

Entered November 30, 1976
JLR

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. 5808
Order No. R-5333

APPLICATION OF C & K PETROLEUM,
INC., FOR COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on November 10, 1976, at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 30th day of November, 1976, 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, C & K Petroleum, Inc., seeks an order pooling all mineral interests from the surface down to and including the Pennsylvanian formation underlying the SE/4 SE/4, NE/4 SE/4, NW/4 SE/4, and SW/4 SE/4 of Section 21, Township 16 South, Range 37 East, NMPM, Lea County, New Mexico, to form four 40-acre oil proration units, the first to be dedicated to a well to be drilled at a point 660 feet from the South line and 660 feet from the East line of said Section 21 to test the Strawn formation and each of the others to a well subsequently drilled thereon.
- (3) That the applicant has the right to drill and proposes to drill a well 660 feet from the South line and 660 feet from the East line of said Section 21 and to dedicate thereto the SE/4 SE/4 of said Section.
- (4) That there are interest owners in the proposed proration units who have not agreed to pool their interests.
- (5) That following completion of the first well drilled the applicant proposes to drill and/or dedicate the remaining pooled units.

(6) 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.

(7) That the applicant should be designated the operator of the subject well(s) and units.

(8) 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.

(9) 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 200 percent thereof as a reasonable charge for the risk involved in the drilling of any well authorized by this order.

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

(11) That following determination of reasonable individual well costs, any non-consenting working interest owner that has paid his share of estimated costs should pay to the operator any amount that such reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed such reasonable well costs.

(12) That \$1000 per month while drilling and \$200 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that the operator should be authorized to withhold from production from any well drilled under provisions of this order the proportionate share of such supervision charge attributable to each non-consenting working interest under such well, and in addition thereto, the operator should be authorized to withhold from production from any such well 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 under such well.

(13) That all proceeds from production from any well authorized by this order 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.

(14) That upon the failure of the operator of said pooled units to commence drilling of the well described in Finding No. (3) supra on or before February 28, 1977, this order should become null and void and of no effect whatsoever.

(15) That upon the failure of the operator to drill and/or dedicate any of the pooled units on or before December 31, 1977, this order should become null and void and of no effect whatsoever as to such unit.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, from the surface down to and including the Pennsylvanian formation underlying the SE/4 SE/4, NE/4 SE/4, NW/4 SE/4, and SW/4 SE/4 of Section 21, Township 16 South, Range 37 East, NMPM, Lea County, New Mexico, are hereby pooled to form four 40-acre oil proration units the first of which shall be dedicated to a well to be drilled at a point 660 feet from the South line and 660 feet from the East line of said Section 21 to test the Strawn formation.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the 28th day of February, 1977, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Pennsylvanian formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 28th day of February, 1977, Order (1) of this order shall be null and void and of no effect whatsoever; unless said operator obtains a time extension from the Commission 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 Commission and show cause why Order (1) of this order should not be rescinded.

PROVIDED FURTHER, that should any of the pooled units authorized by this order not be drilled and/or dedicated on or before December 31, 1977, this order shall be null and void and of no effect whatsoever as to such unit.

(2) That C & K Petroleum, Inc. is hereby designated the operator of the well(s) and units authorized by this order.

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

(4) 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.

(5) 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 any well drilled under provisions of this order; 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.

(6) 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.

(7) That the operator is hereby authorized to withhold the following costs and charges from production from any well authorized by this order:

- (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, 200 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.

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(9) That \$1000 per month while drilling and \$200 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates) for any well authorized by this order; that the operator is hereby authorized to withhold from production from any such well 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 from any such well 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.

(10) 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.

(11) 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.

(12) That all proceeds from production from any well authorized by this order which are not disbursed for any reason shall be placed in escrow in Lea County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; 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.

(13) 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

PHIL R. LUCERO, Chairman


EMERY C. ARNOLD, Member

JOE D. RAMEY, Member & Secretary

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