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William F. Carr

wcarr@hollandhart.com

September 3, 2002

VIA HAND DELIVERY

Lori Wrotenbery, Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

02 SEP - 3 AM 10:10

OIL CONSERVATION DIV.

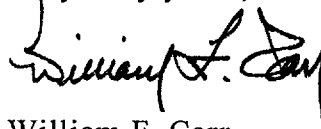
Re: Oil Conservation Division Case Nos. 12535, 12567, 12569, and
12590 de novo and Case 12738 and 12794 (Ocean Energy
Resources, Inc. / Yates Petroleum Corporation).

Dear Ms. Wrotenbery:

The above referenced cases are scheduled for hearing before the Oil Conservation Commission this month. The cases were scheduled for six months in February 2002, and the purpose of this letter is to request an additional six month continuance. Both Yates and Ocean plan to drill wells on the acreage which is the subject of this hearing. However, neither would drill this well at this time due to the current status of gas prices and both support this request for an additional six month continuance of this hearing.

James Bruce, Attorney for Ocean Energy Resources, Inc. concurs in this request and both parties agree that the underlying order should remain stayed pending the de novo hearing and Commission order in these cases.

Very truly yours,



William F. Carr
Attorney for Yates Petroleum
Corporation

cc: James Bruce, Esq.
Mr. Randy Patterson

HOLLAND & HART LLP
AND
CAMPBELL & CARR
ATTORNEYS AT LAW

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January 16, 2002

OIL CONSERVATION DIV.

02 JAN 16 PM 3:37

HAND DELIVERED

Ms. Lori Wrotenbery
Oil Conservation Division
New Mexico Energy, Minerals and
Natural Resources Department
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

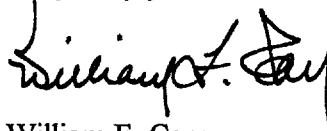
Re: Case Nos. 12535, 12567, 12569, 12590, 12738, and 12794 -- Order No. R11566:
Applications of Yates Petroleum Corporation and Ocean Energy Resources,
Inc. for compulsory pooling and four non-standard oil and gas spacing and
proration units, Lea County, New Mexico.

Dear Ms. Wrotenbery:

Yates Petroleum Corporation respectfully request that the Oil Conservation Commission hearing on the above-referenced applications be set for February 15, 2002. Mr. James Bruce, attorney for Ocean Energy Resources, Inc. does not oppose this request.

Your attention to this matter is appreciated.

Very truly yours,



William F. Carr

WFC/keh

cc: James Bruce, Esq.

JAMES BRUCE
Attorney at Law
Post Office Box 1056
Santa Fe, New Mexico 87504
Telephone: (505) 982-2043
Fax: (505) 982-2151

/ 2569

FAX COVER SHEET

DELIVER TO: Stephen C. Ross

COMPANY: Oil Conservation Division

CITY: Santa Fe, New Mexico

FAX NUMBER: (505) 476-3462

NUMBER OF PAGES: 2 (Including Cover Sheet)

DATE SENT: 10/11/01

MEMO:

JAMES BRUCE
ATTORNEY AT LAW

POST OFFICE BOX 1056
SANTA FE, NEW MEXICO 87504

3304 CAMINO LISA
HYDE PARK ESTATES
SANTA FE, NEW MEXICO 87501

(505) 962-2043
(505) 962-2151 (FAX)

October 11, 2001

Via Fax and U.S. Mail

Lori Wrotenbery
Oil Conservation Commission
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

Re: Case Nos. 12535, 12567, 12569, and 12590 *de novo*, and
Case No. 12738 (Ocean Energy Resources, Inc. ("Ocean")/
Yates Petroleum Corporation ("Yates"))

Dear Ms. Wrotenbery:

This letter is in response to Mr. Carr's letter of October 11, 2001. Ocean does not object to a continuance of the above cases.

Having said that, Ocean states that Yates knew of Ocean's agreement to move the well location to Lot 3 two months ago. In addition, the exhibits Ocean submitted to the Commission, and traded with Yates, are the exhibits it intended to use at the hearing tomorrow to support the Lot 3 location. However, if Yates needs more time, so be it.

Very truly yours,



James Bruce

Attorney for Ocean Energy Resources, Inc.

cc: Stephen C. Ross (via fax)
William F. Carr (via fax)

HOLLAND & HART LLP
AND
CAMPBELL & CARR
ATTORNEYS AT LAW

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October 10, 2001

HAND DELIVERED

Ms. Lori Wrotenbery, Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
1200 South Saint Francis Drive
Santa Fe, New Mexico 87505

OIL CONSERVATION DIV.
01 OCT 10 PM 3:37

Re: Case No. 12535, Application of Ocean Energy Resources, Inc., *de novo*
Case No. 12567, Application of Ocean Energy Resources, Inc., *de novo*
Case No. 12569, Application of Yates Petroleum Corporation, *de novo*
Case No. 12590, Application of Yates Petroleum Corporation, *de novo*
Case No. 12738, Application of Yates Petroleum Corporation.

Dear Ms. Wrotenbery;

Yates Petroleum Corporation requests that the Commission hearing in the above-referenced cases currently scheduled for October 12, 2001 be continued until the January 2002 Commission hearing docket.

As you are aware, with less than 48 hours remaining until these cases are scheduled for hearing, it is uncertain what well location Ocean is proposing to drill. If it is in the location identified in the Pre-hearing Statement filed on October 5th, Yates objects on the grounds that Ocean has not previously proposed this location. Furthermore, the exhibits filed by Yates and Arrington on October 5th were based on the assumption that Ocean was planning to drill at the location it had proposed in 2000 and the location which was the subject of the January 2001 examiner hearing. We simply cannot now proceed to hearing without knowing which location Ocean desires to drill.

