

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. 11726
ORDER NO. R-10890

**APPLICATION OF ARCO PERMIAN, A DIVISION OF ATLANTIC RICHFIELD
COMPANY, FOR COMPULSORY POOLING, DIRECTIONAL DRILLING AND AN
UNORTHODOX GAS WELL LOCATION, EDDY COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on March 6, April 3, and August 21, 1997, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 26th day of September, 1997, 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, ARCO Permian, a Division of Atlantic Richfield Company ("ARCO"), seeks an order pooling all mineral interests from the surface to the base of the Mississippian formation underlying the following described acreage in Section 8, Township 18 South, Range 28 East, NMPM, Eddy County, New Mexico, and in the following manner:

(a) the S/2 to form a standard 320-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within said vertical extent, which presently includes but is not necessarily limited to the Undesignated Empire-Pennsylvanian Gas Pool and the North Illinois Camp-Morrow Gas Pool;

(b) the SW/4 to form a standard 160-acre spacing and proration unit for any and all formations and/or pools developed on 160-acre spacing within said vertical extent;

(c) the S/2 SW/4 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; and,

(d) the SE/4 SW/4 to form a standard 40-acre oil spacing and proration unit for any and all formations and/or pools developed on 40-acre spacing within said vertical extent, which presently includes but is not necessarily limited to the Artesia Queen-Grayburg-San Andres Pool, Undesignated Illinois Camp-Bone Spring Pool, and Undesignated Empire-Abo Pool.

(3) It was determined at the time of the hearing that ARCO controls 100 percent of the working interests underlying the S/2 S/2 of said Section 8 and as such it is not necessary to pool those pools and/or formations spaced on 40 and 80 acres; therefore, the proposed 40-acre and 80-acre units to be pooled should be dismissed at this time. However, Phillips Petroleum Company, who owns working interest in the N/2 S/2 of said Section 8 has not agreed to pool its interests.

(4) The remaining 160-acre and 320-acre gas spacing and proration units are to be dedicated to its proposed Mimosa "8" State Com Well No. 1, which is to be drilled from an unorthodox surface gas well location 350 feet from the South line and 2003 feet from the West line (Unit N) of said Section 8 to a bottomhole location that is within a 50-foot radius of a point that is also considered to be unorthodox 404 feet from the South line and 1749 feet from the West line (Unit N) of said Section 8.

(5) ARCO intends to drill said Mimosa "8" State Com Well No. 1 vertically to an approximate depth of 9,000 feet, kick-off in a west-northwesterly direction, and continue drilling to the aforementioned targeted bottomhole location within the shallower Morrow and deeper Mississippian formations.

(6) The primary zone of interest for ARCO in this well is a small geological feature within the North Illinois Camp-Morrow Gas Pool. Geological testimony and evidence based on 3-dimensional seismic survey and well control indicates a small limited region of higher porosity within the Morrow interval. By penetrating the Morrow interval at the proposed unorthodox bottomhole gas well location ARCO is expecting to increase the likelihood of obtaining commercial production than drilling at the nearest standard bottomhole gas well location within the subject 320-acre unit. Evidence further indicates the necessity to directionally drill the proposed Mimosa "8" State Com Well No. 1 in this manner results from the presence of pipelines at the optimal 404' FSL & 1749' FWL location.

(7) No offset operators, Phillips Petroleum Company as the party being pooled, other interest owners, or interested party appeared at the hearing to object to the proposed directional drilling or the possible unorthodox bottomhole well locations within the North Illinois Camp-Morrow Gas Pool and/or other gas bearing intervals spaced on either 160 or 320 acres.

(8) 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 units the opportunity to recover or receive without unnecessary expense his just and fair share of hydrocarbon production in any pool resulting from this order, the subject application should be approved by pooling all mineral interests, whatever they may be, within said units.

(9) ARCO should be designated the operator of the subject well and 320/160-acre units.

(10) 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) Any non-consenting working interest owner who does not pay his share of estimated well costs should have withheld from production his share of reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(12) Any non-consenting 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.

(13) 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) \$5,819.00 per month while drilling and \$564.00 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.

(15) 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) Upon the failure of the operator of said pooled 320/160-acre units to commence the drilling of the well to which said acreage is dedicated on or before December 31, 1997, the order pooling said units should become null and void and of no further effect whatsoever.

(17) Should all the parties to this force-pooling reach voluntary agreement subsequent to entry of this order, that portion of this order authorizing compulsory pooling should thereafter be

of no further effect.

(18) The operator of the well and units should notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the force-pooling provisions of this order.

(19) Approval of the subject application will afford the applicant the opportunity to produce his just and equitable share of Morrow gas underlying the S/2 of said Section 8, will prevent the economic loss caused by the drilling of unnecessary wells, exhibits sound engineering practices by utilizing an existing wellbore, is in the best interest of conservation and will otherwise prevent waste and protect correlative rights.

