

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. 12618
ORDER NO. R-11565

APPLICATION OF PRIMERO OPERATING, INC. FOR COMPULSORY
POOLING, CHAVES COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on March 22, 2001, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 16th day of April, 2001, 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 its subject matter.

(2) The applicant, Primero Operating, Inc., seeks an order pooling all uncommitted mineral interests from the surface to the base of the San Andres formation underlying the SW/4 of Section 5, Township 8 South, Range 30 East, NMPM, Chaves County, New Mexico, to form a standard 160-acre gas spacing and proration unit for any and all formations and pools developed on 160-acre spacing within that vertical extent, which presently include the Undesignated West Cato-San Andres.

(3) The applicant, owning an interest in the subject 160 acres and having the right to develop this acreage and recover gas underlying the same, proposes to re-enter the plugged and abandoned J. T. Jennings Well No. 1 (API No. 30-005-00478), which is to be redesignated the Jennings Com. Well No. 1, located at a standard gas well location 660 feet from the South and West lines (Unit M) of Section 5.

(4) Division records indicate that the subject well was originally drilled in 1950 by Gulf Oil Corporation ("Gulf") to a depth of 8,326 feet. In 1965 Gulf plugged and abandoned this well without producing any oil or gas. In 1969 Eugene E. Nearburg re-

entered the wellbore, cleaned out to a depth of 7,623 feet, unsuccessfully tested the Pennsylvanian interval, and re-plugged the wellbore.

(5) There are certain mineral interest owners in the proposed 160-acre unit who have not agreed to pool their interests.

(6) No affected party appeared at the hearing in opposition to this application.

(7) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste, and afford to the owner of each interest in this 160-acre unit the opportunity to recover or receive without unnecessary expense its just and fair share of the gas underlying the unit, the application should be approved by pooling all mineral interests, whatever they may be, within this unit.

(8) Primero Operating, Inc. should be designated the operator of the subject well and 160-acre unit.

(9) After pooling, uncommitted working interest owners are referred to as "non-consenting working interest owners." Any non-consenting working interest owner should be afforded the opportunity to pay its share of estimated well costs to the operator in lieu of paying its share of reasonable well costs out of production.

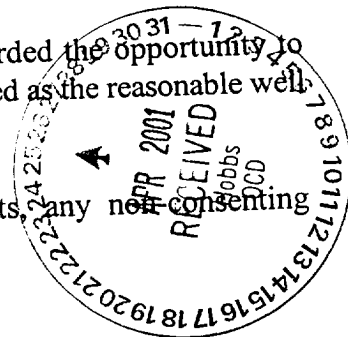
(10) The applicant requested that a risk penalty of 200 percent be assessed against all uncommitted mineral interest owners.

(11) Inasmuch as the subject well has already been drilled, the remaining risk should apply only to re-entry and recompletion operations to be conducted on the well. Further, based on precedent established in previous compulsory pooling cases involving the re-entry of existing wellbores, the risk penalty should be reduced to 100 percent.

(12) Any non-consenting 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 100 percent thereof as a reasonable charge for the risk involved in re-entry and recompletion operations.

(13) 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.

(14) Following determination of reasonable well costs, any non-consenting



working interest owner who has paid its 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.

(15) Reasonable charges for supervision (combined fixed rates) should be fixed at \$3,500.00 per month while re-entering and \$350.00 per month while producing, provided that this rate should be adjusted annually pursuant to Section III.1.A.3. of the COPAS 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.

(16) All proceeds from production from the well that 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.

(17) If the operator of the pooled unit fails to commence re-entry and recompletion operations on the well to which the unit is dedicated on or before July 15, 2001, or if all the parties to this forced pooling reach voluntary agreement subsequent to entry of this order, this order should become of no effect.

(18) The operator may request from the Division Director an extension of the July 15, 2001 deadline for good cause.

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

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Primero Operating, Inc., all uncommitted mineral interests, whatever they may be, from the surface to the base of the San Andres formation underlying the SW/4 of Section 5, Township 8 South, Range 30 East, NMPM, Chaves County, New Mexico, are hereby pooled to form a standard 160-acre gas spacing and proration unit for any and all formations and pools developed on 160-acre spacing within that vertical extent, which presently include the Undesignated West Cato-San Andres. This unit is to be dedicated to the existing J. T. Jennings Well No. 1 (API No. 30-005-00478), to be redesignated the Jennings Com. Well No. 1, located at a standard gas well location 660 feet from the South and West lines (Unit M) of Section 5, which is proposed to be re-entered by the applicant for the purpose of testing the shallower San Andres interval for gas production.

PROVIDED HOWEVER THAT, the operator of the unit shall commence re-entry and recompletion operations on the well on or before July 15, 2001, and shall thereafter continue with due diligence to test the shallower San Andres formation within the wellbore.

PROVIDED FURTHER THAT, in the event the operator does not commence re-entry and recompletion operations on the well on or before July 15, 2001, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause.

PROVIDED FURTHER THAT, should the well not be recompleted or 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.

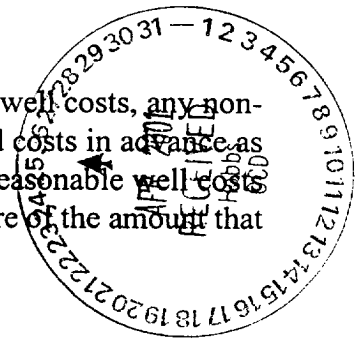
(2) Primero Operating, Inc. is hereby designated the operator of the subject well and 160-acre unit.

(3) After pooling, uncommitted working interest owners are referred to as "non-consenting working interest owners." After the effective date of this order and within 90 days prior to commencing the well, the operator shall furnish the Division and each known non-consenting working interest owner in the unit an itemized schedule of estimated well costs.

(4) 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, 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.

(5) The operator shall furnish the Division and each known non-consenting working interest owner an itemized schedule of actual well costs within 90 days following recompletion of the 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 the reasonable well costs; provided, however, that 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.

(6) Within 60 days following determination of reasonable well costs, any non-consenting 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 its 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 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 re-entering and recompleting this existing wellbore, 100 percent of the above costs.

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

(9) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$3,500.00 per month while re-entering and \$350.00 per month while producing, provided that this rate should be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations*." The operator is hereby 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.

(10) 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.

(11) 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.

(12) All proceeds from production from the well that are not disbursed for any reason shall be placed in escrow in Chaves 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.

(13) 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.

(14) 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.

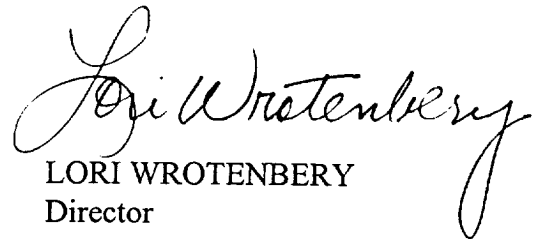
(15) Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

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



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


LORI WROTENBERY
Director