If Ocean decides to proceed with the location it originally proposed in Lot 4, the exhibits it has filed are for a location in Lot 3. Having provided copies of our exhibits to Ocean, we are placed at a disadvantage if we have to go to hearing without having the exhibits which Ocean would present at hearing.

The location which Yates and Arrington propose is based upon the geological and geophysical information we have used to successfully drill other similar wells in this

Letter to Lori Wrotenbery

October 10, 2001

Page 2

area. It will not be moved. During the time of this continuance, we are hopeful that Ocean will identify in writing the exact location it is proposing to drill in the N/3 of Section 3 so that we will be able to fully present our case in January.

We have advised James Bruce of this request for continuance. It is our understanding that he will quickly respond for Ocean Energy Resources, Inc.

Your consideration of this request is appreciated.

Very truly yours,



William F. Carr

Cc: Stephen C. Ross, Esq.
Assistant General Counsel
Oil Conservation Commission
New Mexico Department of Energy,
Minerals and Natural Resources
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

Randy Patterson
Yates Petroleum Corporation
105 South Fourth Street
Artesia, New Mexico 88210

James Bruce, Esq.
Ocean Energy Resources, Inc.
Post Office Box 1056
Santa Fe, New Mexico 87504
FAX No. (505) 982-2151

Stephen Ross

HOLLAND & HART LLP
AND
CAMPBELL & CARR
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October 5, 2001

HAND DELIVERED

Ms. Florene Davidson
Commission Secretary
Oil Conservation Commission
New Mexico Department of Energy,
Minerals and Natural Resources
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

Re: Case No. 12535, Application of Ocean Energy Resources, Inc., *de novo*
Case No. 12567, Application of Ocean Energy Resources, Inc., *de novo*
Case No. 12569, Application of Yates Petroleum Corporation, *de novo*
Case No. 12590, Application of Yates Petroleum Corporation, *de novo*
Case No. 12738, Application of Yates Petroleum Corporation

Dear Ms. Davidson;

Pursuant to the September 4, 2001 letter from Stephen C. Ross, enclosed for transmittal to the members of the Oil Conservation Commission are three copies of each of the following documents in the above referenced cases:

- A. Pre-hearing statement of Yates Petroleum Corporation, and
- B. Exhibits Yates Petroleum Corporation will present at the October 12 Oil Conservation Commission.

By copy of this letter, I am providing copies of these documents to James Bruce, Esq., attorney for Ocean Energy Resources, Inc.

Very truly yours,

William F. Carr
William F. Carr

Attorney for Yates Petroleum Corporation and
David H. Arrington Oil & Gas, Inc.

OIL CONSERVATION DIV.
01 OCT -5 PM 3:51

Letter to Florene Davidson

October 5, 2001

Page 2

Cc: ✓ Stephen C. Ross, Esq.
Assistant Attorney General
Oil Conservation Commission
New Mexico Department of Energy,
Minerals and Natural Resources
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

James Bruce, Esq. w/ enc.
3304 Camino Lisa
Hyde Park Estates
Santa Fe, New Mexico 87504-2208

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

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

**APPLICATION OF OCEAN ENERGY RESOURCES, INC.
FOR THE COMPULSORY POOLING AND FOUR NON-
STANDARD OIL AND GAS SPACING AND
PRORATION UNITS, LEA COUNTY, NEW MEXICO.**

CASE NO. 12535

**APPLICATION OF OCEAN ENERGY RESOURCES, INC.
FOR COMPULSORY POOLING AND FOUR NON-
STANDARD OIL AND GS SPACING AND
PRORATION UNITS, LEA COUNTY, NEW MEXICO.**

CASE NO. 12567

**APPLICATION OF YATES PETROLEUM
CORPORATION FOR COMPULSORY POOLING,
AND THREE NON-STANDARD OIL AND GAS
SPACING AND PRORATION UNITS,
LEA COUNTY, NEW MEXICO.**

CASE NO. 12568

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

CASE NO. 12590

**APPLICATION OF YATES PETROLEUM
CORPORATION FOR TWO NON-STANDARD
GAS SPACING AND PRORATION UNITS,
LEA COUNTY, NEW MEXICO.**

CASE NO. 12538

PRE-HEARING STATEMENT

This Pre-hearing Statement is submitted on behalf of Yates Petroleum Corporation and David H. Arrington Oil & Gas, Inc. by Holland & Hart LLP and Campbell & Carr as required by the Oil Conservation Division.

OIL CONSERVATION DIV.
OCT-5 PM 3:51

APPEARANCES OF PARTIES

APPLICANT

Yates Petroleum Corporation
Attention: Robert Bullock
Artesia, New Mexico 88210
(505) 748-1471

ATTORNEYS

William F. Carr, Esq.
Post Office Box 2208
Santa Fe, New Mexico 87504-2208
(505) 988-4421

OTHER PARTY

David H. Arrington Oil & Gas, Inc.
Post Office Box 2071
Midland, Texas 79702
(915) 682-6685

ATTORNEY

William F. Carr, Esq.
Holland & Hart LLP
Post Office Box 2208
Santa Fe, New Mexico 87504-2208
(505) 988-4421

OPPOSITION

Ocean Energy Resources, Inc.
4305 North Garfield, Suite 200A
Midland, Texas 79705
(915) 683-3303