(20) The operator should be required to determine the subsurface location of the kick-off point of the Mimosa "8" State Com Well No. 1 prior to directional drilling and should subsequently be required to conduct an accurate wellbore survey during or upon completion of drilling operations from the kick-off point to total depth to determine its true depth and course.

(21) The operator should be required to notify the supervisor of the Artesia District Office of the Division of the date and time said directional surveys are to be conducted so that they may be witnessed. The applicant should further be required to provide a copy of said directional surveys to the Santa Fe and Artesia District Offices of the Division upon completion.

IT IS THEREFORE ORDERED THAT:

(1) The applicant in this matter, ARCO Permian, a Division of Atlantic Richfield Company ("ARCO"), is hereby authorized to place its proposed Mimosa "8" State Com Well No. 1 at an unorthodox surface gas well location 350 feet from the South line and 2003 feet from the West line (Unit N) of Section 8, Township 18 South, Range 28 East, NMPM, Eddy County, New Mexico, drill vertically to an approximate depth of 9,000 feet, kick-off in a west-northwesterly direction, and continue to drill directionally to a bottomhole location that is within a 50-foot radius of a point that is also considered to be unorthodox 404 feet from the South line and 1749 feet from the West line (Unit N) of said Section 8.

IT IS FURTHER ORDERED THAT:

(2) All mineral interests, whatever they may be, from the surface to the base of the Mississippian formation, underlying the following described acreage in Section 8, Township 18 South, Range 28 East, NMPM, Eddy County, New Mexico, are hereby pooled in the following manner:

- (a) the S/2 to form a standard 320-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within said vertical extent, which presently includes but is not necessarily limited to the Undesignated Empire-

Pennsylvanian Gas Pool and the North Illinois Camp-Morrow Gas Pool; and,

(b) the SW/4 to form a standard 160-acre spacing and proration unit for any and all formations and/or pools developed on 160-acre spacing within said vertical extent.

Said 320-acre and 160-acre units, ("units") shall be dedicated to the above-described Mimosa "8" State Com Well No. 1. FURTHERMORE, the unorthodox surface and subsurface gas well location of the Mimosa "8" State Com Well No. 1 for the above-described standard 160-acre and 320-acre gas spacing and proration unit is hereby approved.

PROVIDED HOWEVER THAT, the operator shall commence the drilling of said well on or before the thirty-first day of December, 1997, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Mississippian formation.

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said well on or before the thirty-first day of December, 1997, Decretory Paragraph No. (2) 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. (2) of this order should not be rescinded.

(3) ARCO is hereby designated the operator of the subject well and units.

(4) 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 units an itemized schedule of estimated well costs.

(5) 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.

(6) 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 an objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(7) 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.

(8) 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; and
- (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) The operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(10) \$5,819.00 per month while drilling and \$564.00 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 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.

(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 be placed in escrow in Eddy 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 the parties to this force-pooling reach voluntary agreement subsequent to entry of this order, that portion of this order authorizing compulsory pooling shall thereafter be of no further effect.

(15) The operator of the subject well and units shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the force-pooling provisions of this order.

(16) Prior to commencing directional drilling operations on the Mimosa "8" State Com Well No. 1, the operator shall establish the location of the kick-off point by means of a directional survey acceptable to the Division.

PROVIDED HOWEVER THAT during or upon completion of said directional drilling operations, the applicant shall conduct an accurate wellbore survey from the kick-off point to total depth in order that the subsurface bottomhole location, as well as the wellbore's true depth and course, may be determined.

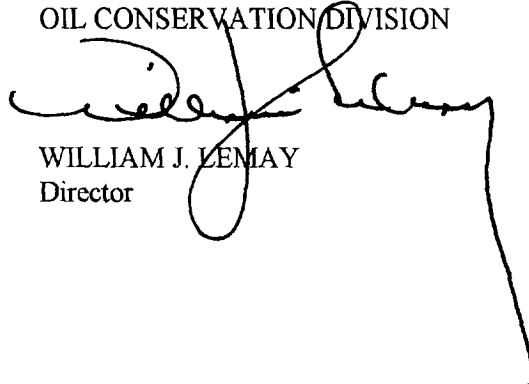
(17) The operator shall notify the supervisor of the Artesia district office of the Division of the date and time said wellbore surveys are to be conducted so that they may be witnessed. The applicant shall further provide a copy of said wellbore surveys to the Santa Fe and Artesia offices of the Division upon completion.

(18) Form C-105 shall be filed in accordance with Division Rule No. 1105 and the operator shall indicate thereon true vertical depth in addition to measured depths for the Mimosa "8" State Com Well No. 1, the operator shall establish the location of the kick-off point by means of a directional survey acceptable to the Division.

(19) 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

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