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October 26, 2004

Case 1337

Hand Delivered

Florene Davidson
Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

Dear Florene:

Enclosed for filing are an original and one copy of an application for a waterflood project, etc., together with a proposed advertisement, filed on behalf of Pecos Production Company. Please set this matter for the November 18, 2004 Examiner hearing.

The advertisement has also been e-mailed to Sally.

Very truly yours,



James Bruce

Attorney for Pecos Production Company

BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

APPLICATION OF PECOS PRODUCTION COMPANY
FOR APPROVAL OF A COOPERATIVE WATERFLOOD
PROJECT AND TO QUALIFY THE PROJECT FOR
THE RECOVERED OIL TAX RATE, EDDY COUNTY,
NEW MEXICO.

2004 OCT 26 PM 4 02

Case No. 13377

APPLICATION

Pecos Production Company ("Pecos") applies for an order approving a cooperative waterflood project, and qualifying the project for the recovered oil tax rate. In support thereof, Pecos states:

1. Pecos is the operator of the following oil and gas leases, as to the Yates-Seven Rivers-Queen-Grayburg formations:

(a) State of New Mexico Oil and Gas Lease V-640 covering:

Township 19 South, Range 30 East, N.M.P.M.
Section 2: Lots 1-4 S $\frac{1}{2}$ N $\frac{1}{2}$, and S $\frac{1}{2}$ (All)

(b) United States Oil and Gas Lease NM 29228 covering:

Township 19 South, Range 30 East, N.M.P.M.
Section 3: Lots 1, 2, and S $\frac{1}{2}$ NE $\frac{1}{4}$ (NE $\frac{1}{4}$)

(c) United States Oil and Gas Lease NM 67985 covering:

Township 19 South, Range 30 East, N.M.P.M.
Section 3: SE $\frac{1}{4}$

The foregoing leases are located in Eddy County, New Mexico (the "Leases").

2. Pecos proposes to institute a cooperative waterflood project on the Leases by the injection of water into the Yates-Seven Rivers-Queen-Grayburg formations (Shugart Pool) through the following wells:

(a) State 2 Well No. 1, located 1980 feet FNL and 660 feet FWL (Unit E) of Section 2;

- (b) State 2 Well No. 5, located 660 feet FSL and 330 feet FWL (Unit M) of Section 2;
- (c) State 2 Well No. 7, located 1980 feet FSL and 1650 feet FWL (Unit K) of Section 2;
- (d) Benson 3 Federal Well No. 2, located 330 feet FNL and 480 feet FEL (Unit A) of Section 3; and
- (d) Benson 3 Federal Well No. 6, located 2310 feet FSL and 480 feet FEL (Unit I) of Section 3; and

3. The initial project area will comprise the W½ of Section 2 and the E½ of Section 3. A plat outlining the project area, and marking the locations of the initial injection and producing wells, is attached hereto as Exhibit A.

4. Pecos requests that the pressure maintenance project be qualified for the recovered oil tax rate, pursuant to the Enhanced Oil Recovery Act (L. 1992, Ch. 38) and Division Rule 30. Project data includes:

- (a) Number of initial producing wells: 6.
- (b) Number of initial injection wells: 5.
- (c) Capital cost of additional facilities: \$500,000.00.
- (d) Estimated total project cost: \$1,000,000.00.
- (e) Estimated total value of incremental production recovered from the project: \$4,000,000.00.
- (f) Anticipated injection commencement date: January 1, 2005.
- (g) Type of fluid injected: Produced (Yates-Seven Rivers-Queen-Grayburg) water.

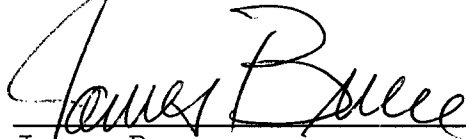
(h) Anticipated injection volumes: 2000 BWPD maximum.

5. Pecos' address is Suite 1070, 400 West Illinois, Midland, Texas 79701 (Attention: Kirk Farquhar).

5. A Form C-108 for the injection wells and the project will be submitted separately.

WHEREFORE, Pecos requests that the Division (i) approve the injection application and the waterflood project, including a provision allowing administrative approval for expansion of the project area, (ii) qualify the project as an enhanced oil recovery project, and (iii) certify the project for the recovered oil tax rate.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "James Bruce", is written over a horizontal line.

James Bruce
P.O. Box 1056
Santa Fe, New Mexico 87504
(505) 982-2043

Attorney for Pecos Production
Company

VERIFICATION

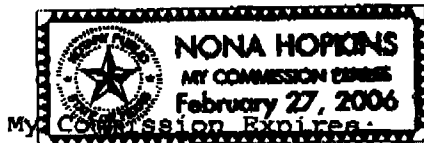
STATE OF TEXAS)
)
COUNTY OF MIDLAND)

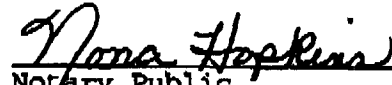
William R. Huck, being duly sworn upon his oath, deposes and states: He is a petroleum engineer employed by Pecos Production Company, he is familiar with the matters set forth in the foregoing application, and the statements therein are true and correct to the best of his knowledge.



William R. Huck

SUBSCRIBED AND SWORN TO before me this 26th day of
October, 2004 by William R. Huck.





Notary Public

Proposed Advertisement

Case 13377 : **Application of Pecos Production Company for approval of a cooperative waterflood project and to qualify the project for the recovered oil tax rate, Eddy County, New Mexico.** Applicant seeks an order approving a cooperative waterflood project in the Shugart (Yates-Seven Rivers-Queen-Grayburg) Pool on State Lease V-640 insofar as it covers Lots 1, 2, S½NW¼, and SW¼ of Section 2, Federal Lease NM 29228 covering Lots 1, 2, and S½NE¼ of Section 3, and Federal Lease NM 67985 covering the SE¼ of Section 3, all in Township 19 South, Range 30 East, N.M.P.M., by the injection of produced water into five wells, located in Units E, K, and M of Section 2, and Units A and I of Section 3. Applicant further seeks to qualify the project for the recovered oil tax rate pursuant to the "New Mexico Enhanced Oil Recovery Act" (Laws 1992, Chapter 38, Sections 1 through 5). The project area is located approximately 9 miles south-southeast of Loco Hills, New Mexico.

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