ATTORNEY

James Bruce, Esq.
3304 Camino Lisa
Hyde Park Estates
Santa Fe, New Mexico 87505
(505) 982-2151

STATEMENT OF CASE

Each of the applicants in Cases 12535, 12567, 12569 and 12590 seeks orders pooling all mineral interests from the surface to the base of the Mississippian formation in certain spacing and proration units located in the North one-third equivalent of Irregular Section 3, Township 16 South, Range 35 East, NMPM, Lea County, New Mexico. Said units are to be dedicated to wells to be drilled to a depth sufficient to test all formations from the surface to the base of the Mississippian formation. The parties do not agree on the locations for the wells to be drilled on this pooled unit nor do they agree as to the number of wells which will be needed to effectively and efficiently drain this acreage. Although each of the cases as filed requests consideration by the Division of the cost of drilling and completing the initial well and the allocation of the cost thereof as well as the actual operating costs and charges for supervision, and a charge for the risk of drilling the initial well, there was no issue at the examiner hearing on these issues. Yates does not anticipate there will be issues between the parties as to the costs of the wells which are the subject of these applications nor to the appropriateness of a 200% charge for risk to be assessed against any owner who does not voluntarily participate in the well which is drilled on this pooled unit.

Pre-hearing Statement

NMOCD Case Nos. 12535, 12567, 12569, 12590 and 12738 Consolidated

Page 3

In Case 12538, Yates seeks the creation of two non-standard gas spacing units in the North half of Section 3. Approval of this application would permit Yates to drill the well it believes should be drilled in the NE/4 of Section 3 where Yates and its partners own 100% of the working interest. Approval of this application would also permit Ocean to develop the NW/4 of Section 3 by drilling a well where it believes a well should be drilled in the NW/4 of Section 3 where it owns 41.072056% of the working interest and none is owned by Yates.

PROPOSED EVIDENCE

LAND EVIDENCE:

Robert Bullock 5 Exhibits Approximately 15 Minutes

Yates Petroleum Corporation's land evidence will address the following issues:

OWNERSHIP:

The evidence will show that Yates owns or represents 56.0960% of the working interest in the spacing unit which is the subject of these competing pooling applications and Ocean owns 41.0700% of the working interest. Yates' evidence will also show that it and its partners own 100% of the working interest in the NE/4 of Irregular Section 3 and no working interest in the NW/4 of Section 3.

NEGOTIATIONS:

In May 2000, Ocean proposed a well to Yates and Arrington at a location 800 feet from the North line and 660 feet from the West line of Section 3. When Ocean proposed the well, Yates requested the well be moved to a structurally low position in the NW/4 of Section 3 but Ocean declined to move the well. There were several discussions during the succeeding months concerning the drilling of a well on this acreage and numerous telephone conversations between the parties, and discussions between the geologists for the parties, concerning an appropriate location for the well. Yates also traveled to Houston in August 2000 to meet with Ocean to attempt to reach agreement on a well location. The primary issue between the parties has been the location of the well(s) on the subject acreage. Each applicant has met all statutory requirement for a pooling order for each has proposed a well on the acreage which is the subject of this hearing and each has filed a proper application seeking an order compulsory pooling these lands for a well to test the Morrow and Mississippian formations.

Pre-hearing Statement

NMOCD Case Nos. 12535, 12567, 12569, 12590 and 12738 Consolidated

Page 4

Yates has suggested several alternative ways to develop this acreage, including the creation of two non-standard units for two wells on the acreage with one well to be drilled by each of the applicants, but Ocean has not agreed.

LAND EXHIBITS:

Copies of Yates' land exhibits have been filed with the Division with this Pre-hearing Statement pursuant to the September 4, 2001 letter from the Division:

1. Land Map
2. Joint Operating Agreement
3. Correspondence related to the efforts of the parties to reach a voluntary agreement for the development of the subject acreage
4. Authority for Expenditure
5. Letter from David H. Arrington Oil & Gas, Inc.

GEOLOGICAL EVIDENCE:

Eric Cummins 5 Exhibits Approximately 30 minutes

Yates Petroleum Corporation's geological evidence will address the following issues:

PRIOR EXPERIENCE:

The evidence will show that Ocean has drilled 5 wells in the area surrounding the subject spacing unit, with only marginal success. Yates has been working in this area since the Ocean Carlisle Well was drilled and blew out in 1999. In the more than three years that Yates has been developing this area, it has been drilling in structural lows picked from 3D seismic information. With the exception of a re-entry, Yates has a 100% success ratio drilling in these lows selected from 3D seismic information. Ocean has a 25% to 30% success record.

DEVELOPMENT PLANS:

Yates has a major drilling program planned for this area and has identified 50 possible well locations. Yates plans to have three rigs running in this play for the next 3 years.

WELL LOCATIONS:

Yates will present a Development Map and review the recent efforts of the parties to develop this area. A Production Map will be reviewed which shows that the successful wells in this area have been drilled and completed in structural lows. Yates will also present two Structural Cross Sections which confirm that the production in the area is

Pre-hearing Statement

NMOCD Case Nos. 12535, 12567, 12569, 12590 and 12738 Consolidated

Page 5

found in fault bounded lows. To explain the reason for its concern with Ocean's proposed well location, Yates will present a Well Log from the Baer Well No. 3 located in Section 32, Township 15 South, Range 35 East, NMPM. This well was re-entered by Yates and deepened by approximately 1000 feet to test the Morrow and Mississippian formations. No sand was encountered in this well. It is on a structural high adjacent to a low which is a position very similar to the structural position for the well now proposed by Ocean in Section 3.

