

**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. 14675
ORDER NO. R-1477-A**

**APPLICATION OF CELERO ENERGY II, LP TO APPROVE THE EXPANSION
OF THE DRICKEY QUEEN SAND UNIT AREA AND TO CONSOLIDATE
SECONDARY RECOVERY PROJECTS WITHIN THE EXPANDED UNIT
AREA, CHAVES COUNTY, NEW MEXICO**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing on June 23, 2011 at Santa Fe, New Mexico, before Examiner William V. Jones.

NOW, on this 9th day of September, 2011, 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, Celero Energy II, LP, seeks approval of its expanded Drickey Queen Sand Unit currently underlying the following-described 7,002.52 acres, more or less, of state, federal, and fee lands situated in Chaves County, New Mexico:

Township 13 South, Range 31 East, NMPM

Section 33: E/2 NE/4, SW/4 NE/4, NE/4 SW/4, S/2 SW/4, and SE/4

Section 34: S/2

Section 35: NE/4, S/2 NW/4, and S/2

Township 14 South, Range 31 East, NMPM

Section 1: Lots 3, 4, and SW/4 NW/4

Section 2: Lots 1-4, S/2 N/2, and S/2 (All)

Section 3: Lots 1-4, S/2 N/2, and S/2 (All)
Section 4: N/2, E/2 SW/4, and SE/4
Section 9: All
Section 10: All
Section 11: N/2 NE/4, SW/4 NE/4, W/2, W/2 SE/4, and SE/4 SE/4
Section 14: NW/4 NE/4, NW/4, N/2 SW/4, and SW/4 SW/4
Section 15: All
Section 16: N/2, N/2 SW/4, SE/4 SW/4, and SE/4
Section 22: N/2 and NW/4 SE/4

(3) In addition, the applicant requests consolidation of all previously approved secondary recovery permits for this expanded Unit Area.

(4) The Applicant presented testimony by affidavit as follows.

a. The first Unit Agreement for the Drickey Queen Unit Area was dated February 16, 1959. During 1959, both the Commissioner of Public Lands and the United States Geological Survey approved the Unit Agreement. The Oil Conservation Commission approved the Unit Agreement on September 8, 1959 by Order No. R-1477, entered in Case No. 1744. At that time the Unit contained 5241.59 acres, more or less, of federal, state, and fee lands.

b. The original Unit had tracts which did not meet specific criteria and were deemed Not Qualified for Participation, and those were not approved in Order No. R-1477. Since 1959, the Unit Area has been expanded several times and the leases for some tracts were renewed. Celero now owns 100 percent of the working interest in the Unit Area, as expanded, and seeks Division approval of the Unit as it currently exists.

c. All subsequent expansions or modifications of the Unit Area have been approved by both the Commissioner of Public Lands and the USGS or the Bureau of Land Management ("BLM").

d. The latest change to the Unit Area was dated February 25, 2011 and called the "Sixth Amendment to Declaration". This amendment was approved March 21, 2011 by the State Land Office and April 18, 2011 by the BLM.

e. The allocation of production to all of the tracts within the Drickey Queen Sand Unit Area, including the added tracts, is subject to a production allocation formula contained within the Unit Agreement.

f. Tract Nos. 31 and 44, located within Sections 34 and 35, respectively, of Township 13 South, Range 31 East, of the originally proposed Unit Area were never incorporated into the Unit Area, and are now part of the offsetting Rock Queen Unit Area.

g. All of the tracts in the Unit Area, as expanded, have either been previously subject to Division approved secondary recovery operations in the Caprock-Queen Pool (Pool Code 8559), or have been offset by tracts approved for waterflooding.

h. The Government "B" Lease consisting of acreage within Sections 3 and 10 was approved for secondary recovery (pilot waterflood) operations by Commission Order No. R-1128, as amended, entered in Case No. 1356, dated February 12, 1958. Sections 3 and 10 were subsequently unitized into the Drickey Queen Unit Area as stated above.

i. The Trigg Federal Waterflood Project covering Tract 5 (Section 9 and most of Section 4, Township 14 South, Range 31 East) was approved for secondary recovery operations by Commission Order No. R-1456, entered in Case No. 1714, and Order No. R-12912, as amended, entered in Case No. 14047.

j. Numerous administrative Waterflood Expansion ("WFX") permits have approved wells for injection purposes within this Unit Area.

