

STATE OF NEW MEXICO
DEPARTMENT OF ENERGY, MINERALS AND NATURAL RESOURCES
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING THE:

APPLICATION OF YATES PETROLEUM CORPORATION FOR A NON-
STANDARD SPACING AND PRORATION UNIT AND COMPULSORY
POOLING, EDDY COUNTY, NEW MEXICO.

CASE NO. 14598
ORDER NO. 13378

ORDER OF THE DIVISION

BY THE DIVISION:

This matter 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 4th day of April, 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:

(a) Creating a non-standard 160-acre, more or less, oil spacing and proration unit (the "Unit") or project area for oil production from the Cisco formation, North Dagger Draw-Upper Pennsylvanian Pool (15472) from the Dee 36SE State Com. Well No. 7H (**API No. 30-025-26195**) (formerly known as the Dee 36SW State Com. Well No. 2), within the S/2 S/2 of Section 36, Township 19 South, Range 24 East, NMPM, Eddy County, New Mexico; and

(b) Pooling all uncommitted interests within this unit from the surface to the Cisco formation.

(3) The Unit or project area is to be dedicated to Applicant's Dee 36SE State Com. Well No. 7H (the "proposed well"), to be re-entered and drilled to an approximate depth of 7,500 feet (estimated measured depth of approximately 11,255 feet), and then in an easterly direction penetrating the Cisco formation 940 feet from the South line and 1204 feet from the West line (Unit M) with a terminus at 940 feet from the South line and 660 feet from the East line (Unit P) of Section 36, to test the Cisco formation underlying the proposed project area.

(4) Yates believes that there is potential to increase production and recover additional hydrocarbons by drilling horizontally in the Cisco formation. The horizontal well is expected to produce from all four of the penetrated quarter-quarter sections within this proposed non-standard unit.

(5) The S/2 S/2 of Section 36 is comprised of two state leases divided into two tracts. Within the proposed Unit, some parties owning interests have chosen not to participate in the drilling of this horizontal well.

(6) Notice of the proposed 160-acre, more or less, non-standard oil spacing and proration unit was provided to all surrounding affected parties within the Cisco formation.

(7) Notice of the compulsory pooling application was provided to those parties not already committed to the drilling of this horizontal well.

(8) No other party appeared at the hearing, or otherwise opposed the granting of this application.

(9) Approval of the proposed non-standard 160-acre, more or less, spacing and proration unit will enable Applicant to drill a horizontal well that will efficiently produce the reserves underlying the Unit, thereby preventing waste, and will not impair correlative rights.

(10) 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.

(11) Applicant is an owner of an oil and gas working interest within the Unit and is the operator under separate joint operating agreements covering the SW/4 and SE/4 of Section 36. Applicant has the right to drill at the proposed location.

(12) There are interest owners in the Unit that have not agreed to pool their interests; however, some interest owners were unlocatable.

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

(14) Yates Petroleum Corporation (**OGRID 25575**) should be designated the operator of the proposed well and of the Unit.

(15) 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.

(16) 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) A non-standard 160-acre, more or less, oil spacing and proration unit (the "Unit") or project area is hereby established for oil and gas production from the Cisco formation, North Dagger Draw-Upper Pennsylvanian Pool underlying the S/2 S/2 of Section 36, Township 19 South, Range 24 East, NMPM, Eddy County, New Mexico.

(2) All uncommitted interests, whatever they may be, in the oil and gas within the Cisco formation underlying this Unit are hereby pooled.

(3) The Unit or project area shall be dedicated to Applicant's Dee 36SE State Com. Well No. 7H (the "proposed well"), to be re-entered and drilled to an approximate depth of 7,500 feet (estimated measured depth of approximately 11,255 feet), and then in an easterly direction penetrating the Cisco formation 940 feet from the South line and 1204 feet from the West line (Unit M) with a terminus at 940 feet from the South line and 660 feet from the East line (Unit P) of Section 36, to test the Cisco formation underlying the proposed project area.

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

(5) The operator of the Unit shall commence drilling the proposed horizontal well on or before March 30, 2012, and shall thereafter continue drilling the well with due diligence in a horizontal direction to test the Cisco formation.

(6) In the event the operator does not commence drilling the proposed well on or before March 30, 2012, Ordering Paragraphs (1) and (2) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause demonstrated by satisfactory evidence.

(7) If the proposed well is not completed in all of the quarter-quarter sections included in the Unit within 180 days after commencement of drilling, then the operator shall apply to the Division for an amendment to this Order to contract the Unit so that it includes only those quarter-quarter sections in which the well is completed.

(8) Should the proposed well not be drilled and completed within 180 days after commencement thereof, then Ordering Paragraphs (1), (2), and (3) shall be of no further effect, and the unit and project area created by this order shall terminate, unless operator appears before the Division Director and obtains an extension of the time for completion of the proposed well for good cause shown by satisfactory evidence:

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

(10) 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 costs of drilling, completing and equipping the proposed well ("well costs").

(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 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.

(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 well, 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 \$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.

(17) 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.

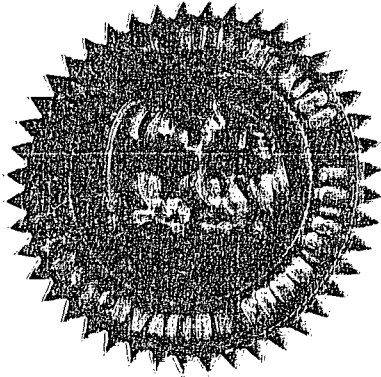
(18) Except as provided in Paragraphs (14) and (16) above, all proceeds from production from the well that are not disbursed for any reason shall be placed in escrow in Eddy County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership. The operator shall notify the Division (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) 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 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.

(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

A handwritten signature in dark ink, appearing to read "Daniel Sanchez", written over a horizontal line.

DANIEL SANCHEZ
Acting Director