

Entered January 26, 1976
JAP

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. 5551
Order No. R-5156

APPLICATION OF DALPORT OIL CORPORATION
AND BURK ROYALTY CO. FOR COMPULSORY
POOLING AND AN UNORTHODOX GAS WELL
LOCATION, CHAVES COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on October 8, 1975, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 21st day of January, 1976, 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, Dalport Oil Corporation and Burk Royalty Company, seek an order pooling all mineral interests in the Queen formation underlying the W/2 of Section 17, Township 12 South, Range 31 East, NMPM, Southeast Chaves Queen Gas Area, Chaves County, New Mexico, and dedicating said lands to the Reading & Bates Oil and Gas Company Terra Federal Well No. 1, situate at an unorthodox location for said gas area 660 feet from the South line and 660 feet from the West line of said Section 17.

(3) That said well was drilled by J. Frank Stringer and completed as a gas well capable of production from the Queen formation in August, 1970.

(4) That said well was drilled to a total depth of 4064 feet to test the San Andres formation, which was found to be nonproductive, and then plugged back to a total depth of 2,576 feet and completed in the Queen formation through the perforated interval from 2,535 feet to 2,542 feet.

(5) That from the date of completion to the present time said well has been classified as a shut-in gas well awaiting a pipe line connection.

(6) That it now appears that a pipe line connection will be available to said well within the near future.

(7) That the location of said well, although unorthodox for the Southeast Chaves Queen Gas Area, was a standard location for the well when projected to the San Andres formation; that said location will not cause waste nor impair correlative rights and should be approved.

(8) That there are interest owners in the proposed 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 said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the gas in said pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

(10) That each working interest owner in said unit should be required to pay his proportionate share of the actual expenditures required for the purpose of development and operation of the unit, not in excess of what are reasonable, and to pay his proportionate share of reasonable costs of supervision.

(11) That the subject well was drilled and completed in 1970 at an alleged cost of \$58,553.62.

(12) That said \$58,553.62 includes the cost of drilling said well to the San Andres formation, some 1522 feet below the lowermost Queen formation perforations in the well.

(13) That said \$58,553.62 appears to include numerous items of questionable applicability to the determination of reasonable well costs for a Queen formation gas well in the subject area.

(14) That although a similar Queen gas well could be drilled and completed in the subject area in 1973 for \$32,887.34, including tubing, under today's conditions such a well would cost \$47,124.12, less tubing, which appears to be a reasonable cost for such a well drilled and completed under today's conditions.

(15) That even though \$58,553.62 may have been total costs paid for drilling the subject well, this amount is in excess of current reasonable well costs, even considering the higher cost of drilling and completing wells today.

(16) That \$47,124.12 should be fixed by the Commission as reasonable well costs for the subject well, to be shared by each working interest owner in the unit in the proportion that his interest in the unit bears to total working interest in the unit.

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(17) That each working interest owner who has not heretofore paid his share of the reasonable well costs should be afforded the opportunity of paying, within 30 days after entry of this order, his share of said reasonable well costs to the parties advancing the well costs, in lieu of paying his share of reasonable well costs out of production.

(18) That each working interest owner who, within 30 days after entry of this order, has not paid his share of reasonable well costs should have withheld from production his share of the reasonable well costs plus an additional 100 percent thereof as a reasonable charge for the risk involved in the drilling of the subject well.

(19) That \$75.00 per month should be fixed as a reasonable charge for supervision (combined fixed rates); that the operator of the well should be authorized to withhold from production the proportionate share of such supervision charge attributable to each working interest owner, 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 working interest owner.

(20) 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.

(21) That Reading & Bates Oil and Gas Company should be designated as operator of the subject well and unit.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Queen formation underlying the W/2 of Section 17, Township 12 South, Range 31 East, NMPM, Southeast Chaves-Queen Gas Area, Chaves County, New Mexico, are hereby pooled to form a standard 320-acre gas spacing and proration unit to be dedicated to the Reading & Bates Oil and Gas Company Terra Federal Well No. 1, situate at an unorthodox location 660 feet from the South line and 660 feet from the West line of said Section 17, which unorthodox location is hereby approved.

(2) That Reading & Bates Oil and Gas Company is hereby designated the operator of the subject well and unit.

(3) That \$47,124.12 is hereby fixed by the Commission as reasonable well costs for drilling and completing said well, less tubing, and each working interest owner in the unit shall pay his proportionate share of said costs, being an amount of said costs in the proportion that his interest in the unit bears to total working interest in the unit.

(4) 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 working interest owner who has not paid his share of reasonable well costs within 30 days after entry of this order.
- (B) As a charge for the risk involved in the drilling of the well, 100 percent of the pro rata share of reasonable well costs attributable to each working interest owner who has not paid his share of reasonable well costs within 30 days after entry of this order.

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

(6) That each working interest owner who has not heretofore paid his proportionate share of reasonable well costs, but who, within 30 days after entry of this order, pays his proportionate share of said costs to the parties advancing the costs of development shall not be liable for the above charge for risk.

(7) That \$75.00 per month is hereby fixed as a reasonable charge for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charge attributable to each working interest owner, 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 working interest owner.

(8) 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.

(9) 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.

(10) That all proceeds from production from the subject well which are not disbursed for any reason shall be placed in escrow in Chaves 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.

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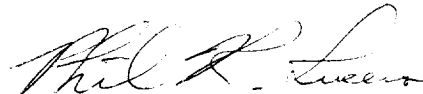
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(11) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

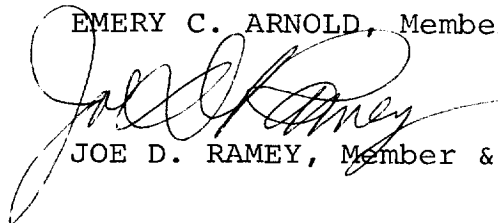
DONE at Santa Fe, New Mexico, on the day and year herein-above designated.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION



PHIL R. LUCERO, Chairman

EMERY C. ARNOLD, Member



JOE D. RAMEY, Member & Secretary

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