

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:

**APPLICATION OF YATES PETROLEUM CORPORATION  
FOR COMPULSORY POOLING, LEA COUNTY, NEW  
MEXICO.**

*Case No. 11934*

**APPLICATION OF OCEAN ENERGY, INC. FOR  
COMPULSORY POOLING AND AN UNORTHODOX  
LOCATION, LEA COUNTY, NEW MEXICO.**

*Case No. 11958*

**APPLICATION OF OCEAN ENERGY, INC. FOR  
COMPULSORY POOLING, LEA COUNTY, NEW MEXICO.**

*Case No. 11959*

*Order No. R-11061*

**ORDER OF THE DIVISION**

**BY THE DIVISION:**

These cases came on for hearing at 8:15 a.m. on May 14, 1998, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 16th day of September, 1998, 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 these cases and their subject matter.

(2) At the time of the hearing, Division Case Nos. 11934, 11958, and 11959 were consolidated for the purpose of presenting testimony and entering one order for all three cases.

(3) Section 2, Township 16 South, Range 35 East, NMPM, Lea County, New

Mexico is an irregular sized and shaped section due to the convergence of meridians. Section 2 is one mile in width and in excess of one and one-half miles in length and comprises a total area of 901.16 acres. Section 2 consists of: Lot 1 with 50.78 acres; Lot 2 with 50.45 acres; Lot 3 with 50.13 acres; Lot 4 with 49.80 acres; Lots 5 through 16 each with 40 acres; and the S/2, considered to be a regular subdivision of this section that can be further divided into two quarter sections (SW/4 and SE/4) or eight quarter-quarter sections (NE/4 SW/4, SE/4 SE/4, NW/4 SE/4, etc.). See Division Order No. R-10803 issued in consolidated Case Nos. 11716, 11717, 11739, 11740, 11741, and 11753, which describes this section in greater detail.

(4) In Case No. 11934, the applicant, Yates Petroleum Corporation ("Yates"), seeks an order pooling all mineral interests from the surface to the base of the Mississippian formation underlying the following acreage in irregular Section 2:

(a) Lots 11, 12, 13, 14 and the SW/4 to form a standard 320-acre stand-up gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within that vertical extent, which presently include but are not necessarily limited to the Undesignated North Shoe Bar-Atoka Gas Pool and Undesignated Townsend-Morrow Gas Pool;

(b) Lots 11 through 14 to form a standard 160-acre gas spacing and proration unit for any and all formations and/or pools developed on 160-acre spacing within that vertical extent;

(c) Lots 13 and 14 to form a standard 80-acre oil spacing and proration unit for any pool developed on 80-acre spacing within that vertical extent, which presently includes only the South Big Dog-Strawn Pool; and

(d) Lot 13 to form a standard 40-acre oil spacing and proration unit for formations and/or pools developed on 40-acre spacing within that vertical extent, which presently include but are not necessarily limited to the Undesignated Northeast Townsend-Abo Pool, Townsend-Permo Upper Pennsylvanian Pool, and Undesignated Northeast Eidson-Mississippian Pool.

These units are to be dedicated to Yates' proposed Fields "APK" State Com. Well

No. 3 (**API No. 30-025-34252**) to be drilled 3300 feet from the South line and 760 feet from the West line (Lot 13/Unit M) of irregular Section 2. This location is considered to be standard for all four sizes of units.

(5) Yates initially filed this application with the Division on February 11, 1998.

(6) In **Case No. 11958**, the applicant, Ocean Energy, Inc. ("Ocean"), seeks an order pooling all mineral interests from the surface to the base of the Mississippian formation underlying the following acreage in irregular Section 2:

(a) Lots 9 through 16 to form a standard 320-acre laydown gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within that vertical extent, which presently include but are not necessarily limited to the Undesignated North Shoe Bar-Atoka Gas Pool and Undesignated Townsend-Morrow Gas Pool;

(b) Lots 11 through 14 to form a standard 160-acre gas spacing and proration unit for any and all formations and/or pools developed on 160-acre spacing within that vertical extent; and

(c) Lots 13 and 14 to form a standard 80-acre oil spacing and proration unit for any pool developed on 80-acre spacing within that vertical extent, which presently includes only the South Big Dog-Strawn Pool.

These units are to be dedicated to Ocean's proposed Townsend State Com. Well No. 2 to be drilled 3250 feet from the South line and 1400 feet from the West line (Lot 14/Unit N) of irregular Section 2. This location is considered to be unorthodox for all four sizes of units.

(7) Ocean initially filed this application with the Division on March 10, 1998.

(8) In **Case No. 11959** Ocean seeks an order pooling all mineral interests from the surface to the base of the Mississippian formation underlying the S/2 of irregular Section 2 to form a standard 320-acre laydown gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within that vertical extent, which presently include but are not necessarily limited to the Undesignated North Shoe Bar-Atoka Gas Pool and Undesignated Townsend-Morrow Gas Pool. This unit is to be dedicated to

Ocean's proposed Townsend State Com. Well No. 6 (**API No. 30-025-34393**) to be drilled at a standard gas well location in the SE/4 SW/4 (Unit V) of irregular Section 2.

