

BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

APPLICATION OF KELT OIL & GAS,
INC. FOR STATUTORY UNITIZATION,
APPROVAL OF A UNIT, AND FOR AUTHORITY
TO INSTITUTE A WATER FLOOD PROJECT,
CHAVES COUNTY, NEW MEXICO.

No. 9738

APPLICATION

Kelt Oil & Gas, Inc. hereby applies to the New Mexico Oil Conservation Division for an order approving statutory unitization of the area and formation known as the Cato San Andres Unit, Chaves County, New Mexico, approving the Unit, and authorizing applicant to institute a water flood project for the Cato San Andres Unit, and in support thereof, states:

1. Kelt Oil & Gas, Inc., and its affiliate Kelt New Mexico, Inc., is engaged in the business of, among other things, producing and selling oil and gas as defined by the New Mexico Statutory Unitization Act (N.M. Stat. Ann. §§ 70-7-1 through 70-7-21 (1978), hereinafter referred to as the "Act").

2. The proposed area for which application is made for unitized operations pursuant to the Act is known as the Cato San Andres Unit, Chaves County, New Mexico (the "Unit Area"), and consists of 15,321.83 acres, more or less, in Chaves County, New Mexico, being more particularly described in Exhibit "B" to the proposed Unit Agreement. A map of the Unit Area is attached hereto as Exhibit "A" to the proposed Unit Agreement.

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 underlying the Unit Area, the vertical limits of which extend from an upper limit described as 1030 feet above mean sea level or at the top of the San Andres ¶ Marker formation, whichever is higher, to a lower limit at the base of the San Andres P-3 Zone Anhydrite formation; the geologic markers having been previously found to occur at 3,081 feet and 3,631 feet, respectively, in Pan American Petroleum Corp. Thelma Crosby #1 well (located at 1,980 feet FNL and 1,980 feet FEL of Section 17, T-8-S, R-30-E, Chaves, County, New Mexico) as recorded on the Compensated Formation Density log taken on July 30, 1966, said log being measured from elevation of 4,111 feet ground level above sea level. The Unitized Formation shall further include all subsurface points throughout the Unit Area correlative to the aforementioned identified depths.

4. The portion of the Unitized Formation included within the Unit Area has been reasonably defined by development.

5. Kelt Oil & Gas, Inc. proposes to institute a water flood 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 "1", 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 "2".

13. The participation formula contained in the Unit Agreement allocates the produced and saved unitized hydrocarbons to the separately owned tracts in the Unit Area on a fair, reasonable and equitable basis, and protects the correlative rights of all owners of interest within the Unit Area.

14. The statutory unitization of the Unitized Formation within the Unit Area in accordance with the plan embodied in the Unit Agreement and Unit Operating Agreement will prevent waste and protect correlative rights.

15. By converting certain presently producing wells, Kelt Oil & Gas, Inc. proposes to inject fluids into the above described San Andres formation in the Cato San Andres Unit. Attached hereto is Exhibit "3", which is Form C-108 and a plat showing the location of all wells located within the Unit Area which are proposed to be used as producing wells or injection wells, with proposed injection wells circled in red. Exhibits to C-108 will be submitted at the time of hearing on this Application. In addition, Exhibit "3" also shows all wells and lessees that are located within a one-half mile radius of the proposed injection wells and the owners of the surface of the land on which each injection well is to be located.

16. The water to be used for injection for the waterflood project shall be acquired from one or more of the most economical of three commercial sources in the immediate area of the proposed Unit. It is projected that 1400 barrels of water per day will be initially injected, and if successful, up to 45,000 barrels of water per day will be injected.

8. Kelt Oil & Gas, Inc. projects that the unitized management, operation and further development of the Unitized Formation will increase production by approximately 11.5 million barrels of oil, will improve the producing rate, and will extend the producing life of the formation beyond the year 2000. It is therefore evident that the unitized management, operation and further development of the Unitized Formation is reasonably necessary in order to effectively carry on water flood and secondary recovery operations to substantially increase the ultimate recovery of oil and gas from the Unitized Formation within the Unit Area.

9. The method of operation which is proposed in the Unit Operating Agreement is feasible, will prevent waste and will result with reasonable probability in the increased recovery of substantially more oil and gas from the Unitized Formation than would otherwise be recovered. A Waterflood Feasibility and Unitization Study is attached hereto as Exhibit "4".

