

**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. 11674
Order No. R-10708-B**

**APPLICATION OF MANZANO OIL
CORPORATION FOR COMPULSORY
POOLING, LEA COUNTY, NEW
MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on December 19, 1996, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 17th day of January, 1997, 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) Division Case Nos. 11674 and 11675 were consolidated at the time of the hearing for the purpose of testimony.

(3) At the request of the applicant, the record, evidence and testimony presented in Case No. 11616, heard by the Division on September 26 and November 7, 1996, are hereby incorporated by reference in this case.

(4) By Order No. R-10708, as amended, issued in Case No. 11616 on November 14, 1996, the Division, upon application of Manzano Oil Corporation, pooled all mineral interests from the surface to the base of the Strawn formation underlying the S/2 NE/4 and the SW/4 NE/4 of Section 11, Township 16 South, Range 36 East, NMPM, Lea County, New Mexico, and in the following manner:

the S/2 NE/4 to form a standard 80-acre oil spacing and proration unit for any and all formations and/or pools developed on 80-acre spacing within said vertical extent, which presently includes only the Northeast Lovington-Pennsylvanian Pool; and,

the SW/4 NE/4 to form a standard 40-acre oil spacing and proration unit for any and all formations and/or pools spaced on 40 acres within said vertical extent, which presently includes but is not necessarily limited to the Undesignated Northeast Lovington-Wolfcamp Pool.

Said units are to be dedicated to the applicant's "SV" Double Eagle Well No. 1 located at an unorthodox location 1500 feet from the North line and 2148 feet from the East line (Unit G) of Section 11.

(5) By Order No. R-10735 issued in Companion Case No. 11675 on January 13, 1997, the Division, upon application of Manzano Oil Corporation, created the North Lovington-Wolfcamp Pool comprising the N/2 and SW/4 of Section 11, Township 16 South, Range 36 East, NMPM, and promulgated temporary rules and regulations which require standard 80-acre spacing and proration units with wells to be located within 150 feet of the center of a governmental quarter-quarter section or lot.

(6) The applicant in the immediate case, Manzano Oil Corporation, seeks to effectively amend Division Order No. R-10708, as amended, by pooling all mineral interests in the Wolfcamp formation underlying the S/2 NE/4 of Section 11, Township 16 South, Range 36 East, NMPM, Lea County, New Mexico, thereby forming a standard 80-acre oil spacing and proration unit for the North Lovington-Wolfcamp Pool. Said unit is to be dedicated to the aforesaid "SV" Double Eagle Well No. 1 which has been drilled and completed in the Wolfcamp formation.

(7) The applicant has the right to drill and has drilled its "SV" Double Eagle Well No. 1 as described above.

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

(9) 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 within the North Lovington-Wolfcamp Pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

- (10) The applicant should be designated the operator of the subject well and unit.
- (11) 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.
- (12) 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 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.
- (13) 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.
- (14) 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.
- (15) \$5000.00 per month while drilling and \$500.00 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.
- (16) 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.
- (17) 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.
- (18) 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, in the Wolfcamp formation underlying the S/2 NE/4 of Section 11, Township 16 South, Range 36 East, NMPM, Lea County, New Mexico, are hereby pooled forming a standard 80-acre spacing and proration unit for the North Lovington-Wolfcamp Pool. Said unit shall be dedicated to the applicant's "SV" Double Eagle Well No. 1 located at an unorthodox gas well location 1500 feet from the North line and 2148 feet from the East line (Unit G) of Section 11.

(2) Manzano Oil Corporation is hereby designated the operator of the subject well and unit.

(3) After the effective date of this order, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(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 120 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.

(6) 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.

(7) The operator is hereby authorized to withhold the following costs and charges from production:

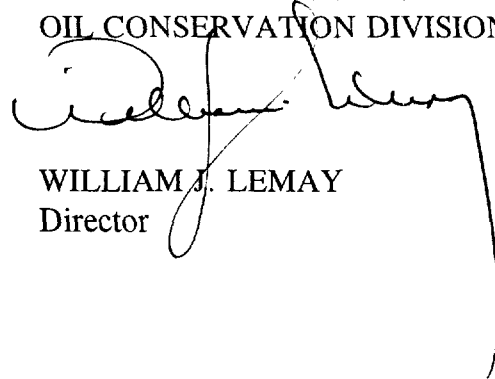
- (A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.
 - (B) As a charge for the risk involved in the drilling 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) The operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.
- (9) \$5000.00 per month while drilling and \$500.00 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 immediately be placed in escrow in Lea 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 forced pooling order 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 forced pooling provisions of this order.

CASE NO. 11674
Order No. R-10708-B
Page -6-

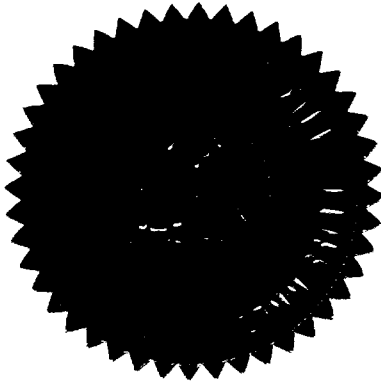
(15) Jurisdiction is hereby retained for the entry of such further orders as the Division may deem necessary.

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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