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APR 14 2003

Oil Conservation Division

April 14, 2003

Hand Delivered

Stephen C. Ross
Oil Conservation Commission
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

Re: Ocean/Yates; Commission Case Nos. 12535, 12567, 12569,
12590, 12738, and 12794

Dear Mr. Fruitland Coal:

Enclosed, on hard copy and disk, is a proposed Commission order in
the above cases.

Very truly yours,



James Bruce

Attorney for Ocean Energy, Inc.

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

IN THE MATTER OF THE HEARING CALLED
CALLED BY THE OIL CONSERVATION COMMISSION
FOR THE PURPOSE OF CONSIDERING:

APPLICATION OF OCEAN ENERGY RESOURCES,
INC. FOR COMPULSORY POOLING AND FOUR
NON-STANDARD SPACING AND PRORATION UNITS,
LEA COUNTY, NEW MEXICO.

No. 12535 (*de novo*)

APPLICATION OF OCEAN ENERGY RESOURCES,
INC. FOR COMPULSORY POOLING AND FOUR
NON-STANDARD SPACING AND PRORATION UNITS,
LEA COUNTY, NEW MEXICO.

No. 12567 (*de novo*)

APPLICATION OF YATES PETROLEUM CORPORATION
FOR COMPULSORY POOLING AND A NON-STANDARD
SPACING AND PRORATION UNIT, LEA COUNTY,
NEW MEXICO.

No. 12569 (*de novo*)

APPLICATION OF YATES PETROLEUM CORPORATION
FOR COMPULSORY POOLING AND A NON-STANDARD
SPACING AND PRORATION UNIT, LEA COUNTY,
NEW MEXICO.

No. 12590 (*de novo*)

APPLICATION OF YATES PETROLEUM CORPORATION
FOR TWO NON-STANDARD SPACING AND PRORATION
UNITS, LEA COUNTY, NEW MEXICO.

No. 12738

APPLICATION OF OCEAN ENERGY RESOURCES,
INC. FOR COMPULSORY POOLING AND FOUR
NON-STANDARD SPACING AND PRORATION UNITS,
LEA COUNTY, NEW MEXICO.

No. 12794

ORDER NO. R-11566-A

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9:00 a.m. on March 20, 2003
at Santa Fe, New Mexico before the Oil Conservation Commission.

NOW, on this _____ day of April, 2003, the Commission, having
considered the testimony and the record,

FINDS THAT:

(1) Due public notice has been given, and the Commission has
jurisdiction of these cases and their subject matter.

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Oil Conservation Division

(2) Section 3 of Township 16 South, Range 35 East, N.M.P.M., Lea County, New Mexico is an irregular governmental section, which is one mile in width and approximately one and one-half miles in length. Irregular Section 3 comprises a total area of 995.80 acres. It consists of Lot 1 (49.47 acres), Lot 2 (49.12 acres), Lot 3 (48.78 acres), Lot 4 (48.43 acres), Lots 5-16 (40 acres each), and the S½ (320 acres).

(3) In Case Nos. 12535 and 12567, Ocean Energy Resources, Inc., **now known as Ocean Energy, Inc.** ("Ocean") sought an order pooling all mineral interests from the surface to the base of the Mississippian formation underlying the following described acreage in irregular Section 3:

- (a) Lots 1-8 to form a non-standard 355.80-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within that vertical extent, including the Undesignated North Shoe Bar-Atoka Gas Pool, Undesignated North Shoe Bar-Morrow Gas Pool, Undesignated Townsend-Morrow Gas Pool, and Undesignated-North Hume Morrow Gas Pool;
- (b) Lots 3-6 to form a non-standard 177.21-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 3 and 4 to form a non-standard 97.21-acre oil spacing and proration unit for any and all formations and/or pools developed on 80-acre spacing within that vertical extent, including the Undesignated South Big Dog-Strawn Pool; and
- (d) Lot 4 to form a non-standard 48.43-acre oil spacing and proration unit for any and all formations and/or pools developed on 40-acre spacing within that vertical extent, including the Undesignated Northeast Townsend-Abo Pool, Undesignated Townsend-Permo Upper Pennsylvanian Pool, Undesignated Big Dog-Strawn Pool, Undesignated Townsend-Strawn Pool, and Undesignated Northeast Eidson-Mississippian Pool.