GEOLOGICAL EXHIBITS:

Mr. Cummins will present the following exhibits. Copies of these exhibits are filed with this pre-hearing statement pursuant to the September 4, 2001 letter from the Division:

6. Development Map
7. Production Map/Time Structure Map
8. Structural Cross Section A-A'
9. Structural Cross Section B-B'
10. Well Log (Baer Well No. 3)

GEOPHYSICAL EVIDENCE:

Frank Scheubel 4 Exhibits Approximately 20 minutes

Yates Petroleum Corporation's geophysical evidence will address the following issues:

NATURE OF THE MORROW AND MISSISSIPPIAN FORMATIONS IN THE SUBJECT AREA:

Mr. Scheubel will review the geophysical information on the Production Map/Time Structure Map which was presented in the geological portion of this case. This seismic information shows linear features or ditches from which the successful wells in the subject area produce. Yates will present two Arbitrary Seismic Lines which confirm that fault bounded structural lows are productive and structural highs are non-productive in Morrow and Mississippian formations in the area surrounding the proposed wells. Yates will also present two frequency spectrum to confirm the accuracy of the seismic interpretations.

Pre-hearing Statement

NMOCD Case Nos. 12535, 12567, 12569, 12590 and 12738 Consolidated

Page 6

GEOPHYSICAL EXHIBITS:

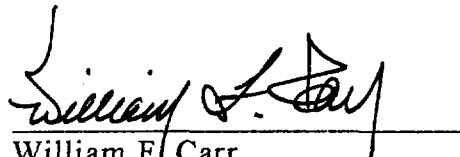
Copies of Yates' geophysical exhibits have been filed with this pre-hearing statement pursuant to the September 4, 2001 letter from the Division.

11. Production Map / Time Structure Map
12. Arbitrary Seismic Line A-A'
13. Arbitrary Seismic Line B-B'

PROCEDURAL MATTERS

Yates requests that the Commission schedule a pre-hearing conference for the purpose of considering stipulations concerning evidence on matters which are not at issue between the parties and to discuss the possibility of settling this dispute without the necessity of an additional hearing.

Yates will request that Cases 12535, 12567, 12569, 12590 and 12738 be consolidated for hearing.



William F. Carr

Attorney for Yates Petroleum
Corporation and David H. Arrington
Oil & Gas, Inc.

Pre-hearing Statement

NMOCD Case Nos. 12535, 12567, 12569, 12590 and 12738 Consolidated

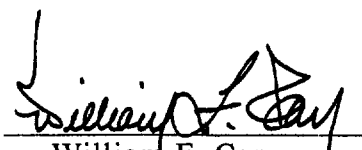
Page 7

CERTIFICATE OF MAILING

I hereby certify that on this 5th day of October 2001, I have caused to be delivered by facsimile or hand delivery a copy of the Pre-Hearing Statement of Yates Petroleum Corporation in the above-captioned cases to the following counsel of record.

James Bruce, Esq.
3304 Camino Lisa
Hyde Park Estates
Santa Fe, New Mexico 87505
Fax No. (505) 982-2151

Stephen C. Ross, Esq.
Assistant Attorney General
Oil Conservation Division
New Mexico Energy, Minerals
and Natural Resources Department
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505


William F. Carr



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

GARY E. JOHNSON
Governor
Jennifer A. Salisbury
Cabinet Secretary

Lori Wrotenbery
Director
Oil Conservation Division

September 19, 2001

William F. Carr, Esq.
Holland & Hart and Campbell & Carr
P.O. Box 2208
Santa Fe, New Mexico 87504-2208

James Bruce, Esq.
3304 Camino Lisa
Hyde Park Estates
Santa Fe, New Mexico 87505

Re: Case No. 12535, Application of Ocean Energy Resources, Inc., *de novo*
Case No. 12567, Application of Ocean Energy Resources, Inc., *de novo*
Case No. 12569, Application of Yates Petroleum Corporation, *de novo*
Case No. 12590, Application of Yates Petroleum Corporation, *de novo*

Gentlemen,

By letter dated September 18, 2001, Mr. Carr requested that a Pre-Hearing Conference be conducted in this matter.

As you are aware, such requests are almost always granted. Therefore, a pre-hearing conference is scheduled for Wednesday, October 10, 2001 at 10 a.m. in the Fourth Floor Conference Room of the Oil Conservation Division, 1220 S. Saint Frances Drive, Santa Fe. If this date and time is inconvenient, please let me know.

During the conference we can discuss the general contentions of the parties, the evidence to be offered to the Commission, issues related to exhibits (the exhibits themselves should have already been submitted, on October 5, pursuant to my earlier correspondence), the numbers of witnesses, anticipated objections and motions, etc. If a pre-hearing order is appropriate and needed, we can discuss its terms as well.

Mr. Carr's letter also requests that parties be present and that settlement negotiations be undertaken. Rule 1211(B) seems to permit this ("The prehearing conference will be ... to encourage settlement ...") and therefore, a representative of each party should also attend the conference along with counsel.

Please give me a call if you have any questions.

