

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. 13177
ORDER NO. R-12090

APPLICATION OF CROSSLAND OPERATING, LLC FOR COMPULSORY
POOLING, EDDY COUNTY, NEW MEXICO

ORDER OF THE DIVISION

BY THE DIVISION;

This case came on for hearing in Santa Fe, New Mexico at 8:15 a.m on November 7, 2003 before Examiner William V. Jones and at 8:15 a.m. on January 8, 2004 before Examiner David R. Catanach.

NOW, on this 20th day of January, 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 mineral interests from the top of the Morrow formation to one hundred feet below the base of the Morrow formation underlying the E/2 of Section 27, Township 18 South, Range 29 East, NMPM, Eddy County, New Mexico, forming a standard 320-acre gas spacing and proration unit (the "Unit") for any and all formations **and/or** pools developed on 320-acre spacing within that vertical extent, including but not limited to the North Turkey Tract-Morrow Gas Pool (86500).
- (3) Applicant proposes to dedicate the 320-Acre Unit to its proposed Empire "A" Federal Re-Entry Well No. 2 ("the proposed well"). This will be a re-entry of a plugged well located at an orthodox location 1,650 feet from the North line and 660 feet from the East line (Unit H) of Section 27. The proposed well is to be drilled to a depth of approximately 11,650 feet, primarily to test the lower Morrow formation.

- (4) In support of its application, the Applicant presented the following testimony.
- (a) KCS Medallion Resources, Inc. drilled the Empire "A" Federal Com Well No. 2 in July, 1997, and unsuccessfully tested the Morrow formation from 11,140 to 11,240.
 - (b) Electric logs show that this well has very good Morrow thickness and porosity below 11,300. This same lower Morrow has been successfully completed and is producing in offset wells.
 - (c) Within this proposed E/2 spacing unit, the proposed location with the existing well bore is the best location geologically and economically to test and produce the lower Morrow.
 - (d) Applicant made a good-faith effort to obtain the voluntary joinder of all interest owners in the 320-acre E/2 spacing unit.
 - (e) All interest owners were notified of the Division hearing.
- (5) No other parties entered an appearance in this case.
- (6) 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.
- (7) There are interest owners in the 320-Acre Unit that have not agreed to pool their interests.
- (8) 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.
- (9) Reasonable charges for supervision (combined fixed rates) should be fixed at \$5000 per month while drilling and \$500 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.*"

(10) 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.

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Crossland Operating, LLC, ("Applicant"), all uncommitted mineral interests from the top of the Morrow to 100 feet below the base of the Morrow formation, underlying the E/2 of Section 27, Township 18 South, Range 29 East, N.M.P.M., Eddy 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 North Turkey Track-Morrow Gas Pool (86500).

The 320-Acre Unit shall be dedicated to Applicant's proposed Empire "A" Federal Re-entry Well No. 2 to be located at an orthodox well location 1,650 feet from the North line and 660 feet from the East line (Unit H) of Section 27.

(2) The operator of the 320-Acre Unit shall commence drilling the proposed well on or before April 30, 2004, 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 proposed well on or before April 30, 2004, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause.

(4) 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.

(5) Upon final plugging and abandonment of the Empire "A" Federal Re-entry Well No. 2, the pooled unit created by this Order shall terminate, unless this Order has been amended to authorize further operations.

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

(7) 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.)

(8) 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 re-entering, completing and equipping the proposed well ("well costs").

(9) 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."

(10) 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.

(11) 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.

(12) 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.

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

(14) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$5,000 per month while drilling and \$500 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.

(15) 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 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.

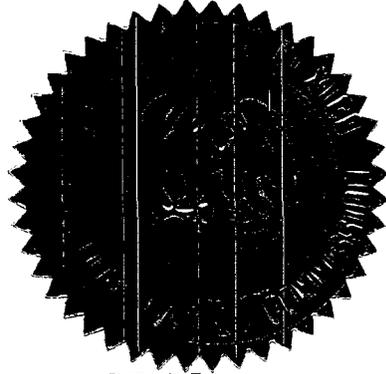
(16) Any **unleased** mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working 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, the forced pooling provisions of 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.



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

Lori Wrottenberg
LORI WROTENBERY
Director