

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. 11738
ORDER NO. R-10790

APPLICATION OF YATES PETROLEUM CORPORATION FOR COMPULSORY
POOLING, DIRECTIONAL DRILLING, AND AN UNORTHODOX
BOTTOMHOLE GAS WELL LOCATION, LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on March 6 and April 3, 1997, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 14th day of April, 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, Yates Petroleum Corporation ("Yates"), seeks an order pooling all mineral interests from the surface to the base of the Morrow formation underlying the following described acreage in Section 11, Township 16 South, Range 35 East, NMPM, Lea County, New Mexico, and in the following manner:

(a) the W/2 to form a standard 320-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within said vertical extent, which presently includes but is not necessarily limited to the Undesignated Townsend-Morrow Gas Pool;

(b) the NW/4 to form a standard 160-acre spacing and proration unit for any and all formations and/or pools developed on 160-acre spacing within said vertical extent, which presently includes but is not necessarily limited to the Undesignated North Shoe Bar-Strawn Pool (which pool is subject to the "*Special Rules and Regulations for the North Shoe Bar-Strawn Pool*", as promulgated by Division Order No. R-4658, as amended, which provides for 160-acre standard oil spacing and proration units and requires that wells be located within 150 feet of the center of a governmental quarter-quarter section or lot);

(c) the E/2 NW/4 to form a standard 80-acre oil spacing and proration unit for any and all formations and/or pools developed on 80-acre spacing within said vertical extent, which presently includes but is not necessarily limited to the Undesignated West Lovington-Strawn Pool (which pool is subject to the "*Special Rules and Regulations for the West Lovington-Strawn Pool*", as promulgated by Division Order No. R-9722, as amended, which provides for 80-acre standard oil spacing and proration units and requires that wells be located no closer than 330 feet to any quarter-quarter section or subdivision inner boundary nor closer than 1020 feet to the nearest well drilling to or capable of producing from the same pool) and the Undesignated South Big Dog-Strawn Pool (which pool is subject to the "*Special Rules and Regulations for the South Big Dog-Strawn Pool*", as promulgated by Division Order Nos. R-9722-C/R-10448-A, which provides for 80-acre standard oil spacing and proration units and requires that wells be located no closer than 330 feet to any quarter-quarter section or subdivision inner boundary nor closer than 1020 feet to the nearest well drilling to or capable of producing from the same pool); and

(d) the SE/4 NW/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 Townsend-Permo Upper Pennsylvanian Pool and the Undesignated Northwest Shoe Bar-Strawn Pool.

(3) The applicant further seeks authorization to re-enter the previously plugged and abandoned Shell Oil Company G. L. Lusk Well No. 3, to be redesignated by Yates as the Shell Lusk "ANB" Well No. 1, located at a standard surface location 1980 feet from the North and West lines (Unit F) of said Section 11, and recomplete by side tracking off of the vertical portion of the wellbore and directionally drill in a northern direction to a pre-determined bottomhole location that is within a 50 foot radius of a point that is 1650 feet from the North line and 1980 feet from the West line of said Section 11 at a measured depth of approximately 12,253 feet. Due to special pool rules the proposed subsurface location could possibly be unorthodox should a successful completion in the Strawn interval be placed in the North Shoe Bar-Strawn Pool. Further, the proposed target area within the deeper gas intervals spaced on 320-acre spacing could be unorthodox should the subsurface location extend any further east than the required 660 foot setback requirement to the long side of the 320-acre unit or any closer to the North line of said Section 11 than the required 1650 foot setback requirement.

(4) The subject well was originally drilled in 1955 to a total depth of 10,781 feet and completed in the old Townsend-Wolfcamp Pool, now the Townsend-Permo Upper Pennsylvanian Pool, whereby it produced until August, 1961, after which it remained temporarily abandoned until 1965 when it was permanently plugged and abandoned.

(5) Yates owns a certain undivided mineral interest in the W/2 of said Section 11 and as such has the right to develop the minerals underlying the proposed spacing units.

