

**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. 12500
ORDER NO. R-11553**

**APPLICATION OF SOUTHWESTERN ENERGY PRODUCTION COMPANY FOR
COMPULSORY POOLING AND TWO NON-STANDARD GAS SPACING AND
PRORATION UNITS, EDDY COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on February 22, 2001, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 22nd day of March, 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 its subject matter.

(2) The applicant, Southwestern Energy Production Company ("Southwestern"), seeks an order pooling all uncommitted mineral interests from the base of the San Andres formation to the base of the Morrow formation underlying the following-described acreage in Section 31, Township 17 South, Range 28 East, NMPM, Eddy County, New Mexico, in the following manner:

Lots 1 and 2, the E/2 NW/4 and the NE/4 (N/2 equivalent) to form a non-standard 327.09-acre gas spacing and proration unit for all formation or pools spaced on 320 acres within this vertical extent, which presently include but are not necessarily limited to the Undesignated Southeast Logan Draw-Atoka and Undesignated North Illinois Camp-Morrow Gas Pools;

Lots 1 and 2, and the E/2 NW/4 (NW/4 equivalent) to form a

non-standard 167.09-acre spacing and proration unit for all formations or pools spaced on 160 acres within this vertical extent; and

the SE/4 NW/4 to form a standard 40-acre spacing and proration unit for formations or pools spaced on 40 acres within this vertical extent.

These units are to be dedicated to the applicant's proposed Big Bluff "31" State Com Well No. 1 to be drilled at a standard well location within the SE/4 NW/4 of Section 31.

(3) The applicant has the right to drill and proposes to drill its Big Bluff "31" State Com Well No. 1 at a standard well location within the SE/4 NW/4 of Section 31.

(4) At the hearing, the applicant requested that the pooled units and the vertical pooled interval be amended:

- (a) to include only those formations spaced on 320 acres;
and
- (b) to include only those formations present from the base of the Wolfcamp formation to the base of the Morrow formation.

(5) The proposed 327.09-acre non-standard gas spacing and proration unit is necessitated by a variation in the legal subdivision of the United States Public Lands Survey.

(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) Southwestern should be designated the operator of the subject well and unit.

(9) After pooling, uncommitted working interest owners are referred to as non-consenting working interest owners. 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.

(10) 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 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 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.

(13) Reasonable charges for supervision (combined fixed rates) should be fixed at \$5,500.00 per month while drilling and \$550.00 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.

(14) 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) If the operator of the pooled unit fails to commence drilling the well to which the unit is dedicated on or before July 1, 2001, or if all the parties to this forced pooling reach voluntary agreement subsequent to the entry of this order, this order should become of no effect.

(16) The operator of the well and unit 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 Southwestern Energy Production Company, all uncommitted mineral interests from the base of the Wolfcamp formation to the base of the

Morrow formation underlying Lots 1 and 2, the E/2 NW/4 and the NE/4 (N/2 equivalent) of Section 31, Township 17 South, Range 28 East, NMPM, Eddy County, New Mexico, are hereby pooled to form a 327.09-acre non-standard gas spacing and proration unit (also hereby approved) for all formations or pools spaced on 320 acres within this vertical extent, which presently include but are not necessarily limited to the Undesignated Southeast Logan Draw-Atoka and Undesignated North Illinois Camp-Morrow Gas Pools. This unit shall be dedicated to the applicant's Big Bluff "31" State Com Well No. 1 to be drilled at a standard well location within the SE/4 NW/4 of Section 31.

(2) The operator of the unit shall commence drilling the proposed well on or before July 1, 2001, and shall thereafter continue drilling the well with due diligence to test the Morrow formation.

(3) In the event the operator does not commence drilling the well on or before July 1, 2001, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause shown.

(4) 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.

(5) Southwestern Energy Production Company is hereby designated the operator of the subject well and unit.

(6) After pooling, uncommitted working interest owners are referred to as non-consenting working interest owners. After the effective date of this order, the operator shall furnish the Division and each known non-consenting working interest owner in the unit an itemized schedule of estimated well costs.

(7) 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.

(8) 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, 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.

(9) 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.

(10) 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.

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

(12) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$5,500.00 per month while drilling and \$550.00 per month while producing. 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.

(13) 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.

(14) 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.

(15) 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.

(16) 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.

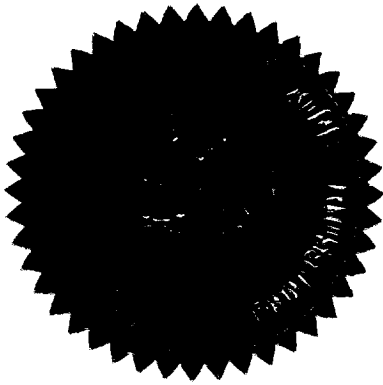
(17) The operator of the well and unit shall notify the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

(18) That portion of the application seeking to compulsory pool Lots 1 and 2 and the E/2 NW/4 (NW/4 equivalent) of Section 31 to form a 167.09-acre non-standard gas spacing and proration unit for all formations or pools spaced on 160 acres, and the SE/4 NW/4 of Section 31 to form a 40-acre spacing and proration unit for all formations or pools spaced on 40 acres, is hereby dismissed.

(19) That portion of the application seeking approval of a 167.09-acre non-standard gas spacing and proration unit comprising Lots 1 and 2 and the E/2 NW/4 (NW/4 equivalent) of Section 31 is hereby dismissed.


(20) 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.



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STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


LORI WROTENBERY
Director