

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. 13070
ORDER NO. R-12006

APPLICATION OF MACK ENERGY CORPORATION FOR COMPULSORY
POOLING, LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on May 22, 2003, at Santa Fe, New Mexico, before Examiner David K. Brooks.

NOW, on this 20th day of August, 2003, 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 of the subject matter.

(2) Mack Energy Corporation, ("Applicant"), seeks an order pooling all uncommitted mineral interests from the surface to the a depth of 5,000 feet below the surface underlying the SW/4 of Section 31, Township 17 South, Range 32 East, NMPM, Lea County, New Mexico, to form the following units ("the Units"):

The NW/4 SW/4, forming a standard 40-acre oil spacing and proration unit for all formations or pools spaced on 40 acres within this vertical extent, which presently include, but are not necessarily limited to, the Undesignated Yates-Maljamar, Undesignated Pearsall-Seven Rivers, Undesignated Pearsall-Queen and Maljamar Grayburg-San Andres Pools. This unit is to be dedicated to Applicant's proposed Panther Federal Well No. 1 to be drilled at a standard oil well location 1650 feet from the South line and 330 feet from the West line (Unit L) of Section 31.

The NE/4 SW/4, forming a standard 40-acre oil spacing and proration unit for all formations or pools spaced on 40 acres within this vertical extent, including but not necessarily limited to, the Undesignated Yates-Maljamar, Undesignated Pearsall-Seven Rivers, Undesignated Pearsall-Queen and Maljamar Grayburg-San Andres Pools. This unit is to be dedicated to Applicant's proposed Panther Federal Well No. 3 to be drilled at a standard oil well location 1650 feet from the South line and 1650 feet from the West line (Unit K) of Section 31.

The SW/4 SW/4, forming a standard 40-acre oil spacing and proration unit for all formations or pools spaced on 40 acres within this vertical extent, including but not necessarily limited to, the Undesignated Yates-Maljamar, Undesignated Pearsall-Seven Rivers, Undesignated Pearsall-Queen and Maljamar Grayburg-San Andres Pools. This unit is to be dedicated to Applicant's proposed Panther Federal Well No. 5 to be drilled at a standard oil well location 990 feet from the South line and 990 feet from the West line (Unit M) of Section 31.

The SE/4 SW/4, forming a standard 40-acre oil spacing and proration unit for all formations or pools spaced on 40 acres within this vertical extent, including but not necessarily limited to, the Undesignated Yates-Maljamar, Undesignated Pearsall-Seven Rivers, Undesignated Pearsall-Queen and Maljamar Grayburg-San Andres Pools. This unit is to be dedicated to Applicant's proposed Panther Federal Well No. 6 to be drilled at a standard oil well location 990 feet from the South line and 2310 feet from the West line (Unit N) of Section 31.

(3) Two or more separately owned tracts are embraced within each of the Units, **and/or** there are royalty interests **and/or** undivided interests in oil and gas minerals in one or more tracts included in each of the Units that are separately owned.

(4) Applicant is an owner of an oil and gas working interest within each of the Units. Applicant has the right to drill and proposes to drill its proposed wells ("the proposed wells") at each of the locations described above.

(5) There are interest owners in each of the Units that have not agreed to pool their interests.

(6) To avoid the drilling of unnecessary wells, 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 mineral interests, whatever they may be, within the Units.

(7) Applicant should be designated the operator of the proposed wells and of the Units.

(8) Any pooled working interest owner who does not pay its share of estimated well costs with respect to any of the proposed wells should have withheld from its share of production from such well its share of reasonable well costs attributable to such well, plus an additional 200% thereof as a reasonable charge for the risk involved in drilling such well.

(9) Reasonable charges for supervision (combined fixed rates) for each well should be fixed at \$3,500 per month while drilling and \$475 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 Mack Energy Corporation, all uncommitted mineral interests from the surface to a depth of 5,000 feet below the surface underlying the SW/4 of Section 31, Township 17 South, Range 32 East, N.M.P.M., Lea County, New Mexico, are hereby pooled to form the following units:

The NW/4 SW/4, forming a standard 40-acre oil spacing and proration unit for all formations or pools spaced on 40 acres within this vertical extent, which presently include, but are not necessarily limited to, the Undesignated Yates-Maljamar, Undesignated Pearsall-Seven Rivers, Undesignated Pearsall-Queen and Maljamar Grayburg-San Andres Pools. This unit shall be dedicated to Applicant's proposed Panther Federal Well No. 1 to be drilled at a standard oil well location 1650 feet from the South line and 330 feet from the West line (Unit L) of Section 31.

