

*Entered October 2, 1970  
A.L.P.*

BEFORE THE OIL CONSERVATION COMMISSION  
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING  
CALLED BY THE OIL CONSERVATION  
COMMISSION OF NEW MEXICO FOR  
THE PURPOSE OF CONSIDERING:

CASE No. 4398  
Order No. R-4034

APPLICATION OF MICHAEL P. GRACE  
AND CORINNE GRACE FOR COMPULSORY  
POOLING AND UNORTHODOX GAS WELL  
LOCATIONS, EDDY COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on August 5, 1970,  
at Santa Fe, New Mexico, before Examiner Elvis A. Utz.

NOW, on this 2nd day of October, 1970, the Commission, a  
quorum being present, 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 Commission has jurisdiction of this cause and the subject  
matter thereof.

(2) That the applicants, Michael P. Grace and Corinne Grace,  
seek an order pooling all mineral interests from the surface of  
the ground down to and including the Morrow formation underlying  
the N/2 and the S/2 of Section 2, Township 23 South, Range 26 East,  
NMPM, South Carlsbad Field area, Eddy County, New Mexico, to be  
dedicated, respectively to gas wells to be drilled at unorthodox  
locations as follows:

N/2 of Section 2 - Well to be located 2500 feet from the  
North line and 330 feet from the East  
line;

S/2 of Section 2 - Well to be drilled 990 feet from the  
South line and 660 feet from the East  
line.

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(3) That the runways of the Carlsbad Airport and a highway cross said Section 2, thereby creating severe well location problems at standard locations.

(4) That the establishment of spacing units comprising the E/2 and the W/2 of said Section 2 would make available one standard location in each of said half sections.

(5) That the establishment of spacing units comprising the N/2 and the S/2 of said Section 2 as requested by the applicants precludes the availability of a standard location in either of said half sections.

(6) That the applicants have the right and propose to drill a well in each of the aforesaid half sections at the above-described unorthodox locations to test any and all formations down to and including the Morrow formation.

(7) That there are interest owners in the proposed spacing units who have not agreed to pool their interests.

(8) That the evidence indicates both the N/2 and S/2 of said Section 2 may be productive of gas from the South Carlsbad-Strawn, South Carlsbad-Atoka, or South Carlsbad-Morrow Gas Pools.

(9) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford the owner of each interest in the N/2 of said Section 2 the opportunity to recover or receive without unnecessary expense his just and fair share of the gas in the South Carlsbad-Strawn, South Carlsbad-Atoka, and South Carlsbad-Morrow Gas Pools, all mineral interests, whatever they may be in said pools, underlying the N/2 of said Section 2 should be pooled and dedicated to a well to be drilled as proposed by the applicants.

(10) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford the owner of each interest in the S/2 of said Section 2 the opportunity to recover or receive without unnecessary expense his just and fair share of the gas in the South Carlsbad-Strawn, South Carlsbad-Atoka, and South Carlsbad-Morrow Gas Pools, all mineral interests, whatever they may be in said pools, underlying the S/2 of said Section 2 should be pooled and dedicated to a well to be drilled as proposed by the applicants.

(11) That the applicants should be designated the operators of the subject wells and units.

(12) That any non-consenting working interest owner should be afforded the opportunity, as to each well, to pay his share of estimated well costs to the operators in lieu of paying his share of reasonable well costs out of production.

(13) That any non-consenting working interest owner that does not pay his share of estimated well costs for the well to be drilled in the N/2 of said Section 2 should have withheld from production from said well his share of the reasonable well costs of said well plus an additional 25% thereof as a reasonable charge for the risk involved in the drilling and completion of the well.

(14) That any non-consenting working interest owner that does not pay his share of estimated well costs for the well to be drilled in the S/2 of said Section 2 should have withheld from production from said well his share of the reasonable well costs of said well plus an additional 25% thereof as a reasonable charge for the risk involved in the drilling and completion of the well.

(15) That any non-consenting interest owner should be afforded the opportunity, as to each well, to object to the actual well costs but that said 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, as to each well, any non-consenting working interest owner that has paid his share of estimated costs should pay, as to each well, to the operators any amount that reasonable well costs exceed estimated well costs and should receive from the operators any amount that paid estimated well costs exceed reasonable well costs.

(17) That \$100.00 per month should be fixed as a reasonable charge for supervision (combined fixed rates) for each of the subject wells; that the operators of the subject wells should be authorized to withhold from production the proportionate share of such supervision charge attributable to each non-consenting working interest, and in addition thereto, the operators should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject wells, not in excess of what are reasonable, attributable to each non-consenting working interest.

