

**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. 14095
ORDER NO. R-12937**

**APPLICATION OF NEWKUMET EXPLORATION, INC. FOR A NON-
STANDARD OIL SPACING AND PRORATION UNIT AND COMPULSORY
POOLING, LEA COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on March 6, 2008, at Santa Fe, New Mexico, before Examiner David K. Brooks.

NOW, on this 2nd day of May, 2008, 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) Newkumet Exploration, Inc. ("Applicant"), seeks an order establishing a non-standard, 160-acre, wildcat oil spacing and proration unit and project area in the Bone Spring formation, comprising the N/2 N/2 of Section 3, Township 26 South, Range 33 East, NMPM, in Lea County, New Mexico, in the Bone Spring formation only, and further seeks an order pooling all uncommitted interests in said unit.

(3) The non-standard unit and project area is to be dedicated to Applicant's proposed Red Bull Fed. Com Well No. 1H, (the "proposed well"), a horizontal well to be drilled from a standard location 330 feet from the North line and 330 feet from the East line (Unit A) of Section 3, to a terminus, or bottomhole location, 990 feet from the North line and 330 feet from the West line (Unit D) of Section 3. The proposed well's point of penetration in the Bone Spring formation has not been precisely determined, but will be within the producing area, as defined in Rule 111, of the project area.

(4) At the hearing, Applicant appeared through counsel and presented land testimony setting forth the ownership interests in the proposed non-standard unit and in all adjacent tracts. In addition, Applicant presented technical testimony as follows:

(a) The proposed non-standard unit, although several miles distant from existing Bone Spring production, is in an area that appears to be structurally favorable for Bone Spring development.

(b) Experience in the nearest area of Bone Spring production indicates that substantially greater production can be achieved from horizontal wells than from vertical wells.

(c) The proposed well is a reasonable means of development of the Bone Spring in this location.

(5) R & R Royalties, Ltd., an owner within the proposed non-standard unit, and also an owner of offsetting acreage, appeared through counsel, but did not offer any testimony or oppose any of the relief requested in the application. No other party appeared in the case, or otherwise opposed the granting of the application.

The Division accordingly concludes that:

(6) A non-standard, 160-acre, wildcat oil spacing and proration unit and project area ("the Unit") should be established, comprising the N/2 N/2 of Section 3, Township 26 South, Range 33 East, NMPM, in Lea County, New Mexico, in the Bone Spring formation, to accommodate the drilling of the proposed well, to be completed as a horizontal well in that formation.

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

(8) Applicant is an owner of an 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.

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

(10) 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 interests, whatever they may be, in the oil and gas within the Unit.

(11) At the request of Applicant, RSC Resources, L.P. should be designated the

operator of the proposed well and of the Unit.

(12) Any pooled 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% thereof as a reasonable charge for the risk involved in drilling the well.

(13) 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) Pursuant to the application of Newkumet Exploration, Inc., a non-standard 160-acre, wildcat oil spacing and proration unit and project area ("the Unit") is hereby established, comprising the N/2 N/2 of Section 3, Township 26 South, Range 33 East, NMPM, in Lea County, New Mexico, in the Bone Spring formation, to be dedicated to a horizontal well in that formation, as described in Ordering Paragraph (3).

(2) All uncommitted interests, whatever they may be, in the oil and gas from the surface to the base of the Bone Spring formation in the N/2 N/2 of Section 3, Township 26 South, Range 33 East, NMPM, in Lea County, New Mexico, are pooled to form a non-standard 160-acre oil spacing and proration unit in the Bone Spring formation only.

(3) The Unit shall be dedicated to Applicant's Red Bull 3 Fed. Com. Well No. 1H, a horizontal well to be drilled from a standard location 330 feet from the North line and 330 feet from the East line (Unit A) of Section 3, to a terminus, or bottomhole location, 990 feet from the North line and 330 feet from the West line (Unit D) of Section 3. The proposed well's point of penetration in the Bone Spring formation shall be within the producing area, as defined in Rule 111, of the project area.

(4) The operator of the Unit shall commence drilling the proposed well on or before June 30, 2008, and shall thereafter continue drilling the well with due diligence to test the Bone Spring formation.

(5) In the event the operator does not commence drilling the proposed well on or before June 30, 2008, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause demonstrated by satisfactory evidence.

(6) Should the proposed well not be drilled and completed within 120 days after commencement thereof, Ordering Paragraph (1) shall be of no further effect, and the Unit created by the Order shall terminate unless the operator, prior to the expiration of such 120-day period, files an application with the Division for extension of the time for

completion of the proposed well. Such application shall include an affidavit or affidavits setting forth good cause for an extension, supported by satisfactory evidence. The Division Director may grant such application without hearing.

(7) Upon final plugging and abandonment of the proposed well and any other well drilled on the Unit pursuant to Division Rule 36, the pooled unit created by this Order shall terminate, unless this order has been amended to authorize further operations.

(8) Pursuant to the request of Applicant, RSC Resources, L.P. (OGRID 245801) is hereby designated the operator of the proposed well and of the Unit.

(9) After pooling, uncommitted working interest owners are referred to as pooled working interest owners. ("Pooled 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.) 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, any pooled 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 as hereinafter provided, 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. 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) The operator shall furnish the Division and each known pooled working interest owner (including non-consenting working interest owners) an itemized schedule of actual well costs within 90 days following completion of the subject well, but in no event later than one (1) year of the date of issuance of this order. 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. 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.

(12) Within 60 days following determination of reasonable well costs, any pooled 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 the amount, if any, that the estimated well costs it has paid exceed its share of reasonable well costs.

(13) 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; and
- (b) as a charge for the risk involved in drilling the well, 200% of the above costs.

(14) The operator 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*." 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 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 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.

(18) 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.

(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 hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION



MARK E. FESMIRE, P.E.
Director

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