

Daniel Pequeno, CPL/ESA  
Land Representative

4851

MidContinent/Alaska BU  
North American Exploration  
and Production Company  
15 Smith Road, RM-2235  
Midland, Texas 79705  
Tel 432 687 7461  
Fax 432 687 7871  
peqd@chevron.com

January 31, 2008

State of New Mexico  
Commissioner of Public Lands  
P. O. Box 1148  
Santa Fe, New Mexico 87504-1148

Attention: Mr. Pete Martinez

**RE: APPLICATION FOR VERTICAL EXPANSION  
VACUUM GRAYBURG SAN ANDRES UNIT  
LEA COUNTY, NEW MEXICO (CHEVRON FILE NO. QLS-044246)**

Dear Mr. Martinez,

Chevron U.S.A. Inc. (Chevron) as sole Operator and Working Interest Owner of the Vacuum Grayburg San Andres Unit, hereby respectfully requests the administrative approval to the Application for the Vertical Expansion of the unitized formation of the Unit Agreement for the Development and Operation of the Vacuum Grayburg San Andres Unit, and in support hereof states:

1. Chevron is the operator of the Vacuum Grayburg San Andres Unit;
2. The Vacuum Grayburg San Andres Unit was approved by the Division by Order No. R-4433, issued in Case 4851 dated November 8, 1972 and a pressure maintenance project by water flood was authorized for this Unit by Division Order No. R-4442, issued in Case 4852 dated November 27, 1972; and a tertiary recovery project by the injection of CO<sub>2</sub> was authorized for this Unit by Division Order No. R-4442-B, issued in Case 13961 dated December 11, 2007;

In accordance with our request for the administrative approval of our application, attached are following supportive Exhibits:

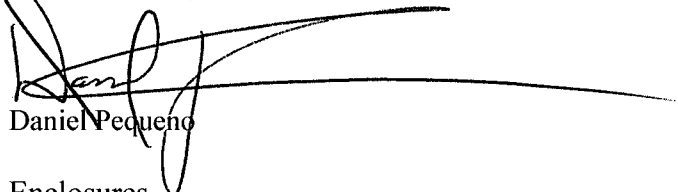
1. Original copy of the Application for Vertical Expansion of the Vacuum Grayburg San Andres Unit dated January 23, 2008, effective January 1, 2008 which has been signed by the proper authority at Chevron;
2. Attachment I - Geological & Engineering Justification of VGSAU Vertical Expansion; and Plan of Operation;
3. Attachment II - Notice List of offset operators, working interest owners, lease owners & surface owners within a mile radius of the Vacuum Grayburg San Andres Unit;
4. Attachment III - VGSAU NW-SE Cross Section Index Map with Posted Well Data
5. Attachment IV - NW-SE Structural Cross Section Map within VGSAU

RECEIVED  
2008 FEB 4 PM 12 27

6. Copy of Letter dated January 31, 2008 giving Notification to all offset operators and surface owners of record sent by certified mail return receipt; and
7. Chevron's check #0025169912 dated January 25, 2008 in the amount of \$150.00 being the processing fee for the 5-section leases comprising the Application for the Vertical Expansion.

Chevron respectfully looks forward to the approval of the Application for Vertical Expansion of the Unit. If you have any questions regarding this matter, you may call me at (432) 687-7461.

Yours very truly,

A handwritten signature in black ink, appearing to read 'Daniel Pequeno', is written over a horizontal line. The signature is stylized with a large, sweeping loop.

Enclosures

Cc: Mark E. Fesmire, Director  
Oil Conservation Division  
New Mexico Department of Energy,  
Minerals and Natural Resources  
1220 South St. Francis Drive  
Santa Fe, New Mexico 87505

APPLICATION FOR VERTICAL EXPANSION  
OF THE UNITIZED FORMATION OF THE UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION OF THE VACUUM  
GRAYBURG SAN ANDRE UNIT AREA, LEA COUNTY, NEW MEXICO

Commissioner of Public Lands  
State of New Mexico  
P. O. Box 1148  
Santa Fe, New Mexico 87501

