



May 13, 2008

HAND-DELIVERED

Mark E. Fesmire, P. E.
Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
2010 South Saint Francis Drive
Santa Fe, New Mexico 87505

Case 14139

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Re: Application of Chevron U.S.A., Inc. for qualification of the Vacuum Grayburg-San Andres Unit Tertiary Recovery Project for the Recovered Oil Tax Rate Pursuant to the Enhanced Oil Recovery Act, Lea County, New Mexico.

Dear Mr. Fesmire:

Enclosed in triplicate is the Application of Chevron, U.S.A., Inc. in the above-referenced case as well as a copy of a legal advertisement. Chevron requests that this matter be set for hearing before a Division Examiner on June 12, 2008.

Very truly yours,

William F. Carr

Enclosures

cc: Mr. Scott Ingram (w/enclosures)
Chevron, U.S.A., Inc.
15 Smith Road
Midland, Texas 79702

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

**IN THE MATTER OF THE APPLICATION OF CHEVRON U.S.A., INC. FOR
QUALIFICATION OF THE VACUUM GRAYBURG-SAN ANDRES UNIT PRESSURE
MAINTENANCE PROJECT FOR THE RECOVERED OIL TAX RATE PURSUANT
TO THE ENHANCED OIL RECOVERY ACT, LEA COUNTY, NEW MEXICO.**

CASE NO. 14139

APPLICATION

CHEVRON U.S.A., INC. ("Chevron") through its attorneys, Holland & Hart LLP, hereby makes application to qualify its Vacuum Grayburg-San Andres Unit Pressure Maintenance Project, Vacuum Grayburg-San Andres Pool, for the Recovered Oil Tax Rate pursuant to the Enhanced Oil Recovery Act, and in support of its application states:

1. By Order No. R-4433, dated November 1, 1972, the Division granted the application of Texaco for approval of the Vacuum Grayburg-San Andres Unit comprised of approximately 1486 acres, more or less. The unit boundaries include the following acreage in Lea County, New Mexico:

TOWNSHIP 17 SOUTH, RANGE 34 EAST, N.M.P.M.

Section 35: W/2 SW/4

TOWNSHIP 18 SOUTH, RANGE 34 EAST, N.M.P.M.

Sections 1 and 2: All

Section 11: NE/4 NE/4

Section 12: N/2 NW/4

2. Division Order No. R-4442 dated November 1, 1972, as amended, approved pressure maintenance by water injection in the Vacuum Grayburg-San Andres Pressure Maintenance Project in the Vacuum Grayburg-San Andres Unit.

3. On June 26, 2007, Chevron U.S.A. Inc. filed its application for, among other

matters, the amendment of Division Order No. R-4442, as amended, to authorize a tertiary recovery project by the injection of carbon dioxide in the Vacuum Grayburg-San Andres Unit Area, and qualification of the project for the Recovered Oil Tax Rate Pursuant to the Enhanced Oil Recovery Act. However, the legal advertisement for the case did not include notice of the application for the incentive tax rate.

4. At the August 23, 2007 examiner hearing on this application, Chevron presented its application for the incentive tax rate (Exhibit 15) and testified to all matters required to qualify the project under the New Mexico Enhanced Oil Recovery Act.

5. By Order No. R- 4442-B entered on December 11, 2007, The Division authorized Chevron to institute an enhanced oil tertiary recovery project by means of combined or alternating injection of water, carbon dioxide (CO₂), and produced gases into the Grayburg and San Andres formations in the Vacuum Grayburg-San Andres Unit Tertiary Recovery Project in the Vacuum Grayburg-San Andres Unit. This order also contained a Finding (12) that stated:

“Chevron did present an exhibit and testimony toward qualifying this project for the Recovered Oil Tax Rate; however the request for qualification was not included in this case as advertised and Chevron asked it to be considered at a future time.”

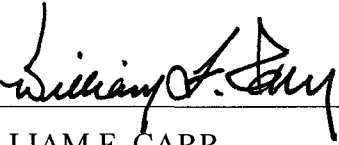
6. Chevron now seeks to qualify this project for the Recovered Oil Tax Rate pursuant to the New Mexico Enhanced Oil Recovery Act. Attached hereto as Exhibit A is Chevron’s letter application which contains all information required by Division rules to qualify this project under the Enhanced Oil Recovery Act. This Exhibit was admitted into evidence as Chevron’s Exhibit 15 at the August 23, hearing in Case No. 13961.

7. Attached hereto as Exhibit B is a list of the names and addresses of the persons entitled to notice of this application pursuant to Oil Conservation Division rules and regulations.

