

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. 12,925
)
APPLICATION OF TRILOGY OPERATING, INC.,)
FOR COMPULSORY POOLING, LEA COUNTY,)
NEW MEXICO)
_____)

OFFICIAL EXHIBIT FILE

EXAMINER HEARING

BEFORE: DAVID K. BROOKS, Hearing Examiner

September 19th, 2002

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID K. BROOKS, Hearing Examiner, on Thursday, September 19th, 2002, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

P.O. Box 7606
Midland, Texas 79708

TRILOGY OPERATING, INC.

915/686-2027
FAX 915/686-2040

TRILOGY OPERATING, INC.'S

SAPPHIRE #2

**NW/4 NE/4 SECTION 24,
T-19-S, R-38-E, NMPM,
LEA COUNTY, NEW MEXICO**

**COMPULSORY POOLING
REQUEST**

**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. 12697
ORDER NO. R-11659**

**APPLICATION OF TRILOGY OPERATING, INC. FOR COMPULSORY
POOLING, LEA, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on August 9, 2001, at Santa Fe, New Mexico, before Examiner David K. Brooks.

NOW, on this 18th day of September, 2001, 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 of the subject matter.

(2) Trilogy Operating, Inc., ("Applicant"), seeks an order pooling all uncommitted mineral interests from the surface to the base of the Abo formation underlying the SW/4 NE/4 of Section 24, Township 19 South, Range 38 East, NMPM, Lea County, New Mexico, in the following manner:

The SW/4 NE/4, forming a standard 40-acre oil spacing and proration unit (the 40-acre "Unit") for all formations or pools spaced on 40 acres within this vertical extent, which presently include, but are not necessarily limited to, the South Nadine-Seven Rivers-Yates Pool, Nadine Tubb Pool, Nadine-Blinebry Pool and Nadine Drinkard-Abo Pool.

(3) The above-described unit (the Unit) is to be dedicated to Applicant's Sapphire Well No. 1, located at a standard well location within the SW/4 NE/4 of Section 24.

(4) Two or more separately owned tracts are embraced within the Unit, and/or there are owners of royalty interests and/or undivided interests in oil and gas minerals in one or more tracts included in the Unit which are separately owned.

(5) Applicant is an owner of an oil and gas working interest within the Unit. Applicant has the right to drill and has drilled its Sapphire Well No. 1 (the "well") to a common source of supply at a standard well location within the SW/4 NE/4 of Section 24.

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

(7) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford to the owner of each interest in the Unit 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 mineral interests, whatever they may be, within the Unit.

(8) Applicant should be designated the operator of the well and of the Unit.

(9) After pooling, uncommitted working interest owners are referred to as non-consenting working interest owners. ("Uncommitted working interest owners" are owners of working interests in the Unit, including unleased mineral interests, who are not parties to an operating agreement governing the Unit.)

(10) Any non-consenting working interest owner who has not paid its share of actual well costs should have withheld from production its share of reasonable well costs plus an additional 100% thereof as a reasonable charge for the risk involved in drilling 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 its share of actual costs 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 \$4500 per month while drilling and \$450 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.*" 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) Except as noted in Findings (10) and (13) above, 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) The operator 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) Pursuant to the application of Trilogy Operating, Inc., all uncommitted mineral interests from the surface to the base of the Abo formation underlying the SW/4 NE/4 of Section 24, Township 19 South, Range 38 East, N.M.P.M., Lea County, New Mexico, are hereby pooled, as follows:

The SW/4 NE/4, forming a standard 40-acre oil spacing and proration unit for all formations or pools spaced on 40 acres within this vertical extent which presently include but are not necessarily limited to the South Nadine-Seven Rivers-Yates Pool, Nadine Tubb Pool, Nadine-Blinebry Pool and Nadine Drinkard-Abo Pool.

The Unit shall be dedicated to Applicant's Sapphire Well No. 1, located at a standard well location within the SW/4 NE/4 of Section 24.

(2) Should the well not be drilled to completion, or be 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.

(3) Applicant is hereby designated the operator of the well and of the Unit.

(4) 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 deemed to 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 notice and hearing.

(5) Within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid its share of well costs shall receive from the operator its share of the amount that paid well costs exceed reasonable well costs.

(6) 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 its share of actual well costs; and
- (b) as a charge for the risk involved in drilling the well, 100% of the above costs.

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

(8) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$4500 per month while drilling and \$450 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*." 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 each non-consenting working interest.

(9) Except as provided in Ordering Paragraphs (6) and (8) above, 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.

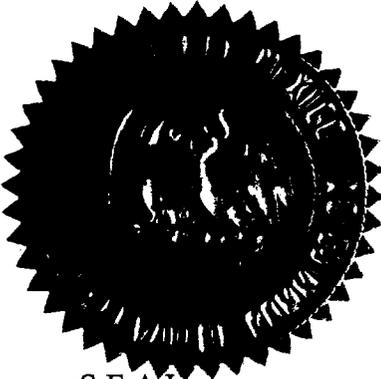
(10) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working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

(11) 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.