The Unit Agreement for the Development and Operation of the Vacuum San Andres Unit Area entered into as of the 1<sup>st</sup> day of November, 1972, by and between the parties subscribing, ratifying or consenting thereto,

WITNESSETH:

WHEREAS, the owners of interests in the Vacuum Grayburg San Andres Unit have entered into that certain agreement dated November 1, 1972, entitled "Unit Agreement for the Development and Operation of the Vacuum San Andres Unit Area, herein referred to as the "Unit Agreement", a counterpart of which is recorded in Book 306, Page 689 of the Records of Lea County, New Mexico; and

WHEREAS, the Unit Agreement was approved by the Commissioner of Public Lands, State of New Mexico, by Certificate of Approval dated December 7, 1972 to be effective January 1, 1973;

WHEREAS, Chevron U.S.A. Inc is now the Operator and successor in interest to Texaco Inc.;

WHEREAS, Chevron U.S.A. Inc. now desires to amend Article 1.4, Page 2 of the Unit Agreement to provide for a vertical expansion of the Unitized Formation by adding a new lower depth interval to said Unit Agreement which will further promote the conservation of oil and gas and the better utilization of reservoir energy in said unit area as follows;

**Article 1.4 – Original Unitized Formation**

Unitized Formation is that zone interval including and correlative to portions of the Grayburg and San Andres Formations found between the depths of 3,902 feet (plus 105 feet sub-sea) and 4,809 feet (minus 802 feet sub-sea) on the Welex Acoustic Velocity Log, dated February 22, 1965, run in Texaco's New Mexico "M" State Well No. 8, located 330 feet from the North line and 1,880 feet from the West line of Section 1, T-18-S, R-34-E, Lea County, New Mexico.

**Article 1.4 – New Unitized Formation**

Unitized Formation is to include portions of the Grayburg and San Andres Formations found between the stratigraphic equivalents of the depths of 3,902 feet and 5,020 feet on the Welex Acoustic Velocity Log, dated February 22, 1965, run in Texaco's New Mexico "M" State Well No. 8, located 330 feet from the North line and 1,880 feet from the West line of Section 1, T-18-S, R-34-E, Lea County, New Mexico.

NOW THEREFORE, Chevron U.S.A. Inc., as Sole Owner and Operator of the Vacuum Grayburg San Andres Unit, pursuant to Article 4.1 of the Unit Agreement, respectfully requests your approval to the vertical expansion to said Unit Area as outlined herein above. Although no revisions are needed for the Tract Participations and percentage and kind of ownership in the Unit Area and outline, we are attaching Exhibit "A" and Exhibit "B" which were revised on January 1, 1981, for the First Enlargement of the Unit Area.

The effective date of vertical expansion of the unitized formation will be January 1, 2008.

Dated this 23<sup>rd</sup> day of January, 2008.

