

**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 TO CONSIDER:**

**APPLICATION OF FORTY ACRES ENERGY, LLC FOR STATUTORY
UNITIZATION, LEA COUNTY, NEW MEXICO**

**CASE NO. 15792
ORDER NO. R-14615**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on September 14, 2017 at Santa Fe, New Mexico, before Examiner William V. Jones.

NOW, on this 2nd day of April, 2018, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given and the Division has jurisdiction of this case and its subject matter.

(2) The applicant, Forty Acres Energy, LLC ("Applicant"), seeks statutory unitization, pursuant to NMSA 1978 Sections 70-7-1 through 70-7-21, as amended ("the Statutory Unitization Act"), of the West Eumont Unit, comprising 7,977.30 acres, more or less, of Federal, State and Fee lands, being a portion of the Eumont; Yates-7 Rvrs-Queen Pool [Pool Codes 22800 (oil) and 76480 (gas)] for the purpose of instituting secondary recovery operations in the Yates, Seven Rivers, and Queen formations, and approval of a Unit Agreement and Unit Operating Agreement, which were submitted as Applicant's Exhibit Nos. 2 and 3, respectively, in this case.

(3) The proposed Unit Area consists of the following described lands in Lea County, New Mexico:

Township 20 South, Range 36 East, NMPM

Section 21:	S/2
Section 22:	NE/4 and S/2
Sections 26-28:	All

Section 29: NE/4
Section 32: E/2
Sections 33-35: All

Township 21 South, Range 35 East, NMPM

Section 1: Lots 3-6 and 11-14, and SW/4 (W/2 Equivalent)
Section 2: Lots 1-16 and S/2 (All)
Section 3: Lots 1-16 and S/2 (All)
Section 11: N/2
Section 12: NW/4

(4) For purposes of hearing, this case was consolidated with Case No. 15793, *Application of Forty Acres Energy, LLC for approval of a Secondary Recovery Project and to qualify the Project for the Recovered Oil Tax Rate, Lea County, New Mexico*. A separate order will be entered in Case No. 15793.

(5) As per the Unit Agreement dated November 1, 2017, the vertical extent of the proposed Unitized Formation is from the top of the Yates formation to a lower limit at the base of the Queen formation; the geologic markers having been previously found to occur at 3100 feet and 4208 feet, respectively, in Amerada Petroleum Corporation's WE "D" State Well No. 1 (API No. 30-025-04353, located at 1980 feet FSL and 660 feet FEL of Section 27, T-20-S, R-36-E, Lea County, New Mexico) as recorded on the Schlumberger Electrical Log taken on March 25, 1954, said log being measured from a derrick floor elevation of 3586 feet above sea level.

(6) Laurel Seth and Sandy Seth, COG Operating LLC, SCR Energy Capital, LLC, Big Al Oil & Gas, ConocoPhillips Company, OXY USA, Inc. all entered an appearance in these cases but were not present at the hearing. Bradley McInroe with Big Al Oil & Gas sent a letter asking to appear and present in the cases but was not present at the hearing. No other party appeared or otherwise opposed these applications.

(7) Applicant appeared at the hearing through counsel and presented the following testimony in support of the proposed Unit:

- (a) Applicant made a good faith effort to identify and notify all owners of the mineral estate within the Unit area. Due to the number of owners, these efforts are continuing. There has been consolidation of interests after the Unit was proposed.
- (b) Applicant proposed participation parameters and made a good faith effort to present and explain those parameters and the Unit Agreement and Unit Operating Agreement to the tract owners. Applicant formally proposed the Unit and the Unit Agreement to the working and overriding royalty interests.
- (c) Tract number 44 was dropped because that State lease expired, and

the original tract numbering extending to 62 was not changed; so there are now 61 separately owned tracts and nine separate operators within the Unit area.

- (d) At the time of the hearing, Applicant had obtained approval of the Unit by more than the required 75 percent of the cost bearing interests.
- (e) The lands are divided in mineral ownership (more or less) as follows: 4626.34 acres of State Trust, 2400 acres of federal lands, and 950.96 acres of Fee lands. Both the Commissioner of Public Lands for the State Trust and the Authorized Officer of the Bureau of Land Management (BLM) for the federal lands must give final approval before the non-cost bearing interests will exceed the required 75 percent. At the time of the hearing, the State Land Office had given preliminary approval, but not the BLM. The BLM is in support of the Unit. Applicant is expecting final approval from both land agencies.
- (f) Applicant has requested that it be designated operator of the Unit.
- (g) Applicant is interested in multiple producing intervals for waterflooding within the Yates, Seven Rivers, and Queen formations. The gross thickness of the proposed unit is 1200 feet and all within the bounds of the established Eumont Pool. The lower Yates sand, the Bowers sand within the Seven Rivers, and the Penrose member of the Queen are all targets. All three main targets are continuous across the proposed Unit area and considered prospective for waterflooding.
- (h) The log for the type well is not available on the web site, but is being presented by the Applicant in the proposed Unit Agreement.
- (i) The ultimate primary recovery is expected to be 12 million barrels and ultimate secondary recovery is expected to be 18 million barrels.
- (j) The revenue from the project is expected to exceed the costs plus a reasonable profit. The waterflood is expected to increase production in existing wells, and those wells should qualify for the recovered oil tax rate.
- (k) Unitized management of this reservoir is necessary to effectively carry out enhanced recovery operations.
- (l) The tract allocation formula is a single phase and is shown in

Section 13 of the Unit Agreement, as follows:

- i. Current rate of production at 80 percent;
- ii. Acreage at 10 percent; and
- iii. Cumulative oil (as of 9/30/2016) at 10 percent.