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

(13) 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.



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in cursive script that reads "Lori Wrotenbery". The signature is fluid and extends below the baseline of the printed name.

LORI WROTENBERY
Director

P.O. Box 7606
Midland, Texas 79708

TRILOGY OPERATING, INC.

915/686-2027
FAX 915/686-2040

TRILOGY OPERATING, INC.'S

SAPPHIRE #2

NW/4 NE/4 SECTION 24,
T-19-S, R-38-E, NMPM,
LEA COUNTY, NEW MEXICO

COMPULSORY POOLING
REQUEST

Exhibit 1

KELLAHIN AND KELLAHIN

ATTORNEYS AT LAW

EL PATIO BUILDING

117 NORTH GUADALUPE

POST OFFICE BOX 2265

SANTA FE, NEW MEXICO 87504-2265

August 26, 2002

TELEPHONE (505) 982-4285
TELEFAX (505) 982-2047

W. THOMAS KELLAHIN*

*NEW MEXICO BOARD OF LEGAL SPECIALIZATION
RECOGNIZED SPECIALIST IN THE AREA OF
NATURAL RESOURCES-OIL AND GAS LAW

JASON KELLAHIN (RETIRED 1991)

TO: NOTICE OF THE HEARING OF THE FOLLOWING NEW
MEXICO OIL CONSERVATION DIVISION CASE:

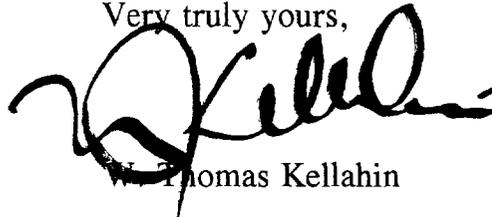
*Re: Application of Trilogy Operating, Inc.
for Compulsory Pooling, Lea County, New Mexico*

On behalf of Trilogy Operating, Inc., please find enclosed our application for an compulsory pooling for its Sapphire Well No. 2 which has been set for hearing on the New Mexico Oil Conservation Division Examiner's docket now scheduled for September 19, 2002. The hearing will be held at the Division hearing room located at 1220 South Saint Francis Drive, Santa Fe, New Mexico. (505) 476-4358

As an interest owner who may be affected by this application, we are notifying you of your right to appear at the hearing and participate in this case, including the right to present evidence either in support of or in opposition to the application. Failure to appear at the hearing may preclude you from any involvement in this case at a later date.

Pursuant to the Division's Memorandum 2-90, you are further notified that if you desire to appear in this case, then you are requested to file a Pre-Hearing Statement with the Division not later than 4:00 PM on Friday, September 13, 2002, with a copy delivered to the undersigned.

Very truly yours,



W. Thomas Kellahin

cc: BY CERTIFIED MAIL-RETURN RECEIPT REQUESTED
to all parties listed in application

EXHIBIT "A"

NW/4 NE/4 SECTION 24, T-19-S, R-38-E, NMPM, LEA COUNTY, NEW MEXICO

<u>UNLEASED MINERAL OWNERS:</u>	<u>MINERAL INTEREST</u>
Heirs or Devisees of W. E, McWilliams Address Unknown	0.025
Kenneth Cone (No Response) P.O. Box 11310 Midland, TX 79702	0.020
Bobby G. Bales (No Response) R.R. 1, Box 308 Sperry, OK 74073	0.0208333
John W. Coyle, III (No Response) 119 N. Robinson, Suite 320 Oklahoma City, OK 73102	0.00208333
John W. Coyle, III, Personal Rep of Est of Patrick Coyle (No Response) 119 N. Robinson, Suite 320 Oklahoma City, OK 73102	0.00208333
Shannon Coyle Manning (No Response) 119 N. Robinson, Suite 320 Oklahoma City, OK 73102	0.00208333
Michael Coyle (No Response) 119 N. Robinson, Suite 320 Oklahoma City, OK 73102	0.00208333
The Long Trusts P.O. Box 3096 Kilgore, TX 75663	0.04000
J.H. Free Address Unknown	0.0208333
Heirs or Devisees of G. W. McWilliams Address Unknown	0.0375
Lana Carol Smith Shepherd Address Unknown	0.0008333

Jo Ann Smith Parker Address Unknown	0.0008333
Pamela Sue Reynolds Ortega Address Unknown	0.0005555
Patricia Ann Reynolds Address Unknown	0.0005555
Larry Gene Reynolds Address Unknown	0.0005555

Compulsory Pooling: Sapphire #2 MI

SENDER: COMPLETE THIS SECTION

Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.

