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March 13, 1985

MAR 13 1985

Mr. Michael E. Stogner
Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87501

"Hand Delivered"

Re: BTA Oil Producers Forced Pooling Case 8478
Chama Petroleum Company Forced Pooling Case 8505

Dear Mr. Stogner:

On February 27, 1985, you heard the above referenced cases which were consolidated for hearing. At the conclusion of the hearing you advised Mr. Carr and me to submit our written arguments and a proposed order in the event the parties were unable to reach a settlement. I regret to inform you that despite diligent efforts on the part of my client, BTA Oil Producers, we were unable to resolve this matter.

Accordingly, we would request that you decide these cases and enter an appropriate order.

We believe that your decision should be in favor of BTA Oil Producers for the following reasons:

1. BTA is the active operator in the area::

BTA has discovered this area and has drilled and successfully completed two of the three wells in the area.

Chama has drilled no wells in the area. It has re-entered a well in Section 25, the success of which is still unknown.

2. BTA is the more prudent operator having properly planned for realistic drilling costs::

BTA's AFE is realistic and accurately takes into consideration the additional risk involved in drilling in the Secretary of Interiors potash enclave. See testimony of T. B. O'Brien. BTA's AFE was submitted to Chama on January 4, 1985.

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Chama's AFE was never submitted to BTA and was not prepared until February 24, 1985, just 3 days before the hearing. Chama's AFE did not reflect the costs of drilling in the potash salt.

3. BTA was first to propose well and first to file for Pooling Order:

BTA was the first operator to propose the drilling of this well and the first operator to file for forced pooling. BTA filed its application on January 16, 1985. Chama filed its application on January 25, 1985, after receiving BTA's application.

4. BTA has demonstrated an intent to be operator.

The attempts by BTA to form a drilling unit by voluntary agreement with Chama are shown in the correspondence. As you can see from the correspondence, BTA's position was that it drill the well and that Chama either participate or farmout its acreage. As you can also see, Chama has negotiated, not from a position of wanting to drill the well, but, from a position of extracting the maximum concessions from BTA in a farmout deal.

Prior to the hearing, BTA offered Chama a 25% backin after payout. Chama wanted a 33% backin after payout. At the hearing, Chama argued that the only issue that was contested and the single most important issue to Chama was the location of the well. Subsequent to the hearing in an effort to resolve this matter, BTA offered to drill the location Chama wanted. Chama refused that offer. You will recall Chama's letter dated February 21, 1985, in which it said that Chama was agreeable to BTA's location and that "3. The well will be at a location of BTA's choice." Thus, you can see that Chama does not care about the location. It is simply trying to obtain some leverage in order to extract an additional 7% better backin from BTA.

5. BTA's requested risk factor is reasonable:

Chama does not contest the 200% maximum risk factor to be assessed against its interest.

6. BTA's overhead charges are reasonable:

Chama does not contest the overhead charges of \$5,150.00 drilling and \$560.00 producing.

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7. Chama's argument on location of the well is a false issue:

At the hearing Mr. Carr stated that Chama's only dispute with BTA was over the well location. It is assumed that he will attempt to argue this as the deciding factor in resolving the pooling cases. Do not be misled by such an argument. You can see that prior to the hearing the location of the well was not the important issue with Chama. In February Chama's geologist, Mr. Mazzullo, had prepared his report evaluating the location. Yet on February 21, 1985, just 6 days before the hearing, Chama writes to BTA and tells BTA it can pick a location of its choice. Also remember, that BTA offered after the hearing, to drill the Chama location, and Chama refused. Further, you will note from the testimony that the two locations are only 1,320 feet apart. Mr. Carr will argue that the BTA location is farther away from the good BTA well and that BTA is simply trying to protect its good well from drainage. Such an argument is ridiculous. The BTA location is only 330 feet farther from the good well than the Chama location. Such a distance is of no consequence. Further, it would be ridiculous to suggest that BTA is prepared to spend in excess of \$1 million dollars for a well that it would intentionally locate at less than the best location simply to avoid draining an existing well.

