



STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION



BRUCE KING  
GOVERNOR

ANITA LOCKWOOD  
CABINET SECRETARY

June 17, 1993

POST OFFICE BOX 2088  
STATE LAND OFFICE BUILDING  
SANTA FE, NEW MEXICO 87504  
(505) 827-5800

Naumann Oil & Gas, Inc.  
c/o Kemp, Smith, Duncan & Hammond, P.C.  
P. O. Box 2796  
Midland, Texas 79702-2796

Attention: Frank N. Cremer

*Administrative Order NSP-1672*

Dear Mr. Cremer:

Reference is made to your application dated April 16, 1993 to sever approximately 5.5 acres, more or less, within the Federal domain from the S/2 of Section 12, Township 21 South, Range 26 East, NMPM, Eddy County, New Mexico, thereby forming a non-standard 314.50-acre, more or less, gas spacing and proration unit in the Strawn formation.

The Inexco Federal Com Well No. 1 located at a previously approved unorthodox gas well location (Division Administrative Order NSL-3216, dated January 8, 1993) 1650 feet from the South line and 660 feet from the East line (Unit I) of said Section 12 recently completed in the Undesignated West Burton Flat-Strawn Gas Pool is to be dedicated to the proposed unit.

The acreage to be severed from the S/2 of Section 12 are those unleased Federal Tracts comprising that portion of the NW/4 SW/4 of said Section 12 lying west of the middle of the channel of the Pecos River and the eastern one-half of the channel of that portion of the Pecos River located in the W/2 SW/4 of said Section 12. Said acreage to be excluded is depicted and herein referenced on the map entitled Plat of Reservoir No. 2 prepared by The Pecos Irrigation and Improvement Company and dated September 6, 1895. Said map was made a part of a quit title suit styled *United States of America v. Pecos Irrigation Company*, being Cause No. CV 78-091 B, in the United States District Court for the District of New Mexico.

*Administrative Order NSP-1672*

*Naumann Oil and Gas, Inc.*

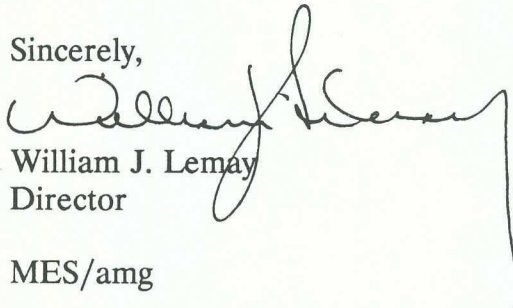
*June 17, 1993*

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By authority granted me under the provisions of General Rule 104.D(2), the aforementioned non-standard 314.50-acre, more or less, gas spacing and proration unit within the S/2 of said Section 12, save and except the 5.5 acres, more or less, of unleased Federal minerals as described-above, is hereby authorized; **provided however**, this administrative order shall not become effective until such time as like approval of communitization of said spacing/proration unit is granted by the United States Bureau of Land Management.

