

Entered September 15, 1981
JLK

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

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

CASE NO. 6892 DE NOVO
Order No. R-6366-A-1

APPLICATION OF MERRION & BAYLESS
FOR COMPULSORY POOLING, RIO ARRIBA
COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing de novo at 9 a.m. on July 20, 1981, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 15th day of September, 1981, the Commission, a quorum being present, having considered the testimony presented and the exhibits received at said hearing, 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 this cause originally came up for hearing on May 21, 1980, in Case No. 6892 before an examiner of the Oil Conservation Division, and as a result of said hearing the Oil Conservation Division issued its Order No. R-6366 pooling all mineral interests in the South Blanco-Pictured Cliffs Pool underlying the SW/4 of Section 27, Township 24 North, Range 2 West, NMPM, Rio Arriba County, New Mexico.

(3) That as a result of Order No. R-6366 applicant and protestant herein separately requested a de novo hearing before the Commission; that said requests for de novo hearings were denied by the Commission on the basis that said requests were not timely filed.

(4) That after exhausting its remedies before the Commission, applicant filed its Petition For a Writ of Mandamus

in the District Court of Rio Arriba County, New Mexico, to compel the Oil Conservation Division to grant a de novo hearing.

(5) That protestant herein, by and through his attorney, intervened in said district court action as a party of record.

(6) That said district court action was settled by a stipulation of all of the parties thereto that the Commission would grant to the applicant and protestant herein a hearing de novo in Case 6892.

(7) That by its order entered June 18, 1981, the District Court of Rio Arriba County, New Mexico, approved said stipulation and ordered that the Oil Conservation Commission grant a hearing de novo in Case 6892.

(8) That the applicant, Merrion & Bayless, seeks an order pooling all mineral interests in the South Blanco-Pictured Cliffs Pool underlying the SW/4 of Section 27, Township 24 North, Range 2 West, NMPM, Rio Arriba County, New Mexico.

(9) That the applicant has the right to drill and has commenced but not completed a well at a standard location thereon.

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

(11) 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.

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

(13) 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.

(14) That any non-consenting working interest owner 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 150 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(15) 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.

(16) That following determination of reasonable well costs, any non-consenting working interest owner who 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 said estimated well costs exceed reasonable well costs.

(17) That \$2700.00 per month while drilling and \$270.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, 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 non-consenting working interest.

(18) 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 Blanco-Pictured Cliffs Pool underlying the SW/4 of Section 27, Township 24 North, Range 2 West, NMPM, Rio Arriba County, New Mexico, are hereby pooled to form a standard 160-acre gas spacing and proration unit to be dedicated to a well drilled at a standard location thereon.

PROVIDED HOWEVER, that the operator of said unit shall continue the drilling and completion of said well with due diligence to a depth sufficient to test the Pictured Cliffs formation;

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

(2) That Merrion & Bayless is hereby designated the operator of the subject well and unit.

(3) That within 30 days after the effective date of this order, 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 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 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 who 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, 150 percent of the pro rata share of reasonable well costs attribu-

table 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 \$2700.00 per month while drilling and \$270.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charges 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 such 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 interest's 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 immediately be placed in escrow in Rio Arriba 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 Commission may deem necessary.

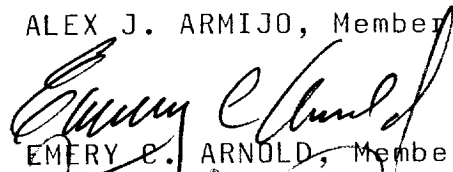
-6-

Case No. 6892 De Novo
Order No. R-6366-A-1

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

ALEX J. ARMIJO, Member


EMERY C. ARNOLD, Member


JOE D. RAMEY, Member & Secretary

S E A L

fd/