Because BTA believes the well location is not the real issue and desires that the Division not use it as the deciding factor, BTA is willing to have the order locate the well as requested by Chama, provided BTA is the operator.

8. Chama is simply using the OCD hearing process to bargain a better farmout:

On February 19, 1985, you entered Division Order R-7830 denying Chama's request to allow 320 acre spacing in the area adjacent to the Lea-Penn pool. Chama introduced no evidence to support its position. Yet on March 7, 1985, Chama appealed that order and has now asked for a denovo hearing. Chama is simply trying to confront BTA in every possible way in order to extract farmout concessions.

Chama did not care about the subject well and the forced pooling until it learned at the hearing of the well spacing case on January 3, 1985, that BTA was going ahead

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with its plans to drill a well in the NE/4 of Section 25. The day after the hearing, Chama raced out and staked its present location. That was done prior to Mr. Mazzullo's geologic review and was simply a blatant effort by Chama to get in ahead of BTA's efforts to drill this well.

9. BTA's operations are consistent with 160-acre spacing:

Having already decided the subject pooling case is in an area that ought to continue to be developed on 160 acre spacing, it would be inconsistent to grant the pooling order to an operator that believes that 160 acre spacing is not appropriate. Accordingly, BTA should be designated operator.

Conclusion:

We believe that the most reasonable solution is to grant the application of BTA Oil Producers and to deny the application of Chama. We have enclosed a proposed order that will accomplish that result.

Should you decide that a meeting with Mr. Carr and me would be helpful, I would be delighted to meet with you at your convenience.

Very truly yours,


W. Thomas Kellahin

WTK:sg
Enc.

cc: William F. Carr, Esq.
Attorney at Law
P. O. Box 2088
Santa Fe, NM 87501

Mr. Robert Crawford
BTA Oil Producers
104 South Pecos
Midland, Texas 79701-9988

ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

OIL CONSERVATION DIVISION

MAR 13 1985

RECEIVED

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

CASE NO. 8478
CASE NO. 8499

APPLICATION OF BTA OIL PRODUCERS, INC.
FOR COMPULSORY POOLING,
EDDY COUNTY, NEW MEXICO.

BTA OIL PRODUCERS, INC. PROPOSED
ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:00 A.M. on February 27, 1985, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this ____ day of March, 1985, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

(1) That due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) That BTA Oil Producers, Inc. is the operator of the E/2NE/4 of Section 25, T20S, R34E, NMPM, Lea County, New Mexico, and is the applicant in Division Case 8478, whereby it seeks to pool the interests of Chama Petroleum Company, in the Lea-Pennsylvanian Gas Pool to form a spacing and proration unit consisting of the NE/4 of Section 25.

(3) That Chama Petroleum Company is the operator of the W/2 NE/4 of said Section 25 and is the applicant in Division Case 8499, whereby it seeks to pool the interests of BTA Oil Producers, in the Lea-Pennsylvanian Gas Pool to form a spacing and proration unit consisting of the NE/4 of said section 25.

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(4) That Division Case 8478 and Case 8499 were consolidated for hearing.

(5) That BTA Oil Producers propose to drill the subject well at a standard location within the NE/4 of said section and has proposed a location 660 feet FNL and 660 feet FEL while Chama Petroleum Company proposes that the subject well be located 660 feet FNL and 1980 feet FEL of said Section 25.

