

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. 10253
Order No. R-9494

APPLICATION OF AMERADA HESS CORPORATION
FOR STATUTORY UNITIZATION, LEA COUNTY,
NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on April 4, 1991, at Farmington, New Mexico, before Examiner David R. Catanach.

NOW, on this 1st day of May, 1991, 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) The applicant, Amerada Hess Corporation, seeks the statutory unitization, pursuant to the "Statutory Unitization Act", Sections 70-7-1 through 70-7-21, NMSA, (1978), for the purpose of establishing a secondary recovery project, of all mineral interests in the Eunice Monument-Grayburg-San Andres Pool underlying 13,385 acres, more or less, being a portion of the Eunice Monument-Grayburg-San Andres Pool, Lea County, New Mexico, said portion to be known as the North Monument Grayburg-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. 4 and 5, respectively, in this case.

(3) The proposed unit area should be designated the North Monument Grayburg-San Andres Unit Area; the horizontal limits of said unit area should be comprised of the following described Federal, State and Fee lands in Lea County, New Mexico:

TOWNSHIP 19 SOUTH, RANGE 36 EAST, NMPPM

Section 13: E/2 SE/4
Section 23: S/2 SE/4, SE/4 SW/4
Section 24: E/2, E/2 SW/4, SW/4 SW/4
Section 25: All
Section 26: E/2, SW/4, E/2 NW/4
Section 34: E/2 E/2, SW/4 SE/4
Sections 35 and 36: All

TOWNSHIP 19 SOUTH, RANGE 37 EAST, NMPPM

Section 7: SE/4, E/2 SW/4
Section 8: W/2 SW/4, SW/4 NW/4
Section 17: W/2, SE/4, W/2 NE/4
Sections 18 through 20: All
Section 21: SW/4, W/2 NW/4
Section 28: W/2
Sections 29 through 33: All
Section 34: SE/4, S/2 SW/4

TOWNSHIP 20 SOUTH, RANGE 36 EAST, NMPPM

Section 1: W/2
Section 2: All
Section 3: E/2 E/2, SW/4 NE/4

TOWNSHIP 20 SOUTH, RANGE 37 EAST, NMPPM

Section 3: N/2 N/2, S/2 NW/4, SW/4 NE/4, NW/4 SW/4
Section 4: All
Section 5: N/2, NE/4 SE/4, S/2 SE/4, NW/4 SW/4
Section 6: N/2
Section 8: NE/4 NE/4
Section 9: NW/4, S/2 NE/4, NW/4 NE/4

(4) The vertical limits of the Unit Area should comprise the interval containing the Grayburg and San Andres formations as found from a depth of 3,642 feet to a depth of 5,050 feet on the Gamma Ray Formation Compensated Density Log run on the Amerada Hess Corporation Monument Abo Unit Well No. 1 located in the NE/4 NW/4 of Section 2, Township 20 South, Range 36 East, NMPM, Lea County, New Mexico.

(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) The proposed North Monument Grayburg-San Andres Unit Area has reasonably been defined by development.

(7) The unit area contains 153 separate tracts owned by 48 different working interest owners.

(8) The applicant has made a good faith effort to secure voluntary unitization within the Unit Area and at the time of the hearing over 78.8 percent of the working interest owners and over 52 percent of the royalty interest owners were effectively committed to the unit or have balloted to join the unit.

(9) The applicant will seek at a later time authority 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. 10252).

(10) 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.

(11) The proposed secondary recovery operations should result in the additional recovery of approximately 44 million barrels of oil.

(12) The unitized management, operation and further development of the North Monument Grayburg-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.

(13) The proposed unitized method of operation as applied to the North Monument Grayburg-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.

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

(15) The Phase I and Phase II participation formulas contained in the Unitization Agreement allocate the produced and saved unitized substances to the separately owned tracts in the unit area on a fair, reasonable and equitable basis.

(16) A wellbore useable for production or injection in the unitized interval should be made available for proration units within the unit area which are to participate in the proposed waterflood operations.

(17) It is not unreasonable to penalize the owners of certain proration units on which there is no such wellbore, and upon which the unit operator must drill a new well.

