

**CASE 5207: Application of CRAIG
FOLSON FOR A NON-STANDARD PRO-
RATION UNIT & COMPULSORY POOLING.**

CASE No.

5207

Application,

Transcripts,

Small Exhibits

ETC.

BEFORE THE OIL CONSERVATION COMMISSION OF
THE STATE OF NEW MEXICO

IN THE MATTER OF THE APPLICATION
OF CRAIG FOLSON FOR APPROVAL OF
THE FORMATION OF A NON-STANDARD
PRORATION UNIT AND COMPULSORY
POOLING, CHAVES COUNTY, NEW MEXICO

Case 5267

A P P L I C A T I O N

COMES NOW CRAIG FOLSON and applies to the Oil Conserva-
tion Commission of New Mexico for approval of the formation
of a non-standard proration unit and compulsory pooling
in the Caprock-Queen Pool, Chaves County, New Mexico, and
in support thereof would show the Commission;

1. Applicant is the owner of the right to drill and
develop the Oil and Gas minerals in the area involved in
this application.

2. Applicant proposes to form a non-standard unit
composed of 40 acres being the SW/4 NE/4 SE/4, NW/4 SE/4
SE/4, NE/4 SW/4 SE/4, SE/4 NW/4 SE/4 of Section 12,
Township 13 South, Range 31 East, N.M.P.M., to be dedica-
ted to a well to be located 1340 feet from the South line
and 1300 feet from the East line of Section 12, to a depth
sufficient to test the Queen

3. All interest owners have agreed to pool their
interests for the formation of the non-standard unit with
exception of the owner of the SE/4 NW/4 SE/4 of said
Section 12. Applicant is informed and believes that said
minerals underlying this 10 acre tract are owned by Vada
Spurck, whose last known address was 15445 Ventura Blvd,
Suite 22, Sherman Oaks Station, Van Nuys, California 91403.

DOCKET MAILED

DOCKET MAILED

Date 4-11-74

Date 3-29-74

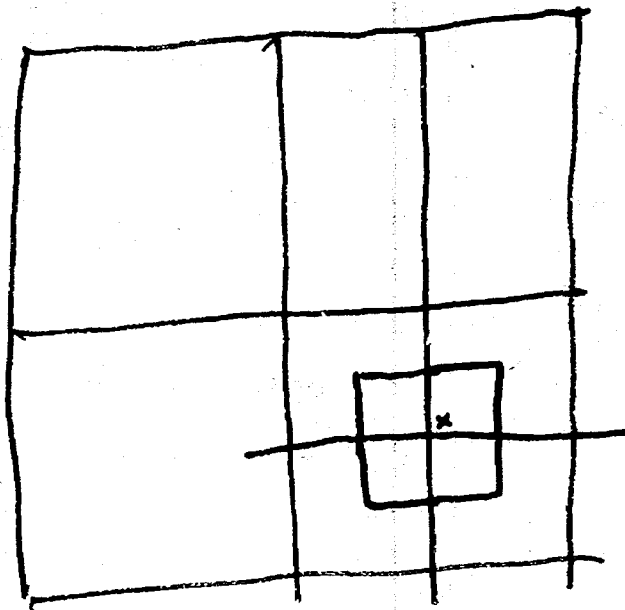
DOCKET MAILED

Date 4-11-74

DOCKET MAILED
3-29-74

4. The formation of the proposed non-standard pro-
ration unit will protect the correlative rights of the
interest owners, and the correlative rights of no offset
operator will be impaired.

WHEREFORE APPLICANT PRAYS THAT THIS APPLICATION BE
set for hearing before the Commission or the Commission's
duly appointed examiner, and that after notice and hearing
as required by law the Commission enter its order approv-
ing the formation of the non-standard unit, and compulsory
pooling as prayed for, together with a provision for the
allocation of costs of drilling, completing and equipping
the well to be drilled, the allocation of costs of opera-
ting the well including costs of supervision, the
designation of applicant as operator of said well, and
the assignment of a charge for the risk involved in
drilling said well and for such other and further relief
as may be proper.



CRAIG FOLSON

BY

W. F. Kellahin

Kellahin & Fox
P. O. Box 1769
Santa Fe, New Mexico 87501

ATTORNEYS FOR APPLICANT

U.S. POSTAL SERVICE
OFFICIAL BUSINESS

PERMIT NO. 1070
DALLAS, TEXAS



Return of Defective Office

SENDER INSTRUCTIONS

Place in the space below your name, address, including ZIP Code.
If special instructions desired, attach them on other side.
If postage stamps are attached, attach to back of card.

Mr. C. Craig Folson
2001 Bryan Tower - Suite 2805
Dallas, Texas 75201

(Mrs. Vada Spurck)

PS Form 3811, Mar. 1970 44-14200-1

[illegible]

RECEIPT Received of _____ the sum of _____ Dollars for _____	
Date _____ Pay to the order of _____ For _____ \$ _____	Received by _____ Signature of _____ Title _____ Date _____

U.S. POSTAL SERVICE
OFFICIAL BUSINESS

PENALTY FOR PRIVATE
USE: 30 TIMES POSTAGE
OF PERMIT NO.



Postmark of Delivering Office

POSTAGE PAID

Print in the space below your name, address, including ZIP Code.
If you are sending this letter to a business or other office,
include the name and address of the person to whom it should be sent.



Mr. C. Craig Polson
2801 Bryan Tower - Suite 2805
Dallas, Texas 75201
(Mrs. Vada Spurck)

C. CRAIG FOLSON
ATTORNEY AT LAW
SUITE 2805
2001 BRYAN TOWER
DALLAS, TEXAS 75201

TELEPHONE
(214) 742-1973

January 28, 1974

Mrs. Vada Spruck
15445 Ventura Blvd
Suite 5
Sherman Oaks, California 94103

Attention: Mr. Harlan Stead

Re: NW $\frac{1}{4}$ SE $\frac{1}{4}$ Section 12-13S-31E
Chaves County, New Mexico

Dear Mrs. Spruck/Mr. Stead:

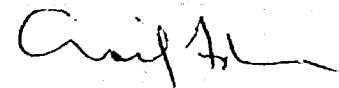
I plan to drill a 3,200 ft. Queen Sand test well bordering your acreage in March 1974 and it is necessary I obtain a farmout for the above mentioned tract, which is held in your name.