CHEVRON U.S.A. INC.,  
UNIT OPERATOR AND WORKING  
INTEREST OWNER

By: D.K. Beckham  
D. K. Beckham, Attorney-in-Fact

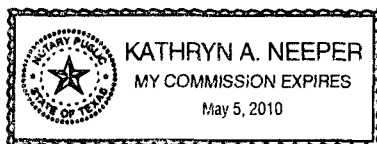
STATE OF TEXAS           §

COUNTY OF MIDLAND   §

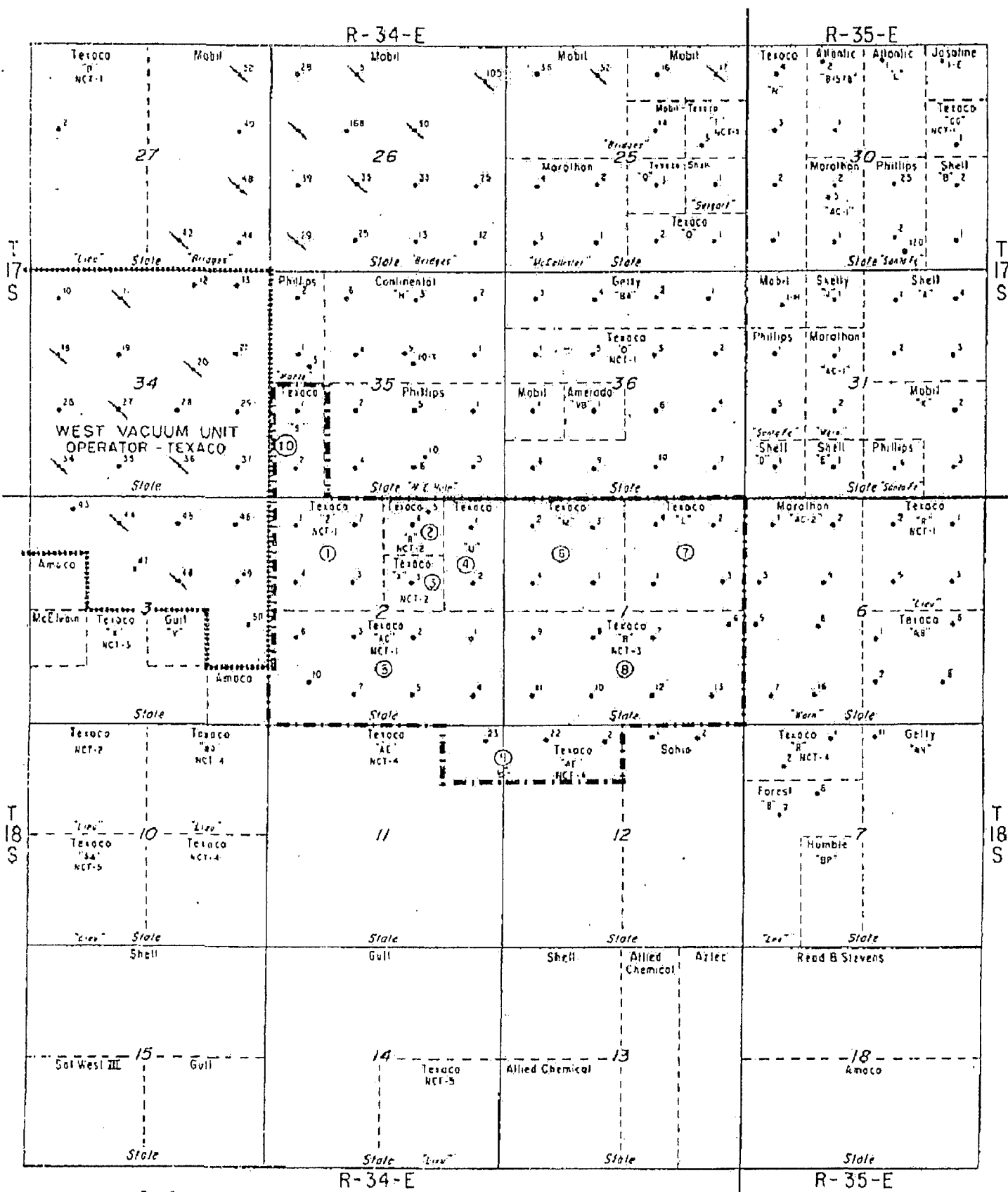
On this the 23<sup>rd</sup> day of January, 2008, before me appeared D.K. Beckham, as Attorney-in-Fact for CHEVRON U.S.A. INC., a Pennsylvania corporation, and acknowledged to me that she executed the instrument for the purposes and consideration therein expressed.

WITNESS my hand and official seal this the 23<sup>rd</sup> day of January, 2008.

My Commission expires:



Kathryn A. Neeper  
Notary Public in and for the State of Texas.



**LEGEND**

- UNIT OUTLINE
- ② TRACT NUMBER

EXHIBIT "A" (REV.)  
 VACUUM GRAYBURG SAN ANDRES UNIT  
 LEA COUNTY, NEW MEXICO  
 SCALE: 0' 2000' 4000'  
 KLP/FMR 10-3-72  
 Vertical Expansion - EFF. 1-1-2008

EXHIBIT "B" REVISED

Vertical Expansion Effective January 1, 2008

SCHEDULE SHOWING TRACT PARTICIPATIONS AND PERCENTAGE AND KIND OF OWNERSHIP  
OF ALL LANDS WITHIN THE VACUUM GRAYBURG SAN ANDRES UNIT  
LEA COUNTY, NEW MEXICO