Sincerely,

Stephen C. Ross
Assistant General Counsel



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

GARY E. JOHNSON

Governor

Jennifer A. Salisbury

Cabinet Secretary

Lori Wrotenberg

Director

Oil Conservation Division

September 4, 2001

William F. Carr
Holland & Hart, LLC and Campbell & Carr
P.O. Box 2208
Santa Fe, New Mexico 87504

James Bruce
3304 Camino Lisa
Hyde Park Estates
Santa Fe, New Mexico 87505

Re: Case No. 12535, Application of Ocean Energy Resources, Inc., *de novo*
Case No. 12567, Application of Ocean Energy Resources, Inc., *de novo*
Case No. 12569, Application of Yates Petroleum Corporation, *de novo*
Case No. 12590, Application of Yates Petroleum Corporation, *de novo*

Gentlemen,

As you recall from my letter of May 5, 2001, the Commission members requested that copies of each exhibit which is to be offered during the *de novo* hearing of this matter be provided to the Commission Secretary no later than one week prior to the date set for hearing in this matter.

As the matter is now set for hearing on October 12, exhibits should be submitted to Florene Davidson no later than Friday, October 5.

It would also helpful if you could provide a more detailed statement of your positions in the pre-hearing statement than is customary.

The Commission members believe that their review of detailed pre-hearing statements and the documentary evidence to be offered will permit them to be better prepared for the issues and testimony. As always, if you have any questions, please do not hesitate to give me a call at 476-3451.

Sincerely,

Stephen C. Ross
Assistant General Counsel



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

GARY E. JOHNSON
Governor
Jennifer A. Salisbury
Cabinet Secretary

Lori Wrotenbery
Director
Oil Conservation Division

May 25, 2001

William F. Carr
Holland & Hart, LLC and Campbell & Carr
P.O. Box 2208
Santa Fe, New Mexico 87504

James Bruce
3304 Camino Lisa
Hyde Park Estates
Santa Fe, New Mexico 87505

Re: Case No. 12535, Application of Ocean Energy Resources, Inc., *de novo*
Case No. 12567, Application of Ocean Energy Resources, Inc., *de novo*
Case No. 12569, Application of Yates Petroleum Corporation, *de novo*
Case No. 12590, Application of Yates Petroleum Corporation, *de novo*

Gentlemen,

The Commission members have requested that copies of each exhibit which is to be offered during the *de novo* hearing of this matter be provided to the Commission Secretary no later than one week prior to the date set for hearing in this matter. As the matter is now set for hearing on June 22, exhibits should be submitted to Florene Davidson no later than Friday, June 15. If an agreed continuance results in the matter being set in a subsequent month, exhibits should be submitted no later than one week prior to the re-scheduled hearing.

It would also helpful if you could provide a more detailed statement of your positions in the pre-hearing statement than is customary.

The Commission members believe that their review of detailed pre-hearing statements and the documentary evidence to be offered will permit them to be better prepared for the issues and testimony. As always, if you have any questions, please do not hesitate to give me a call at 476-3451.

Sincerely,

Stephen C. Ross
Assistant General Counsel

4-17-01

See Also Order No. R-11566-A

**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 OCEAN ENERGY RESOURCES, INC. CASE NO. 12535
FOR COMPULSORY POOLING AND FOUR NON-STANDARD
OIL AND GAS SPACING AND PRORATION UNITS, LEA
COUNTY, NEW MEXICO.**

**APPLICATION OF OCEAN ENERGY RESOURCES, INC. CASE NO. 12567
FOR COMPULSORY POOLING AND FOUR NON-STANDARD
OIL AND GAS SPACING AND PRORATION UNITS, LEA
COUNTY, NEW MEXICO.**

**APPLICATION OF YATES PETROLEUM CORPORATION CASE NO. 12569
FOR COMPULSORY POOLING AND A NON-STANDARD
GAS SPACING AND PRORATION UNIT, LEA COUNTY,
NEW MEXICO.**

**APPLICATION OF YATES PETROLEUM CORPORATION CASE NO. 12590
FOR COMPULSORY POOLING AND A NON-STANDARD
GAS SPACING AND PRORATION UNIT, LEA COUNTY,
NEW MEXICO.**

ORDER NO. R-11566

ORDER OF THE DIVISION

BY THE DIVISION:

These cases came on for hearing at 8:15 a.m. on January 11 and February 8, 2001, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 17th day of April, 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 these cases and their subject matter.

(2) **Division Cases No. 12535, 12567, 12569, and 12590** were consolidated for the purpose of presenting testimony. Inasmuch as the issues involved encompass the same acreage and the approval of one of the proposals would necessarily require denial of the others, one order should therefore be entered for all four cases.

(3) Section 3, Township 16 South, Range 35 East, NMPM, Lea County, New Mexico is irregular in size and shape due to the convergence of meridians and is one mile in width and in excess of one and one-half miles in length. Irregular Section 3 comprises a total area of 995.80 acres. It consists of: Lot 1 with 49.47 acres; Lot 2 with 49.12 acres; Lot 3 with 48.78 acres; Lot 4 with 48.43 acres; Lots 5 through 16 each with 40 acres; and the S/2, which is considered to be a regular subdivision or aliquot part of this section and can be further divided into two quarter sections (SW/4 and SE/4) or eight quarter-quarter sections (NE/4 SW/4, SE/4 SE/4, NW/4 SE/4, etc.). See Division Order No. R-10803, issued in consolidated Cases No. 11716, 11717, 11739, 11740, 11741, and 11753, which describes this anomaly in greater detail.