Sincerely,



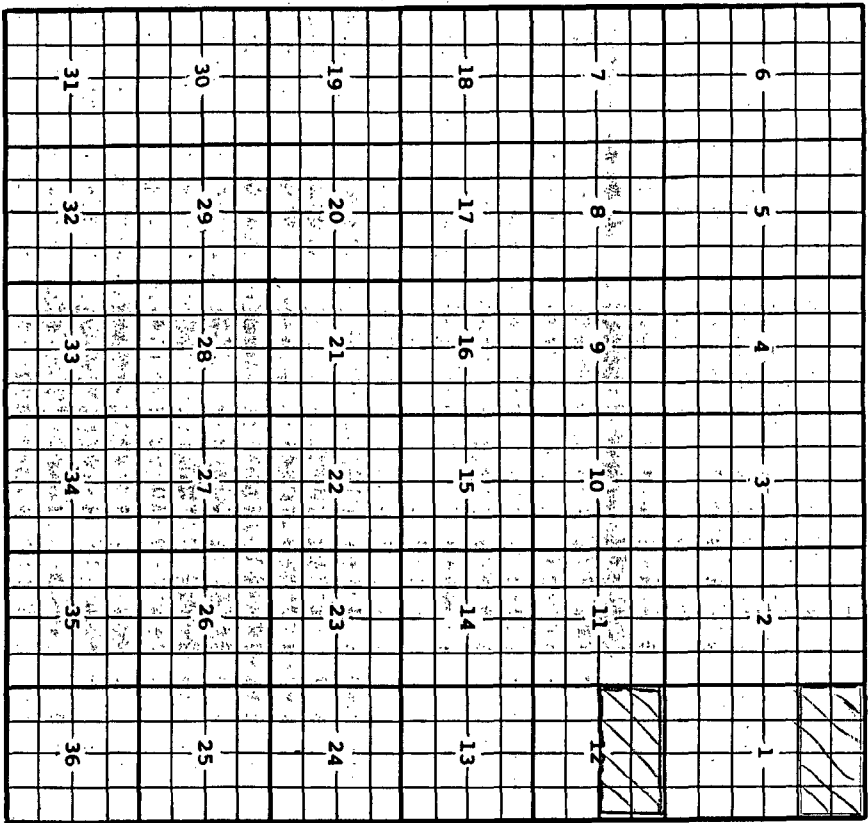
William J. Lemay  
Director

MES/amg

cc: Oil Conservation Division - Artesia  
U.S. BLM - Carlsbad Resource Area Office, Carlsbad  
U.S. BLM - Roswell District Office, Roswell (Armando Lopez)  
File: NSL-3216

Pool West Burton Flat-Strawn Gas

TOWNSHIP 21 South RANGE 26 East N4PM

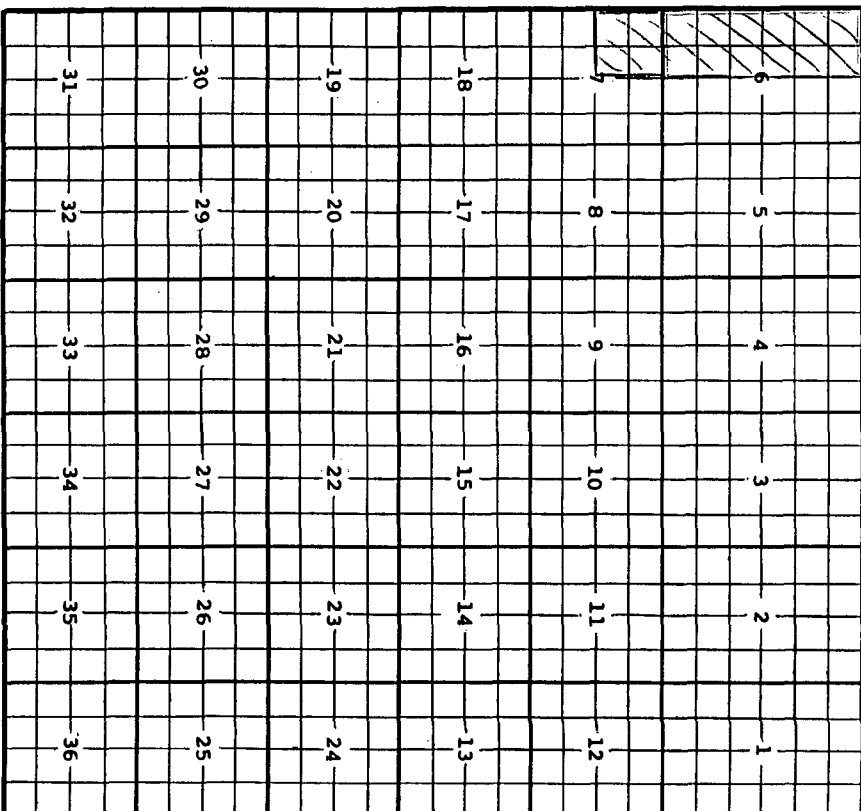


Description: Lots 1 thru 8, Sec 1 (R-5309, 11-1-76)

Ext. N/2 Sec. 12 (R-9709, 8-25-92) Ext. N/2 Sec. 12 (R-9709, 8-25-92)

