

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION COMMISSION

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

CASE NO. 8400
Order No. R-6873-A

APPLICATION OF JACK J. GRYNBERG
FOR AMENDMENT OF DIVISION ORDER
NO. R-6873, CHAVES COUNTY, NEW
MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9:00 a.m. on October 17, 1985, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 6th day of December, 1985, 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 THAT:

(1) Due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.

(2) The applicant, Jack J. Grynberg, (Grynberg) seeks the amendment of Commission Order No. R-6873 to: 1) allow for the drilling of a second Pre Permian and Abo gas well at an unorthodox gas well location in the SW/4 SW/4 of Section 18, Township 9 South, Range 27 East, on an established 320-acre proration unit; 2) declare the applicant to be the operator of the second well or, in the alternative, to be the operator of the unit; and 3) establish a risk factor and overhead charges for the new well.

(3) Commission Order No. R-6873, entered January 17, 1982, pooled "all mineral interests, whatever they may be, down through the Ordovician formation underlying the W/2 of Section 18, Township 9 South, Range 27 East, NMPM, Chaves County, New

Mexico," "to form a standard 320-acre gas spacing and proration unit to be dedicated to a well to be drilled at a standard location on said 320-acre tract."

(4) Said order further designated Harvey E. Yates Company (HEYCO) as the operator of the "subject well and unit".

(5) Said pooling and operator designation took place following notice and hearing and under provisions of Section 70-2-17 C NMSA, (1978).

(6) HEYCO subsequently drilled and completed its Seymour State Com Well No. 1 in the SW/4 NW/4 of said Section 18.

(7) Said well was completed as a dual gas well with production from the Abo formation and the Pre Permian Atoka formation.

(8) The records of the Oil Conservation Division (Division) reflect that the operator filed acreage dedication plats for the NW/4 and W/2 of said Section 18 for the Abo formation and the Pre Permian, respectively.

(9) The dedications described in Finding Paragraph No. (8) above represent standard spacing or proration units for each of the formations in said dually completed well.

(10) While said well now continues to produce from the Abo formation it has not produced from the Pre Permian since November 1984.

(11) Said well is not a commercial well in the Pre Permian.

(12) Grynberg is the owner of a lease consisting of the E/2 NW/4 of said Section 18 which was pooled under said Order No. R-6873.

(13) Grynberg chose not to participate in the drilling of the Seymour State Com Well No. 1.

(14) Grynberg has requested that HEYCO drill a second well on the W/2 of said Section 18 in order to better drain reserves thereunder.

(15) Grynberg's proposed well is at an unorthodox gas well location in the SW/4 SW/4 of said Section 18.

(16) Yates has chosen not to drill the well proposed by Grynberg.

(17) The location proposed by Grynberg is higher structurally and should give any well drilled at that location a better opportunity to recover the reserves under the spacing unit thereby better preventing waste and protecting correlative rights.

(18) The provisions of Section 70-2-17 C NMSA (1978) require the designation of "an operator" for compulsorily pooled units.

(19) Grynberg's application to be separately designated as the operator of a new well to be drilled on the compulsorily pooled unit in question would result in designation of two operators on said unit and should therefore be denied.

(20) HEYCO, as current operator of the compulsorily pooled unit, should be given a reasonable opportunity to drill the second well on said unit as proposed by Grynberg.

(21) Should HEYCO choose not to drill the proposed second well and should Grynberg elect to drill said well, HEYCO should be replaced as operator of the affected pooled unit.

(22) Should Grynberg become operator of the proposed second well and unit, he would seek to complete said well as a dual gas well in the Abo and Pre Permian formations.

(23) The standard spacing unit for the Abo formation would be the SW/4 of said Section 18.

(24) Grynberg holds no leasehold interest under the SW/4 of said Section 18.

(25) Grynberg attempted to show that by virtue of the provisions of said Division Order No. R-6873, he had acquired an interest in the SW/4 of said Section 18 giving him the right to drill and complete a well above the Pre Permian.

(26) The provisions of Section 70-2-17 C NMSA (1978) permit the Commission to pool lands within a spacing or proration unit.

(27) The W/2 of said Section 18 is a spacing or proration unit in Pre Permian gas zones only.

(28) The provisions of said Order No. R-6873 do not confer any interest in the SW/4 of said Section 18 to Grynberg in any formation or interval other than Pre Permian gas zones.

(29) Any order entered in this case granting Gynberg's application should be limited to Pre Permian gas zones.

(30) All participants in the hearing in this matter proposed that the well be assigned a production limitation factor of 0.790 to offset any advantage which might be gained over any offset operator as a result of the proposed unorthodox location.

