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May 12, 1995

HAND-DELIVERED

Mr. Michael E. Stogner  
Hearing Examiner  
Oil Conservation Division  
New Mexico Department of Energy,  
Minerals and Natural Resources  
2040 South Pacheco  
Santa Fe, New Mexico 87505

Re: Oil Conservation Division Case No. 11243:  
Application of Amoco Production Company for Compulsory Pooling, San  
Juan County, New Mexico

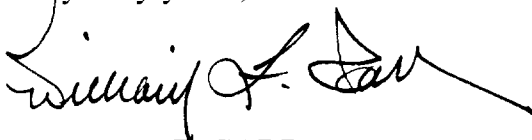
Oil Conservation Division Case No. 11247:  
Application of Richardson Operating Company for Compulsory Pooling,  
Downhole Commingling and an Unorthodox Gas Well Location, San Juan  
County, New Mexico

Dear Mr. Stogner:

Pursuant to your request at the April 20, 1995 hearing in the above-referenced case, I am enclosing for your consideration a copy of Amoco Production Company's proposed Order.

If you need anything further from Amoco Production Company to proceed with your consideration of this matter, please advise.

Very truly yours,



WILLIAM F. CARR

WFC:mlh

Enclosure

cc: Bill Hawkins (w/enclosures)  
W. Thomas Kellahin, Esq. (w/enclosures)

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 OF THE STATE OF  
NEW MEXICO FOR THE PURPOSE OF  
CONSIDERING:

MAILED  
MAY 1 1995  
OIL CONSERVATION DIVISION

Case Nos. 11243 and 11247  
Order No. R-\_\_\_\_\_

APPLICATION OF AMOCO PRODUCTION COMPANY  
FOR COMPULSORY POOLING,  
SAN JUAN COUNTY, NEW MEXICO.

APPLICATION OF RICHARDSON OPERATING COMPANY  
FOR COMPULSORY POOLING, DOWNHOLE  
COMMINGLING AND AN UNORTHODOX GAS WELL LOCATION,  
SAN JUAN COUNTY, NEW MEXICO.

**AMOCO PRODUCTION COMPANY'S  
PROPOSED  
ORDER OF THE DIVISION**

**BY THE DIVISION:**

This cause came on for hearing at 9:00 a.m. on April 20, 1995, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this \_\_\_\_\_ day of May, 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 in Case 11243, Amoco Production Company ("Amoco"), seeks an order pooling all mineral interests from the surface to the base of the Pictured Cliffs formation underlying the W/2 of Section 12, Township 29 North, Range 13 West to form a standard 320-acre gas spacing and proration unit for any and all formations and or pools developed on 320-acre spacing and underlying the SW/4 of said Section 12 to form a standard 160-acre gas spacing and proration unit for any and all formations and/or pools developed on 160-acre spacing. Said units are to be dedicated to Amoco Production Company's proposed Burnham Gas Com "B" No. 1 Well to be drilled at a standard gas well location 850 feet from the South line and 1190 feet from the West line of said Section 12.

(3) The applicant in Case 11247, Richardson Operating Company ("Richardson"), seeks an order pooling the same spacing units as described in Finding 2 to be dedicated to its proposed Fee "12" Well No. 3 to be drilled at a location yet to be determined but within 200 feet of a point 870 feet from the South line and 1180 feet from the West line of said Section 12. This location may be unorthodox in the subject pools and Richardson therefore also seeks authorization to drill at an unorthodox location.

(4) Each applicant (Amoco and Richardson) has the right to drill and each proposes to drill their respective well to a depth sufficient to test the Pictured Cliffs formation.

(5) Case Nos. 11243 and 11247 were consolidated for the purpose of hearing and should be consolidated for the purpose of issuing an order since the cases involve common acreage and the granting of one application will be dispositive of the other.

(6) By memorandum dated April 5, 1995, the Division established guidelines to be followed in Completing Forced Pooling Applications. This memorandum defined relevant and pertinent evidence to include:

- (a) Information related to pre-hearing negotiations conducted between the parties;
- (b) Willingness of the operators to negotiate a voluntary agreement;
- (c) Interest ownership within the particular spacing unit being sought;

- (d) Geologic evidence and testimony as it relates to proposed well locations, especially if the proposed locations are different;
- (e) Information regarding dates the prospect was developed, proposed, etc.;
- (f) Overhead rates for supervision;
- (g) Proposed risk penalty;
- (h) Significant differences in AFE's (well costs); and
- (i) Other evidence determined pertinent by the Examiner.

(7) The evidence established that although there had been discussions between the parties concerning a possible farmout of the subject acreage in 1993, no negotiations had occurred after December of 1993 because Richardson attorneys had directed that they not communicate with Amoco due to other unrelated disagreements between the parties. (Testimony of Jenkins, (Amoco Exhibit 1) and Colby, (Richardson Exhibit 6)).

(8) Amoco first proposed the drilling of a well in the SW/4 of said Section 12 on February 14, 1995. Richardson did not propose the drilling of a well on this acreage until March 6, 1995. (Testimony of Jenkins, (Amoco Exhibit 1) and Colby, (Richardson Exhibit 6)).

(9) Negotiations toward a voluntary agreement for development of this acreage have been unsuccessful and Richardson failed or refused to provide an Operating Agreement to Amoco when requested to do so. (Testimony of Jenkins and Colby).

(10) Since no agreement for development of this acreage has been reached, (Testimony of Hawkins (Amoco)) both parties seek a compulsory pooling order which will designate them operator of the well.

