

**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. 12449  
ORDER NO. R-11451**

**APPLICATION OF SANTA FE SNYDER CORPORATION FOR COMPULSORY  
POOLING, LEA COUNTY, NEW MEXICO.**

**ORDER OF THE DIVISION**

**BY THE DIVISION:**

This case came on for hearing at 8:15 a.m. on July 27, 2000, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 5<sup>th</sup> day of September, 2000, the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

**FINDS THAT:**

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

(2) The applicant, Santa Fe Snyder Corporation ("Santa Fe"), seeks an order pooling all uncommitted mineral interests from the surface to the base of the Morrow formation underlying the following described acreage within Section 18, Township 23 South, Range 34 East, NMPM, Lea County, New Mexico, in the following manner:

the E/2 to form a standard 320-acre gas spacing and proration unit for any formations and/or pools spaced on 320 acres within this vertical extent including the Undesignated North Bell Lake-Morrow Gas Pool and the Undesignated Mid Bell Lake-Morrow Gas Pool;

the NE/4 to form a standard 160-acre spacing and proration unit for any formations and/or pools spaced on 160 acres within this vertical extent; and

the SE/4 NE/4 to form a standard 40-acre spacing and proration unit for any formations and/or pools spaced on 40 acres within this vertical extent.

These units are to be dedicated to the applicant's proposed Paloma Blanco "18" Federal Com Well No. 1 to be drilled at a standard gas well location 1980 feet from the North line and 660 feet from the East line (Unit H) of Section 18.

(3) BTA Oil Producers ("BTA"), an interest owner in the proposed 320-acre unit, appeared at the hearing in opposition to the application.

(4) Southwestern Energy Production Company, an interest owner in the proposed units, appeared at the hearing through legal counsel.

(5) The evidence presented in this case demonstrates that:

- (a) Santa Fe owns or controls, as of the hearing date, approximately 81.6% of the interest in the NE/4 of Section 18;
- (b) the NE/4 and NW/4 of Section 18 are both contained within a single fee lease. According to documents filed in this case (Santa Fe's Motion to Continue Case No. 12407 dated June 9, 2000), Santa Fe owns or controls approximately 58.45% of the interest in the N/2 of Section 18;
- (c) the SW/4 of Section 18 is a single Federal lease (Lease No. LC-065194) with 100% of the working interest formerly owned by BTA, which has assigned its interest among seventy of its partners and investors; and
- (d) the SE/4 of Section 18 is a single Federal lease (Lease No. LC-068387) with 100% of the working interest formerly owned by BTA, which has assigned its interest among seventy of its partners and investors.

(6) Within the proposed E/2 spacing unit, Santa Fe owns or controls

approximately 41% of the interest while BTA owns or controls approximately 50% of the interest. The remaining interest is owned by five other working interest owners.

(7) Prior to the hearing in this case, BTA filed a motion to dismiss Santa Fe's application. At the hearing, BTA renewed its motion to dismiss. A ruling on BTA's motion was deferred to allow the Division the opportunity to analyze the evidence presented in this case.

(8) BTA seeks to dismiss Santa Fe's application for the following reasons:

- (a) BTA owns or controls 100% of the working interest within the S/2 of Section 18;
- (b) BTA has filed an APD (Application to Drill) with the Bureau of Land Management (BLM) dated December 7, 1999, to drill its Bell Lake 7909 JV-P Well No. 2 at a standard gas well location 660 feet from the South line and 1980 feet from the East line (Unit O) of Section 18 to develop the Morrow gas reserves underlying its acreage. In its application, BTA seeks to dedicate the S/2 of Section 18 to its proposed well;
- (c) BTA's APD was approved by the BLM on January 3, 2000;
- (d) Santa Fe has the opportunity to form a N/2 proration unit and drill its Paloma Blanco "18" Federal Com Well No. 1 within the NE/4 to develop the gas reserves underlying the N/2 of Section 18; and
- (e) approval of Santa Fe's application will preclude BTA from developing the Morrow gas reserves underlying the S/2 of Section 18.

(9) Santa Fe testified that its proposed spacing unit orientation is better suited to the Morrow geology in Section 18 and, in support, presented geologic and engineering evidence that demonstrates:

- (a) the primary target within the Paloma Blanco "18" Federal Com Well No. 1 is the "Grama Ridge" sand

within the Upper Morrow interval;

- (b) the "Grama Ridge" sand traverses Section 18 in a north-south direction. The sand thickness (porosity greater than or equal to 8%) within the E/2 of Section 18 ranges from 10-20+ feet, while the sand thickness within the W/2 of Section 18 ranges from 0-10 feet;
  - (c) the NW/4 of Section 18 has previously been tested in the Morrow formation by the BTA Bell Lake 7909 JV-P Well No. 1, located 1650 feet from the North line and 12510 feet from the West line (Unit F). This well, which originally produced from the Devonian formation, was recompleted to the Morrow formation in 1987 and encountered 6 feet of net sand in the "Grama Ridge" interval. The well tested a slight show of gas in the "Grama Ridge" interval and was subsequently plugged and abandoned;
  - (d) an additional well, the Conoco Inc. Bell Lake Unit Well No. 10, located 1980 feet from the North line and 1650 feet from the West line (Unit F) of Section 19, Township 23 South, Range 34 East, NMPM, was tested in the "Grama Ridge" interval in 1976 in an area of comparable sand thickness (6 feet of net sand). The Morrow formation was abandoned after the well produced approximately 340 MMCF of gas in a seven-month period. The operator additionally reported that the majority of the gas produced came from perforations below 13,208 feet, which is below the "Grama Ridge" interval in this well; and .
  - (e) structural position appears to contribute to the success of a well in the "Grama Ridge" interval. The proposed Paloma Blanco "18" Federal Com No. 1 is approximately 100 feet higher structurally within the "Grama Ridge" interval than BTA's proposed Bell Lake 7909 JV-P Well No. 2.
- (10) BTA presented no geologic or engineering evidence.