(6) That the application of BTA Oil Producers in Case 8478 should be granted and the application of Chama Petroleum Company in Case 8499 should be denied for the following reasons:

(a) BTA Oil Producers is more active as an operator in the immediate area than Chama Petroleum Company;

(b) BTA Oil Producers' Estimated Well Costs Statement is more realistic than Chama Petroleum Company from which the Division concludes that BTA Oil Producers has devoted more time and effort to this project resulting in more prudent operations than proposed by Chama Petroleum Company;

(c) BTA Oil Producers has consistently demonstrated a desire and willingness to be operator while Chama Petroleum Company has sought to farmout its acreage to BTA Oil Producers;

(d) BTA was the first operator to file for a pooling order;

(e) BTA Oil Producers, Inc. proposed overhead charges are reasonable and Chama Petroleum Company has consented to those charges;

(f) The 200% risk factor proposed by BTA Oil Producers is reasonable and Chama Petroleum Company has consented to that percentage;

(g) BTA Oil Producers would be operating the well consistent with 160 acre spacing for the Lea-Penn Gas Pool, said spacing being opposed by Chama Petroleum Company;

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(h) There is no material difference between the locations requested by either BTA Oil Producers or Chama Petroleum Company and the two cases cannot be decided based solely upon that difference.

(7) That the subject well shall be at a standard location within the N/2NE/4 of said Section 25, at a location acceptable to BTA Oil Producers, Inc.

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

(9) That to avoid the drilling of unnecessary wells, to prevent waste, to protect correlative rights, 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 gas in any pool thereunder, the subject application should be approved by pooling all mineral interest, whatever they may be, within said pool.

(10) That the applicant, BTA Oil Producers, should be designated the operator of the subject well and unit.

(11) That 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) That 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) That substantial evidence supports a 200% risk factor, including, but not limited to, the fact that two wells in the immediate area are non-productive in the Upper Pennsylvanian Formation.

(14) That any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but that actual well costs should be adopted as the reasonable well costs in the absence of such objection.

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(15) That 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.

(16) That \$5,150.00 per month should be fixed as a reasonable charge for supervision (combined fixed rates) while drilling and that \$560.00 per month should be fixed as a reasonable charge for supervision while producing; that this charge should be adjusted annually based upon the percentage increase or decrease in the average weekly earnings of crude petroleum and gas production workers; that the operator should be authorized to withhold from production the proportionate share of such supervision charge 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.

(17) That 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.

(18) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before the expiration of 120 days from the effective date of this order, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That the application of BTA Oil Producers is hereby granted all mineral interests, whatever they may be, in the Lea-Pennsylvania Gas Pool, underlying the NE/4 of Section 25, Township 20 South, Range 34 East, NMPM, Lea County, New Mexico, are hereby pooled to form a standard 160-acre spacing and proration unit.

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(2) That BTA Oil Producers, Inc. shall locate the subject well at a standard location within the N/2NE/4 of said Section 25 at a location of its choice.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the expiration of 120 days after the effective date of this order, and shall thereafter continue the drilling of said well with due diligence.

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the expiration of 120 days after the effective date of this order, Order (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

PROVIDED FURTHER, that should said well not be completed, or abandoned, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Order (1) of this order should not be rescinded.

(2) That the application of Chama Petroleum Corporation is hereby denied.

(3) That BTA Oil Producers is hereby designated the operator of the subject well and unit.

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

(5) That 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 that 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.

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(6) That 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; that 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, that if there is an objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(7) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs in advance as provided above shall pay to the operator his pro rate share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rate share of the amount that estimated well costs exceed reasonable well costs.

(8) That the operator is hereby authorized to withhold the following costs and charges from production.

(a) The prorated 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.

(9) That the operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(10) That \$5,150.00 per month is hereby fixed as a reasonable charge for supervision (combined fixed rates) while drilling, and that \$560.00 per month is hereby fixed as a reasonable charge for supervision while producing, provided that this rate shall be adjusted on the first day

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of April of each year following the effective date of this order; that the adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings Crude Petroleum and Gas Production Workers for the last calendar year compared to the preceeding calendar year as shown by "The Index of Average Weekly Earnings of Crude Petroleum and Gas Production Workers" as published by the United States Department of Labor, Bureau of Labor Statistics, and the adjusted rate shall be the rates currently in use, plus or minus the computed adjustment; that the operator is hereby authorized to withhold from production the proportionate share of such supervision charge 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 wroking interest.

