

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. 12084
ORDER NO. R-11117*

**APPLICATION OF YATES PETROLEUM CORPORATION FOR COMPULSORY
POOLING AND AN UNORTHODOX GAS WELL LOCATION, EDDY COUNTY,
NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on December 3, 1998 at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 15th day of January, 1999, 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 its subject matter.
- (2) The applicant, Yates Petroleum Corporation ("Yates"), seeks an order pooling all mineral interests from the surface to the base of the Morrow formation underlying the following acreage in Section 8, Township 17 South, Range 27 East, NMPM, Eddy County, New Mexico:

- (a) the S/2 to form a standard 320-acre lay-down gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within that vertical extent, which presently include but are not necessarily limited to the Undesignated Hart Draw-Atoka Gas Pool, Undesignated Riverside-Atoka Gas Pool, Undesignated Crow Flats-Morrow Gas Pool, and Undesignated Logan Draw-Morrow Gas Pool;

- (b) the SE/4 to form a standard 160-acre gas spacing and proration unit for any and all formations and/or pools developed on 160-acre spacing within that vertical extent;
- (c) the E/2 SE/4 to form a standard 80-acre stand-up oil spacing and proration unit for any pool developed on 80-acre spacing within that vertical extent; and
- (d) the NE/4 SE/4 to form a standard 40-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 Undesignated Logan Draw-San Andres Pool and Undesignated Red Lake–Queen-Grayburg-San Andres Pool.

(3) Yates controls 100 percent of the working interest underlying the NE/4 SE/4 of Section 8 making it unnecessary to force pool those formations and/or pools spaced on 40 acres. Subsequent to the hearing, it was also determined that there are no pools within the immediate area of this well spaced on 80 acres; therefore, the portion of the application seeking to pool the proposed 80-acre (E/2 SE/4 of Section 8) and 40-acre units should be dismissed at this time.

(4) The remaining 320-acre and 160-acre units are both to be dedicated to Yates' proposed Riverside "ASS" Federal Com. Well No. 1 to be drilled 1650 feet from the South line and 660 feet from the East line (Unit I) of Section 8. This location is standard for the proposed 160-acre unit but unorthodox for the proposed 320-acre unit.

(5) Adequate geological evidence was presented by the applicant to support the drilling of this well at an unorthodox gas well location to the Morrow formation. Such evidence indicates that a well drilled at the proposed unorthodox gas well location within the S/2 of Section 8 should encounter a greater amount of gross sand thickness in the channel sand deposit than a well drilled at a standard gas well location thereon, thereby increasing the likelihood of obtaining commercial gas production from the gas-bearing Morrow sand interval.

(6) The applicant is a working interest owner within both the 320-acre and 160-acre units and therefore has the right to drill for and develop the minerals underlying these units.

(7) At this time, however, not all of the working interest owners in these two units have agreed to pool their interests.

(8) No affected party or offset operator and/or interest owner appeared at the hearing in opposition to this application.

(9) 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 320-acre and 160-acre 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, the subject application should be approved by pooling all mineral interests, whatever they may be, within these units.

(10) Yates should be designated the operator of the subject well and units.

(11) 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.

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

(13) 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.

(14) 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.

(15) Reasonable charges for supervision (combined fixed rates) should be fixed at \$5,400.00 per month while drilling and \$ 540.00 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.

(16) 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.

(17) If the operator of the pooled units fails to commence drilling the well to which the units are dedicated on or before April 15, 1999, or if all the parties to this forced pooling reach voluntary agreement subsequent to entry of this order, this order should become of no effect.

(18) The operator of the well and units 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 Yates Petroleum Corporation ("Yates"), all mineral interests, whatever they may be, from the surface to the base of the Morrow formation underlying the following described acreage in Section 8, Township 17 South, Range 27 East, NMPM, Eddy County, New Mexico, are hereby pooled in the following manner:

(a) the S/2 to form a standard 320-acre lay-down gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within that vertical extent, which presently include but are not necessarily limited to the Undesignated Hart Draw-Atoka Gas Pool, Undesignated Riverside-Atoka Gas Pool, Undesignated Crow Flats-Morrow Gas Pool, and Undesignated Logan Draw-Morrow Gas Pool; and

(b) the SE/4 to form a standard 160-acre gas spacing and proration unit for any and all formations and/or pools developed on 160-acre spacing within that vertical extent.

These units are to be dedicated to the applicant's proposed Riverside "ASS" Federal Com. Well No. 1 to be drilled 1650 feet from the South line and 660 feet from the East line (Unit I) of Section 8. This location is standard for the proposed 160-acre unit but unorthodox for the proposed 320-acre unit.

PROVIDED HOWEVER THAT, the operator of the units shall commence drilling the well on or before April 15, 1999, and shall thereafter continue drilling the well with due diligence to a depth sufficient to test the Morrow formation.

PROVIDED FURTHER THAT, in the event the operator does not commence drilling the well on or before April 15, 1999, Ordering Paragraph (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 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) That portion of the application of Yates seeking to pool all formations and/or pools spaced on 80 and 40 acres from the surface to the base of the Morrow formation underlying the NE/4 SE/4 and E/2 SE/4 of Section 8, respectively, is hereby **dismissed**.

(3) Yates is hereby designated the operator of the subject well and units.

(4) 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 units an itemized schedule of estimated well costs.

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

(7) Within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid its share of estimated costs in advance as provided above shall pay to the operator its share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator its 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 proportionate 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 \$5,400.00 per month while drilling and \$540.00 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.

(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 this order.

(12) 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.

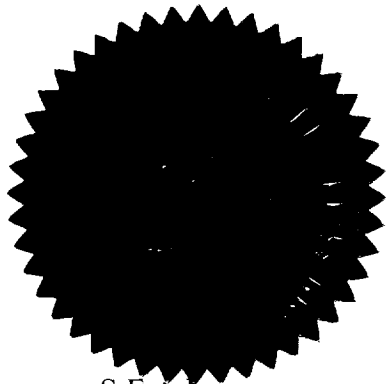
(13) All proceeds from production from the well that are not disbursed for any reason shall be placed in escrow in Eddy County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership. The operator shall notify the Division of the name and address of the escrow agent within 30 days from the date of first deposit with the escrow agent.

(14) 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.

(15) The operator of the well and units shall notify 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 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

Lori Wrotenbery
LORI WROTENBERY
Director