

**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 TO CONSIDER:**

CASE NO. 16024

AMENDED APPLICATION OF BTA OIL PRODUCERS, LLC FOR A NON-STANDARD SPACING AND PRORATION UNIT, AND COMPULSORY POOLING, EDDY, COUNTY, NEW MEXICO.

CASES NO. 16161 and 16162

APPLICATION OF BTA OIL PRODUCERS, LLC FOR A NON-STANDARD SPACING AND PRORATION UNIT, AND COMPULSORY POOLING, EDDY, COUNTY, NEW MEXICO.

CASES NO. 16076 and 16077

AMENDED APPLICATION OF MARATHON OIL PERMIAN LLC FOR A NON-STANDARD SPACING AND PRORATION UNIT AND COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO.

CASE NO. 16300

APPLICATION OF MARATHON OIL PERMIAN LLC FOR A NON-STANDARD SPACING AND PRORATION UNIT AND COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO.

ORDER NO. R-20368

ORDER OF THE DIVISION

BY THE DIVISION:

These cases came on for hearing at 9:00 a.m. on April 24, 2018, at Santa Fe, New Mexico, before Examiner William V. Jones, and again heard on July 13, 2018, and, on the latter date, were taken under advisement.

NOW, on this 6th day of February 2019, the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given as required by law, and the Division has jurisdiction of these cases and the subject matter thereof.

(2) BTA Oil Producers, LLC ("BTA") Cases No. 16024, 16161, and 16162 were consolidated and combined for hearing with Marathon Oil Permian LLC ("Marathon") Cases No. 16076, 16077, and 16300. A single order is being issued for the consolidated cases.

(3) These 6 cases involve competing proposals for development of the Bone Spring and Wolfcamp formations in the West half of Section 29 and Northwest quarter of Section 32, in Township 23 South, Range 28 East, NMPM, Eddy County, New Mexico. Both applicants intend to drill horizontally.

(4) Both BTA and Marathon have the right to drill within the proposed spacing units, and each seeks to be named operator of their proposed wells and the subject units.

(5) BTA and Marathon have conducted negotiations prior to the hearing but have been unable to reach a voluntary agreement as to which company will drill and operate the wells within the spacing units.

(6) The only working interests being pooled are those interests held by BTA or Marathon.

BTA Cases

(7) In Case No. 16024, BTA proposes to combine a non-standard 160-acre spacing unit (Unit) with a standard 320-acre spacing unit to create a 480-acre non-standard spacing and proration unit in the Purple Sage Wolfcamp Gas Pool (98220) comprised of the W/2 of Section 29 and the NW/4 of Section 32, Township 23 South, Range 28 East, NMPM, Eddy County, New Mexico, to be dedicated to the following two proposed 1.5-mile horizontal wells to be drilled and completed simultaneously:

Ogden 20509 32-29 Federal Com Well No. 5H, API No. 30-015-44339

SHL: 2472 feet from the North line and 1357 feet from the West line,
(Unit F) of Section 32, Township 23 South, Range 28 East, NMPM,
Eddy County, New Mexico.

BHL: 200 feet from the North line and 1980 feet from the West line
(Unit C) of Section 29, Township 23 South, Range 28 East, NMPM,
Eddy County, New Mexico.

Ogden 20509 32-29 Federal Com Well No. 6H, API No. 30-015-44340

SHL: 2472 feet from the North line and 1327 feet from the West line,
(Unit E) of Section 32, Township 23 South, Range 28 East, NMPM,
Eddy County, New Mexico.

BHL: 200 feet from the North line and 1950 feet from the West line
(Unit C) of Section 29, Township 23 South, Range 28 East, NMPM,
Eddy County, New Mexico.

(8) In Case No. 16161, BTA proposes a non-standard 240-acre spacing and proration unit (Unit) for production of oil and gas from the Bone Spring formation comprised of the W/2 W/2 of Section 29 and the W/2 NW/4 of Section 32, Township 23 South, Range 28 East, NMPM, Eddy County, New Mexico to be dedicated to the following "Proposed Well" to be completed at a standard location within the Unit:

Ogden 20509 29-32 Federal Com Well No. 9H, API No. 30-015- pending

SHL: NW/4 NW/4 (Unit D) of Section 29, Township 23 South, Range 28
East, NMPM, Eddy County, New Mexico.

