

Entered July 21, 1982
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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. 7499
Order No. R-7032

APPLICATION OF AMOCO PRODUCTION
COMPANY 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 31, 1982, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 21st day of July, 1982, 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, Amoco Production Company, seeks an order pooling all mineral interests in the Wolfcamp through Devonian formations underlying the S/2 of Section 3, Township 23 South, Range 34 East, NMPM, Antelope Ridge Area, Lea County, New Mexico, to be dedicated to a well to be drilled at a standard location thereon 660 feet from the South line and 1980 feet from the East line of said Section 3.

(3) That the applicant owns an oil and gas lease on the SE/4 of said Section 3, and has taken a farmout on an undivided 50 percent working interest in the SW/4 of said Section 3, thereby controlling 75 percent of the working interest in the proposed spacing and proration unit and having the right to drill thereon, which it proposes to do.

(4) That Dow Chemical U.S.A. is the owner of a 50 percent undivided working interest in the SW/4 of said Section 3, and appeared at the hearing in opposition to Amoco's proposal to pool the S/2 of Section 3 and drill a 14,900-foot well to test the Devonian formation underlying said lands.

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(5) That this case originally came on for hearing on March 3, 1982, at which time both sides presented testimony; that the case was then continued to the March 31, 1982, hearing in order to give the parties to the hearing additional time in which to negotiate and resolve their differences.

(6) That during the interim period between hearings there were apparently good faith efforts made to arrive at an amicable solution, but certain differences between the parties remain.

(7) That both parties agree, and the geological evidence tends to confirm, that the Pennsylvanian formation, particularly the Morrow section, underlying the proposed spacing and proration unit is a good prospect for obtaining commercial production.

(8) That the geological evidence concerning the Devonian prospect is somewhat less conclusive, but the evidence appears to preponderate towards the view that prospects for commercial production from the Devonian formation are much more uncertain than such prospects for the Pennsylvanian, and that Dow is justified in not desiring to participate in going to the Devonian.

(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 underlying the subject lands, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit, and Amoco should be designated operator of the subject well and unit, provided however, that Dow should be given the opportunity to participate in the drilling of the subject well on a split-risk basis, i.e., (1) to participate in drilling and completion costs to the Morrow formation without penalty or to go non-consent to the Morrow and participate in the Morrow subject to a certain charge for the risk involved in drilling to said formation, and (2), to participate in the additional drilling and completion costs from the Morrow to the Devonian without penalty or to go non-consent from the Morrow to the Devonian and participate in the Devonian subject to a separate and different charge for the risk involved in the additional drilling.

(10) That it is the intent of this order to break the drilling of the subject well down into two separate and distinctive phases: (1) from the surface of the ground through the Morrow pay; and (2) from the base of the Morrow pay through the Devonian pay; to provide alternative selections to the poolee, Dow; and to provide cost accounting for a single Morrow

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completion vs. a single Devonian completion or a Morrow-Devonian dual completion.

(11) To the above ends, all charges and costs which would be directly attributable to a single Morrow completion should be charged to the Morrow zone and subject to the Morrow risk factor provided herein, if applicable, and paid out of Morrow production only; all charges and costs which would be directly attributable to the drilling of a single Devonian completion from the base of the Morrow pay through the Devonian pay as well as any extra up-hole charges and costs resulting from drilling the well to the Devonian above and beyond what would normally be spent drilling to the Morrow only (such as extra hole size, extra casing and cementing, rig charges, etc.) should be charged to the Devonian zone and subject to the Devonian risk factor provided herein, if applicable, and paid out of Devonian production only; all common charges to a Morrow-Devonian dual (including the separation packer, dual Christmas tree, etc.) shall be split between the two zones and each portion made subject to the risk factor for that zone and paid out of production from that zone.

(12) That after the effective date of this order and within 60 days prior to commencing the subject well, Amoco should furnish the Division and Dow itemized schedules of estimated well costs as follows:

- A. A cost estimate for a normal single Morrow test well to the anticipated Morrow completion depth (13,500 - feet).
- B. A cost estimate for a normal single Devonian test well to the anticipated Devonian completion depth (14,900 - feet).
- C. A cost estimate for a Morrow-Devonian dual completion at the above depths.

(13) That the cost estimate prescribed in Finding No. (12) A above should include only normal drilling, testing, and completion costs with a suitably sized drilling rig and normal mud, logging, and testing charges and casing and cementing costs for a single Morrow completion without anticipation of drilling beyond the expected Morrow completion depth.

