

Justification

Phillips Petroleum Company, as operator of East Vacuum (Grayburg/San Andres) Unit (EVGSAU), and Texaco E&P Inc., as operator of Central Vacuum Unit (CVU) propose to drill 4 injectors and 4 producers along the lease line of the two units. Phillips will operate 2 producers and 4 injectors, and Texaco will operate 2 producers. The proposed wells are an expansion of 10-acre direct line drive pattern development that has occurred within EVGSAU and CVU (Figure 1). The most attractive ten-acre drilling sites remaining are on the common lease lines between the two units. Within CVU, infill drilling of this nature has demonstrated incremental oil recovery of over 100,000 BO per well, with incremental recovery ranging from 2.7% to 6.8% of the original oil in place due to improved sweep efficiency. Phillips expects that this project will recover 871,000 BO of gross incremental oil reserves.

Phillips and Texaco will enter into an agreement that will provide that the two units share production revenue from the four lease line producers on an equal basis.

The State of New Mexico is owner of 100% of the royalty interests under EVGSAU and 98.8409% of royalty interests under CVU. On January 4, 1999, The Commissioner of Public Lands granted approval on behalf of the state to drill the four lease line producers.

