sent to:

Hobbs OCD       x        
Artesia OCD       x        
Aztec OCD       x      

Other \_\_\_\_\_  
\_\_\_\_\_

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June 9, 1989

**HAND-DELIVERED**

Mr. Robert G. Stovall  
General Counsel  
Oil Conservation Division  
New Mexico Department of  
Energy, Minerals and  
Natural Resources  
State Land Office Building  
Santa Fe, New Mexico 87503

Re: Case 9637  
Application of Grand Resources Inc. for a Waterflood  
Project, San Juan County, New Mexico

Case 9673  
Application of Grand Resources Inc. for a Unit Agreement,  
San Juan County, New Mexico

Dear Bob:

This letter is in response to our telephone conversation concerning the provisions of Oil Conservation Division Rule 701 which limit a waterflood project area to only tracts on which there is either an injection or a producing well.

As you are probably aware, this provision in Rule 701 was adopted by Division Order R-1525 in November, 1959. This occurred at a time when production from waterflood projects was having a negative impact on primary oil allowables (2 to 3 barrels per day). The Division, therefore, decided to prorate production from waterflood projects, and to do so it was necessary for there to be a well on each tract before an allowable could be assigned thereto.

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General Counsel  
Oil Conservation Division  
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In my experience, the Division has not excluded tracts from a waterflood project area because it did not have a well on it. It is my opinion that this requirement could be contrary to the general duties of the Division to prevent waste and correlative rights. For example, if there was a proposed waterflood project consisting of three 40-acre tracts with an injection well on the tract on the west, a producing well on the tract on the east and no well on the tract in the middle, waterflood operations could not be implemented without either (1) sweeping oil from the middle tract thereby impairing the correlative rights of the owners thereof, or (2) drilling an unnecessary well on the middle tract thereby causing economic waste.

I concur with you that this is a problem which should be addressed by the Division, and am available to meet with you on this matter at your convenience. I would suggest that Tom Kellahin be included in such a meeting since I understand the same questions are involved in a recent Wagner & Brown case in which his firm represents the applicant.

As to the Grand applications, I do not believe that this situation will be a problem.

First, the application for a voluntary unit should not be affected. We now have 100% voluntary commitment from the working interest owners and, based on our discussions with federal authorities, expect approval of the BLM and the Navajo Nation in the immediate future, thereby giving us joinder of 100% of the royalty interest.

David Catanach has requested that we supply a development plan for acreage on which there are currently no wells. Like other units, however, we will need to see how the waterflood project performs before we are able to develop such plans and believe the Order entered in this case should provide that Grand supply this information to the Division at regular intervals.

The application for waterflood project can be approved by the Division with a project area limited to tracts on which wells are located (injection wells and producing wells). This smaller project area will not affect the allocation of production for the working interest proceeds will be governed by voluntary agreement of the parties in the unit agreement and all royalty interest is common throughout the unit. We would, however, need to have an administrative procedure authorized by the Order whereby the

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General Counsel  
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project area could be expanded with additional development.

I have been informed by Grand that the EPA has verbally approved our injection plans and we will supply you with a copy of written approval of this and other governmental agencies upon receipt.

If you have further questions concerning this matter, do not hesitate to call.

Best regards.

Very truly yours,



WILLIAM F. CARR

WFC:mlh

cc: Mr. Marvin Robinowitz  
/ Mr. David Catanach