(5) No other party appeared at the hearing or otherwise opposed this application.

(6) All of the proposed expanded unit acreage appears prospective for recovery of oil and gas from the Queen formation, Caprock-Queen Pool, under the secondary recovery concept proposed and employed by the applicant.

(7) All currently classified "active injection" wells within this proposed expanded Unit Area along with the permits allowing injection as shown in Division records are listed on the attached Exhibit A.

(8) The expanded Unit Area should be approved and any existing secondary recovery projects within this Unit Area should be consolidated into one project.

(9) Approval of this application is in the best interests of conservation and will serve to prevent waste and protect correlative rights.

IT IS THEREFORE ORDERED THAT:

(1) The Drickey Queen Sand Unit Agreement, as amended February 25, 2011 and described in the application of Celero Energy II, LP, is hereby approved for the following-described 7,002.52 acres, more or less, of state, federal, and fee lands situated in Chaves County, New Mexico:

Township 13 South, Range 31 East, NMPM

Section 33: E/2 NE/4, SW/4 NE/4, NE/4 SW/4, S/2 SW/4, and SE/4
Section 34: S/2
Section 35: NE/4, S/2 NW/4, and S/2

Township 14 South, Range 31 East, NMPM

Section 1: Lots 3, 4, and SW/4 NW/4
Section 2: Lots 1-4, S/2 N/2, and S/2 (All)
Section 3: Lots 1-4, S/2 N/2, and S/2 (All)
Section 4: N/2, E/2 SW/4, and SE/4
Section 9: All
Section 10: All
Section 11: N/2 NE/4, SW/4 NE/4, W/2, W/2 SE/4, and SE/4 SE/4
Section 14: NW/4 NE/4, NW/4, N/2 SW/4, and SW/4 SW/4
Section 15: All
Section 16: N/2, N/2 SW/4, SE/4 SW/4, and SE/4
Section 22: N/2 and NW/4 SE/4

(2) The plan contained in the Drickey Queen Sand Unit Agreement for the development and operation of the above-described unit area is hereby approved in principle; provided, however, notwithstanding any of the provisions contained in the unit agreement, this approval shall not be considered as waiving or relinquishing, in any manner, any right, duty, or obligation that is now, or may hereafter be, vested in the Division to supervise and control operations for the unit and production of oil and gas therefrom.

(3) The unit operator shall file with the Division an executed original or executed counterpart of the unit agreement within 30 days of the effective date thereof; in the event of subsequent joinder by any other party, or expansion or contraction of the unit area, the unit operator shall file with the Division, within 30 days thereafter, copies of the unit agreement reflecting the subscription of those interests having joined or ratified.

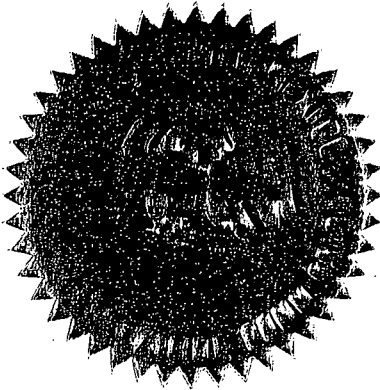
(4) All: (i) plans of development and operation; (ii) creations, expansions or contractions of participating areas; and (iii) expansions or contractions of the unit area shall be submitted to the Division Director for approval.

(5) This order shall become effective upon the approval of the unit agreement by the New Mexico State Land Office and the Bureau of Land Management. This order shall terminate upon the termination of the unit agreement. The last unit operator shall notify the Division immediately in writing of such termination.

(6) All existing secondary recovery projects (see attached Exhibit A) within this Drickey Queen Sand Unit Area are hereby consolidated into one project to include the extent of the Unit Area.

(7) 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 "Jami Bailey". The signature is fluid and cursive, with a large, sweeping initial "J".