8. Approval of this application will be in the best interest of the conservation, the protection of correlative rights and the prevention of waste.

WHEREFORE, Chevron, U.S.A., Inc. requests that this matter be set for hearing before a duly appointed Examiner of the Oil Conservation Division on June 12, 2008 and after notice and hearing as required by law, the Division enter its Order granting this application.

Respectfully submitted,
HOLLAND & HART, LLP

By: _____

WILLIAM F. CARR
Post Office Box 2208
Santa Fe, New Mexico 87504
Telephone: (505) 988-4421

ATTORNEYS FOR CHEVRON U.S.A., INC.



August 22, 2007

Mark E. Fesmire, P.E.
Director
Oil Conservation Division
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

Re: Case 13961: Application of Chevron USA Inc. for Enhanced Oil Recovery Project Qualification for the Recovered Oil Tax Rate in the Vacuum Grayburg-San Andres Unit, Lea County, New Mexico.

Dear Mr. Fesmire:

Chevron USA Inc. ("Chevron") hereby makes application to qualify a portion of the Vacuum Grayburg San Andres Unit ("VGSAU") for the recovered oil tax rate authorized by the Enhanced Oil Recovery Act. Chevron plans to commence construction on delivery and gathering facilities, contract for delivery of injectants and upgrade existing installations in a timeline which will allow initiation of miscible Carbon Dioxide (CO₂) flood during the second quarter of 2008. Chevron is making application pursuant to the rules promulgated by Oil Conservation Commission Order No. R-9708 entered on August 27, 1992.

In accordance with this Order, Chevron provides the following information:

A. Operator's name and address:

Chevron USA Inc.
15 Smith Road
Midland, Texas 79705

B. Description of the project area:

1. Provide a plat outlining the project area:

See Exhibit 11, Case No. 13961 for a plat of the project area.

2. Describe the project area by section, township and range:

Township 18 South, Range 34 East, NMPM

Section 1: All
Section 2: All
Section 11: NE/4 NE/4
Section 12: N/2 NW/4

EXHIBIT A

BEFORE THE OIL CONSERVATION DIVISION
Santa Fe, New Mexico
Case No. 13961...Exhibit No. **15**
Submitted by:
Chevron USA Inc.
Hearing Date: August 23, 2007



Township 17 South, Range 34 East, NMPM
Section 35: W/2 SW/4

The proposed project will only impact 86% of the VGSAU acreage and is more accurately identified as those injection patterns highlighted on Exhibit 11, Case No. 13691, which include those wells listed in Exhibit A to this application.

3. Total acres:

The VGSAU contains a total of 1,486 Acres(m/l)
Chevron is targeting 1,280 Acres (m/l) for the CO2 project. The area is highlighted on Exhibit 11, Case No. 13691.

4. Provide the name of the subject pool and formation.

The VGSAU is within the Vacuum Pool.
The VGSAU includes portions of the Grayburg and San Andres Formations.
The type log identified in the Unit Agreement is Exhibit No. 6, Case No. 13961.

C. Status of operations in the project area:

1. Provide the name of the unit and the date and number of the Division Order approving the unit plan of operation:

The proposed CO2 project is at the Chevron operated Vacuum Grayburg San Andres Unit ("VGSAU").
The Commission approved the VGSAU on November 8, 1972 with Order No. R-4443.
The VGSAU pressure maintenance project has been approved and is governed by Order No. R-4433-A (11-08-72); R-4422 (11-27-72); R-6094 (09-01-79); and R-7010 (07-01-82).

D. Method of recovery to be used:

1. Identify fluids to be injected:

Recovery is to be enhanced with the introduction of CO2. Produced gases will be recycled (re injected). Water will continue to be injected outside of the target area, and in the target area with alternating slugs with the CO2 in what the industry calls a WAG injection scenario.

2. If the Division has not approved the project, provide the date the application for approval was filed with the Division on Form C-108.



A Form C-108 is provided with this application dated January 15, 2001 (Exhibit No. 12, Case No. 13961) as supplemented and revised on August 15, 2007 (Exhibit No. 13, Case No. 13961).

E. Description of the project:

1. A list of producing wells:

See Exhibit A to this application for a list identifying producing wells within the project area.

2. A list of injection wells:

See Exhibit A for a list of the injection wells in the project target area. This list identifies all injection wells in the project area including the 25 injection wells and the one well to be converted to injection identified in the application in Case No. 13961.

3. Capital cost of additional facilities: (Current Cost)

Field Installations/Upgrades/Well remediation:	\$ 65.4 million
CO2 Injectant Purchase:	\$168.2 million

4. Total project cost:

The project will cost \$233.6 million inclusive of associated injectant expenses. Of this total, \$65.4 million will go toward facilities and well work on the VGSAU.

