

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. 9606
ORDER NO. R-8905

APPLICATION OF READ & STEVENS, INC.
FOR STATUTORY UNITIZATION, EDDY
COUNTY, NEW MEXICO

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on February 15, 1989 and on March 15, 1989, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 12th day of April, 1989, the Division Director, having considered the testimony, the record and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) At the time of both hearings, this Case was consolidated with Case No. 9607 for the purposes of testimony.

(3) The applicant, Read & Stevens, Inc. seeks the statutory unitization, pursuant to the "Statutory Unitization Act," Sections 70-7-1 through 70-7-21, of 1360.0 acres, more or less, being a portion of the designated and undesignated Bunker Hill-Penrose Associated Pool, Eddy County, New Mexico; and approval of the plan of unitization and the proposed operating plan.

(4) The proposed unit area should be designated the Bunker Hill Unit Area; and the horizontal limits of said unit area should be comprised of the following described Federal, State and Fee lands in Eddy County, New Mexico:

TOWNSHIP 16 SOUTH, RANGE 31 EAST, NMPM

Section 13: SW/4 NE/4 and W/2

Section 14: NE/4 and S/2

Section 23: NE/4, NE/4 NW/4,

S/2 NW/4, NE/4 SW/4 and N/2 SE/4

Section 24: N/2 NW/4 and SW/4 NW/4

(5) The horizontal limits of said unit are within the governing boundaries of the Bunker Hill-Penrose Associated Pool and have been reasonably defined by development.

(6) The vertical limits of said Unit Area should comprise the subsurface formation commonly known as the Penrose formation identified between the depths of approximately 3598 feet and 3626 feet as reported on the Dresser Atlas Compensated Densilog - Compensated Neutron Log, dated April 29, 1981, in the applicant's Dartmouth Well No. 1 located 660 feet from the South and East lines (Unit P) of Section 14, Township 16 South, Range 31 East, NMPM, Eddy County, New Mexico.

(7) The applicant has made a good faith effort to secure voluntary unitization within the Unit Area and at the time of the hearing over 80.2 percent of the working interest owners and 84.0 percent of the royalty interest owners were effectively committed to the unit.

(8) The applicant proposes to institute a waterflood project for the secondary recovery of oil and associated gas, condensate, and all associated liquefiable hydrocarbons within and to be produced from the proposed unit area, all as shown in Division Case 9607.

(9) The proposed secondary recovery operations should result in the additional recovery of approximately 343,000 barrels of oil.

(10) The unitized management, operation and further development of the Bunker Hill Unit Area, as proposed, is reasonably necessary to effectively carry on secondary recovery operations and will substantially increase the ultimate recovery of oil and gas from the unitized portion of the pool.

(11) The proposed unitized method of operation as applied to the Bunker Hill Unit Area is feasible and will result with reasonable probability in the increased recovery of substantially more oil and gas from the unitized portion of the pool than would otherwise be recovered without unitization.

(12) The estimated additional costs of such operations will not exceed the estimated value of the additional oil so recovered plus a reasonable profit.

(13) Such unitization and adoption of applicant's proposed unitized method of operation will benefit the working interest owners and royalty owners of the oil and gas rights within the Bunker Hill Unit Area.

(14) The granting of the application in this case will have no adverse effect upon the Bunker Hill-Penrose Associated Pool and/or the Penrose formation located outside of the proposed Bunker Hill Unit boundary.

(15) The applicant's Unit Agreement and the Unit Operating Agreement were submitted to the Division prior to the hearing, were made a part of the record in this case and should be incorporated by reference into this order.

(16) The Bunker Hill Unit Agreement and the Bunker Hill Unit Operating Agreement provide for unitization and unit operation of the Bunker Hill Unit Area upon terms and conditions that are fair, reasonable and equitable, and include:

- (a) an allocation to the separately owned tracts of the unit area of all oil and gas that is produced from the unit area and which is saved, being the production that is not used in the conduct of unit operations or not unavoidably lost;
- (b) a provision for the credits and charges to be made in the adjustment among the owners in the unit area for their respective investments in wells, tanks, pumps, machinery, materials and equipment contributed to the unit operators;
- (c) a provision governing how the costs of unit operations including capital investments shall be determined and charged to the separately-owned tracts and how said costs shall be paid, including a provision providing when, how and by whom such costs shall be charged to such owner, or the interest of such owner, and how his interest may be sold and the proceeds applied to the payment of his costs;
- (d) a provision for carrying any working interest owner on a limited, carried or net-profits basis, payable out of production, upon terms and conditions which are just and reasonable, and which allow an appropriate charge for interest for such service payable out of production, upon such terms and conditions determined by the Division to be just and reasonable;
- (e) a provision designating the Unit Operator and providing for supervision and conduct of the unit operations, including the selection, removal and substitution of an operator from among the working interest owners to conduct the unit operations;
- (f) a provision for a voting procedure for decisions on matters to be decided by the working interest owners in respect to which each working interest owner shall have a voting interest equal to his unit participation; and
- (g) the time when the unit operation shall commence and the manner in which, and the circumstances under which, the operations shall terminate and for the settlement of accounts upon such termination.

(17) Any working interest owner who has not agreed in writing to participate in the unit prior to the date of this order should be deemed to have relinquished to the unit operator all of his operating rights and working interest in and to the unit until his share of the costs has been repaid, plus an additional 200 percent thereof as a non-consent penalty (Section 70-7-7.F. NMSA 1978.)

(18) The statutory unitization of the Bunker Hill Unit Area is in conformity with the above findings, and will prevent waste and protect correlative rights of all interest owners within the proposed unit area, and should be approved.

IT IS THEREFORE ORDERED THAT:

(1) The application of Read & Stevens, Inc. for the Bunker Hill Unit Agreement, covering 1360.0 acres, more or less, of Federal, State and Fee lands in the designated and undesignated Bunker Hill-Penrose Associated Pool, Eddy County, New Mexico, is hereby approved for statutory unitization pursuant to the "Statutory Unitization Act", Sections 70-7-1 through 70-7-21, NMSA (1978).

(2) The lands covered by said Bunker Hill Unit Agreement shall be designated the Bunker Hill Unit Area and shall comprise the following described acreage in Eddy County, New Mexico:

TOWNSHIP 16 SOUTH, RANGE 31 EAST, NMPM

Section 13: SW/4 NE/4 and W/2

Section 14: NE/4 and S/2

Section 23: NE/4, NE/4 NW/4,
S/2 NW/4, NE/4 SW/4 and N/2 SE/4

Section 24: N/2 NW/4 and SW/4 NW/4

(3) The horizontal limits of said unit are within the governing boundaries of the Bunker Hill-Penrose Associated Pool and have been reasonably defined by development.

(4) The vertical limits of said Unit Area shall comprise the subsurface formation commonly known as the Penrose formation identified between the depths of approximately 3598 feet and 3626 feet as reported on the Dresser Atlas Compensated Densilog - Compensated Neutron Log, dated April 29, 1981, in the applicant's Dartmouth Well No. 1 located 660 feet from the South and East lines (Unit P) of Section 14, Township 16 South, Range 31 East, NMPM, Eddy County, New Mexico.

(5) The applicant shall institute a waterflood project for the secondary recovery of oil and associated gas, condensate and all associated liquefiable hydrocarbons within and produced from the unit area, and said waterflood project is the subject of Division Case No. 9607.

(6) The Bunker Hill Unit Agreement and the Bunker Hill Unit Operating Agreement, which were submitted to the Division prior to this hearing and made a part of the record in this case, are hereby incorporated by reference into this order.

(7) The Bunker Hill Unit Agreement and the Bunker Hill Unit Operating Agreement provide for unitization and unit operation of the designated and undesignated Bunker Hill-Penrose Associated Pool upon terms and conditions that are fair, reasonable and equitable.

(8) Since the persons owning the required statutory minimum percentage of interest in the unit area have approved or ratified the Unit Agreement and the Unit Operating Agreement, the interests of all persons within the unit area are hereby unitized whether or not such persons have approved the Unit Agreement or the Unit Operating Agreement in writing.

(9) Any working interest owner who has not agreed in writing to participate in the unit prior to the date of this order shall be deemed to have relinquished to the unit operator all of his operating rights and working interest in and to the unit until his share of the costs has been repaid, plus an additional 200 percent thereof as a non-consent penalty (Section 70-7-7.F. NMSA 1978.)

(10) The applicant as Unit Operator shall notify in writing the Division Director of any removal or substitution of said Unit Operator by any other working interest owner within the unit area.

(11) Jurisdiction of this cause 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

William J. Lemay
for WILLIAM J. LEMAY
Director