(4) The above-described units were to be dedicated to Ocean's proposed Townsend State Com. Well No. 10, to be located at an orthodox location in Lot 4 of Section 3.

(5) In Case Nos. 12569 and 12590, Yates Petroleum Corporation ("Yates") sought an order pooling all mineral interests from the surface to the base of the Mississippian formation underlying Lots

1-8 of irregular Section 3, Township 16 South, Range 35 East, N.M.P.M., to form a non-standard 355.80-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within that vertical extent, including the Undesignated North Shoe Bar-Atoka Gas Pool, Undesignated North Shoe Bar-Morrow Gas Pool, Undesignated Townsend-Morrow Gas Pool, and Undesignated-North Hume Morrow Gas Pool. The unit was to be dedicated to the proposed Daisy AFS State Com. Well No. 2, to be located in Unit A of Section 3.

(6) By Order No. R-11566, the Division approved the applications of Ocean in Case Nos. 12535 and 12567, and denied the applications of Yates in Case Nos. 12569 and 12590.

(7) In Case No. 12738, filed after entry of the Division's order, Yates sought an order granting two non-standard gas spacing and proration units, one unit comprised of Lots 1, 2, 7, and 8 of Section 3, and one unit comprised of Lots 3-6 of Section 3.

(8) In Case No. 12794, filed after entry of the Division's order, Ocean amended its applications in Case Nos. 12535 and 12567 to seek an order pooling all mineral interests from the surface to the base of the Mississippian formation underlying the following described acreage in irregular Section 3:

- (a) Lots 1-8 to form a non-standard 355.80-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within that vertical extent, including the Undesignated North Shoe Bar-Atoka Gas Pool, Undesignated North Shoe Bar-Morrow Gas Pool, Undesignated Townsend-Morrow Gas Pool, and Undesignated-North Hume Morrow Gas Pool;
- (b) Lots 3-6 to form a non-standard 177.21-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 3 and 4 to form a non-standard 97.21-acre oil spacing and proration unit for any and all formations and/or pools developed on 80-acre spacing within that vertical extent, including the Undesignated South Big Dog-Strawn Pool; and
- (d) Lot 3 to form a non-standard 48.78-acre oil spacing and proration unit for any and all formations and/or pools developed on 40-acre spacing within that vertical extent, including the Undesignated Northeast Townsend-Abo Pool, Undesignated Townsend-Permo Upper Pennsylvanian Pool,

Undesignated Big Dog-Strawn Pool, Undesignated Townsend-Strawn Pool, and Undesignated Northeast Eidson-Mississippian Pool.

This application was filed after consultation among the parties to these cases under which they agreed that a location in Lot 3 of Section 3 would be better geologically than the location in Lot 4 of Section 3 which was approved by Division Order No. R-11566.

(9) The above-described units are to be dedicated to Ocean's Townsend State Com. Well No. 10, to be located at an orthodox location in Lot 3 of Section 3.

(10) By letter dated February 18, 2003, legal counsel for Yates requested the Commission to dismiss its applications in Case Nos. 12569, 12590, and 12738, and to dismiss its appeal of or objection to Ocean's applications in Case Nos. 12535, 12567, and 12794.

(11) There are interest owners in the proposed proration units who have not agreed to pool their interests.

(12) To avoid the drilling of unnecessary wells, to protect correlative rights, to avoid waste, and to afford to the owner of each interest in these units the opportunity to recover or receive without unnecessary expense its just and fair share of hydrocarbon production in any pool resulting from this order, Ocean's application in Case No. 12794 should be approved by pooling all mineral interests, whatever they may be, within those units.

(13) Ocean should be designated the operator of the subject well and units.

(14) 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.