- (m) The proposed secondary recovery operation is economically and technically feasible.

The Division concludes as follows:

(8) Unitized management, operation, and development of the Unit Area are necessary to effectively conduct secondary recovery operations, and increase the ultimate recovery of oil from the Unit Area.

(9) The proposed method of secondary recovery operations within the Unit Area, as described in the Plan of Unit Operations is feasible, will prevent waste, and will result, with reasonable probability, in the recovery of substantially more hydrocarbons from the Unitized Area than would otherwise be recovered.

(10) The estimated additional costs of the proposed operations will not exceed the estimated value of the additional hydrocarbons recovered plus a reasonable profit.

(11) Unitization and implementation of secondary recovery operations in the Unit Area, as described in the Unit Agreement will benefit the working interest and royalty and overriding royalty interest owners within the proposed Unit Area, and will protect the correlative rights of all parties.

(12) Applicant has made a good faith effort to secure voluntary unitization of the Unitized Formation within the Unit Area.

(13) The provisions of the proposed Unit Agreement and Unit Operating Agreement are fair, reasonable, and equitable, contain satisfactory provisions with respect to all of the matters required by NMSA 1978 Section 70-7-7, as amended, and should be incorporated by reference into this order. 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.

(14) Creating a Unit comprising the Unit Area and providing for the unitization and unitized operation of the Unit Area upon the terms and conditions approved herein is necessary to protect and safeguard the rights and obligations of the working interest owners and the royalty and overriding interest owners in the Unit Area.

(15) It is prudent to apply secondary recovery techniques to maximize the ultimate recovery of crude oil from the Unit Area. The enhanced recovery application

(Case No. 15793) is the subject of a separate Division order.

(16) The Unit Area should be approved for statutory unitization in accordance with the Unit Agreement and Unit Operating Agreement, and should be named the **West Eumont Unit**.

(17) Forty Acres Energy, LLC (OGRID No. 371416) should be designated as the operator of the Unit.

IT IS THEREFORE ORDERED THAT:

(1) The application of Forty Acres Energy, LLC for the statutory unitization of 7,977.30 acres (more or less) of Federal, State, and Fee lands in Lea County, New Mexico, to be known as the West Eumont Unit (the Unit), is hereby approved pursuant to the Statutory Unitization Act (NMSA 1978, Sections 70-7-1 through 70-7-21).

(2) The Unit Area shall consist of the following described lands in Lea County, New Mexico:

Township 20 South, Range 36 East, NMPM

Section 21:	S/2
Section 22:	NE/4 and S/2
Sections 26-28:	All
Section 29:	NE/4
Section 32:	E/2
Sections 33-35:	All

Township 21 South, Range 35 East, NMPM

Section 1:	Lots 3-6 and 11-14, and SW/4 (W/2 Equivalent)
Section 2:	Lots 1-16 and S/2 (All)
Section 3:	Lots 1-16 and S/2 (All)
Section 11:	N/2
Section 12:	NW/4

(3) As per the Unit Agreement dated November 1, 2017, the vertical extent of the Unitized Formation shall be from the top of the Yates formation to a lower limit at the base of the Queen formation; the geologic markers having been previously found to occur at 3100 feet and 4208 feet, respectively, in Amerada Petroleum Corporation's WE "D" State Well No. 1 (API No. 30-025-04353, located at 1980 feet FSL and 660 feet FEL of Section 27, T-20-S, R-36-E, Lea County, New Mexico) as recorded on the Schlumberger Electrical Log taken on March 25, 1954, said log being measured from a derrick floor elevation of 3586 feet above sea level.

(4) This Order shall become effective on the first day of the month following the approval of plan of unit operations provided herein by the owners of at least seventy-five percent of the production or proceeds thereof that will be credited

to interests which are free of cost, such as royalties and overriding royalties (NMSA 1978 Section 70-7-8). Any supplemental Division order that the plan of unit operations has been so approved will be retroactive to that date.

(5) The proposed Unit Agreement and the Unit Operating Agreement, admitted as Exhibit No's 2 and 3, respectively, at the hearing of this case, are hereby approved and incorporated into this Order by reference.

(6) Forty Acres Energy, LLC (OGRID No. 371416) is hereby designated the operator of the Unit.

(7) The operator of the Unit shall notify the Division in writing of its removal or the substitution of any other working interest owner within the Unit Area as operator, or of the transfer or assignment of its entire remaining working interest in the Unit Area.

(8) This Unit created for purposes of waterflooding shall terminate if the permission for waterflooding within the Unit is terminated by the Division.

(9) Jurisdiction of this case 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

A handwritten signature in black ink, appearing to read "Heather Riley".

HEATHER RILEY
Director