(6) There are three primary zones of interest for Yates in this well; the Strawn oil producing interval and the deeper Atoka and Morrow gas producing intervals. Geological testimony and evidence based on 3-dimensional seismic survey and well control indicates a small limited region of higher porosity within the Strawn interval than is indicated at the corresponding surface location of the Shell Lusk "ANB" Well No. 1. By penetrating the Strawn interval 330 feet to the north of the standard surface location Yates is expecting to increase the likelihood of obtaining commercial production. The information presented further indicates that the 1650/1980 location is at a more geologically advantageous position within the Atoka and Morrow intervals than the 1980/1980 location.

(7) The operator should be required to determine the subsurface location of the kick-off point of the Shell Lusk "ANB" Well No. 1 prior to directional drilling and should subsequently be required to conduct an accurate wellbore survey during or upon completion of drilling operations from the kick-off point to total depth to determine its true depth and course.

(8) The operator should be required to notify the supervisor of the Hobbs

District Office of the Division of the date and time said directional surveys are to be conducted so that they may be witnessed. The applicant should further be required to provide a copy of said directional surveys to the Santa Fe and Hobbs District Offices of the Division upon completion.

(9) No offset operators, other interest owners, or interested party appeared at the hearing to object to the proposed directional drilling or the possible unorthodox bottomhole well locations within the Undesignated North Shoe Bar-Strawn Pool and deeper gas intervals.

(10) There are interest owners in the proposed proration units who have not agreed to pool their interests.

(11) 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.

(12) Yates should be designated the operator of the subject well and units.

(13) 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.

(14) 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 re-entry and recompletion of the Shell Lusk "ANB" Well No. 1.

(15) 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.

(16) 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.

(17) \$5,400.00 per month while re-entering, recompleting, and directional

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.

(18) 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.

(19) Upon the failure of the operator of said pooled units to commence re-entry operation and the recompletion of the Shell Lusk "ANB" Well No. 1 to which said units are dedicated on or before July 15, 1997, the order pooling said units should become null and void and of no further effect whatsoever.

(20) Should all the parties to this force-pooling reach voluntary agreement subsequent to entry of this order, that portion of this order authorizing compulsory pooling should thereafter be of no further effect.

(21) The operator of the subject well and its various 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) The applicant in this matter, Yates Petroleum Corporation, is hereby authorized to re-enter the previously plugged and abandoned Shell Oil Company G. L. Lusk Well No. 3, to be redesignated the Shell Lusk "ANB" Well No. 1, located at a standard surface location 1980 feet from the North and West lines (Unit F) of Section 11, Township 16 South, Range 35 East, NMPM, Lea County, New Mexico and recomplete by side tracking off of the vertical portion of the wellbore and directionally drill in a northern direction to a pre-determined bottomhole location that is within a 50 foot radius of a point that is 1650 feet from the North line and 1980 feet from the West line of said Section 11 at a measured depth of approximately 12,253 feet.

IT IS FURTHER ORDERED THAT:

(2) All mineral interests, whatever they may be, from the surface to the base of the Morrow formation, underlying the following described acreage in Section 11,

Township 16 South, Range 35 East, NMPM, Lea County, New Mexico, are hereby pooled in the following manner:

(a) the W/2 to form a standard 320-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within said vertical extent, which presently includes but is not necessarily limited to the Undesignated Townsend-Morrow Gas Pool;

(b) the NW/4 to form a standard 160-acre spacing and proration unit for any and all formations and/or pools developed on 160-acre spacing within said vertical extent, which presently includes but is not necessarily limited to the Undesignated North Shoe Bar-Strawn Pool (which pool is subject to the "*Special Rules and Regulations for the North Shoe Bar-Strawn Pool*", as promulgated by Division Order No. R-4658, as amended, which provides for 160-acre standard oil spacing and proration units and requires that wells be located within 150 feet of the center of a governmental quarter-quarter section or lot);