JAMI BAILEY
Director

SEAL

Attachment

EXHIBIT A
CELERO ENERGY II, LP
EXPANDED DRICKEY QUEEN SAND UNIT
CONSOLIDATED SECONDARY RECOVERY PROJECTS/PERMITS
CURRENTLY CLASSIFIED ACTIVE INJECTION WELLS AND PERMITS

API	WELL	##	Unit	Sec	TSP	RGE	Injection Permit Type	Permit Num	Injection Permit R_OrderNo
30-005-00925	DQSU	1	A	35	13.0S	31E	WFX	868	R-1128
30-005-00923	DQSU	2	B	35	13.0S	31E	WFX	100	
30-005-00924	DQSU	4	G	35	13.0S	31E	WFX	868	R-1128
30-005-00926	DQSU	5	H	35	13.0S	31E	WFX	167	R-1128
30-005-00902	DQSU	7	L	34	13.0S	31E	WFX	86	
30-005-00900	DQSU	9	N	34	13.0S	31E	WFX	79	
30-005-21115	DQSU	10	A	33	13.0S	31E	WFX	675	
30-005-00898	DQSU	11	H	33	13.0S	31E	WFX	86	
30-005-00895	DQSU	13	J	33	13.0S	31E	WFX	86	
30-005-00896	DQSU	15	P	33	13.0S	31E	WFX	50	
30-005-00973	DQSU	16	B	3	14.0S	31E	WFX	23	
30-005-00971	DQSU	17	C	3	14.0S	31E	None	Applied For	
30-005-00977	DQSU	18	D	3	14.0S	31E	WFX	34	
30-005-00970	DQSU	20	F	3	14.0S	31E	WFX	23	
30-005-00968	DQSU	24	N	3	14.0S	31E	Hearing	---->	R-1128
30-005-01024	DQSU	26	A	10	14.0S	31E	None	Applied For	
30-005-01026	DQSU	27	B	10	14.0S	31E	Hearing	---->	R-1128
30-005-01029	DQSU	29	D	10	14.0S	31E	WFX	16	R-1128-B
30-005-01022	DQSU	31	F	10	14.0S	31E	WFX	23	
30-005-01023	DQSU	32	G	10	14.0S	31E	None	Applied For	
30-005-01025	DQSU	33	H	10	14.0S	31E	WFX	23/675	
30-005-01030	DQSU	34	J	10	14.0S	31E	WFX	23	

30-005-01036	DQSU	36	L	10	14.0S	31E	WFX	79	
30-005-01037	DQSU	38	N	10	14.0S	31E	WFX	79	
30-005-01075	DQSU	39	A	16	14.0S	31E	WFX	610	R-1128
30-005-01070	DQSU	40	B	16	14.0S	31E	WFX	128	R-2448
30-005-01076	DQSU	42	H	16	14.0S	31E	WFX	128	
30-005-01063	DQSU	44	D	15	14.0S	31E	WFX	101	
30-005-01064	DQSU	46	F	15	14.0S	31E	WFX	128	
30-005-01059	DQSU	48	L	15	14.0S	31E	WFX	175	
30-005-01122	DQSU	51	D	22	14.0S	31E	WFX	182	
30-005-01121	DQSU	52	F	22	14.0S	31E	Hearing	---->	R-2780
30-005-01127	DQSU	53	H	22	14.0S	31E	Hearing	---->	R-2780
30-005-21156	DQSU	53	P	15	14.0S	31E	WFX	746	R-1128/IPI-144
30-005-21157	DQSU	55	M	15	14.0S	31E	WFX	746	R-1128/IPI-144
30-005-21153	DQSU	56	D	15	14.0S	31E	WFX	746	R-1128/IPI-144
30-005-21154	DQSU	57	A	15	14.0S	31E	WFX	746	R-1128/IPI-144
30-005-00978	DQSU	805	P	4	14.0S	31E	WFX	18	R-1456/12912
30-005-01013	DQSU	812	B	9	14.0S	31E	WFX	33	R-1456/12912
30-005-00985	DQSU	816	B	4	14.0S	31E	WFX	49	R-1456/12912
30-005-00986	DQSU	821	N	4	14.0S	31E	WFX	49	R-1456/12912
30-005-00988	DQSU	823	F	4	14.0S	31E	WFX	49	R-1456/12912
30-005-01021	DQSU	828	D	9	14.0S	31E	Hearing	---->	R-12912
30-005-00993	DQSU	832	D	4	14.0S	31E	WFX	105	R-1456/12912
30-005-10158	DQSU	837	B	4	14.0S	31E	WFX	455	R-1456/12912
30-005-00910	DQSU	901	P	34	13.0S	31E	WFX	89	R-1536
30-005-00912	DQSU	903	J	34	13.0S	31E	WFX	89	R-1536