

**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. 12954
ORDER NO. R-11682-A**

**APPLICATION OF PERMIAN RESOURCES, INC. TO AMEND THE COST
RECOVERY PROVISIONS OF COMPULSORY POOLING ORDER NO. R-
11682, LEA COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on October 24, 2002 before Examiner David K. Brooks.

NOW, on this 11th day of February, 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) By Order No. R-11682 issued in Case No. 12715, the Division pooled all uncommitted mineral interests in the Wolfcamp formation only underlying the SE/4 of Section 7, Township 16 South, Range 36 East, NMPM, Lea County, New Mexico, forming a standard 160-acre oil spacing and proration unit ("the Unit") for all pools spaced on 160 acres within this vertical extent, which presently include, but are not necessarily limited to, the North Shoe Bar-Wolfcamp Pool. Pursuant to that order, the Unit was dedicated to Permian Resources, Inc.'s proposed Chambers Well No. 2, to be drilled at a standard oil well location in the N/2 of the SE/4 of Section 7, and to be commenced on or before January 31, 2002.

(3) The proposed Chambers Well No. 2 described in Order No. R-11682 was not drilled, and the Unit ceased to exist pursuant to Ordering Paragraph (3) of that order.

(4) In this case, Permian Resources, Inc. ("Applicant") seeks to restore the Unit established by Order No. R-11682 and to dedicate the Unit to Applicant's Chambers

Well No. 1 (**API No. 30-025-24617**) ("the reentry well") located at a standard location 555 feet from the South line and 2085 feet from the East line (Unit O) of Section 7, a previously inactive well that Applicant has reentered and recompleted in the Wolfcamp formation; to provide an opportunity to the force-pooled owners to pay their share of the costs of reentry and recompletion and, in default of such payment, to provide for recovery of their share of costs plus an appropriate risk penalty out of their share of production from the recompleted well.

(5) Two or more separately owned tracts are embraced within the Unit, and/or there are owners of royalty interests and/or undivided interests in oil and gas minerals in one or more tracts included in the Unit that are separately owned.

(6) Applicant is an owner of an oil and gas working interest within the Unit. Applicant has the right to drill to a common source of supply within the Unit.

(7) There are interest owners in the Unit that have not agreed to pool their interests.

(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 restoring the Unit established by Order No. R-11682.

(9) Applicant should be designated the operator of the reentry well and the Unit.

(10) The Unit should be dedicated to the reentry well.

(11) 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.) Any non-consenting working interest owner should be afforded the opportunity to pay its share of actual well costs of the reentry well to the operator in lieu of paying its share of reasonable well costs out of production.

(12) Any non-consenting working interest owner who does not pay its share of actual well costs should have withheld from production its share of reasonable well costs plus an additional reasonable charge for the risk involved in reentering and recompleting the well.

(13) Because the risk is reduced by the fact that the well has already been

drilled and has already been reentered and recompleted, a reasonable charge for risk is 100% of well costs.

(14) Any non-consenting working 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.

(15) Following determination of reasonable well costs, any non-consenting working interest owner who has paid its share of actual well costs should receive from the operator any amount that the actual well costs it has paid exceed its share of reasonable well costs.

(16) Reasonable charges for supervision (combined fixed rates) should be fixed at \$6,000 per month while drilling and \$650 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*." 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) The Unit established by Order No. R-11682, consisting of the SE/4 of Section 7, Township 16 South, Range 36 East, NMPM, Lea County, New Mexico, for all formations or pools spaced on 160 acres within this vertical extent, which presently include, but are not necessarily limited to, the North Shoe Bar Wolfcamp Oil Pool, is hereby restored.

The Unit shall be dedicated to Applicant's Chambers Well No. 1 (**API No. 30-025-24617**) ("the reentry well") located at a standard location 555 feet from the South line and 2085 feet from the East line (Unit O) of Section 7.

(2) Applicant is hereby designated the operator of the reentry well and of the Unit.

(3) After pooling, uncommitted working interest owners are referred to as non-consenting working interest owners. 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 the actual costs of reentering, recompleting and reequipping the reentry well ("well costs").

(4) Within 30 days from the date the schedule of actual well costs is furnished, any non-consenting working interest owner shall have the right to pay its share of actual 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 actual well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(5) 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 of actual well costs, 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.

(6) Within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid its share of actual costs in advance as provided above shall receive from the operator its share of the amount that paid, actual 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 actual well costs within 30 days from the date the schedule of actual well costs is furnished; and
- (b) as a charge for the risk involved in drilling the well, 100% of the above costs.

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

(9) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$6,000 per month while drilling and \$650 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 each non-consenting working interest.

(10) Except as provided in Ordering Paragraphs (7) and (9) above, all proceeds from production from the reentry 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.

(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. 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.

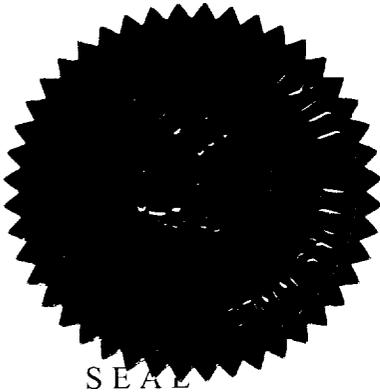
(12) Should all the parties to this compulsory pooling order reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(13) 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.

(14) This Order shall supercede Order No. R-11682 in its entirety.

(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.



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


LORI WROTENBERY
Director