

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. 11950
ORDER NO. R-10989

APPLICATION OF ENRON OIL & GAS COMPANY FOR COMPULSORY POOLING,
EDDY COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on March 19, 1998 at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 19th day of May, 1998, the Division Director, having considered the testimony, the record and the recommendations of the Examiner, and being fully advised.

FINDS THAT:

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

(2) The applicant, Enron Oil & Gas Company ("Enron"), seeks an order pooling all mineral interests from the surface to the base of the Chester formation at a depth of approximately 11,800 feet, underlying the following acreage in Section 31, Township 17 South, Range 30 East, NMPM, Eddy County, New Mexico, in the following manner:

(a) Lots 1, 2, 3, and 4 and the E/2 W/2 (W/2 equivalent) to form a standard 310.56-acre gas spacing and proration unit for formations and/or pools developed on 320-acre spacing within that vertical extent, which presently include but are not necessarily limited to the Undesignated Sand Tank-Strawn Gas Pool, Undesignated Sand Tank-Morrow Gas Pool, Undesignated South Loco Hills-Morrow Gas Pool, and Undesignated Sand Tank-Chester Gas Pool;

(b) Lots 3 and 4 and the E/2 SW/4 (SW/4 equivalent) to form a standard 155.24-acre gas spacing and proration unit for formations and/or pools developed on 160-acre spacing within

that vertical extent;

(c) Lot 4 and the SE/4 SW/4 to form a standard 77.61-acre oil spacing and proration unit for formations and/or pools developed on 80-acre spacing within that vertical extent; and,

(d) Lot 4 (SW/4 SW/4 equivalent) to form a standard 37.61-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 Loco Hills-Queen-Grayburg-San Andres Pool and Undesignated Bear Grass Draw-Abo Pool.

(3) Evidence was introduced at the hearing indicating that Enron controls 100 percent of the working interests underlying Lots 3 and 4 and the E/2 SW/4 (SW/4 equivalent) of Section 31. Therefore, it is not necessary to force pool those formations and/or pools spaced on 160, 80, and 40 acres and the requests for the proposed 155.24-acre, 77.61-acre and 37.61-acre units should be dismissed.

(4) The remaining 310.56-acre unit is to be dedicated to Enron's proposed Sand Tank "31" Federal Com. Well No. 2 (API No. 30-015-30033) to be drilled at a previously approved unorthodox gas well location 990 feet from the South line and 1200 feet from the West line (Lot 4/Unit M) of Section 31 (see Division Administrative Order NSL-3932, dated January 14, 1998).

(5) The applicant is an interest owner within the remaining 310.56-acre area that comprises the W/2 equivalent of Section 31 and therefore has the right to drill for and develop the minerals underlying the proposed standard 310.56-acre gas spacing and proration unit. At this time, however, not all of the working interests in the 310.56-acre unit have agreed to pool their interests.

(6) No affected party or offset owner or operator appeared at the hearing and/or objected to this application.

(7) To avoid the drilling of unnecessary wells, to protect correlative rights, to prevent waste and to afford to the owner of each interest in the unit the opportunity to recover or receive without unnecessary expense a just and fair share of the gas in any pool resulting from this order, this application should be approved by pooling all mineral interests, whatever they may be, within the unit.

(8) Enron should be designated the operator of the well and standard 310.56-acre gas spacing and proration unit.

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

(10) Any non-consenting working interest owner who does not pay a proportionate share of estimated well costs should have withheld from production a proportionate 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.

(11) Any non-consenting 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.

(12) Following determination of reasonable well costs, any non-consenting working interest owner who has paid a proportionate 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.

(13) Reasonable charges for supervision (combined fixed rates) should be fixed at \$5,600.00 per month while drilling and \$560.00 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.

(14) 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.

(15) If the operator of the pooled unit fails to commence drilling the well to which the unit is dedicated on or before August 15, 1998, or if all the parties to this forced pooling reach voluntary agreement subsequent to entry of this order, this order should become null and void and of no further effect whatsoever.

(16) The operator of the well and unit should notify the Director 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) All mineral interests, whatever they may be, from the surface to the base of the Chester formation at a depth of approximately 11,800 feet underlying Lots 1, 2, 3, and 4 and the E/2 W/2 (W/2 equivalent) of Section 31, Township 17 South, Range 30 East, NMPM,

Eddy County, New Mexico, are hereby pooled to form a standard 310.56-acre gas spacing and proration unit for formations and/or pools developed on 320-acre spacing within that vertical extent, which presently include but are not necessarily limited to the Undesignated Sand Tank-Strawn Gas Pool, Undesignated Sand Tank-Morrow Gas Pool, Undesignated South Loco Hills-Morrow Gas Pool, and Undesignated Sand Tank-Chester Gas Pool. The 310.56-acre unit is to be dedicated to the proposed Sand Tank "31" Federal Com. Well No. 2 (API No. 30-015-30033) to be drilled by Enron Oil & Gas Company ("Enron") at a previously approved unorthodox gas well location 990 feet from the South line and 1200 feet from the West line (Lot 4/Unit M) of Section 31 (see Division Administrative Order NSL-3932, dated January 14, 1998).

PROVIDED HOWEVER THAT, the operator of the unit shall commence drilling the well on or before the fifteenth day of August, 1998, and shall thereafter continue drilling the well with due diligence to the base of the Chester formation at a depth of approximately 11,800 feet.

PROVIDED FURTHER THAT, in the event the operator does not commence drilling the well on or before the fifteenth day of August, 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) Enron is hereby designated the operator of the well and 310.56-acre unit.

(3) 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 unit an itemized schedule of estimated well costs.

(4) 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 a proportionate share of estimated well costs to the operator in lieu of paying a proportionate share of reasonable well costs out of production, and any such owner who pays a proportionate share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(5) 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.

(6) Within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid a proportionate share of estimated costs in advance as provided above shall pay to the operator a proportionate share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator a proportionate share of the amount that estimated well costs exceed reasonable well costs.

(7) 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 who has not paid a proportionate share of estimated well costs within 30 days after receiving the schedule of estimated well costs; and

(b) as a charge for the risk involved in drilling the well, 200 percent of the proportionate share of reasonable well costs attributable to each non-consenting working interest owner who has not paid a proportionate share of estimated well costs within 30 days after receiving the schedule of estimated well costs.

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

(9) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$5,600.00 per month while drilling and \$560.00 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.

(10) 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.

(11) 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.

(12) All proceeds from production from the well that are not disbursed for any

Case No. 11950
Order No. R-10989
Page 6

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.

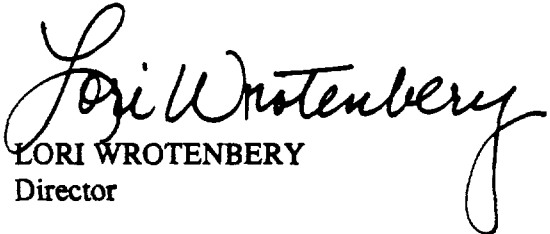
(13) Should all the parties to this forced pooling reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

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

(15) 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


LORI WROTENBERY
Director

SEAL