I have offered the other lease holders a 1/16 of 7/8 overriding royalty on all commercial production from this acreage. Your immediate cooperation on this matter would be most appreciated. I must testify before the New Mexico Oil Commission February 15, 1974, and your farmout is a requirement to obtain the drilling permit.

The acreage would be unitized and will receive a pro rata royalty.

Thank you for your immediate attention to this matter.

Sincerely,



C. Craig Folson

CCF:md

C. CRAIG FOLSON
ATTORNEY AT LAW
1925 MERCANTILE DALLAS BUILDING
DALLAS, TEXAS 75201

December 8, 1972

TELEPHONE
748-0221 AC 214

Mr. Vada Spurck
15445 Ventura Blvd.
Suite 26
Sherman Oaks Station
Van Nuys, California 91403

Re: NW 1/4 SE 1/4 Sec. 12-13S-31E
Chaves County, New Mexico

Dear Mr. Spurck:

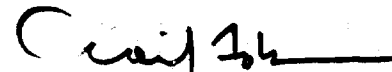
I plan to drill a 3,200 ft. Queen Sand test well bordering your acreage and it is necessary I obtain a farmout for the above mentioned tract.

I have offered the other lease holders a 1/16 of 7/8 overriding royalty on all commercial production from this acreage. Your immediate cooperation on this matter would be most appreciated. I must testify before the New Mexico Oil Commission December 19, and your farm-out is a requirement to obtain the drilling permit.

The acreage would be unitized and will receive a pro rata royalty.

Thank you for your immediate attention to this matter.

Sincerely,



Craig Folson

CF:dj

BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
April 25, 1974

EXAMINER HEARING

-----)
)
IN THE MATTER OF:)
)

Application of Craig Folson for)
a non-standard proration unit and)
compulsory pooling, Chaves County,)
New Mexico)

CASE NO.
5207

-----)
BEFORE: Daniel S. Nutter, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the New Mexico Oil
Conservation Commission:

William Carr, Esq.
and
Thomas Derryberry, Esq.
Legal Counsel for the
Commission
State Land Office Building
Santa Fe, New Mexico

For the Applicant:

W. Thomas Kellahin, Esq.
KELLAHIN & FOX
500 Don Gaspar
Santa Fe, New Mexico

CASE 5207

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I N D E X

PAGE

CRAIG FOLSON

Direct Examination by Mr. Tom Kellahin

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Cross Examination by Mr. Nutter

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E X H I B I T S

Marked Offered &
Admitted

Applicant's Exhibit No. 1

9

9

Applicant's Exhibits Nos. 2 & 3

11

11

FOLSON-DIRECT

MR. NUTTER: Case 5207

MR. CARR: Application of Craig Folson for a non-standard proration unit and compulsory pooling, Chaves County, New Mexico.

MR. TOM KELLAHIN: Tom Kellahin of Kellahin and Fox, appearing on behalf of the Applicant, Craig Folson. I have one witness to be sworn.

CRAIG FOLSON

called as a witness, having been first duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. TOM KELLAHIN:

Q Would you please state your name, address and your occupation?

A My name is Craig Folson, 2001 Bryan Tower, Dallas, Texas. I am an attorney and independent oil operator.

Q Did you previously testify before the Oil Conservation Commission in an Examiner Hearing in Case 5189 in which Order No. R-4750 was entered?

A Yes, I did.

Q Would you briefly tell me what the nature of that Application was in that case?

FOLSON-DIRECT

CASE 5207

Page.....4

A That was a request for an unorthodox well location in Section 12, Township 13, Range 31 East, Chaves County, New Mexico.

Q You again are the Applicant in Case 5207, is that correct?

A Yes, I am.

Q What are you seeking in this Application?

A A non-standard proration unit in that same area.

Q Please refer to what has been marked as Applicant's Exhibit No. 1 and identify this please? What is this?

A This is the proposal that I have outlined in undertaking this project in seeking a non-standard proration in an unorthodox location.

MR. TOM KELLAHIN: If the Examiner please, we would like to incorporate for purposes of showing that the entire non-standard proration unit is productive or potentially productive, we would like to incorporate the exhibits and testimony presented in the previous case, 5189.

MR. NUTTER: That was the case from which issued the order approving the non-standard location, is that correct?

THE NYE REPORTING SERVICE
STATE-WIDE DEPOSITION NOTARIES
225 JOHNSON STREET
SANTA FE, NEW MEXICO 87501
TEL. (505) 982-0386

FOLSON-DIRECT

MR. TOM KELLAHIN: That is correct.

MR. NUTTER: The record in Case No. 5189 will be incorporated for reference in this case.

BY MR. TOM KELLAHIN:

Q In supplementing your testimony in that previous case, Mr. Folson, would you please refer to Exhibit No. 1 and turn to Page 2 of that exhibit and briefly summarize for us your estimated drilling costs for that well?

A The estimated drilling cost, incomplection cost would total in the vicinity of \$75,000 -- \$70,000 to \$75,000.

Q Have you obtained the consent of all interest owners underlying this particular non-standard proration unit?

A Yes, I have, with one exception and that is the owner of the northwest quarter of the southeast quarter of Section 12, Township 13. I have tried on numerous occasions to reach the leaseholder of record and in every instance, I have received back the mail I have sent with return receipt requested stating that -- incorrect address or --

Q (Interrupting) Who is the interest owner of record for that particular area?

FOLSON-DIRECT

A This is Vada Spurck.

Q What is the last known address that you have been able to find?

A 15445 Ventura Boulevard, Suite 5, Sherman Oaks, California.

Q How did you obtain that address?

A From the records that I obtained from the State of New Mexico as to where the last known address of this person was.

Q How often did you attempt to locate this individual?

A I tried on three previous occasions in the last 18 months.

Q Would you please refer now to Page 4 of Exhibit 1. Directing your attention to that portion of Page 4 which refers to anticipated operating costs and charges for supervising this particular well. Where were those figures obtained and how were they compiled?

