

**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. 12402
ORDER NO. R-11264-A**

**APPLICATION OF DEVON ENERGY OPERATING COMPANY, L.P. TO AMEND
DIVISION ORDER NO. R-11264 AND FOR COMPULSORY POOLING, EDDY
COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on May 4, 2000, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 25th day of May, 2000, 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) By Order No. R-11264 issued in Case No. 12260 on October 29, 1999, the Division, upon application of KCS Medallion Resources, Inc., pooled all uncommitted mineral interests from the surface to the base of the Morrow formation underlying the following described acreage in Section 7, Township 24 South, Range 25 East, NMPM, in the following manner:

- (a) Lots 3 and 4, the E/2 SW/4, and the SE/4 (S/2 equivalent) to form a standard 319.80-acre gas spacing and proration unit for formations and/or pools developed on 320-acre spacing within that vertical extent, including the Undesignated Mosley Canyon-Strawn Gas Pool and the Undesignated Baldridge Canyon-Morrow Gas Pool; and

- (b) Lots 3 and 4 and the E/2 SW/4 (SW/4 equivalent) to form a standard 159.80-acre gas spacing and proration unit for formations and/or pools developed on 160-acre spacing within that vertical extent.

These units were to be dedicated to the applicant's proposed State of New Mexico "7" Well No. 2 (**API No. 30-015-30741**) to be drilled at a standard gas well location for both units 1800 feet from the South line and 1980 feet from the West line (Unit K) of Section 7.

(3) The applicant, Devon Energy Operating Company, L.P. ("Devon"), seeks to amend Division Order No. R-11264 in the following manner:

- (a) designate the State of New Mexico "7" Well No. 2Y (**API No. 30-015-31050**), located at a standard location 1836 feet from the South line and 2000 feet from the West line (Unit K) of Section 7, as the well to be dedicated to the pooled units;
 - (b) designate Devon as the operator of the pooled units; and
 - (c) amend certain provisions pertaining to drilling commencement dates and voluntary election periods.
- (4) Division records and evidence presented by the applicant demonstrate that:
- (a) effective February 9, 2000, Devon assumed operations on the State of New Mexico "7" Well No. 2 from KCS Medallion Resources, Inc.;
 - (b) Devon spudded the State of New Mexico "7" Well No. 2 on March 17, 2000. The well was drilled to a depth of approximately 2,638 feet and was subsequently plugged and abandoned due to mechanical problems;
 - (c) Devon skidded the rig and commenced drilling operations on the State of New Mexico "7" Well No. 2Y on March 31, 2000; and

- (d) as of the hearing date, the State of New Mexico “7” Well No. 2Y has been drilled to a depth sufficient to test the Morrow formation and is currently being logged.
- (5) The applicant further testified that:
 - (a) Division Order No. R-11264 pooled the interest of Central Resources, Inc., RKC, Inc., and Toreador Exploration & Production, Inc.;
 - (b) subsequent to Division Order No. R-11264 being issued, all three interest owners elected to go non-consent and are therefore subject to the terms of the pooling order; and
 - (c) it has obtained signed waivers from the three interest owners that stipulate their agreement that:
 - (i) the State of New Mexico “7” Well No. 2Y is the replacement well for the State of New Mexico “7” Well No. 2; and
 - (ii) their non-consent election under Order No. R-11264 shall apply to the State of New Mexico “7” Well No. 2Y.
- (6) No interest owner appeared at the hearing in opposition to the application.
- (7) Devon’s application should be approved, and Division Order No. R-11264 should be amended by this order.
- (8) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford to the owner of each interest in the units 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 units.

(9) Devon should be designated the operator of the subject well and units.

(10) After pooling, uncommitted working interest owners are referred to as non-consenting working interest owners.

(11) 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 200 percent thereof as a reasonable charge for the risk involved in drilling the well.

(12) 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.

(13) 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.

(14) Reasonable charges for supervision (combined fixed rates) should be fixed at \$6,000.00 per month while drilling and \$749.00 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 Procedures-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.

(15) 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.

(16) The operator of the well and units 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) The application of Devon Energy Operating Company, L.P. to amend

Division Order No. R-11264 and for compulsory pooling is hereby approved.

(2) Pursuant to the application of Devon Energy Operating Company, L.P., all uncommitted mineral interests from the surface to the base of the Morrow formation underlying the following described acreage in Section 7, Township 24 South, Range 25 East, NMPM, Eddy County, New Mexico, are hereby pooled in the following manner:

- (a) Lots 3 and 4, the E/2 SW/4, and the SE/4 (S/2 equivalent) to form a standard 319.80-acre gas spacing and proration unit for formations and/or pools developed on 320-acre spacing within that vertical extent, including the Undesignated Mosley Canyon-Strawn Gas Pool and the Undesignated Baldrige Canyon-Morrow Gas Pool; and
- (b) Lots 3 and 4 and the E/2 SW/4 (SW/4 equivalent) to form a standard 159.80-acre gas spacing and proration unit for formations and/or pools developed on 160-acre spacing within that vertical extent.

These units shall be dedicated to the applicant's State of New Mexico "7" Well No. 2Y (**API No. 30-015-31050**), located at a standard location 1836 feet from the South line and 2000 feet from the West line (Unit K) of Section 7.

(3) Should the well not be drilled to completion or be abandoned within 120 days after the effective date of this order, the operator shall appear before the Division Director and show cause why Ordering Paragraph (2) should not be rescinded.

(4) Devon Energy Operating Company, L.P. is hereby designated the operator of the subject well and units.

(5) After pooling, uncommitted working interest owners are referred to as non-consenting working interest owners.

(6) 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 completion 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.

(7) 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 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.

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

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

(10) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$6,000.00 per month while drilling and \$749.00 per month while producing, provided that this rate may be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations*." The operator may 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.

(11) 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.

(12) 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.

(13) All proceeds from production from the 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

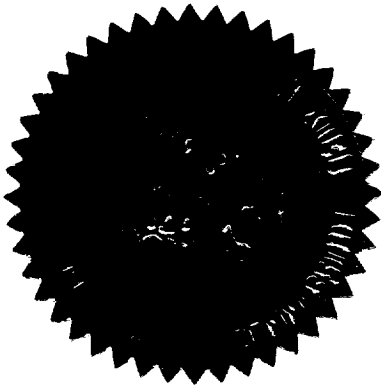
thereof upon demand and proof of ownership. The operator shall notify the Division of the name and address of the escrow agent within 30 days from the date of first deposit with the escrow agent.

(14) 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.

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

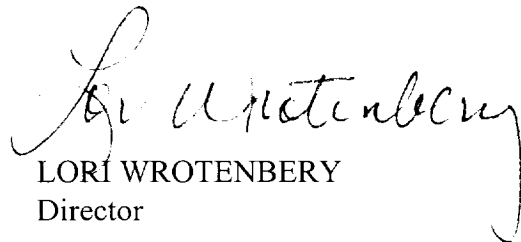
(16) Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

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



S E A L

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


LORI WROTENBERY
Director