

**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. 12839
ORDER NO. R-11803**

**APPLICATION OF LEWIS BURLESON, INC. FOR COMPULSORY POOLING, A
NON-STANDARD GAS SPACING UNIT, AND AN UNORTHODOX GAS WELL
LOCATION, LEA COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on March 21, 2002, at Santa Fe, New Mexico before Examiner Michael E. Stogner.

NOW, on this 23rd day of July, 2002, 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, Lewis Burleson, Inc., seeks an order pooling all uncommitted mineral interests in all formations and/or pools developed on 160-acre spacing, including but not limited to the Jalmat Gas Pool, underlying the N/2 N/2 of Section 14, Township 24 South, Range 36 East, NMPM, Lea County, New Mexico, to form a non-standard 160-acre gas spacing unit for any pool developed on 160-acre spacing within that vertical extent.

(3) Further, the applicant proposes to re-enter the plugged and abandoned Meridian Oil Inc. Cooper "B" Well No. 3 (API No. 30-025-09578), located at an unorthodox gas well location 330 feet from the North and East lines (Unit A) of Section 14, which well is to be dedicated to this 160-acre non-standard unit.

(4) At the time of the hearing the applicant requested that the provisions of any order issued in this case be limited to the Jalmat Gas Pool only.

(5) The Jalmat Gas Pool currently comprises all or portions of Township 21

South, Ranges 35 and 36 East, Township 22 South, Ranges 35 through 37 East, Township 23 South, Ranges 35 through 37 East, Township 24 South, Ranges 36 and 37 East, Township 25 South, Ranges 36 and 37 East, and Township 26 South, Ranges 36 and 37 East, NMPM, Lea County, New Mexico.

(6) The Jalmat Gas Pool is currently governed by the “*Special Pool Rules for the Jalmat Gas Pool*,” as promulgated by Division Order No. R-8170-P, issued in Case No. 12563 on December 14, 2001, which in part provide for:

- (i) 640-acre standard gas spacing units comprising a single governmental section;
- (ii) gas wells to be located no closer than:
 - (a) 660 feet to any boundary line of the assigned spacing unit;
 - (b) 660 feet to any governmental quarter section line; and
 - (c) 330 feet to any governmental quarter-quarter section or subdivision inner boundary line; and
- (iii) gas well density of no more than one well per quarter section.

(7) By Administrative Order NSP-27, dated November 22, 1954, the Division authorized the N/2 N/2 of Section 14 to be operated within the Jalmat Gas Pool as a non-standard 160-acre gas spacing and proration unit and initially dedicated thereto the Cooper “B” Well No. 2 (**API No. 30-025-09577**) located at a standard gas well location 660 feet from the North line and 1980 feet from the West line (Unit C) of Section 14.

(8) By Administrative Order NSL-907, dated January 13, 1978, the Division approved:

- (i) the drilling of the aforementioned Cooper “B” Well No. 3 at an unorthodox Jalmat infill gas well location 330 feet from the North and East lines (Unit A) of Section 14; and
- (ii) the simultaneous dedication of the non-standard 160-

acre unit to both the above-described Cooper "B" Wells No. 2 and 3.

(9) According to the evidence presented the Cooper "B" Well No. 3 was plugged and abandoned on May 19, 1992. In May, 1997 the 160-acre non-standard gas spacing unit terminated when the Cooper "B" Well No. 2 was finally plugged and abandoned. Therefore both Division Administrative Orders NSP-27 and NSL-907 became obsolete at that time.

(10) Immediately to the east of this non-standard 160-acre unit is a 160-acre non-standard gas spacing unit in the Jalmat Gas Pool comprising the NW/4 of Section 13, Township 24 South, Range 36 East, NMPM, Lea County, New Mexico (approved by Division Administrative Order NSP-536, dated November 15, 1960) operated by Gruy Petroleum Management Company ("Gruy"). This unit is currently simultaneously dedicated to Gruy's:

(i) Myers "B" Well No. 3 (API No. 30-025-09565), located at a standard gas well location 660 feet from the North line and 1980 feet from the West line (Unit C) of Section 13; and

(ii) Myers "B" Well No. 9 (API No. 30-025-34769), located at an unorthodox infill Jalmat Gas well location within this unit (approved by Division Administrative Order NSL-4639 (SD), dated September 5, 2001) 990 feet from the North line and 330 feet from the West line (Unit D) of Section 13.

(11) The subject well of this application offsets Gruy's Myers "B" Well No. 9 at an equal distance to the line common to Sections 13 and 14.

