

**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. 13780
ORDER NO. R-12670**

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

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on October 26, 2006, at Santa Fe, New Mexico, before Examiner William V. Jones.

NOW, on this 13th day of December, 2006, 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) Unit Petroleum Company ("applicant" or "Unit Petroleum"), seeks an order pooling all uncommitted mineral interests from the surface to the base of the Morrow formation underlying the N/2 of Section 17, Township 20 South, Range 36 East, NMPM, Lea County, New Mexico, in the following manner:

the N/2 forming a standard 320-acre gas spacing unit for all formations or pools spaced on 320 acres within this vertical extent;

the N/2 forming a non-standard 320-acre gas spacing unit in the North Osudo-Morrow Gas Pool (82160);

the NE/4 forming a standard 160-acre gas spacing unit for all formations or pools spaced on 160 acres within this vertical extent; and

the NE/4 NE/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 Undesignated Eumont; Yates-Seven Rivers-Queen Oil (22800) Pool and the Undesignated North Osudo; Bone Spring (48040) Pool.

The above-described units ("the Units") are to be dedicated to the applicant's Monument 17 Well No. 1 API No. 30-025-38108, to be located at a well location within the NE/4 NE/4 (Unit A) of Section 17.

(3) HOG Partnership, L.P. entered an appearance in this case in opposition and was represented by counsel at the hearing. At the hearing, this opposition was withdrawn. No other parties entered an appearance or otherwise opposed this case.

(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 has proposed to drill its Monument 17 Well No. 1 to a common source of supply at a well location 1310 feet from the North line and 1310 feet from the East line (Unit A) of Section 17.

(6) Commission Order No. R-3305-A effective on August 13, 1968 established permanent Special Pool Rules and Regulations for the North Osudo-Morrow Gas Pool (82160). Rule 2 of those rules states that each well shall be located on a standard unit containing 640 acres, more or less, consisting of a governmental section. Rule 4 of those rules states that each well shall be located no nearer than 1650 feet to the outer boundary of the section and no nearer than 330 feet to any governmental quarter-quarter section line.

(7) The footage location on the drilling permit was identical to the location proposed to the interest owners. This location is non-standard for a 640-acre North Osudo-Morrow Gas Pool spacing unit, standard for 320-acre gas and 160-acre gas production and non-standard for 40-acre oil production.

(8) At the hearing, the applicant requested approval of Morrow production from this proposed non-standard well location in the non-standard N/2 320-acre gas spacing unit in the North Osudo-Morrow Gas Pool (82160).

(9) Applicant appeared at the hearing and presented land testimony as follows.

(a) The operator has made a good faith attempt to notify all interest owners in the N/2 of Section 17 of the proposed unit and of this hearing.

(b) The operator has notified all interest owners in the S/2 of Section 17 of the proposed N/2 non-standard spacing and proration unit within the North Osudo Morrow Gas Pool and of this hearing.

(c) Based partially on the significant cumulative Morrow gas production from previous wells in other parts of Section 17, the applicant believes the N/2 of Section 17 is prospective for Morrow gas production and the NE/4 NE/4 is the best prospective well location.

(10) Division records indicate that since August of 1967, all of Section 17 has been included into the North Osudo Morrow Gas Pool (82160). Section 17 currently has only four wells and all of these have been plugged. One well was drilled in Unit M to only 4200 feet. The three following wells were drilled to the Morrow and completed as producers.

(a) The Amerada Federal Well No. 1, located in Unit N of Section 17, was drilled and completed in 1966 in the Morrow with 5,011-psi initial shut-in pressure. After producing for many years from the Morrow, the well produced a cumulative 5,545 MMscf of gas and was, in 1981, plugged back unsuccessfully to the Bone Spring and unsuccessfully to the Seven Rivers in 1985. The well was plugged in 1986.

(b) The Amerada Federal Well No. 2, located in Unit F of Section 17, was drilled and completed in 1980 in the Morrow (4,473-psi initial shut-in pressure) as the second well in the 640-acre unit. This well produced 4,152 MMscf of gas before being plugged in 1985.

(c) The Amerada Federal Well No. 3, located in Unit I of Section 17, was drilled and completed in 1981 in the Morrow with 2,448-psi initial shut-in pressure. This well produced 1,978 MMscf of gas before being plugged in 1987. The well was re-entered in 1997, unsuccessfully completed in the Delaware, and re-plugged.

(11) Currently the nearest active Morrow production is from one well located in Unit J of Section 18, which is southwest of the proposed well. The only other production in this area is two wells located in Section 18 which produce from the Eumont; Yates-Seven Rivers-Queen Oil Pool (22800).

