

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. 9472
ORDER NO. R-8759

APPLICATION OF TERRA RESOURCES, INC.
FOR COMPULSORY POOLING AND AN UNORTHODOX
GAS WELL LOCATION, EDDY COUNTY, NEW MEXICO

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on September 28, 1988, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 11th day of October, 1988, 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, Terra Resources, Inc., seeks an order pooling all mineral interests from the top of the Wolfcamp formation to either the base of the Morrow formation or to a depth of 9300 feet, whichever is deeper, (which includes but is not necessarily limited to the Undesignated Dayton-Wolfcamp Gas Pool, Undesignated Boyd-Morrow Gas Pool and Undesignated Atoka-Pennsylvanian Gas Pool) underlying Lots 1 through 4 and the E/2 W/2 of Irregular Section 31, Township 18 South, Range 26 East, NMPM, Eddy County, New Mexico, forming a standard 316-acre gas spacing and proration unit.

Case No. 9472
Order No. R-8759
Page No. 2

(3) The applicant has the right to drill and proposes to drill a well on the subject spacing and proration unit 1980 feet from the North line and 1617 feet from the West line (Unit F) of said Section 31.

(4) The applicant presented testimony and evidence showing that a discrepancy in the official survey as registered with the U.S. Public Lands Survey was discovered at the time the above-described location was staked. According to the applicant, the fractional lots bordering the western boundary line of said Section 31 are approximately 100 feet shorter than indicated on the official survey plat. In actuality, the subject well is 1980 feet from the North line and 1513 feet from the West line of said Section 31 (990 feet west and 660 feet north of the quarter section lines of the NW/4 of said Section 31.)

(5) For the purpose of describing the subject well in this order, measurements based on the survey plat as registered with the U.S. Public Lands Survey will be used; however, the actual location will be shown in parentheses.

(6) The subject well location is within one mile of the Dayton-Wolfcamp, Boyd-Morrow and Atoka-Pennsylvanian Gas Pools, and is therefore subject to the provisions governing each pool.

(7) The Dayton-Wolfcamp and Boyd-Morrow Gas Pools are currently governed by the Statewide General Rules and Regulations; however, the Atoka-Pennsylvanian Gas Pool is governed by Special Rules promulgated by Division Order No. R-8170, as amended, which provides that wells be located in the northwest or the southeast quarter of a Section and no nearer than 990 feet to the outer boundary of the quarter section nor nearer than 330 feet to any governmental quarter-quarter section line of subdivision inner boundary.

(8) The subject well location is at a standard gas well location for pools governed under Statewide Rules, but is at an unorthodox gas well location for the Atoka-Pennsylvanian Gas Pool.

(9) No interested party or offsetting operators appeared at the hearing or objected to this application.

Case No. 9472
Order No. R-8759
Page No. 3

(10) If, at the time of completion, it is determined that the production from this well should be placed in the Atoka-Pennsylvanian Gas Pool, the unorthodox gas well location portion of this application should be approved.

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

(12) To avoid the drilling of unnecessary wells, to protect correlative rights, to prevent waste and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the gas in any pool completion resulting from this order, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

(13) The applicant should be designated the operator of the subject well and unit.

(14) 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.

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

(16) 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.

(17) Following determination of reasonable well 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 exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

Case No. 9472
Order No. R-8759
Page No. 4

(18) \$3900.00 per month should be fixed as a reasonable charge for supervision (combined fixed rates) while drilling and \$390.00 per month should be fixed as a reasonable charge for supervision while producing; this charge should be adjusted annually based upon the percentage increase or decrease in the average weekly earnings of crude petroleum and gas production workers; 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.

(19) 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.

(20) Upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before December 31, 1988, the order pooling said unit should become null and void and of no further effect whatsoever.

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

(22) The operator of the well and unit should notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the force pooling provisions of this order.

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be, from the top of the Wolfcamp formation to either the base of the Morrow formation or to a depth of 9300 feet, whichever is deeper, (which includes but is not necessarily limited to the Undesignated Dayton-Wolfcamp Gas Pool, Undesignated Boyd-Morrow Gas Pool and Undesignated Atoka-Pennsylvanian Gas Pool) underlying Lots 1 through 4 and the E/2 W/2 of Section 31, Township 18 South, Range 26 East, NMPM, Eddy County, New Mexico, are hereby pooled to form a standard 316-acre, more or less, gas spacing and proration unit to be dedicated to a well to be drilled 1980 feet from the North line and 1617 (1513) feet from the West line (Unit F) of said Section 31.

Case No. 9472
Order No. R-8759
Page No. 5

PROVIDED HOWEVER THAT, the operator of said unit shall commence the drilling of said well on or before the 31st day of December, 1988, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test from the top of the Wolfcamp to the base of the Morrow formation; and

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said well on or before the 31st day of December, 1988, Ordering Paragraph No. (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown; and

PROVIDED FURTHER THAT, should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Ordering Paragraph No. (1) of this order should not be rescinded.

(2) If, at the time of completion, gas production from the subject well is placed in the Atoka-Pennsylvanian Gas Pool the unorthodox gas well location portion of this application is hereby approved.

(3) Terra Resources, Inc. is hereby designated the operator of the subject well and unit.

(3) After the effective date of this order and within 90 days 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.

(4) 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 the operator 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.

(5) 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

Case No. 9472
Order No. R-8759
Page No. 6

Division has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, if there is an objection to actual well costs within said 45 day period the Division will determine reasonable well costs after public notice and hearing.

(6) Within 60 days following determination of reasonable well 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 well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

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

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

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

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

(9) \$3900.00 per month is hereby fixed as a reasonable charge for supervision (combined fixed rates) while drilling, and \$390.00 per month is hereby fixed as a reasonable charge for supervision while producing, provided that this rate shall be adjusted on the first day of April of each year following the effective date of this order; the adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings Crude Petroleum and

Case No. 9472
Order No. R-8759
Page No. 7

Gas Production Workers of the last calendar year compared to the preceding calendar year as shown by "The Index of Average Weekly Earnings of Crude Petroleum and Gas Production Workers" as published by the United States Department of Labor, Bureau of Labor Statistics, and the adjusted rate shall be the rates currently in use, plus or minus the computed adjustment; 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.

(10) Any unleased mineral interest shall be considered 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.

(11) 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.

(12) All proceeds from production from the subject well which 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 said escrow agent within 30 days from the date of first deposit with said escrow agent.

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

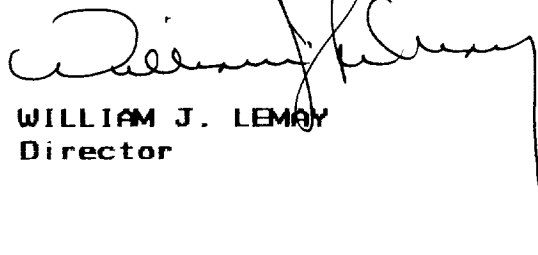
(14) The operator of the well and unit shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the force pooling provisions of this order.

(15) Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

Case No. 9472
Order No. R-8759
Page No. 8

DONE at Santa Fe, New Mexico, on the day and year
hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in dark ink, appearing to read 'William J. Lemay', is written over the typed name. The signature is fluid and cursive, with a long vertical line extending downwards from the end of the name.

WILLIAM J. LEMAY
Director

S E A L