

**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. 13255
ORDER NO. R-12157**

**APPLICATION OF JTD RESOURCES, L.L.C. FOR COMPULSORY POOLING
AND UNORTHODOX OIL WELL LOCATIONS, LEA COUNTY, NEW MEXICO**

ORDER OF THE DIVISION

BY THE DIVISION;

This case came on for hearing at 8:15 a.m. on April 29, 2004 before Examiner William V. Jones.

NOW, on this 25th day of June, 2004, 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) Applicant seeks an order pooling all uncommitted mineral interests from the surface to the base of the Abo formation underlying Lot 4 (NW/4 NW/4) of Section 2, Township 20 South, Range 38 East, NMPM, Lea County, New Mexico, forming a standard 40-acre, more or less, oil spacing and proration unit (the "Unit") for any and all formations and/or pools developed on 40-acre spacing within that vertical extent, including but not limited to the Undesignated House-Blinebry Pool (33230), the Undesignated House-Tubb Pool (78760), the Undesignated House-Drinkard Pool (33250), and the Undesignated House-Abo Pool (33210).

(3) Applicant proposes to dedicate this unit to its proposed White Owl Well No. 1 (API No. 30-025-36689), "the proposed well." The proposed well will be drilled to a true vertical depth of 7,800 feet or a depth sufficient to test the San Andres, Blinebry, Tubb, Drinkard, and Abo formations. Applicant seeks an order designating Capataz Operating, Inc. as the operator of the proposed well.

(4) The applicant seeks exception to the location requirements of Division Rule 104.B (1) for potential Tubb, Drinkard, and Abo oil well completions within the proposed well.

(5) This well is to be drilled directionally from a surface location 582 feet from the North line and 330 feet from the West line to a bottom hole oil well location approximately 1,300 feet from the North line and 330 feet from the West line of Section 2. The productive intervals within the Tubb, the Drinkard, and the Abo formations are unorthodox since they are expected to be closer than 330 feet from the southern edge of the Unit. The top of the Tubb is expected to be approximately 1,000 feet from the North line, the top of the Drinkard is expected to be approximately 1,100 feet from the North line, and the top of the Abo is expected to be approximately 1,200 feet from the North line.

(6) Applicant presented land, geological, and engineering testimony at the hearing as follows.

(a) The applicant has drilled approximately 22 wells in this vicinity and has processed 3-D seismic over this area. The primary targets for the proposed well are the Blinebry and Tubb formations. The San Andres, Drinkard, and Abo are secondary targets.

(b) Interpretation of the seismic data indicates that the optimum location for a well within the Tubb is approximately 200 feet south of the optimum location for a well within the Blinebry. Also, the Blinebry is approximately 800 feet above the Tubb. A slanted well is necessary in order to encounter both of these formations at ideal locations for maximum recovery of oil.

(c) After a kickoffpoint at 4,500 feet, the inclination angle of the well will be kept constant at 16 degrees or less in order to avoid additional future production difficulties. The well will be rod pumped, using rod guides on the sucker rods.

(d) The bottom of the prospective Abo interval will be approximately 100 feet above the total depth of the well.

(e) At the hearing, the Landman testified that, "Lot 4 is fee owned" and "the title is common in the whole NW/4 of Section 2" and "our leases are undivided under the whole NW/4" and "it (the well) will only encroach on the 40 acres which is the SW/4 of the NW/4, which we also own."

(7) No other parties entered an appearance in this case.

(8) Division records indicate the NW/4 of Section 2 contains no producing wells and no production has been reported for the past 3 years.

(9) 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.

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

(11) There are interest owners in this unit that have not agreed to pool their interests.

(12) Capataz Operating, Inc. should be designated as the operator of the proposed well and this unit.

(13) Reasonable charges for supervision (combined fixed rates) should be fixed at \$4,500 per month while drilling and \$450 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.*"

(14) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford to the owner of each interest in this 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 this Unit.

(15) The applicant's request for an exception to the location requirements within Division Rule 104.B (1) for completions within the Tubb, Drinkard, and Abo formations should be approved.

IT IS THEREFORE ORDERED THAT ;

(1) Pursuant to the application of JTD Resources, L.L.C. ("applicant"), all uncommitted mineral interests from the surface to the base of the Abo formation underlying Lot 4 (NW/4 NW/4) of Section 2, Township 20 South, Range 38 East, NMPM, Lea County, New Mexico, are hereby pooled forming a standard 40-acre, more or less, oil spacing and proration unit (the "Unit") for any and all formations and/or pools developed on 40-acre spacing within that vertical extent, including but not limited to the Undesignated House-Blinebry Pool (33230), the Undesignated House-Tubb Pool (78760), the Undesignated House-Drinkard Pool (33250), and the Undesignated House-Abo Pool (33210).

The Unit shall be dedicated to applicant's proposed White Owl Well No. 1 (API No. 30-025-36689), "the proposed well," to be directionally drilled to an unorthodox oil well location in the NW/4 NW/4 of Section 2.

(2) The applicant is hereby granted an exception to the location requirements of Division Rule 104.B (1) for potential Tubb, Drinkard, and Abo oil well completions within the proposed well.

(3) Capataz Operating, Inc. (OGRD 3659) is hereby designated as the operator of the proposed well and of the Unit.

(4) The operator of the Unit shall commence drilling the proposed well on or before September 1, 2004, and shall thereafter continue drilling the well with due diligence to test prospective formations including the Abo formation.

(5) In the event the operator does not commence drilling the proposed well on or before September 1, 2004, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause.

(6) Should the subject 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 this Order shall terminate unless the operator appears before the Division Director and obtains an extension of time to complete the well for good cause demonstrated by satisfactory evidence.

(7) Upon final plugging and abandonment of the White Owl Well No. 1, the pooled Unit created by this Order shall terminate, unless this order has been amended to authorize further operations.

(8) 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.)

(9) 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 proposed 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 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 well 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.

(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 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.

(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 \$4,500 per month while drilling and \$450 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 is reasonable, attributable to pooled working interest owners.

(16) Except as provided above, all proceeds from production from the proposed well that are not disbursed for any reason shall be placed in escrow in Lea 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.

(17) 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

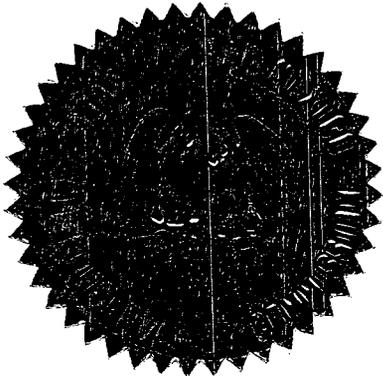
and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working interests' share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

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

(19) 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.

(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

A handwritten signature in black ink, appearing to read "Mark E. Fesmire".

MARK E. FESMIRE, P.E.
Director