

F A C S I M I L E

To: David Brooks
Of: NM Oil Conservation Division
Fax: (505) 476-3471
Pages: 9, including this cover sheet.
: August 14, 2001

Please find attached the proposed draft Order for Yates Petroleum Corporation, Case number 12683. After you have reviewed this document, please call if you have questions or changes. Thank you.

Ernest L. Carroll

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From the desk of:

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**STATE OF NEW MEXICO
DEPARTMENT OF ENERGY, MINERALS AND NATURAL RESOURCES
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
CHAVES COUNTY, NEW MEXICO

CASE NO. 12683

Order No. R-_____

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on July 12, 2001, at Santa Fe, New Mexico, before Examiner David Brooks.

NOW, on this ____ day of _____, 2001, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) The applicant, Yates Petroleum Corporation, seeks the following:

(a) An order pooling all mineral interests from the surface down to the base of the Ordovician formation, underlying the E/2 of Section 3, Township 8 South, Range 26 East, N.M.P.M., Chaves County, New Mexico, forming a standard 320-acre or 160-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre or 160-acre spacing within said vertical extent. Said unit is to be dedicated to the applicant's proposed Coronet "TI" No. 3 to be drilled at a standard gas well location thereon.

(b) An order pooling the uncommitted interest owners in the previously drilled wells known as the Coronet "TI" No. 1, located 660' FNL and 660' FEL of Section 3 and the Coronet "TI" No. 2, located 1980' FNL and 1000' FEL of Section 3. Each of these two wells are producing from and are located on the 160-acre spacing unit comprising the NE/4 of Section 3. Yates Petroleum Corporation seeks to force pool each of the uncommitted interest owners in

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each of the two previously drilled wells with respect to all operations conducted from the date of entry of an order by the Oil Conservation Division ordering the pooling of such interest.

(c) An order pooling all uncommitted interest owners in the previously drilled Percentage "APR" No. 1 well located 660' FSL and 1110' FEL of Section 3. Said well being drilled on and dedicating to and producing from a 320-acre gas spacing and proration unit. Yates Petroleum Corporation seeks to force pool each of the uncommitted interest owners in the previously drilled well with respect to all operations conducted from the date of entry of an order by the Oil Conservation Division ordering the pooling of such interest.

(d) An order seeking the adoption of a suitable joint operating agreement for all future operations to be conducted upon the E/2 of Section 3.

(3) The applicant has the right to drill and proposes to drill its Coronet "TI" Well No. 3 at a standard gas well location located in the E/2 of Section 3.

(4) The applicant had the right to drill and did drill its Coronet "TI" Well No. 1 and the Coronet "TI" Well No. 2 at standard gas well locations in the NE/4 of Section 3.

(5) The applicant had the right to drill and did drill its Percentage "APR" Well No. 1 at a standard gas well location in the E/2 of Section 3.

(6) There are interest owners in the proposed proration unit and in the already established proration units who have not agreed to pool their interests.

(7) To avoid the drilling of unnecessary wells, to protect correlative rights, to avoid waste, and to afford to the owner of each interest in said units the opportunity to recover or receive without unnecessary expense his just and fair share of the production in any pool completion resulting from this order, the subject application should be approved by pooling all mineral interests, whatever they may be, within the E/2 of Section 3 from the surface to the base of the Ordovician formation.

(8) The applicant should be designated the operator of the subject wells and units.

(9) Any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production with respect to the proposed Coronet "TI" Well No. 3 to be drilled at a location of 1280' FSL and 1980' FEL of Section 3. Any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated costs for any procedure costs to the operator in lieu of paying his share of reasonable procedure costs out of production, for any proposed operation after the date of this order with respect to the Coronet "TI" Well No. 1.

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completed or proposed to be completed within the vertical extent of the lease

any of the existing wells, or the proposed well, or any subsequent well located on the tract and

wells to be drilled or completed within the vertical extent of the lease

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located 660' FNL and 660' FEL of Section 3, the Coronet "TI" Well No. 2, located 1980' FNL and 1000' FEL of Section 3 and the Percentage "APR" Well No. 1, located 660' FSL and 1110' FEL of Section 3.

(10) Any non-consenting working interest owner who does not pay ^{his} share of estimated ~~well costs or procedure costs~~ ^{of any proposed procedure} should have withheld from production ^{its} ~~his share of the~~ reasonable ~~well costs or procedure costs~~ ^{from the well which} plus an additional 200% thereof as a reasonable charge for the risk involved in the drilling of any well ^{such} or any future ~~procedures~~ ^{of such procedure,} performed on a well already drilled ~~after the date of this order.~~ ^{is committed only,} ^{performed}

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

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

(13) \$5,400.00 per month while drilling and \$540.00 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.

(14) 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.