(12) The applicant did not request approval in this case for permission of a non-standard location for 40-acre spaced oil production. The applicant should be required to apply administratively for approval of a 40-acre oil well location if this well is to be spaced on 40 acres.

(13) The applicant did not request approval in this case for permission of a 320-acre non-standard spacing unit for gas well production within the Eumont; Yates-7Rvrs-Queen (Gas 76480) Pool. If a gas well is encountered in the Yates, 7Rvrs, or Queen formations, the applicant should be required to form a 640-acre gas spacing unit for production within the Eumont; Yates-7Rvrs-Queen (Gas 76480) Pool or apply for a smaller spacing unit as prescribed in Rule 3(C) of the Special Pool Rules for the Eumont Gas Pool.

(14) Applicant's proposal to form a 320-acre, N/2 of Section 17, non-standard spacing unit for Morrow formation gas production within the North Osudo-Morrow Gas Pool should be approved. Applicant's request for a non-standard Morrow location within the North Osudo-Morrow Gas Pool should be approved.

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

(16) 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.

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

(18) 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.

(19) Reasonable charges for supervision (combined fixed rates) should be fixed at \$7,000 per month while re-entering and \$700 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 Unit Petroleum Company ("Unit Petroleum"), 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 N/2 of Section 17, Township 20 South, Range 36 East, NMPM, Lea County, New Mexico, are hereby pooled, as follows:

the N/2 forming a standard 320-acre gas spacing unit for all formations or pools spaced on 320 acres within this vertical extent;

the N/2 forming a non-standard 320-acre gas spacing unit in the North Osudo-Morrow Gas Pool (82160);

the NE/4 forming a standard 160-acre gas spacing unit for all formations or pools spaced on 160 acres within this vertical extent; and

the NE/4 NE/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 Undesignated Eumont; Yates-Seven Rivers-Queen Oil (22800) Pool and the Undesignated North Osudo; Bone Spring (48040) Pool.

The above-described units ("the Units") are dedicated to the applicant's proposed Monument 17 Well No. 1 API No. 30-025-38108, to be located 1310 feet from the North line and 1310 feet from the East line (Unit A) of Section 17.

(2) Unit Petroleum is hereby granted approval to form a 320-acre, N/2 of Section 17, non-standard spacing unit for Morrow formation gas production within the North Osudo-Morrow Gas Pool.

(3) Unit Petroleum is hereby granted approval to produce Morrow gas from the Monument 17 Well No. 1 at the aforementioned non-standard North Osudo-Morrow Gas Pool location.

(4) Prior to any gas production within the Monument 17 Well No. 1 from the Yates, 7Rvrs, or Queen formations, Eumont; Yates 7Rvrs Queen Gas Pool, the operator shall form a 640-acre spacing unit or obtain a permit from the Division as prescribed in Rule 3(C) of the Special Pool Rules for the Eumont Gas Pool for an exception to the spacing requirements of this pool.

(5) Prior to any oil production spaced on 40 acres, the operator shall obtain a permit from the Division for exception to the location rules contained in Rule 104B(1).

(6) The operator of the Units shall commence drilling operations on the proposed well on or before March 1, 2007 and shall thereafter continue drilling the well with due diligence to test the Morrow formation.

(7) In the event the operator does not commence re-entry operations on the proposed well on or before March 1, 2007, Ordering Paragraph (1) and (2) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause.

(8) 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 units 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.

(9) Upon final plugging and abandonment of the Monument 17 Well No. 1, the pooled units created by this Order shall terminate, unless this order has been amended to authorize further operations.

(10) Unit Petroleum Company is hereby designated the operator of the proposed well and of the Units.

(11) 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").

(12) 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."

(13) 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.

(14) 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.

(15) 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.

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

(17) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$7,000 per month while drilling and \$700 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.

(18) Except as provided in Ordering Paragraphs above, 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.

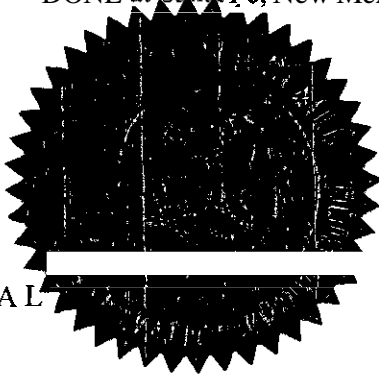
(19) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working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

(20) 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.

(21) 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.

(22) 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

A handwritten signature in black ink, appearing to read "Mark E. Fesmire".

MARK E. FESMIRE, P.E.
Director