

**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 CAZA PETROLEUM,
INC. FOR A NON-STANDARD SPACING
AND PRORATION UNIT AND COMPULSORY
POOLING, LEA COUNTY, NEW MEXICO.**

**CASE NO. 15021
ORDER NO. R-13723**

ORDER OF THE DIVISION

BY THE DIVISION:

This matter came on for hearing at 8:15 a.m. on July 11, 2013, at Santa Fe, New Mexico, before Oil Conservation Division Examiner Richard I. Ezeanyim.

NOW, on this 8th day of August, 2013, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner,

FINDS THAT:

(1) Due notice has been given, and the Division has jurisdiction of this case and of the subject matter.

(2) Caza Petroleum, Inc. ("Caza" or "Applicant") seeks approval of a non-standard 160-acre, more or less, oil spacing and proration unit (project area) in the Bone Spring formation (wildcat Bone Spring Pool) comprised of the E/2 W/2 of Section 29, Township 23 South, Range 34 East, NMPM, Lea County, New Mexico. Applicant further seeks an order pooling all uncommitted interests in the unit.

(3) The Unit is to be dedicated to Caza's West Copperline 29 Fed. Well No. 1H ("the proposed well"), to be horizontally drilled from a surface location in the NE/4 NW/4 of Section 29, and then in a southerly direction in the Bone Spring formation to a bottomhole terminus in the SE/4 SW/4 of said Section 29.

The completed interval of the proposed well in the Bone Spring formation will be orthodox.

(4) Notice of the proposed 160-acre, more or less, non-standard oil spacing and proration unit was provided to all surrounding affected parties within the Bone Spring formation.

(5) Notice of this compulsory pooling application was provided to all interest owners.

(6) Spacing in the subject pool is governed by statewide Rule 19.15.15.9.A NMAC, which provides for standard 40-acre units, each comprising a governmental quarter-quarter section. The Unit consists of four adjacent quarter-quarter sections.

(7) Applicant appeared at the hearing through counsel and presented evidence to the effect that:

(a) this area is suitable for development by horizontal drilling;

(b) all quarter sections to be included in the Unit are expected to be productive in the Bone Spring formation, so that formation of the Unit as requested will not impair correlative rights; and

(c) the geology in the area suggests that drilling in the S-N or N-S direction will allow Applicant to strike the most productive zones of the Bone Spring formation.

(8) No other party appeared at the hearing, or otherwise opposed the granting of this application.

The Division Concludes as Follows:

(9) Two or more separately owned tracts are embraced within the Units and/or there are royalty interests and/or undivided interests in oil and gas minerals in one or more tracts included in the Units that are separately owned.

(10) Applicant is an owner of oil and gas working interest within the Unit. Applicant has the right to drill, and proposes to drill the proposed well to a common source of supply within the Unit at the proposed location.

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

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

(13) Caza (**OGRID No. 251473**) should be designated the operator of the proposed well and of the Unit.

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

(15) The Applicant requested overhead rates of \$9,400 while drilling, and \$1,000 while producing. These amounts according to Applicant's witness were obtained by using Ernest & Young Escalators. There were no sample calculations entered into evidence using these Escalators, therefore, the Division should allow overhead rates of \$7,500 while drilling and \$750 while producing which have been approved for wells of similar depths

(16) Reasonable charges for supervision (combined fixed rates) should be fixed at \$7,500 per month while drilling and \$750 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*."

IT IS THEREFORE ORDERED THAT:

(1) A non-standard 160-acre, more or less, oil spacing and proration unit is hereby established for oil and gas production from the Bone Spring formation (wildcat Bone Spring Pool) consisting of the E/2 W/2 of Section 29, Township 23 South, Range 34 East, NMPM, Lea County, New Mexico.

(2) Pursuant to the application of Caza Petroleum, Inc., all uncommitted interests, whatever they may be, in the Bone Spring formation underlying the non-standard oil spacing and proration unit, are hereby pooled:

(3) The Unit shall be dedicated to Caza's West Copperline 29 Well No. 1H, to be horizontally drilled from a surface location in the NE/4 NW/4 of Section 29 and then in a southerly direction in the Bone Spring formation to a bottomhole terminus in the SE/4 SW/4 of said Section 29. The completed interval of the proposed well in the Bone Spring formation will be orthodox.

(4) Caza Petroleum, Inc. (**OGRID 251473**) is hereby designated the operator of the well and of the Unit.

(5) The operator of the Unit shall commence drilling the proposed horizontal well on or before July 30, 2014 and shall thereafter continue drilling the well with due diligence to test the Bone Spring formation.

(6) In the event the operator does not commence drilling the proposed well on or before July 30, 2014, Ordering Paragraph (2) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause demonstrated by satisfactory evidence.

(7) Should the proposed well not be drilled and completed within 180 days after commencement thereof, then Ordering Paragraphs (1) and (2) shall be of no further effect, and the Unit and project area created by this Order shall terminate, unless the operator appears before the Division Director and obtains an extension of the time for completion of the proposed well for good cause shown by satisfactory evidence.

(8) Upon final plugging and abandonment of the proposed well and any other well drilled on the Unit pursuant to Division Rule 15.19.13.9 NMAC, the pooled Unit created by this Order shall terminate, unless this Order has been amended to authorize further operations.

(9) After pooling, uncommitted working interest owners are referred to as pooled working interest owners. ("Pooled working interest owners" are owners of working interest in the Unit, including unleased mineral interests, who are not parties to an operating agreement governing the Unit.) After the effective date of this order, the operator shall furnish the Division and each known pooled working interest owner in the Unit an itemized schedule of estimated costs of drilling, completing and equipping the proposed well ("well costs").

(10) Within 30 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to Caza in lieu of paying his share of reasonable well costs out of production, and any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges. Pooled working interest owners who elect not to pay their share of estimated well costs as provided in this paragraph shall thereafter be referred to as "non-consenting working interest owners."

(11) Caza 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 said schedule, the actual well costs shall be the reasonable well costs; provided, however, that if there is objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(12) Within 60 days following the determination of reasonable well costs, any pooled working interest owner who has paid his or its share of estimated costs in advance as provided above shall pay to Caza his or its share of the amount that reasonable well costs exceed estimated well costs or shall receive from Caza the amount, if any, that the estimated well costs that he or it has paid exceed his or its share of reasonable well costs.

(13) Caza 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; and

(b) as a charge for the risk involved in drilling the wells, 200% of the above costs.

(14) Caza shall distribute the costs and charges withheld from production, proportionately, to the parties who advanced the well costs.

(15) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$7,500 per month while drilling and \$750 per month while producing, provided that these rates shall be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations*." Caza 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 is reasonable, that are attributable to the pooled working interest owners.

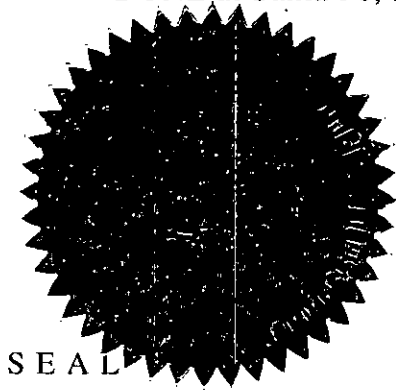
(16) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working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

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

(18) Caza shall notify the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

(19) 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 designated above.



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in cursive script, appearing to read "Jami Bailey".

JAMI BAILEY
Director