BHL: SW/4 NW/4 (Unit E) of Section 32, Township 23 South, Range 28
East, NMPM, Eddy County, New Mexico.

(9) In Case No. 16162, BTA proposes a non-standard 240-acre spacing and proration unit (Unit) for production of oil and gas from the Bone Spring formation comprised of the E/2 W/2 of Section 29 and the E/2 NW/4 of Section 32, Township 23 South, Range 28 East, NMPM, Eddy County, New Mexico to be dedicated to the following "Proposed Well" to be completed at a standard location within the Unit:

Ogden 20509 29-32 Federal Com Well No. 10H, API No. 30-015- pending

SHL: NE/4 (Unit C) of Section 29, Township 23 South, Range 28 East,
NMPM, Eddy County, New Mexico.

BHL: SE/4 NW/4 (Unit F) of Section 32, Township 23 South, Range 28
East, NMPM, Eddy County, New Mexico.

Marathon Cases

(10) In Case No. 16076 (amended), Marathon proposes a 480-acre spacing and proration unit (Unit) in the Purple Sage Wolfcamp Gas Pool (98220) comprised of the W/2 of Section 29 and the NW/4 of Section 32, Township 23 South, Range 28 East, NMPM, Eddy County, New Mexico to be dedicated to the following "Proposed Marathon Wells" to be completed at standard locations within the Unit:

Zeus Federal 23 28 29 WXY WD 11H, API No. 30-015- pending

Zeus Federal 23 28 29 WXY 12H, API No. 30-015- pending

Zeus Federal 23 28 29 WA 14H, API No. 30-015- pending

Zeus Federal 23 28 29 WD 16H, API No. 30-015- pending

Zeus Federal 23 28 29 WXY 17H, API No. 30-015- pending

Zeus Federal 23 28 29 WD 20H, API No. 30-015- pending

(11) In Case No. 16077 (amended), Marathon proposes a 240-acre non-standard spacing and proration unit (Unit) for production of oil and gas from the Bone Spring formation comprised of the E/2 W/2 of Section 29 and the E/2 NW/4 of Section 32, Township 23 South, Range 28 East, NMPM, Eddy County, New Mexico to be dedicated to the following "Proposed Wells" to be completed at standard locations within the Unit:

Zeus Fee 23 28 29 TB 15H, API No. 30-015- pending

Zeus Fee 23 28 29 SB 19H, API No. 30-015- pending

(12) In Case No. 16300, Marathon proposes a 240-acre non-standard spacing and proration unit (Unit) for production of oil and gas from the Bone Spring formation comprised of the W/2 W/2 of Section 29, and the W/2 NW/4 of Section 32, Township 23 South, Range 28 East, NMPM, Eddy County, New Mexico to be dedicated to the following "Proposed Well" to be completed at a standard location within the Unit:

Zeus Federal 23 28 29 SB 13H, API No. 30-015-pending

(13) Marathon's amended applications imply there are no longer any disputes over the orientation, length or targeted intervals for the initial horizontal wells.

(14) One other party Lynn Charuk, an overriding royalty owner, appeared in the July 13, 2018 hearing to support BTA's applications.

(15) BTA appeared through counsel and presented testimony and exhibits from a Landman, a Geologist, and an Engineer as follows:

- a. BTA wishes to drill a 480-acre Wolfcamp spacing Unit and two (2) 240-acre Bone Spring spacing Units in the W/2 of Section 29 and the NW/4 of Section 32, Township 23 South, Range 28 East NMPM, Eddy County, New Mexico.
- b. BTA has approval to drill the Ogden 20509 29 32 FEDERAL COM No. 001H and Ogden 20509 29 32 FEDERAL COM No. 002H in the E/2 of Section 29 and the NE/4 of Section 32, Township 23 South, Range 28 East NMPM, Eddy County, New Mexico.
- c. BTA started the first trade discussions with Marathon in June 2017. Prior to that BTA had reached an agreement with Marathon's predecessor, BC Operating.
- d. As late as January 2018 Marathon was indicating to BTA they would either find a trade or participate and did not want BTA to have to do compulsory pooling.