(31) In the absence of any special rules and regulations for prorationing of production from the Pre Permian formation, the aforesaid production limitation factor should be applied against said well's ability to produce into the pipeline as determined by periodic well tests.

(32) Should Grynberg subsequently drill and complete a Pre Permian gas well in the W/2 of said Section 18, the authorization of production for the HEYCO Seymour State Com Well No. 1 from the Pre Permian should be suspended until such time as the parties agree to designate a single operator for both wells.

(33) The party which chooses to drill a second well on the unit pooled under Order No. R-6873 should be designated the operator of such well and the Pre Permian portion of the unit.

(34) Any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated second well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(35) Any non-consenting working interest owner who does not pay his share of estimated second 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 well.

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

(37) Following determination of reasonable second 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 paid estimated well costs exceed reasonable well costs.

(38) \$3,550.00 per month while drilling and \$355.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); 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 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.

(39) 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.

(40) Upon the failure of either HEYCO or Grynberg to commence drilling of the second well on said unit on or before May 1, 1986, this order should become null and void and of no effect whatsoever.

(41) Should all the parties to this force pooling reach voluntary agreement subsequent to entry of this order, this order should thereafter be of no further effect except those portions dealing with the unorthodox location and production limitation.

(42) HEYCO and Grynberg should notify the Director of the Oil Conservation Division in writing of the subsequent voluntary agreement of all parties subject to the provisions of this order.

(43) An order entered in accordance with the above findings will serve to prevent waste and protect correlative rights.

IT IS THEREFORE ORDERED THAT:

(1) Following entry of this order, Jack J. Grynberg (Grynberg) shall have 30 days in which to request that the operator of the unit pooled under provisions of Order No. R-6873 drill a second well to the Pre Permian on said unit as hereinafter provided.

(2) The current unit operator, Harvey E. Yates Company (HEYCO), shall have 30 days following such a request in which to make a determination to drill such well or not.

(3) HEYCO shall make such a determination in writing both to Grynberg and the Director of the Oil Conservation Division (Division).

(4) Upon failure of HEYCO either to elect to drill such second well on the unit or to make a written determination, Grynberg shall, at his option, become the operator of the unit and shall drill a second Pre Permian well on the unit at an unorthodox location, hereby approved, not closer than 660 feet to the South and West lines of Section 18, Township 9 South, Range 27 East, Chaves County, New Mexico.

PROVIDED HOWEVER THAT, the operator shall commence the drilling of said well on or before the 1st day of May 1986, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Pre Permian formation;

PROVIDED FURTHER THAT, in the event that neither HEYCO nor Grynberg elects to drill such well or commences the drilling of the well on or before the 1st day of May, 1986, this order shall be null and void and of no effect whatsoever, unless the operator obtains a time extension from the Division for good cause shown.

PROVIDED FURTHER THAT, should said well 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 this order should not be rescinded.

(5) The operator of the second Pre Permian well on the subject unit shall be determined in accordance with Ordering Paragraphs (1) through (4) above.

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

(7) 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 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.

(8) 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; 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.

(9) 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.

(10) 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, 200 percent 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.

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

(12) \$3,550.00 per month while drilling and \$355.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); 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.

(13) 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.

(14) 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.

(15) All proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Chaves County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; 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.

(16) Should all the parties subject to this order reach voluntary agreement subsequent to entry thereof, this order shall thereafter be of no further effect except as to those provisions relative to the unorthodox well location and production limitation factor.

(17) HEYCO and Grynberg shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the provisions of this order.

(18) If Grynberg drills and completes said second Pre Permian well, the HEYCO Seymour State Com Well No. 1 in Unit E of said Section 18 shall not be produced from the Pre Permian unless HEYCO and Grynberg agree to a common operator for all Pre Permian wells on the unit and so notify the Division Director in writing.

(19) Upon the completion of such second Pre Permian well it shall be assigned a Production Limitation Factor of 0.79.

(20) In the absence of any Special Rules and Regulations prorating gas production in said Pre Permian formation in which applicant's well is completed, the Special rules hereinafter promulgated shall apply.

(21) The following Special Rules and Regulations for a non-prorated gas well at an unorthodox location shall apply to the subject well:

SPECIAL RULES AND REGULATIONS
FOR THE
APPLICATION OF A "PRODUCTION LIMITATION FACTOR"
TO A NON-PRORATED GAS WELL

APPLICATION OF RULES

RULE 1. These rules shall apply to a Pre Permian formation gas well located 660 feet or more from the South and West lines of Section 18, Township 19 South, Range 27 East, NMPM, Chaves County, New Mexico, which well's Production Limitation Factor of 0.79 shall be applied to the well's deliverability (as determined by the procedure hereinafter set forth) to determine its maximum allowable rate of production.