A Mr. Paul White of Artesia, New Mexico is an engineer with Summit Energy of Dallas, Texas, and he provided the figures to me which have been brought up to date as of the last 30 days.

Q Do you desire to be designated the operator

FOLSON-DIRECT

of this well?

A No, I would like to designate --

Q (Interrupting) Let's do it another way.

Who have you retained to actually drill the well for you?

A Cactus Drilling Company of Hobbs and Dallas will undertake the drilling.

Q But you, in fact, will be the actual operator responsible for this particular well?

A That's right.

Q And as your expertise or your experienced agent in the field, you have hired Cactus Drilling Company?

A Yes, I have.

Q Referring back now to your cost of supervision, what do you anticipate to be the monthly cost to be assessed against the non-consenting owner here?

A With recent figures, I feel the cost would be roughly \$50 per day as the cost of paying the pumper, the electrical power bills, chemical, maintenance and supplies.

Q That is the total cost of the well, is that right?

A That is the cost per day of operating the well.

Q And the non-consenting owner represents one-

fourth of the area involved?

A That's correct.

Q With regard to the previous testimony in Case 5189, did you reach an opinion based upon the exhibits entered in that case that the area involved would be reasonably productive of hydrocarbons?

A Yes.

Q Based upon that previous testimony, do you have any opinion with regard to a risk factor to be applied in the drilling of this well?

A I believe a risk factor of approximately 50 percent would be fair for all parties concerned.

Q In your opinion, Mr. Folson, will approval of this Application be in the best interest of conservation, protection of correlative rights and prevention of waste?

A Yes.

Q Was Exhibit 1 compiled by you?

A Yes, it was.

MR. TOM KELLAHIN: If the Examiner please, we move the introduction of Exhibit No. 1.

MR. NUTTER: Exhibit No. 1 will be admitted in evidence.

MR. TOM KELLAHIN: That concludes our direct

FOLSON-DIRECT

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(Whereupon, Applicant's Exhibit No. 1 was marked for identification, offered and admitted into evidence.)

CROSS EXAMINATION

BY MR. NUTTER:

Q Mr. Folson, in this cost estimate you give here on Pages 2 and 3 come to a total of \$66,000 and yet you mentioned \$75,000 as being your estimated cost of the well.

A Well, there still is some possible problems with obtaining production casing. That is fluctuating rather wildly and I was just hedging with the fact that we might pay a little bit more than I anticipated.

Q Now, the normal order of the Commission requires that within 30 days prior to the commencement of the drilling operations an AFE be submitted to those parties who would be pooled under the order. Of course, if you send it to this address, it may come back to you again, but within 30 days prior to the commencement of the drilling operations, will you furnish the Commission and also Vada Spurck of this last known address, a copy of that AFE?

A Yes, I will.

FOLSON-CROSS

Q And then any non-consenting working interest owner has the right within 30 days to pay their share and it would have to be a current up-to-date estimate of the estimated costs.

Now, we get over here to Page 4 and you mentioned that in your estimate it is going to cost \$50 a day to operate the well. The normal order of the Commission in pooling acreage provides that the operator may withhold from production the actual costs plus a charge for supervision. Now, the charge for supervision is what is normally the combined fixed rate in the COPAS form for supervision and overhead. Do you have an estimate on what your overhead is for the operation of the well?

A I would say \$200 a month.

Q Then the \$50 a day would be actual charges which you could substantiate in your day-to-day operation, you say?

A Yes.

Q And you would be able to withhold that from actual production?

A Yes.

MR. NUTTER: Now, did you intend, Mr. Kellahin,

to offer those returned envelopes as evidence that you haven't been able to contact this party?

MR. KELLAHIN: Yes. We will mark these as Exhibits 2 and 3 and I will ask that they also be admitted.

MR. NUTTER: What is the most recent date on one of those?

THE WITNESS: January 8th, I believe.

MR. TOM KELLAHIN: We have January 28th, 1974. This one shows a postmark of December 8th, 1972. Is there a third one?

THE WITNESS: There is, but I inadvertently forgot it. I can mail that in.

BY MR. NUTTER:

Q Is this January 28th of '74 the most recent attempt you have made?

A Yes, it is.

MR. NUTTER: Applicant's Exhibits 2 and 3 will be admitted in evidence.

(Whereupon, Applicant's Exhibits Nos. 2 & 3 were marked for identification, offered and admitted into evidence.)

MR. NUTTER: Do you have anything further,

Mr. Kellahin?

MR. TOM KELLAHIN: No, sir.

MR. NUTTER: Does anyone have anything they wish to offer in Case 5207?

We will take the case under advisement.

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

Richard E. Hys
COURT REPORTER

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 5207, heard by me on 4/25, 1974.

V. Burton President
New Mexico Oil Conservation Commission

THE NYE REPORTING SERVICE
STATE-WIDE DEPOSITION NOTARIES
225 JOHNSON STREET
SANTA FE, NEW MEXICO 87501
TEL. (505) 932-0386

BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
April 10, 1974

EXAMINER HEARING

IN THE MATTER OF:

Application of Craig Folson for a
non-standard proration unit and
compulsory pooling, Chaves County,
New Mexico.

Case No. 5207

BEFORE: Richard L. Stamets, Examiner.

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the New Mexico Oil
Conservation Commission:

Thomas Derryberry, Esq.
Legal Counsel for the
Commission
State Land Office Bldg.
Santa Fe, New Mexico

THE NYE REPORTING SERVICE
STATE-WIDE DEPOSITION NOTARIES
225 JOHNSON STREET
SANTA FE, NEW MEXICO 87501
TEL. (505) 982-0386

MR. STAMETS: We'll call the next case, Case 5207.

MR. DERRYBERRY: Case 5207. Application of Craig Folson for a non-standard proration unit and compulsory pooling, Chaves County, New Mexico. This case has been continued until the next Examiner Hearing on April 25th.

MR. STAMETS: Case 5207 will be continued until April the 25th.

STATE OF NEW MEXICO)
COUNTY OF SANTA FE) SS.

I, RICHARD L. NYE, Court Reporter, do hereby certify that the foregoing and attached Transcript of Hearing before the New Mexico Oil Conservation Commission was reported by me, and the same is a true and correct record of the said proceedings, to the best of my knowledge, skill and ability.