- e. BTA has approved Federal drilling permits for its proposed Wolfcamp wells along with surface use agreements.
- f. BTA asks for an overhead supervision rate per well of \$8,000 per month while drilling and \$800 per month while producing. This is consistent with what other operators are charging in this area.
- g. BTA has recently completed two, two-mile wells in the Wolfcamp formation located approximately four miles west of the target area in these cases.
- h. BTA owns 70 percent of the working interests in all six of its proposed wells.
- i. Mr. Lynn Charuk, a petroleum geologist and an overriding royalty interest owner in Sections 29 and 32 in these cases, has indicated support for BTA as the operator in preference to Marathon in these proposed wells.
- j. The interests owned by Marathon are the only working interests that BTA seeks to pool in these applications.
- k. Notice by certified mail was provided to all uncommitted working interest owners in the proposed Units whose interests were evidenced by a conveyance instrument, either of record or known to Applicant when the Applications were filed, and to heirs known to Applicant of deceased persons who appear as owners in such instruments.
- l. Overriding royalty owners, whose whereabouts could not be ascertained, were noticed by publication as provided in Rule 19.15.4.12.B NMAC.

(16) Marathon appeared through counsel and presented testimony from a Landman, a Geologist, and an Engineer as follows:

- a. Marathon wishes to drill a 480-acre Wolfcamp spacing Unit and two 240-acre Bone Spring spacing Units in the W/2 of Section 29 and the NW/4 of Section 32, Township 23 South, Range 28 East NMPM, Eddy County, New Mexico.
- b. Marathon intends to drill a total of three Bone Spring wells and seven Wolfcamp wells, in three phases.
- c. All Marathon wells will be drilled North to South.
- d. No signed surface use agreements are in place currently for Marathon's proposed wells.
- e. Marathon has operated in the Delaware Basin in New Mexico since May of 2017.

- f. Marathon is in contests over operatorship in other cases with Ascent Energy, BTA, COG, Matador and Mewbourne.
- g. Marathon asks for an overhead supervision rate per well of \$7,500 per month while drilling and \$750 per month while producing. This is consistent with what other operators are charging in this area.
- h. Marathon's proposal is four lower Wolfcamp wells in the half section (density of eight wells per section). This contrasts with BTA's proposal of two lower Wolfcamp wells (density of four wells per section).
- i. Notice by certified mail was provided to all uncommitted working interest owners in the proposed Unit whose interests were evidenced by a conveyance instrument, either of record or known to Applicant when the Application was filed, and to heirs known to Applicant of deceased persons who appear as owners in such instruments.
- j. Overriding royalty owners whose whereabouts could not be ascertained were noticed by publication as provided in Rule 19.15.4.12.B NMAC.

(17) The negotiations between these two working interest owners have broken down, resulting in competing compulsory pooling applications. To protect correlative rights and prevent waste, the lands in question within Sections 29 and 32 should be operated by one party and the same arguments and conclusions as to which party should operate apply to each of these competing well proposals.

(18) The Division's task is to determine which development plan, BTA's or Marathon's, will most efficiently develop the subject acreage, prevent waste and protect correlative rights.

(19) The Division, in Orders No. R-14518 and R-14847, relying on Oil Conservation Commission Order No. R-10731-B, evaluated the following factors that should be considered in evaluating competing development plans in a compulsory pooling case:

(a) *A comparison of geologic evidence presented by each party as it relates to the proposed well location and the potential of each proposed prospect to efficiently recover the oil and gas reserves underlying the property.*

(b) *A comparison of the risk associated with the parties' respective proposal for the exploration and development of the property.*

(c) *A review of the negotiations between the competing parties prior to the applications to force pool to determine if there was a "good faith" effort.*

(d) *A comparison of the ability of each party to prudently operate the property and, thereby, prevent waste.*

(e) *A comparison of the differences in well cost estimates (AFE's) and other operational costs presented by each party for their respective proposals.*

(f) *An evaluation of the mineral interest ownership held by each party at the time the application was heard*

(g) *A comparison of the ability of the applicants to timely locate well sites and to operate on the surface (the "surface factor").*
[Order R-14518, issued on December 8, 2017, Paragraph 15, Page 6.]

Considering these factors and the testimony provided,
the Division finds as follows:

(20) Both BTA and Marathon propose to drill in essentially the same target rocks. The primary differences or real concerns in these cases revolve around optimal well density within the proposed spacing units and the timing of drilling and completion of wells. Marathon contends, that BTA's placement and sequencing of its proposed wells will cause waste, thereby impairing the economic merits of the prospect.

