

**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. 13083
ORDER NO. R-12336**

**APPLICATION OF ROCA PRODUCTION, INC. 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 July 10, 2003, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 21st day of April, 2005, 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) The applicant, Roca Production, Inc. ("Roca" or "applicant") seeks an order pooling all uncommitted mineral interests in the Jalmat Gas Pool within an existing 160-acre non-standard gas spacing and proration unit (the "Unit") comprising the NE/4 of Section 33, Township 22 South, Range 36 East, NMPM, Lea County, New Mexico, for the purpose of conducting workover operations on the existing Roca Production, Inc. H. E. Esmond "A" Well No. 2 (API No. 30-025-09126) located 1980 feet from the North line and 990 feet from the East line (Unit H) of Section 33.

(3) Ms. Evelyn O'Hara, an interest owner who owns approximately 31% of the working interest in the H. E. Esmond "A" Well No. 2, appeared at the hearing but presented no evidence.

(4) Roca presented testimony to the effect that it is currently the contract operator of the H. E. Esmond "A" Well No. 2. Roca further testified that even though it owns no interest in the well, it represents, in this matter, the owners of approximately 69% of the working interest in the well.

(5) Division records show that the H. E. Esmond "A" Well No. 2 was originally drilled by Albert Gackle in 1953 and completed in the Langmat Gas Pool. The subject spacing unit was in existence at the time the Langmat Gas Pool was incorporated into the Jalmat Gas Pool. The subject non-standard spacing unit was presumably "grandfathered" in by Division Order No. R-520, as amended, dated August 12, 1954.

(6) Division records further show that Roca assumed operatorship of the H. E. Esmond "A" Well No. 2 in February, 1995.

(7) Roca presented testimony to the effect that the H. E. Esmond "A" Well No. 2 is currently a marginal producing gas well in the Jalmat Gas Pool. Roca proposes to conduct workover operations on the well, including a CO₂ fracture treatment, in an attempt to increase gas production. Roca estimates that the cost of the proposed workover operations are approximately \$146,800 (hereinafter referred to as "well costs").

(8) According to testimony presented by Roca, all of the interest owners, with the exception of Ms. Evelyn O'Hara, have agreed to participate and pay their share of well costs.

(9) Ms. Evelyn O'Hara has signed an AFE for the proposed workover. However, she has not committed to pay, or is unable to pay, her share of well costs.

(10) On cross examination, Roca's witness testified that there was a possibility that the subject well and acreage may be subject to an existing joint operating agreement. At the conclusion of the proceedings in this matter, the Division requested that Roca supplement the record in this case by submitting additional information regarding the existence, or not, of a joint operating agreement.

(11) On March 15, 2005, Roca provided an affidavit to the Division stating that:

- (a) although there are references in certain files regarding the existence of a joint operating agreement that was in effect for the subject acreage in the 1950's and 1960's, no such document can be found; and
- (b) from the 1980's to the present time, operations on the subject acreage have been conducted as if no joint operating agreement exists.

(12) In the absence of an agreement governing operations on the subject acreage, compulsory pooling is appropriate and necessary.

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

(14) Roca, by virtue of its relationship with the owners of the well, has the right to conduct workover operations on the H. E. Esmond "A" Well No. 2.

(15) There are interest owners in the Unit that have not agreed to pay their share of well costs.

(16) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford to the owner of each interest in the Unit 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 Unit.

(17) 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 conducting workover operations.

(18) Reasonable charges for supervision (combined fixed rates) should be fixed at \$3,000.00 per month while conducting workover operations and \$300.00 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 Roca Production, Inc., all uncommitted mineral interests are hereby pooled in the Jalmat Gas Pool within an existing 160-acre non-standard gas spacing and proration unit comprising the NE/4 of Section 33, Township 22 South, Range 36 East, NMPM, Lea County, New Mexico, for the purpose of conducting workover operations on the existing Roca Production, Inc. H. E. Esmond "A" Well No. 2 (API No. 30-025-09126) located 1980 feet from the North line and 990 feet from the East line (Unit H) of Section 33.

(2) The operator of the Unit shall commence workover operations on the well on or before August 1, 2005.

(3) In the event the operator does not commence workover operations on the well on or before August 1, 2005, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause.

(4) Should the workover operations not be completed within 120 days after commencement thereof, Ordering Paragraph (1) shall be of no further effect unless the operator appears before the Division Director and obtains an extension of time to complete the operations for good cause demonstrated by satisfactory evidence.

(5) Roca Production, Inc., is hereby designated the operator of the subject well and of the Unit.

(6) 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 Unit, including unleased mineral interests, who are not parties to an operating agreement governing the Unit.) After the effective date of this order, the operator shall furnish the Division and each known pooled working interest owner in the Unit an itemized schedule of estimated workover costs ("well costs").

(7) 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."

(8) 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 workover operations. 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.

(9) 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.

(10) 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 conducting workover operations on the well, 200% of the above costs.

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

(12) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$3,000.00 per month while conducting workover operations and \$300.00 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 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.

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

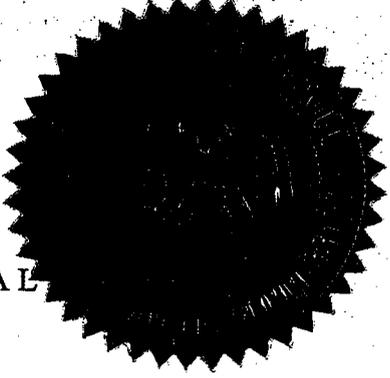
(14) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working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

(15) 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.

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

(17) 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.



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

MARK E. FESMIRE, PE
Director