5. Provide the estimated total value of the additional production that will be recovered as a result of this project:

An additional 24.5 MMB of oil are anticipated to be recovered as a result of this project. Based on current capital of \$45/BO and \$30/BNGL, and the current CO2 Targeted Area, the estimated value of the hydrocarbons produced from the proposed project is \$504 million.

6. Provide anticipated date for commencement of injection:

The anticipated initial CO2 injection date is May, 2008.

7. What type of fluid will be injected and what are the anticipated volumes?

A total of 70 BCF of CO2 will be purchased for the project. Produced gases will be recycled back to the reservoir resulting an ultimate injection of 140 BCF of gas during a 50 year period. The recycled gas would consist of CO2, certain hydrocarbons that cannot be economically marketed, and associated non-



hydrocarbon gases. The injection scheme to be employed is known as a WAG, or water-alternating-gas injection. Alternating slugs of gas and slugs of water would be introduced in varying volumes with the length of injection (time) dependent on reservoir response.

- F. Production data: Provide graphs, charts and other supporting data to show the production history and production forecast of oil, gas, casinghead gas and water from the project area.**

Exhibit B provides the VGSAU production and injection history along with the forecast of enhanced recovery due to the introduction of CO₂.

Chevron requests that this application be approved.

Very truly yours,

Brent Brugger
Chevron USA Inc.

VACUUM GRAYBURG SAN ANDRES UNIT

Wells within Proposed CO2 Target Area

Producers		Injectors	
VGSAU		VGSAU	
Well	API Well Number	Well	API Well Number
1*	3002521634	4	3002524332
2*	3002521421	5	3002524333
3*	3002502326	14	3002524359
6	3002521420	15	3002524378
7	3002502277	16	3002524308
8	3002502275	17	3002524316
9	3002502274	18	3002524317
10	3002502258	19	3002524331
11	3002502257	20	3002524360
12	3002502259	31	3002524314
13	3002502260	32	3002524330
21	3002502276	33*	3002524323
22	3002502273	34	3002524312
23	3002502272	35	3002524361
24	3002502271	46	3002524364
25	3002502256	47	3002524365
26	3002502255	48	3002524322
27	3002502254	49*	3002524329
28*	3002502253	50*	3002524366
38	3002502265	63	3002527974
39	3002502264	68*	3002502110
40	3002502252	132	3002536683
41	3002502249	133	3002535686
42	3002502245	134	3002536681
43	3002502247	135	3002535561
52	3002502267	146	3002530846
53	3002502262	147	3002530798
54	3002502263	148	3002530799
55	3002502250	149	3002530847
56	3002502251	150	3002530917
57	3002502248	233	3002536355
58*	3002502246	235	3002535562
122**	3002530721	249	3002535563
126	3002532026	250	3002538001
127*	3002532027		
128	3002532028		
139	3002530755		
140	3002530756		
141	3002530797		
142	3002530843		
143	3002530844		
153	3002530802		
154	3002530801		
155	3002530800		
156	3002530851		
157	3002530717		
158	3002530818		
159	3002533464		
211*	3002535687		
212	3002532004		
227	3002531993		
258	3002532009		

