

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. 9326
ORDER NO. R-8664

APPLICATION OF SUN EXPLORATION
AND PRODUCTION COMPANY FOR
COMPULSORY POOLING, RIO ARRIBA
COUNTY, NEW MEXICO

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on March 30, 1988, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 24th day of June, 1988, 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) The applicant, Sun Exploration and Production Company ("Sun"), seeks an order pooling all mineral interests in the Gavilan-Mancos Oil Pool underlying a 640-acre tract being all of Section 26, Township 26 North, Range 2 West, NMPM, Rio Arriba County, New Mexico, to be dedicated to the Sun Exploration and Production Company Wildfire Well No. 1 located 900 feet from the South line and 1650 feet from the West line (Unit N) of said Section 26, which is presently completed and capable of producing from the Gavilan-Mancos Oil Pool and which is currently dedicated to a previously approved 320-acre non-standard oil spacing and proration unit underlying the W/2 of said Section 26.

(3) Sun Exploration and Production Company is the operator of the subject well and is an interest owner in the W/2 of said Section 26.

(4) Hixon Development Company ("Hixon"), as a working interest owner in the E/2 of said Section 26, appeared at the hearing in support of the application as more fully set forth in Finding Paragraph No. (10) below.

(5) On December 23, 1983, the Division adopted Order No. R-7407 which established temporary special rules and regulations for the Gavilan-Mancos Oil Pool, effective as of March 1, 1984, including a provision for 320-acre spacing and provided:

"Rule 2: No more than one well shall be completed or recompleted on a standard unit containing 320 acres, more or less, consisting of the N/2, S/2, E/2, or W/2 of any governmental section."

and further required:

"(2) That any well presently producing from the Gavilan-Mancos Oil Pool which does not have a standard 320-acre proration unit, an approved non-standard proration unit, or which does not have a pending application for a hearing for a standard or non-standard proration unit by March, 1984, shall be shut-in until a standard or non-standard unit is assigned the well."

(6) On April 10, 1987, Jerome P. McHugh (now operated by Sun) completed the Wildfire Well No. 1 to which was dedicated 320 acres being the W/2 of said Section 26.

(7) In accordance with Section 70-2-18(a) NMSA-1978 which provides in part "...any division order that increases the size of a standard spacing or proration unit for a pool, or extends the boundaries for such a pool, shall require dedication of acreage to existing wells in the pool in accordance with the acreage dedication requirements for said pool, and all interests in the spacing or proration units that are dedicated to the affected wells shall share in production from the effective date of said order," the Commission, after notice and hearing, effective as of June 8, 1987, adopted permanent special rules and regulations for the Gavilan-Mancos Oil Pool by Division Order No. R-7407-E which, among other things, increased the spacing from 320 acres to 640 acres and amended the original Rule 2 substituting the following:

"(3) Rule 2 of the temporary special rules and regulations for the Gavilan-Mancos Oil Pool as promulgated by Order No. R-7407 is hereby amended as follows:

Rule 2(a). A standard proration unit shall consist of between 632 and 648 acres consisting of a governmental section with at least one and not more than two wells drilled or recompleted thereon; provided that if the second well is drilled or recompleted on a standard unit it shall not be located in the same quarter section, nor closer than 1650 feet to the first well drilled on the unit; and provided further that proration units formed prior to

the date of this order are hereby granted exception to this rule."

(8) On February 9, 1988, Sun as the owner, filed an application with the Division for a compulsory pooling order to pool the E/2 of said Section 26 with the W/2 of Section 26 which is already dedicated to the Wildfire Well No. 1 thereby forming a 640-acre proration unit not withstanding the exemption of the original 320-acre spacing unit from Rule 2(a) of said Order No. R-7407-E.

(9) In addition, Sun seeks provisions to allow the E/2 working interest owners an opportunity to participate in the production from said Wildfire Well No. 1 from June 8, 1987, by paying their proportionate share of the calculated average costs of drilling, completing and equipping of the well.

(10) Sun and Hixon have been able to agree upon the following terms and conditions that would apply to the compulsory pooling order to be entered in this case.

- (a) Sun shall continue as operator of the subject well and the 640-acre spacing unit;
- (b) The subject spacing and proration unit should be made effective April 1, 1988 being the first day of the month immediately following the hearing in this case;
- (c) Except for the modification of the necessary terms to increase the size of the unit from 320 acres to 640 acres, the new communitization and joint operating agreements shall contain the same terms and conditions as the original agreements that applied to the 320-acre unit and the working interest owners in the E/2 shall be given a thirty day election period to sign the new communitization and joint operating agreements;
- (d) It is agreed that \$511,000.00 represents a reasonable sum for drilling and completing the said Wildfire Well No. 1 and the working interest owners in the E/2 shall be given a thirty-day election period to pay their proportionate share of that sum;
- (e) In addition, Sun shall be entitled to recover anticipated future costs, estimated to be \$115,000, for the installation of a gathering line and the purchase and installation of surface equipment for artificial lift and associated expenditures either on a joint billing basis from participating working interest owners as such costs are incurred or out of production from non-consenting working interest owners;

- (f) The sums and methods set forth in this subsection represent a reasonable and fair method to reimburse the original owners and to afford to the new owners a fair and reasonable means of participation;
- (g) In the event any working interest owner in the E/2 fails to execute the revised operating agreement and communitization agreement and who also fails to make timely payment within the period required, that interest shall be deemed to have elected not to participate and Sun shall have the right to recover out of production that parties' share of the reimbursement, plus an additional 200%; and,
- (h) The overhead charge should be \$3,500 per month while drilling and \$350 per month while operating.

