

**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. 13124
ORDER NO. R-12050**

**APPLICATION OF UNIT PETROLEUM COMPANY FOR COMPULSORY
POOLING AND AN UNORTHODOX GAS WELL LOCATION, LEA COUNTY,
NEW MEXICO**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on August 7, 2003 before Examiner William V. Jones.

NOW, on this 12th day of November, 2003, 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 mineral interests from approximately 11,920 feet subsurface to the base of the Morrow formation underlying the E/2 of Section 23, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico, forming a standard 320-acre gas spacing and proration unit (the "320-Acre Unit" or "Unit") for any and all formations **and/or** pools developed on 320-acre spacing within that vertical extent, including but not limited to the West Osudo-Morrow Gas Pool.

(3) Applicant proposes to dedicate the 320-Acre Unit to its proposed Byers Well No. 1 ("the proposed well") to be drilled in the SE/4 of Section 23 at an unorthodox location 2,100 feet from the South line and 1,600 feet from the East line (Unit J) of Section 23. The proposed well will be drilled vertically to a depth of approximately 13,500 feet, primarily to test the Morrow formation.

(4) In support of its application, the Applicant presented the following geologic testimony.

- (a) The interval involved in this pooling is intended to begin below the base of the Atoka and extend down through the Morrow formation.
 - (b) Amoco drilled the Best Gas Com Well No. 1 as an open hole Morrow completion in the NE/4 of Section 23. Electric logs show that this well has very good Morrow thickness and porosity. The well began producing at three million cubic feet per day and then the hole collapsed due to mechanical problems and production quickly dropped off.
 - (c) The best geologic location to encounter the Morrow sands is at the proposed location and is relatively close to the Best Gas Com Well No. 1.
 - (d) The Applicant is aware of drilling problems encountered in the Morrow in this area and is carefully planning the drilling of this prospect to avoid problems and complete a successful well.
- (5) Applicant presented land testimony as follows.
- (a) Applicant made a **good-faith** effort to obtain the voluntary joinder of all interest owners in this 320 acres. This effort consisted of letters mailed in late May of 2003 and follow-up phone conversations in late July.
 - (b) Other than the Applicant, the largest owner in this 320 acres is BTA Oil Producers and its partners, which together own 37.5 percent of the working interest. BTA Oil Producers has agreements with these partners to decide oil and gas participation matters, and BTA Oil Producers has chosen not to participate. The Applicant does not know the locations of the acreage controlled by BTA Oil Producers within the 320 acres.
 - (c) All interest owners or their representatives were notified of the Division hearing.
 - (d) Applicant is not intending to pool the **Wolfcamp** or any formations above the Wolfcamp. Applicant does not have any rights to the Wolfcamp or the Atoka formations, but does own some rights below 11,920 feet within this 320 acres.

(e) Applicant is not interested in the Atoka formation, and the Atoka is not productive in this area.

(6) BTA Oil Producers was represented at the hearing through legal counsel. The counsel did state that there is a joint operating agreement in this area extending vertically from the surface to the base of the Wolfcamp formation and that BTA Oil Producers does not want this pooling application to include those depths.

(7) The Division finds there is some discrepancy in the reported depths to the top of the Wolfcamp, Atoka, and Morrow formations in this area. For example, the reported discovery well in the West **Osudo-Morrow** Gas Pool is the SE Lea Unit Well No. 2 drilled in 1969 in Section 25. In the Oil Conservation Division well file, the top of the Wolfcamp is listed at 11,195, the top of the Atoka is listed at 12,140, and the top of the Morrow is listed at 12,827.

(8) The location of the proposed well in the Morrow is unorthodox since it is located closer than 660 feet from the north boundary of the SE/4 of Section 23. It deviates from the standard location toward the interior of the 320-acre gas spacing unit and does not encroach toward any adjacent spacing unit.

(9) Applicant is an owner of an oil and gas working interest within the 320-Acre Unit. Applicant has the right to drill and proposes to drill the proposed well to a common source of supply within the 320-Acre Unit.

(10) There are interest owners in the 320-Acre Unit that have not agreed to pool their interests.

(11) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford to the owner of each interest in the 320-Acre 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 320-Acre Unit.

(12) Applicant should be designated the operator of the proposed well and the 320-Acre Unit and the Unit should be dedicated to the proposed well.

(13) Reasonable charges for supervision (combined fixed rates) should be fixed at \$6,000 per month while drilling and \$600 per month while producing, provided that these rates should be adjusted annually pursuant to Section III.1.A.3. of the COP AS form titled "*Accounting Procedure-Joint Operations*". 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.

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Unit Petroleum Company, "Applicant", all uncommitted mineral interests below 11,920 feet subsurface or below the bottom of the Wolfcamp formation, whichever is deeper, underlying the E/2 of Section 23, Township 20 South, Range 35 East, N.M.P.M., Lea County, New Mexico, are hereby pooled, forming a standard 320-acre gas spacing and proration unit for all gas pools spaced on 320 acres including but not limited to the West **Osudo-Morrow** Gas Pool. The 320-Acre Unit shall be dedicated to Applicant's proposed Byers Well No. 1 to be drilled at an unorthodox well location 2,100 from the South line and 1,600 from the East line within the E/2 of Section 23.

(2) Notwithstanding paragraph (1) above, owners of mineral interests not formally noticed under this proceeding are not subject to this pooling order.

(3) The unorthodox location of the proposed well in the West Osudo-Morrow Gas Pool is approved.

(4) The operator of the 320-Acre Unit shall commence drilling the proposed well on or before January 31, 2004, and shall thereafter continue drilling the well with due diligence to test the Morrow formation.

(5) In the event the operator does not commence drilling the proposed well on or before January 31, 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 proposed 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.

(7) Upon final plugging and abandonment of the subject well, the pooled unit created by this Order shall terminate, unless this order has been amended to authorize further operations.

(8) Applicant is hereby designated the operator of the proposed well and of the 320-Acre Unit.

(9) After pooling, uncommitted working interest owners are referred to as non-consenting working interest owners. ("Uncommitted 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 non-consenting 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 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 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 non-consenting 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% 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 \$6,000 per month while drilling and \$600 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) 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.



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in cursive script that reads "Lori Wrotenbery".

LORI WROTENBERY, Director