(9) Ocean initially filed this application with the Division on March 10, 1998.

(10) The land testimony presented shows the following working interest ownership in the proposed 320-acre units:

(a) Ocean's proposed 320-acre laydown unit in Case 11958:

Ocean	37.5%
Yates	37.5%
Sol West, III	10.0%
Michael Shearn	2.5%
Lot 12 Interest Owners	12.5%

(b) Ocean's proposed 320-acre laydown unit in Case 11959:

Ocean	75.0%
Yates	12.5%
SW/4 SW/4 Interest Owners	12.5%

(c) Yates' proposed 320-acre standup unit in Case 11934:

Ocean	37.5%
Yates	37.5%
Lot 12 and SW/4 SW/4 Working Interest Owners	25.0%

(11) Amerind Oil Company, Ltd. and Michael Shearn entered appearances in this matter, but did not state a position.

(12) Several small interest owners have joined in both the Ocean and Yates well proposals. Other interest owners are awaiting the outcome of this hearing.

(13) Ocean and Yates each own 50% of the working interest in the proposed 80-acre unit covering Lots 13 and 14.

(14) Yates testified that it owns all the working interest in Lot 13 of Section 2 and requested that the portion of its application (Case No. 11934) which requested the pooling of this 40-acre spacing unit be **dismissed**.

(15) Since Yates and Ocean both own an interest in each of the proposed spacing units in Section 2, both have the right to drill for and develop the minerals underlying the proposed spacing units.

(16) Yates and Ocean have been negotiating and have both attempted to reach a mutually acceptable agreement in testing and developing reserves underlying this portion of Section 2; however, they have been unable to voluntarily reach an agreement as to how this acreage should be developed.

(17) Both parties agreed at the hearing that:

- (a) the AFEs and operating costs of Ocean and Yates are comparable;
- (b) overhead rates of \$5,400.00 per month while drilling and \$540.00 per month while producing should be adopted in this case; and
- (c) a 200% non-consent penalty is a proper risk factor for drilling the proposed wells.

(18) The geological evidence presented by Yates shows a north-south trending channel in the Atoka/Morrow intervals with the thickest portion of this channel under the western portion of Section 2.

(19) Wells located over one mile apart in this channel to the south in Sections 11 and 14, Township 16 South, Range 35 East, NMPM, Lea County, New Mexico, have demonstrated good reservoir communication in a north-south direction within the Atoka and Morrow reservoirs. Two wells in the area comprising Lots 11, 12, 13, and 14 and the SW/4 of Section 2 are not needed to recover the reserves under this acreage.

(20) Based on the geological evidence presented by both parties, the drilling of two wells within the 320-acre area comprising Lots 11, 12, 13, and 14 and the SW/4 of Section 2 would not increase the ultimate recovery of reserves from the Atoka/Morrow intervals but would instead serve to increase the rate of withdrawal from Section 2 thereby draining reserves from offsetting property to the south in Section 11.

(21) The spacing unit comprising Lots 11, 12, 13, and 14 and the SW/4 of Section 2 best conforms to the potentially productive reservoir in the Atoka/Morrow intervals.

(22) Ocean's two proposed laydown units in Section 2 include non-economic acreage in the eastern portion of Section 2, which is owned predominantly by Ocean.

(23) Evidence presented by Yates at the hearing indicates that Ocean has drilled three wells described below in this immediate area which involved major problems and cost overruns:

(a) The Townsend Well No. 1 (**API No. 30-025-33713**), located on the surface 3526 feet from the South line and 727 feet from the East line (Lot 16/Unit P) of Section 2, was drilled vertically to the Strawn formation and was deemed unsuccessful. While recompleting this well as a horizontal well in the Strawn formation, Ocean encountered mechanical problems and experienced casing and cementing problems.

(b) The Townsend Well No. 4 (**API No. 30-025-34150**) in Section 2 lost circulation within the Strawn interval during drilling and 11,308 feet of 5 ½ inch casing was set with 200 sacks of cement in an attempt to eliminate the lost circulation zone. Upon reentering the wellbore in order to drill out underneath the casing shoe, Ocean found that the casing had parted. Ocean cut the casing and pulled 10,200 feet of casing from the well. This wellbore has remained open since December, 1997.

(c) The Carlisle State Com. Well No. 1 (**API No. 30-025-34279**) in Section 10, Township 16 South, Range 35 East, NMPM, Lea County, New Mexico, blew out during drilling and caught fire.

(24) The cost overruns incurred by Ocean in drilling these three wells have been charged to those parties who voluntarily joined in drilling.

(25) At the hearing, Yates voiced its concerns and objected to Ocean being designated the operator of the two proposed wells in Case Nos. 11958 and 11959 until Ocean demonstrates it can prudently drill wells in this area and correct ongoing problems in a timely manner.

(26) The application of Yates in Case No. 11934 should be approved for it will serve to prevent the drilling of unnecessary wells thereby preventing waste, is in the best

interest of conservation, and will protect correlative rights.