(18) The proposed method of wellbore assessment is fair and reasonable.

(19) 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 North Monument Grayburg-San Andres Unit Area.

(20) The applicant's Exhibit Nos. 4 and 5 in this case, being the Unit Agreement and the Unit Operating Agreement, respectively, should be incorporated by reference into this order.

(21) The North Monument Grayburg-San Andres Unit Agreement and the North Monument Grayburg-San Andres Unit Operating Agreement provide for unitization and unit operation of the North Monument Grayburg-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.

(22) The statutory unitization of the North Monument Grayburg-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 North Monument Grayburg-San Andres Unit Area comprising some 13,385 acres, more or less, being a portion of the Eunice Monument-Grayburg-San Andres Pool, Lea County, New Mexico, is hereby approved for statutory unitization pursuant to the provisions of the "Statutory Unitization Act", Sections 70-7-1 through 70-7-21, NMSA, (1978).

(2) The unit area shall be designated the North Monument Grayburg-San Andres Unit Area; the horizontal limits of said unit area shall comprise the following described Federal, State and Fee lands in Lea County, New Mexico:

TOWNSHIP 19 SOUTH, RANGE 36 EAST, NMPM

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Section 3: N/2 N/2, S/2 NW/4, SW/4 NE/4, NW/4 SW/4
Section 4: All
Section 5: N/2, NE/4 SE/4, S/2 SE/4, NW/4 SW/4
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Section 9: NW/4, S/2 NE/4, NW/4 NE/4

(3) The vertical limits of the Unit Area shall comprise the interval containing the Grayburg and San Andres formations as found from a depth of 3,642 feet to a depth of 5,050 feet on the Gamma Ray Formation Compensated Density Log run on the Amerada Hess Corporation Monument Abo Unit Well No. 1 located in the NE/4 NW/4 of Section 2, Township 20 South, Range 36 East, NMPM, Lea County, New Mexico.

(4) The applicant shall not 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, until the secondary recovery project, which is currently the subject of Division Case No. 10252, has been approved by the Division.

(5) The North Monument Grayburg-San Andres Unit Agreement and Operating Agreement, being applicant's Exhibit Nos. 4 and 5 in this case, respectively, are hereby incorporated by reference into this order.

(6) The North Monument Grayburg-San Andres Unit Agreement and the North Monument Grayburg-San Andres Unit Operating Agreement provide for unitization and unit operation of the 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.

(7) This order shall not become effective unless and until seventy-five (75) percent of the working interest owners and seventy-five (75) percent of the royalty interest owners in the unit area have approved the plan for unit operations as required by Section 70-7-8 NMSA, (1978) Comp.

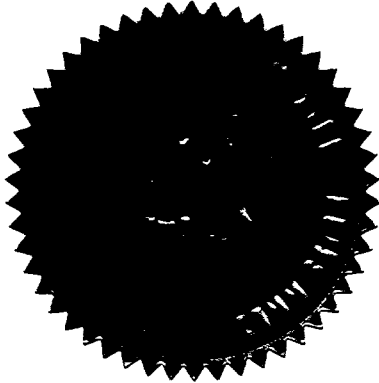
(8) If the persons owning the required percentage of interest in the unit area as set out in Section 70-7-8, NMSA, (1978) Comp., do not approve the plan for unit operations within a period of six months from the date of entry of this order, this order shall cease to be of further force and effect and shall be revoked by the Division, unless the Division shall extend the time for ratification for good cause shown.

(9) When the persons owning the required percentage of interest in the unit area have approved the plan for unit operations, the interests of all persons in the unit area are unitized whether or not such persons have approved the plan of unitization in writing.

(10) Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

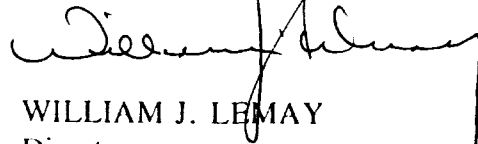
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DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



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STATE OF NEW MEXICO
OIL CONSERVATION DIVISION



WILLIAM J. LEMAY
Director