

Entered March 25, 1980
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STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 6819
Order No. R-6292

APPLICATION OF V-F PETROLEUM, INC.
FOR COMPULSORY POOLING, LEA COUNTY,
NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on March 12, 1980, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 25th day of March, 1980, the Division Director, 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 Division has jurisdiction of this cause and the subject matter thereof.

(2) That the applicant, V-F Petroleum, Inc., seeks an order pooling all mineral interests in the McKee or Devonian formations, or both, underlying four 40-acre units, being the SE/4 SE/4, NE/4 SE/4, NW/4 SE/4, and SW/4 SE/4 of Section 21, Township 23 South, Range 37 East, NMPM, North Teague Field, Lea County, New Mexico, each to be dedicated to a well to be drilled at a standard location thereon.

(3) That the applicant has the right to drill and proposes to drill a well on each of the aforesaid four 40-acre proration units.

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

(5) That to avoid the drilling of unnecessary wells, to protect correlative rights, 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 the oil and gas in the subject formations, the subject application should be approved by pooling all mineral interests, whatever they may be, within said units.

(6) That the applicant should be designated the operator of the subject wells and units.

(7) That any non-consenting working interest owner in each of the four subject proration units should be afforded the opportunity to pay his share of estimated well costs for that unit to the operator in lieu of paying his share of reasonable well costs out of production.

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

(9) That any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but that actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(10) 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.

(11) That \$2000.00 per month while drilling and \$200.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates) for each of the subject wells; that the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest in the well, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating each of the subject wells, not in excess of what are reasonable, attributable to each non-consenting working interest.

(12) That all proceeds from production from each of the subject wells 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.

(13) That the operator of the above described pooled units should commence the drilling of the first unit's well on or before July 15, 1980, and should continue the drilling of said well with due diligence to a depth sufficient to test the McKee formation or the Devonian formation; that, within 120 days following completion of the first well, the operator should commence the drilling of the three remaining unit wells, one at a time, allowing no more than 120 days to elapse between the completion of one well and the commencement of the next; and that the drilling of each of said wells should be continued with due diligence to a depth sufficient to test the McKee or Devonian formation.

(14) That upon the failure of the operator to commence the drilling of the first unit well authorized hereunder on or before July 15, 1980, this order should become null and void and of no effect whatsoever; that upon the failure of the operator to continue the drilling of the three remaining unit wells in accordance with the time schedule described in Finding No. (13) above, this order should become null and void and of no effect whatsoever except as to such well(s) and unit(s) already drilled and developed in compliance herewith.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the McKee or Devonian formations, or both, underlying four 40-acre units, being the SE/4 SE/4, NE/4 SE/4, NW/4 SE/4, and SW/4 SE/4 of Section 21, Township 23 South, Range 37 East, NMPM, North Teague Field, Lea County, New Mexico, are hereby pooled to form four standard 40-acre gas spacing and proration units, each to be dedicated to a well to be drilled at a standard location thereon.

PROVIDED HOWEVER, the operator of the above-described pooled units shall commence the drilling of the first unit's well on or before July 15, 1980, and shall continue the drilling of said well with due diligence to a depth sufficient to test the McKee formation or the Devonian formation; that, within 120 days following completion of the first well, the operator shall commence the drilling of the three remaining unit wells, one at a time, allowing no more than 120 days to elapse between the completion of one well and the commencement of the next; and that the drilling of each of said wells shall be continued with due diligence to a depth sufficient to test the McKee or Devonian formation; and

PROVIDED FURTHER, that upon the failure of the operator to commence the drilling of the first unit well authorized hereunder on or before July 15, 1980, this order shall become null and void and of no effect whatsoever; that upon the failure of the operator to continue the drilling of the three remaining unit wells in accordance with the time schedule described in the above paragraph, this order shall become null and void and of no effect whatsoever except as to such well(s) and unit(s) already drilled and developed in compliance herewith.

PROVIDED FURTHER, that should any of the subject wells not be drilled to completion, or abandonment, within 120 days after commencement thereof, the operator shall appear before the Division Director and show cause why Order (1) of this order should not be rescinded.

(2) That V-F Petroleum, Inc. is hereby designated the operator of the four subject wells and units.

(3) That after the effective date of this order and within 90 days prior to commencing each of said wells, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(4) That within 30 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner in that well 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 Division and each known working interest owner an itemized schedule of actual well costs for each well within 90 days following completion of the well; that 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, that 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.

(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 the production of each of the subject wells:

- (A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner in the well 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, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner in the well 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 \$2000.00 per month while drilling and \$200.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates) for each of the subject wells; that the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest in the well, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating the 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 from that well, and no costs or charges shall be withheld from production attributable to royalty inteests.

(12) That all proceeds from production from any of the subject wells which are not disbursed for any reason shall immediately be placed in escrow in Lea County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that 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.

(13) That 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



JOE D. RAMEY
Director

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