(21) The geologic risk of drilling and production is relatively low, and the porosity, water saturation, and thickness are consistent throughout the length of the proposed horizontal well units.

(22) BTA and Marathon disagree as to the number of wells appropriate to develop the lower Wolfcamp. Marathon proposes a density of eight wells per section (four such wells in the proposed Wolfcamp spacing unit). This contrasts to BTA's proposal of only two such wells. Marathon further asserts that production lost from drilling too few wells cannot be recovered by subsequent drilling due to inefficiencies of fracture-treated completions in infill wells, resulting in waste.

(23) Neither party presented sufficient empirical or modeling data to enable the Division to determine the appropriate density. BTA's proposed density of four wells per section is consistent with existing development in the area by other operators.

(24) The parties also disagree as to the appropriate density for development of the Third Bone Spring. Marathon contends three wells per section are appropriate. Because there are two existing wells in this zone on an adjacent section wholly owned by Marathon, it proposes only one such well on the two 160-acre proposed Bone Spring units. Presumably it will hold both Bone Spring units with its proposed Second Bone Spring wells to be drilled later. Though Marathon correctly asserts that a party's correlative rights extend only to its proportionate share of hydrocarbons that can be produced without waste,

Marathon has not presented sufficient empirical or modeling evidence to enable the Division to conclude that its preferred density is necessary to prevent waste.

(25) Marathon also contends that BTA's declared intention to complete wells in the upper Wolfcamp before drilling its Third Bone Spring wells will cause waste because the Wolfcamp completions will interfere with production from the subsequently completed Bone Spring wells. BTA responds that a "mechanical barrier" between the Wolfcamp and Bone Spring formations will prevent such interference. Each party defends its position with evidence from areas 30 to 45 miles from the proposed units. Marathon's witnesses testified to the existence of recent completions much closer to the subject area that its witnesses said supports its position, but Marathon declined to produce the actual data.

(26) The Division concludes that Marathon's evidence of waste it asserts will result from BTA's proposed operations, when considered in the light of the whole record, is not sufficiently persuasive to preclude consideration of other factors.

(27) BTA first proposed pooling of this prospect. Marathon initially did not object, but subsequently filed competing applications. The Division does not, however, find a lack of good faith on the part of either party.

(28) Both parties seem to have prepared for surface well locations and have permission to locate drilling rigs and facilities on the surface to drill, complete, and produce horizontal wells. Differences in requested overhead charges are relatively small in comparison to the overall budgets.

(29) Both BTA and Marathon are established operators, and each has the capacity to conduct the operations it proposes. However, and this is critical, BTA has a substantially larger ownership position in each of the three proposed units. BTA owns an average of 70% of the working interest in the proposed units; Marathon owns only 30%. Overriding royalty owner, Lynn Charuk, who testified that he owns eight percent of the total royalty interests and was the only other owner of the mineral estate who appeared in the cases, supports BTA's applications.

(30) Marathon's applications in Cases No. 16076, 16077, and 16300 should be denied.

(31) BTA's applications in Cases No. 16024, 16161, and 16162 should be approved as follows: The portion of the cases asking for a non-standard spacing and proration unit is no longer needed and should be dismissed.

(32) The application in each of the three BTA cases was filed prior to the June 26, 2018 date when the horizontal rule amendments became effective (see Order No. R-14689). None of the three proposed wells in the Marathon cases was permitted prior to that date.

(33) The acreage dedicated to a horizontal well must consist of a "horizontal spacing unit" as defined in Subsection F of 19.15.16.7 NMAC. Pursuant to Subsection B of 19.15.16.15 NMAC, effective June 26, 2018, the proposed horizontal oil wells will each be dedicated to a standard Horizontal Spacing Unit. Each of the Units described in Finding Paragraphs (7), (8) and (9) is such a standard horizontal spacing unit under the new rules.

(34) The result of dedication of a standard horizontal spacing unit to each of BTA's proposed wells in this order is exactly the same as if the order provided for establishment of a non-standard spacing unit for each proposed well under rules in force prior to June 26, 2018, which would then become a standard horizontal spacing unit on the effective date of new Rule 19.15.16.15 E (4) NMAC [Transitional provisions].

(35) In each of the three BTA cases, BTA Oil Producers, LLC (OGRID*260297) should be designated as the operator of the Proposed Wells and Unit.

(36) 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.