POOL West Burton Flat-Strawn

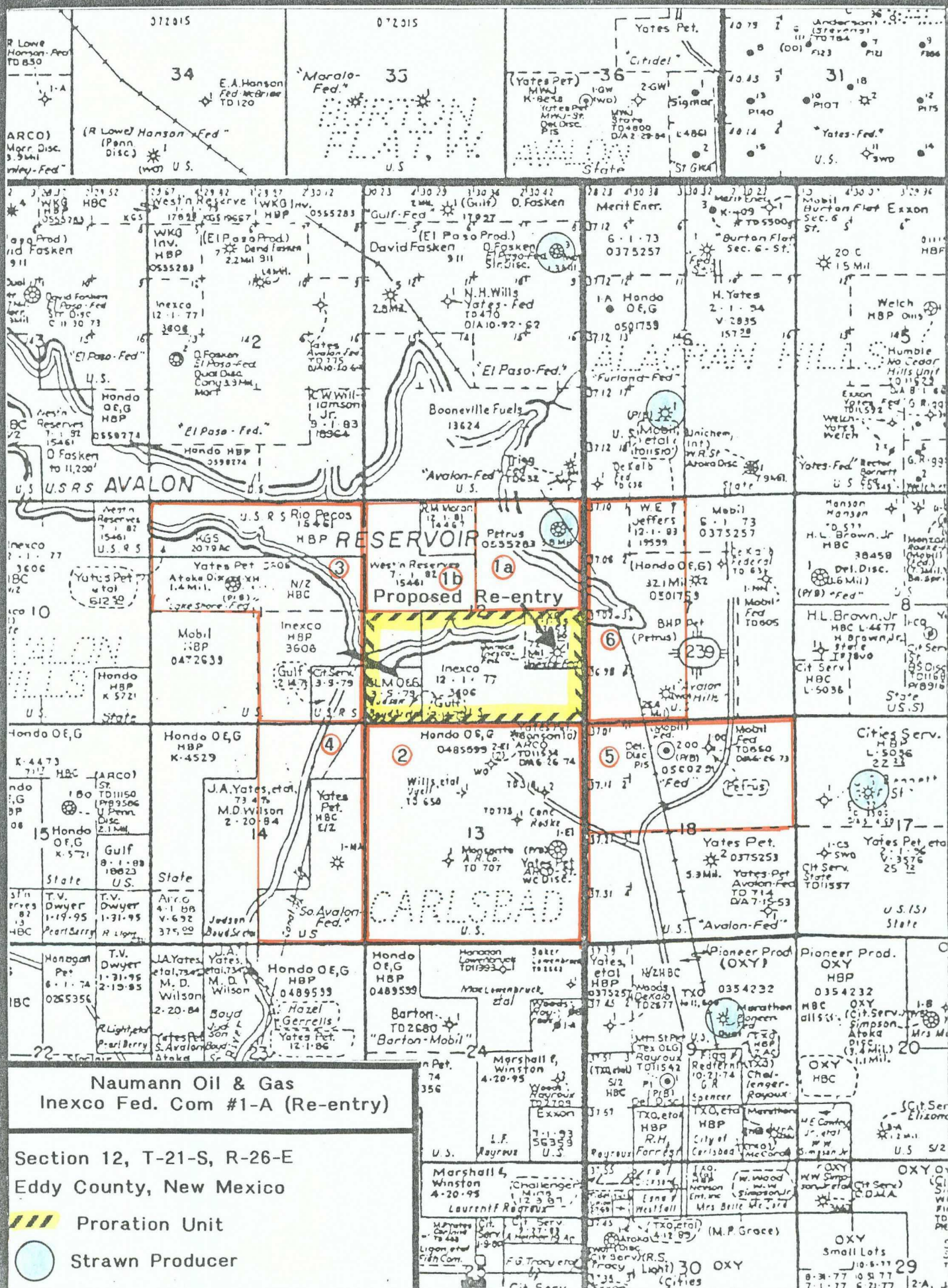
TOWNSHIP 21 South RANGE 27 East NMPM



Ext. Lots 3, 4, 5, 6, 11, 12, 13, 14 & <sup>SW</sup> 1/4 Sec 6 (R-5456, 7-1-77)

Ext. <sup>NW</sup> 4 Sec. 7 (R-9709, 8-25-92)





BEFORE THE OIL CONSERVATION COMMISSION  
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING  
CALLED BY THE OIL CONSERVATION  
COMMISSION OF NEW MEXICO FOR  
THE PURPOSE OF CONSIDERING:

CASE NO. 5532  
Order No. R-5078

APPLICATION OF HANAGAN PETROLEUM  
CORPORATION FOR COMPULSORY POOLING  
AND AN UNORTHODOX LOCATION, EDDY  
COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on July 30, 1975, at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 12th day of August, 1975, the Commission, a quorum being present, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

(1) That due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.