(12) The 160-acre non-standard spacing unit proposed by the applicant is a reinstatement of an older established productive tract, and according to the testimony presented its acreage has not been dedicated to any other productive Jalmat acreage. Further, the N/2 N/2 of Section 14 may reasonably be presumed to contain additional gas reserves from the Jalmat Gas Pool not previously produced from either the Cooper "B" Wells No. 2 and 3 accordingly granting of this application will prevent waste.

(13) Two or more separately owned tracts are embraced within this non-standard 160-acre unit, and/or there are royalty interests and/or undivided interests in oil and gas minerals in one or more tracts included in the unit that are separately owned.

(14) Applicant is an owner of a gas working interest within this unit. Applicant therefore has the right to develop this acreage and recover any remaining gas underlying the same.

(15) There are interest owners in the proposed 160-acre non-standard gas spacing unit that have not agreed to pool their interests.

(16) No interest owners or interested party appeared at the hearing in opposition to this application.

(17) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford to the owner of each interest in the unit the opportunity to recover or receive without unnecessary expense its just and fair share of gas from the Jalmat Gas Pool, this application should be approved by pooling all uncommitted interests, whatever they may be, in this 160-acre unit.

(18) Applicant should be designated the operator of the subject well and of the 160-acre non-standard gas spacing unit.

(19) Applicant requested that a risk penalty of 200 percent be assessed against any non-consenting working interest owner.

(20) Inasmuch as the subject well has already been drilled, the remaining risk applies only to re-entry and recompletion operations to be conducted on the Cooper "B" Well No. 3. Based on precedent established in previous compulsory pooling cases involving the re-entry of existing wellbores, the risk penalty should be fixed at 100%.

(21) 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 100% thereof as a reasonable charge for the risk involved in re-entering and recompleting the subject well.

(22) Reasonable charges for supervision (combined fixed rates) should be fixed at \$2,000.00 per month while re-entering and \$350.00 per month while producing, provided that these rates should be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations*." 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.

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Lewis Burleson, Inc. ("applicant"), all uncommitted mineral interests, whatever they may be, in the Jalmat Gas Pool underlying the N/2 N/2 of Section 14, Township 24 South, Range 36 East, NMPM, Lea County, New Mexico, are hereby pooled in order to form a non-standard 160-acre gas spacing unit.

(2) This unit shall be dedicated to the plugged and abandoned Meridian Oil Inc. Cooper "B" Well No. 3 (API No. 30-025-09578), located at an unorthodox gas well location 330 feet from the North and East lines (Unit A) of Section 14, which the applicant proposes to re-enter and recomplete in the Jalmat Gas Pool.

(3) Both the non-standard 160-acre gas spacing unit and the unorthodox gas well location are hereby approved.

(4) The operator of the unit shall commence re-entry of the well on or before October 31, 2002, and shall thereafter continue operations with due diligence to test the Jalmat Gas Pool.

(5) In the event the operator does not commence reentry of the well on or before October 31, 2002, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause.

(6) Should the proposed well not be completed in the Jalmat Gas Pool, or be abandoned, within 120 days after commencement thereof, the operator shall appear before the Division Director and show cause why Ordering Paragraph (1) should not be rescinded.

(7) Applicant is hereby designated the operator of the proposed well and of the unit.

(8) After pooling, uncommitted working interest owners are referred to as non-consenting working interest owners. ("Uncommitted working interest owners" are owners of working interests in the unit, including unleased mineral interests, who are not parties to an operating agreement governing the unit.) 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 of the proposed well.

(9) 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 as hereinafter provided, 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.

(10) 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 subject 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 deemed to be the reasonable well costs. 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.

(11) 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 paid, estimated well costs exceed reasonable well costs.

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

(i) 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

(ii) as a charge for the risk involved in re-entering and recompleting the well, 100% of the above costs.

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

(14) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$2,000.00 per month while re-entering and \$350.00 per month while producing, provided that these rates shall be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations*." The operator is 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 is reasonable, attributable to each non-consenting working interest.

(15) Except as provided in Ordering Paragraphs (12) and (14) above, 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.

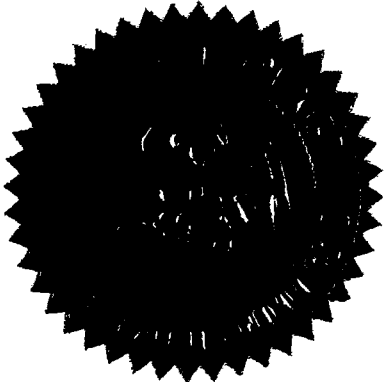
(16) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working interests' share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

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

(18) 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.

(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

LORI WROTENBERY
Director

SEAL