(11) Based upon the pressure interference analysis presented by Sun which shows that said well is subject to pressure depletion by Gavilan-Mancos wells more than one mile away, the drilling of a well in the E/2 of said Section 26 does not appear to be necessary.

(12) Based upon the reservoir economic analysis presented by Sun for both the W/2 and E/2 of Section 26, the correlative rights of the working interest, royalty interest and overriding royalty interest owners in both the W/2 and E/2 of Section 26 will be protected by approval of this application.

(13) To avoid the drilling of unnecessary wells, to protect correlative rights, to avoid waste and to afford the owners of each interest in the 640-acre unit the opportunity to recover or receive without unnecessary expense its just and fair share of production from the Gavilan-Mancos Oil Pool, the exemption for the original 320-acre unit should be withdrawn and 640-acre spacing made effective as of April 1, 1988.

(14) To avoid the drilling of unnecessary wells, to protect correlative rights, to avoid waste and to afford the owners of each interest in the 640-acre unit the opportunity to recover or receive without unnecessary expense its just and fair share of production from the pooled area, all mineral interests in said Section 26 should be pooled as a single 640-acre unit for the Gavilan-Mancos Oil Pool and dedicated to the Wildfire Well No. 1.

(15) Sun should be designated the operator of the subject well and spacing unit.

(16) The Division finds that the method of cost allocation proposed by Sun is reasonable and adequately compensates the original owners for the investment made on behalf of the new owners,

which sum is found to be one half of \$511,000.00 plus anticipated future costs attributed to the new owners.

(17) Hixon and Dugan should be afforded the opportunity to elect to either pay to the operator its proportionate share of the sum of \$511,000.00 for participation in the subject well or to pay its proportionate share of such costs out of production. Such election should be made by Hixon and any other working interest owner in the E/2 of Section 26 within thirty (30) days after notice is received by them after the issuance of an Order in this case by the Division; and upon execution of the operating agreement and communitization agreement and payment, then and in that event Hixon and Dugan shall be deemed participating working interest owners and shall be billed for future costs on a joint interest billing basis, as such costs are incurred.

(18) Should Hixon or any working interest owner in the E/2 of Section 26 not so elect to participate as set forth in Finding Paragraph (17) above, is should be deemed a non-consenting party and should have withheld from production its share of \$511,000.00, plus its share of future costs, plus an additional 200 percent thereof as a reasonable charge for the risk involved in the well.

(19) \$3,500.00 per month while drilling and \$350.00 per month while producing should be fixed as reasonable charges for supervision of the subject well (combined fixed rates); in the event a working interest owner does not elect to pay its proportionate share of the costs identified in Finding Paragraph (10) (d) and (e) above, the operator should be authorized to withhold from production the proportionate share of actual expenses required for operating the subject well and for such supervision charges attributable to the interest of said owner 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 or attributable to that interest.

(20) 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 within the Gavilan-Mancos Oil Pool underlying all of Section 26, Township 26 North, Range 2 West, NMPM, Rio Arriba County, New Mexico, are hereby pooled to form a standard 640-acre oil spacing and proration unit to be dedicated to the Sun Exploration and Production Company Wildfire Well No. 1 which has been drilled and completed at a standard location 900 feet from the South line and 1650 feet from the West line (Unit N) of said Section 26.

(2) Sun Exploration and Production Company is hereby designated the operator of the subject well and unit.

(3) Within 30 days after receipt of this order, any working interest owner in the E/2 of said Section 26 shall have the right to execute the joint operating agreement, communitization agreement and pay his share of the \$511,000.00 to the operator in lieu of paying his share out of production. Any such owner who so elects as provided shall share in production from April 1, 1988, but shall remain liable for future costs, including gathering lines and artificial lift equipment, and for operating costs from April 1, 1988 forward, but shall not be liable for risk charges.

(4) Should any working interest owner fail to timely elect to participate as provided in Ordering Paragraph No. (3) above, then that owner shall be a non-consenting owner and the operator is hereby authorized to withhold the following costs and charges from production:

- (a) The pro rata share of said \$511,000.00 sum attributable to each non-consenting working interest owner;
- (b) The pro rata share of future costs of gathering lines and lift equipment estimated to be \$115,000.00 attributable to each non-consenting working interest owner; and
- (c) As a charge for the risk involved in the drilling of this well, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner.

(5) \$3,500.00 per month while drilling and \$350.00 per month while producing are hereby fixed as reasonable charges for supervision of the subject well (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 owner and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable or attributable to that interest of each non-consenting working interest.

(6) Any well costs or charges which 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.

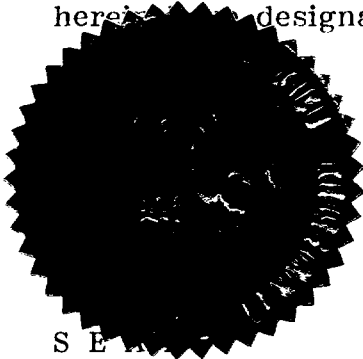
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(7) All proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Rio Arriba County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; the operator 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.

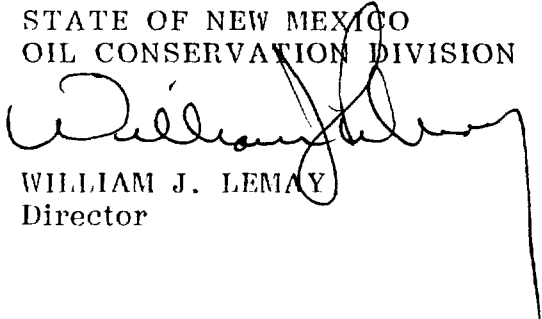
(8) The operator of the well and unit shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

(9) 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 herein designated.



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


WILLIAM J. LEMAY
Director