

**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. 12620
ORDER NO. R-11560**

**APPLICATION OF ELM RIDGE RESOURCES, INC. FOR COMPULSORY
POOLING, SAN JUAN COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on March 22, 2001, at Santa Fe, New Mexico before Examiner Michael E. Stogner.

NOW, on this 2nd 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 this case and its subject matter.

(2) The applicant, Elm Ridge Resources, Inc., seeks an order pooling all uncommitted mineral interests from the surface to the base of the Fruitland formation underlying the N/2 of Section 24, Township 26 North, Range 13 West, NMPM, San Juan County, New Mexico, to form a standard 320-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 only the Basin-Fruitland Coal (Gas) Pool.

(3) This unit is to be dedicated to the applicant's proposed Ryleybart Federal Well No. 1 to be drilled at a standard coal gas well location within the NE/4 of Section 24.

(4) The applicant owns an interest in the N/2 of Section 24 and as such has the right to drill for and develop the minerals underlying the proposed 320-acre unit.

(5) At this time, however, not all of the working interest owners in this unit have agreed to pool their interests. After pooling, uncommitted working interest owners are referred to as "non-consenting working interest owners."

(6) No party affected by the forced pooling appeared at the hearing or objected to this application.

(7) 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 unit the opportunity to recover or receive without unnecessary expense its just and fair share of hydrocarbon production in any pool resulting from this order, this application should be approved by pooling all uncommitted mineral interests, whatever they may be, within this unit.

(8) Elm Ridge Resources, Inc. should be designated the operator of the subject well and 320-acre unit.

(9) 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.

(10) 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 charge for the risk involved in the drilling of the above-described well.

(11) Based on precedent established in compulsory pooling cases in the Basin-Fruitland Coal Gas Pool, a 156 percent risk penalty is proper for such coal gas wells.

(12) 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.

(13) 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.

(14) Reasonable charges for supervision (combined fixed rates) should be fixed at \$4,000.00 per month while drilling and \$350.00 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.

(15) 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.

(16) If the operator of the pooled unit fails to commence drilling the well to which the unit is dedicated on or before August 1, 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.

(17) The operator may request from the Division Director an extension of the August 1, 2001 deadline for good cause.

(18) The operator of the well and unit 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) Pursuant to the application of Elm Ridge Resources, Inc., all uncommitted mineral interests, whatever they may be, from the surface to the base of the Fruitland formation underlying the N/2 of Section 24, Township 26 North, Range 13 West, NMPM, San Juan County, New Mexico, are hereby pooled to form a standard 320-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 only the Basin-Fruitland Coal (Gas) Pool.

(2) This unit is to be dedicated to the applicant's proposed Ryleybart Federal Well No. 1 to be drilled at a standard coal gas well location within the NE/4 of Section 24.

PROVIDED HOWEVER THAT, the operator of the unit shall commence drilling the well on or before August 1, 2001, and shall thereafter continue drilling the well with due diligence to a depth sufficient to test the Fruitland formation.

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

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.

(3) Elm Ridge Resources, Inc. is hereby designated the operator of the subject well and 320-acre unit.

(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 unit an itemized schedule of estimated well costs.

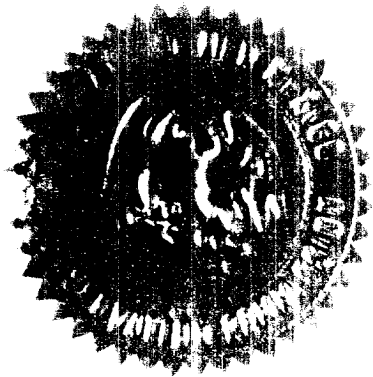
(5) Within 30 days from the date the schedule of estimated well costs is furnished, any non-consenting working interest owner shall have the right to pay its share of estimated well costs to the operator in lieu of paying its share of reasonable well costs out of production, and any such owner who pays 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



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