

**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. 13461
ORDER NO. R-12353**

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

ORDER OF THE DIVISION

BY THE DIVISION:

This case came for hearing at 8:15 a.m. at Santa Fe, New Mexico on April 7, 2004 before Examiner William V. Jones.

NOW, on this 24th day of May, 2005, 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 Oil Conservation Division has jurisdiction of this case and of the subject matter.

(2) The applicant, Yates Petroleum Corporation ("applicant"), seeks an order pooling all uncommitted mineral interests from the surface to the base of the Morrow formation underlying the E/2 of Section 6, Township 19 South, Range 25 East, NMPM, Eddy County, New Mexico, in the following manner:

the E/2 forming a standard 320-acre gas spacing and proration unit for all formations or pools spaced on 320 acres within this vertical extent, which presently include, but are not necessarily limited to, the Penasco Draw-San Andres-Yeso Associated Gas (50270), the Undesignated Boyd-Morrow Gas (72840), the Undesignated Penasco Draw-Morrow Gas (82770), and the Undesignated Penasco Draw-Permo Penn Gas (82775) Pools; and

the SE/4 forming a standard 160-acre spacing and proration unit for all formations or pools spaced on 160 acres within this vertical extent, which presently include, but are not necessarily limited to, the Undesignated North Dagger Draw-Upper Perm (15472) Pool; and

the SW/4 SE/4 forming a standard 40-acre spacing and proration unit for all formations or pools spaced on 40 acres within this vertical extent, which presently include, but are not necessarily limited to, the Penasco Draw-San Andres-Yeso Associated Oil (50270) Pool.

(3) The above-described units ("the Units") are to be dedicated to the applicant's Rushing "NJ" Deep Com Well No. 3 (API No. 30-015-33755), to be drilled at a standard well location 1030 feet from the South line and 1650 feet from the East line, in the SW/4 SE/4 (Unit O) of Section 6. This well will be drilled to an approximate depth of 12,000 feet.

(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 to a common source of supply within the SW/4 SE/4 of Section 6.

(6) No other parties entered an appearance in this case or otherwise opposed this application.

(7) Applicant appeared at the hearing and presented exhibits and testimony as follows from a **landman**.

(a) The only party that needs to be pooled is the estate of Mr. Billy J. Walcott.

(b) This acreage consists of a mixture of fee, federal, and state minerals.

(c) The primary and the deepest geologic target is the Morrow formation.

(8) The well location chosen by the Applicant is unorthodox for a Penasco Draw-San Andres-Yeso Associated Oil (50270) Pool completion. The Applicant advised the Division at the hearing, that prior to production of associated oil from that pool, the Applicant would apply to the Division for a Non-Standard Location permit. The Applicant still desires to pool the 40-acre tract, as the application states.

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

(10) 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.

(11) Applicant should be designated the operator of the proposed well and of the Units.

(12) 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.

(13) 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 COP AS form titled "Accounting Procedure-Joint Operations."

IT IS THEREFORE ORDERED THAT;

(1) Pursuant to the application of Yates Petroleum Corporation ("applicant"), all uncommitted mineral interests, whatever they may be, in the oil and gas from the surface to the base of the Morrow formation underlying the E/2 of Section 6, Township 19 South, Range 25 East, NMPM, Eddy County, New Mexico, are hereby pooled, as follows:

the E/2 forming a standard 320-acre gas spacing and proration unit for all formations or pools spaced on 320 acres within this vertical extent, which presently include, but are not necessarily limited to, the Penasco Draw-San Andres-Yeso Associated Gas (50270), the Undesignated **Boyd-Morrow** Gas (72840), the Undesignated Penasco Draw-Morrow Gas (82770), and the Undesignated Penasco **Draw-Permo** Perm Gas (82775) Pools; and

the SE/4 forming a standard 160-acre spacing and proration unit for all formations or pools spaced on 160 acres within this vertical extent, which presently include, but are not necessarily limited to, the Undesignated North Dagger Draw-Upper Perm (15472) Pool; and

the SW/4 SE/4 forming a standard 40-acre spacing and proration unit for all formations or pools spaced on 40 acres within this vertical extent, which presently include, but are not necessarily limited to, the Penasco Draw-San Andres-Yeso Associated Oil (50270) Pool.

The above-described units ("the Units") are to be dedicated to the applicant's Rushing "NJ" Deep Com Well No. 3 (API No. 30-015-33755), to be drilled at a well location 1,030 feet from the South line and 1,650 feet from the East line, in the SW/4 SE/4 (Unit O) of Section 6.

(2) The applicant shall obtain a non-standard location (NSL) approval from the Division prior to any production of oil from the Penasco Draw-San Andres-Yeso Associated Oil Pool.

(3) The operator of the Units shall commence drilling operations on the proposed well on or before August 31, 2005 and shall thereafter continue drilling the well with due diligence to test the Morrow formation at an approximate depth of 12,000 feet.

(4) In the event the operator does not commence drilling operations on the proposed well on or before August 31, 2005, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause.

(5) Should the proposed well not be drilled and completed within 120 days after commencement thereof, Ordering Paragraph (1) shall be of no further effect, and the unit created by this Order shall terminate unless the operator appears before the Division Director and obtains an extension of time to complete the well for good cause demonstrated by satisfactory evidence.

(6) Upon final plugging and abandonment of the Rushing "NJ" Deep Com Well No. 3, the pooled units created by this Order shall terminate, unless this order has been amended to authorize further operations.

(7) Yates Petroleum Corporation is hereby designated the operator of the proposed well 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.) 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 well ("well costs").

(9) 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."

(10) 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.

(11) 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.

(12) 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.

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

(14) 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 COP AS 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.

(15) Except as provided in Ordering Paragraphs (11) and (13) 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 of the name and address of the escrow agent within 30 days from the date of first deposit with the escrow agent.

(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 interests.

(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.

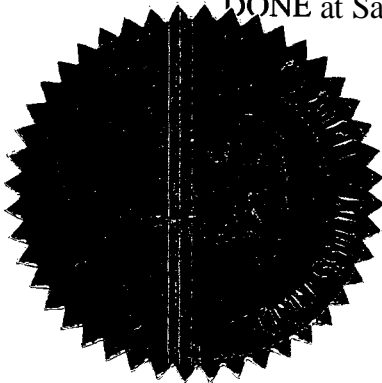
(19) Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION



MARK E. FESMIRE, P.E.
Director



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