



**MONTGOMERY
& ANDREWS**
LAW FIRM

J. SCOTT HALL

Office: (505) 986-2646

Email: shall@montand.com

Reply To: Santa Fe Office

www.montand.com

January 9, 2014

Mr. Phillip Goetze
New Mexico Oil Conservation Division
Environmental Bureau
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

Hand Delivered

Re: NMOCD Case No. 15055; Application of Sundown Energy LP for Unit Approval, Lea County, New Mexico (Reeves-Queen Waterflood Unit)

Dear Mr. Goetze:

This unopposed case was presented at the October 3, 2013 Examiner hearing and was taken under advisement at that time. One of the State of New Mexico leases committed to the Reeves-Queen Unit, Lease No. VB-1583 located in the NW/4 of Section 27 T18S R35E, is due to expire on February 1, 2014 unless the Unit is approved by then. Consequently, I have taken the liberty of preparing the enclosed draft of a suggested order for your convenience.

If there are any questions regarding the form of the order or the Unit in general, please let me know. We would appreciate the Division's assistance in finalizing this matter before the February 1, 2014 lease expiration deadline.

Thank you.

Very truly yours,

J. Scott Hall

Enclosure

cc: Kyle Paxton, Sundown Energy LP

REPLY TO:

325 Paseo de Peralta
Santa Fe, New Mexico 87501
Telephone (505) 982-3873 • Fax (505) 982-4289

Post Office Box 2307
Santa Fe, New Mexico 87504-2307

6301 Indian School Road NE, Suite 400
Albuquerque, New Mexico 87110
Telephone (505) 884-4200 • Fax (505) 888-8929

Post Office Box 36210
Albuquerque, New Mexico 87176-6210

**STATE OF NEW MEXICO
DEPARTMENT OF ENERGY, MINERALS AND NATURAL RESOURCES
OIL CONSERVATION DIVISION**

**IN THE MATTER OF THE HEARING CALLED
BY THE OIL CONSERVATION DIVISION FOR
THE PURPOSE OF CONSIDERING:**

**CASE NO. 14988
ORDER NO. R-13719**

**APPLICATION OF SUNDOWN ENERGY LP FOR UNIT APPROVAL LEA COUNTY,
NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on October 3, 2013, at Santa Fe, New Mexico, before Examiner Phillip R. Goetze.

NOW, on this _____ day of January, 2014, 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, Sundown Energy LP, ("Sundown"), seeks approval pursuant to 19.15.20.14 NMAC of its Reeves-Queen Waterflood Unit in the Queen formation underlying 520 acres \pm of State of New Mexico lands located in Lea County, New Mexico and described as follows:

Township 18 South, Range 35 East, NMPM

Section 21: SE/4 SE/4

Section 22: SW/4

Section 27: NW/4

Section 28: NE/4

(3) Applicant appeared at the hearing through counsel and presented testimony demonstrating that:

a. The New Mexico State Land Office owns all of the acreage within the Unit Area. There are three State of New Mexico oil and gas leases within the Unit owned or controlled by Sundown. One hundred percent of the working interests (100%) and one hundred percent (100%) of the royalty and overriding royalty interests have ratified the Unit.

b. The Commissioner of Public Lands has issued preliminary approval for the proposed Unit.

c. The Unitized Formation for the Reeves-Queen Waterflood Unit is the Queen formation 100' above and 100' below the correlative interval as found in the Reeves State 21 (API #30-025-30514) Compensated Neutron-Litho Density Log from 4,430' – 4,490'.

Sundown is the operator of the following wells located in the Unit:

Arco 28 State Well No. 1

API No. 30-025-29340
660' FNL and 660' FEL (Unit A)
Section 28
T-18-S, R-35-E, NMPM

Arco State Well No. 2

API No. 30-025-29526
330' FNL and 1650' FEL (Unit B)
Section 28
T-18-S, R-35-E, NMPM

By separate Application in Case No. 15048, Sundown proposes to conduct waterflood operations to support production from the Unit Project Area by converting the two wells and utilizing them for injection of water through a closed system into the Queen formation through perforations in each of the wells at depths of 4,472' – 4,488' and 4,480' – 4,483', respectively.

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

(6) All of the proposed unit acreage appears prospective for recovery of oil and gas from the target formations under the concept proposed by the Applicant. These acres should be unitized and should share in the benefits from future oil and gas recovery according to the participation schedule set forth in the unit agreement.

(7) The approval of the proposed unit agreement should serve to prevent waste and protect correlative rights within the lands assigned to the unit area.

IT IS THEREFORE ORDERED THAT:

(1) The Reeves-Queen Waterflood Unit executed by Sundown Energy L.P. is hereby

approved for all oil and gas in the Queen formation.

(2) The following-described 520 acres, more or less, of State of New Mexico lands situated in Lea County, New Mexico:

Township 18 South, Range 35 East, NMPM

Section 21: SE/4 SE/4

Section 22: SW/4

Section 27: NW/4

Section 28: NE/4

(3) The plan submitted with the Reeves-Queen Waterflood Unit Agreement for the exploration, 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.

(4) 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.

(5) This order shall become effective upon the approval of the unit agreement by the New Mexico State Land Office. 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) 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

JAMI BAILEY
Director