

**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. 12675
ORDER NO. R-11667**

**APPLICATION OF DAVID H. ARRINGTON OIL AND GAS, INC. FOR
COMPULSORY POOLING AND AN UNORTHODOX GAS WELL LOCATION,
LEA COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on May 31, 2001, at Santa Fe, New Mexico before Examiner Michael E. Stogner.

NOW, on this 10th day of October, 2001, 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 its subject matter.

(2) The applicant, David H. Arrington Oil and Gas, Inc. ("Arrington"), seeks an order pooling all uncommitted mineral interests from the surface to the base of the Mississippian formation underlying Lots 1, 2, 3, and 4 and the E/2 W/2 (W/2 equivalent) of Section 31, Township 16 South, Range 36 East, NMPM, Lea County, New Mexico, to form a 308.84-acre stand-up gas spacing and proration unit for any and all formations and pools developed on 320-acre spacing within that vertical extent, which presently include the Undesignated East Shoe Bar-Chester Gas Pool.

(3) This unit is to be dedicated to Arrington's proposed Double Hackle "31" State Com. Well No. 1 or Double Hackle Peacock Well No. 1 to be drilled at an unorthodox gas well location 2400 feet from the South line and 1340 feet from the West line (Unit K) of Section 31.

(4) Two or more separately owned tracts are embraced within this unit, and/or there are owners of royalty interests and/or undivided interests in oil and gas minerals in one or more tracts included in the unit which are separately owned.

(5) Applicant is an owner of an oil and gas working interest within the unit and therefore has the right to develop this acreage and recover gas underlying the same.

(6) There are interest owners in the proposed unit that have not agreed to pool their interests.

(7) Arrington owns 100% of the working interest in the State Lease (New Mexico State Land Office Lease No. B02330) underlying the 154.11 acres that comprise Lots 1 and 2 and the E/2 NW/4 (NW/4 equivalent) of Section 31. The 154.73 acres comprising Lots 3 and 4 and the E/2 SW/4 (SW/4 equivalent) of Section 19 are a separate State Lease (New Mexico State Land Office Lease No. V00788) with the working interest split between Pure Resources, Inc. of Midland, Texas with an undivided 75%, and Kriti Exploration, Inc. of Houston, Texas with the remaining 25%. Pure Resources, Inc. appeared through legal counsel at the hearing but offered no testimony.

(8) The two primary zones of interest for the proposed well are the "Brunson Sand" within the lower Atoka formation and the "Austin Carlisle Sand" in the Morrow formation. The applicant failed to show that its proposed unorthodox location was geologically superior to other locations within the proposed 308.84-acre unit considered to be standard. Arrington's proposed location being unnecessary should therefore be denied.

(9) However, the compulsory pooling portion of this application should be approved provided the location is standard, pursuant to Division Rule 104.D (2) (a), within the proposed 308.84-acre gas spacing unit.

(10) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste, and afford to the owner of each interest in this 308.84-acre gas spacing unit the opportunity to recover or receive without unnecessary expense its just and fair share of the gas underlying this unit, the application should be approved by pooling all mineral interests, whatever they may be, within this unit.

(11) Arrington should be designated the operator of the subject 308.84-acre unit and well to be drilled at a standard gas well location thereon.

(12) After pooling, uncommitted working interest owners are referred to as non-consenting working interest owners. ("Uncommitted working interest owners" are owners of working interests within the unit, including unleased mineral interests, who are not parties to an operating agreement governing the unit.) Any non-consenting working interest owner should be afforded the opportunity to pay its share of estimated well costs to the operator in

lieu of paying its share of reasonable well costs out of production.

(13) Any non-consenting 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 the drilling of the well at a standard gas well location.

(14) Any non-consenting interest owner should be afforded the opportunity to object to the actual well costs, but actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(15) Following determination of reasonable well costs, any non-consenting working interest owner who has paid its share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(16) Reasonable charges for supervision (combined fixed rates) should be fixed at \$6,000.00 per month while drilling and \$600.00 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*." The operator should be 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 each non-consenting working interest.

