

**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. 14881
ORDER NO. R-13645**

**APPLICATION OF EOG RESOURCES, INC. FOR A NON-STANDARD
SPACING AND PRORATION UNIT AND 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 August 9, 2012, at Santa Fe, New Mexico before Examiner David K. Brooks.

NOW, on this 23rd day of October, 2012, 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) EOG Resources, Inc. ("Applicant") seeks approval of a non-standard 160-acre, more or less, spacing and proration unit and project area ("the Unit") in the Bone Spring formation [Sand Tank- Bone Spring Pool (Pool Code 96832)] consisting of the S/2 of the S/2 of Section 1, Township 18 South, Range 29 East, NMPM, Eddy County, New Mexico. Applicant further seeks an order pooling the interests of all record title holders in the Unit in the Bone Spring formation who have not ratified or joined the applicable Communitization Agreement, Contract No. NM 127759, dated December 15, 2010.
- (3) The Unit will be dedicated to the Applicant's Sand Tank "1" Federal Com. Well No. 3H (API No. 30-015-37215) ("the subject well"), which was horizontally drilled from a surface location 560 feet from the South line and 240 feet from the East line (Unit P) of Section 1, to a bottomhole location 660 feet from the South line and 330

feet from the West line (Unit M) of Section 1. The completed interval for this well is entirely within the producing area, and therefore at a standard location.

(4) Spacing in this pool is governed by statewide Rule 19.15.15.9.A NMAC, which provides for standard 40-acre units, each comprising a governmental quarter-quarter section. The Unit and project area consists of four adjacent quarter-quarter sections.

(5) The well was spudded on October 22, 2010. First production occurred on December 23, 2010.

(6) The Unit comprises one federal lease and two state leases and, therefore, requires a Communitization Agreement to produce from the three tracts.

(7) All working interest owners in the Unit have ratified or joined the subject Communitization Agreement, leaving only owners of bare record title who have not joined.

(8) Applicant submitted the Communitization Agreement to the United States Bureau of Land Management ("BLM"), and the Authorized Officer approved it effective December 15, 2010.

(9) The New Mexico State Land Office ("SLO"), however, notified Applicant that it could not approve the Communitization Agreement because the record title owner identified in the SLO records for State of New Mexico Lease No. B-5084 had not ratified or otherwise approved the Communitization Agreement.

(10) The record title holder of Lease No. B-5084 is V.S. Welch, who is deceased.

(11) V.S. Welch died on July 11, 1969. His estate was probated, and probate proceedings were closed by final decree entered on June 30, 1972.

(12) Title to the property comprising the V.S. Welch estate passed to the devisees of V.S. Welch and their successors, which now include Phoebe Welch, Phoebe Jane Welch IV, Sanders Thomas Welch, and Wendell Terry Welch and their heirs, devisees, and successors.

(13) Applicant sent by U.S. certified mail, return-receipt requested, a copy of the Communitization Agreement to Phoebe Welch, Phoebe Jane Welch IV, Sanders Thomas Welch, and Wendell Terry Welch for their approval and ratification on June 23, 2011, and again on March 20, 2012. Return receipts indicate that these mailings were received by all of the named individuals; however, to the knowledge of Applicant, none of them signed or otherwise ratified the agreement.

(14) All other devisees of the V.S. Welch estate identified by Applicant have signed and returned a ratification and joinder of the Communitization Agreement.

(15) The SLO required Applicant to file an application to pool the interests of Phoebe Welch, Phoebe Jane Welch IV, Sanders Thomas Welch, and Wendell Terry Welch and all interests of their heirs, devisees, and successors under New Mexico Lease No. B-5084.

(16) Accordingly, Applicant provided notice of this application and hearing seeking to pool all interests of the above-named parties, by U.S. certified mail, return-receipt requested, and by publishing notice in the Artesia Daily Press on July 24, 2012.