(37) BTA is owner of an oil and gas working interest within the Units. BTA has the right to drill and proposes to drill the Proposed Wells to a common source of supply within the Units at the described depths and locations. Applicant should be allowed a one year period to complete at least one of the wells after commencing drilling of the wells.

IT IS THEREFORE ORDERED THAT:

(1) The applications of Marathon Oil Permian, LLC in Cases No. 16076, 16077, and 16300 are denied.

(2) The applications of BTA Oil Producers, LLC in Cases No. 16024, 16161, and 16162 are approved as detailed below.

(3) All uncommitted interests, whatever they may be, in the oil and gas in the following three separately described Horizontal Spacing Units, all located in Township 23 South, Range 28 East, NMPM, Eddy County, New Mexico, are hereby pooled.

(4) The portion of the application in this case asking for approval of a non-standard spacing and proration unit is dismissed.

(5) In Case No. 16024, all uncommitted interests are consolidated in a 480-acre horizontal gas spacing unit for oil and gas production from the Wolfcamp formation [Purple Sage; Wolfcamp (Gas) Pool], comprised of the W/2 of Section 29 and the NW/4 of Section 32, Township 23 South, Range 28 East, NMPM, Eddy County, New Mexico. This unit shall be dedicated to BTA's following proposed 1.5-mile horizontal wells:

Ogden 20509 32-29 Federal Com Well No. 5H, API No. 30-015-44339

SHL: 2472 feet from the North line and 1357 feet from the West line,
(Unit F) of Section 32, Township 23 South, Range 28 East, NMPM,
Eddy County, New Mexico.

BHL: 200 feet from the North line and 1980 feet from the West line
(Unit C) of Section 29, Township 23 South, Range 28 East, NMPM,
Eddy County, New Mexico.

Ogden 20509 32-29 Federal Com Well No. 6H, API No. 30-015-44340

SHL: 2472 feet from the North line and 1327 feet from the West-line,
(Unit E) of Section 32, Township 23 South, Range 28 East, NMPM,
Eddy County, New Mexico.

BHL: 200 feet from the North line and 1950 feet from the West line
(Unit C) of Section 29, Township 23 South, Range 28 East, NMPM,
Eddy County, New Mexico.

(6) The Wells shall be drilled horizontally and will target the Wolfcamp XY zone.

(7) In Case No. 16161, all uncommitted interests are pooled in a standard 240-acre horizontal oil spacing unit (Unit) for production of oil and gas from the Bone Spring formation comprised of the W/2 W/2 of Section 29 and the W/2 NW/4 of Section 32 to be dedicated to BTA's following "Proposed Well" to be completed at a standard location within the Unit:

Ogden 20509 29-32 Federal Com Well No. 9H, API No. 30-015- pending

SHL: NW/4 NW/4 (Unit D) of Section 29, Township 23 South, Range 28 East, NMPM, Eddy County, New Mexico.

BHL: SW/4 NW/4 (Unit E) of Section 29, Township 23 South, Range 28 East, NMPM, Eddy County, New Mexico.

(8) In Case No. 16162, all uncommitted interests are pooled in a standard 240-acre horizontal oil spacing unit (Unit) for production of oil and gas from the Bone Spring formation comprised of the W/2 W/2 of Section 29 and the W/2 NW/4 of Section 32 to be dedicated to BTA's following "Proposed Well" to be completed at a standard location within the Unit:

Ogden 20509 29-32 Federal Com Well No. 10H, API No. 30-015- pending

SHL: NE/4 (Unit C) of Section 29, Township 23 South, Range 28 East, NMPM, Eddy County, New Mexico.

BHL: SE/4 NW/4 (Unit F) of Section 29, Township 23 South, Range 28 East, NMPM, Eddy County, New Mexico.

The following shall apply respectively to each of the three (3) approved Units

(9) BTA Oil Producers, LLC (OGRID 260297) is hereby designated as the operator of the Proposed Wells and the Units.

(10) If any of the Well(s) is completed at an unorthodox location under applicable rules in effect at the time such well is completed, the operator shall provide notice and apply administratively for a location exception prior to producing the well.

(11) The operator of the Unit shall commence drilling the Proposed Well on or before February 29, 2020 and shall thereafter continue drilling that Proposed Well with due diligence to test the target formation extending out to the proposed true vertical and measured depths.