(11) That any unsevered mineral interest shall be considered a seven-eighths ($7/8$) working interest and a one-eight ($1/8$) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(12) That 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) That 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; that the operator shall notify the division of the name and addresses of said escrow agent within 30 days from the date of first deposit with said escrow agent.

(14) That jurisdiction of this cause 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

To Mike
Date _____ Time 3:00 p.m.

WHILE YOU WERE OUT

M _____
of from Karen Aubrey
Phone _____

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TELEPHONED		PLEASE CALL
CALLED TO SEE YOU		WILL CALL AGAIN
WANTS TO SEE YOU		URGENT

RETURNED YOUR CALL ☐

Message regarding BTA
application - they only
want to pool
her Pennsylvanian

Operator _____

CAMPBELL & BLACK, P.A.

LAWYERS

JACK M. CAMPBELL
BRUCE D. BLACK
MICHAEL B. CAMPBELL
WILLIAM F. CARR
BRADFORD C. BERGE
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March 11, 1985

CONSERVATION DIVISION

HAND DELIVERED

MAR 11 1985

RECEIVED

Mr. Michael Stogner
Chief Hearing Examiner
Oil Conservation Division
New Mexico Dept. of Energy and Minerals
State Land Office Building
Santa Fe, New Mexico 87501

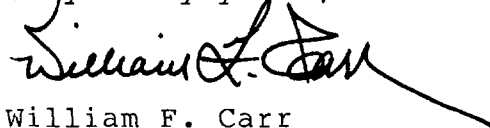
Re: Oil Conservation Division Cases 8478 and 8505: Applications of BTA Oil Producers and Chama Petroleum Company for Compulsory Pooling, Lea County, New Mexico.

Dear Mr. Stogner:

Pursuant to your request, I am enclosing on behalf of Chama Petroleum Company, our written closing statement in these consolidated cases. Unless otherwise noted, all transcript references are to the transcript of the February 27, 1985 hearing. Also enclosed, is a proposed Order granting the application of Chama Petroleum Company in this case.

If you need anything further from Chama in this matter, please advise.

Very truly yours,


William F. Carr

WFC/cv
enclosures

cc: Mr. Mark Nearburg (w/encl.)
W. Thomas Kellahin, Esq. (w/encl.)

CLOSING STATEMENT OF
CHAMA PETROLEUM COMPANY

Consolidated Cases 8478 and 8505

In each of these consolidated cases, Chama Petroleum Company and BTA Oil Producers each seek an order pooling the mineral interests under the NE/4 of Section 25, Township 20 South, Range 34 East, N.M.P.M., Lea County, New Mexico, and each proposes to drill a well on this acreage to test the Morrow formation. Each company owns 50% of the working interest in the spacing unit and each operates Morrow wells offsetting the subject acreage.

There is no real issue between the parties as to the risk penalty being sought (both seek a 200% penalty) or the overhead and administrative costs to be set by the Division. The differences in the AFE's result from differences in the proposed casing programs and both parties will case the wells so as to fully comply with all state and federal regulations (Nearburg Tr. 56). Furthermore, there are no allegations in the record that either party is not a prudent operator.

This case does, however, present to the Examiner serious waste and correlative rights questions. Chama submits that if the well is drilled at BTA's proposed location (660 feet from the North and East lines of Section 25), Chama will not be afforded an opportunity to produce its just and fair share of the reserves under the NE/4 of Section 25, thereby impairing its correlative rights. Waste will also result, for a well at this location may not intercept zones that the evidence showed would

be intercepted at Chama's location (660 feet from the North line and 1980 feet from the East line of Section 25), thereby leaving gas in the ground.

