

October 10, 2006

**HAND DELIVERED**

Mark E. Fesmire, P. E.  
Director  
Oil Conservation Division  
New Mexico Department of Energy,  
Minerals and Natural Resources  
1220 South Saint Francis Drive  
Santa Fe, New Mexico 87505

*Case 13813*

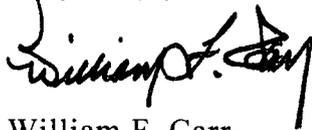
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Re: Application of OXY USA WTP Limited Partnership for Compulsory Pooling,  
Eddy County, New Mexico.

Dear Mr. Fesmire:

Enclosed in triplicate is the Application of OXY USA WTP Limited Partnership in the above-referenced case as well as a copy of the legal advertisement. OXY WTP Limited Partnership requests that this matter be placed on the docket for the November 9, 2006 Examiner hearings.

Very truly yours,



William F. Carr

Enclosures

cc: Mr. David Evans  
OXY USA WTP Limited Partnership

**STATE OF NEW MEXICO  
DEPARTMENT OF ENERGY, MINERALS AND NATURAL RESOURCES  
OIL CONSERVATION DIVISION**

2006 OCT 10 PM 2 42

**IN THE MATTER OF THE APPLICATION  
OF OXY USA WTP LIMITED PARTNERSHIP COMPULSORY  
POOLING, EDDY COUNTY, NEW MEXICO.**

CASE NO. 13813

**APPLICATION**

OXY USA WTP Limited Partnership, ("OXY") through its undersigned attorneys, hereby makes application pursuant to the provisions of NMSA 1978, §70-2-17, for an order pooling all mineral interests in all formations from the surface to the base of the Morrow formation in the following described spacing and proration units located in the S/2 of Section 9, Township 17 South, Range 29 East, N.M.P.M., Eddy County, New Mexico: the S/2 for all formations and/or pools developed on 320-acre spacing which includes but is not necessarily limited to the Undesignated South Empire-Morrow Gas Pool and the Undesignated North Grayburg-Atoka Gas Pool; and the SW/4 for all formations and/or pools developed on 160-acre spacing and support of its application states:

1. OXY USA WTP Limited Partnership is a working interest owner in the S/2 of said Section 9 and has the right to drill thereon.
2. OXY proposes to dedicate the above-referenced spacing or proration units to its Oxy Flameskimmer State Well No. 1 to be drilled at a standard gas well location 1650 feet from the South line and 1980 feet from the West line (Unit K) of said Section 9, to an approximate depth of 11,000 feet to test any and all formations from the surface to the base of the Morrow formation.
3. OXY has sought and been unable to obtain a voluntary agreement for the development of these lands from certain interest owners in the subject spacing units who are identified on Exhibit A to this application.
4. Said pooling of interests will avoid the drilling of unnecessary wells, will prevent waste and will protect correlative rights.
5. In order to permit OXY to obtain its just and fair share of the oil and gas underlying the subject lands, all mineral interests should be pooled, and OXY USA WTP Limited Partnership should be designated the operator of the well to be drilled.

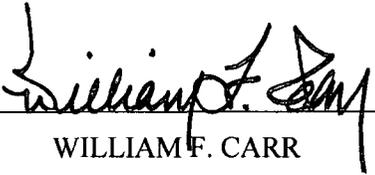
WHEREFORE, OXY WTP Limited Partnership requests that this application be set for hearing before an Examiner of the Oil Conservation Division on November 9, 2006 and, after notice and hearing as required by law, the Division enter its order:

- A. pooling all mineral interests in the subject spacing and proration units,

- B. designating OXY USA WTP Limited Partnership operator of these units and the well to be drilled thereon,
- C. authorizing OXY USA WTP Limited Partnership to recover its costs of drilling, equipping and completing the well,
- D. approving the actual operating charges and costs of supervision while drilling and after completion, together with a provision adjusting the rates pursuant to the COPAS accounting procedures, and
- E. imposing a penalty for the risk assumed by OXY USA WTP Limited Partnership in drilling and completing the well against any working interest owner who does not voluntarily participate in the drilling of the well.

Respectfully submitted,

HOLLAND & HART LLP

By: 

WILLIAM F. CARR

Post Office Box 2208  
Santa Fe, New Mexico 87504  
Telephone: (505) 988-4421

ATTORNEYS FOR OXY USA WTP LIMITED  
PARTNERSHIP

**CASE 13813: Application of OXY USA WTP Limited Partnership for compulsory pooling, Eddy County, New Mexico.** Applicant in the above-styled cause seeks an order pooling all mineral interests from the surface to the base of the Morrow formation in the following described spacing and proration units located in the S/2 of Section 9, Township 17 South, Range 29 East, N.M.P.M., Eddy County, New Mexico: the S/2 for all formations and/or pools developed on 320-acre spacing which includes but is not necessarily limited to the Undesignated South Empire-Morrow Gas Pool and the Undesignated North Grayburg-Atoka Gas Pool; and the SW/4 for all formations and/or pools developed on 160-acre spacing. OXY proposes to dedicate the above-referenced spacing or proration units to its Oxy Flameskimmer State Well No. 1 to be drilled at a standard gas well location 1650 feet from the South line and 1980 feet from the West line (Unit K) of said Section 9. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of OXY USA WTP Limited Partnership as operator of the well and a charge for risk involved in drilling said well. Said area is located approximately 5 miles west of Loco Hill, New Mexico.

