

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 AMOCO PRODUCTION
COMPANY FOR COMPULSORY POOLING,
SAN JUAN COUNTY, NEW MEXICO.

Case No. 11243

APPLICATION OF RICHARDSON OPERATING
COMPANY FOR COMPULSORY POOLING, DOWNHOLE
COMMINGLING, AND AN UNORTHODOX GAS WELL
LOCATION, SAN JUAN COUNTY, NEW MEXICO.

Case No. 11247

RECEIVED
AUG 14 1995

Order No. R-10433

OIL CON. DIV.
DIST. 3

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on April 20, 1995, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 9th day of August, 1995, the Division Director, having considered the testimony, the record and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) At the time of the hearing Division Case Nos. 11243, 11244, 11246, and 11247 were consolidated for the purpose of presenting testimony. Also, inasmuch as Division Case Nos. 11243 and 11247 encompass the same acreage and the subject matter in both is analogous, the approval of one application would necessarily require denial of the other, one order should therefore be entered for both cases.

Richardson Gas Co

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(3) The applicant in Case No. 11243, Amoco Production Company ("Amoco"), seeks an order pooling all mineral interests from the surface to the base of the Pictured Cliffs formation underlying the following described acreage in Section 12, Township 29 North, Range 13 West, NMPM, San Juan County, New Mexico, and in the following described manner: the W/2 to form a standard 320-acre gas spacing and proration unit for any and all pools developed on 320-acre spacing within said vertical extent which presently includes only the Basin-Fruitland Coal (Gas) Pool; and, the SW/4 to form a standard 160-acre gas spacing and proration unit for any and all formations and/or pools developed on 160-acre spacing within said vertical extent which presently includes but is not necessarily limited to the Undesignated West Kutz-Fruitland Sand Pool and Undesignated West Kutz-Pictured Cliffs Pool. Said units are to be dedicated to a single well (its proposed Burnham Gas Com "B" Well No. 1) to be drilled at a standard gas well location 850 feet from the South line and 1190 feet from the West line (Unit M) of said Section 12.

(4) The applicant in Case 11247, Richardson Operating Company ("ROPCO"), seeks an order pooling all mineral interests in the Undesignated West Kutz-Pictured Cliffs Pool underlying the SW/4 of Section 12, Township 29 North, Range 13 West, NMPM, San Juan County, New Mexico and all mineral interests in the Basin-Fruitland Coal (Gas) Pool, underlying the W/2 of said Section 12, thereby forming a standard 160-acre and 320-acre gas spacing and proration unit for both pools, respectively. Said units are to be dedicated to a single well, the proposed Federal "12" Well No. 3, which is to be drilled at a potentially unorthodox gas well location within 200 feet of a point 870 feet from the South line and 1180 feet from the West line of said Section 12. Applicant further seeks authorization to commingle Undesignated West Kutz-Pictured Cliffs Pool production with gas production from the Basin-Fruitland Coal (Gas) Pool within the wellbore of said well.

(5) Each applicant (Amoco and ROPCO) has the right to drill and each proposes to drill their respective well to a depth sufficient to test both the Fruitland and the Pictured Cliffs formations, both seek to be designated the operator of the proposed 320/160-acre gas spacing and proration units, and both seek the adoption of drilling and production overhead charges and risk penalties.

(6) *The evidence established that there had been discussions between the parties concerning a possible farmout of the subject acreage in 1993. Amoco first proposed the drilling of a well in the SW/4 of said Section 12 on February 14, 1995. In response to this offer ROPCO made a similar proposal on March 6, 1995.*

FINDING: No voluntary agreement for development of this acreage has been reached by either party as to whom should drill and operate a Fruitland coal gas well within the W/2 and a concurrent Pictured Cliffs and/or Fruitland sand well within the SW/4 of said Section 12.

(7) As of the date of the hearing the working interest in the 160-acre (SW/4 of said Section 12) Pictured Cliffs and/or Fruitland sand gas spacing and proration unit is controlled as follows:

Amoco - 50%
Kerr-McGee Corporation - 4.167%
ROPCO - 45.833%

Further, the working interest in the 320-acre (W/2 of said Section 12) Fruitland coal gas spacing and proration unit is controlled as follows:

Amoco - 66.690%
Kerr-McGee Corporation - 2.776%
ROPCO - 30.534%

It was testified at the hearing that Kerr-McGee Corporation will join with whichever party prevails before the Division in these proceedings.