Richard L. Nye
RICHARD L. NYE, Court Reporter

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 5207, heard by me on 4-10, 1974.
Richard L. Nye, Examiner
New Mexico Oil Conservation Commission

THE NYE REPORTING SERVICE
STATE-WIDE DEPOSITION NOTARIES
225 JOHNSON STREET
SANTA FE, NEW MEXICO 87501
TEL. (505) 982-0386

DOCKET: EXAMINER HEARING - THURSDAY - APRIL 25, 1974

9 A.M. - OIL CONSERVATION COMMISSION CONFERENCE ROOM
STATE LAND OFFICE BUILDING - SANTA FE, NEW MEXICO

The following cases will be heard before Daniel S. Nutter, Examiner, or Richard L. Stamets, Alternate Examiner:

CASE 5206: (Continued from the April 10, 1974, Examiner Hearing)

Application of Continental Oil Company for downhole commingling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to commingle West Warren-Blaine and East Skaggs-Drinkard production in the wellbore of its SEMU Burger Well No. 21 located in Unit 0 of Section 19, Township 20 South, Range 38 East, Lea County, New Mexico.

CASE 5209: (Continued from the April 10, 1974, Examiner Hearing)

Application of Union Oil Company of California for a unit agreement, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval of the Estacado Unit Area comprising 1280 acres, more or less, of State and fee lands in Township 14 South, Range 35 East, Lea County, New Mexico.

CASE 5219: Application of Midwest Oil Corporation for pool creation, discovery allowable, and special pool rules, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks the creation of a new oil pool for Wolfcamp production for its South Empire Deep Unit Well No. 4 located in Unit G of Section 32, Township 17 South, Range 29 East, Eddy County, New Mexico, and for the promulgation of special pool rules therefor, including a provision for 80-acre spacing. Applicant further seeks the assignment of approximately 42,245 barrels of oil discovery allowable to the aforesaid well.

CASE 5220: Application of Atlantic Richfield Company for an unorthodox gas well location and non-standard proration unit, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of its McDonald State WN Well No. 24 located 1780 feet from the North line and 660 feet from the West line of Section 25, Township 22 South, Range 36 East, Jalmat Gas Pool, Lea County, New Mexico, to be dedicated to a 320-acre non-standard gas proration unit comprising the N/2 of said Section 25.

CASE 5221: Application of Black River Corporation for an unorthodox gas well location and a non-standard proration unit, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of its BR 4 Federal Well No. 3 located 1986 feet from the North line and 330 feet from the East line of Section 4, Township 26 South, Range 24 East, undesignated Delaware gas pool, Eddy County, New Mexico,

(Case 5221 continued from Page 1)

said well having been projected as an oil well at a standard location for Delaware oil wells. Applicant further seeks approval of a 201.34-acre non-standard gas proration unit for said well comprising the NE/4 of said Section 4.

CASE 5222: Application of Amoco Production Company for a unit agreement, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval of the Pavo Mesa Unit Area comprising 2,560 acres, more or less, of State and Federal lands in Township 16 South, Range 28 East, Eddy County, New Mexico.

CASE 5223: Application of Continental Oil Company for a 320-acre non-standard gas proration unit, simultaneous dedication of acreage, and reinstatement of cancelled underproduction, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for a 320-acre non-standard gas proration unit comprising the N/2 of Section 17, Township 24 South, Range 37 East, Jalmat Gas Pool, Lea County, New Mexico, to be simultaneously dedicated to its Jack B-17 Wells Nos. 3 and 4 located 990 feet from the North and East lines and 990 feet from the North line and 1980 feet from the West line, respectively, of said Section 17. Applicant further seeks the reinstatement of the underproduction which was cancelled November 1, 1973, when the aforesaid proration unit was reclassified to marginal status.

CASE 5224: Application of Phillips Petroleum Company for a dual completion, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the dual completion (conventional) of its James "E" Well No. 1 located in Unit C of Section 11, Township 22 South, Range 30 East, Cabin Lake Field, Eddy County, New Mexico, in such a manner as to produce gas from the Strawn and Morrow formations through parallel strings of tubing.

CASE 5225: Application of Fluid Power Pump Company, Petro Lewis Corporation, and Partnership Properties Company for compulsory pooling, Sandoval County, New Mexico. Applicants, in the above-styled cause, seek an order pooling all mineral interests in the Media-Entrada Oil Pool underlying the NW/4 of Section 22, Township 19 North, Range 3 West, Sandoval County, New Mexico, to be dedicated to the Fluid Power Pump Company Well No. 5 located in Unit C of said Section 22.

CASE 5226: Application of Inexco Oil Company for pool creation and special pool rules, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks the creation of a new Morrow gas pool for its Fasken El Paso Federal Well No. 1 located in the SW/4 NW/4 of Section 3, Township 21 South, Range 26 East, Eddy County, New Mexico, and the promulgation of special pool rules therefor, including a provision for 640-acre spacing units for Sections 7 through 12, Township 21 South, Range 26 East, and the adoption of 480-acre non-standard spacing units comprising either the N/2 or S/2 of Sections 1 through 6, Township 21 South, Range 26 East, and Section 7, Township 21 South, Range 27 East.

CASE 5227: Application of Morris R. Antwell for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Pennsylvanian formation underlying Lots 9 through 16 of Section 4, Township 21 South, Range 26 East, Eddy County, New Mexico, to form a standard 320-acre gas proration unit to be dedicated to a well to be drilled at a standard location for said unit. Also to be considered will be the cost of drilling and completing said well and the allocation of such costs, as well as actual operating costs and charges for supervision. Also to be considered is the designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 5228: Application of David Fasken for the creation of two pools and a dual completion, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks the creation of a Strawn gas pool and a Morrow gas pool for his El Paso 3 Federal Well No. 1 located 2724 feet from the North line and 2870 feet from the East line of Section 3, Township 21 South, Range 26 East, Eddy County, New Mexico. Applicant further seeks approval for the dual completion of said well to produce gas from the Strawn and Morrow formations through parallel strings of tubing.

