

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. 10341
ORDER NO. R-9548*

**APPLICATION OF MARATHON OIL COMPANY 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 June 27, 1991, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 22nd day of July, 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) Division Case Nos. 10341 and 10342 were consolidated at the time of the hearing for the purpose of testimony.

(3) The applicant, Marathon Oil Company, seeks the statutory unitization, pursuant to the "Statutory Unitization Act", Sections 70-7-1 through 70-7-21, NMSA (1978), of 880.00 acres, more or less, being a portion of the Tamano-Bone Spring Pool, Eddy County, New Mexico, said portion to be known as the Tamano (BSSC) 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. 44 and 45, respectively, in this case.

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

TOWNSHIP 18 SOUTH, RANGE 31 EAST, NMPM

Section 10: S/2 NE/4 and SE/4

Section 11: All

(5) The horizontal limits of said unit area are contained within the governing boundary of the Tamano-Bone Spring Pool, and have reasonably been defined by development.

(6) The vertical limits of the Tamano (BSSC) Unit Area should comprise that interval known as the Bone Spring Second Carbonate which correlates to that section between the depths of 7908 feet below KB (-4156 feet subsea) and 8190 feet below KB (-4438 feet subsea) as recorded on the Dual Induction Focused Log taken on December 17, 1987 in Marathon's Johnson "B" Federal Well No. 4 located 1980 feet from the South and West lines (Unit K) of Section 11, Township 18 South, Range 31 East, NMPM, Eddy County, New Mexico.

(7) The unit area contains nine separate tracts owned by twenty-five different working interests. Marathon operates five of the tracts representing 640 acres with the remaining tracts operated by Harvey E. Yates Company. There is one royalty interest owner, the United States government, and a significant number of overriding royalty interest owners.

(8) At the time of the hearing, owners of 75.01 percent of the working interest and owners of 85.7 percent of the royalty (including the federal royalty based upon the preliminary approval by the U.S. Bureau of Land Management) and overriding royalty interest owners were effectively committed to the unit.

(9) 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.

(10) The applicant proposes to institute a pressure maintenance 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. 10342).

(11) The proposed secondary recovery operations should result in the additional recovery of approximately 2.261 million barrels of oil.

(12) The unitized management, operation and further development of the Tamano (BSSC) 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 Tamano (BSSC) 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) 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 Tamano (BSSC) Unit Area.

(16) The granting of the application in this case will have no adverse effect upon the Tamano-Bone Spring Pool.

(17) The applicant's Exhibit Nos. 44 and 45 in this case, being the Unit Agreement and the Unit Operating Agreement, respectively, should be incorporated by reference into this order.

(18) The Tamano (BSSC) Unit Agreement and the Tamano (BSSC) Unit Operating Agreement provide for unitization and unit operation of the Tamano (BSSC) 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.

(19) Section 70-7-7.F. NMSA (1978) of said "Statutory Unitization Act" provides that the unit plan of operation shall include a provision for carrying any working interest owner subject to limitations set forth in the statute, and any non-consenting working interest owner so carried 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 amount not to exceed 200 percent thereof as a non-consent penalty.

(20) At the time of the hearing, the applicant requested that no additional penalty be assessed these working interest owners in said unit who have not committed their interest.

(21) The statutory unitization of the Tamano (BSSC) 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 therefore be approved.

IT IS THEREFORE ORDERED THAT:

(1) The application of Marathon Oil Company for the Tamano (BSSC) Unit Agreement, covering 880 acres, more or less, of federal lands in the Tamano-Bone Spring 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 Tamano (BSSC) Unit Agreement shall be designated the Tamano (BSSC) Unit Area and shall comprise the following described acreage in Eddy County, New Mexico:

TOWNSHIP 18 SOUTH, RANGE 31 EAST, NMPM

Section 10: S/2 NE/4 and SE/4

Section 11: All

(3) The vertical limits of the Tamano (BSSC) Unit Area shall comprise that interval known as the Bone Spring Second Carbonate which correlates to that section between the depths of 7908 feet below KB (-4156 feet subsea) and 8190 feet below KB (-4438 feet subsea) as recorded on the Dual Induction Focused Log taken on December 17, 1987 in Marathon's Johnson "B" Federal Well No. 4 located 1980 feet from the South and West lines (Unit K) of Section 11, Township 18 South, Range 31 East, NMPM, Eddy County, New Mexico.

(4) The applicant shall institute a pressure maintenance 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 pressure maintenance project is the subject of Division Case No. 10342.

(5) The Tamano (BSSC) Unit Agreement and the Tamano (BSSC) 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.

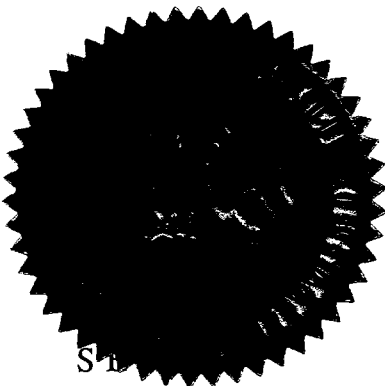
(6) The Tamano (BSSC) Unit Agreement and the Tamano (BSSC) Unit Operating Agreement provide for unitization and unit operation of the designated and undesignated Tamano-Bone Spring Pool upon terms and conditions that are fair, reasonable and equitable.

(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.

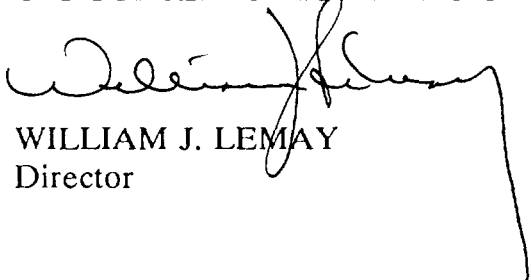
(8) The applicant as Unit Operator shall notify in writing the Division Director of any removal or substitution of said Unit Operator by any other working interest owner within the unit area.

(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