

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. 11129
ORDER NO. R-10311*

**APPLICATION OF ANSON GAS
CORPORATION FOR COMPULSORY
POOLING AND AN UNORTHODOX
OIL WELL LOCATION, LEA COUNTY,
NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on November 10, 1994 and on January 19, 1995, at Santa Fe, New Mexico, before Examiners David R. Catanach and Michael E. Stogner, respectively.

NOW, on this 7th day of February, 1995, 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, AnSon Gas Corporation, seeks an order pooling all mineral interests from the surface to the base of the Atoka formation underlying the N/2 SE/4 of Section 15, Township 17 South, Range 37 East, NMPM, Lea County, New Mexico, thereby forming a standard 80-acre oil spacing and proration unit for any and all formations and/or pools developed on 80-acre spacing within said vertical extent, which presently includes both the Undesignated Humble City-Strawn Pool and the Undesignated Humble City-Atoka Pool.

(3) Said unit is to be dedicated to the proposed Shipp "15" Well No. 1 to be drilled at an unorthodox oil well location 2310 feet from the South line and 410 feet from the East line (Unit I) of said Section 15.

(4) The subject well is located within one mile of the outer boundary of both the Humble City-Strawn and Humble City-Atoka Pools which are currently governed by Special Rules and Regulations as promulgated by Division Order Nos. R-4338, as amended, and R-4436, as amended, respectively, which both require standard 80-acre oil spacing and proration units with wells to be located no closer than 150 feet from the center of either quarter-quarter section or lot.

(5) The subject well is located 414 feet from the center of the NE/4 SE/4 (Unit I) of said Section 15.

(6) Although this well is projected down to the Atoka formation the applicant restricted its geologic testimony to the Strawn formation, being the primary objective for this well, which indicates that a well drilled at the proposed unorthodox location should encounter a greater amount of net pay within the Strawn "algal mound" than a well drilled at a standard oil well location in the NE/4 SE/4 of said Section 15, thereby increasing the likelihood of obtaining commercial oil production within the subject unit.

(7) In drilling a well in this area to a depth sufficient to test the Strawn formation it is considered to be standard industry practice and exhibits sound conservation practice to continue drilling into the next deeper horizon in order to test for oil production in the Atoka formation.

(8) No offset operator and/or interest owner appeared at the hearing in opposition to the proposed unorthodox oil well location.

(9) The applicant owns an interest in the N/2 SE/4 of said Section 15 and as such has the right to drill for and develop the minerals underlying the proposed 80-acre spacing unit.

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

(11) To avoid the drilling of unnecessary wells, to protect correlative rights, to prevent waste 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 hydrocarbons in any pool completion resulting from this order, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit. In addition, to afford the applicant the opportunity to produce its just and equitable share of the oil in the affected pool, prevent the economic loss caused by the drilling of unnecessary wells, avoid the augmentation of risk arising from the drilling of an excessive number of wells and otherwise prevent waste and protect correlative rights, the proposed unorthodox oil well location should be approved.

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

(13) 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) 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.

(15) Any non-consenting working interest owner should be afforded the opportunity to object to the actual well costs but actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(16) 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.

(17) \$6,000.00 per month should be fixed as a reasonable charge for supervision (combined fixed rates) while drilling and \$600.00 per month should be fixed as a reasonable charge for supervision while producing, provided that this rate should be adjusted annually based upon the percentage increase or decrease in the average weekly earnings of crude petroleum and gas production workers; 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) 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) Upon the failure of the operator of said pooled unit to commence the drilling of the well to which said unit is dedicated on or before May 1, 1995, the order pooling said unit should become null and void and of no effect whatsoever.

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

(21) 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, from the surface to the base of the Atoka formation underlying the N/2 SE/4 of Section 15, Township 17 South, Range 37 East, NMPM, Lea County, New Mexico, are hereby pooled to form a standard 80-acre oil spacing and proration unit for any and all formations and/or pools developed on 80-acre spacing within said vertical extent, which presently includes only the Undesignated Humble City-Strawn Pool

and the Undesignated Humble City-Atoka Pool. Said unit shall be dedicated to the proposed Shipp "15" Well No. 1 to be drilled at an unorthodox oil well location 2310 feet from the South line and 410 feet from the East line (Unit I) of said Section 15.

PROVIDED HOWEVER THAT, the operator of said unit shall commence the drilling of said well on or before the 1st day of May, 1995, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Atoka formation.

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said well on or before the 1st day of May, 1995, Decretory Paragraph No. (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 to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Decretory Paragraph No. (1) of this order should not be rescinded.

(2) AnSon Gas Corporation is hereby designated the operator of the subject well and unit.

(3) 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.

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

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

(9) \$6,000.00 per month is hereby fixed as a reasonable charge for supervision (combined fixed rates) while drilling, and \$ 600.00 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; the adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of 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 rate currently in use, plus or minus the computed adjustment; 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.

(10) 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 the terms of this order.

(11) 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) 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; 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.

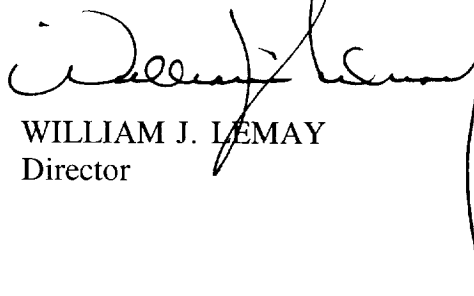
(13) Should all the parties to this forced pooling order reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(14) 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.

(15) Jurisdiction is hereby 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

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