Print your name and address so that we can return the package to you if it cannot be delivered.
Trilogy Operating
Sapphire well #2
September 9, 2002
8/27/02

RECEIVED BY: COMPLETE THIS SECTION ON DELIVERY

A. Signature  Agent
 Addressee

B. Date of Delivery
C. Signature  Agent
 Addressee
D. Is delivery address different from item 1? Yes
E. If YES, enter delivery address below: No

Trilogy Operating
Sapphire well #2
September 9, 2002
8/27/02

Article Number
(Transfer from service label)

7001 1140 0002 9564 4776

PS Form 3811, August 2001

Domestic Return Receipt

102595-02-M-0835

SENDER: COMPLETE THIS SECTION

Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.

Print your name and address so that we can return the package to you if it cannot be delivered.
Michael Coyle
19 N Robinson Suite 320
Oklahoma City, OK 73102

RECEIVED BY: COMPLETE THIS SECTION ON DELIVERY

A. Received by (Please Print Clearly)  B. Date of Delivery 8/30/02

C. Signature  Agent
 Addressee

D. Is delivery address different from item 1? Yes
If YES, enter delivery address below: No

Trilogy Operating
Sapphire well #2
September 9, 2002
8/27/02

Insured Mail C.O.D.

4. Restricted Delivery? (Extra Fee) Yes

Article Number (Copy from service label)

7001 1140 0002 9564 4752

PS Form 3811, July 1999

Domestic Return Receipt

102595-00-M-0952

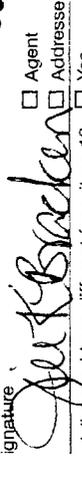
SENDER: COMPLETE THIS SECTION

Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.

Print your name and address so that we can return the package to you if it cannot be delivered.
Kenneth Cone
PO Box 11310
Midland, TX 79702

RECEIVED BY: COMPLETE THIS SECTION ON DELIVERY

A. Received by (Please Print Clearly)  B. Date of Delivery SEP 5 2002

C. Signature  Agent
 Addressee
D. Is delivery address different from item 1? Yes
E. If YES, enter delivery address below: No

Trilogy Operating
Sapphire well #2
September 9, 2002
8/27/02

2. Article Number (Copy from service label)

7001 0320 0004 4159 2910

PS Form 3811, July 1999

Domestic Return Receipt

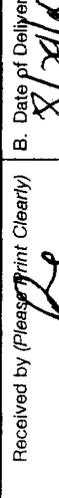
102595-00-M-0952

SENDER: COMPLETE THIS SECTION

Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.

Print your name and address so that we can return the package to you if it cannot be delivered.
Bobby G Bales
R.R. 1 Box 308
Atte Sperry, OK 74073

RECEIVED BY: COMPLETE THIS SECTION ON DELIVERY

A. Received by (Please Print Clearly)  B. Date of Delivery 8/27/02

C. Signature  Agent
 Addressee
D. Is delivery address different from item 1? Yes
E. If YES, enter delivery address below: No

Trilogy Operating
Sapphire well #2
September 9, 2002
8/27/02

4. Restricted Delivery? (Extra Fee) Yes

2. Article Number (Copy from service label)

7001 0320 0004 4159 2903

PS Form 3811, July 1999

Domestic Return Receipt

102595-00-M-0952

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print by **John W Coyle III** so that **119 N Robinson, Suite 320** or on **Oklahoma City, OK 73102**
- Attach

1. Article

COMPLETE THIS SECTION ON DELIVERY

A. Received by (Please Print Clearly)

nature *Trilogy*

Agent
 Addressee
 elivery address different from item 1? Yes
 ES, enter delivery address below: No

Trilogy Operating
 Sapphire well #2
 September 9, 2002
 8/27/02

2. Article Number (Copy from service label)

7001 0320 0004 4159 2897

PS Form 3811, July 1999

Domestic Return Receipt

102595-00-M-0952

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print by **The Long Trusts** on the reverse of **PO Box 3096** or on **Kilgore, TX 75663**

A. Signature

Elizabeth Stout

Received by (Printed Name) **ELIZABETH STOUT**

C. Date of Delivery **8/25/02**

Agent
 Addressee
 Is delivery address different from item 1? Yes
 If YES, enter delivery address below: No

Trilogy Operating
 Sapphire well #2
 September 9, 2002
 8/27/02

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print by **Shannon Coyle Manning** so that **F 119 N Robinson Suite 320** or on **Oklahoma City, OK 73102**

A. Received by (Please Print Clearly)

Shannon Coyle Manning

B. Date of Delivery

Agent
 Addressee
 Is delivery address different from item 1? Yes
 If YES, enter delivery address below: No

Trilogy Operating
 Sapphire well #2
 September 9, 2002
 8/27/02

Article Number (Copy from service label)

7001 1140 0002 9564 4769

PS Form 3811, August 2001

Domestic Return Receipt

102595-02-M-0835

2. Article Number (Copy from service label)

7001 1140 0002 9564 4745

PS Form 3811, July 1999

Domestic Return Receipt

102595-00-M-0952

4. Restricted Delivery? (Extra Fee)

Yes