(14) That the cost estimate prescribed in Finding No. (12) B above should include only normal drilling, testing, and completion costs with a suitably sized drilling rig and normal mud, logging, and testing charges and casing and cementing costs

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for a single Devonian completion without anticipation of an upper pay (Morrow) being present or requiring testing.

(15) That the cost estimate prescribed in Finding No. (12) C above should include normal drilling, testing, and completion costs with a suitably sized drilling rig and normal mud, logging, and testing charges and casing and cementing costs for a Morrow-Devonian dual completion.

(16) That within 30 days from the date the above-described schedules of estimated well costs are furnished to it, Dow should make its election as to whether to participate in the subject well.

(17) That if it elects to participate, Dow should have the opportunity of choosing its mode of participation, i.e., whether to participate in drilling to and completing in the Morrow only, or to participate in drilling and completing in both the Morrow and Devonian.

(18) That if it elects to participate, Dow should be afforded the opportunity of paying its share of estimated well costs for the mode selected in lieu of paying its share of reasonable well costs out of production.

(19) That should Dow elect not to pay its share of estimated well costs from the surface down through the Morrow pay, it should have its share of reasonable well costs for said formation withheld from production from the Morrow formation plus a reasonable percentage of such costs as a charge for the risk involved in the drilling of said well to the Morrow.

(20) That considering the geological and engineering evidence presented at the hearing, 100 percent of reasonable well costs is an adequate and appropriate charge for the risk involved in drilling said well to the Morrow formation.

(21) That should Dow elect to pay its share of estimated well costs from the surface to the Morrow, but elect not to pay its share of estimated well costs from the base of the Morrow pay down through the Devonian pay, it should have its share of well costs for drilling from the Morrow to the Devonian withheld from production from the Devonian formation plus a reasonable percentage thereof as a charge for the risk involved in the drilling of said well from the Morrow to the Devonian.

(22) That considering the geological and engineering evidence presented at the hearing, 200 percent of reasonable well costs from the Morrow to the Devonian is an adequate and

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appropriate charge for the risk involved in drilling said well from the Morrow to the Devonian.

(23) That should Dow elect to participate in either of the above-described modes of participation, its payment of its share of estimated well costs for that mode should be made to Amoco in accordance with some customary and mutually agreeable system for billing and payment which is common to the industry; that should Dow so elect to participate and pay its share of estimated well costs for the mode selected, it should remain liable for operating costs but should not be liable for risk charges for that mode of participation. Reasonable drilling and completion costs advanced by Amoco beyond the mode selected and prepaid by Dow should be subject to the risk factors described above and withheld from production from the appropriate formation together with operating costs.

(24) That within 90 days following completion of the well, the operator should furnish the Division and Dow an itemized schedule of actual well costs for drilling and completion of the well, broken down into two segments: from the surface through the Morrow pay, and from the base of the Morrow pay through the Devonian pay; that if no objection to such actual well costs is received by the Division, and the Division has not objected to such actual well costs within 45 days following receipt of said schedule, the actual costs should be considered reasonable costs; provided however, that if there is an objection to actual well costs within said 45-day period, the Division should determine reasonable well costs after public notice and hearing.

(25) That within 60 days following determination of reasonable well costs, should Dow have paid its share of estimated well costs for either of the above-described modes of participation, it should pay to Amoco any amount that its share of reasonable well costs for that mode exceed paid estimated well costs and should receive from Amoco any amount that paid estimated well costs exceed reasonable well costs for that mode.

(26) That the terms and provisions of this order relating to participation or non-participation in the drilling of the subject well to the Morrow formation should be applicable to the drilling to and completion of the well in possible pay zones above the Morrow; that the terms and provisions of this order relating to participation or non-participation in the drilling of the subject well from the base of the Morrow pay through the Devonian pay should be applicable to the drilling to and completion of the well in possible pay zones between the base of the Morrow and the top of the Devonian.

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(27) That \$4200.00 per month while drilling and \$420.00 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.

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

(29) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before November 1, 1982, the order pooling said unit should become null and void and of no effect whatsoever.