By way of background, it should be noted that Chama was first contacted by BTA about developing the subject acreage on January 4, 1985 (Hughes Tr. 14; Nearburg Tr. 57). By letter dated January 14, 1985, Chama responded to BTA's letter and requested a meeting with BTA to discuss certain details concerning the development of this acreage (Hughes Tr. 14, 20; Nearburg Tr. 57-58). Two days later, on January 16, 1985, BTA filed its application for compulsory pooling without further discussion with Chama Petroleum Company (Hughes Tr. 15). The only other effort made by BTA to obtain voluntary joinder in the drilling of a well on the subject lands, was a letter dated May 9, 1984 (BTA Ex. 2) which was misaddressed (Hughes Tr. 20) and on which no follow-up was made (Hughes Tr. 20). Therefore, with little negotiation between the parties, BTA brought the matter to the Division for decision.

It was clear from the evidence presented that to get a good Morrow well in this area, the party selecting the location tries to place the well at the highest possible structural point (Zoller Tr. 42). Mr. Zoller, geological witness for BTA, testified that this reservoir, in certain zones, is very structurally very sensitive (Zoller Tr. 43-44; also see Zoller testimony in transcript of Case 8420 at p. 19). Mr. Zoller noted that he would want "... to get just as high on the structure as I could because some of the sands appeared to have a gas/water contact; " (Zoller Tr. 35).

Chama's proposed location is structurally higher than that proposed by BTA by as much as 50 feet (Mazzullo Tr. 72). BTA's own structure map shows that Chama's proposed well is at a higher structural position (BTA Ex. 8). Even if Chama's location is only 15 feet (Zoller Tr. 50) to 50 feet higher, this difference is significant in the Lea-Pennsylvanian Gas Pool (See Zoller testimony in transcript of Case 8420 at p. 20, where he testifies that being 20 to 30 feet low to the Lynch No. 1 Well decreases the risk of making a successful completion in the area).

Another factor in selecting an optimum well location in Section 25 is the proximity of the proposed well to existing production (Zoller Tr. 48). Chama's proposed location is closer to the offsetting BTA Lynch No. 1 Well than BTA's proposed location. The Lynch well has an extremely high potential (Zoller Tr. 44-45), and it is prudent to locate as close to this well as is permitted by Division rules.

It also should be noted that the evidence shows that some wells in the Lea-Pennsylvanian Gas Pool can drain more than 160 acres (Zoller Tr. 47), and that since the BTA Lynch No. 1 Well in the SE/4 of Section 24 has such a high potential, it should be expected to drain reserves from the Chama acreage in Section 25. It is interesting to note that BTA owns 100% of the well in Section 24 (Hughes Tr. 19), where it would only have a 50% interest in the well in Section 25 (Hughes Tr. 11).

The evidence also shows that Chama's location should intercept zones that are not present under the BTA location. Lewis Mazzullo, Chama's engineering witness, presented an isopachus map of the Morrow zone which produces in the BTA Lynch No. 1

Well in Section 24 (Chama Ex. 5). This map shows this producing zone present under the Chama location, but absent at the location proposed by BTA. Mr. Zoller testified that BTA was not capable of preparing such a map (Zoller Tr. 48). Mr. Mazzullo's testimony was not challenged by BTA.

The presence of a fault which runs North-South somewhere near the East line of Section 25 is not disputed by the parties, but its exact location is unknown (Zoller Tr. 49; Mazzullo Tr. 70). Chama's proposed location however, is less likely to intercept this fault.

In opposition to Chama, BTA supports its case by merely expressing its desire to drill on its own acreage (Zoller Tr. 35), and then asks the Oil Conservation Division to speculate about possible other reasons behind Chama's insistence that the well be drilled 1,980 feet from the East line, instead of 660 feet from the East line (Tr. 61-62) - speculations contrary to anything in the record.