10. The estimated additional costs of conducting unitized operations will not exceed the estimated value of the additional oil and gas to be recovered, plus a reasonable profit.

11. The proposed unitization and adoption of the methods of operation embodied in the Unit Operating Agreement will benefit the working interest owners and royalty owners of the oil and gas rights within the Unitized Formation of the Unit Area.

12. Kelt Oil & Gas, Inc. has made a good faith effort to secure voluntary unitization within the Unitized Formation of the Unit Area.

17. Water is to be injected at an average surface pressure of 300 PSIG or 0.09 PSI per foot, provided that surface pressure in excess of 0.2 PSI per foot of depth to the top of the perforated interval may be applied upon administrative approval as provided by Oil Conservation Division rules and regulations.

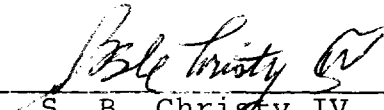
18. Approval of the water flood project will substantially increase recoverable reserves to be produced within the useful life of production facilities, thereby preventing waste and protecting correlative rights.

WHEREFORE, Kelt Oil & Gas, Inc. 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 water flood project.

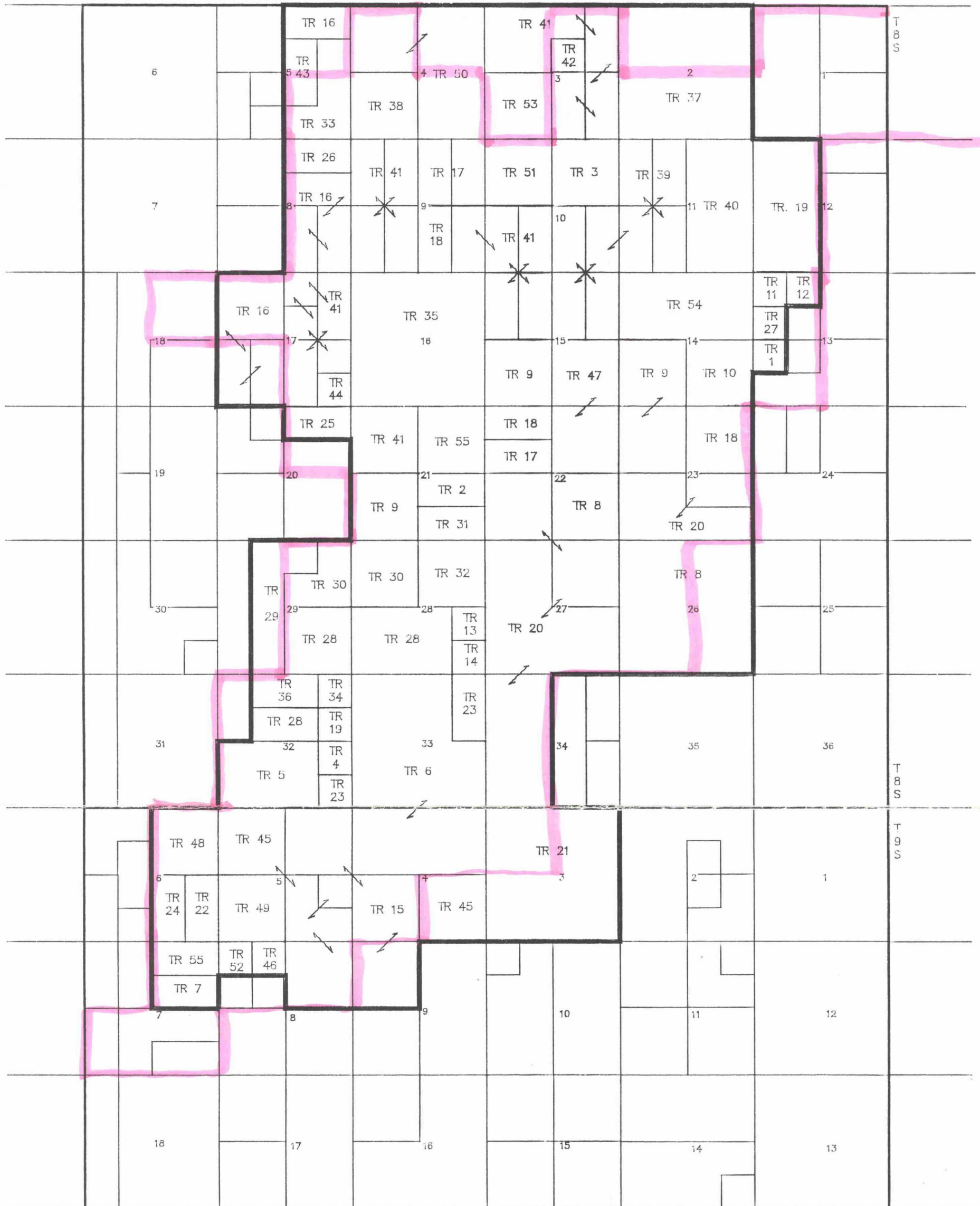
Kelt Oil & Gas, Inc. further requests the establishment of a project allowable in accordance with Rule 701 and also the establishment of an administrative procedure for any change in, or additional, injection wells which might prove to be necessary.