The NE/4 SW/4, forming a standard 40-acre oil spacing and proration unit for all formations or pools spaced on 40 acres within this vertical extent, including but not necessarily limited to, the Undesignated Yates-Maljamar, Undesignated Pearsall-Seven Rivers, Undesignated Pearsall-Queen and Maljamar Grayburg-San Andres Pools. This unit shall be dedicated to Applicant's proposed

Panther Federal Well No. 3 to be drilled at a standard oil well location 1650 feet from the South line and 1650 feet from the West line (Unit K) of Section 31.

The SW/4 SW/4, forming a standard 40-acre oil spacing and proration unit for all formations or pools spaced on 40 acres within this vertical extent, including but not necessarily limited to, the Undesignated Yates-Maljamar, Undesignated Pearsall-Seven Rivers, Undesignated Pearsall-Queen and Maljamar Grayburg-San Andres Pools. This unit shall be dedicated to Applicant's proposed Panther Federal Well No. 5 to be drilled at a standard oil well location 990 feet from the South line and 990 feet from the West line (Unit M) of Section 31.

The SE/4 SW/4, forming a standard 40-acre oil spacing and proration unit for all formations or pools spaced on 40 acres within this vertical extent, including but not necessarily limited to, the Undesignated Yates-Maljamar, Undesignated Pearsall-Seven Rivers, Undesignated Pearsall-Queen and Maljamar Grayburg-San Andres Pools. This unit shall be dedicated to Applicant's proposed Panther Federal Well No. 6 to be drilled at a standard oil well location 990 feet from the South line and 2310 feet from the West line (Unit N) of Section 31.

(2) The operator of the Units shall commence drilling each of the proposed wells on or before December 31, 2003, and shall thereafter continue drilling each of the wells with due diligence to test the Grayburg-San Andres formation.

(3) In the event the operator does not commence drilling any of the proposed wells on or before December 31, 2003, Ordering Paragraph (1) shall be of no further effect as to that unit which is hereby dedicated to such proposed well, unless the operator obtains a time extension from the Division Director for good cause.

(4) Should any of the proposed wells not be drilled to completion, or be abandoned, within 120 days after commencement thereof, the operator shall appear before the Division Director and show cause why Ordering Paragraph (1) should not be rescinded as to that unit which is hereby dedicated to such proposed well.

(5) Upon final plugging and abandonment of any of the proposed wells, the compulsory-pooled unit dedicated to such well by this Order shall terminate, unless this order has been amended to authorize further operations.

(6) Applicant is hereby designated the operator of the proposed wells and of the Units.

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

(8) Within 30 days from the date the schedule of estimated well costs is furnished for any well, any pooled working interest owner who owns an interest in the unit hereby dedicated to such well shall have the right to pay its share of estimated well costs of such well 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 of such well but shall not be liable for risk charges applicable to such well. Pooled working interest owners who elect not to pay their share of estimated wells costs of any well as provided in this paragraph shall thereafter be referred to as "non-consenting working interest owners" with respect to such well and the unit dedicated thereto.

(9) Within 90 days following the completion of any proposed well, the operator shall furnish the Division and each known pooled working interest owner (including each non-consenting working interest owner) in the unit dedicated to such well an itemized schedule of actual well costs of such 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 notice and hearing.

(10) Within 60 days following determination of reasonable well costs of any well, any pooled working interest owner who has paid its share of estimated well costs of such well 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 that it has paid exceeds its share of reasonable well costs.

(11) The operator is hereby authorized to withhold the following costs and charges from production from any well:

- (a) the proportionate share of reasonable well costs of such well attributable to each non-consenting working interest owner; and

- (b) as a charge for the risk involved in drilling such well, 200% of the above costs.

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

(13) Reasonable charges for supervision (combined fixed rates) for each of the proposed wells are hereby fixed at \$3,500 per month while drilling and \$475 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 from each well the proportionate share of both the supervision charges and the actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each pooled working interest owner.

(14) Except as provided in Ordering Paragraphs (11) and (13) above, all proceeds from production from the proposed wells 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.

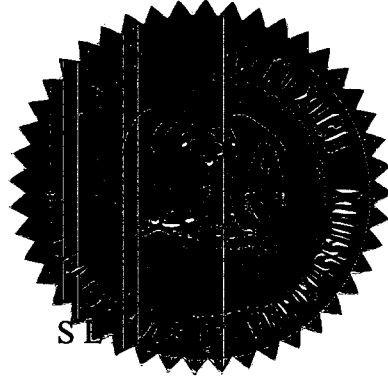
(15) Any **unleased** mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working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

(16) Should all the parties to this compulsory pooling order, as to any of the Units, reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect as to such unit.

(17) The operator of the well and Units shall notify the Division in writing of the subsequent voluntary agreement of all parties **subject** to the forced pooling provisions of this order as to any or all of the Units.

(18) 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.



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

Lori Wrotenbery
LORI WROTENBERY
Director