In granting Chama's application, the Division will protect correlative rights and prevent waste by assuring that the NE/4 of Section 25, Township 20 South, Range 34 East, will be developed with a Morrow well at the best possible location. The only way Chama can be certain that the proposed Morrow well in the NE/4 of Section 25 will be located at a location which will best enable it to protect its correlative rights and prevent the waste of the gas thereunder is to be designated operator of the unit and to drill the well. This, Chama is prepared to do.

Chama Petroleum Company, therefore, requests that its application in Case 8505 be granted and that the application of BTA Oil Producers in Case 8478 be denied.

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

MAR 11 1985

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

RECEIVED

Case No. 8505
Order No. R-

APPLICATION OF CHAMA PETROLEUM
COMPANY FOR COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8 a.m. on February 27, 1985, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this _____ day of March, 1985, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

(1) That due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) That the applicant, Chama Petroleum Company, seeks an order pooling all minerals interests from the surface to the base of the Morrow formation underlying the NE/4 of Section 25, Township 20 South, Range 34 East, NMPM, Lea County, New Mexico.

(3) That the NE/4 of Section 25 is a standard 160-acre gas spacing unit for the Pennsylvanian formation in this area, for it is less than 1 mile from the Lea-Pennsylvanian Gas Pool.

(4) That the applicant has the right to drill and proposes to drill a well at a standard location thereon 660 feet from the North line and 1980 feet from the East line of said Section 25.

(5) That at the time of hearing, BTA Oil Producers appeared in opposition to the application and proposed to drill a well in the NE/4 of said Section 25 at a location 660 feet from the North and East lines of said Section 25.

(6) That the evidence established that the well location proposed by the applicant would be located higher structurally than the proposed BTA well, that it would be located closer to wells currently producing from the Morrow than the proposed BTA location, and that a well at applicant's proposed location has a better chance of being a successful Morrow well than a well at BTA's proposed location, thereby preventing waste and protecting the correlative rights of the interest owners in the NE/4 of said Section 25.

(7) That there are interest owners in the proposed proration unit who have not agreed to pool their interests.

(8) That to avoid the drilling of unnecessary wells, to protect correlative rights, 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 gas in said pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

(9) That the applicant should be designated the operator of the subject well and unit.

(10) That 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.

(11) That 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.

(12) That any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but that actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(13) That 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.

(14) That \$5,300.00 per month while drilling and \$585.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to such 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.

(15) That 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.

(16) That upon the failure of the operator of said pooled unit to commence drilling operations on the well to which said unit is dedicated on or before July 1, 1985, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, from the surface to the base of the Morrow formation, underlying the NE/4 of Section 25, Township 20 South, Range 34 East, NMPM, Lea County, New Mexico, are hereby pooled to form a standard 160-acre gas spacing and proration unit to be dedicated to a well to be drilled at a standard location 660 feet from the North line and 1980 feet from the East line of said Section 25.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling operations on said well on or before the first day of July, 1985, and shall thereafter continue the drilling of said well with due diligence to test the Morrow formation.

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the first day of July, 1985, Order (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

PROVIDED FURTHER, that should said well not be drilled and completed, or abandoned, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Order (1) of this order should not be rescinded.

(2) That Chama Petroleum Company is hereby designated the operator of the subject well and unit.

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

(4) That 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 that 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) That 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; that 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, that if there is an objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(6) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated 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) That 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) That the operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(9) That \$5,300.00 per month is hereby fixed as a reasonable charge for supervision (combined fixed rates) while drilling, and that \$585.00 per month is hereby fixed as a reasonable charge for supervision while producing, provided that this rate shall be adjusted on the first day of April of each year following the effective date of this order; that the adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings Crude Petroleum and Gas Production Workers for the last calendar year compared to the preceding calendar year as shown by "The Index of Average Weekly Earnings of Crude Petroleum and Gas Production

Workers" as published by the United States Department of Labor, Bureau of Labor Statistics, and the adjusted rate shall be the rates currently in use, plus or minus the computed adjustment; that the operator is hereby authorized to withhold from production the proportionate share of such supervision charge 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) That any unsevered 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) That 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) That 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; that 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) That jurisdiction of this cause 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

RICHARD L. STAMETS,
Director

S E A L

7/1/85

Importance

Memo

From

MICHAEL STOGNER

Petroleum Engineer

To

~~James~~

MIKE

*Is the casing program presented
in this AFE acceptable in this
location.*

*MIKE THIS LOOKS OKAY
To me Jerry*

*Respond as soon as
possible*

Thanks

MS.

