

Entered September 16, 1983
JLR

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. 7803
Order No. R-6930-B

APPLICATION OF JACK J. GRYNBERG FOR
DETERMINATION OF REASONABLE WELL COSTS,
FOR CHANGE OF OPERATOR, AND FOR
APPORTIONMENT AND ALLOCATION OF THE
NON-CONSENTING INTERESTS UNDER OIL
CONSERVATION COMMISSION ORDER NO. R-6930-A,
CHAVES COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9:00 a.m. on June 1, 1983, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 16th day of September, 1983, 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 the applicant seeks the determination of reasonable well costs, change of operator, and apportionment and allocation of the non-consenting interests for a well drilled in Unit O, Section 12, Township 5 South, Range 24 East, NMPM, Chaves County, New Mexico, under the provisions of New Mexico Oil Conservation Commission Order No. R-6930-A.
- (3) That the applicant further seeks to include the costs of an earlier well drilled and plugged and abandoned by him in Unit I of said Section 12 under terms of Oil Conservation Division Order No. R-6925, as reasonable well costs applicable to the well drilled under said Order No. R-6930-A.
- (4) That on March 16, 1982, the Division heard Case No. 7476 and Case No. 7513 wherein, respectively, Jack J. Grynberg

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and Mesa Petroleum Company each sought compulsory pooling of all mineral interests in the Abo formation in SE/4 of Section 12, Township 5 South, Range 24 East, NMPM, Chaves County, New Mexico.

(5) That each applicant proposed to drill a well at a standard location on the pooled unit and requested to be named the operator of the well.

(6) That on April 5, 1982, the Division entered Order No. R-6925 and Order No. R-6930 which, respectively, approved the application of Jack J. Grynberg and denied the application of Mesa Petroleum Company.

(7) That thereafter Jack J. Grynberg drilled his Grynberg 12 State "Com" Well No. 1 to the Abo formation in Unit I of said Section 12.

(8) That drilling of said well commenced on May 9, 1982, and on May 19, 1982, it was plugged and abandoned as a dry hole.

(9) That on April 6, 1982, Mesa Petroleum Company filed a timely application for hearing De Novo in Case No. 7476 and Case 7513.

(10) That the Commission heard said cases De Novo on May 17, 1982.

(11) That on June 25, 1982, the Commission entered Order No. R-6925-A denying the application of Jack J. Grynberg and Order No. R-6930-A approving the application of Mesa Petroleum Company.

(12) That said orders superseded and replaced Division Order No. R-6925 and Order No. R-6930 and rendered such orders null and void and of no effect whatsoever.

(13) That in drilling the well on the unit pooled under said Order No. R-6925 while said matter was before the Commission De Novo, the applicant shouldered all of the risks associated therewith.

(14) That well costs incurred by applicant in drilling the Grynberg 12 State "Com" Well No. 1 under Order No. R-6925, should not be included as reasonable well costs under Order No. R-6930-A.

(15) That following entry of said Order No. R-6930-A, Mesa Petroleum Company drilled and completed its Camack Federal

"Com" Well No. 9 in Unit O of said Section 12 as an Abo formation gas well.

(16) That in the application for the subject case, actual well costs objected to as being unreasonable included:

- (a) the daily drilling rate;
- (b) rig moving costs;
- (c) rathole and mousehole costs;
- (d) location and road costs;
- (e) the costs of the 4 1/2-inch casing and 2 3/8-inch tubing; and
- (f) cementing costs.

(17) That the record demonstrates that Mesa took competitive bids for location and road work.

(18) That the charges for rig moving are determined in accordance with Interstate Commerce Commission regulations.

(19) That based upon said competitive bids and regulated rig moving charges, the well costs for rig moving and location and road work are considered reasonable.

(20) That the rathole and mousehole costs objected to included charges for acquisition and setting of conductor pipe.

(21) That the charges solely related to the mousehole and rathole are in line with costs expected by the applicant and are not unreasonable.

(22) That the higher cementing costs objected to relate only to cementing of the 10 3/4-inch casing and result from Mesa drilling a larger diameter hole than the applicant considers necessary. Said larger diameter hole requires more cement to fill the additional annular space between the casing and borehole.

(23) That Mesa drilled this "larger" hole to better deal with potential lost circulation problems and to avoid problems associated with "sticking" the 10 3/4-inch casing above the bottom of the hole.

(24) That the decision to drill said larger hole is a logical and reasonable response to the problems identified in

Findings Nos. (22) and (23) above and the extra costs associated therewith are reasonable well costs.

