

Entered November 8, 1972
R.L.B.

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:

CASES NOS. 4819 AND 4836
Order No. R-4432

APPLICATION OF D. L. HANNIFIN FOR
COMPULSORY POOLING, EDDY COUNTY,
NEW MEXICO.

APPLICATION OF MICHAEL P. GRACE II
AND CORINNE GRACE FOR COMPULSORY
POOLING, EDDY COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on September 27, 1972, at Santa Fe, New Mexico, before Examiner Elvis A. Utz.

NOW, on this 8th day of November, 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 in Case No. 4819, the applicant, D. L. Hannifin, seeks an order pooling all mineral interests underlying the S/2 of Section 24, Township 22 South, Range 26 East, NMPM, South Carlsbad Field, Eddy County, New Mexico, to form a standard 320-acre unit to be dedicated to a well to be drilled 1980 feet from the South line and 1980 feet from the East line of said Section 24.

(3) That in Case No. 4836, the applicants, Michael P. Grace II and Corinne Grace, seek an order pooling all mineral interests down to and including the Morrow formation underlying the S/2 of Section 24, Township 22 South, Range 26 East, NMPM, South Carlsbad-Morrow Gas Pool, Eddy County, New Mexico, to form a standard 320-acre unit to be dedicated to a well to be drilled at an orthodox location for said unit.

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(4) That both applicants, D. L. Hannifin and Michael P. Grace II and Corinne Grace, seek to be named operator of the unit to be pooled.

(5) That Cases Nos. 4819 and 4836 were consolidated as both cases involve the same lands.

(6) That the evidence indicates that the entire S/2 of the above-described Section 24 can reasonably be presumed productive of gas from the South Carlsbad Gas Pool.

(7) That the evidence indicates that the entire S/2 of the above-described Section 24 can be efficiently and economically drained and developed by a well located at a point 1980 feet from the South line and 1980 feet from the East line of said Section 24.

(8) That there are interest owners in the proposed 320-acre proration unit who have not agreed to pool their interests.

(9) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each interest in the unit the opportunity to receive without unnecessary expense his just and fair share of the gas in the pool, all mineral interests in the Morrow formation underlying the S/2 of Section 24, Township 22 South, Range 26 East, NMPM, South Carlsbad-Morrow Gas Pool, Eddy County, New Mexico, should be pooled to form a 320-acre standard unit to be dedicated to a well to be drilled at a standard location in said Section 24.

(10) That Michael P. Grace II should be designated the operator of the proposed well and unit.

(11) 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.

(12) 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 25% thereof as a reasonable charge for the risk involved in the drilling of the well.

(13) 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.

(14) That following determination of reasonable well costs, any non-consenting working interest owner that has paid his

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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.

(15) That \$135.00 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.

(16) 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 interest, whatever they may be, in the South Carlsbad-Morrow Gas Pool underlying the S/2 of Section 24, Township 22 South, Range 26 East, NMPM, Eddy County, New Mexico, are hereby pooled to form a 320-acre proration unit to be dedicated to a well to be drilled at a standard location in Section 24.

(2) That Michael P. Grace II 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.

(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 60 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 60 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 60 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, 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.

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

(9) That \$135.00 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 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.

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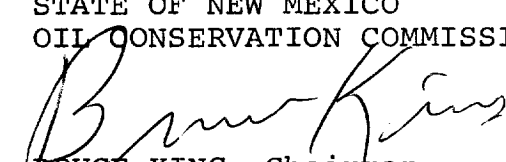
(11) That any well costs or charges which are to be paid out of production shall be withheld only from the working interests' share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(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.

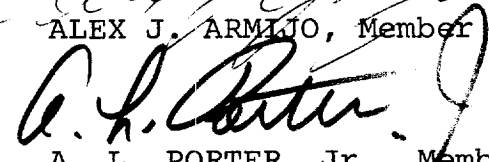
(13) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year herein-
above designated.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION


BRUCE KING, Chairman


ALEX J. ARMIJO, Member


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

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