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

(16) 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.

(17) Following 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.

(18) \$6,000.00 per month while drilling and \$600.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates). The operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(19) All proceeds from production from the subject well which 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.

(20) Upon the failure of the operator of the pooled units to commence drilling operations on the Townsend State Com. Well No. 10 on or before July 15, 2003, or if all parties to this forced pooling reach voluntary agreement subsequent to entry of this order, the compulsory pooling provisions of this order should become of no effect.

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

IT IS THEREFORE ORDERED THAT:

(1) The application of Ocean Energy, Inc. in Case No. 12794, which amends its applications in Case Nos. 12535 and 12567, is hereby approved, and all uncommitted mineral interests, whatever they may be, from the surface to the base of the Mississippian formation in the following described acreage in Section 3, Township 16 South, Range 35 East, N.M.P.M., are hereby pooled in the following manner:

- (a) Lots 1-8 to form a non-standard 355.80-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within that vertical extent, including the Undesignated North Shoe Bar-Atoka Gas Pool, Undesignated North Shoe Bar-Morrow Gas Pool, Undesignated Townsend-Morrow Gas Pool, and Undesignated-

North Hume Morrow Gas Pool;

- (b) Lots 3-6 to form a non-standard 177.21-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 3 and 4 to form a non-standard 97.21-acre oil spacing and proration unit for any and all formations and/or pools developed on 80-acre spacing within that vertical extent, including the Undesignated South Big Dog-Strawn Pool; and
- (d) Lot 3 to form a non-standard 48.78-acre oil spacing and proration unit for any and all formations and/or pools developed on 40-acre spacing within that vertical extent, including the Undesignated Northeast Townsend-Abo Pool, Undesignated Townsend-Permo Upper Pennsylvanian Pool, Undesignated Big Dog-Strawn Pool, Undesignated Townsend-Strawn Pool, and Undesignated Northeast Eidson-Mississippian Pool.

These units are to be dedicated to the applicant's proposed Townsend State Com. Well No. 10, to be located at an orthodox location in Lot 3 (Unit C) of Section 3.

PROVIDED HOWEVER THAT the operator of the units shall commence drilling operations on the Townsend State Com. Well No. 10 on or before the 15th day of July, 2003, and shall thereafter continue the drilling of 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 operations on the well on or before the 15th day of July, 2003, Ordering Paragraph No. (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause shown.

PROVIDED FURTHER THAT should the well not be drilled to completion, or abandonment, within 120 days after commencement thereof, the operator shall appear before the Division Director and show cause why Ordering Paragraph No. (1) of this order should not be rescinded.

(2) The applications of Yates Petroleum Corporation in Case Nos. 12569, 12590, and 12738 are hereby dismissed.

(3) Ocean Energy, Inc. is hereby designated the operator of the subject well and units.

(4) After pooling, uncommitted working interest owners are referred to as "non-consenting working interest owners." 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 non-consenting working interest owner in the units an itemized schedule of estimated well costs.

(5) Within 30 days from the date the schedule of estimated well costs is furnished to it, 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.

(6) The operator shall furnish the Division and each known non-consenting 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, if there is objection to actual well costs within the 45-day period, the Division will determine reasonable well costs after public notice and hearing.

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

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

(a) The pro rata 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

(b) As a charge for the risk involved in drilling the well, 200 percent of the above costs.

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

(10) 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 this rate shall be adjusted annually pursuant to Section III.1.A.3 of the COPAS form titled "Accounting Procedure-Joint Operations." The operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such wells, not in excess of what are reasonable, attributable to each non-consenting working interest.

(11) 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 the terms of this order.

(12) Any well costs or charges which 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.

(13) All proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Lea County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; and 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.

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

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

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

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

CASE NOS. 12535, 12567, 12569, 12590, 12738, and 12794
ORDER NO. R-11566-A
PAGE 9

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

LORI WROTENBERY, CHAIR

JAMI BAILEY, MEMBER

ROBERT LEE, MEMBER

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