^{1b} ~~(14)~~ That the following ^{provisions should} ~~language~~ ^{conform to} be adopted for all purposes for any drilling or work performed on any well within the vertical limits ~~forced~~ ^{Unit, as between} pooled by this order within the ~~Section~~ ^{the operator} and forming a part of Yates Petroleum Corporations Exhibit #9 presented to the Division, ~~which language is found~~ ^{and} in article VI.B ~~as amended hereby of said joint operating agreement.~~ ^{any interest} ^{non-consenting} ^{working} ^{interest} ^{owner.}

^{STET} Operations by Less than All Parties: If any party receiving such notice ~~as provided~~ ^{in article VI.B 1. or VI.E.1.} elects not to participate in the proposed operation then, in order to be entitled to the benefits of this article, ~~any party or parties giving~~

^{the foregoing paragraph} ^{which operating agreement} ^{governs operations of the Unit} ^{as among the voluntarily} ^{consenting working interest} ^{Unit} **DRAFT**

^{except to the} ^{extent amended} ^{to NMS Act. 70-2-17} ^{and to} ^{to conform} ^{for a determination by}

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the notice and such other parties as shall elect to participate in the operation shall, within sixty (60) days after the expiration of the notice period of thirty (30) days ~~(or as promptly as possible after the expiration of the forty-eight (48) hour period where the drilling rig is on location, as the case may be)~~ actually commence work on the proposed operation and complete it with due diligence. Operator shall perform all work for the account of the Consenting Parties, ~~provided, however, if no drilling rig or other equipment is on location, and if Operator is a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform the work required by such proposed operation for the account of the Consenting Parties, or (b) designate one (1) of the Consenting Parties as Operator to perform such work.~~

The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have elected to bear. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well at their sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this Article results in a producer of oil and/or gas in paying quantities, ~~the Consenting Parties shall complete and equip the well to produce at their sole cost and risk, and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties.~~ Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interest, all of such Non-Consenting Party's interest in the well and share of production therefrom until the proceeds of the sale of such share, calculated at the well, or market value thereof if such share is not sold (after deducting production taxes, crude oil excise taxes, royalty, overriding royalty and other interests existing on the effective date hereof, payable out of or measured by the production from such well accruing with respect to such interests until it reverts) shall equal the Non-Consenting working interest owners' proportionate share of reasonable well or procedure costs plus an additional 200% thereof as a reasonable charge for the risk involved.

*Operator
of the
Consenting
Parties*

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

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(17) The operator of the well and unit 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.

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be, from the surface to the base of the Ordovician formation, underlying the E/2 of Section 3, Township 8 South, Range 26 East, N.M.P.M., Chaves County, New Mexico, are hereby pooled forming either a standard 320-acre or 160-acre gas spacing and proration unit for any and all formations and/or pools developed on either a 320-acre or 160-acre spacing within said vertical extent. Said unit shall be dedicated to the applicant's proposed Coronet "TI" Well No. 3 and applicant's previously drilled wells, the Coronet "TI" Well No. 1, the Coronet "TI" Well No. 2 and the Percentage "APR" Well No. 1. All wells to be drilled or are already drilled at standard gas well locations in the E/2 of Section 3.

(2) Yates Petroleum Corporation is hereby designated the operator of the subject wells and units.

(3) Within 30 days after the effective date of this order and prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs for the Coronet "TI" No. 3 well.

(4) After the effective date of this order and within 30 days prior to commencing any proposed operation upon the Coronet "TI" Well No. 1, the Coronet "TI" Well No. 2 and the Percentage "APR" Well No. 1, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated procedure costs.

(5) Within 30 days from the date the schedule of estimated well costs or procedure costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs or procedure costs to the operator in lieu of paying his share of reasonable well costs or procedure costs out of production, and any such owner who pays his share of estimated well costs or procedure 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 working interest owner an itemized schedule of actual costs within 90 days following completion of the well or procedure; if no objection to the actual costs is received by the Division and the Division has not objected within 45 days following receipt of said schedule, the actual costs shall be the reasonable costs; provided however, if there is objection to actual costs within said 45-day period the Division will determine reasonable costs after public notice and hearing.

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

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

(a) The pro rata share of reasonable costs attributable to each non-consenting working interest owner who has not paid his share of estimated costs within 30 days from the date the schedule of estimated costs is furnished to him.

(b) As a charge for the risk involved in the drilling of the well or completion of a procedure, 200% of the pro rata share of reasonable well costs or procedure costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs or procedure costs within 30 days from the date the schedule of estimate well costs or estimated procedure costs is furnished to him.

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

(10) \$5,400.00 per month while drilling and \$540.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); 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 well, 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 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

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calculated at the well, or market value thereof if such share is not sold (after deducting production taxes, crude oil excise taxes, royalty, overriding royalty and other interests existing on the effective date hereof, payable out of or measured by the production from such well accruing with respect to such interests until it reverts) shall equal the Non-Consenting working interest owners proportionate share of reasonable well or procedure costs plus an additional 200% thereof as a reasonable charge for the risk involved.

(15) Should all the parties to this force pooling order 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 unit 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.

(17) Jurisdiction is hereby 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

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