



STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

TONEY ANAYA
GOVERNOR

June 29, 1984

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87501
(505) 827-5800

Mr. Thomas Kellahin
Kellahin & Kellahin
Attorneys at Law
Post Office Box 2265
Santa Fe, New Mexico

Re: CASE NO. 8048
ORDER NO. R-7567

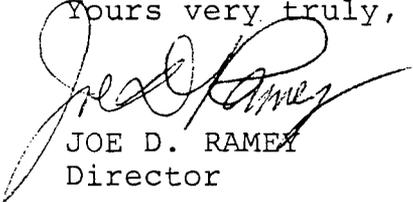
Applicant:

AMMEX Petroleum Inc.

Dear Sir:

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

Yours very truly,


JOE D. RAMEY
Director

JDR/fd

Copy of order also sent to:

Hobbs OCD x
Artesia OCD x
Aztec OCD

Other William F. Carr

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 8048
Order No. R-7567

APPLICATION OF AMMEX PETROLEUM, INC.
FOR COMPULSORY POOLING, EDDY COUNTY,
NEW MEXICO

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8 a.m. on January 18, 1984, and on February 15, 1984, at Santa Fe, New Mexico, before Examiners Michael E. Stogner and Richard L. Stamets, respectively.

NOW, on this 28th day of June, 1984, the Division Director, 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 Division has jurisdiction of this cause and the subject matter thereof.
- (2) That the applicant, Ammex Petroleum Inc., seeks an order pooling all mineral interests from the surface to the top of the South Culebra Bluff Bone Spring Pool and from the base of the South Culebra Bluff Bone Spring Pool to a depth of 8,000 feet underlying the SE/4 SE/4 of Section 28, Township 23 South, Range 28 East, NMPM, Eddy County, New Mexico, to be dedicated to a well at a standard location 660 feet from the South and East lines of said Section 28.
- (3) That the applicant also seeks an order pooling all mineral interests in the South Culebra Bluff Bone Spring Pool underlying the S/2 SE/4 of said Section 28, also to be dedicated to said well located at said standard location.
- (4) That the S/2 SE/4 of said Section 28 is a standard 80-acre oil proration and spacing unit for the South Culebra Bluff Bone Spring Pool only.

(5) That the SE/4 SE/4 of said Section 28 is a standard 40-acre oil proration and spacing unit for all other formations.

(6) That the applicant has the right to drill and proposes to have a well located at a standard location thereon.

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

(8) 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 oil underlying the proposed spacing and proration units, the subject application should be approved by pooling all mineral interests, whatever they may be, within said units.

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

(10) 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.

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

(12) 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.

(13) That 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.

(14) That \$3,000.00 per month while drilling and \$300.00 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 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.

(12) 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.

(13) 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 August 31, 1984, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in all formations from the surface down to the top of the South Culebra Bluff Bone Spring Pool and from the base of the South Culebra Bluff Bone Spring Pool to a depth of 8,000 feet underlying the SE/4 SE/4 of Section 28, Township 23 South, Range 28 East, NMPM, Eddy County, New Mexico, are hereby pooled to form a standard 40-acre oil spacing and proration unit to be dedicated to a well at a standard location 660 feet from the South and East lines of said Section 28.

(2) That all mineral interests, whatever they may be in the South Culebra Bluff Bone Spring Pool underlying the S/2 SE/4 of said Section 28, are also hereby pooled to form a standard 80-acre oil spacing and proration unit, also to be dedicated to said well at said standard location.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the 31st day of August, 1984, and shall thereafter continue the drilling of said well with due diligence as to test all formations to a depth of 8,000 feet;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 31st day of August, 1984, Orders (1) and (2) 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 Orders (1) and (2) of this order should not be rescinded.

(3) That Ammex Petroleum Inc. is hereby designated the operator of the subject well and unit.

(4) That 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.

(5) 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.

(6) That 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; that 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, that if there is an objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(7) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

(8) 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, 150 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

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

(10) That \$3,000.00 per month while drilling and \$300.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(11) 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.

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

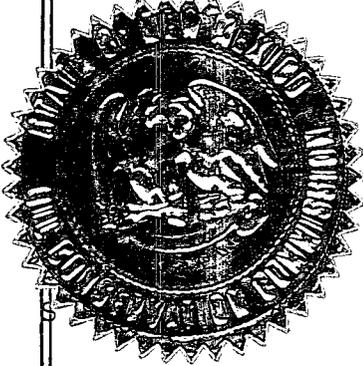
(13) That all proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Eddy County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

-6-

Case No. 8048
Order No. R-7567

(14) That 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

Joe D. Ramey
JOE D. RAMEY,
Director