(4) In **Cases No. 12535 and 12567** the applicant, Ocean Energy Resources, Inc. ("Ocean"), seeks an order pooling all mineral interests from the surface to the base of the Mississippian formation underlying the following described acreage in irregular Section 3:

(a) Lots 1 through 8 to form a 355.80-acre lay-down gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within that vertical extent, which presently include but are not necessarily limited to the Undesignated North Shoe Bar-Atoka Gas Pool, Undesignated Townsend-Morrow Gas Pool, Undesignated North Shoe Bar-Morrow Gas Pool, and Undesignated North Hume-Morrow Gas Pool;

(b) Lots 3 through 6 to form a 177.21-acre gas spacing and proration unit for any and all formations and/or pools developed on 160-acre spacing within that vertical extent;

(c) Lots 3 (Unit C) and 4 (Unit D) to form a 97.21-acre lay-down oil spacing and proration unit for any pool developed on 80-acre spacing within that vertical extent, which presently includes only the Undesignated South Big Dog-Strawn Pool; and

(d) Lot 4 (Unit D) to form a 48.43-acre oil spacing and proration unit for formations and/or pools developed on 40-acre spacing within that vertical extent, which presently include but are not necessarily limited to the Undesignated Northeast Townsend-Abo Pool, Undesignated Townsend-Permo Upper Pennsylvanian Pool, Undesignated Big Dog-Strawn Pool, Undesignated Townsend-Strawn Pool, and Undesignated Northeast Eidson-Mississippian Pool.

(5) The above-described units are to be dedicated to Ocean's proposed Townsend State Com. Well No. 10 to be drilled 800 feet from the North line and 660 feet from the West line (Lot 4/Unit D) of irregular Section 3. This location is considered to be standard for all four sized units.

(6) In **Cases No. 12569 and 12590** the applicant, Yates Petroleum Corporation ("Yates"), seeks an order pooling all mineral interests from the surface to the base of the Mississippian formation underlying Lots 1 through 8 of irregular Section 3 to form a 355.80-acre lay-down gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within that vertical extent, which presently include but are not necessarily limited to the Undesignated North Shoe Bar-Atoka Gas Pool, Undesignated Townsend-Morrow Gas Pool, Undesignated North Shoe Bar-Morrow Gas Pool, and Undesignated North Hume-Morrow Gas Pool. Yates's proposed 355.80-acre gas unit is to be dedicated to its Yates Daisy "AFS" State Well No. 2 to be drilled at a standard gas well location 660 feet from the North and East lines (Lot 1/Unit A) of irregular Section 3.

(7) **Cases No. 12535, 12567 and 12569** originally sought to pool all of the mineral interests from the surface to the base of the Morrow formation. These three cases were consolidated and initially heard at the January 11, 2001 hearing. However, the applicants requested these cases be amended to include the deeper Mississippian formation. **Case No. 12590**, which was filed later, included the Mississippian interval. At the February 8, 2001 hearing the record of the January 11, 2001 hearing was incorporated into and became the record for **Case No. 12590**. At that time this matter was concluded and the Examiner took all four cases under advisement.

(8) Each applicant proposes to locate its well on a tract of land that is equivalent to a quarter section in which it either controls or owns the working interest.

(9) The primary zone of interest to both parties is the gas-bearing Morrow formation, which became the main focus of each party's argument.

(10) By Order No. R-11231, issued by the New Mexico Oil Conservation Commission in Case No. 12119 on August 12, 1999, Division Rule 104 was changed so that deep gas wells in southeast New Mexico developed on 320-acre spacing, which includes wells in the Morrow and Mississippian formations, could be located not closer than 660 feet to any quarter section line and that each 320-acre unit be allowed one infill gas well so long as the infill is located in the quarter section adjacent to the original well.

(11) The geological evidence presented by both applicants shows that both locations are viable Morrow prospects and that each quarter section equivalent that comprises the proposed 355.80-acre lay-down gas spacing and proration unit has the potential of containing commercial quantities of gas in the Morrow interval.

(12) The land testimony presented in this matter shows the working interest ownership in the proposed lay-down 355.80-acre unit to be as follows:

Ocean	41.072056%
Yates	50.193929%
Arrington	5.331300%
Unleased mineral interest in Lots 3 through 6	3.402715%

(13) Several small interest owners have joined in both the Ocean and Yates well proposals. Other interest owners are awaiting the outcome of the hearing.

(14) Yates owns or represents 100% of the working interest within that quarter section equivalent that comprises Lots 1, 2, 7, and 8 of Section 3 (containing 178.59 acres); therefore, Yates has 100% participation in all formations or pools developed on 160, 80, and 40-acre spacing. However, Yates owns no interest in the opposing quarter section equivalent that comprises Lots 3, 4, 5, and 6.

(15) David H. Arrington Oil and Gas, Inc. ("Arrington"), who appeared at the hearing through legal counsel in support of Yates' proposal, owns interest in Lots 3, 4, 5, and 6 only.

(16) Since Yates and Ocean both own an interest within the proposed lay-down 355.80-acre deep gas spacing unit in Section 3, both have the right to drill for and develop the minerals underlying its proposed acreage.

(17) Yates and Ocean have been negotiating and have both attempted to reach a mutually acceptable agreement for the testing and development of reserves underlying the

proposed 355.80-acre unit; however, they have been unable to voluntarily reach an agreement as to how this acreage should be developed.

(18) Both parties agreed at the hearing that:

(a) the "*Authority for Expenditures*" ("AFE") and operating costs of Ocean and Yates are comparable; and

(b) a 200% non-consent penalty is a proper risk factor for drilling the first deep gas well within the proposed 355.80-acre deep gas unit.

(19) A point of contention between Ocean and Yates was the proposed overhead and administrative costs (combined fixed rates) to be attributed to each non-consenting working interest. Yates' proposed overhead rates were \$5,400.00 per month while drilling and \$540.00 per month while producing and Ocean's proposed overhead rates were \$6,000.00 per month while drilling and \$700.00 per month while producing.