ALLOWABLE PERIOD

RULE 2. The allowable period for the subject well shall be six months.

RULE 3. The year shall be divided into two allowable periods commencing at 7:00 o'clock a.m. on January 1 and July 1.

DETERMINATION OF DELIVERY CAPACITY

RULE 4. Immediately upon connection of the well the operator shall determine the open flow capacity of the well in accordance with the Division "Manual for Back-Pressure Testing of Natural Gas Wells" then current, and the well's initial deliverability shall be calculated against average pipeline pressure in the manner described in the last paragraph on Page I-6 of said test manual.

RULE 5. The well's "subsequent deliverability" shall be determined twice a year, and shall be equal to its highest single day's production during the months of April and May or October and November, whichever is applicable. Said subsequent deliverability, certified by the pipeline, shall be submitted to the appropriate District Office of the Division not later than June 15 and December 15 of each year.

RULE 6. The Division Director may authorize special deliverability tests to be conducted upon a showing that the well has been worked over or that the subsequent deliverability

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determined under Rule 5 above is erroneous. Any such special test shall be conducted in accordance with Rule 4 above.

RULE 7. The operator shall notify the appropriate district office of the Division and all offset operators of the date and time of initial or special deliverability tests in order that the Division or any such operator may at their option witness such tests.

CALCULATION AND ASSIGNMENT OF ALLOWABLES

RULE 8. The well's allowable shall commence upon the date of connection to a pipeline and when the operator has complied with all the appropriate filing requirements of the Rules and Regulations and any special rules and regulations.

RULE 9. The well's allowable during its first allowable period shall be determined by multiplying its initial deliverability by its production limitation factor.

RULE 10. The well's allowable during all ensuing allowable periods shall be determined by multiplying its latest subsequent deliverability, as determined under provisions of Rule 5, by its production limitation factor. If the well shall not have been producing for at least 60 days prior to the end of its first allowable period, the allowable for the second allowable period shall be determined in accordance with Rule 9.

RULE 11. Revision of allowable based upon special well tests shall become effective upon the date of such test provided the results of such test are filed with the Division's district office within 30 days after the date of the test; otherwise the date shall be the date the test report is received in said office.

RULE 12. Revised allowables based on special well tests shall remain effective until the beginning of the next allowable period.

RULE 13. There is no rule 13.

RULE 14. January 1 and July 1 of each year shall be known as the balancing dates.

RULE 15. If the well has an underproduced status at the end of a six-month allowable period, it shall be allowed to carry such underproduction forward into the next period and may produce such underproduction in addition to its regularly assigned allowable. Any underproduction carried forward into

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any allowable period which remains unproduced at the end of the period shall be cancelled.

RULE 16. Production during any one month of an allowable period in excess of the monthly allowable assigned to the well shall be applied against the underproduction carried into the period in determining the amount of allowable, if any, to be cancelled.

RULE 17. If the well has an overproduced status at the end of a six-month allowable period, it shall be shut-in until such overproduction is made up.

RULE 18. If, during any month, it is discovered that the well is overproduced in an amount exceeding three times its average monthly allowable, it shall be shut-in during that month and during each succeeding month until it is overproduced in an amount three times or less its monthly allowable, as determined hereinabove.

RULE 19. The Director of the Division shall have authority to permit the well, if it is subject to shut-in pursuant to Rules 17 and 18 above, to produce up to 500 MCF of gas per month upon proper showing to the Director that complete shut-in would cause undue hardship, provided however, such permission shall be rescinded for the well if it has produced in excess of the monthly rate authorized by the Director.

RULE 20. The Division may allow overproduction to be made up at a lesser rate than permitted under Rules 17 or 18 above upon a showing that the same is necessary to avoid material damage to the well.

GENERAL

RULE 21. Failure to comply with the provisions of this order or the rules contained herein or the Rules and Regulations of the Division shall result in the cancellation of allowable assigned to the well. No further allowable shall be assigned to the well until all rules and regulations are complied with. The Division shall notify the operator of the well and the purchaser, in writing, of the date of allowable cancellation and the reason therefor.

IT IS FURTHER ORDERED THAT:

(22) Jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

JIM BACA, Member



ED KELLEY, Member



R. L. STAMETS,
Chairman and Secretary

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