(18) That all proceeds from production from the subject wells which are not disbursed for any reason should be placed in escrow

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to be paid to the true owner thereof upon demand and proof of ownership.

(19) That due to the unorthodox locations of the above-described wells, the correlative rights of some offset operators will be impaired if unrestricted production by the subject wells is permitted.

(20) That to offset the advantage to be gained over offset operators, the well to be drilled in the N/2 of Section 2 should be assigned a ratable-take factor of 51 per cent as to each producing zone.

(21) That to offset the advantage to be gained over offset operators, the well to be drilled in the S/2 of Section 2 should be assigned a ratable-take factor of 61 per cent as to each producing zone.

(22) That approval of the proposed unorthodox locations will not violate correlative rights and will afford the applicants the opportunity to produce their just and equitable share of the gas in the above-described pools, will 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, provided the above-described ratable-take factors are assigned to the subject wells.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the South Carlsbad-Strawn, South Carlsbad-Atoka, and South Carlsbad-Morrow Gas Pools underlying the N/2 of Section 2, Township 23 South, Range 26 East, NMPM, Eddy County, New Mexico, are hereby pooled to form a 320-acre gas spacing unit and dedicated to a well to be drilled at an unorthodox location 2500 feet from the North line and 330 feet from the East line of said Section 2;

PROVIDED HOWEVER, that as to each of said pools, said well is assigned a ratable-take factor of 51%;

PROVIDED FURTHER, that in the event any of said pools be prorated, the subject well as to such prorated pool shall be assigned an acreage factor for proration purposes of 0.51.

(2) That all mineral interests, whatever they may be, in the South Carlsbad-Strawn, South Carlsbad-Atoka, and South Carlsbad-Morrow Gas Pools underlying the S/2 of Section 2, Township 23

South, Range 26 East, NMPM, Eddy County, New Mexico, are hereby pooled to form a 320-acre gas spacing unit and dedicated to a well to be drilled at an unorthodox location 990 feet from the South line and 660 feet from the East line of said Section 2;

PROVIDED HOWEVER, that as to each of said pools, said well is assigned a ratable-take factor of 61%;

PROVIDED FURTHER, that in the event any of said pools be prorated, the subject well as to such prorated pool shall be assigned an acreage factor for proration purposes of 0.61.

(3) That Michael P. Grace and Corinne Grace are hereby designated the operators of the subject wells and units.

(4) That the operators shall furnish the Commission and each known working interest owner in the N/2 of said Section 2 an itemized schedule of estimated well costs, as to the well to be drilled in the N/2 of said Section 2, at least 30 days prior to commencing the drilling of said well.

(5) That the operators shall furnish the Commission and each known working interest owner in the S/2 of said Section 2 an itemized schedule of estimated well costs, as to the well to be drilled in the S/2 of said Section 2, at least 30 days prior to commencing the drilling of said well.

(6) That within 30 days from the date the schedules of estimated well costs, as to each well, are furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs, as to each well, to the operators in lieu of paying his share of reasonable well costs, as to each well, 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 operators shall furnish the Commission and each known working interest owner in the subject units an itemized schedule of actual well costs as to each well within 30 days following completion of each well; that if no objection to the actual well costs is received by the Commission and the Commission has not objected within 60 days following completion of each well, the actual well costs shall be the reasonable well costs; provided, however, that if there is an objection to actual well costs within said 60-day period, the Commission will determine reasonable well costs after public notice and hearing.

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(8) That within 30 days following determination of reasonable well costs, as to each well, any non-consenting working interest owner that has paid his share of estimated costs in advance as provided above shall pay to the operators his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operators his pro rata share of the amount that estimated well costs exceed reasonable well costs.

(9) That the operators are hereby authorized, as to each well, 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 and completion of the well, 25% 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 operators shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(11) That \$100.00 per month is hereby fixed as a reasonable charge for supervision (combined fixed rates) for each of the subject wells; that the operators are hereby authorized, as to each of the subject wells, to withhold from production the proportionate share of such supervision charge attributable to each non-consenting working interest, and in addition thereto, the operators are hereby authorized to withhold from production the proportionate share of actual expenditures required for operating the subject wells, 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)

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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 interests' share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(14) That all proceeds from production from the subject wells 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; that the operators shall notify the Commission of the name and address of said escrow agent within 90 days from the date of this order.

(15) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.


STATE OF NEW MEXICO  
OIL CONSERVATION COMMISSION



DAVID F. CARGO, Chairman



ALEX J. ARMIJO, Member



A. L. PORTER, Jr., Member & Secretary

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