TRACT NO.	DESCRIPTION	NO. OF ACRES	SERIAL NO. & DATE OF LEASE OR APPLICATION	BASIC ROYALTY & PERCENTAGE	LESSEE OF RECORD	OVERRIDING ROYALTY & PERCENTAGE	WORKING INTEREST & PERCENTAGE	PERCENTAGE OF TRACT PARTICIPATION	TEXACO FILE NUMBER
1	T18S-R34E Section 2; Lots 3 & 4, SW/4 NW/4, SE/4 NW/4	161.41	B-3011-1 6-11-34 H.B.P.	State of New Mexico (Common School)	The Texas Co. None		Texaco Inc. 100%	9.80275	60868
2	T18S-R34E Section 2; Lot 2	40.83	B-1306-1 11-10-32 H.B.P.	State of New Mexico (Common School)	The Texas Co. None		Texaco Inc. 100%	3.18789	55035
3	T18S-R34E Section 2; SW/4 NE/4	40.00	B-1446-1 12-10-32 H.B.P.	State of New Mexico (Lieu)	The Texas Co. None		Texaco Inc. 100%	2.98864	55278
4	T18S-R34E Section 2; Lot 1, SE/4 NE/4	80.92	B-867-1 5-6-32 H.B.P.	State of New Mexico (Common School)	The Texas Co. None		Texaco Inc. 100%	6.05698	54150
5	T18S-R34E Section 2; NE/4 SW/4, NW/4 SW/4, SW/4 SW/4, SE/4 SW/4, NE/4 SE/4, NW/4 SE/4, SW/4 SE/4, SE/4 SE/4	320.00	B-1189-1 9-10-32 H.B.P.	State of New Mexico (Common School)	The Texas Co. None		Texaco Inc. 100%	11.15760	54615

TRACT NO.	DESCRIPTION	NO. OF ACRES	SERIAL NO. & DATE OF LEASE OR APPLICATION	BASIC ROYALTY & PERCENTAGE	LESSEE OF RECORD	OVERRIDING ROYALTY & PERCENTAGE	WORKING INTEREST & PERCENTAGE	PERCENTAGE OF TRACT PARTICIPATION	TEXACO FILE NUMBER
6	<u>T18S-R34E</u> Section 1; Lots 3 & 4, SW/4 NW/4, SE/4 NW/4	161.58	B-1080-1 7-30-32 H.B.P.	State of New Mexico 12.50 (Lieu)	The Texas Co.	None	Texaco Inc. 100%	16.33792	54474
7	<u>T18S-R34E</u> Section 1; Lots 1 & 2, SW/4 NE/4, SE/4 NE/4	160.90	B-1733-1 2-17-33 H.B.P.	State of New Mexico 12.50 (Lieu)	The Texas Co.	None	Texaco Inc. 100%	18.72883	55391
8	<u>T18S-R34E</u> Section 1; NE/4 SW/4, NW/4 SW/4, SW/4 SW/4, SE/SW/4, NE/4 SE/4, NW/4 SE/4, SW/4 SE/4, SE/4 SE/4	320.00	B-1306-1 11-10-32	State of New Mexico 12.50 (M. Inst.)	The Texas Co.	None	Texaco Inc. 100%	24.60649	55035
9	<u>T18S; R34E</u> Section 11; NE/4 NE/4, and Section 12; NE/4 NW/4, NW/4 NW/4	120.00	B-1258-1 10-10-32 H.B.P.	State of New Mexico 12.50 (Lieu)	The Texas Co.	None	Texaco Inc. 100%	1.15561	54627
10	<u>T17S; R34E</u> Section 35; NW/4 SW/4 SW/4 SW/4	80.00	B-870-1 5-6-32 H.B.P.	State of New Mexico 12.50 (M. Inst.)	The Texas Co.	None	Texaco Inc. 100%	5.97729 ----- 100.00000%	54146