October 10, 2006

**CERTIFIED MAIL**  
**RETURN RECEIPT REQUESTED**

**TO AFFECTED INTEREST OWNERS:**

Re: Application of OXY USA WTP Limited Partnership for compulsory pooling, Eddy County, New Mexico.

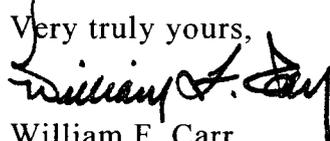
Ladies and Gentlemen:

This letter is to advise you that OXY USA WTP Limited Partnership has filed the enclosed application with the New Mexico Oil Conservation Division seeking the compulsory pooling of all mineral interests from the surface to the base of the Morrow formation in certain spacing and proration units located in the S/2 of Section 9, Township 17 South, Range 29 East, N.M.P.M., Eddy County, New Mexico. OXY proposes to dedicate these pooled units to its Oxy Flameskimmer State Well No. 1 to be drilled at a standard gas well location 1650 feet from the South line and 1980 feet from the West line (Unit K) of said Section 9 to test all formations from the surface to the base of the Morrow formation.

This application has been set for hearing before a Division Examiner on November 9, 2006. You are not required to attend this hearing, but as an owner of an interest that may be affected by this application, you may appear and present testimony. Failure to appear at that time and become a party of record will preclude you from challenging the matter at a later date.

Parties appearing in cases are required by Division Rule 1208.B to file a Pre-Hearing Statement with the Oil Conservation Division's Santa Fe office located at 1220 South Saint Francis Drive, Santa Fe, New Mexico 87505, four days in advance of a scheduled hearing, but at least on the Thursday preceding the hearing. This statement must include: the names of the parties and their attorneys; a concise statement of the case; the names of all witnesses the party will call to testify at the hearing; the approximate time the party will need to present its case; and identification of any procedural matters that are to be resolved prior to the hearing.

Very truly yours,



William F. Carr

cc: David Evans

*MZF*

**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:**

*DLE 1/8/07  
WOS 1/8/07*

*DB  
1/8/07  
see note on  
page 3.*

*AE 1/9/07*

**CASE NO. 13813  
ORDER NO. R-12689**

**APPLICATION OF OXY USA WTP LIMITED PARTNERSHIP FOR  
COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO.**

**ORDER OF THE DIVISION**

**BY THE DIVISION:**

This case came on for hearing at 8:15 a.m. on November 9, 2006, and January 4, 2007, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this \_\_\_ day of January, 2007, the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

**FINDS THAT:**

(1) Due public notice has been given, and the Division has jurisdiction of this case and its subject matter.

(2) The applicant, Oxy USA WTP Limited Partnership ("applicant"), seeks an order pooling all uncommitted mineral interests from the surface to the base of the Morrow formation underlying the S/2 of Section 9, Township 17 South, Range 29 East, NMPM, Eddy County, New Mexico, in the following manner:

the S/2 to form a standard 320-acre gas spacing and proration unit for all formations and/or pools spaced on 320 acres within this vertical extent, which presently include but are not necessarily limited to the Undesignated South Empire-Morrow Gas Pool, the Undesignated North Grayburg-Atoka Gas Pool and the Undesignated Grayburg-Morrow Gas Pool; and

the SW/4 to form a standard 160-acre spacing and proration unit for all formations and/or pools spaced on 160 acres within this vertical extent.

(3) The above-described spacing and proration units (the "Units") are to be dedicated to the applicant's proposed Oxy Flameskimmer State Well No. 1 (API No. 30-015-35219) which is to be drilled at a standard location 1650 feet from the South line and 1880 feet from the West line (Unit K) of Section 9, or at another standard gas well location within the SW/4 of Section 9.

See pg 3

(4) This case was originally heard on November 9, 2006 and was taken under advisement at the conclusion of the proceedings. Subsequent to the hearing, it was determined that the advertisement for the case and the notice given to the affected parties incorrectly described the location of the proposed well. The case was re-opened and heard on January 4, 2007 to correct this mistake.

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(5) Two or more separately owned tracts are embraced within the Units, and/or there are royalty interests and/or undivided interests in oil and gas minerals in one or more tracts included in the Units that are separately owned.

(6) Applicant is an owner of an oil and gas working interest within the Units. Applicant has the right to drill and proposes to drill its Oxy Flameskimmer State Well No. 1 at a standard well location within the SW/4 of Section 9 to test the Morrow formation.

(7) There are interest owners in the proposed Units that have not agreed to pool their interests.

(8) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford to the owner of each interest in the Units the opportunity to recover or receive without unnecessary expense its just and fair share of hydrocarbons, this application should be approved by pooling all uncommitted interests, whatever they may be, in the oil and gas within the Units.