(2) That the applicant, Hanagan Petroleum Corporation, seeks an order pooling all mineral interests in the Pennsylvanian formation underlying the S/2 of Section 12, Township 21 South, Range 26 East, NMPM, Burton Flat-Morrow Gas Pool, Eddy County, New Mexico.

(3) That the applicant has the right to drill and proposes to drill a well at an unorthodox location 1650 feet from the South line and 660 feet from the East line of said Section 12.

(4) That a well drilled at the proposed location would enjoy a better structural position and the potential for encountering more productive zones than a well drilled at a standard location.

(5) That no offset operator appeared and objected to the proposed unorthodox location.

(6) That the unorthodox location should be approved.

(7) That there are interest owners in the proposed proration unit who have not agreed to pool their interests.



(8) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the gas in said pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

(9) That the applicant should be designated the operator of the subject well and unit.

(10) That any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(11) That any non-consenting working interest owner that does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(12) That any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but that actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(13) That following determination of reasonable well costs, any non-consenting working interest owner that has paid his 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) That \$1800.00 and \$250.00 per month should be fixed as reasonable charges for supervision (combined fixed rates) while drilling and producing, respectively; that the operator should be authorized to withhold from production the proportionate share of such supervision charge attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(15) That all proceeds from production from the subject well which 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) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before November 1, 1975, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Pennsylvanian formation underlying the S/2 of Section 12, Township 21 South, Range 26 East, NMPM, Burton Flat-Morrow Gas Pool, Eddy County, New Mexico, are hereby pooled to form a standard 320-acre gas spacing and proration unit to be dedicated to a well to be drilled at an unorthodox location, hereby approved, 1650 feet from the South line and 660 feet from the East line of said Section 12.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the 1st day of November, 1975, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Pennsylvanian formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 1st day of November, 1975, Order (1) of this order shall be null and void and of no effect whatsoever;

PROVIDED FURTHER, that should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Commission and show cause why Order (1) of this order should not be rescinded.

(2) That Hanagan Petroleum Corporation is hereby designated the operator of the subject well and unit.

(3) That after the effective date of this order and within 30 days prior to commencing said well, the operator shall furnish the Commission and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(4) That within 30 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and that any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(5) That the operator shall furnish the Commission and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; that if no objection to the actual well costs is received by the Commission and the Commission has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, that if there is an objection to actual well costs within said 45-day period the Commission will determine reasonable well costs after public notice and hearing.

(6) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner that has paid his share of estimated costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

(7) That the operator is hereby authorized to withhold the following costs and charges from production:

- (A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.
- (B) As a charge for the risk involved in the drilling of the well, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

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

(9) That \$1800.00 and \$250.00 per month are hereby fixed as reasonable charges for supervision (combined fixed rates) while drilling and producing, respectively; that the operator is hereby authorized to withhold from production the proportionate share of such supervision charge attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(10) That any unsevered 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 the terms of this order.

(11) That any well costs or charges which 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.



Case No. 5532  
Order No. R-5078

(12) That all proceeds from production from the subject well which 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; that the operator shall notify the Commission of the name and address of said escrow agent within 90 days from the date of this order.

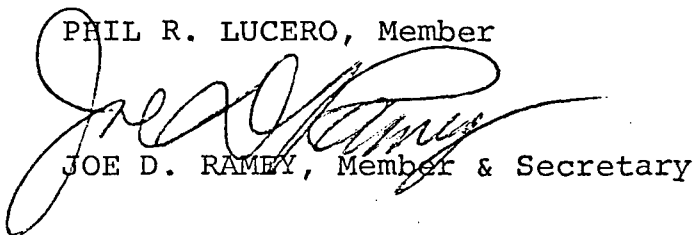
(13) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year herein-above designated.

STATE OF NEW MEXICO  
OIL CONSERVATION COMMISSION



PHIL R. LUCERO, Member



JOE D. RAMEY, Member & Secretary

S E A L