(11) The evidence presented by the parties establishes:

- (a) Amoco operates two Dakota wells in the W/2 of said Section 12, and one in the SW/4 of said Section 12, (Testimony of Hawkins (Amoco));
- (b) Both parties desire to locate their proposed well on the well pad constructed by Amoco for its existing Dakota well;
- (c) Richardson conducts no operations in the W/2 of said Section 12, (Testimony of Hawkins);
- (d) In the W/2 of said Section 12, Amoco owns 66.69% of the working interest and Richardson approximately 30.53% of the working interest, (Testimony of Jenkins and Colby);
- (e) In the SW/4 of said Section 12, Amoco owns 50% of the working interest and Richardson approximately 45.8% of the working interest, (Testimony of Jenkins and Colby); and
- (f) The proposed well locations are essentially identical and there is no significant geological difference between the locations.

(12) Difference between the overhead and administrative costs are insufficient for Amoco proposes overhead rates of \$3,582.00 per month while drilling and \$498.00 per month while producing to be escalated in accordance with COPAS accounting procedures and Richardson's proposed overhead rates were \$3,500.00 while drilling and \$450.00 per month while producing this well.

(13) Although Amoco's AFE costs for this well of \$260,760.00 were \$66,781.00 more than Richardson's estimate of \$193,979.00 Amoco's figures included \$30,000.00 for compression costs that were not included in the Richardson AFE. Furthermore, Amoco testified that recent stimulation costs were less than reflected on the AFE provided to Richardson and would be reduced by approximately \$20,000.00. The remaining differences between the AFE's were in the amount of contingency funds estimated by each. When these factors are considered, there appears to be no significant differences between the AFE's of the parties.

(14) Amoco proposes to drill its well with a slim hole and coil tubing where Richardson proposes conventional drilling and completion techniques. While Amoco proposes to use a newer technology, both methods should result in a successful well.

(15) When the evidence in this case is measured by the Division's April 5, 1995 guidelines for Completing Forced Pooling Applications, it is clear that Amoco was the first operator to propose a well on the subject spacing and proration units in said Section 12, owns a substantially greater percentage of the working interest in each formation than Richardson, operates the other well on this tract and the pad on which the proposed well of either party will be located and that the application of Amoco Production Company in Case 11243 should be granted and the application of Richardson Operating Company in Case 11247 should be denied.

(16) To avoid the drilling of unnecessary wells, to protect correlative rights, to avoid 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 production in any pool completion resulting from this order, the application of Amoco Production Company should be approved by pooling all mineral interests, whatever they may be, within said unit.

(17) Amoco Production Company should be designated the operator of the subject well and units.

(18) 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.

(19) Any non-consenting working interest owner who does not pay his share of estimated well costs for drilling to the Fruitland Coal formation should have withheld from production its share of the reasonable well costs allocated to drilling to this formation plus an additional 156 percent thereof and for drilling to the Pictured Cliffs formation should have withheld from production its share of the reasonable well costs allocated to the drilling to the formation plus an additional 200 percent thereof as reasonable charges for the risk involved in drilling the subject well.

(20) Any non-consenting working 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) \$3,582.00 per month while drilling and \$498.00 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 these costs shall be escalated annually in accordance with COPAS procedures, 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.

(23) 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.

(24) Upon the failure of the operator of said pooled unit to commence drilling the Burnham Gas Com "B" No. 1 Well on or before September 15, 1995, the order pooling said unit should become null and void and of no effect whatsoever.

(25) Should all the parties to this forced pooling order reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(26) 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 forced pooling provisions of this order.

**IT IS THEREFORE ORDERED THAT:**

(1) All mineral interests, whatever they may be, from the surface to the base of the Fruitland Coal formation, underlying the W/2 of Section 12, Township 29 North, Range 13 West, NMPM, San Juan County, New Mexico, are hereby pooled to form a standard 320-acre gas spacing and proration unit for any and all pools and/or formations developed on 320-acre spacing units and underlying the W/2 of said Section 12 to form a standard 160-acre gas spacing and proration unit for any and all formations and/or pools developed on 160-acre spacing units. Said units shall be dedicated to Amoco Production Company's Burnham Gas Com "B" No. 1 Well to be drilled at a standard gas well location 850 feet from the South line and 1190 feet from the West line of Section 12.

**PROVIDED HOWEVER THAT,** the operator of said unit shall commence drilling operations on the Burnham Gas Com "B" No. 1 Well on or before the 15th day of September, 1995, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Pictured Cliffs formation.

**PROVIDED FURTHER THAT,** in the event said operator does not commence drilling operations on the Burnham Gas Com "B" No. 1 Well on or before the 15th day of September, 1995, 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 Director 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 Ordering Paragraph No. (1) of this order should not be rescinded.

(2) The application of Richardson Operating Company for compulsory pooling, downhole commingling, and an unorthodox gas well location in Case 11247 is hereby denied.

(3) Amoco Production Company is hereby designated the operator of the subject well and unit.



(4) After the effective date of this order and within 90 days prior to commencing drilling operations, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(5) 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.

(6) 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 objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(7) Within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated well 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) 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 completing the well, 156 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner for drilling to the Fruitland Coal Gas

Pool, and 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner for drilling to any formation or pool other than the Fruitland Coal Gas Pool 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) The operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(10) \$3,582.00 per month while conducting drilling operations and \$498.00 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.

(11) 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.

(12) 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) All proceeds from production from the subject well which are not disbursed for any reason shall immediately 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.

(14) Should all the parties to this forced pooling order reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

Case Nos. 11243 and 11247

Order No. R-

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(15) 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 forced pooling provisions of this order.

(16) Jurisdiction is hereby 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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