

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:

APPLICATION OF YATES PETROLEUM CORPORATION FOR
COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO.

CASE NO. 14597
ORDER NO. R-13364

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on February 17, 2011, at Santa Fe, New Mexico, before Examiner Richard Ezeanyim.

NOW, on this 24th day of February, 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) Yates Petroleum Corporation ("Yates" or "Applicant"), seeks an order pooling all uncommitted interests from the surface down to the base of the Cisco formation underlying Lots 3, 4, E/2 SW/4, SE/4 (S/2 equivalent) of Section 30, Township 19 South, Range 25 East, NMPM, Eddy County, New Mexico, as follows:

(a) Lots 3, 4, E/2 SW/4, SE/4 (S/2 equivalent) of Section 30, containing 322.76 acres, more or less, to form a standard 320-acre, more or less, gas spacing unit for all formations or pools spaced on 320 acres within this vertical extent;

(b) the SE/4 of Section 30 to form a standard 160-acre spacing and proration unit for any and all formations and/or pools developed on 160-acre spacing within this vertical extent; and

(c) the SW/4 SE/4 of Section 30 to form a standard 40-acre oil spacing and proration unit for all formations or pools spaced on 40 acres within this vertical extent.

(3) The above-described spacing and proration units (the "Units") are to be dedicated to Applicant's Dagger Draw 30SE Federal Com. Well No. 11 (**API No. 30-015-26763**) (the "proposed well"), formerly known as the North Dagger Draw Upper Penn Unit Well No. 131 which is located at an orthodox location 660 feet from the South line and 1980 feet from the East line (Unit O) of said Section 30. The well was originally drilled as a Canyon test, but the well has been depleted in the Canyon formation, and Yates now proposes to test the Wolfcamp dolomite in the interval from 5,824 feet down to 5,862 feet subsurface. Yates believes that the well may be completed as a gas well, and if the well is a gas well, the well will require the dedication of a 320-acre spacing and proration unit.

(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 and is the designated operator of separate joint operating agreements which are currently in force covering the SE/4 and SW/4 of Section 30. Applicant has the right to recomplete the well to a common source of supply within the S/2 of Section 30.

(6) Notice of the compulsory pooling application was provided to those parties not already committed to the recompletion of the proposed well.

(7) Nearburg Exploration Company, L.L.C. appeared at the hearing but did not oppose the application. No other party appeared at the hearing or otherwise opposed the granting of the application.

(8) There are interest owners in the Units that have not agreed to pool their interests, however, all interest owners were located and there are no title disputes.

(9) 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.

(10) Applicant should be designated the operator of the subject well and of the Units.

(11) 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.

(12) Reasonable charges for supervision (combined fixed rates) should be fixed at \$5,400 per month while drilling and \$540 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 Yates Petroleum Corporation, all uncommitted interests, whatever they may be, in the oil and gas from the surface down to the base of the Cisco formation underlying Lots 3, 4, E/2 SW/4, SE/4 (S/2 equivalent) of Section 30, Township 19 South, Range 25 East, NMPM, Eddy County, New Mexico, are hereby pooled in the following manner:

(a) Lots 3, 4, E/2 SW/4, SE/4 of Section 30, containing 322.76 acres, more or less, to form a standard 320-acre, more or less, gas spacing unit for all formations or pools spaced on 320 acres within this vertical extent;

(b) the SE/4 of Section 30 to form a standard 160-acre spacing and proration unit for any and all formations and/or pools developed on 160-acre spacing within this vertical extent; and

(c) the SW/4 SE/4 of Section 30 to form a standard 40-acre oil spacing and proration unit for all formations or pools spaced on 40 acres within this vertical extent.

(2) The above-described spacing and proration units (the "Units") are to be dedicated to Applicant's Dagger Draw 30SE Federal Com. Well No. 11 (formerly known as the North Dagger Draw Upper Penn Unit Well No. 131) (the "Well") which is located at an orthodox location 660 feet from the South line and 1980 feet from the East line (Unit O) of said Section 30, which Yates proposes to recomple to test all formations from the surface down to the base of the Cisco formation.

(3) The S/2 of Section 30, Township 19 South, Range 25 East, NMPM, Eddy County, New Mexico, shall be dedicated to the well should the well become a gas well.

(4) Yates Petroleum Corporation (**OGRID 25575**) is hereby designated the operator of the well and of the Units.

(5) The operator of the Units shall commence operations for recompletion of the Well on or before February 28, 2012, and shall thereafter continue such operations on the Well with due diligence to test the Wolfcamp and Cisco formations.

(6) In the event the operator does not commence recompletion of the Well on or before February 28, 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.

(7) Should the Well not be drilled and completed within 180 days after commencement thereof, 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 completion of the Well for good cause shown by satisfactory evidence.

(8) Upon final plugging and abandonment of the Well and any other well drilled on 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.

(9) 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). 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 recompleting and equipping the Well ("well costs").

(10) 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."

(11) 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 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.

(12) 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.

(13) 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 well, 200% of the above costs.

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

(15) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$5,400 per month while drilling and \$540 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.

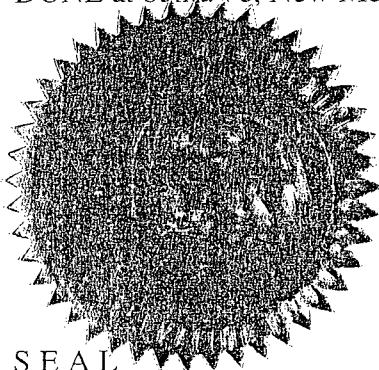
(16) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working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

(17) 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.

(18) The operator of the Well 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.

(19) 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.



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


DANIEL SANCHEZ
Acting Director