(27) The applications of Ocean in **Case Nos. 11958 and 11959** should be denied at this time.

(28) To afford to the owner of each interest in the 320, 160 and 80 acre units in **Case No. 11934** the opportunity to recover without unnecessary expense a just and fair share of hydrocarbon production in any pool resulting from this order, the application in **Case No. 11934** should be approved by pooling all mineral interests, whatever they may be, within these three units.

(29) Yates should be designated the operator of the proposed Fields "APK" State Com. Well No. 3 and the subject 320, 160, and 80 acre units.

(30) Any non-consenting working interest owner should be afforded the opportunity to pay its share of estimated well costs to the operator in lieu of paying its share of reasonable well costs out of production.

(31) Any non-consenting 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 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(32) Any non-consenting working interest owner should be afforded the opportunity to object to the actual well costs but actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(33) Following the determination of reasonable well costs, any non-consenting working interest owner who has paid its share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(34) Reasonable charges for supervision (combined fixed rates) should be fixed at \$5,400.00 per month while drilling and \$ 540.00 per month while producing. The operator should be 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 each non-consenting working interest.

(35) All proceeds from production from the well that are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(36) If the operator of the pooled units fails to commence drilling the well to which the units are dedicated on or before December 15, 1998, or if all the parties to this forced pooling reach voluntary agreement subsequent to entry of this order, this order should become of no further effect whatsoever.

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

**IT IS THEREFORE ORDERED THAT:**

(1) The application of Yates Petroleum Corporation ("Yates") in **Case No. 11934** is hereby granted pooling all mineral interests from the surface to the base of the Mississippian formation underlying the following acreage in irregular Section 2:

(a) Lots 11, 12, 13, 14 and the SW/4 to form a standard 320-acre stand-up gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within that vertical extent, which presently include but are not necessarily limited to the Undesignated North Shoe Bar-Atoka Gas Pool and Undesignated Townsend-Morrow Gas Pool;

(b) Lots 11 through 14 to form a standard 160-acre gas spacing and proration unit for any and all formations and/or pools developed on 160-acre spacing within that vertical extent; and

(c) Lots 13 and 14 to form a standard 80-acre oil spacing and proration unit for any formations and/or pools developed on 80-acre spacing within that vertical extent, which presently include only the South Big Dog-Strawn Pool.

These units are to be dedicated to Yates' proposed Fields "APK" State Com. Well No. 3 (**API No. 30-025-34252**) to be drilled at a standard location for all three units 3300 feet from the South line and 760 feet from the West line (Lot 13/Unit M) of irregular Section 2.

**PROVIDED HOWEVER THAT,** the operator shall commence drilling the well on or before December 15, 1998, and shall thereafter continue drilling the well with due diligence to a depth sufficient to test the Mississippian formation.



**PROVIDED FURTHER THAT,** in the event the operator does not commence drilling the well on or before December 15, 1998, Ordering Paragraph (1) shall be null and void and of no effect whatsoever, unless the operator obtains a time extension from the Division for good cause shown.

**PROVIDED FURTHER THAT,** should the well not be drilled to completion or abandoned within 120 days after commencement thereof, the operator shall appear before the Division Director and show cause why Ordering Paragraph (1) should not be rescinded.

(2) That portion of the application of Yates seeking to pool all formations and/or pools within this vertical extent spaced on 40 acres underlying Lot 13 of irregular Section 2 is hereby **dismissed**.

(3) The applications of Ocean Energy, Inc. in Case Nos. 11958 and 11959, as further described in Finding Paragraphs (6), (7), (8), and (9) of this order are hereby **denied**.

(4) Yates is hereby designated the operator of the proposed Fields "APK" State Com. Well No. 3 and the proposed 320, 160, and 80-acre units.

(5) After the effective date of this order and within 90 days prior to commencing the well, the operator shall furnish the Division and each known working interest owner in the units an itemized schedule of estimated well costs.

(6) Within 30 days from the date of receipt of the schedule of estimated well costs, any non-consenting 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, 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.

(7) The operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the 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 the reasonable well costs; provided, however, that 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.

(8) Within 60 days following determination of reasonable well costs, any non-consenting 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 its share of the amount that estimated well costs exceed reasonable well costs.

(9) The operator is hereby authorized to withhold from production the proportionate share of reasonable well costs attributable to each non-consenting working interest owner who has not paid its share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished; and as a charge for the risk involved in drilling the well an additional 200 percent of such costs.

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

(11) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$5,400.00 per month while drilling and \$540.00 per month while producing. The operator is hereby 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 each non-consenting working interest.

(12) 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.

(13) Any well costs or charges that are to be paid out of production shall be withheld only from the working interest's share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(14) All proceeds from production from the well that are not disbursed for any reason shall be placed in escrow in Lea 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.

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

(16) 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.

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

Case Nos. 11934/11958/11959


Order No. R-11061

Page 11

---

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

STATE OF NEW MEXICO  
OIL CONSERVATION DIVISION

  
LORI WROTENBERY  
Director

SEAL