

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 INTERCOAST OIL
AND GAS COMPANY (now known as
KCS MEDALLION RESOURCES, INC.)
FOR COMPULSORY POOLING AND AN
ORTHODOX GAS WELL LOCATION,
EDDY COUNTY, NEW MEXICO.

CASE NO. 11666
(*de novo*)

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

CASE NO. 11677
(*de novo*)

OUTLINE OF FACTS

(Submitted by KCS Medallion Resources, Inc.)

I. Land.

A. Applications.

(1) In Case No. 11666, Medallion seeks an order pooling all mineral interests from the surface to the base of the Morrow formation underlying the E½ of Section 20, Township 20 South, Range 28 East, N.M.P.M. The well unit is to be dedicated to the State 20 Well No. 1, located at an unorthodox location 990 feet from the North and East lines (Unit A) of Section 20.

(2) In Case No. 11677, Yates seeks an order pooling all mineral interests from the surface to the base of the Morrow formation underlying the E½ of Section 20. The well unit is to be dedicated to the Stonewall AOK State Com. Well No. 1, to be located at the same location, 990 feet from the North and East lines of the section.

(3) Both Medallion and Yates seek to be named operator of the well unit.

(4) Case Nos. 11666 and 11677 were consolidated for purposes of hearing at the Division. After the hearing, on December 19, 1996, the Division entered Order No. R-10731, approving pooling of the E½ of Section 20, granting the unorthodox well location, and naming Medallion operator. Yates has appealed the two cases *de novo*.

B. Ownership of E½ of Section 20.

(1) The Stonewall Unit, a working interest unit, covers the entire working interest in the SE¼ of Section 20, and 5% of the working interest in the NE¼ of Section 20.¹ Yates is the operator of the Stonewall Unit.

(2) The 95% of the working interest in the NE¼ of Section 20 which is not subject to the Stonewall Unit is owned by Kerr-McGee Corporation² (approximately 48%) and Diamond Head Properties, L.P. (approximately 47%) ("Diamond Head").

(3) Medallion obtained a farmout of the Kerr-McGee interest in the NE¼ of Section 20, which originally was set to expire, in the absence of the commencement of a well, in mid-January 1997. Two one-month extensions of the farmout have been obtained.

(4) The interest owners in the E½ well unit are as follows:

<u>Company</u>	<u>Interest</u>
Medallion	24.101%
Diamond Head	23.416%
Yates	19.635%
Yates Drilling Company	7.742%
Abo Petroleum Corporation	2.581%
Myco Industries, Inc.	7.742%
Stonewall Unit owners (other than the Yates group)	14.765%

(5) Diamond Head was neutral in this matter, and indicated a desire to join in whichever well was approved by the Division. Diamond Head has executed Medallion's operating agreement.

C. Chronology of Events.

(1) By letter dated August 30, 1996, Medallion sought a farmout from Yates in Section 20 to drill an 11,250 foot Morrow test at a location 990 feet from the North and East lines of the section. The letter did not specify a spacing unit.

(2) In a September 17, 1996 phone conversation, Yates informed Medallion that it did not desire to farmout its acreage.

(3) During September and October 1996, Medallion contacted the record owners of Section 20 and the interest owners in the Stonewall Unit regarding its N½ well proposal.

¹The Stonewall Unit also covers land in Section 19, 29, and 30.

²This interest is now owned by Devon Energy Corporation (Nevada).

(4) On September 26, 1996, Medallion filed a compulsory pooling application seeking a $N\frac{1}{2}$ spacing unit in Section 20, for a well to be drilled in Unit A (Division Case No. 11634).³ Yates received notice of Medallion's compulsory pooling application on September 30, 1996. A hearing was set for October 17, 1996.

(5) By letter dated October 1, 1996, complete with operating agreement and AFE, Medallion formally proposed the drilling of its well in Unit A of Section 20. Yates received Medallion's letter October 9, 1996. The hearing in Case No. 11634 was postponed until November 7, 1996, to allow Yates an opportunity to review the proposal.

(6) On October 24, 1996, Yates informed Medallion that it preferred a different well location in the $N\frac{1}{2}$ of Section 20.

(7) By letter dated October 29, 1996, complete with operating agreement and AFE, Yates proposed the drilling of the Stonewall "DD" State Com. Well No. 3, at a location 990 feet from the North and West lines (Unit D) of Section 20, to the interest owners in the Stonewall Unit. The proposed spacing unit is the $N\frac{1}{2}$ of Section 20. By letter dated October 31, 1996, Yates made the same proposal to Medallion.

(8) The hearing scheduled for November 7, 1996, is continued to November 21, 1996, and on November 7th Yates and Medallion meet in Artesia to discuss development of Section 20. Each party was adamant about its proposed location. In order to resolve the well location issue, Medallion proposed that two stand-up well units be formed in Section 20.

(9) By letter dated November 11, 1996, Medallion formally proposed to drill a well within Unit A (990 feet from the North and East lines), with a stand-up proration unit comprising the $E\frac{1}{2}$ of Section 20.

(10) On November 12, 1996, Medallion filed a compulsory pooling application for a proposed $E\frac{1}{2}$ spacing unit (Division Case No. 11666). The hearing is scheduled for December 5, 1996.

(11) In a phone conversation on November 13, 1996, Yates informed Medallion that it agreed to develop Section 20 with stand-up proration units, but proposed that it be allowed to drill both wells. Medallion responded that it desired to drill and operate the well in the $E\frac{1}{2}$ of Section 20.

(12) By letter dated November 14, 1996, Yates formally proposed the drilling of the Stonewall "DD" State Com. Well No. 3, with a $W\frac{1}{2}$ spacing unit, to the Stonewall Unit interest owners.

³Case No. 11634 was dismissed in December 1996.

(13) By letter dated November 22, 1996, Yates formally proposed to Medallion the drilling of the Stonewall "AQK" State Corn Well No. 1 at a location 990 feet from the North and East lines (Unit A) of Section 20. The proposed spacing unit is the E½ of Section 20.

(14) On November 26, 1996, Yates filed an application for the compulsory pooling of the E½ of Section 20 (Division Case No. 11677). The hearing was scheduled for December 19, 1996, and as a result the hearing on Medallion's Case No. 11666 was continued from December 5th to that date.

II. GEOLOGY.

The geologists for both Medallion and Yates agreed at the Division hearing that the best location for a well in the E½ of Section 20 is at a location 990 feet from the North and East lines (Unit A) of the section. They also agreed that a 200% non-consent penalty is a proper risk factor for drilling the well.

III. ENGINEERING.

The AFEs and operating costs of Medallion and Yates are comparable.

NEW MEXICO
OIL CONSERVATION DIVISION

Medellin EXHIBIT A

CASE NO. 11666/11677 (de novo)