Chama Petroleum Company

AUTHORITY FOR EXPENDITURE

Lease: Chama Federal Estimated Spud Date: _____
 Well No.: 2-L Estimated Completion Date: _____
 Location: 660 FNL, 1980 FEL, Sec. 25, T20S, R34E, Lea County, New Mexico
 Date Prepared: 2/24/85

	TO CASING POINT	COMPLETION	TOTAL WELL
INTANGIBLE COSTS:			
Drilling: Footage 13,600' @ 25 /ft.	\$ 340,000	\$ -	\$ 340,000
Daywork 5 @ 5,000 /day	15,000	10,000	25,000
Other _____	-	-	-
Mud & Chemicals _____	50,000	-	50,000
Brine & Water _____	20,000	4,000	24,000
Conductor _____	-	-	-
Cement: Surface 800' x 13 3/8	8,000	-	8,000
Intermediate 5500' x 8 5/8	20,000	-	20,000
Oil String _____	-	23,000	23,000
Plug _____	7,000	(7,000)	-
Location: Road Pad & Cleanup + Plts _____	20,000	3,000	23,000
Survey _____	1,000	-	1,000
Damages _____	2,000	-	2,000
Services: Logging _____	45,000	5,000	50,000
Testing BHP, 4Pt. DST _____	10,000	4,000	14,000
Coring & Analysis _____	-	-	-
Completion Unit, Swabbing _____	-	18,200	18,200
Perforating _____	-	5,000	5,000
Treating, Acidizing, Fracturing _____	-	30,000	30,000
Supervision Engr. & Geo. _____	30,000	5,000	35,000
Other Mud Logger _____	10,000	-	10,000
Hauling: Equipment _____	2,000	2,000	4,000
Rental: PVT, Swacs, Chokes _____	20,000	10,000	30,000
Equipment: Test Tanks, etc. _____	2,000	1,000	3,000
Casing crew, S.B., Ruffcoat _____	9,000	5,000	14,000
Supplies: Misc. Labor & Prod. Eqpt. Inst. _____	5,000	20,000	25,000
Insurance: _____	2,000	1,000	3,000
Expense Reports & Overhead _____	10,000	3,000	13,000
Sub-Total _____	628,000	142,200	770,200
Contingencies 15% _____	94,200	21,330	115,530
ESTIMATED TOTAL INTANGIBLES _____	\$ 722,200	\$ 163,530	\$ 885,730
Casing:			
Conductor: _____ of _____ @ _____ /ft.	\$ -	\$ -	\$ -
Surface: 800' of 13 3/8 @ 21 /ft.	16,800	-	16,800
Intermediate: 5500' of 8 5/8 @ 12 /ft.	66,000	-	66,000
Production: 13600' of 5 1/2 @ 8.5 /ft.	-	115,600	115,600
Tubing: 13500' of 2 3/8 @ 2.6 /ft.	-	35,100	35,100
Rods: _____ of _____ @ _____ /ft.	-	-	-
Wellheads & Miscellaneous Fittings _____	10,000	15,000	25,000
Pumping Unit, Motor & Subsurface Equipmt. _____	-	-	-
Tank Battery: Tanks _____	-	20,000	20,000
Treater or Separator _____	-	18,000	18,000
Fittings _____	-	10,000	10,000
Flowlines _____	-	9,000	9,000
Electrical Hook-Up _____	-	-	-
Other Misc. Equip. Treators, etc. _____	-	20,000	20,000
ESTIMATED TOTAL TANGIBLES (EQUIPMENT) _____	\$ 92,800	\$ 242,700	\$ 335,500
ESTIMATED TOTAL WELL COSTS _____	\$ 815,000	\$ 406,230	\$ 1,221,230
LEASEHOLD COST _____	1,049,000		1,049,000
ESTIMATED TOTAL _____			\$ 1,221,230