(8) The combined evidence presented by both parties in this matter also established that:

(a) Both desire to locate their proposed well on the drilling pad constructed by Amoco for its existing Basin-Dakota gas well (being the Burnham Gas Com Well No. 1 (API No. 30-045-08456), located 870 feet from the South line and 1180 feet from the West line (Unit M) of said Section 12;

(b) Both proposed well locations are essentially the same and there is no significant geological difference between them; and,

(c) Difference between the overhead and administrative costs is insufficient for Amoco proposes overhead rates of \$3,582.00 per month while drilling and \$498.00 per month while producing to be escalated in accordance with standard industry practices and ROPCO proposed overhead rates

were \$3,500.00 per month while drilling and \$450.00 per month while producing.

(9) *Amoco's authorization for expenditure ("AFE") costs for its well of \$216,260.00 was \$64,143.00 more than ROPCO's estimate of \$152,117.00. Amoco's figures included \$30,000.00 for compression costs that were not included in ROPCO's AFE. FURTHERMORE, Amoco testified that recent stimulation costs were less than reflected on the AFE provided to ROPCO and would be reduced by approximately \$20,000.00. The remaining differences between the AFE's were in the amount of contingency funds estimated by each.*

FINDING: Considering these factors, there appears to be no significant differences between the AFE's of the parties.

(10) Amoco proposes to drill its well with coiled tubing utilizing slimhole technology in an effort to test the application of this technology in the San Juan Basin. Both parties anticipate commingling gas from both the Pictured Cliffs and Fruitland Coal intervals in their respective wellbores. The testimony presented by ROPCO supports downhole commingling of these intervals in its proposed wellbore.

(11) *In summary, Amoco 1) was the first operator to propose a well to be drilled to a sufficient depth to test the deeper Pictured Cliffs interval within the SW/4 of said Section 12; 2) owns 66.690% of the working interest under the proposed W/2, 320-acre Basin-Fruitland Coal Gas spacing and proration unit; and 3) is the operator of the only other well in the SW/4 of the section and the drilling pad on which the proposed well will be located.*

FINDING: The application of Amoco Production Company in Case No. 11243 should be granted and the application of Richardson Operating Company in Case No. 11247 should be denied.

(12) To avoid the drilling of unnecessary wells, to protect correlative rights, to prevent waste, and to afford to the owner of each interest in said units the opportunity to recover or receive without unnecessary expense its just and fair share of the production in any pool completion resulting from this order, the application of Amoco Production Company in Division Case 11243 should be approved by pooling all mineral interests, whatever they may be, within said 160-acre and 320-acre units.

(13) Amoco Production Company should be designated the operator of the subject well and units.

(14) Any non-consenting working interest owner should be afforded the opportunity to pay his share of the estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(15) *Amoco proposed to split the risk factor penalty on the well by zone thereby assessing 200% to the deeper Pictured Cliffs interval and the usual 156% to the Fruitland Coal zone. ROPCO requested a single lesser risk factor penalty of 150% and presented supporting testimony that showed the likelihood of obtaining gas production in both the Pictured Cliffs formation and Basin-Fruitland Coal interval in the immediate area is increased due to current offsetting production, and that a well in this quarter section is expected to encounter a thicker pay interval in the Pictured Cliffs formation than that found in nearby offsetting Pictured Cliffs wells. Furthermore, ROPCO has successfully drilled, completed and now produces a well from both the Pictured Cliffs formation and Basin-Fruitland Coal (Gas) Pool in the NE/4 of said Section 12 which would indicate a lesser risk in the drilling and completion of such a downhole commingled well. Amoco presented insufficient justification through testimony to support approval of the maximum allowed penalty.*

FINDING: Any non-consenting working interest owner who does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 150 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(16) 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.

(17) Following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated well 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.

(18) \$ 3,582.00 per month should be fixed as a reasonable charge for supervision (combined fixed rates) while drilling and \$498.00 per month should be fixed as a reasonable charge for supervision while producing, provided that this rate should be adjusted annually based upon the percentage increase or decrease in the average weekly earnings of crude petroleum and gas production workers; the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share

of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(19) All proceeds from production from the subject well which 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.

(20) Upon the failure of the operator of said pooled units to commence drilling of its Burnham Gas Com "B" Well No. 1 on or before November 15, 1995, the order pooling said units should become null and void and of no effect whatsoever.

(21) Should all the parties to this force-pooling reach voluntary agreement subsequent to entry of this order, this order should thereafter be of no further effect.

