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. 9327
Order No. R-8641

APPLICATION OF DUGAN PRODUCTION
CORPORATION FOR AN ORDER POOLING ALL
MINERAL INTERESTS IN THE GAVILAN-MANCOS
OIL POOL UNDERLYING A CERTAIN 640-ACRE
TRACT OF LAND OR, IN THE ALTERNATIVE,
FOR A NON-STANDARD 320-ACRE OIL PRORATION
UNIT IN SAID POOL AND COMPULSORY POOLING
THEREIN, 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 16, 1988, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 21st day of April, 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, Dugan Production Corporation, seeks an order pooling all mineral interests in the Gavilan-Mancos Oil Pool underlying all of Section 22, Township 26 North, Range 2 West, NMPM, Rio Arriba County, New Mexico, to form a standard 640-acre oil spacing and proration unit for said pool. Said unit is to be dedicated to the existing Amoco Production Company Seifert Gas Com "A" Well No. 1 located

940 feet from the South line and 990 feet from the East line (Unit P) of said Section 22 which is presently completed in and producing from the Gavilan-Mancos Oil Pool and dedicated to a previously approved 320-acre non-standard oil spacing and proration unit (as per Rule 2(a) of Division Order No. R-7407-E) consisting of the E/2 of said Section 22. In the alternative, the applicant seeks an order pooling all mineral interests in the Gavilan-Mancos Oil Pool underlying the W/2 of said Section 22, thereby forming a non-standard 320-acre oil spacing and proration unit for said pool, to be dedicated to a well to be drilled at a standard location thereon.

(3) Amoco Production Company, the current owner and operator of the above described Seifert Gas Com "A" Well No. 1 appeared at the hearing in support of the proposed development of said Section 22 on a standard 640-acre spacing and proration unit and opposing the proposal for a non-standard 320-acre oil spacing and proration unit consisting of the W/2 of said Section 22.

(4) The evidence in this case indicates that said Seifert Gas Com "A" Well No. 1 was drilled during October and November, 1986, and was completed in the Gavilan-Mancos Oil Pool in June, 1987 on a standard 320-acre oil spacing and proration unit consisting of the E/2 of said Section 22 in accordance with the Temporary Rules and Regulations for said pool as promulgated by Division Order No. R-7407 dated March 1, 1984.

(5) By Order No. R-7407-E entered June 8, 1987, the Division amended the Special Rules and Regulations for the Gavilan-Mancos Oil Pool enlarging the standard spacing and proration units within said pool to 640 acres.

(6) By virtue of it being in existence prior to the issuance of said Division Order No. R-7407-E, a 320-acre non-standard oil spacing and proration unit consisting of the E/2 of said Section 22 and dedicated to said Seifert Gas Com "A" Well No. 1 was approved pursuant to Rule 2 (a) of said order.

(7) The evidence in this case indicates that the applicant, who owns a 50% working interest in the W/2 of said Section 22, has negotiated an agreement with Amoco Production Company to voluntarily include its acreage in the proposed 640-acre spacing and proration unit.

(8) The applicant testified Dugan Production Corporation has been in contact with the remaining working interest owners in the W/2 of Section 22 and has verbal commitment from each of said owners to voluntarily contribute their acreage in accordance with the aforesaid agreement with Amoco to a standard 640-acre spacing and proration unit.

(9) Evidence in this case further indicates that Meridian Oil Inc., a 6.25% working interest owner in the E/2 of said Section 22, is the only interest owner in Section 22 who has not verbally or otherwise agreed to participate in the voluntary pooling of a standard 640-acre spacing and proration unit. Meridian Oil Inc., however, did not appear at the hearing in opposition to the application.

(10) The applicant, through a general description of the reservoir characteristics of the Gavilan-Mancos Oil Pool and through data presented which indicates that the subject well is located within a highly fractured portion of the reservoir, adequately demonstrated that the subject well will be capable of draining all of said Section 22 and that an additional well drilled in said Section 22 would be unnecessary and therefore wasteful.

(11) To avoid the drilling of unnecessary wells, to protect the correlative rights of various working, royalty, and overriding royalty interest owners, to prevent waste, and to afford to the owner of each interest in Section 22 the opportunity to recover without unnecessary expense his just and fair share of the hydrocarbons in the Gavilan-Mancos Oil Pool, the application for an order pooling all mineral interests in said pool underlying all of said Section 22 forming a standard 640-acre spacing and proration unit should be approved.

(12) Amoco Production Company should be designated the operator of the subject well and unit.

