

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. 11411
ORDER NO. R-10513*

**APPLICATION OF MEDALLION PRODUCTION COMPANY FOR
COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on November 2, 1995 in Roswell, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 9th day of November, 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) The applicant, Medallion Production Company ("Medallion"), seeks an order pooling all mineral interests from the surface to the base of the Morrow formation underlying the S/2 of Section 9, Township 20 South, Range 25 East, NMPM, Eddy County, New Mexico, in order to form a standard 320-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within said vertical extent, which presently includes but is not necessarily limited to the Undesignated Cemetery-Wolfcamp Gas Pool, Undesignated Dagger Draw-Strawn Gas Pool, and the Undesignated Cemetery-Morrow Gas Pool.

(3) At the time of the hearing the applicant requested to include in the forced pooling provisions of any order issued in this matter the following described tracts of land within the S/2 of said Section 9 to form a standard 160-acre, 80-acre, and 40-acre spacing and proration unit for any and all formations and/or pools developed on the applicable spacing:

- (a) the SE/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;
- (b) the N/2 SE/4 to form a standard 80-acre oil spacing and proration unit for any and all pools developed on 80-acre spacing within said vertical extent; and,
- (c) the NW/4 SE/4 to form a standard 40-acre oil spacing and proration unit for any and all formations and/or pools developed on 40-acre spacing within said vertical extent.

(4) Subsequent to the hearing, it was determined that there are no pools or formations within the immediate area of this well that are spaced on 80 acres; therefore, the requested 80-acre unit to be pooled should be dismissed at this time.

(5) All of the remaining units are to be dedicated to a single well to be drilled at a standard location for all horizons in the NW/4 SE/4 (Unit J) of said Section 9.

(6) The applicant owns an interest in the S/2 of said Section 9 and as such has the right to drill for and develop the minerals underlying the proposed spacing units. Kaiser-Francis Oil Company of Tulsa, Oklahoma ("Kaiser-Francis") is the only other working interest in the proposed proration units who has not agreed to pool its interests. The percentage owned by both Kaiser-Francis and Medallion for each of the above-described tracts is as follows:

(a)	<u>S/2 Unit Leasehold:</u>	Acres:	Percentage:
	Medallion	180	56.25
	<u>Kaiser-Francis</u>	<u>140</u>	<u>43.75</u>
	Total	320	100.00
(b)	<u>SE/4 Unit Leasehold:</u>	Acres:	Percentage:
	Medallion	100	62.50
	<u>Kaiser-Francis</u>	<u>60</u>	<u>37.50</u>
	Total	160	100.00
(c)	<u>NW/4 SE/4 Unit Leasehold:</u>	Acres:	Percentage:
	Medallion	20	50.00
	<u>Kaiser-Francis</u>	<u>20</u>	<u>50.00</u>
	Total	40	100.00

(7) At the time of the hearing Kaiser-Francis was represented by legal counsel but offered no evidence.

(8) 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 his just and fair share of hydrocarbon production in any pool resulting from this order, the subject application should be approved by pooling all mineral interests, whatever they may be, within said units.

(9) Medallion Production Company should be designated the operator of the subject well and units.

(10) Kaiser-Francis should be afforded the opportunity to pay to the operator its proportionate share of the estimated well costs in lieu of paying its proportionate share of reasonable well costs out of production.

(11) Should Kaiser-Francis elect not to pay its share of the estimated well costs to the operator, the operator should then withhold from production the non-consenting working interest owner's share of reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(12) Said 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, should said non-consenting working interest owner not pay its share of estimated costs, Kaiser-Francis should then pay to the operator any amount that reasonable well costs exceed estimated well costs and receive from the operator any amount that estimated well costs exceed reasonable well costs.

(14) \$4,000.00 per month while drilling and \$400.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to the interest of Kaiser-Francis, 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 the interest of Kaiser-Francis.

(15) 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.

(16) Upon the failure of the operator of said pooled units to commence drilling of the well to which said units are dedicated on or before February 15, 1996, the order pooling said units should become null and void and of no further effect whatsoever.

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

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

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests belonging to Kaiser-Francis Oil Company of Tulsa, Oklahoma ("Kaiser-Francis"), whatever they may be, from the surface to the base of the Morrow formation, underlying the following described acreage in Section 9, Township 20 South, Range 25 East, NMPM, Eddy County, New Mexico, are hereby pooled in the following manner:

(a) the S/2 to form a standard 320-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within said vertical extent, which presently includes but is not necessarily limited to the Undesignated Cemetery-Wolfcamp Gas Pool, Undesignated Dagger Draw-Strawn Gas Pool, and the Undesignated Cemetery-Morrow Gas Pool;

(b) the SE/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; and,

(c) the NW/4 SE/4 to form a standard 40-acre oil spacing and proration unit for any and all formations and/or pools developed on 40-acre spacing within said vertical extent.

Said units are to be dedicated to a single well to be drilled at a standard location in the NW/4 SE/4 (Unit J) of said Section 9 for all horizons.

PROVIDED HOWEVER THAT, the operator shall commence the drilling of said well on or before the fifteenth day of February, 1996, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Morrow formation.

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said well on or before the fifteenth day of February, 1996, 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 abandonment, 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) Medallion Production Company is hereby designated the operator of the subject well and units.

(3) After the effective date of this order and within 90 days prior to commencing said well, the operator shall furnish the Division and Kaiser-Francis an itemized schedule of estimated well costs.

(4) Within 30 days from the date the schedule of estimated well costs is furnished to him, said 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. Should said non-consenting working interest owner elect to pay his share of the estimated well costs, as provided above, he shall remain liable for operating costs but shall not be liable for risk charges.

(5) The operator shall furnish the Division and Kaiser-Francis 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.

(6) If, within 60 days following determination of reasonable well costs, the non-consenting working interest owner has paid its share of the estimated costs in advance, as provided above, Kaiser-Francis shall then pay to the operator its 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.

(7) 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 the interest of Kaiser-Francis; and,
- (b) As a charge for the risk involved in the drilling of the well, 200 percent of the pro rata share of reasonable well costs attributable to interest of Kaiser-Francis.

(8) \$4,000.00 per month while drilling and \$400.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to the interest of Kaiser-Francis, 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 the interest of Kaiser-Francis.

(9) 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.

(10) 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.

(11) All proceeds from production from the subject well which are not disbursed for any reason shall be placed in escrow in Eddy 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.

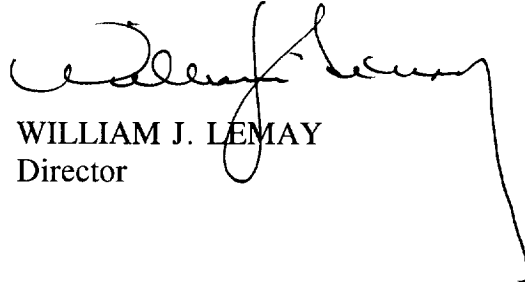
(12) Should the parties to this force-pooling reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(13) 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.

(14) 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

A handwritten signature in black ink, appearing to read 'William J. Lemay', is written over the printed name and title.

WILLIAM J. LEMAY
Director

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