(25) That the applicant alleged that the daily drilling rate paid by Mesa was excessive as the result of Mesa's using a drilling contractor then under a two-year contract rather than a contractor obtained after competitive bidding.

(26) That the applicant further alleged that the price paid by Mesa for the 4 1/2-inch casing and the 2 3/8-inch tubing was excessive considering market conditions existing at the time of drilling.

(27) That Mesa drilled said Camack Federal "Com" Well No. 9 near the end of a period of intense drilling, competition for available rigs, and high prices for casing and tubing.

(28) That the evidence presented tended generally to show that well costs had been increasing before said well was drilled and decreased thereafter.

(29) That considering the difficulty in obtaining drilling rigs and experienced competent crews prior to the drilling of said well, the drilling contract obtained by Mesa was a prudent business practice and the drilling costs resulting therefrom are reasonable well costs.

(30) That while it is evident that the cost of tubular goods declined after the drilling of said well, there is no evidence that the casing and tubing purchased therefore was acquired in any other manner than those which were standard practices and procedures for all Mesa purchases.

(31) That considering the timing of the drilling of said well and casing acquisition procedures used by Mesa, the charges for the 4 1/2-inch casing and 2 3/8-inch tubing are reasonable.

(32) That the applicant alleged that Mesa unnecessarily delayed the connection of said well thereby violating his correlative rights.

(33) That the evidence demonstrated that Mesa made reasonable and prudent efforts to obtain a connection for said well and that first delivery to the pipeline occurred on May 3, 1983.

(34) That because of the alleged unreasonable well costs and the alleged unnecessary delay in well connection, the

applicant seeks removal of Mesa and the designation of himself as operator of said well.

(35) That as the well costs are reasonable and as there was no unnecessary delay in well connection, the application to change the well operator should be denied.

(36) That the applicant seeks to proportionally share in the well costs of non-consenting working interest owners in said well and, as a result, share in any risk factor monies, if any, which may derive to those parties who paid such cost.

(37) That the applicant demonstrated that this is a common industry practice under well operating agreements.

(38) That nothing in the Commission Order No. R-6930-A requires Mesa to permit the applicant to share in well costs attributable to non-consenting working interest owners.

(39) That in the absence of a clear requirement in the Commission order, this matter is reasonably within the choice of the operator.

(40) That the application to share in the apportionment and allocation of non-consenting interests well cost should be denied.

(41) That an order should be entered finding that the disputed well costs are reasonable and denying the application for (1) a determination that costs associated with the drilling of the Grynberg 12 State "Com" Well No. 1 are reasonable well costs attributable to the Camack Federal "Com" Well No. 9; (2) the change of well operator; and (3) the requiring of Mesa to share the non-consenting interest owners costs.

(42) That based on the evidence presented in this matter, entry of such an order will not result in waste or violation of correlative rights.

IT IS THEREFORE ORDERED:

(1) That the actual wells disputed by the applicant, Jack J. Grynberg, as described in Finding No. (16) of this order and evidenced in this case, are found to be reasonable well costs attributable to the Mesa Petroleum Company Camack Federal "Com" Well No. 9 drilled under the terms of Commission Order No. R-6930-A in Unit O of Section 12, Township 5 South, Range 24 East, NMPM, Chaves County, New Mexico.

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(2) That the application seeking a determination that the costs of drilling the Jack J. Grynberg, Grynberg 12 State Com Well No. 1 located in Unit I of said Section 12 are reasonable well costs attributable to the well drilled under said Order No. R-6930-A is hereby denied.

(3) That the application to remove Mesa Petroleum Company and substitute Jack J. Grynberg as operator of said Camack Federal "Com" Well No. 9 is hereby denied.

(4) That the application of Jack J. Grynberg to proportionally share in the well costs and any risk factor monies attributable to non-consenting interest owners in said Camack Federal "Com" Well No. 9 is hereby denied.

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

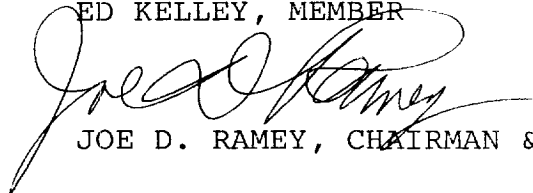
DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

JIM BACA, MEMBER



ED KELLEY, MEMBER



JOE D. RAMEY, CHAIRMAN & SECRETARY

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