CASE 5207: (Continued from the April 10, 1974, Examiner Hearing)

Application of Craig Folson for a non-standard proration unit and compulsory pooling, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests underlying a non-standard oil proration unit comprising the SW/4 NE/4 SE/4, NW/4 SE/4 SE/4, NE/4 SW/4 SE/4, and the SE/4 NW/4 SE/4 of Section 12, Township 13 South, Range 31 East, Caprock-Queen Pool, Chaves County, New Mexico, to be dedicated to a well to be drilled at an unorthodox location 1340 feet from the South line and 1300 feet from the East line of said Section 12, said location having been previously been approved by Order No. R-4750. Also to be considered will be the cost of drilling and completing said well and the allocation of such costs, as well as actual operating costs and charges for supervision. Also to be considered is the designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 5208: (Continued from the April 10, 1974, Examiner Hearing)

Application of S. P. Yates for an exception to Order No. R-3221, as amended, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks, as an exception to Order No. R-3221, as amended, authority to dispose of produced salt water in an unlined surface pit on its Federal LC 065598 lease in the SW/4 SW/4 of Section 4, and the NE/4 of Section 5, Township 17 South, Range 30 East, Square Lake Pool, Eddy County, New Mexico.



OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO
P. O. BOX 2088 - SANTA FE
87501

June 4, 1974

I. R. TRUJILLO
CHAIRMAN

LAND COMMISSIONER
ALEX J. ARMUJO
MEMBER

STATE GEOLOGIST
A. L. PORTER, JR.
SECRETARY - DIRECTOR

Mr. Tom Kellahin
Kellahin & Fox
Attorneys at Law
Post Office Box 1769
Santa Fe, New Mexico

Re: CASE NO. 5207

ORDER NO. R-4796

Applicant:

Craig Folsom

Dear Sir:

Enclosed herewith are two copies of the above-referenced Commission order recently entered in the subject case.

Very truly yours,

A. L. Porter, Jr.

A. L. PORTER, Jr.
Secretary-Director

ALP/ir

Copy of order also sent to:

Hobbs OCC	<u>x</u>
Artesia OCC	<u>x</u>
Aztec OCC	<u> </u>

Other

Vada Spurck, 15445 Ventura Blvd., Suite 22, Sherman
Oaks Station, Van Nuys, California 91403

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONSIDERING:

CASE NO. 5207
Order No. R-4796

APPLICATION OF CRAIG FOLSON FOR
A NON-STANDARD PRORATION UNIT
AND COMPULSORY POOLING, CHAVES
COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on April 25, 1974, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 4th day of June, 1974, the Commission, a quorum being present, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

- (1) That due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.
- (2) That the applicant, Craig Folson, seeks approval of a 40-acre non-standard oil proration unit comprising the SW/4 NE/4 SE/4, NW/4 SE/4 SE/4, NE/4 SW/4 SE/4, and the SE/4 NW/4 SE/4 of Section 12, Township 13 South, Range 31 East, NMPM, Caprock-Queen Pool, Chaves County, New Mexico.
- (3) That the applicant also seeks an order pooling all mineral interests underlying the non-standard oil proration unit described in Finding (2), above.
- (4) That the subject non-standard oil proration unit is to be dedicated to a well to be drilled at an unorthodox location 1340 feet from the South line and 1300 feet from the East line of said Section 12, said unorthodox location being previously approved by the Commission by Order No. R-4750, dated March 15, 1974.
- (5) That the entire area comprising the proposed non-standard oil proration unit may reasonably be presumed productive of oil from the Caprock-Queen Pool.
- (6) That the proposed non-standard proration unit should be approved.

(7) That the applicant has the right to drill and proposes to drill a well at said unorthodox location.

(8) That there are interest owners in the proposed proration unit who have not agreed to pool their interests.

(9) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the gas in said pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

(10) That the applicant should be designated the operator of the subject well and unit.

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

(12) That any non-consenting working interest owner that does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 50 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(13) That any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but that actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(14) That following determination of reasonable well costs, any non-consenting working interest owner that has paid his 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.

(15) That \$200 per month should be fixed as a reasonable charge for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charge 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.

(16) That 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.

CASE NO. 5207
Order No. R-4796

(17) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before September 1, 1974, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That a 40-acre non-standard oil proration unit is hereby approved, comprising the SW/4 NE/4 SE/4, NW/4 SE/4 SE/4, NE/4 SW/4 SE/4, and the SE/4 NW/4 SE/4 of Section 12, Township 13 South, Range 31 East, NMPM, Caprock-Queen Pool, Chaves County, New Mexico.

(2) That all mineral interests underlying said non-standard oil proration unit are hereby pooled.

(3) That said non-standard oil proration unit shall be dedicated to a well to be drilled at an unorthodox location 1340 feet from the South line and 1300 feet from the East line of said Section 12.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the 1st day of September, 1974, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Queen formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 1st day of September, 1974, Order (1) of this order shall be null and void and of no effect whatsoever;

PROVIDED FURTHER, that should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Commission and show cause why Order (1) of this order should not be rescinded.

(4) That Craig Folsom is hereby designated the operator of the subject well and unit.

(5) That after the effective date of this order and within 30 days prior to commencing said well, the operator shall furnish the Commission and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(6) That 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 that 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.

(7) That the operator shall furnish the Commission and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; that if no objection to the actual well costs is received by the Commission and the Commission has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, that if there is an objection to actual well costs within said 45-day period the Commission will determine reasonable well costs after public notice and hearing.

(8) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner that 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.

(9) That 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.
- (B) As a charge for the risk involved in the drilling of the well, 50 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.

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

(11) That \$200.00 per month is hereby fixed as a reasonable charge for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charge 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.

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CASE NO. 5207
Order No. R-4796

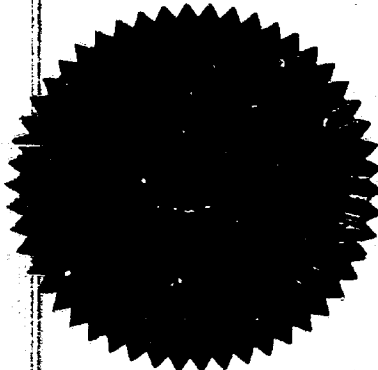
(12) That any unsevered mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(13) That any well costs or charges which 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.