Ten (10) State Tracts containing 1,485.64 Acres and 100.00% of Unit Area

## ATTACHMENT I

### APPLICATION OF CHEVRON USA INC. FOR VERTICAL EXPANSION OF THE UNITIZED FORMATION OF THE UNIT AGREEMENT FOR THE DEVELOPMENT AND OPERATION OF THE VACUUM GRAYBURG SAN ANDRES UNIT AREA, LEA COUNTY, NEW MEXICO

#### **Geologic & Engineering Justification for VGSAU Vertical Expansion:**

Recent technical studies of various Permian Basin San Andres floods as well as current completion practices in San Andres tertiary floods in the Denver Unit and the Seminole San Andres Units of Texas, along with recently acquired log and core data from wells in Chevron's Central Vacuum Unit and Vacuum Grayburg San Andres Unit have indicated the presence of commercially movable hydrocarbons beneath the historic producing oil/water contact of the respective units. This resource is part of what is now being described by Industry as a residual oil zone which starts immediately beneath the producing oil/water contact and extends for several hundred feet. For the Vacuum Grayburg San Andres pool, the Industry accepted historic producing oil/water contact occurs at an approximate depth of 700' sub-sea.

When the Vacuum Grayburg San Andres Unit was unitized in 1972, the 'Unitized Formation', based on the established producing oil/water contact of 700' sub-sea, was described in article 1.4 of the VGSAU Unit Agreement as "that zone interval including and correlative to portions of the Grayburg and San Andres Formations found between the depths of 3,902 feet (plus 105 feet sub-sea) and 4,809 feet (minus 802 feet sub-sea) on the Welex Acoustic Velocity Log, dated February 22, 1965, run in Texaco's New Mexico 'M' State Well No. 8, located 330 feet from the north line and 1,880 feet from the west line of Section 1, T-18-S, R-34-E, Lea County, New Mexico." Taking into account structural variations across the Unit area, this Unitized Formation interval was adequate to allow the efficient recovery of hydrocarbons across the unit from the Grayburg San Andres reservoir down to the producing oil/water contact as it was known at the time. However, from the more recent studies referenced above, we now know there to be a hydrocarbon resource target below 700' sub-sea that extends beneath the Unitized Formation as it is currently described, but still within the San Andres formation, which cannot be efficiently recovered without vertically expanding the current Unitized Formation. We plan additional coring to confirm the total vertical extent of the residual oil zone interval but feel its currently commercial limit to be near an 850' sub-sea datum. A vertical expansion to the proposed depth of 5020' (1013' sub-sea) in the New Mexico "M" State Well No. 8 should allow the efficient recovery of all movable hydrocarbons within the full oil column present in the Grayburg San Andres formation. This is the basis for our Application for Vertical Expansion.

The attached Index Map and NW-SE Structural Cross Section help demonstrate. Shown is the San Andres portion of the Unitized Formation down to the interpreted VGSAU Unit Boundary which is the red-dashed correlation horizon. (Note: The VGSAU Unit referenced well – the New Mexico 'M' State Well No. 8 has since been unitized into the Vacuum Glorieta West Unit and is labeled as the VGWU #113 well, second from the left in the cross section.) The historic producing oil/water contact is shown as the blue-dashed correlation horizon labeled 'OWC\_CVU'. Please note the green-shaded curve far right of the depth tract for the VGSAU #250; this is the core oil saturation curve, scaled from 0 to 50% left to right, which demonstrates oil saturations extend well beneath the current VGSAU Unitized Formation. The proposed expanded Unitized Formation is represented by the lowermost green-dashed correlation labeled 'VGSAU New Lower Unit Boundary'.



All current VGSAU completions are from within the current Unitized Formation. Also, all of the interval involved in this Application for Vertical Expansion is within the Grayburg San Andres formation as the San Andres formation extends vertically from the base of the Grayburg to the top of the Glorieta formation, and the top of the Glorieta formation occurs at a depth 5819' (1812' sub-sea) in the same Unit referenced well and log, the Welex Acoustic Velocity Log, dated February 22, 1965, run in Texaco's New Mexico "M" State Well No. 8, located 330 feet from the North line and 1,880 feet from the West line of Section 1, T-18-S, R-34-E, Lea County, New Mexico.