(17) Except as noted in Finding Paragraphs No. (13) and (16) above, all proceeds from production from the well at a standard gas well location that are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(18) If the operator fails to commence drilling operations on the well at a standard gas well location to which this unit is dedicated on or before December 31, 2001, or if all the parties to this forced pooling reach voluntary agreement subsequent to the entry of this order, this order should become of no effect.

(19) The operator may request from the Division Director an extension of the December 31, 2001 deadline for good cause.

(20) The operator should notify the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

IT IS THEREFORE ORDERED THAT:

(1) The application of David H. Arrington Oil and Gas, Inc. ("Arrington") to drill its proposed Double Hackle "31" State Com. Well No. 1 or Double Hackle Peacock Well No. 1 at an unorthodox gas well location 2400 feet from the South line and 1340 feet from the West line (Unit K) of Section 31, Township 16 South, Range 36 East, NMPM, Lea County, New Mexico, is hereby denied.

(2) Pursuant to Arrington's compulsory pooling application, all uncommitted mineral interests, whatever they may be, from the surface to the base of the Mississippian formation underlying Lots 1, 2, 3, and 4 and the E/2 W/2 (W/2 equivalent) of Section 31, Township 16 South, Range 36 East, NMPM, Lea County, New Mexico, shall be pooled to form a 308.84-acre stand-up gas spacing and proration unit for any and all formations and pools developed on 320-acre spacing within that vertical extent, which presently include the Undesignated East Shoe Bar-Chester Gas Pool. This unit shall be dedicated to a well to be drilled at a location considered to be standard pursuant to Division Rule 104.C(2)(a).

(3) Arrington is hereby designated the operator of the subject 308.84-acre gas spacing unit and well to be drilled at a standard gas well location thereon.

(4) The operator shall commence drilling the proposed well at a standard gas well location on or before December 31, 2001, and shall thereafter continue drilling the well with due diligence in order to test the Mississippian formation.

(5) In the event the operator does not commence drilling the well at a standard gas well location on or before December 31, 2001, Ordering Paragraph (2) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause.

(6) Should the well not be drilled to completion, or be abandoned, within 120 days after commencement thereof, the operator shall appear before the Division Director and show cause why Ordering Paragraph (2) should not be rescinded.

(7) After pooling, uncommitted working interest owners are referred to as non-consenting working interest owners. After the effective date of this order, the operator shall furnish the Division and each known non-consenting working interest owner in the subject 308.84-acre unit an itemized schedule of estimated well costs.

(8) Within 30 days from the date the schedule of estimated well costs is

furnished, any non-consenting 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.

(9) The operator shall furnish the Division and each known non-consenting working interest owner an itemized schedule of actual well costs within 90 days following completion of the well at a standard gas well location. 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; provided, however, that 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.

(10) Within 60 days following determination of reasonable well costs, any non-consenting 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 its share of the amount that estimated well costs exceed reasonable well costs.

(11) 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 who has not paid its share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished; and
- (b) as a charge for the risk involved in drilling the well at a standard gas well location, 200% of the above costs.

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

(13) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$6,000.00 per month while drilling and \$600.00 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 each non-consenting working interest.

(14) Except as provided in Ordering Paragraphs No. (11) and (13) above, all proceeds from production from the well at a standard gas well location 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.

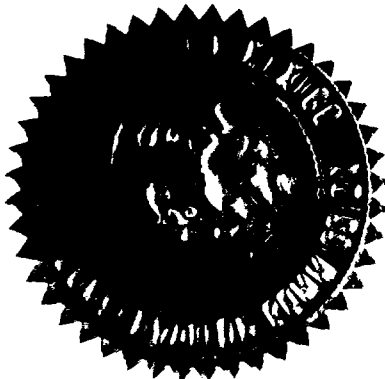
(15) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working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

(16) 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.

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

(18) 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.



S E A L

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

Lori Wrotenbery
LORI WROTENBERY
Director