Respectfully submitted,

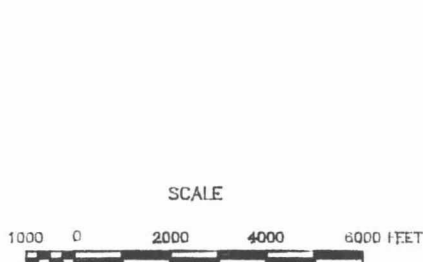
CHRISTY LAW OFFICES

BY 
S. B. Christy IV
P. O. Box 569
Roswell, New Mexico 88202
(505) 625-2021
Attorneys for Kelt Oil & Gas,
Inc.

cc: Commissioner of Public Lands
Bureau of Land Management
Kelt (Roswell)
Kelt (Houston)
Applicable Lessees
Applicable Surface Owners



1	FED 13	30	WOODMAN FED	NM-0348362	
2	FED 21	31	WOODMAN FED (AMOCO)		
3	ABKO FED	NM-0403706	32	WOODMAN FED (ARCO)	
4	ALEXANDER FED		33	XX UNASSIGNED LAND	
5	ALEXANDER IC FED		34	STATE A	
6	AMCO FED	NM-0155254-D	35	STATE H	K-3250-7
7	ANDERSON FED	NM-69642	36	HELL STATE (ARCO)	
8	BROWN FED	NM-276225	37	CATO STATE (MWJ)	
9	CATO A & B FED	NM-0177517	38	BARHYTE	
10	CATO C FED	NM-0444628	39	DAPHNE C BASKETT 1	
11	COLL FED	NM-0177517	40	DAPHNE C BASKETT 2	
12	COLL FED		41	MARIE CROSBY	
13	CONLEY FED	NM-024136-A	42	CROSBY (SEVI-TRI CORP)	
14	CONLEY FED(ARCO)		43	CROSBY (EUGENE E MEARBURG)	
15	CORDER FED	NM-073594-D	44	CROSBY(TAMA PET CO INC)	
16	CROSBY A FED	NM-0142233	45	THELMA CROSBY (SHELL)	
17	CROSBY B FED	NM-0155484	46	DH FOWLER	
18	CROSBY C,CATO D,GRIMM FED	NM-0354427-A	47	J.C HARRIS	
19	FISHER FED	NM-0254700	48	MARSHALL	
20	HODGES FED	NM-022636	49	M-GRAIL	
21	HODGES D FED	NM-025585-B	50	NORTH CATO (YAVES ENR CORP)	
22	MAC FED	NM-25478	51	QUEEN	
23	PACKER FED		52	RECTOR	
24	PETERSON FED	NM-9407-A	53	SELLERS (PAN AMER CORP)	
25	SINCLAIR 208 FED (ARCO)		54	CALLA CATO WASLEY	
26	SKINNER FED (NFC)		55	XX UNASSIGNED LAND	
27	SMITH FED	NM-071455			
28	WINKLER FED	NM-0155484-A			
29	WINKLER FED (ARCO)				



Case 9739

KELT OIL AND GAS		
UNIT/LEASE DESC	COUNTY/STATE	REVISIONS
CATO	CHAVES CO., N. MEXICO	
GEOLDRY BY:	AREA	
DRAFTED BY: W. IKEMOTO	C.L.	DATUM
LOCATION: TWP/RGE T 8 & 9 S - R 30 E	SCALE 1"=2000'	DATE
MAP TITLE		
CATO UNIT		
DWG NO.		