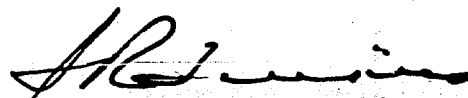
(14) That all proceeds from production from the subject well which are not disbursed for any reason shall be placed in escrow in Chaves County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Commission of the name and address of said escrow agent within 90 days from the date of this order.

(15) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.


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



STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION


I. R. TRUJILLO, Chairman

ALEX J. ARMIJO, Member


A. L. PORTER, JR., Member & Secretary

S E A L

jr/

DOCKET: EXAMINER HEARING -- WEDNESDAY - APRIL 10, 1974

9 A.M. - OIL CONSERVATION COMMISSION CONFERENCE ROOM,
STATE LAND OFFICE BUILDING - SANTA FE, NEW MEXICO

The following cases will be heard before Richard L. Stamets, Examiner, or Daniel S. Nutter, Alternate Examiner:

- ALLOWABLE: (1) Consideration of the allowable production of gas from seventeen prorated pools in Lea, Eddy, Roosevelt, and Chaves Counties, New Mexico, for May, 1974;
- (2) Consideration of the allowable production of gas from five prorated pools in San Juan, Rio Arriba, and Sandoval Counties, New Mexico, for May, 1974.

CASE 5201: Application of Mobil Oil Corporation for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Pennsylvanian formation underlying the S/2 of Section 33, Township 22 South, Range 27 East, South Carlsbad Field, Eddy County, New Mexico, to form a standard 320-acre proration unit to be dedicated to a well to be drilled at a standard location for said unit. Also to be considered will be the cost of drilling and completing said well and the allocation of such costs, as well as actual operating costs and charges for supervision. Also to be considered is the designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 5202: Application of El Paso Natural Gas Company for special pool rules, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks the promulgation of special pool rules for the West Sand Dunes-Morrow Gas Pool in Township 23 South, Range 31 East, Eddy County, New Mexico, including a provision for 640-acre spacing.

CASE 5203: Application of Jake L. Hamon for salt water disposal, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to dispose of produced salt water into the Devonian formation in the perforated interval from 13,230 feet to 13,320 feet in his Getty State L-736 Well No. 1 located in Unit D of Section 32, Township 16 South, Range 36 East, East Shoe Bar-Devonian Pool, Lea County, New Mexico.

CASE 4790: (Reopened)

In the matter of Case No. 4790 being reopened pursuant to the provisions of Order No. R-4370, which order established temporary rules for the Dublin-Ellenburger Gas Pool, Lea County, New Mexico, including a provision for 640-acre spacing. All interested parties may appear and show cause why said pool should not be developed on 320-acre spacing units.

- CASE 5204: Application of Cities Service Oil Company for a dual completion, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the dual completion of its Government T Well No. 1 located in Unit C of Section 14, Township 20 South, Range 28 East, Russell Field, Eddy County, New Mexico, in such a manner as to produce gas from the Wolfcamp and Morrow formations through the casing-tubing annulus and tubing, respectively.
- CASE 5205: Application of Cities Service Oil Company for a dual completion, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the dual completion of its Paslay "A" Com Well No. 1 located in Unit K of Section 8, Township 22 South, Range 27 East, Eddy County, New Mexico, to produce gas from undesignated Strawn and Morrow gas pools through the casing-tubing annulus and tubing, respectively.
- CASE 5211: Application of Cities Service Oil Company for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Pennsylvanian formation underlying the W/2 of Section 8, Township 22 South, Range 27 East, South Carlsbad Field, Eddy County, New Mexico, to be dedicated to its Paslay Well No. 1, located in Unit K of said Section 8. Also to be considered will be the cost of drilling and completing said well and the allocation of such costs, as well as actual operating costs and charges for supervision. Also to be considered is the designation of applicant as operator of the well and a charge for risk involved in drilling said well.
- CASE 5212: Application of Cities Service Oil Company for a unit agreement, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the Citgo Empire-Abo Unit Area comprising 361 acres, more or less, of Federal and State lands in Townships 17 and 18 South, Range 27 East, Empire-Abo Pool, Eddy County, New Mexico.
- CASE 5213: Application of Cities Service Oil Company for a pressure maintenance project, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to institute a pressure maintenance project on its Citgo Empire-Abo Unit, Empire-Abo Pool, Eddy County, New Mexico, by the injection of gas into the Abo formation through a well to be drilled at an unorthodox location 990 feet from the South line and 2635 feet from the East line of Section 35, Township 17 South, Range 27 East. Applicant further seeks the establishment of special rules for said pressure maintenance project including a provision for the operation of the project under a net GOR rule and the establishment of a gas injection credit "bank" against which injection credit could be drawn in order to maintain full allowables during such times as injection plant shut-downs, etc.

CASE 5206: Application of Continental Oil Company for downhole commingling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to commingle West Warren-Blinebry and East Skaggs-Drinkard production in the wellbore of its SEMU Burger Well No. 21 located in Unit O of Section 19, Township 20 South, Range 38 East, Lea County, New Mexico.

CASE 5207: Application of Craig Folsom for a non-standard proration unit and compulsory pooling, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests underlying a non-standard oil proration unit comprising the SW/4 NE/4 SE/4, NW/4 SE/4 SE/4, NE/4 SW/4 SE/4, and the SE/4 NW/4 SE/4 of Section 12, Township 13 South, Range 31 East, Caprock-Queen Pool, Chaves County, New Mexico, to be dedicated to a well to be drilled at an unorthodox location 1340 feet from the South line and 1300 feet from the East line of said Section 12, said location having been previously been approved by Order No. R-4750. Also to be considered will be the cost of drilling and completing said well and the allocation of such costs, as well as actual operating costs and charges for supervision. Also to be considered is the designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 5208: Application of S. P. Yates for an exception to Order No. R-3221, as amended, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks, as an exception to Order No. R-3221, as amended, authority to dispose of produced salt water in an unlined surface pit on its Federal LC 065598 lease in the SW/4 SW/4 of Section 4, and the NE/4 of Section 5, Township 17 South, Range 30 East, Square Lake Pool, Eddy County, New Mexico.

