

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

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

CASE NO. 8237
Order No. R-7583

APPLICATION OF TXO PRODUCTION
CORPORATION FOR COMPULSORY
POOLING, DIRECTIONAL DRILLING,
AND AN UNORTHODOX LOCATION,
EDDY COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on June 20, 1984, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 28th day of June, 1984, 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, TXO Production Corporation, seeks an order pooling all mineral interests from the top of the Wolfcamp formation to the base of the Morrow formation underlying the N/2 of Section 30, Township 21 South, Range 27 East, NMPM, Burton Flat-Morrow Gas Pool, Eddy County, New Mexico, to be dedicated to a well to be drilled directionally from a surface location 660 feet from the South line and 500 feet from the East line of Section 19, Township 21 South, Range 27 East, NMPM, Eddy County, New Mexico.

(3) That the applicant further seeks authority to directionally drill said proposed well, surface location as described above, and drill in a southerly direction from a kick-off point at approximately 4300 feet, intersecting the top of the Wolfcamp formation at an unorthodox location within 25 feet of a point 130 feet from the North line and

623 feet from the East line of Section 30, Township 21 South, Range 27 East, NMPM, Eddy County, New Mexico, and also to bottom same well at an unorthodox gas well location at the base of the Burton Flat-Morrow Gas Pool within 25 feet of a point 660 feet from the North line and 685 feet from the East line of said Section 30.

(4) That the N/2 of said Section 30 is a standard 320-acre gas proration and spacing unit for all gas producing formations between the top of the Wolfcamp formation to the base of the Morrow formation.

(5) That Cities Service Oil & Gas Corporation appeared at the hearing as an offset operator and an interested party.

(6) That said surface location of the proposed well, as described in Finding No. (2) above, is situated on the TXO Production Corporation's Challenger Rayroux Well No. 1 location pad and that the directional drilling of the subject well is necessitated by the presence of houses located in La Huerta Subdivision, Carlsbad, New Mexico, which in part covers most of the surface of said proration unit.

(7) That to minimize surface damage caused by the placement of a drilling pad within said proration unit, the directional drilling portion of this application should be approved.

(8) That the applicant should be required to determine the subsurface location of the kick-off point on said well prior to directional drilling, and to determine the subsurface location of the bottom of the hole by means of a continuous multi-shot directional survey conducted subsequent to said directional drilling, if said well is to be completed as a producing well.

(9) That the applicant has the right to drill and proposes to directionally drill a well to an unorthodox location in the Wolfcamp and Morrow formations as described in Finding No. (3) above.

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

(11) 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.

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

(13) 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.

(14) That any non-consenting working interest owner that 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.

(15) 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.

(16) That following determination of reasonable well costs, any non-consenting working interest owner that 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.

(17) That \$5233.00 per month while drilling and \$524.00 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 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.

(18) 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.

(19) 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 September 1, 1984, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That the applicant, TXO Production Corporation, is hereby authorized to directionally drill a well, the surface location of which will be 660 feet from the South line and 560 feet from the East line of Section 19, Township 21 South, Range 27 East, NMPM, Eddy County, New Mexico, and to drill in a southerly direction from a kick-off point at approximately 4300 feet, and to intersect the top of the Wolfcamp formation at an unorthodox location within 25 feet of a point 130 feet from the North line and 623 feet from the East line of Section 30, Township 21 South, Range 27 East, NMPM, Eddy County, New Mexico, and to bottom said well at an unorthodox gas well location at the base of the Burton Flat-Morrow Gas Pool within 25 feet of a point 660 feet from the North line and 685 feet from the East line of said Section 30.

PROVIDED HOWEVER, that subsequent to the above-described directional drilling, should said well be a producer, a continuous multi-shot directional survey shall be made of the wellbore from total depth to the kick-off point with shot points not more than 100 feet apart; that the operator shall cause the surveying company to forward a copy of the survey report directly to the Santa Fe office of the Division, P. O. Box 2088, Santa Fe, New Mexico, and that the operator shall notify the Division's Artesia District Office of the date and time said survey is to be commenced.

(2) That Form C-105 shall be filed in accordance with Division Rule 1105 and the operator shall indicate thereon true vertical depth in addition to measured depths.

IT IS FURTHER ORDERED:

(3) That all mineral interests, whatever they may be, in all formations from the top of the Wolfcamp formation down through the base of the Morrow formation underlying the N/2 of said Section 30, are hereby pooled to form a standard 320-acre gas spacing and proration unit to be dedicated to the same well as described in Order No. (1) above.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the 1st day of September, 1984, and shall thereafter continue the

drilling of said well with due diligence to a depth sufficient 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 1st day of September, 1984, Order (3) 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 to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Order (3) of this order should not be rescinded.

(4) That TXO Production Corporation is hereby designated the operator of the subject well and unit.

(5) 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.

(6) 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.

(7) 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.

(8) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner that 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.

(9) 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.

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

(11) That \$5233.00 per month while drilling and \$524.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charges 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.

(12) 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.

(13) 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

-7-

Case No. 8237

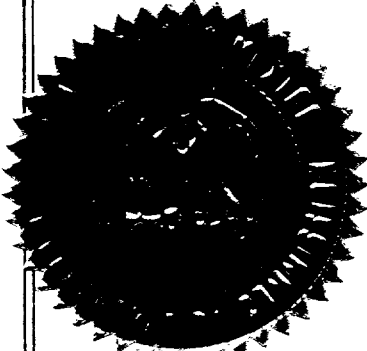
Order No. R-7583

charges shall be withheld from production attributable to royalty interests.

(14) That all proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Eddy 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.

(15) 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.



S E A L

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

Joe D. Ramey
JOE D. RAMEY
Director