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August 31, 2004

HAND DELIVERED

Michael E. Stogner, Hearing Examiner
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
12200 South Saint Francis Drive
Santa Fe, New Mexico 87505

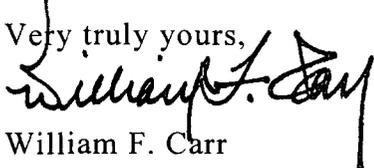
Re: Oil Conservation Division Case No. 13324: Application of EOG Resources, Inc.
for Compulsory Pooling and Directional Drilling, Eddy County, New Mexico.

Dear Mr. Stogner,

Enclosed for your consideration is EOG Resources, Inc.'s Proposed Order of the Division in the above-referenced case. Please note that we have included in Finding 13 and Order Paragraph 3 the requirement that if the directional survey run on the well shows that the wellbore is at an unorthodox location in any formation, that formation can not be produced until the unorthodox well location is approved pursuant to division Rule 104.F.

This order has also been provided to you by e-mail.

If you need any additional information from EOG Resources, Inc. to assist you with your consideration of this application, please advise.

Very truly yours,

William F. Carr

Enclosure

cc: Mr. Patrick Tower,
EOG Resources, Inc.
Post Office Box 2267
Midland, Texas 79702

**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:**

**APPLICATION OF EOG RESOURCES, INC.
FOR COMPULSORY POOLING AND
DIRECTIONAL DRILLING, EDDY COUNTY,
NEW MEXICO.**

**CASE NO. 13324
ORDER NO. R-_____**

**EOG RESOURCES INC.'S
PROPOSED ORDER OF THE DIVISION**

BY THE DIVISION:

This cause came on for hearing at 8:15 a. m. on August 14, 2004 at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this ____ day of September, 2004, the Division Director, having considered the testimony, the record and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given, the Division has jurisdiction of this case and the subject matter.

(2) EOG Resources, Inc. ("Applicant") seeks an order pooling all uncommitted mineral interests from the surface to the base of the Morrow formation underlying the N/2 of Section 32, Township 19 South, Range 28 East, NMPM, Eddy County, New Mexico, in the following manner:

the N/2 to form standard 320-acre spacing and proration unit for any formations and/or pools spaced on 320-acres within this vertical extent which presently

include but are not necessarily limited to the Winchester-Morrow Gas Pool, the Undesignated Winchester-Atoka Pool, and the Undesignated Burton Flat-Strawn Gas Pool; and

The NW/4 to form a standard 160-acre spacing and proration unit for any formations and/or pools spaced on 160-acres within this vertical extent.

(3) The above-described units are to be dedicated to Applicant's proposed State "32" Com Well No. 2 to be directionally drilled from a surface location 2404 feet from the North line and 1083 feet from West line to a standard bottomhole location 1980 feet from the North line and 660 feet from the West line (Unit E) of said Section 32.

(4) The Applicant is a working interest owner within the 320-acre lay-down GPU and therefore has the right to develop this acreage and to recover gas underlying the same.

(5) Two or more separately owned tracts are embraced within the units, and/or there are royalty interests and/or undivided interests in oil and gas minerals in one or more tracts included in the units that are separately owned. Despite Applicant's good faith efforts, a certain parties owning working interest in each unit subject to pooling have not agreed to pool their interests.

(6) No party affected by this application appeared at the hearing or objected to this application.

(7) To avoid the drilling of unnecessary wells, to 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 interests, whatever they may be, in the oil and gas within the units.

(8) The applicant should be designated the operator of the subject well and of the units.

(9) Pursuant to Division Rule 35.A, any pooled 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 proposed State "32" Com Well No. 3.

(10) Reasonable charges for supervision (combined fixed rates) should be fixed at \$6,000.00 per month while drilling and \$600 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 pooled working interest.