*Casing is
 suggested difference*

BEFORE EXAMINER STOGNER

Oil Conservation Division

Chama Exhibit No. 2

Case No. 8418 + 8505



STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

TONEY ANAYA
GOVERNOR

July 12, 1985

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87501
(505) 827-5800

Mr. Thomas Kellahin
Kellahin & Kellahin
Attorneys at Law
Post Office Box 2265
Santa Fe, New Mexico

Re: CASE NO. 8478 and 8505
ORDER NO. R-7979

Applicant:
BTA Oil Producers and
Chama Petroleum Company

Dear Sir:

Enclosed herewith are two copies of the above-referenced
Division order recently entered in the subject case.

Sincerely,

R. L. STAMETS
Director

RLS/fd

Copy of order also sent to:

Hobbs OCD X
Artesia OCD X
Aztec OCD

Other William F. Carr



TONEY ANAYA
GOVERNOR

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

50 YEARS



1935 - 1985

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87501
(505) 827-5800

August 30, 1985

Mr. William F. Carr
Campbell & Black
Attorneys at Law
Post Office Box 2208
Santa Fe, New Mexico 87501

Dear Mr. Carr:

Based upon your written request of August 28, 1985,
Chama Petroleum Company is hereby granted an extension
to December 1, 1985, to begin the well on the acreage
force pooled by Division Order No. R-7979.

Sincerely,

R. L. STAMETS
Director

RLS/fd

CAMPBELL & BLACK, P.A.

LAWYERS

JACK M. CAMPBELL
BRUCE D. BLACK
MICHAEL B. CAMPBELL
WILLIAM F. CARR
BRADFORD C. BERGE
J. SCOTT HALL
PETER N. IVES
LOURDES A. MARTINEZ

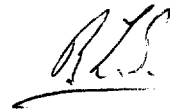
RECEIVED

AUG 28 1985

OIL CONSERVATION DIVISION

JEFFERSON PLACE
SUITE 1 - 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87501
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

August 28, 1985



HAND DELIVERED

R. L. Stamets, Director
Oil Conservation Division
Department of Energy & Minerals
State Land Office Building
Santa Fe, New Mexico 87503

RE: Case Nos. 8478 and 8505: Applications of BTA Oil Producers
for Compulsory Pooling and Chama Petroleum Company for
Compulsory Pooling and an Unorthodox Location, Lea County,
New Mexico

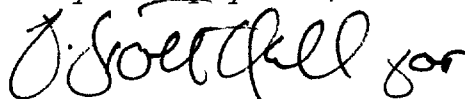
Dear Mr. Stamets:

On July 11, 1985 the Division entered Order R-7979 in the
above-referenced consolidated cases which, among other things,
granted the pooling application of Chama Petroleum Company. This
order provided for the commencement of a well by Chama on or
before the first day of September, 1985 unless the operator
obtains an extension from the Division for good cause shown.

This letter is to request an extension of Order R-7979 to
December 1, 1985. The reason for this request is that Chama has
encountered delays in obtaining archeological clearance and
certain other approvals from federal authorities and therefore
cannot commence this well by September 1, 1985.

Your attention to this request is appreciated.

Very truly yours,



William F. Carr

WFC/ba

cc: Mark Nearburg
W. T. Kellahin

Sec. 25 Township No. 20 South of Range No. 34 East, N.M.P.M.,
County Lea, New Mexico.