CASE 5209: Application of Union Oil Company of California for a unit agreement, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval of the Estacado Unit Area comprising 1280 acres, more or less, of State and fee lands in Township 14 South, Range 35 East, Lea County, New Mexico.

CASE 5210: In the matter of the application of the Oil Conservation Commission on its own motion for the contraction of the House-Tubb Gas Pool by the deletion of all of Section 12, Township 20 South, Range 38 East, Lea County, New Mexico, and the creation of the East House-Tubb Oil Pool comprising all of the NW/4 of said Section 12.

CASE 5214: Application of Inexco Oil Company for a unit agreement, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the Robb Spring Unit Area comprising 6402 acres, more or less, of State, Federal, and fee lands in Townships 23 and 24 South, Range 25 East, Eddy County, New Mexico.

CASE 5215: Application of Morris R. Antwell for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order

(Case 5215 continued from Page 3)

pooling all mineral interests in the Pennsylvanian formation underlying the S/2 of Section 17, Township 22 South, Range 27 East, South Carlsbad Field, Eddy County, New Mexico, to be dedicated to a well to be drilled at a standard location for said unit. Also to be considered will be the cost of drilling and completing said well and the allocation of such costs, as well as actual operating costs and charges for supervision. Also to be considered is the designation of applicant as operator of the well and a charge for risk involved in drilling said well.

BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
5207 EXHIBIT NO. 1
CASE NO. 5207

C. CRAIG FOLSON
ATTORNEY AT LAW
SUITE 2805
2001 BRYAN TOWER
DALLAS, TEXAS 75201

TELEPHONE
(214) 742-1973

April 20, 1974

PROPOSAL TO DRILL
CAPROCK QUEEN PROSPECT
CHAVES COUNTY NEW MEXICO

OBJECTIVE:

Queen Sand Test, production records attached. For sometime it has been felt by engineers that in certain waterflood areas a parabolic design of oil "banking" might occur in good five spot flood prospects. The physical affect of high center spot withdrawal from four pressure points would set up very efficient flow systems in the sand body but because of this very success there could be large deposits of oil in the areas of pressurization where no withdrawal is occurring.

Thunderbird Oil of Midland, Texas drilled a well $1\frac{1}{2}$ miles straight east of this prospect, and it has made 40-90 BOPD since it was drilled in August 1972. They also drilled in the middle of four wells using the same concept as above. Thunderbird has subsequently drilled three more wells which are $\frac{1}{2}$ - $1\frac{1}{2}$ miles east. They are currently making 20-30 barrels per day.

DEPTH:

3,200 feet, or top of Queen Sand, whichever is the lesser.

LOCATION:

Southeast Quarter (NE/4 of SE/4) of Section 12, Township 13 South, Range 31 East, Chaves County, New Mexico. Approval for unorthodox location has been granted by the Oil Conservation Commission, Santa Fe, New Mexico.

Page 2.-

ACREAGE:

Initially, a 40 acre communitized unit will be formed by taking 10 acres from each of the quarter/quarter sections surrounding the location. Agreements have been reached with surrounding lease holders whereby additional farmouts will be granted on a similar basis. This will allow at least 3 additional wells.

DRILLING AGREEMENT:

Cactus Drilling has accepted our offer to drill the well to casing point for a turn-key bid of \$30,000 in return for a $\frac{1}{4}$ working interest in the well.

Cactus will furnish the following:

1. Staked location
2. Build road to location
3. Furnish 85/8 surface pipe and cement
4. Drill to 3,200 feet
5. Provide all mud and water
6. Rig time for Gamma Ray Acoustic Log
7. D.S.T. with rig time
8. 8 hours to P. & A. or rig time to run casing

ESTIMATED DRILLING COSTS:

TO DRILL AND TEST 3000' QUEEN SAND WELL

Drilling Footage 3000' @ \$5.50	\$16,500
Day work Rig	2,500
Drilling Mud and Fluids	1,500
8 5/8" Surface Casing 300'	1,500
Cementing 8 5/8" Surface Pipe	1,150
2 7/8" EUE J55S Test String	4,500
Lynes Open Hole Test Packer	2,000
1-3 5/8" Weldon by 6" - 600 Ser	
Flange w/2-2" Side Outlets	250
Welding Services	100
Tank Rental and Trucking	800
5 Days Service Unit Time	4,000
Dirt Work and Location	2,000
Lease acquisition, legal fees, travel, geology	4,250
Sub-Total	\$41,050

Page 3.-

TO COMPLETE A COMMERCIAL QUEEN SAND WELL

5½ Casing @ 3000'	\$9,000
Cementing 5½" Casing	1,234
Perforating 5½" Casing	1,500
Wellhead 8 5/8 x 5½ x 2 7/8	800
228 Pumping Unit and Base	6,000
25 HP Electric Motor	800
Control Box	500
Rods and Pump	2,000
Stuffing Box - P. Tee - Polish Rod	300
2-500 barrel Tanks	3,000
Flowline and Battery Connections	800
Heater-Treater	2,000
Well Service Unit	4,000
General Labor	500
FRAC formation with 30,000 gallons total treatment (Halliburton)	4,200
Sub-total	\$36,634

TOTAL COST FOR COMPLETED QUEEN SAND WELL

Drill and Test	\$30,000
Complete	\$36,634
	\$66,634

PROPOSAL:

I propose to sell 8/8 of a 69.54% net lease:

1/8 of 8/8 ORR to State of New Mexico
1/16 of 7/8 ORR to Lease Owner
1/8 of 8/8 to Craig Folson

Based on a \$70,000 well cost, payout should be realized in nine months for a 50 BOPD producer:

50 BOPD @ \$10.00 per barrel	\$505.00
Gross Revenue to 70% interest (net)	\$353.50
* Daily Lease Operating Expenses & Taxes	\$ 50.00
Net Revenue per Day to 70% interest after Lease Operating Expense, Royalties & Taxes	\$303.50

Page 4.-

Reserves for the well should approximate the reserves experienced in the waterflood area on a well basis. For example, in Section 12-T13S-R31E, total oil recovery has been 2,488.035 barrels. Each forty acre tract produced 155,502 barrels of oil.