* P&A'd Well

**Well to be converted to injection
8/15/2007

Vacuum Grayburg San Andres Unit History

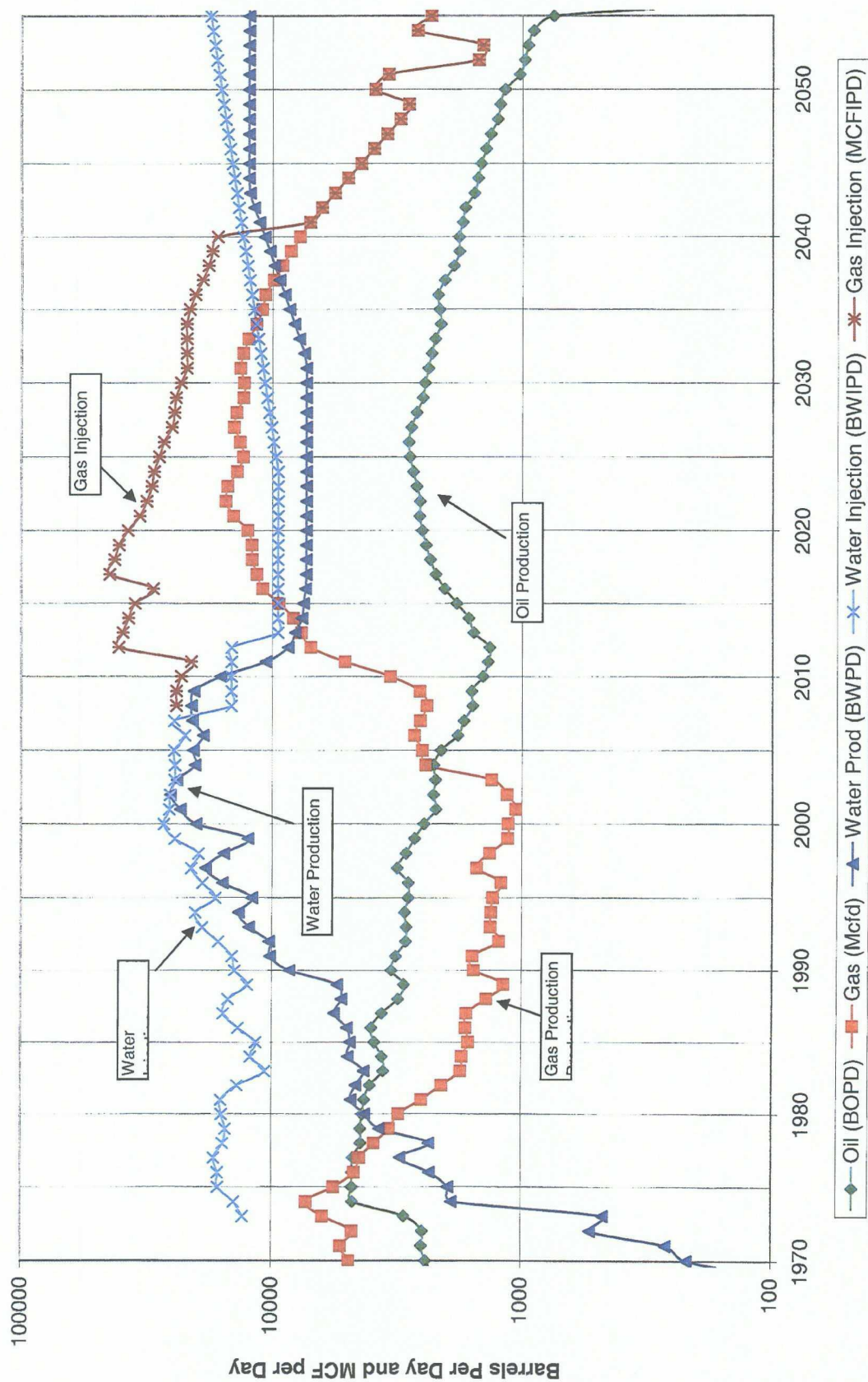


EXHIBIT B

APPLICATION OF CHEVRON U.S.A., IN FOR QUALIFICATION OF THE VACUUM GRAYBURG-SAN ANDRES UNIT PRESSURE MAINTENANCE PROJECT FOR THE RECOVERED OIL TAX RATE PURSUANT TO THE ENHANCED OIL RECOVERY ACT, LEA COUNTY, NEW MEXICO.

NOTICE LIST

Offset Operators:

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

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

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

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

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

Dalport Oil Corp.
5646 Milton St. #413
Dallas, TX 75206

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

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

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

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

Headington Oil Co.
7557 Rambles Rd. Suite 1150
Dallas, TX 75231

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

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

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

Nadel and Gussman Permian LLC
15 E. 5th St. Ste 3200
Tulsa, OK 74103

OXY USA WTP Limited Partnership
P.O. Box 50250
Midland, TX 79710

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

Shinnery Oil Co., Inc.
606 W. Tennessee Ste 107
Midland, TX 79701

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

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

Surface Owners:

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

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

Lee Cattle Company L.P.
HC 60 Box 465
Lovington, NM 88260

Hiles M. Lee and Joie A. Lee
HC 60 Swamp Rd.
Lovington, NM 88260

CASE 14139. Application of Chevron U.S.A., Inc. for qualification of the Vacuum Grayburg-San Andres Unit Tertiary Recovery Project for the Recovered Oil Tax Rate Pursuant to the Enhanced Oil Recovery Act, Lea County, New Mexico. Applicant seeks to qualify the Vacuum Grayburg-San Andres Unit Tertiary Recovery 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 Vacuum Grayburg-San Andres Unit Tertiary Recovery Project encompasses portions of Section 35 of Township 17 South, Range 34 East and portions of Sections 1, 2, 11 and 12 of Township 18 South Range 34 East, N.M.P.M. Said unit is located approximately 22 miles northwest of Hobbs, New Mexico.