(12) In the event the operator does not commence drilling the Proposed Wells on or before January 31, 2020, then the compulsory pooling provision of this order shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause demonstrated by satisfactory evidence.

(13) In the event the operator does not commence completion within one year after the commencement of drilling pursuant to this order, then the compulsory pooling provisions of this order shall be of no effect unless operator obtains a written time extension from the Division Director pursuant to a written request stating its reasons for such extension and attaching satisfactory evidence.

(14) The operator shall provide a copy of any request for extension of time to drill or complete any well filed with the Director pursuant to this order to each pooled working interest owner who has elected to participate in the drilling of any well that is subject of the request. Such copy shall be sent at the same time the request is sent to the Director.

(15) Upon final plugging and abandonment of the Proposed Wells and any other well drilled on the Unit pursuant to Division Rule 19.15.13.9 NMAC, the pooled Unit shall terminate, unless this Order has been amended to authorize further operations.

(16) Infill wells within the Unit shall be subject to the terms and conditions of this order.

(17) 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 a separate itemized schedule of estimated costs of drilling, completing and equipping the Proposed Well ("well costs").

(18) Within 30 days from its receipt of the schedule of estimated well costs for any well, 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 for any well shall remain liable for operating costs but shall not be liable for risk charges for such well. 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."

(19) 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 of each well within 180 days following completion of the Proposed 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 public notice and hearing.

(20) Within 60 days following determination of reasonable well costs for any well, any pooled working interest owner who has paid its share of estimated costs of such well or wells 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.

(21) The operator is hereby authorized to withhold the following costs and charges from each non-consenting working interest owner's share of production from each well:

- a. The proportionate share of reasonable well costs attributable to such interest;
- b. As a charge for the risk involved in drilling the well, 200% of the above costs.

(22) During the cost recovery period, the operator shall furnish to the Division and to each known non-consenting pooled working interest owner, annually, and within 90 days after payout occurs, a schedule of all revenues attributable to each proposed well, and all charges for supervision and operating costs charged against such revenues. Operating costs shall include all reasonable costs incurred for the maintenance and operation of the well, except for "well costs" reported pursuant to prior ordering paragraphs, that are properly chargeable to the joint account pursuant to COPAS procedures. If no objection to the operating costs is received by the Division, and the Division has not objected, within 45 days following receipt of any schedule, the costs shall be deemed to be the reasonable operating costs. If there is an objection to the accuracy or reasonableness of operating costs reported within the 45-day period, the Division will determine reasonable operating costs after public notice and hearing.

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

(24) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$8,000 per month, per well, while drilling and \$800 per month, per well, while producing, provided that these rates may, at the election of the operator, be adjusted annually pursuant to the overhead adjustment provisions of the COPAS form titled "*Accounting Procedure-Joint Operations*." The operator is authorized to withhold from each pooled working interest owner's share of production from each well the proportionate share of both the supervision charges and the actual expenditures required for operating such well, not more than what are reasonable.

(25) Except as provided above, all proceeds of production from the Proposed Well that are not disbursed for any reason shall be held for the account of the person or persons entitled thereto pursuant to the Oil and Gas Proceeds Payment Act (NMSA 1978 Sections 70-10-1 through 70-10-6, as amended). If not disbursed, such proceeds shall be turned over to the appropriate authority as and when required by the Uniform Unclaimed Property Act (NMSA 1978 Sections 7-8A-1 through 7-8A-31, as amended).

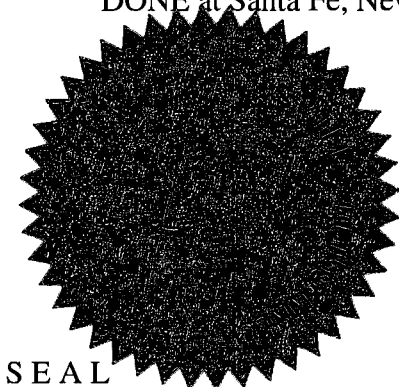
(26) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for allocating costs and charges under this Order. Any costs that are to be paid out of production shall be withheld only from the working interests' share of production,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

(27) Should all the parties to this compulsory pooling order reach voluntary agreement after entry of this order, this order shall thereafter be of no further effect.

(28) The operator of the well and the Unit shall notify the Division in writing of the subsequent voluntary agreement of any party subject to the compulsory pooling provisions of this order.

(29) 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

GABRIEL WADE
Acting Director