

*Entered January 12, 1972-
RHP*

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. 4643
Order No. R-4239

APPLICATION OF CITIES SERVICE
OIL COMPANY FOR COMPULSORY
POOLING AND UNORTHODOX GAS WELL
LOCATION, EDDY COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on January 5, 1972, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 12th day of January, 1972, 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 applicant, Cities Service Oil Company, seeks an order pooling all mineral interests in the South Carlsbad-Morrow Gas Pool underlying the N/2 of Section 19, Township 22 South, Range 27 East, NMPM, Eddy County, New Mexico, said acreage to be dedicated to a well to be drilled at an unorthodox gas well location 2173 feet from the North line and 1200 feet from the East line of said Section 19.

(3) That the applicant has the right to drill and proposes to drill a well at said location in the N/2 of said Section 19 to the South Carlsbad-Morrow Gas Pool.

-2-

CASE NO. 4643
Order No. R-4239

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

(5) That the proposed location, within a populated area, has been chosen because it provides the maximum feasible distance from homes, buildings, and highways and should be approved to prevent waste and protect correlative rights.

(6) 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, all mineral interests, whatever they may be, in the South Carlsbad-Morrow Gas Pool underlying the N/2 of said Section 19, Township 22 South, Range 27 East, NMPM, Eddy County, New Mexico, should be pooled to form a 320-acre gas proration unit to be dedicated to a well to be drilled at an unorthodox gas well location 2173 feet from the North line and 1200 feet from the East line of said Section 19.

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

(8) 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.

(9) 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 30% thereof as a reasonable charge for the risk involved in the drilling of the well.

(10) That any non-consenting interest owner should be afforded the opportunity 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.

(11) 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.

-3-

CASE NO. 4643

Order No. R-4239

(12) That \$60.00 per month should be fixed as a reasonable charge for supervision (combined fixed rates) for the subject well; that the operator 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 operator is hereby 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.

(13) 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.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the South Carlsbad-Morrow Gas Pool underlying the N/2 of Section 19, Township 22 South, Range 27 East, NMPM, Eddy County, New Mexico, are hereby pooled to form a 320-acre gas proration unit to be dedicated to a well to be drilled at an unorthodox gas well location 2173 feet from the North line and 1200 feet from the East line of said Section 19.

(2) That Cities Service Oil Company is hereby designated the operator of the subject well and unit.

(3) That the operator shall furnish the Commission and each known working interest owner in the subject unit an itemized schedule of estimated well costs within 30 days following the date of this order.

(4) 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.

-4-

CASE NO. 4643
Order No. R-4239

(5) That the operator shall furnish the Commission and each known working interest owner in the subject unit an itemized schedule of actual well costs within 30 days following completion of the well; that if no objection to the actual well costs are received by the Commission, and the Commission has not objected within 60 days following completion of the 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.

(6) That within 30 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.

(7) 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, 30% 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) That the operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(9) That \$60.00 per month is hereby fixed as a reasonable charge for supervision (combined fixed rates) for the subject well; that the operator is hereby authorized to withhold from

-5-

CASE NO. 4643

Order No. R-4239

production the proportionate share of such supervision charge 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 the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(10) 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.

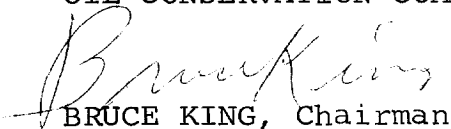
(11) That any well costs or charges which are to be paid out of production shall be withheld only from the working interests' share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(12) That 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; that the operator shall notify the Commission of the name and address of said escrow agent within 90 days from the date of this order.


(13) 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


BRUCE KING, Chairman


ALEX J. ARMIJO, Member


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

S E A L

dr/