

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. 9738
Order No. R-9028

APPLICATION OF KELT OIL AND GAS,
INC. FOR STATUTORY UNITIZATION,
CHAVES COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on August 23 and October 18, 1989, at Santa Fe, New Mexico, before Examiners David R. Catanach and Michael E. Stogner, respectively.

NOW, on this 30th day of October, 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) Division Case Nos. 9738 and 9739 were consolidated at the time of the hearing for the purpose of testimony.

(3) The applicant, Kelt Oil and Gas, Inc., seeks the statutory unitization, pursuant to the "Statutory Unitization Act", Sections 70-7-1 through 70-7-21, of 15,321.83 acres, more or less, being a portion of the Cato-San Andres Pool, Chaves County, New Mexico, said portion to be known as the Cato San Andres Unit; the applicant further seeks approval of the Unit Agreement and the Unit Operating Agreement which were submitted in evidence as applicant's Exhibit Nos. 1 and 2, respectively, in this case.

(4) The proposed unit area should be designated the Cato San Andres Unit Area; and the horizontal limits of said unit area should comprise the following described Federal, State and Fee lands in Chaves County, New Mexico:

TOWNSHIP 8 SOUTH, RANGE 30 EAST, NMPM

Section 2: Lot 4, SW/4, SW/4 NW/4, S/2 SE/4
and NW/4 SE/4
Section 3: Lot 1, S/2, S/2 NE/4 and SE/4 NW/4
Section 4: S/2 and S/2 NW/4
Section 5: SE/4 and SE/4 NE/4
Section 8: E/2
Sections 9 through 11: All
Section 12: W/2
Section 13: NW/4, W/2 SW/4 and NE/4 SW/4
Sections 14 through 17: All
Section 20: N/2 NE/4
Sections 21 and 22: All
Section 23: N/2, SW/4, N/2 SE/4 and SW/4 SE/4
Section 26: NW/4, W/2 NE/4, N/2 SW/4 and
SW/4 SW/4
Sections 27 and 28: All
Section 29: E/2 and E/2 W/2
Section 32: E/2, SW/4 and E/2 NW/4
Section 33: All
Section 34: W/2, W/2 E/2, and NE/4 NE/4

TOWNSHIP 9 SOUTH, RANGE 30 EAST, NMPM

Section 3: Lots 2, 3 and 4, SW/4 NE/4,
S/2 NW/4, SW/4 and NW/4 SE/4
Sections 4 and 5: All
Section 6: Lots 1 and 2, S/2 NE/4, SE/4 NW/4,
NE/4 SW/4 and SE/4
Section 7: NE/4
Section 8: NE/4 and N/2 NW/4
Section 9: NW/4

(5) Said unit has been approved by the Bureau of Land Management and the Commissioner of Public Lands of the State of New Mexico, subject to the approval of the statutory unitization by the Division.

(6) Approximately 90% of the unit area is contained within the horizontal boundaries of the Cato-San Andres Pool and has reasonably been defined by development.

(7) The vertical limits of the Cato San Andres Unit Area should comprise that portion of the San Andres formation extending from an upper limit described as 1,030 feet above mean sea level or at the top of the San Andres (Pi) Marker formation, whichever is higher, to a lower limit at the base of the San Andres P-3 Zone Anhydrite formation; both upper and lower markers having been previously found to occur at 3,081 feet and 3,631 feet, respectively, in the Compensated Formation Density log run on July 30, 1966, from an elevation of 4,111 feet ground level, on the Pan American Petroleum Corporation Thelma Crosby Well No. 1 located 1980 feet from the North and East lines (Unit G) of Section 17, Township 8 South, Range 30 East, NMPM, Chaves County, New Mexico.

(8) The unit area contains 60 separate tracts owned by 36 different working interest owners.

(9) The applicant has made a good faith effort to secure voluntary unitization within the Unit Area and at the time of the hearing over 95% percent of the working interest owners and 79% percent of the royalty interest owners were effectively committed to the unit.

(10) 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 (being the subject of Division Case No. 9739).

(11) All interested parties who have not agreed to unitization were notified of the hearing by the applicant, but no person entered an appearance or opposed the application at the hearing.

(12) The proposed secondary recovery operations should result in the additional recovery of approximately 11.5 million barrels of oil.