(9) The applicant should be designated the operator of the subject well and of the Units.

(10) Any pooled working interest owner who does not pay its share of estimated well costs should have withheld from production its share of reasonable well costs plus an additional 200% thereof as a reasonable charge for the risk involved in drilling the well.

(11) Reasonable charges for supervision (combined fixed rates) should be fixed at \$6,000.00 per month while drilling and \$600.00 per month while producing, provided

that these rates should be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "Accounting Procedure-Joint Operations."

**IT IS THEREFORE ORDERED THAT:**

(1) Pursuant to the application of Oxy USA WTP Limited Partnership, all uncommitted mineral interests from the surface to the base of the Morrow formation underlying the S/2 of Section 9, Township 17 South, Range 29 East, NMPM, Eddy County, New Mexico, are hereby pooled in the following manner:

the S/2 to form a standard 320-acre gas spacing and proration unit for all formations and/or pools spaced on 320 acres within this vertical extent, which presently include but are not necessarily limited to the Undesignated South Empire-Morrow Gas Pool, the Undesignated North Grayburg-Atoka Gas Pool and the Undesignated Grayburg-Morrow Gas Pool; and

the SW/4 to form a standard 160-acre spacing and proration unit for all formations and/or pools spaced on 160 acres within this vertical extent.

(2) The above-described spacing and proration Units shall be dedicated to the applicant's Oxy Flameskimmer State Well No. 1 which is to be drilled at a standard location 1650 feet from the South line and 1880 feet from the West line (Unit K) of Section 9, ~~or at another standard gas well location within the SW/4 of Section 9.~~

(3) The operator of the Units shall commence drilling the proposed well on or before April 15, 2007, and shall thereafter continue drilling the well with due diligence to test the Morrow formation.

(4) In the event the operator does not commence drilling the proposed well on or before April 15, 2007, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause.

(5) Should the subject well not be drilled and completed within 120 days after commencement thereof, Ordering Paragraph (1) shall be of no further effect, and the Units created by this Order shall terminate unless the operator appears before the Division Director and obtains an extension of time to drill and complete the well for good cause demonstrated by satisfactory evidence.

(6) Upon final plugging and abandonment of the subject well, the pooled Units created by this Order shall terminate, unless this order has been amended to authorize further operations.

*The operators always want this flexibility. & question, as a general principle, however, whether we should give it to them, since non-operators must make an election based on what we order.*

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*MIP will discuss*

(7) Oxy USA WTP Limited Partnership is hereby designated the operator of the subject well and of the Units.

(8) After pooling, uncommitted working interest owners are referred to as pooled working interest owners. ("Pooled working interest owners" are owners of working interests in the Units, including unleased mineral interests, who are not parties to an operating agreement governing the Units.) After the effective date of this order, the operator shall furnish the Division and each known pooled working interest owner in the Units an itemized schedule of estimated costs of drilling, completing and equipping the subject well ("well costs").

(9) Within 30 days from the date the schedule of estimated well costs is furnished, any pooled working interest owner shall have the right to pay its share of estimated well costs to the operator in lieu of paying its share of reasonable well costs out of production as hereinafter provided, and any such owner who pays its share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges. Pooled working interest owners who elect not to pay their share of estimated well costs as provided in this paragraph shall thereafter be referred to as "non-consenting working interest owners."

(10) The operator shall furnish the Division and each known pooled working interest owner (including non-consenting working interest owners) an itemized schedule of actual well costs within 90 days following completion of the proposed well. If no objection to the actual well costs is received by the Division, and the Division has not objected within 45 days following receipt of the schedule, the actual well costs shall be deemed to be the reasonable well costs. If there is an objection to actual well costs within the 45-day period, the Division will determine reasonable well costs after public notice and hearing.

(11) Within 60 days following determination of reasonable well costs, any pooled working interest owner who has paid its share of estimated costs in advance as provided above shall pay to the operator its share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator the amount, if any, that the estimated well costs it has paid exceed its share of reasonable well costs.

(12) The operator is hereby authorized to withhold the following costs and charges from production:

- (a) the proportionate share of reasonable well costs attributable to each non-consenting working interest owner; and

- (b) as a charge for the risk involved in drilling the well, 200% of the above costs.

(13) The operator shall distribute the costs and charges withheld from production, proportionately, to the parties who advanced the well costs.

(14) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$6,000.00 per month while drilling and \$600.00 per month while producing, provided that these rates shall be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations.*" The operator is authorized to withhold from production the proportionate share of both the supervision charges and the actual expenditures required for operating the well, not in excess of what are reasonable, attributable to pooled working interest owners.

(15) Except as provided in Ordering Paragraphs (12) and (14) above, all proceeds from production from the well that are not disbursed for any reason shall be placed in escrow in Eddy County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership. The operator shall notify the Division of the name and address of the escrow agent within 30 days from the date of first deposit with the escrow agent.

(16) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working interests' share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(17) Should all the parties to this compulsory pooling order reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(18) The operator of the well and Units shall notify the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

(19) Jurisdiction of this case 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

MARK E. FESMIRE, PE  
Director

S E A L