

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. 12900
ORDER NO. R-11811

APPLICATION OF NEARBURG EXPLORATION COMPANY, L.L.C. FOR
COMPULSORY POOLING, DIRECTIONAL DRILLING AND AN UNORTHODOX
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 August 1, 2002, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 8th day of August, 2002, 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) The applicant, Nearburg Exploration Company, L.L.C. ("Nearburg"), seeks an order pooling all uncommitted mineral interests from the surface to the base of the Strawn formation underlying the S/2 SW/4 of Section 10, Township 17 South, Range 37 East, NMPM, Lea County, New Mexico, forming a standard 80-acre spacing and production unit (the "Unit") for all formations or pools spaced on 80 acres within this vertical extent, which presently include the Humble City-Strawn and Shipp-Strawn Pools.

(3) This unit is to be dedicated to Nearburg's proposed Voyageur-Shipwell No. 1, the plugged and abandoned Hanley Petroleum, Inc. Shipp Well No. 1 (API No. 30-025-30386) located at a surface location 990 feet from the South line and 330 feet from the West line (Unit M) of Section 10, which is to be re-entered and directionally drilled to an unorthodox bottomhole location 860 feet from the South line and 1400 feet from the West line (Unit N) of Section 10 to test the Strawn formation.

(4) Two or more separately owned tracts are embraced within the Unit, and/or there are royalty interests and/or undivided interests in oil and gas minerals in one or more

tracts included in the Unit that are separately owned.

(5) Nearburg is an owner of an oil and gas working interest within the Unit. Nearburg has the right to drill the proposed Voyager-Shipp "10" Well No. 1 (the "proposed well") to test the Strawn formation.

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

(7) Nearburg presented geologic evidence that demonstrates:

- (a) the Shipp Well No. 1 was originally drilled in 1986 by Hanley Petroleum, Inc. to a total depth of approximately 11,374 feet to test the Strawn formation. The well tested non-commercial in the Strawn interval and was subsequently plugged and abandoned;
- (b) within the SW/4 of Section 10, two additional wells have also previously been drilled to test the Strawn formation. These wells, located in Units K and N, were also non-productive in the Strawn interval;
- (c) utilizing 3-D seismic data, Nearburg has identified a small algal mound structure in the Strawn formation within the SW/4 of Section 10. This geologic structure is located between the three wells that have been drilled in this quarter section; and
- (d) a well directionally drilled to the proposed bottomhole location should penetrate this Strawn structure in the area of maximum pay thickness and porosity development, thereby increasing the likelihood of obtaining commercial oil production.

(8) No offset operator and/or interest owner appeared at the hearing in opposition to the proposed unorthodox location.

(9) Approval of the proposed directional drilling and unorthodox location will enable Nearburg to recover the oil and gas reserves in the Strawn formation underlying the Unit, and will not violate correlative rights.

(10) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford to the owner of each interest in the Unit the opportunity to recover or receive without unnecessary expense its just and fair share of hydrocarbons, this application should be approved by pooling all uncommitted interests, whatever they may be, in the oil

and gas within the Unit.

(11) At the request of the applicant, Nearburg Producing Company should be designated the operator of the well and of the Unit.

(12) Nearburg estimates that costs for a completed well will be approximately \$842,905. For purposes of this order, re-entry, directional drilling and completion costs will hereinafter be referred to as estimated well costs.

(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 percent thereof as a reasonable charge for the risk involved in re-entering and directional drilling the well.

(14) Reasonable charges for supervision (combined fixed rates) should be fixed at \$6,000 per month while drilling and \$600 per month while producing, provided that these rates should be adjusted annually pursuant to Section III. 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.

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Nearburg Exploration Company, L.L.C., all uncommitted interests, whatever they may be, in the oil and gas from the surface to the base of the Strawn formation underlying the S/2 SW/4 of Section 10, Township 17 South, Range 37 East, NMPM, Lea County, New Mexico, are hereby pooled forming a standard 80-acre spacing and proration unit for all formations or pools spaced on 80 acres within this vertical extent, which presently include the Humble City-Strawn and Shipp-Strawn Pools.

The Unit shall be dedicated to the applicant's proposed Voyager-Shipp Well No. 1 (previously the Hanley Petroleum, Inc. Shipp Well No. 1 (API No. 30-025-30386)) which is to be re-entered and directionally drilled from a surface location 990 feet from the South line and 330 feet from the West line (Unit M) of Section 10, to an unorthodox bottomhole location 860 feet from the South line and 1400 feet from the West line (Unit N) of Section 10. The unorthodox bottomhole location is hereby approved.

(2) The operator of the Unit shall commence re-entry and directional drilling operations on or before November 15, 2002, and shall thereafter continue drilling the well with due diligence to test the Strawn formation.

(3) In the event the operator does not commence re-entry and directional drilling operations on or before November 15, 2002, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause.

(4) 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 (1) should not be rescinded.

(5) Nearburg Producing Company is hereby designated the operator of the subject well and of the Unit.

(6) After pooling, uncommitted working interest owners are referred to as non-consenting working interest owners. ("Uncommitted working interest owners" are owners of working interests in the Unit, including unleased mineral interests, who are not parties to an operating agreement governing the Unit.) After the effective date of this order, the operator shall furnish the Division and each known non-consenting working interest owner in the Unit an itemized schedule of estimated well costs of the proposed well.

(7) 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.

(8) 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 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.

(9) 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 paid, estimated well costs exceed reasonable well costs.

(10) 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.

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

(12) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$6,000 per month while drilling and \$600 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.

(13) Except as provided in Ordering Paragraphs (10) and (12) 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.

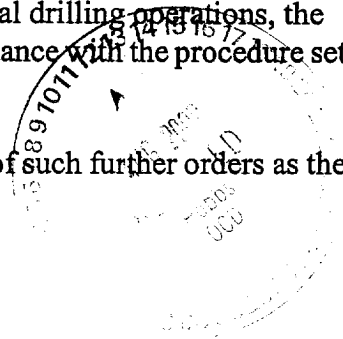
(14) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working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

(15) Should all the parties to this compulsory pooling order reach voluntary agreement subsequent to entry of this order, the forced pooling provisions of this order shall thereafter be of no further effect.

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

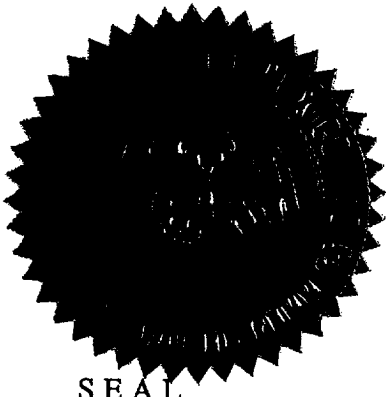
(17) During or subsequent to completion of directional drilling operations, the applicant shall conduct a directional survey on the well in accordance with the procedure set forth by Division Rule 111.

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



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



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STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

Lori Wrotenbery
LORI WROTENBERY
Director