(22) The operator of said well and units should notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the force-pooling provisions of this order.

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be, from the surface to the base of the Pictured Cliffs formation underlying the following described acreage in Section 12, Township 29 North, Range 13 West, NMPM, San Juan County, New Mexico, are hereby pooled in the following manner: the W/2 to form a standard 320-acre gas spacing and proration unit for any and all pools developed on 320-acre spacing within said vertical extent which presently includes only the Basin-Fruitland Coal (Gas) Pool; and, the SW/4 to form a standard 160-acre gas spacing and proration unit for any and all formations and/or pools developed on 160-acre spacing within said vertical extent which presently includes but is not necessarily limited to the Undesignated West Kutz-Fruitland Sand Pool and Undesignated West Kutz-Pictured Cliffs Pool. Both units shall be dedicated to Amoco Production Company's proposed Burnham Gas Com "B" Well No. 1 to be drilled at a standard gas well location for both drilling tracts 850 feet from the South line and 1190 feet from the West line (Unit M) of said Section 12.

PROVIDED HOWEVER THAT, the operator of said well and units shall commence the drilling of said well on or before the fifteenth day of November, 1995, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Pictured Cliffs formation.

PROVIDED FURTHER THAT, in the event said operator does not commence drilling operations on the Burnham Gas Com "B" Well No. 1 on or before the fifteenth day of November, 1995, Decretory Paragraph No. (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

PROVIDED FURTHER THAT, should said well not be drilled to completion, or abandoned, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Decretory Paragraph No. (1) of this order should not be rescinded.

(2) The application of Richardson Operating Company ("ROPCO") in Division Case 11247, for an order pooling all mineral interests in the Undesignated West Kutz-Pictured Cliffs Pool underlying the SW/4 of Section 12, Township 29 North, Range 13 West, NMPM, San Juan County, New Mexico and all mineral interests in the Basin-Fruitland Coal (Gas) Pool, underlying the W/2 of said Section 12, thereby forming a standard 160-acre and 320-acre gas spacing and proration unit for both pools, respectively, said units to be dedicated to a single well, the proposed Federal "12" Well No. 3, which is to be drilled at a potential unorthodox gas well location within 200 feet of a point 870 feet from the South line and 1180 feet from the West line of said Section 12, is hereby denied.

(3) Amoco Production Company is hereby designated the operator of the subject 320/160-acre gas spacing and proration units and its well to be drilled 850 feet from the South line and 1190 feet from the West line (Unit M) of said Section 12.

(4) After the effective date of this order and within 90 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject units an itemized schedule of estimated well costs.

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

well costs shall be the reasonable well costs; provided however, if there is an objection to actual well costs within said 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 his share of estimated costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata 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 pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him; and,
- (B) As a charge for the risk involved in the drilling of the well, 150 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

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

(10) \$ 3,582.00 per month is hereby fixed as a reasonable charge for supervision (combined fixed rates) while drilling, and \$ 498.00 per month is hereby fixed as a reasonable charge for supervision while producing, provided that this rate shall be adjusted on the first day of April of each year following the effective date of this order: the adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of crude petroleum and gas production workers for the last calendar year compared to the preceding calendar year as shown by "The Index of Average Weekly Earnings of Crude Petroleum and Gas Production Workers", as published by the United States Department of Labor, Bureau

of Labor Statistics, and the adjusted rate shall be the rate currently in use, plus or minus the computed adjustment; the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such 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 the terms of this order.

(12) Any well costs or charges which are to be paid out of production shall be withheld only from the working interest's share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(13) All proceeds from production from the subject well which are not disbursed for any reason shall be placed in escrow in San Juan 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 said escrow agent within 30 days from the date of first deposit with said escrow agent.

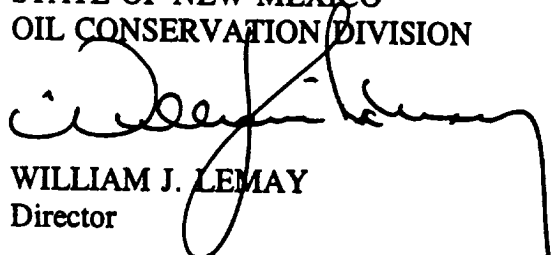
(14) Should all the parties to this force-pooling reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(15) The operator of the subject well and units shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the force-pooling provisions of this order.

(16) Jurisdiction of this cause 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


WILLIAM J. LEMAY
Director

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