

STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
OIL CONSERVATION DIVISION

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

*DE NOVO*  
*CASE NO. 12299*  
*ORDER NO. R-11301-B*

APPLICATION OF REDWOLF PRODUCTION, INC. FOR COMPULSORY  
POOLING, SAN JUAN COUNTY, NEW MEXICO.

**ORDER OF THE COMMISSION**

**BY THE COMMISSION:**

This case came on for hearing at 9:00 a.m. on June 23, 2000 at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 21<sup>st</sup> day of July, 2000, the Commission, a quorum being present, having considered the record and being fully advised in the premises,

**FINDS THAT:**

(1) Due public notice has been given and the Commission has jurisdiction of this case and its subject matter.

(2) The applicant, Redwolf Production, Inc. ("Redwolf"), seeks an order pooling all uncommitted mineral interests from the surface to the base of the Pictured Cliffs formation underlying the following acreage in Section 36, Township 26 North, Range 13 West, NMPM, San Juan County, New Mexico:

(a) the N/2 to form a standard 320-acre gas spacing and proration unit for formations and/or pools developed on 320-acre spacing within that vertical extent, including the Basin-Fruitland Coal Gas Pool;

(b) the NE/4 to form a standard 160-acre oil spacing and proration unit for formations and/or pools developed on 160-acre spacing within that vertical extent, including the Undesignated WAW-Fruitland Sand-Pictured Cliffs Pool; and

(c) the NE/4 NE/4 to form a standard 40-acre oil spacing and proration unit for formations and/or pools developed on 40-acre spacing within that vertical extent.

(3) At the time of hearing, Redwolf requested that the portions of the application relating to the 40-acre and the 160-acre oil spacing and proration units (Findings (2)(b) and (2)(c) herein) be dismissed; therefore, the portion of the application relating to these units should be dismissed.

(4) The 320-acre gas spacing and proration unit is to be dedicated to the applicant's Bear Well No. 1, located at a standard gas well location 790 feet from the North line and 1190 feet from the East line (Unit A) of Section 36. This location is currently governed by the *Special Rules and Regulations for the Basin-Fruitland Coal Gas Pool*, Division Order No. R-8768-A, issued in Case No. 9420 and dated July 16, 1999. The Bear Well No. 1 was spudded on November 30, 1999.

(5) Jurisdiction over the surface has been transferred to the Navajo Agricultural Products Industries of the Navajo Nation ("the Nation") by the State of New Mexico.

(6) The applicant is a working interest owner and the lessee of record within the subject proration unit and therefore has the right to drill for and develop the minerals underlying the unit.

(7) There are interest owners in the subject proration unit that have not agreed to pool their interests. These uncommitted working interest owners shall be referred to herein as "non-consenting working interest owners."

(8) Maralex Resources, Inc. ("Maralex") appeared at the hearing and was represented by legal counsel. No other affected party appeared at the hearing in opposition to the application.

(9) Maralex's sole objection to the proposed unitization is Redwolf's proposal that a 156 percent nonconsent risk penalty be imposed.

(10) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford to the owner of each interest in the above-described proration unit the opportunity to recover or receive without unnecessary expense its just and fair share of hydrocarbons, this application should be approved by pooling all uncommitted mineral interests, whatever they may be, within the subject proration unit.

(11) Redwolf should be designated the operator of the subject well and unit.

(12) Because the risk involved in drilling wells within the Basin-Fruitland Coal Formation is somewhat less, the typical risk penalty in that pool has been assessed at 156% rather than the statutory maximum of 200%. Testimony and evidence presented in this case and testimony and evidence presented in Case 9420 establish that a 156% nonconsent risk penalty is appropriate for this unit.

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

(14) 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.

(15) Following determination of reasonable well costs, any non-consenting working interest owner who has paid its 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.

(16) Reasonable charges for supervision (combined fixed rates) should be fixed at \$4,000.00 per month while drilling and \$400.00 per month while producing. The operator should be authorized to withhold from production the proportionate share of both the supervision charges and the actual expenditures required for operating the well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(17) All proceeds from production from the well that 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.

(18) If all the parties to this forced pooling reach voluntary agreement subsequent to entry of this order, this order should become of no effect.

(19) The operator of the well and unit should notify 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) Pursuant to the application of Redwolf Production, Inc., all uncommitted mineral interests from the surface to the base of the Pictured Cliffs formation underlying the N/2 of Section 36, Township 26 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 formations and/or pools developed on 320-acre spacing within that vertical extent, including the Basin-Fruitland Coal Gas Pool.

(2) The portion of the application relating to the 160-acre and the 40-acre oil spacing and proration units (set forth in Findings (2)(b) and (2)(c) herein) is hereby dismissed.

(3) The unit is to be dedicated to the applicant's Bear Well No. 1 located at a standard gas well location 790 feet from the North line and 1190 feet from the East line (Unit A) of Section 36.

(4) Redwolf Production, Inc. is hereby designated the operator of the subject well and unit.

(5) The operator shall furnish the Division and each known non-consenting 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 the schedule, the actual well costs shall be the reasonable well costs; provided, however, that if there is an objection to actual well costs within the 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 working interest owner who has paid its share of estimated costs in advance shall pay to the operator its share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator its 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 of each known non-consenting working interest owner who has not paid its share of estimated well costs:

- (a) the proportionate share of reasonable well costs attributable to each non-consenting working interest owner; and

(b) as a charge for the risk involved in drilling the well,  
156 percent of the above costs.

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

(9) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$4,000.00 per month while drilling and \$400.00 per month while producing. The operator should be authorized to withhold from production the proportionate share of both the supervision charges and the actual expenditures required for operating the 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 this order.

(11) Any well costs or charges that 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) All proceeds from production from the well that 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 the escrow agent within 30 days from the date of first deposit with the escrow agent.

(13) Administrative notice is taken of Cases 9420, 10111, 10112, 10113, 10274, 10275, 10276, 11806, 11007 and Orders R-9356, R-9357, R-9517, R-9518, R-9519, R-9518-A, R-10154, R-1169 and R-11170.

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

(15) The operator of the well and unit shall notify the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

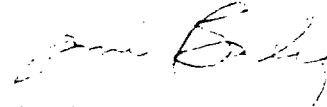
(16) Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

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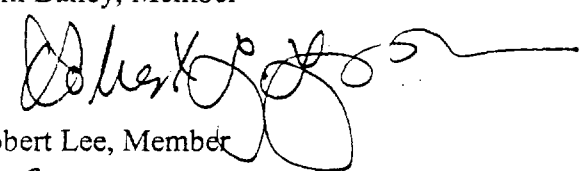
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DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

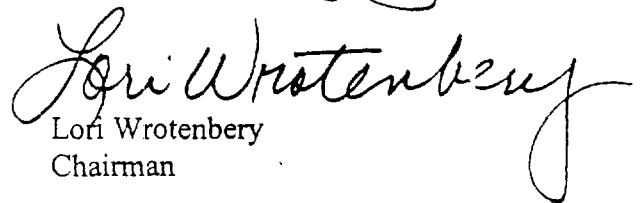
STATE OF NEW MEXICO  
OIL CONSERVATION COMMISSION



Jami Bailey, Member



Robert Lee, Member



Lori Wrotenbery  
Chairman

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