

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. 10685
ORDER NO. R-9894*

APPLICATION OF HANSON OPERATING COMPANY, 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 March 18, 1993, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 19th day of May, 1993 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 the hearing, this case was consolidated with Division Case No. 10686 for the purpose of testimony.

(3) The applicant, Hanson Operating Company, Inc., 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 Yates, Seven Rivers, Queen and Grayburg formations underlying 911.00 acres, more or less, being a portion of the Shugart Yates-Seven Rivers-Queen-Grayburg Pool, Eddy County, New Mexico, said portion to henceforth be known as the Benson Shugart Waterflood Unit Area; the applicant further seeks approval of the "Unit Agreement" and "Unit Operating Agreement", which were submitted at the time of the hearing in evidence as applicant's Exhibit Nos. 2 and 3, respectively.

(4) The horizontal limits of said unit area should be comprised of the following described federal (871.00 acres or 95.6%) and fee (40 acres or 4.4%) lands in Eddy County, New Mexico:

TOWNSHIP 18 SOUTH, RANGE 30 EAST, NMPM

Section 25: W/2 NE/4 and S/2

Section 26: E/2

Section 35: NE/4 NE/4

TOWNSHIP 18 SOUTH, RANGE 31 EAST, NMPM

Section 30: Lots 3 and 4 (W/2 SW/4 equivalent) and E/2 SW/4

(5) The horizontal limits of said unit are within the governing boundaries of the Shugart Yates-Seven Rivers-Queen-Grayburg Pool and have been reasonably defined by development.

(6) The proposed Unit Area essentially contains nine separate tracts of land owned by thirteen different working interest owners.

(7) The applicant has made a good faith effort to secure voluntary unitization within the above-described Unit Area and at the time of the hearing approximately 92 percent of the working interest owners have committed in writing.

(8) By a "preliminary approval letter" from the Roswell District Office United States Bureau of Land Management and confirmation by half of the remaining "private" royalty interest owners, approximately 97.8 percent of the royalty interest owners have effectively committed to the proposed Unit. There are "overriding royalty interests" who at the time of the hearing have not committed to the Unit. Regardless, any order issued by the Division approving this Unit should not become effective, under the terms of said "Statutory Unitization Act", Section 70-7-8.A. and C., until such time as the owners of at least seventy-five percent of the interests in the Unit that are free of costs have approved the Unit Agreement in writing.

(9) 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. 10686).

(10) Subsequent to the time both Case Nos. 10685 and 10686 were taken under advisement, Yates Petroleum Corporation in Case No. 10711 (heard on April 8, 1993) requested approval for its Creek "AL" Federal (Lease) Shugart Waterflood Project, which is proposed to comprise the E/2 SE/4 of Section 23, the NW/4 SW/4 and S/2

S/2 of Section 24, and the NW/4 and E/2 NE/4 of Section 25, Township 18 South, Range 30 East, NMPM, Eddy County, New Mexico. Both Shugart-Yates-Seven Rivers-Queen-Grayburg Pool waterflood projects are to be operated in conjunction with each other.

(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 unitized management, operation and further development of the Benson Shugart Waterflood 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 Benson Shugart Waterflood 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 Benson Shugart Waterflood Unit Area.

(16) The granting of the application in this case will have no adverse effect upon the Shugart Yates-Seven Rivers-Queen-Grayburg Pool.

(17) The applicant's Exhibit Nos. 3 and 4 in this case, being the Unit Agreement and the Unit Operating Agreement, respectively, should be incorporated by reference into this order.

(18) The Benson Shugart Waterflood Unit Agreement and the Benson Shugart Waterflood Unit Operating Agreement provide for unitization and unit operation of the Benson Shugart Waterflood 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 of said "Statutory Unitization Act" provides that any working interest owner who has not agreed in writing to participate in a unit could have relinquished to the unit operator all of its 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.

(20) The statutory unitization of the Benson Shugart Waterflood 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 Hanson Operating Company, Inc. for the Benson Shugart Waterflood Unit, covering 911.00 acres, more or less, of federal and fee lands in the Shugart Yates-Seven Rivers-Queen-Grayburg 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 Benson Shugart Waterflood Unit Agreement and Benson Shugart Waterflood Unit Operating Agreement, which were submitted to the Division at the time of the hearing as Exhibits 3 and 4, respectively, are hereby incorporated by reference into this order.

(3) The lands covered by said Benson Shugart Waterflood Unit Agreement shall be designated the Benson Shugart Waterflood Unit Area and shall comprise the following described acreage in Eddy County, New Mexico:

TOWNSHIP 18 SOUTH, RANGE 30 EAST, NMPM

Section 25: W/2 NE/4 and S/2

Section 26: E/2

Section 35: NE/4 NE/4

TOWNSHIP 18 SOUTH, RANGE 31 EAST, NMPM

Section 30: Lots 3 and 4 (W/2 SW/4 equivalent) and E/2 SW/4

(4) The vertical limits of the Unit Area should comprise the correlative interval between 1800 feet and 3500 feet beneath the surface of the ground or found on the Compensated Density Log in the Hanson Operating Company, Inc. Ginsberg Federal Well No. 13 located 1650 feet from the North line and 1800 feet from the East line (Unit G) of Section 26, Township 18 South, Range 30 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 which is the subject of Division Case No. 10686.

(6) Under the terms of the "Statutory Unitization Act," Section 70-7-8.A. and C., this order shall not become effective until such time as the owners of at least seventy-five percent of the interests in the unit which are free of cost have approved in writing the Unit Agreement.

IT IS FURTHER ORDERED THAT:

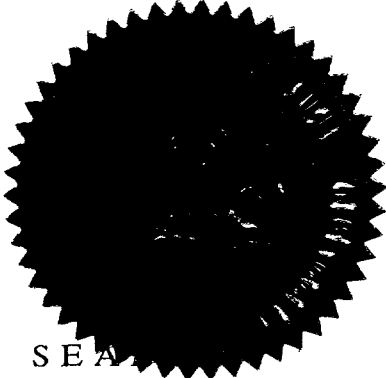
(7) If the required percentage of said interest owners in the area do not approve the Unit Agreement within a period of six months from the date of this order, this order shall cease to be of further force and effect and shall be revoked by the Division.

(8) 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. Such repayment shall include no non-consent penalty (Section 70-7-7.F NMSA 1978).

(9) 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 area.

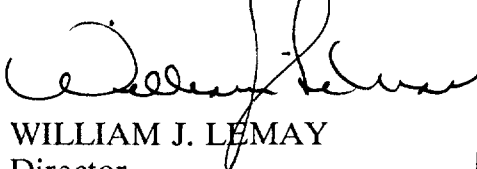
(10) Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

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



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STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


WILLIAM J. LEMAY
Director