(17) Applicant appeared at the hearing through counsel and presented geologic evidence to the effect that:

- (a) this area is suitable for development by horizontal drilling, and orientation of horizontal wells East to West or West to East is appropriate;
- (b) all quarter sections to be included in the Unit are productive in the Bone Spring formation, so that creation of the Unit as requested will not impair correlative rights;

(18) No other party appeared at the hearing, or otherwise opposed the granting of this application.

The Division concludes that:

(19) Approval of the proposed non-standard Unit will enable Applicant to efficiently produce the reserves underlying the Unit through the subject well, thereby preventing waste, and will not impair correlative rights.

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

(21) Applicant is an owner of an oil and gas working interest within the Unit. Applicant has the right to drill, and has drilled, the well to the existing source of supply within the Unit at the well's location.

(22) The record title holder of Lease No. B-5084 in the Unit, V.S. Welch, is deceased, and his probate is closed by final decree; so neither V.S. Welch nor the executor of his estate can ratify or join the Communitization Agreement. Applicant must, therefore, obtain the ratification and joinder of the devisees of V.S. Welch or their respective heirs or successors, or obtain an order of the Division pooling their interests.

(23) All working interest owners have ratified the Communitization Agreement. Accordingly, no provision need be made regarding sharing of costs or revenues.

(24) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford the owner of each interest in the Unit 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 Unit.

(25) EOG Resources, Inc. (OGRID 7377) should be designated the operator of the well and of the Unit.

(26) The interests of Phoebe Welch, Phoebe Jane Welch IV, Sanders Thomas Welch, and Wendell Terry Welch and all interests of their heirs, devisees, and successors should be pooled for purposes of combining all their interests in the Unit that is subject to the Communitization Agreement so that the State Land Office may approve the agreement.

(27) Once the interests of Phoebe Welch, Phoebe Jane Welch IV, Sanders Thomas Welch, and Wendell Terry Welch and all interests of their heirs, devisees, and successors are pooled by order of the Division, then all devisees, heirs, or successors to the V.S. Welch estate will have either ratified and joined the Communitization Agreement or will have had their interests combined by order of the Division.

IT IS THEREFORE ORDERED THAT:

(1) A non-standard 160-acre, more or less, oil spacing and proration unit (the "Unit") is hereby established in the Bone Spring formation [Sand Tank-Bone Spring Pool (Pool Code 96832)] consisting of the S/2 of the S/2 of Section 1, Township 18 South, Range 29 East, NMPM, Eddy County, New Mexico.

(2) Pursuant to the application of EOG Resources, Inc., the interest of all record title holders in the Unit in the Bone Spring formation who have not ratified or joined the Communitization Agreement, Contract No. NM 127759, dated December 15, 2010, are hereby pooled and combined in the Unit.

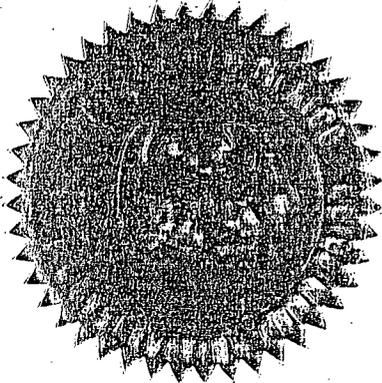
(3) The Unit shall be dedicated to Applicant's Sand Tank "1" Fed Com Well No. 3H (API No. 30-015-37215), which was horizontally drilled from a surface location 560 feet from the South line and 240 feet from the East line (Unit P) to a bottomhole location 660 feet from the South line and 330 feet from the West line (Unit M) of Section 1.

(4) Upon final plugging and abandonment of the subject well and any other well drilled on the Unit pursuant to Division Rule 19.15.13.9 NMAC, the pooled unit

created by this Order shall terminate, unless this order has been amended to authorize further operations.

(5) 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

A handwritten signature in cursive script, appearing to read "Jami Bailey", is written over the printed name.

JAMI BAILEY
Director