

**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. 14526
ORDER NO. R-13315**

**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 August 19, 2010, at Santa Fe, New Mexico, before Examiner David K. Brooks.

NOW, on this 17th day of September, 2010, 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 Mesaverde and Dakota formations underlying the N/2 of irregular Section 2, Township 29 North, Range 8 West, NMPM, in San Juan County, New Mexico, to form standard 326.92-acre, more or less, gas spacing and proration units in the Blanco-Mesaverde Gas Pool (72319), and in the Basin-Dakota Gas Pool (71599).

(3) The above-described units ("the Units") are to be dedicated to Applicant's proposed State Com. SRC Well No. 1B (API No. 30-045-35038) and to Applicant's proposed State Com. SRC Well No. 1C (API No. 30-045-35061) (the "proposed wells") to be drilled at standard locations within the Units, as follows:

State Com. SRC Well No. 1B

SL: 1150 feet FNL & 1085 feet FEL

Lot 1, Section 2-29N-8W
BHL: 960 feet FNL & 2310 feet FEL
Lot 2, Section 2-29N-8W

State Com. SRC Well No. 1C
1705 feet FNL & 2045 feet FWL
Unit F, Section 2-29N-8W

(4) 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.

(5) 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.

(6) As to the proposed Dakota Unit, there are interest owners that have not agreed to pool their interests. Some owners could not be located.

(7) As to the proposed Mesverde Unit, all interest owners are successor parties to a Gas Operating Agreement dated May 19, 1952, covering this unit (the 1952 Agreement). However, the 1952 Agreement, although it provides for drilling of additional wells on the Unit if all parties join therein, does not provide for the contingency that one party may drill a well in which other parties do not join. The testimony presented by Applicant indicates that, in fact, some of the parties have not agreed to join in the proposed wells. Hence there is no agreement consolidating the interests in the Mesaverde Unit that applies to the drilling of the proposed wells, and the Division accordingly has authority to order compulsory pooling of the Mesaverde Unit for this purpose.

(8) 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.

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

(10) 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 wells.

(11) Reasonable charges for supervision (combined fixed rates) should be fixed at \$7,500 per month, per well, while drilling and \$750 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, all uncommitted interests, whatever they may be, in the oil and gas in the Mesaverde and Dakota formations underlying the N/2 of irregular Section 2, Township 29 North, Range 8 West, NMPM, in San Juan County, New Mexico, are pooled to form standard 326.92-acre, more or less, gas spacing and proration units in the Blanco-Mesaverde Gas Pool (72319), and in the Basin-Dakota Gas Pool (71599).

(2) The Units shall be dedicated to Applicant's proposed State Com. SRC Well No. 1B (API No. 30-045-35038) and to Applicant's proposed State Com. SRC Well No. 1C (API No. 30-045-35061) (the "proposed wells") to be drilled at standard locations within the Units, as follows:

State Com. SRC Well No. 1B

SL: 1150 feet FNL & 1085 feet FEL

Lot 1, Section 2-29N-8W

BHL: 960 feet FNL & 2310 feet FEL

Lot 2, Section 2-29N-8W

State Com. SRC Well No. 1C

1705 feet FNL & 2045 feet FWL

Unit F, Section 2-29N-8W

(3) The operator of the Units shall commence drilling the first of the proposed wells on or before September 15, 2011, and shall thereafter continue drilling said well with due diligence to at least a depth sufficient to test the Dakota formation. Applicant shall commence drilling of the second of the proposed wells within 90 days after completion of the first of the proposed wells, 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 first of the proposed wells on or before September 15, 2011, 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) If neither of the proposed wells is drilled and completed within 120 days after commencement of the first proposed well, 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 both of the proposed wells 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 Mesaverde and Dakota formations as follows:

(a) Costs of drilling shall be allocated 40% to the Mesverde and 60% 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) 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.

(11) 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."

(12) 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.

(13) 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.

(14) 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.

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

(16) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$7,500 per month, per well, while drilling and \$750 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.

(17) Except as provided in Paragraphs (14) and (16) 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.

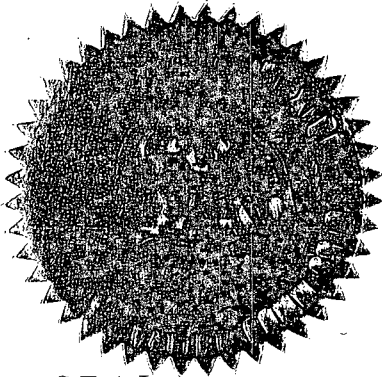
(18) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working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

(19) 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.

(20) 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.

(21) 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, P.E.
Acting Director