

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. 14734
ORDER NO. R-13471

APPLICATION OF BURLINGTON RESOURCES OIL & GAS COMPANY, LP,
FOR COMPULSORY POOLING, SAN JUAN COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on October 13, 2011, at Santa Fe, New Mexico, before Examiner Terry Warnell.

NOW, on this 8th day of November, 2011, 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) Burlington Resources Oil & Gas Company, LP ("Applicant") seeks an order pooling all uncommitted interests in the Gallup/Mancos and Dakota formations underlying Lots 1 and 2, S/2 NE/4 and SE/4 (the E/2 Equivalent) of irregular Section 2, Township 25 North, Range 9 West, NMPM, in San Juan County, New Mexico, as follows:

a. The E/2 equivalent, forming a standard 320.39-acre, more or less, Dakota formation gas spacing and proration unit within the Basin-Dakota Pool (71599) and

b. The SE/4, forming either a standard 160-acre Gallup/Mancos oil spacing and proration unit within the Dufers Point-Gallup-Dakota Oil Pool (19859) or in the event of gas, forming a non-standard (or "stranded") 160-acre Gallup/Mancos gas spacing unit within the Basin-Mancos Gas Pool (97232).

(3) The above-described units ("the Units") are to be dedicated to a well to be drilled and completed at a surface location within Unit I, as shown below. This well location is standard for Gallup/Mancos oil and standard for Basin-Dakota gas, but non-standard for a stranded Basin- Mancos gas well.

Huerfano Unit Com Well No. 311

API No. 30-045-35291

SL: 2195 feet FSL and 675 feet FEL

Unit I, Section 2, Township 25North, Range 9 West,
NMPM, San Juan County, New Mexico

(4) Burlington's testimony and exhibits demonstrated that:

(a) The Dufers Point-Gallup-Dakota Oil Pool includes oil production within the Gallup/Mancos, Graneros, and Dakota formations. This pool currently covers the NE/4 of Section 2. Within this NE/4, one well produces from this pool and is completed only within the Gallup/Mancos formation. There are currently no wells located within the E/2 of Section 2 producing from the Dakota formation.

(b) In accordance with the Special Rules for the Basin-Mancos Gas Pool (Division Order No. R-12984, Rule 3.B.), if the proposed well produces gas within the Gallup/Mancos formation, Burlington intends to request that the OCD-Aztec approve the SE/4 of Section 2 as a "stranded gas unit".

(c) Burlington will also apply to the OCD using Division form C-107A to downhole commingle wellbore for production from Dakota and Gallup formations and allocate costs and production between the two pools. (See Burlington Exhibit 12).

(d) The costs will be allocated between the Gallup/Mancos and the Dakota using the procedures set forth in other Joint Operating Agreements "JOA" between Burlington and Koch Exploration Co. resulting in a cost allocation of 45% to Gallup/Mancos and 55% to the Dakota (Burlington Exhibit 7B).

(e) The gas production will be allocated using the Spinner Method as set forth in Article XV J of the proposed JOA (Burlington Exhibit 13).

(f) The oil production will be allocated using an averaging procedure for all like-kind Gallup/Mancos-Dakota wells within a nine-section area surrounding the subject wellbores after discarding the lowest and the highest ratio wells. This procedure will result in all oil and condensate produced being allocated to the Gallup/Mancos, less a fixed amount of oil and condensate expressed in barrels of yield per 1 million SCF that will be allocated to the Dakota. (See Burlington's Supplemental Exhibit 14)

(g) In addition, Burlington requests that the Division adopt cost and production allocation procedures between the Gallup and Dakota, a COPAS accounting procedure with the annual COPAS overhead cost adjustment, payment default provisions and future proposed recompletions provisions. Also to be considered will be the costs of drilling and completing said wells and the allocation of the costs thereof as well as actual operating costs and charges for supervision, designation of applicant as the operator of the well and, pursuant to Commission Order No. R-11992, a 200% charge for the risk involved in this well.

(h) Burlington has proposed a Joint Operating Agreement dated June 1, 2011 by and between Burlington, as operator, and Koch Exploration Company and others, as non-operators for these two Drill Blocks. This 2011-JOA provides for the drilling of Gallup and Dakota wellbores consistent with the current well spacing and density orders for these formations and also provides other contemporary provisions including those for cost allocation procedures, payment default provisions and future proposed recompletions.

(5) Koch Exploration Company "Koch" appeared and attended this hearing through counsel. By the time of the hearing, all issues between Koch and Burlington had been resolved except for the final oil allocation to be inserted into Burlington's Exhibit 13. The Examiner took the case under advisement but allowed Koch and Burlington 10 days thereafter to conclude the oil allocation calculation and inform the Examiner.

(6) All parties to be pooled were properly notified and except for Koch no other pooled parties appeared in this case.

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

(8) Applicant is an owner of an oil and gas working interest within the Units. Applicant has the right to drill and proposes to drill the proposed wells to a common source of supply within the Units at the proposed locations.

(9) As to the proposed Dakota Unit, there are interest owners that have not agreed to pool their interests.

(10) 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 interests, whatever they may be, in the oil and gas within the Units.

