

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. 11774
ORDER NO. R-10832

APPLICATION OF MARATHON OIL COMPANY FOR COMPULSORY
POOLING AND AN UNORTHODOX GAS WELL LOCATION, EDDY COUNTY,
NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on May 1, 1997, May 29, 1997 and was reopened for hearing on June 26, 1997 at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 9th day of July, 1997, 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 as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) The applicant, Marathon Oil Company ("Marathon"), seeks an order pooling all mineral interests from 500 feet below the top of the San Andres formation to the base of the Morrow formation, underlying the following described acreage in Section 11, Township 18 South, Range 28 East, NMPM, Eddy County, New Mexico, and in the following manner:

(a) the S/2 to form a standard 320-acre gas spacing and proration unit for any and all pools developed on 320-acre spacing within said vertical extent, which presently includes but is not necessarily limited to the Undesignated Empire-

Pennsylvanian Gas Pool, Undesignated Bear Grass Draw-Atoka Gas Pool, Undesignated Palmillo Draw-Atoka Gas Pool, Undesignated North Turkey Track-Morrow Gas Pool, Undesignated Empire-Morrow Gas Pool, and Undesignated North Illinois Camp-Morrow Gas Pool;

(b) the SE/4 to form a standard 160-acre gas spacing and proration unit for any and all formations and/or pools developed on 160-acre spacing within said vertical extent; and,

(c) the SE/4 SE/4 to form a standard 40-acre oil spacing and proration unit for any and all formations and/or pools developed on 40-acre spacing within said vertical extent, which presently includes but is not necessarily limited to the Undesignated East Illinois Camp-Bone Spring Pool.

(3) Said units are to be dedicated to the applicant's proposed Jim Bowie "11" Federal Well No. 1 (API No. 30-015-29660), which applicant originally requested be approved at an unorthodox location for all three sized units, 1000 feet from the South line and 700 feet from the East line (Unit P) of said Section 11, but which was later amended to a proposed location 990 feet from the South and East lines (Unit P) of said Section 11, which is considered a standard location for 40 and 160-acre spacing but unorthodox for 320-acre spacing.

(4) The applicant has the right to develop the subject units and produce any hydrocarbons underlying the same; at this time however, not all of the working interest owners in the above-described 320, 160, and 40-acre spacing and proration units have agreed to pool their interests.

(5) Among the offset operators and/or mineral interest owners in Sections 12 and 13, Township 18 South, Range 28 East, NMPM, Eddy County, New Mexico towards whom this unorthodox location encroaches, Harvey E. Yates Company ("HEYCO") is the only operator to appear at these hearings.

(6) In support of its application, Marathon submitted the following evidence through its exhibits and the testimony:

(a) the primary zone of interest for the subject well is the Morrow formation, therefore it was reasonable to limit applicant's geologic testimony to this interval. Based upon

this evidence, including "three-dimensional" seismic data, the Morrow formation in this area is expected to be a series of river channels and that a well at the proposed unorthodox gas well location should penetrate a thicker portion of the Morrow sand than a well drilled at the closest standard gas well location; and,

(b) approval of the amended unorthodox gas well location will increase the likelihood of intersecting commercial grade gas bearing zones within the Morrow formation.

(7) Marathon has entered into a production limitation agreement with HEYCO as the offset operator and Marathon as an offsetting working interest owner towards whom the subject well encroaches for those intervals spaced on 320 acres in which the S/2 of said Section 11 is to be dedicated.

(8) As part of a settlement with HEYCO, Marathon has agreed to place on such intervals a production limitation of 75% on the well (being a 25% penalty).

(9) Said penalty factor is based upon the stipulation of the parties.

(10) On those intervals that are applicable, the production limitation should be applied to the Jim Bowie "11" Federal Well No. 1's ability to produce as determined by deliverability tests conducted on the well on the following basis:

every three (3) months for the first two (2) years of production and every six (6) months thereafter with HEYCO being furnished copies of said test information within ten (10) days following each test. "Deliverability" in this case should be defined as the total volume produced into the production pipeline for a 24-hour period. Said test should be conducted only after notice has been provided to the supervisor of the Artesia district office of the Division and to HEYCO and a reasonable opportunity is provided to each to witness such test.

(11) The above penalty based upon stipulation of the parties is an appropriate method to apply in this case and will provide a reasonable restriction to protect correlative rights of offsetting operators but is sufficient to afford the applicant the opportunity to protect its correlative right to recover its share of potentially recoverable gas underlying

its 320-acre spacing unit.

(12) Approval of the application will afford the applicant the opportunity to produce its just and equitable share of the gas in these formations/pools, will prevent the economic loss caused by the drilling of unnecessary wells, avoid the augmentation of risk arising from the drilling of an excessive number of wells and will otherwise prevent waste and protect correlative rights.

(13) To avoid the drilling of unnecessary wells, to protect correlative rights, to prevent waste and to afford to the owner of each interest in said units the opportunity to recover or receive without unnecessary expense his just and fair share of hydrocarbon production in any pool resulting from this order, the subject application should be approved by pooling all mineral interests, whatever they may be, within said units.