(11) The evidence presented demonstrates that:

- (a) the greatest sand thickness within the targeted "Grama Ridge" sand interval lies within the E/2 of Section 18;
- (b) the NW/4 of Section 18 appears to be non-productive within the targeted "Grama Ridge" sand interval;
- (c) the SW/4 of Section 18 contains approximately the same sand thickness within the "Grama Ridge" sand interval as the NW/4 of Section 18, therefore, it is likely that this acreage is also non-productive; and
- (d) the vast majority of gas reserves within the "Grama Ridge" sand interval appear to be located within the E/2 of Section 18.

(12) Santa Fe's proposed method of developing the gas reserves within Section 18 better honors the Morrow geology than the proposal set forth by BTA.

(13) BTA's motion to dismiss this case should be **denied**.

(14) The applicant has the right to drill and proposes to drill its Paloma Blanco "18" Federal Com Well No. 1 at the standard gas well location described above.

(15) There are interest owners in the proposed units that have not agreed to pool their interests.

(16) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford to the owner of each interest in the units 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 units.

(17) Santa Fe should be designated the operator of the subject well and units.

(18) After pooling, uncommitted working interest owners are referred to as non-consenting working interest owners. Any non-consenting working interest owner should be afforded the opportunity to pay its share of estimated well costs to the operator in lieu of

paying its share of reasonable well costs out of production.

(19) Any non-consenting working interest owner who does not pay its share of estimated well costs should have withheld from production its share of reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in drilling the well.

(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 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.

(22) Reasonable charges for supervision (combined fixed rates) should be fixed at \$6,000.00 per month while drilling and \$600.00 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.

(23) 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.

(24) If the operator of the pooled units fails to commence drilling the well to which the units are dedicated on or before December 1, 2000, or if all the parties to this forced pooling reach voluntary agreement subsequent to the entry of this order, this order should become of no effect.

(25) The operator of the well and units 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) BTA Oil Producer's motion to dismiss this case is hereby **denied**.
- (2) Pursuant to the application of Santa Fe Snyder Corporation, all uncommitted

mineral interests from the surface to the base of the Morrow formation underlying the following described acreage within Section 18, Township 23 South, Range 34 East, NMPM, Lea County, New Mexico, are hereby pooled in the following manner:

the E/2 to form a standard 320-acre gas spacing and proration unit for any formations and/or pools spaced on 320 acres within this vertical extent including the Undesignated North Bell Lake-Morrow Gas Pool and the Undesignated Mid Bell Lake-Morrow Gas Pool;

the NE/4 to form a standard 160-acre spacing and proration unit for any formations and/or pools spaced on 160 acres within this vertical extent; and

the SE/4 NE/4 to form a standard 40-acre spacing and proration unit for any formations and/or pools spaced on 40 acres within this vertical extent.

These units shall be dedicated to the applicant's proposed Paloma Blanco "18" Federal Com Well No. 1 to be drilled at a standard gas well location 1980 feet from the North line and 660 feet from the East line (Unit H) of Section 18.

(3) The operator of the units shall commence drilling the proposed well on or before December 1, 2000, and shall thereafter continue drilling the well with due diligence to test the Morrow formation.

(4) In the event the operator does not commence drilling the well on or before December 1, 2000, Ordering Paragraph (2) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause shown.

(5) Should the well not be drilled to completion or be abandoned within 120 days after commencement thereof, the operator shall appear before the Division Director and show cause why Ordering Paragraph (2) should not be rescinded.

(6) Santa Fe Snyder Corporation is hereby designated the operator of the subject well and units.

(7) After pooling, uncommitted working interest owners are referred to as non-consenting working interest owners. After the effective date of this order, the operator shall furnish the Division and each known non-consenting working interest owner in the unit an

itemized schedule of estimated well costs.

(8) Within 30 days from the date the schedule of estimated well costs is furnished, any non-consenting working interest owner shall have the right to pay its share of estimated well costs to the operator in lieu of paying its share of reasonable well costs out of production, and any such owner who pays its share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(9) 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.

(10) Within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid its share of estimated costs in advance as provided above 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.

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

- (a) the proportionate share of reasonable well costs attributable to each non-consenting working interest owner who has not paid its share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished; and
- (b) as a charge for the risk involved in drilling the well, 200 percent of the above costs.

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

(13) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$6,000.00 per month while drilling and \$600.00 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.

(14) 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.

(15) 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.

(16) All proceeds from production from the well that are not disbursed for any reason shall 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 the escrow agent within 30 days from the date of first deposit with the escrow agent.

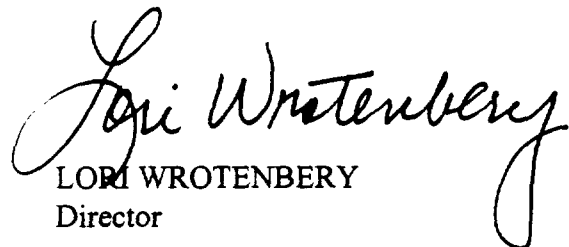
(17) Should all the parties to this compulsory pooling order reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

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

(19) Jurisdiction of this case 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

  
LORI WROTENBERY  
Director

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