

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. 9745
Order No. R-9033

APPLICATION OF RICHMOND PETROLEUM
INC. FOR COMPULSORY POOLING AND
AN UNORTHODOX COAL GAS WELL
LOCATION, SAN JUAN COUNTY, NEW
MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on September 6, 1989 and on October 4, 1989, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 3rd day of November, 1989, 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 September 6, 1989 hearing Division Cases Nos. 9744, 9745, 9746, and 9750 were consolidated for the purpose of testimony.

(3) The applicant, Richmond Petroleum Inc. (Richmond), originally sought to compulsory-pool all mineral interests in the Basin-Fruitland Coal Gas Pool underlying Lots 1, 2, 3, and 4 and the S/2 N/2 (N/2 equivalent) of Section 9, Township 32 North, Range 6 West, NMPM, San Juan County, New Mexico, forming a non-standard 237.60-acre gas spacing and proration unit for said pool to be dedicated to a well to be drilled at an undetermined location.

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(4) Richmond also appeared at the September 6, 1989 hearing as applicant in Division Case No. 9746, to compulsory-pool the Basin-Fruitland Coal Gas Pool interests in the S/2 of said Section 9, and in Division Case No. 9744, to compulsory-pool the Basin-Fruitland Coal Gas interests underlying the W/2 equivalent of Section 10, Township 32 North, Range 6 West, NMPM, San Juan County, New Mexico.

(5) Meridian Oil Inc. (Meridian) appeared at the September 6, 1989 hearing in opposition to all of the Richmond cases and sought in Division Case No. 9750 to compulsory-pool the Basin-Fruitland Coal Gas Pool interests underlying Lots 1 and 2, the SE/4 NE/4, and the E/2 SE/4 of Section 8 and the SW/4 of Section 9, both in Township 32 North, Range 6 West, NMPM, San Juan County, New Mexico, to form a non-standard 317.51-acre gas spacing and proration unit for said pool, said unit to be dedicated to a well to be drilled at a standard coal gas well location in the SW/4 of said Section 9.

(6) Subsequent to said September 6, 1989 hearing, Richmond Petroleum Inc. has amended its application in the immediate case and now seeks an order pooling all mineral interests in the Basin-Fruitland Coal Gas Pool, underlying Lots 1 and 2, the S/2 NE/4 and the SE/4 (E/2 equivalent) of said Section 9, forming a standard 279.4-acre gas spacing and proration unit for said pool.

(7) Richmond has also dismissed its application in Case No. 9746 and Meridian Oil Inc. has amended its application in Case No. 9750 to change the acreage to be pooled in the Basin-Fruitland Coal Gas Pool to the W/2 equivalent of said Section 9.

(8) As a result of the referenced amended and dismissed applications and the stipulation of Richmond and Meridian, each company has withdrawn their respective objections to the application of the other, as amended.

(9) The applicant has the right to drill a well within the proposed proration unit and further seeks approval for an unorthodox coal gas well location 360 feet from the North line and 120 feet from the East line (Unit A) of said Section 9.

(10) The subject unorthodox coal gas well location is necessitated because approximately 91 percent of the proposed proration unit is below the high water mark of the Navajo Reservoir. In the NE/4 equivalent of said Section 9 there is only a small portion of land in the extreme northeast corner of the subject unit that is above this high water mark and which may be suitable for drilling activity.

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(11) Final authorization to drill the subject well will be from the United States Bureau of Reclamation and only after an extensive review of the proposed well site and any possible effects it would have on and to the immediate and surrounding area.

(12) Should it be necessary to relocate the well on this small isolated parcel of land in the extreme northeast corner of the unit at the request of the United States Bureau of Reclamation or other authorizing agency of the United States Government, then such move should be approved only if an alternate site is no more unorthodox than the subject well location.

(13) There are interest owners in the proposed proration unit who have not agreed to pool their interests.

(14) 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 unit the opportunity to recover or receive without unnecessary expense his just and fair share of the coal gas in said pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said amended unit.

(15) The applicant should be designated the operator of the subject well and unit.

(16) 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.

(17) The applicant has proposed a 200 percent risk penalty to be assessed against those interest owners subject to the force-pooling provisions of this order, and in support thereof presented evidence and testimony at the hearing.

(18) Based on precedent established in compulsory pooling cases in the Basin-Fruitland Coal Gas Pool, the proposed 200 percent risk penalty is excessive and should therefore be reduced to 156 percent.

(19) Any non-consenting working interest owner who does not pay his share of estimated well costs should have withheld from production his share of reasonable well costs plus an additional 156 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

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(20) 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.

(21) Following determination of reasonable well costs, any non-consenting working interest owner who 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.

(22) At the time of the hearing, the applicant proposed that the reasonable monthly fixed charges for supervision while drilling and producing be \$4500.00 and \$450.00, respectively.

(23) Also based on established precedents from prior compulsory pooling cases in the Basin-Fruitland Coal Gas Pool, the above drilling and producing charges are in excess of the normal monthly fixed charges in this area for a well to a comparable depth and should therefore be adjusted to reflect a more reasonable rate.

(24) \$3500.00 per month while drilling and \$350.00 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 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.

(25) 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.

(26) 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 January 1, 1990, the order pooling said unit should become null and void and of no further effect whatsoever.

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(27) 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.

(28) The operator of the well and unit 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, in the Basin-Fruitland Coal Gas Pool, underlying Lots 1 and 2, the S/2 NE/4 and the SE/4 (E/2 equivalent) of Section 9, Township 32 North, Range 6 West, NMPM, San Juan County, New Mexico, are hereby pooled to form a 279.4-acre gas spacing and proration unit for said pool, said unit to be dedicated to a well to be drilled at an unorthodox coal gas well location 360 feet from the North line and 120 feet from the East line (Unit A) of said Section 9.

PROVIDED HOWEVER THAT, the operator of said unit shall commence the drilling of said well on or before the 1st day of January, 1990, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Basin-Fruitland Coal Gas Pool.

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said well on or before the 1st day of January, 1990, Ordering 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) Richmond Petroleum Inc. is hereby designated the operator of the subject well and unit.

(3) 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 unit an itemized schedule of estimated well costs.

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(4) 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.

(5) 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.

(6) 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.

(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 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, 156 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.

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

(9) \$3500.00 per month while drilling and \$350.00 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 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.

(10) 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.

(11) 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.

(12) 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.

(13) 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.

(14) The operator of the well and unit 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.

(15) Should it be necessary for the well location to be moved to accommodate the request of the United States Bureau of Reclamation or any other Surface Management Agency of the Federal Government, any said move shall be approved only if the alternate well site is no more unorthodox than the above-described well location in the NE/4 equivalent of said Section 9.

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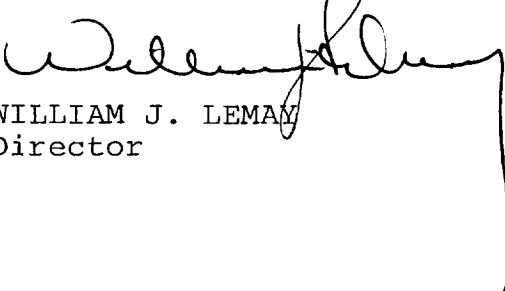
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(16) Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

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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