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

(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 \$3,000 per month, per well, while drilling and \$350 per month, per well, 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 Burlington Resources Oil & Gas Company, LP ("Applicant"), all uncommitted interests, whatever they may be, in the oil and gas in the Gallup/Mancos and Dakota formations underlying the E/2 equivalent of irregular Section 2, Township 25 North, Range 9 West, NMPM, in San Juan County, New Mexico, are hereby pooled as follows:

a. The E/2 equivalent, forming a standard 320.39-acre, more or less, , Dakota formation gas spacing and proration unit within the Basin-Dakota Pool (71599) and

b. The SE/4, forming either a standard 160-acre Gallup/Mancos **oil** spacing and proration unit within the Dufers Point-Gallup-Dakota Oil Pool (19859) or in the event of gas, forming a non-standard (or "stranded") 160-acre Gallup/Mancos **gas** spacing unit within the Basin- Mancos Gas Pool (97232).

(2) The Units shall be dedicated to Applicant's proposed Huerfano Unit Com Well No. 311 (API No. 30-045-35291) (the "proposed well") to be drilled at the following location within the Units, as follows:

Huerfano Unit Com Well No. 311

API No. 30-045-35291

SL: 2195 feet FSL and 675 feet FEL

Unit I, Section 2, Township 25 North, Range 9 West,

NMPM, San Juan County, New Mexico

In the event the proposed well is a "gas well" within the Gallup/Mancos formation, the operator shall

- a. apply to the Aztec office for approval of a "stranded" 160-acre gas unit consisting of the SE/4 of Section 2 and
- b. apply to the Division's Santa Fe office for approval of a non-standard gas well location within the Basin-Mancos Gas Pool.

(3) The operator of the Units shall commence drilling the proposed well on or before November 15, 2012, and shall thereafter continue drilling said well with due diligence to at least a depth sufficient to test the Dakota formation.

(4) In the event the operator does not commence drilling the proposed well on or before November 15, 2012, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause demonstrated by satisfactory evidence.

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

(6) Upon final plugging and abandonment of the proposed well and any other well drilled on any of the Units pursuant to Division Rule Part 13, Sections 9 through 11, the pooled units created by this Order shall terminate, unless this order has been amended to authorize further operations.

(7) Burlington Resources Oil & Gas Company, LP (OGRID 14538) is hereby designated the operator of the proposed wells and of the Units.

(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 Units, including unleased mineral interests, who are not parties to an operating agreement governing the Units, including parties to the 1952 Agreement who have not entered into an agreement with respect to the drilling of the proposed wells.) After the effective date of this order, the operator shall furnish the Division and each known, pooled working interest owner in the Units an itemized schedule of estimated costs of drilling, completing and equipping the proposed wells ("well costs").

(9) Well costs shall be allocated between the owners of the Gallup/Mancos and Dakota formations as follows:

(a) Costs of drilling shall be allocated 45% to the Mancos/Gallup and 55% to the Dakota.

(b) Costs of completion shall be allocated to the formation to which such costs relate.

(c) Costs of surface equipment and costs of operation shall be allocated 50% to each formation.

(10) The Division adopts Burlington's method and calculation so that Production shall be allocated between the owners of the Mancos/Gallup and Dakota formations as follows:

(a) Oil and condensates shall be allocated using an averaging procedure for all like-kind Gallup/Mancos-Dakota wells within a nine-section area surrounding the subject wellbores after discarding the lowest and the highest ratio wells. In this case 14 wells are in a nine-section area around the Huerfano Unit Com 311 well. This procedure resulted in all oil and condensate produced being allocated to the Gallup/Mancos, less a fixed amount of oil and condensate of 15.82 in barrels of yield per 1 million SCF that will be allocated to the Dakota. (See Burlington's Supplemental Exhibit 14).

(b) Gas shall be allocated using the "Spinner Method" set forth in Burlington's Exhibit 13).

(11) Well costs and production shall be allocated to pooled working interest owners based on the ratio of the actual acreage included in the tract in which each pooled working interest owner owns an interest to the actual acreage included in the irregular half Section which defines the horizontal boundaries of the Units.

(12) 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."

(13) 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 wells. 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.

(14) 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.

(15) 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 wells, 200% of the above costs.

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

(17) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$3,000 per month, per well, while drilling and \$350 per month, per well, 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.

(18) Except as provided in Paragraphs (15) and (17) above, all proceeds from production from the wells that are not disbursed for any reason shall be placed in escrow in San Juan County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership. The operator shall notify the Division (Attention: Records Clerk) of the name and address of the escrow agent not later than one year from the date of issuance of this Order.

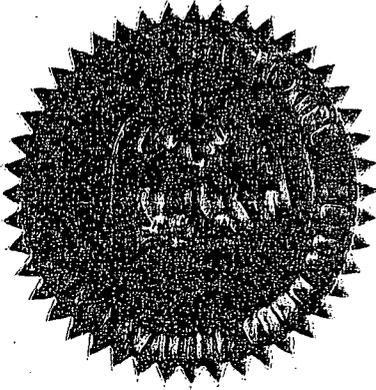
(19) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working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

(20) 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.

(21) The operator of the wells 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.

(22) 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

A handwritten signature in cursive script, appearing to read "Jami Bailey".

JAMI BAILEY
Director