(20) From the testimony presented:

(a) Ocean first proposed a deep gas well within the proposed 355.80-acre unit to Yates and Arrington at a location 800 feet from the North line and 660 feet from the West line (Lot 4/Unit D) of Section 3 in May, 2000;

(b) when Ocean proposed this well, Yates requested Ocean move the location east to the 178.59-acre area that comprises Lots 1, 2, 7, and 8 of Section 3, but Ocean declined to do so;

(c) during the succeeding seven months there were numerous discussions between the parties concerning the drilling of a deep gas well in the proposed 355.80-acre lay-down unit;

(d) on September 29, 2000, Arrington proposed the drilling of a deep gas well 660 feet from the North line and 1980 feet from the West line (Lot 3/Unit C) of Section 3, which is within the 177.21-acre area (quarter section equivalent) that Ocean controls and where Ocean is seeking

to drill its well;

(e) in October and December, 2000, Ocean filed compulsory pooling applications with the Division; and

(f) Yates initially filed its pooling application with the Division on December 20, 2000 and on December 27, 2000 sent well proposals to the interest owners.

(21) Having proposed a deep gas well to the Morrow formation within the subject 355.80-acre lay-down gas spacing and proration unit first, Ocean's proposal set forth in **Cases No. 12535 and 12567** should be approved, and the applications of Yates in **Cases No. 12569 and 12590** should be denied, unless Ocean fails to timely commence its well hereunder.

(22) However, Ocean's proposed overhead rates appear to be excessive in comparison to Yates's proposed rates. Ocean's reasoning for these higher rates as inadequate; therefore, the overhead rates to be issued in this order should be adjusted to reflect those more reasonable rates proposed by Yates.

(23) To avoid the drilling of unnecessary wells, to protect correlative rights, to prevent waste and to 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 hydrocarbon production in any pool resulting from this order, Ocean's two applications should be approved by pooling all uncommitted mineral interests, whatever they may be, within the units described above in Finding Paragraph No. (4).

(24) Ocean should be designated the operator of the subject well and units.

(25) 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.

(26) 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 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(27) 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.

(28) 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.

(29) Reasonable charges for supervision (combined fixed rates) should be fixed at \$5,400.00 per month while drilling and \$540.00 per month while producing, provided that this rate 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.

(30) All proceeds from production from the well 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.

(31) If the operator of the pooled units fails to commence drilling the well to which the units are dedicated on or before July 15, 2001, or if all the parties to this forced pooling reach voluntary agreement subsequent to entry of this order, this order should become of no effect.

(32) The operator may request from the Division Director an extension of the July 15, 2001 deadline for good cause.

(33) The operator of the well and units 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 applications of Ocean Energy Resources, Inc. ("Ocean") in **Cases No. 12535 and 12567** are hereby approved, and all uncommitted mineral interests, whatever they may be, from the surface to the base of the Mississippian formation underlying the following described acreage in irregular Section 3, Township 16 South, Range 35 East, NMPM, Lea County, New Mexico, are hereby pooled in the following manner:

(a) Lots 1 through 8 to form a 355.80-acre lay-down gas

spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within that vertical extent, which presently include but are not necessarily limited to the Undesignated North Shoe Bar-Atoka Gas Pool, Undesignated Townsend-Morrow Gas Pool, Undesignated North Shoe Bar-Morrow Gas Pool, and Undesignated North Hume-Morrow Gas Pool;

(b) Lots 3 through 6 to form a 177.21-acre gas spacing and proration unit for any and all formations and/or pools developed on 160-acre spacing within that vertical extent;

(c) Lots 3 (Unit C) and 4 (Unit D) to form a 97.21-acre lay-down oil spacing and proration unit for any pool developed on 80-acre spacing within that vertical extent, which presently includes only the Undesignated South Big Dog-Strawn Pool; and

(d) Lot 4 (Unit D) to form a 48.43-acre oil spacing and proration unit for formations and/or pools developed on 40-acre spacing within that vertical extent, which presently include but are not necessarily limited to the Undesignated Northeast Townsend-Abo Pool, Undesignated Townsend-Permo Upper Pennsylvanian Pool, Undesignated Big Dog-Strawn Pool, Undesignated Townsend-Strawn Pool, and Undesignated Northeast Eidson-Mississippian Pool.

These units are to be dedicated to Ocean's proposed Townsend State Com. Well No. 10 to be drilled 800 feet from the North line and 660 feet from the West line (Lot 4/Unit D) of irregular Section 3. This location is considered to be standard for all four sized units.

PROVIDED HOWEVER THAT, the operator of the units shall commence drilling the well on or before July 15, 2001, and shall thereafter continue drilling the well with due diligence to a depth sufficient to test the Mississippian formation.

PROVIDED FURTHER THAT, in the event the operator does not commence drilling the well on or before July 15, 2001, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause.

PROVIDED FURTHER THAT, should the well not be drilled to completion or

abandoned within 120 days after commencement thereof, the operator shall appear before the Division Director and show cause why Ordering Paragraph (1) should not be rescinded.