(13) The unitized management, operation and further development of the Cato San Andres 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.

(14) The proposed unitized method of operation as applied to the Cato San Andres 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.

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

(16) 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 Cato San Andres Unit Area.

(17) The granting of the application in this case will have no adverse effect upon the Cato-San Andres Pool and/or the San Andres formation located outside of the proposed Cato San Andres Unit boundary.

(18) The applicant's Exhibits Nos. 1 and 2 in this case, being the Unit Agreement and the Unit Operating Agreement, respectively, should be incorporated by reference into this order.

(19) The Cato San Andres Unit Agreement and the Cato San Andres Unit Operating Agreement provide for unitization and unit operation of the Cato San Andres 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.

(20) The statutory unitization of the Cato San Andres 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 Kelt Oil and Gas, Inc. for the Cato San Andres Unit Agreement, covering 15,321.83 acres, more or less, of Federal, State and Fee lands in the designated and undesignated Cato-San Andres Pool, Chaves 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 Cato San Andres Unit Agreement shall be designated the Cato San Andres Unit Area and shall comprise the following described acreage in Chaves County, New Mexico:

TOWNSHIP 8 SOUTH, RANGE 30 EAST, NMPM

Section 2: Lot 4, SW/4, SW/4 NW/4, S/2 SE/4
and NW/4 SE/4
Section 3: Lot 1, S/2, S/2 NE/4 and SE/4 NW/4
Section 4: S/2 and S/2 NW/4
Section 5: SE/4 and SE/4 NE/4
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Section 32: E/2, SW/4 and E/2 NW/4
Section 33: All
Section 34: W/2, W/2 E/2, and NE/4 NE/4

TOWNSHIP 9 SOUTH, RANGE 30 EAST, NMPM

Section 3: Lots 2, 3 and 4, SW/4 NE/4,
S/2 NW/4, SW/4 and NW/4 SE/4

Sections 4 and 5: All

Section 6: Lots 1 and 2, S/2 NE/4, SE/4 NW/4,
NE/4 SW/4 and SE/4

Section 7: NE/4

Section 8: NE/4 and N/2 NW/4

Section 9: NW/4

(3) The vertical limits of the Cato San Andres Unit Area shall comprise that portion of the San Andres formation extending from an upper limit described as 1,030 feet above mean sea level or at the top of the San Andres (Pi) Marker formation, whichever is higher, to a lower limit at the base of the San Andres P-3 Zone Anhydrite formation; both upper and lower markers having been previously found to occur at 3,081 feet and 3,631 feet, respectively, in the Compensated Formation Density log run on July 30, 1966, from an elevation of 4,111 feet ground level, on the Pan American Petroleum Corporation Thelma Crosby Well No. 1 located 1980 feet from the North and East lines (Unit G) of Section 17, Township 8 South, Range 30 East, NMPM, Chaves County, New Mexico.

(4) 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, said waterflood project being the subject of Division Case No. 9739.

(5) The Cato San Andres Unit Agreement and the Cato San Andres Unit Operating Agreement, being applicant's Exhibit Nos. 1 and 2 in this case, are hereby incorporated by reference into this order.

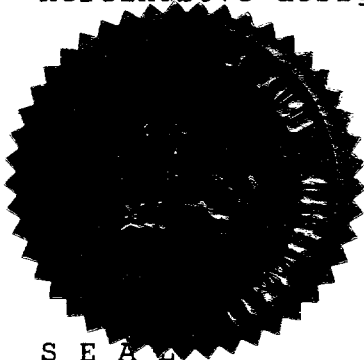
(6) The Cato San Andres Unit Agreement and the Cato San Andres Unit Operating Agreement provide for unitization and unit operation of the designated and undesignated Cato-San Andres Pool upon terms and conditions that are fair, reasonable and equitable.

(7) 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.

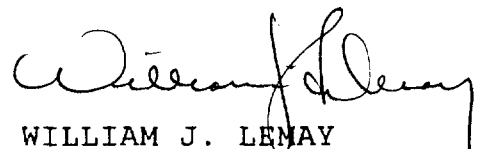
(8) The applicant as Unit Operator shall notify in writing the Division Director of any removal or substitution of said Unit Operator by any other working interest owner within the unit area.

(9) 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
Director