(c) the E/2 NW/4 to form a standard 80-acre oil spacing and proration unit for any and all formations and/or pools developed on 80-acre spacing within said vertical extent, which presently includes but is not necessarily limited to the Undesignated West Lovington-Strawn Pool (which pool is subject to the "*Special Rules and Regulations for the West Lovington-Strawn Pool*", as promulgated by Division Order No. R-9722, as amended, which provides for 80-acre standard oil spacing and proration units and requires that wells be located no closer than 330 feet to any quarter-quarter section or subdivision inner boundary nor closer than 1020 feet to the nearest well drilling to or capable of producing from the same pool) and the Undesignated South Big Dog-Strawn Pool (which pool is subject to the "*Special Rules and Regulations for the South Big Dog-Strawn Pool*", as promulgated by Division Order Nos. R-9722-C/R-10448-A, which provides for 80-acre standard oil spacing and proration units and requires that wells be located no closer than 330 feet to any quarter-quarter section or subdivision inner boundary nor closer than 1020 feet to the nearest well

drilling to or capable of producing from the same pool); and

(d) the SE/4 NW/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 Townsend-Permo Upper Pennsylvanian Pool and the Undesignated Northwest Shoe Bar-Strawn Pool.

Said units are to be dedicated to the above-described Shell Lusk "ANB" Well No. 1. Due to special pool rules the proposed subsurface location could possibly be unorthodox should a successful completion in the Strawn interval be placed in the North Shoe Bar-Strawn Pool. Further, the proposed target area within the deeper gas intervals spaced on 320-acre spacing could be unorthodox should the subsurface location extend any further east than the required 660 foot setback requirement to the long side of the 320-acre unit or any closer to the North line of said Section 11 than the required 1650 foot setback requirement.

PROVIDED HOWEVER THAT, the operator shall commence re-entry operations and the recompletion of said well on or before the fifteenth day of July, 1997, and shall thereafter continue in the recompletion of said well by directionally drilling in the manner described above in Decretory Paragraph No. (1) to a depth sufficient to test the Morrow formation.

PROVIDED FURTHER THAT, in the event said operator does not commence re-entry operations on said well on or before the fifteenth day of July, 1997, Decretory Paragraph No. (2) 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 re-entered and recompleted, or abandoned, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Decretory Paragraph No. (2) of this order should not be rescinded.

(3) Yates Petroleum Corporation is hereby designated the operator of the subject well and units.

(4) After the effective date of this order and within 90 days prior to commencing re-entry operations on 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.

(5) 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.

(6) 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.

(7) 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.

(8) 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 re-entry, recompletion, and directional drilling of the Shell Lusk "ANB" Well No. 1,200 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.

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

(10) \$5,400.00 per month while re-entering, recompleting, and directional 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.

(11) 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.

(12) 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.

(13) 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.

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

(15) 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.

(16) Prior to commencing directional drilling operations on the Shell Lusk "ANB" Well No. 1, the operator shall establish the location of the kick-off point by means of a directional survey acceptable to the Division.

PROVIDED HOWEVER THAT during or upon completion of said directional drilling operations, the applicant shall conduct an accurate wellbore survey from the kick-off point to total depth in order that the subsurface bottomhole location, as well as the wellbore's true depth and course, may be determined.

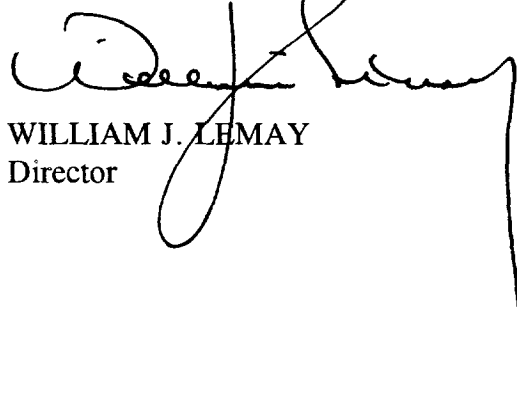
(17) The operator shall notify the supervisor of the Hobbs district office of the Division of the date and time said wellbore surveys are to be conducted so that they may be witnessed. The applicant shall further provide a copy of said wellbore surveys to the Santa Fe and Hobbs offices of the Division upon completion.

(18) Form C-105 shall be filed in accordance with Division Rule No. 1105 and the operator shall indicate thereon true vertical depth in addition to measured depths for the Shell Lusk "ANB" Well No. 1, the operator shall establish the location of the kick-off point by means of a directional survey acceptable to the Division.

(19) 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.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION



WILLIAM J. LEMAY
Director

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