(13) That portion of the application requesting the pooling of all mineral interests in the Gavilan-Mancos Pool underlying the W/2 of said Section 22 is unnecessary due to the approval of the requested pooling of a standard 640-acre spacing and proration unit in this case and should be dismissed.

(14) The applicant presented evidence and testimony which outlined the terms of the agreement with Amoco as follows:

1. Each interest owner in the W/2 of said Section 22 should have the opportunity to voluntarily participate in a standard 640-acre spacing and proration unit contingent upon payment of the following charges:

a) 100% of each interest owner's pro rata share of the actual drilling and completion costs plus an additional 25% thereof as compensation to the interest owners in the E/2 of said Section 22 who initially undertook all the risk in the drilling of the well.

b) 100% of each interest owner's pro rata share of surface production equipment costs.

2. The new communitization and joint operating agreements to be executed by the interest owners in Section 22 shall contain the same terms and agreements, except for the enlarged unit, as the original agreement executed by the working interest owners in the E/2 of Section 22.

(15) The proposed 25% compensation, which is based upon actual turnkey drilling risk charges and interest compensation, is reasonable in this case and should be adopted.

(16) Any compensation received by the interest owners in the E/2 of Section 22 from the interest owners in the W/2 of Section 22, whether it be from voluntary participation in the well or from the non-consenting interest owners' share

of well costs plus a penalty withheld from production, should be shared among those parties in the proportion in which they originally participated in the drilling of the subject well.

(17) All parties at the hearing agreed that thirty days from the effective date of this order is a reasonable time period in which to allow the interest owners in the W/2 of said Section 22 to pay their share of well costs as outlined in Finding No. (14) above.

(18) Neither the applicant nor Amoco presented actual drilling or surface equipment costs for the subject well but testimony indicates that said costs will not exceed $500,000 and $100,000, respectively.

(19) Any non-consenting working interest owner in the W/2 of said Section 22 who does not pay his share of risk weighted drilling and equipment costs as outlined in Finding No. (14) above should have withheld from production his share of drilling and equipment costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(20) $3083.00 per month while drilling and $384.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); 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.

(21) The applicant further requested in this case, and all parties present agreed, that the effective date of this order should be the date of first production from the Seifert Gas Com "A" Well No. 1, which, through testimony, was determined to be January 12, 1988.

(22) The record in this case indicates that the subject application for compulsory pooling was filed by the applicant in a timely manner on February 9, 1988.

(23) The applicant's request is reasonable and should be granted.

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

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be, within the Mancos formation underlying all of Section 22, Township 26 North, Range 2 West, NMPM, Gavilan-Mancos Oil Pool, Rio Arriba County, New Mexico, are hereby pooled to form a standard 640-acre oil spacing and proration unit to be dedicated to the existing Amoco Production Company Siefert Gas Com "A" Well No. 1 located at a standard location 940 feet from the South line and 990 feet from the East line (Unit P) of said Section 22.

(2) That portion of the application requesting the compulsory pooling of all mineral interests in the W/2 of said Section 22 is hereby dismissed.

(3) The effective date of this order shall be January 12, 1988.

(4) Amoco Production Company is hereby designated the operator of the subject well and unit.

(5) Within 30 days from the date this order is issued, Amoco Production Company shall furnish the Division and each known working interest owner in the W/2 of said Section 22 an itemized schedule of actual well costs (if a schedule of actual well costs is not available at this time, Amoco may submit to said parties a schedule of estimated well costs).

(6) As indicated in Finding No. (19) above, drilling costs and surface equipment costs for the subject well are not to exceed $500,000 and $100,000, respectively.

(7) Within 30 days from the date the schedule of actual or estimated well costs is furnished to him, any working interest owner in the W/2 of said Section 22 shall have the right to pay 125% of its pro rata share of actual drilling costs and 100% of its pro rata share of surface equipment costs in lieu of paying his share of said costs out of production.

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

(A) The pro rata share of actual well costs attributable to each non-consenting working interest owner who has not paid his share of actual or estimated well costs within 30 days from the date the schedule of actual or 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 actual well costs attributable to each non-consenting working interest owner who has not paid his share of costs in accordance with Paragraph No. (7) above.

(9) The operator shall distribute payments received from the participating interest owners or charges withheld from production to the interest owners in the E/2 of said Section 22 in the same proportion in which they participated in the well.

(10) $3083.00 per month while drilling and $384.00 per month while producing are hereby fixed as reasonable charges for supervision (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, 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.

(11) 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.

(12) 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) 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.

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

(15) 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.

(16) 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

WILLIAM J. LEMAY
Director