**Plan of Operation:**

On December 11, 2007, Chevron gained NMOCD approval to initiate a tertiary recovery project in the Vacuum Grayburg San Andres Unit (Case No. 13961, Order No. R-4442-B). Chevron plans to initiate this tertiary recovery project during 2008 to include both the historic oil column and the upper portion of the residual oil zone. The initial phase of the tertiary recovery project will involve four injection-centered patterns in the northeast portion of the Unit incorporating the following wells: VGSAU 54, 155, 55, 156, 56, 157, 57, 158, 258, 122, 250, 150, 249, 149, 48, 148, 47, 147, 39, 140, 40, 141, 41, 142, 42, 143, and 43. Pending approval of this Application for Vertical Expansion, these wells will either be deepened or have perms added down to an approximate depth of 850' sub-sea in order to implement a tertiary recovery project, which will simultaneously allow the efficient recovery of hydrocarbons from the historic oil column and the upper portion of the residual oil zone. Further, in 2008 Chevron plans to drill seven wells in the VGSAU which lie outside the initial phase of the tertiary recovery project. Each of these wells will be drilled and cased to a total depth of 5000' and then initially completed to a maximum depth of approximately 850' sub-sea.

Scott M. Ingram  
1/18/08  
Vacuum Projects Manager

**ATTACHMENT II**

**APPLICATION OF CHEVRON USA INC. FOR VERTICAL EXPANSION OF  
THE UNITIZED FORMATION OF THE UNIT AGREEMENT FOR THE  
DEVELOPMENT AND OPERATION OF THE VACUUM GRAYBURG SAN  
ANDRES UNIT AREA, LEA COUNTY, NEW MEXICO**

**NOTICE LIST**

**T-18-S, R-34-E, N.M.P.M.**

**SECTIONS 3 & 10-12: ALL; SECTION 13: N/2N/2, NE/4NE/4, W/2NE/4 & S/2;  
SECTION 14: N/2N/2**

**OFFSET OPERATORS**

BP America Production Company  
P. O. Box 3092  
Houston, TX 77253

Chevron USA Inc.  
15 Smith Road  
Midland, TX 79705

Dalport Oil Corporation  
5646 Milton Street #413  
Dallas, TX 75206

Douglas Oil & Gas LP  
500 W. Texas Ave., Suite 940  
Midland, TX 79701

Chase Oil Corporation  
P. O. Box 1210  
Graham, TX 76046

ExxonMobil Corporation  
P. O. Box 2305  
Houston, TX 77252

Gordon M. Cove Estate  
P. O. Box 64244  
Lubbock, TX 79424

J. M. Leonard and BP Exploration  
1100 Penn Tower  
Oklahoma, OK 73118

Nadel and Gussman Permian LLC  
15 E. 5<sup>th</sup> Street, Suite 3200  
Tulsa, OK 74103

Occidental Permian Limited Partnership  
P. O. Box 4294  
Houston, TX 77210

OXY USA WTP Limited Partnership  
P. O. Box 50250  
Midland, TX 79701

Daniel Gonzales  
P. O. Box 2475  
Santa Fe, NM 87504-2475

**SURFACE OWNERS:**

Pearce Trust, Roy F. Pearce Sr.  
& Roy F. Pearce Jr., Co-Trustees  
1717 Jackson  
Pecos, TX 79772

Lee Cattle Company Limited Partnership  
HC 60 Box 465  
Lovington, NM 88200

January 31, 2008

State of New Mexico  
Commissioner of Public Lands  
P. O. Box 1148  
Santa Fe, New Mexico 87504-1148

**T-18-S, R-35-E, N.M.P.M.**  
**SECTIONS 6 & 7: ALL; SECTION 18: N/2NW/4**

**OFFSET OPERATORS:**

Chase Oil Corporation  
P. O. Box 1767  
Artesia, NM 88211

Chevron USA Inc.  
15 Smith Road  
Midland, TX 79705

Marathon Oil Company  
P. O. Box 2069  
Houston, TX 77252

Triple T Resources LP  
4809 Cole Ave., Suite 108  
Dallas, TX 75205

**SURFACE OWNERS:**

Giles M. Lee and Joe A. Lee  
HC 60 Swamp Road  
Lovington, NM 88260

Lee Cattle Company Limited Partnership  
HC 60 Box 465  
Lovington, NM 88260

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**T-17-S, R-34-E, N.M.P.M.**  
**SECTION 25: W/2SE/4; SECTION 26: S/2; SECTION 27: S/2;  
SECTIONS 34-36: ALL**