(2) The applications of Yates Petroleum Corporation in Cases No. 12569 and 12590 seeking to pool all mineral interests from the surface to the base of the Mississippian formation underlying Lots 1 through 8 of irregular Section 3 to form a 355.80-acre lay-down gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within that vertical extent, which presently include but are not necessarily limited to the Undesignated North Shoe Bar-Atoka Gas Pool, Undesignated Townsend-Morrow Gas Pool, Undesignated North Shoe Bar-Morrow Gas Pool, and Undesignated North Hume-Morrow Gas Pool, for its proposed Yates Daisy "AFS" State Well No. 2 to be drilled at a standard gas well location 660 feet from the North and East lines (Lot 1/Unit A) of irregular Section 3, are hereby denied.

(3) Ocean is hereby designated the operator of the well and units described in Ordering Paragraph No. (1) above.

(4) After pooling, uncommitted working interest owners are referred to as "non-consenting working interest owners." After the effective date of this order and within 90 days prior to commencing the well, the operator shall furnish the Division and each known non-consenting working interest owner in the units an itemized schedule of estimated well costs.

(5) 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, 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.

(6) 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. 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 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.

(7) 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.

(8) 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, 200 percent of the above costs.

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

(10) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$5,400.00 per month while drilling and \$540.00 per month while producing, provided that this rate shall be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations*." The operator is hereby 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.

(11) 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.

(12) 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.

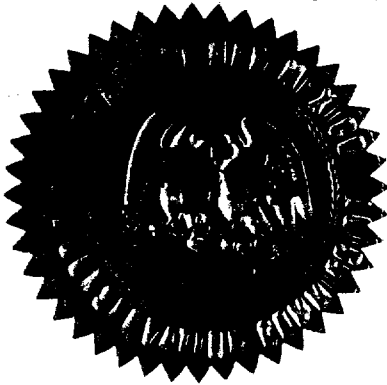
(13) All proceeds from production from the well that are not disbursed for any reason shall be placed in escrow in Lea County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership. The operator shall notify the Division of the name and address of the escrow agent within 30 days from the date of first deposit with the escrow agent.

(14) Should all the parties to this compulsory pooling order reach voluntary agreement subsequent to entry of this order, that portion of this order authorizing compulsory pooling shall thereafter be of no further effect.

(15) 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.

(16) 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

Lori Wrotenbery
LORI WROTENBERY
Director

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

OIL CONSERVATION DIV.
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**IN THE MATTER OF THE APPLICATION
OF YATES PETROLEUM CORPORATION,
FOR COMPULSORY POOLING AND
THREE NON-STANDARD OIL AND GAS
SPACING AND PRORATION UNITS,
LEA COUNTY, NEW MEXICO.**

CASE NO. K569

APPLICATION

YATES PETROLEUM CORPORATION ("Yates"), through its undersigned attorneys, hereby makes application pursuant to the provisions of N.M.Stat.Ann. § 70-2-17, (1978), for an order pooling all mineral interests in all formations from the surface to the base of the Morrow formation in the following described spacing and proration units located in Irregular Section 3, Township 16 South, Range 35 East, NMPM, Lea County, New Mexico: Lots 1 through 8 to form a non-standard 355.80-acre gas spacing and proration unit for all formations and/or pools developed on 320-acre spacing within that vertical extent which includes but is not necessarily limited to the Undesignated North Shoe Bar-Atoka Gas Pool and the Undesignated North Shoe Bar-Morrow Gas Pool; Lots 1, 2, 7 and 8 to form a non-standard 178.59-acre gas spacing and proration unit for all formations and/or pools developed on 160-acre spacing within that vertical extent; Lots 1 and 2 to form a non-standard 89.47-acre spacing and proration unit for all formations and/or pools developed on 80-acre within that vertical

extent which includes but is not necessarily limited to the Undesignated South Big Dog-Strawn Pool and Lot 1 to form a standard 40-acre spacing and proration unit for all formations and/or pools developed on 40-acre spacing and proration units which includes but is not necessarily limited to the Undesignated Townsend-Permo Upper Pennsylvanian Pool, and in support of its application states:

1. Yates is a working interest owner in the acreage to be pooled in said Section 3 and has the right to drill thereon.

2. Applicant proposes to dedicate the above-referenced spacing or proration units to a well to be drilled at a standard location 660 feet from the North and East lines of said Section 3 to a depth sufficient to test any and all formations from the surface to the base of the Morrow formation.

3. Applicant has sought and been unable to obtain either voluntary agreement for pooling or farmout from certain interest owners in Lots 1 through 8 of Section 3.

4. Said pooling of interests will avoid the drilling of unnecessary wells, will prevent waste and will protect correlative rights.

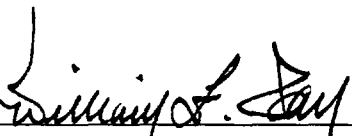
5. In order to permit the Applicant to obtain its just and fair share of the oil and gas underlying the subject lands, all mineral interests should be pooled, and Yates Petroleum Corporation should be designated the operator of the well to be drilled.

WHEREFORE, Yates Petroleum Corporation requests that this application be set for hearing before an Examiner of the Oil Conservation Division on January 11, 2001, and after notice and hearing as required by law, the Division enter its order:

- A. pooling all mineral interests in the subject spacing and proration units,
- B. designating Yates Petroleum Corporation operator of these units and the well to be drilled thereon,
- C. authorizing Yates to recover its costs of drilling, equipping and completing the well,
- D. approving the actual operating charges and costs of supervision while drilling and after completion, together with a provision adjusting the rates pursuant to the COPAS accounting procedures, and
- E. imposing a penalty for the risk assumed by the Applicant in drilling and completing the well against any working interest owner who does not voluntarily participate in the drilling of the well.

Respectfully submitted,

CAMPBELL, CARR, BERGE
& SHERIDAN, P.A.

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