

**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. 13992
ORDER NO. R-5372-A**

**APPLICATION OF PURVIS OPERATING COMPANY FOR COMPULSORY
POOLING, LEA COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came for hearing at 8:15 a.m. at Santa Fe, New Mexico on September 20, 2007 before Examiners David K. Brooks and William V. Jones.

NOW, on this 10th day of January 2008, the Division Director, having considered the testimony, the record and the recommendations of the Examiners,

FINDS THAT:

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

(2) The applicant, Purvis Operating Company ("applicant" or "Purvis"), seeks an order pooling all uncommitted interests in the Devonian formation underlying the E/2 NE/4 of Section 34, Township 12 South, Range 37 East, NMPM, Lea County, New Mexico, in the following manner:

the E/2 NE/4 to form a standard 80-acre oil spacing and proration unit for all formations and pools spaced on 80 acres within this vertical extent, including but not limited to, the Southwest Gladiola-Devonian Pool (27760).

(3) The above-described unit ("the Unit") is to be dedicated to the applicant's Lowe Well No. 1 (API No. 30-025-20724), located 554 feet from the North line and 554 feet from the East line (Unit A) of Section 34. The well is to be recompleted from current perforations in the Gladiola-Wolfcamp Pool and re-drilled to an approximate vertical depth of 12,232 feet in order to test the Devonian formation for additional production potential.

(4) No other parties entered an appearance in this case or otherwise opposed the application.

(5) Division records indicate that:

(a) The Oil Conservation Commission Order No. R-1724-A, issued on July 26, 1961, made permanent Special Rules and Regulations for the Southwest Gladiola-Devonian Pool, requiring 80-acre spacing units and wells to be located within 150 feet of the center of the quarter-quarter in which the well is located.

(b) The Lowe Well No. 1 was drilled at a standard location to 12,232 feet and logged in October of 1964 and completed in the Devonian through an open-hole. The Commission in Order No. R-5372, issued on February 15, 1977, pooled all interests in the Devonian formation, Southwest Gladiola-Devonian Pool, within the 80 acres consisting of the E/2 NE/4 of Section 34.

(c) The well was recompleted to the Wolfcamp in 1988 and placed in the Gladiola-Wolfcamp Pool. The Form C-102 filed at that time indicated that the 40-acre, NE/4 NE/4 Wolfcamp oil spacing unit was being voluntarily communitized.

(6) The applicant provided testimony from a Landman at the hearing as follows:

(a) The mineral interests within the E/2 NE/4 of Section 34 are "common".

(b) Even though ownership is the same between the Devonian and the Wolfcamp, at the time of the recompletion to the Wolfcamp formation, new leases were signed specifically targeting the Wolfcamp. Therefore the original Devonian owners' leases either expired or had Pugh clauses in them. The applicant asked the Wolfcamp owners to join in the recompletion to the Devonian or ratify the existing leases to include the Devonian formation.

(c) For this proceeding, the applicant obtained the Devonian "division of interests" from the Wolfcamp oil gatherer who was distributing the revenue checks. There are over one hundred owners within this 80-acre unit – see applicant's exhibit 2.

(d) Purvis is the operator of the well as it is producing from the Wolfcamp formation and is asking to be named the operator for the recompletion in the Devonian formation.

(7) Applicant is an owner of an oil and gas working interest within the Unit. Applicant has the right to drill and proposes to re-enter its Lowe Well No. 1 (API No. 30-025-20724) to a common source of supply within the E/2 NE/4 of Section 34.

(8) 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.

(9) There are interest owner(s) in this Unit that were not locatable or have not

yet agreed to pool their interest(s).

(10) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford to 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.

(11) Applicant should be designated the operator of the proposed well and of the Unit.

(12) 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% thereof as a reasonable charge for the risk involved in drilling the well.

(13) Reasonable charges for supervision (combined fixed rates) should be fixed at \$6250 per month while drilling and \$625 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*."

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Purvis Operating Company ("applicant"), all uncommitted interests, whatever they may be, in the oil and gas within the Devonian Formation underlying the E/2 NE/4 of Section 34, Township 12 South, Range 37 East, NMPM, Lea County, New Mexico, are hereby pooled, as follows:

the E/2 NE/4 to form a standard 80-acre oil spacing and proration unit for all formations and pools spaced on 80 acres within this vertical extent, including but not limited to, the Southwest Gladiola-Devonian Pool (27760).

(2) The above-described unit ("the Unit") shall be dedicated to the applicant's Lowe Well No. 1 (API No. 30-025-20724), located 554 feet from the North line and 554 feet from the East line (Unit A) of Section 34.

(3) The operator of the Unit shall commence recompleting this well on or before March 31, 2008 and shall thereafter continue drilling and recompletion operations with due diligence to test the Devonian formation at an approximate total depth of 12,232 feet.

(4) In the event the operator does not commence recompletion operations on the proposed well on or before March 31, 2008, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause.

(5) Should the proposed well not be drilled and completed within 120 days after commencement thereof, Ordering Paragraph (1) shall be of no further effect, and the unit created by this Order shall terminate unless the operator appears before the Division Director and obtains an extension of time to complete the well for good cause demonstrated by satisfactory evidence.

(6) Upon final plugging and abandonment of the Lowe Well No. 1 (API No. 30-025-20724) and any other well drilled on the Unit pursuant to Division Rule 36, the pooled unit

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

(7) Purvis Operating Company (OGRID 131559) is hereby designated the operator of the proposed well and of the Unit.

(8) After pooling, uncommitted working interest owners are referred to as pooled working interest owners. ("Pooled 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.) After the effective date of this order, the operator shall furnish the Division and each known pooled working interest owner in the Unit an itemized schedule of estimated costs of drilling, completing and equipping the proposed well ("well costs").

(9) 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."

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

(11) Within 60 days following determination of reasonable well costs, any pooled working interest owner who has paid its share of estimated 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 the estimated well costs it has paid exceed its share of reasonable well costs.

(12) 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% of the above costs.

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

(14) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$6250 per month while drilling and \$625 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 pooled working interest owners.

(15) Except as provided above in Ordering paragraphs (12) and (14), all proceeds from production from the 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.

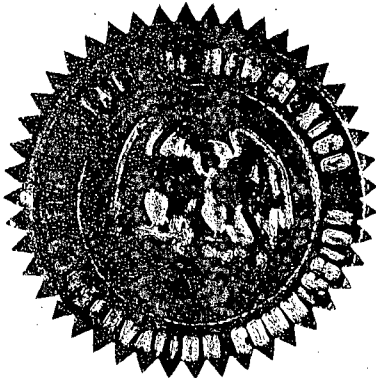
(16) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working interests' share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(17) 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.

(18) 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.

(19) 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.



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STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

MARK E. FESMIRE, P.E.
Director