155,502 barrels @ \$10.00 per barrel	\$1,570,570
Gross Revenue to 70% interest	\$1,099.399
** Lease Operating Costs & Taxes	\$ 166,775
Net Revenue to 70% interest	\$ 932,624

The NRI would be 13 to 1

- * The \$50.00 per day is the cost of paying the pumper, electrical power bills, chemicals, maintenance and supplies. Average monthly operating costs and taxes to pump a well of this caliber would run about \$1,500 per month.
- ** Experience and data confirm a current per barrel lifting cost and tax of \$1.07 per barrel. This 155,502 barrels times \$1.07 over the life of the property would be \$166,775.

PARTICIPATION AGREEMENT:

A 1/8 working interest (turn-key) in the well will initially cost \$6,000 (69.54% lease). If the well is dry and a decision is made to plug and abandon the well, this will be the entire cost in the venture. At least 98% of this will be deductible as intangible drilling costs and can be deducted against income for your personal income tax purposes.

If the well is completed as a producer, then a 1/8 working interest owner will pay 1/8 of the completion costs. This will be approximately \$4,500 but the cost will be based on actual invoices, and it is believed that the costs could be substantially less, if no problems are encountered. These costs are capitalized and may be depreciated for tax purposes.

In figuring a 1/16 interest the cost would be exactly one half of a 1/8 interest, and in figuring a 1/4 interest the cost would be exactly double the cost for a 1/8 interest.

200/month.
50% risk factor

Page 5.-

I intend to drill this well between May 1 - May 20, 1974, depending upon rig availability. A contract for this date has been agreed to by Cactus Drilling Company, Hobbs, New Mexico.

I am going to, personally, purchase 1/8 working interest in this well in addition to contributing the leases which I have held the past 12-18 months.

Crude Oil prices are currently \$10.20 per barrel in this area of New Mexico (36° API). Prices have risen from \$6.21 per barrel in November of 1973.

DRAFT

jr/

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONSIDERING:

CASE NO. 5207

Order No. R- 4796

APPLICATION OF CRAIG FOLSON FOR A
NON-STANDARD PRORATION UNIT AND
COMPULSORY POOLING, CHAVES COUNTY,
NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on April 25, 19 74
at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this day of May, 1974, the Commission,
a quorum being present, having considered the testimony, the record,
and the recommendations of the Examiner, and being fully advised
in the premises,

FINDS:

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

(2) That the applicant, Craig Folson, seeks approval of a
40-acre non-standard oil ~~well~~ proration unit comprising the SW/4
NE/4 SE/4, NW/4 SE/4 SE/4, NE/4 SW/4 SE/4, and the SE/4 NW/4 SE/4
of Section 12, Township 13 South, Range 31 East, NMPM, Caprock-
Queen Pool, Chaves County, New Mexico.

DRAFT

jr/

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
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NE/4 SE/4, NW/4 SE/4 SE/4, NE/4 SW/4 SE/4, and the SE/4 NW/4 SE/4
of Section 12, Township 13 South, Range 31 East, NMPM, Caprock-
Queen Pool, Chaves County, New Mexico.

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CASE NO. 5207
Order No. R-

(3) That the applicant also seeks an order pooling all mineral interests underlying the non-standard oil proration ^{unit} described in Finding (2), above.

(4) That the subject non-standard oil proration unit is to be dedicated to a well to be drilled at an unorthodox location 1340 feet from the South line and 1300 feet from the East line of said Section 12, said unorthodox location being previously approved by the Commission by Order No. R-4750, dated March 15, 1974.

(5) That the entire area comprising the proposed non-standard oil proration unit may reasonably be presumed productive of oil from the Caprock-Queen Pool.

(6) That the proposed non-standard proration unit should be approved.

(7) That the applicant has the right to drill and proposes to drill a well at said unorthodox location.

(8) That there are interest owners in the proposed proration unit who have not agreed to pool their interests.

(9) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the gas in said pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

(10) That the applicant should be designated the operator of the subject well and unit.

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

(12) That any non-consenting working interest owner that does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 50 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(13) That any non-consenting interest owner should be afforded the opportunity to object to the actual well-costs but that actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(14) That following determination of reasonable well costs, any non-consenting working interest owner that has paid his 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.

(15) That \$200 per month should be fixed as a reasonable charge for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charge 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.

(16) That 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.

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CASE NO. 5207
Order No. R-

(17) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before September 1, 1974, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That a 40-acre non-standard oil proration unit is hereby approved, comprising the SW/4 NE/4 SE/4, NW/4 SE/4 SE/4, NE/4 SW/4 SE/4, and the SE/4 NW/4 SE/4 of Section 12, Township 13 South, Range 31 East, NMPM, Caprock-Queen Pool, Chaves County, New Mexico.

(2) That all mineral interests underlying said non-standard oil proration unit are hereby pooled.

(3) That said non-standard oil proration unit shall be dedicated to a well to be drilled at an unorthodox location 1340 feet from the South line and 1300 feet from the East line of said Section 12.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the 1st day of September, 1974, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Queen formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 1st day of September, 1974, Order (1) of this order shall be null and void and of no effect whatsoever;

PROVIDED FURTHER, that should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Commission and show cause why Order (1) of this order should not be rescinded.

(4) That Craig Folsom is hereby designated the operator of the subject well and unit.

(5) That after the effective date of this order and within 30 days prior to commencing said well, the operator shall furnish the Commission and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(6) That 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 that 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.

(7) That the operator shall furnish the Commission and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; that if no objection to the actual well costs is received by the Commission and the Commission has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, that if there is an objection to actual well costs within said 45-day period the Commission will determine reasonable well costs after public notice and hearing.

(8) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner that 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.

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(7) That 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.

(B) As a charge for the risk involved in the drilling of the well, 50 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.

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

(9) That \$200.00 per month is hereby fixed as a reasonable charge for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charge 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.

(12) That any unsevered 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.

(13) That any well costs or charges which 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.

(14) That all proceeds from production from the subject well which are not disbursed for any reason shall be placed in escrow in Chaves County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Commission of the name and address of said escrow agent within 90 days from the date of this order.

(15) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

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