**OFFSET OPERATORS:**

BP America Production Company  
P. O. Box 3092  
Houston, TX 77253

Marathon Oil Company  
P. O. Box 2069  
Houston, TX 77252

Brazos Limited Partnership  
P. O. Box 911  
Breckenridge, TX 76424

Mobil Producing Texas & New Mexico Inc.  
P. O. Box 2305  
Houston, TX 77252

Chevron USA Inc.  
15 Smith Road  
Midland, TX 79705

Shinnery Oil Company Inc.  
606 W. Tennessee, Suite 107  
Midland, TX 79701

ConocoPhillips Company  
P. O. Box 7500  
Bartlesville, OK 74005

XTO Energy Inc.  
810 Houston Street  
Fort Worth, TX 76102

Headington Oil Company  
7557 Rambles Road, Suite 1150  
Dallas, TX 75231

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**SECTION 31: ALL**

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XTO Energy Inc.  
810 Houston Street  
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Daniel Pequeno, CPL/ESA  
Land Representative

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and Production Company  
15 Smith Road, RM-2235  
Midland, Texas 79705  
Tel 432 687 7461  
Fax 432 687 7871  
peqd@chevron.com

January 31, 2008

**RE: APPLICATION FOR VERTICAL EXPANSION  
VACUUM GRAYBURG SAN ANDRES UNIT  
LEA COUNTY, NEW MEXICO (CHEVRON FILE NO. QLS-044246)**

Attention: Vacuum Grayburg San Andres Unit Offset Operators and Surface Owners  
(See attached list)

Ladies and Gentlemen:

For your information as an offset operator and surface owner, Chevron U.S.A., Inc. hereby gives notice of their intent to file an Application for Vertical Expansion of the Unitized Formation of the Vacuum Grayburg San Andres Unit in Lea County, New Mexico with the State of New Mexico, Commissioner of Public Lands and the New Mexico Oil Conservation Division.

Attached is a copy of the application which is being filed simultaneously with this notification. Exhibit "A" & "B" is the map and land description for the Vacuum Grayburg San Andres Unit in relation to your offset operations. If you have any objections to this application, your objection must be filed in writing with the Santa Fe Office of the Oil Conservation Division located at 1220 South Saint Frances Drive, Santa Fe, New Mexico 87505 within 15 days of the date of this letter. If there is no objection, the Commissioner of Public Lands and the Division Director may approve this application.

Sincerely,

A handwritten signature in black ink, appearing to read "Daniel Pequeno", written over a horizontal line.

Daniel Pequeno

Enclosure

**ATTACHMENT II**

**APPLICATION OF CHEVRON USA INC. FOR VERTICAL EXPANSION OF  
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**SECTIONS 6 & 7: ALL; SECTION 18: N/2NW/4**

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**SECTION 25: W/2SE/4; SECTION 26: S/2; SECTION 27: S/2;**  
**SECTIONS 34-36: ALL**

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ConocoPhillips Company  
P. O. Box 7500  
Bartlesville, OK 74005

Marathon Oil Company  
P. O. Box 2069  
Houston, TX 77252

Mobil Producing Texas & New Mexico Inc.  
P. O. Box 2305  
Houston, TX 77210

XTO Energy Inc.  
810 Houston Street  
Fort Worth, TX 76192

Occidental Permian Limited Partnership  
P. O. Box 4294  
Houston, TX 77210

**SURFACE OWNERS:**

Pearce Trust, Roy F. Pearce Sr., &  
Roy F. Pearce, Jr., Co-Trustees  
1717 Jackson  
Pecos, TX 79772

State of New Mexico  
Commissioner of Public Lands  
P. O. Box 1148  
Santa Fe, New Mexico 87504-1148