(14) Marathon Oil Company should be designated the operator of the subject well and units.

(15) 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.

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

(17) Any non-consenting 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.

(18) Following determination of reasonable well costs, any non-consenting working interest owner who 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.

(19) \$5,400.00 per month while drilling and \$540.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); the operator should be authorized to withhold from production the proportionate share of such supervision charges 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.

(20) 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.

(21) Upon the failure of the operator of said pooled units to commence drilling of the well to which said units are dedicated on or before October 31, 1997, the order pooling said units should become null and void and of no further effect whatsoever.

(22) Should all the parties to this force-pooling reach voluntary agreement subsequent to entry of this order, that portion of this order pooling said interests shall thereafter be of no further effect.

(23) The operator of the well and units should notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the force-pooling provisions of this order.

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be, from 500 feet below the top of the San Andres formation to the base of the Morrow formation, underlying the following described acreage in Section 11, Township 18 South, Range 28 East, NMPM, Eddy County, New Mexico, are hereby pooled in the following manner:

(a) the S/2 to form a standard 320-acre gas spacing and proration unit for any and all pools developed on 320-acre spacing within said vertical extent, which presently includes but is not necessarily limited to the Undesignated Empire-Pennsylvanian Gas Pool, Undesignated Bear Grass Draw-Atoka Gas Pool, Undesignated Palmillo Draw-Atoka Gas Pool, Undesignated North Turkey Track-Morrow Gas Pool, Undesignated Empire-Morrow Gas Pool, and Undesignated North Illinois Camp-Morrow Gas Pool;

(b) the SE/4 to form a standard 160-acre gas spacing and proration unit for any and all formations and/or pools developed on 160-acre spacing within said vertical extent; and,

(c) the SE/4 SE/4 to form a standard 40-acre oil spacing and proration unit for any and all formations and/or pools developed on 40-acre spacing within said vertical extent, which presently includes but is not necessarily limited to the Undesignated East Illinois Camp-Bone Spring Pool.

(2) Said units are to be dedicated to the applicant's Jim Bowie "11" Federal Well No. 1 (API No. 30-015-29600) to be drilled at a location that is 990 feet from the South and East lines (Unit P) of said Section 11, said location being standard for production developed on 40 and 160-acre spacing and proration units but unorthodox for the deeper gas production developed on 320-acre units.

(3) Marathon Oil Company is hereby designated the operator of the subject well and units; provided however, that any and all gas production from intervals developed on 320-acre spacing in which the S/2 of said Section 11 is dedicated shall be assigned a production limitation factor of 75 percent (25% penalty factor). This production limitation factor shall be applied against the well's ability to produce as determined by deliverability tests conducted on the well on the following basis:

every three (3) months for the first two (2) years of its production life and every six (6) months thereafter with HEYCO being furnished copies of said test information within ten (10) days following each test. "Deliverability" in this case shall be defined as the total volume produced into the production pipeline for a 24-hour period. Said test should be conducted only after notice has been provided to the supervisor of the Artesia district office of the Division and to HEYCO and a reasonable opportunity is provided to each to witness such test. In addition, Marathon shall provide HEYCO with copies of the Division Form C-115 for this well on a monthly basis.

(4) The operator shall commence the drilling of said well on or before the thirty-first day of October, 1997, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Morrow formation.

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said well on or before the thirty-first day of October, 1997, Decretory Paragraph No. (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

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 Division Director and show cause why Decretory Paragraph No. (1) of this order should not be rescinded.

(5) After the effective date of this order and within 90 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject units an itemized schedule of estimated well costs.

(6) 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 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.

(7) The operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the 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 said schedule, the actual well costs shall be the reasonable well costs; provided however, if there is an objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(8) Within 60 days following determination of reasonable well costs, any non-consenting working interest owner who 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.

(9) 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; and
- (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.

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

(11) \$5,400.00 per month while drilling and \$540.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); the operator is hereby authorized to withhold from production the proportionate share of such supervision charges 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.

(12) 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 the terms of this order.

(13) Any well costs or charges which are to be paid out of production shall be withheld only from the working interest's share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

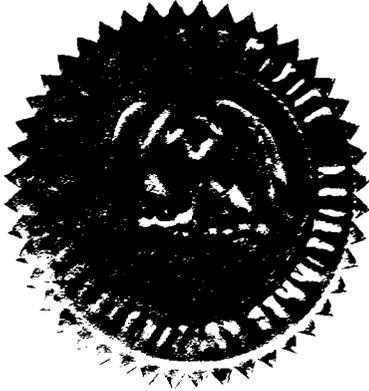
(14) All proceeds from production from the subject well which are not disbursed for any reason shall be placed in escrow in Eddy County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; the operator shall notify the Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

(15) Should all the parties to this force-pooling reach voluntary agreement subsequent to entry of this order, that portion of this order pooling said interests shall thereafter be of no further effect.

(16) The operator of the subject well and units shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the force-pooling provisions of this order.

(17) Jurisdiction of this cause 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 black ink, appearing to read "William J. Lemay". The signature is fluid and cursive, with a long, sweeping tail that extends downwards and to the right.

WILLIAM J. LEMAY
Director