(11) Applicant testified at the hearing that the originally proposed surface location for the well had to be moved and the well directionally drilled to avoid an archeological site and further testified that the wellbore would be drilled so that it would be at a standard location in all potentially productive formations.

(12) It appears that each formation and/or pool developed on either 320-acre spacing or 160-acre spacing that will be intersected by this well bore is governed by Division Rule 104 which provides for wells to be located no closer than 660 feet to the outer boundary of the quarter section on which the well is located and no closer than 10 feet to any quarter-quarter section line or subdivision inner boundary.

(13) The directional drilling of the proposed State "32" Com Well No. 2 should be approved, however, if the directional survey that is run on the well after it is drilled and prior to its being produced shows that the wellbore is at a subsurface unorthodox location in any formation, that formation shall not be produced until the unorthodox location is approved pursuant to the provisions of Division Rule 104.F.

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of EOG Resources, Inc., all uncommitted mineral interests, whatever they may be, from the surface to the base of the Morrow formation underlying the N/2 of Section 32, Township 19 South, Range 28 East, NMPM, Eddy County, New Mexico, are hereby pooled in the following manner:

the N/2 to form standard 320-acre spacing and proration unit for any formations and/or pools spaced on 320-acres within this vertical extent which presently include but are not necessarily limited to the Winchester-Morrow Gas Pool, the Undesignated Winchester-Atoka Pool, and the Undesignated Burton Flat-Strawn Gas Pool; and

The NW/4 to form a standard 160-acre spacing and proration unit for any formations and/or pools spaced on 160-acres within this vertical extent.

(2) These units shall be dedicated to the EOG Resources, Inc. proposed State "32" Com Well No. 2 to be directionally drilled from a surface location 2404 feet from the North line

and 1083 feet from West line to a standard bottomhole location 1980 feet from the North line and 660 feet from the West line (Unit E) of said Section 32.

(3) If the directional survey that is run on the well shows the wellbore to be at a subsurface unorthodox location in any formation, that formation shall not be produced until the unorthodox location is approved pursuant to the provisions of Division Rule 104.F.

(4) Applicant, EOG Resources, Inc., is hereby designated the operator of the well and of this unit.

(5) The operator of said unit shall commence the drilling the proposed well on or before December 15, 2004, and shall thereafter continue drilling the well with due diligence to a depth sufficient to test the Morrow formation.

(6) In the event the operator does not commence the drilling the proposed well on or before December 15, 2004, Ordering Paragraph No. (1) shall be of no effect, unless said operator obtains a time extension from the Division Director for good cause.

(7) Should the proposed well not be drilled and completed within 120 days after commencement thereof, the operator shall appear before the Division Director and show cause why Ordering Paragraph No. (1) should not be rescinded.

(8) Upon final plugging and abandonment of the proposed well, the pooled unit created by this Order shall terminate, unless this Order has been amended to authorize further operations.

(9) After pooling, uncommitted working interest owners are referred to as "pooled working interest owners." ("Pooled working interest owners" are owners of working interest in the units, including unleased mineral interests, who are not parties to an operating agreement governing the units.) After the effective date of this order, the operator shall furnish the Division and each known pooled working interest owner in the units an itemized schedule of estimated well costs of drilling, completing, and equipping the proposed well ("well costs").

(10) 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."

(11) The operator shall furnish the Division and each known pooled working interest owner (including each non-consenting working interest owner) 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.

(12) 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 the amount, if any, that estimated well costs that it has paid exceeds its share of reasonable well costs.

(13) 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; and
- (b) as a charge for the risk involved in drilling the well, 200 percent of the above costs (see Division Rule 35.A).

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

(15) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$6,000.00 per month while drilling and \$600.00 per month while producing, provided that this rate shall 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 pooled working interest owners.

(16) Except as provided in Ordering paragraphs (13) and (15) above, 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.

(17) 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.

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

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

(20) Jurisdiction is hereby 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

MARK E. FESMIRE, P.E.
Director

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