(30) That although the application in this case was for pooling of the S/2 of Section 3, Township 23 South, Range 34 East, NMPM, Lea County, New Mexico, to form a 320-acre gas spacing and proration unit to be dedicated to a well to be drilled at a standard location thereon 660 feet from the South line and 1980 feet from the East line of said Section 3, the Division Director should have authority to approve an alternative location for the unit well without hearing upon application of Amoco, provided all applicable provisions of Rule 104 of the Division Rules and Regulations are met, and provided that such location has been submitted to Dow along with the itemized schedules of well costs specified in Finding Nos. (12) through (15) above.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, from the top of the Wolfcamp formation through the base of the Devonian formation underlying the S/2 of Section 3, Township 23 South, Range 34 East, NMPM, Antelope Ridge Area, Lea County, New Mexico, are hereby pooled to form a standard 320-acre gas spacing and proration unit to be dedicated to a well to be drilled 660 feet from the South line and 1980 feet from the East line of said Section 3 or at such other location on said unit as the Division Director may approve.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the first day of November, 1982, and shall thereafter continue the drilling of

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said well with due diligence to a depth sufficient to test the Devonian formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the first day of November, 1982, Order (1) of this order shall be null and void and of no effect whatsoever, unless said 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 180 days after commencement thereof, said operator shall appear before the Division Director and show cause why Order (1) of this order should not be rescinded.

(2) That Amoco Production Company is hereby designated the operator of the subject well and unit.

(3) That after the effective date of this order and within 60 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject unit itemized schedules of estimated well costs as follows:

- A. A cost estimate for a normal single Morrow test well to the anticipated Morrow completion depth (13,500 ± feet).
- B. A cost estimate for a normal single Devonian test well to the anticipated Devonian completion depth (14,900 ± feet).
- C. A cost estimate for a Morrow-Devonian dual completion at the above depths.

(4) That the cost estimate prescribed in Order No. (3) A above shall include only normal drilling, testing, and completion costs with a suitably sized drilling rig and normal mud, logging, and testing charges and casing and cementing costs for a single Morrow completion without anticipation of drilling beyond the expected Morrow completion depth.

(5) That the cost estimate prescribed in Order No. (3) B above shall include only normal drilling, testing, and completion costs with a suitably sized drilling rig and normal mud, logging, and testing charges and casing and cementing costs for a single Devonian completion without anticipation of an upper pay (Morrow) being present or requiring testing.

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(6) That the cost estimate prescribed in Order No. (3) C above shall include normal drilling, testing, and completion costs with a suitably sized drilling rig and normal mud, logging, and testing charges and casing and cementing costs for a Morrow-Devonian dual completion.

(7) That within 30 days from the date the above-described schedules of estimated well costs are furnished to it, Dow shall make its election as to whether to participate in the subject well.

(8) That if it elects to participate, Dow shall have the opportunity of choosing its mode of participation, i.e., whether to participate in drilling to and completing in the Morrow only, or to participate in drilling to and completing in both the Morrow and Devonian.

(9) That if it elects to participate, Dow shall be afforded the opportunity of paying its share of estimated well costs for the mode selected in lieu of paying its share of reasonable well costs out of production.

(10) That should Dow elect not to pay its share of estimated well costs from the surface down through the Morrow pay, it shall have its share of reasonable well costs for said formation withheld from production from the Morrow formation plus 100 percent thereof as a charge for the risk involved in the drilling of said well to the Morrow.

(11) That should Dow elect to pay its share of estimated well costs from the surface to the Morrow, but elect not to pay its share of estimated well costs from the base of the Morrow pay down through the Devonian pay, it shall have its share of well costs for drilling from the Morrow to the Devonian withheld from production from the Devonian formation plus 200 percent thereof as a charge for the risk involved in the drilling of said well from the Morrow to the Devonian.

(12) That should Dow elect to participate in either of the above-described modes of participation, its payment of its share of estimated well costs for that mode shall be made to Amoco in accordance with some customary and mutually agreeable system for billing and payment which is common to the industry; that should Dow so elect to participate and pay its share of estimated well costs for the mode selected, it shall remain liable for operating costs but shall not be liable for risk charges for that mode of participation. Reasonable drilling and completion costs advanced by Amoco beyond the mode selected and prepaid by Dow shall be subject to the risk factors described above and

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withheld from production from the appropriate formation together with operating costs.

(13) That within 90 days following completion of the well, the operator shall furnish the Division and Dow an itemized schedule of actual well costs for drilling and completion of the well, broken down into two segments: from the surface through the Morrow pay adjusted downward for any extra up-hole charges and costs per Finding No. (11), and from the base of the Morrow pay through the Devonian pay including any extra up-hole charges and costs per Finding No. (11); that if no objection to such actual well costs is received by the Division and the Division has not objected to such actual well costs within 45 days following receipt of said schedule, the actual costs shall be considered reasonable costs; provided however, that if there is an objection to actual well costs for either or both segments within said 45-day period, the Division shall determine reasonable well costs for each segment after public notice and hearing.

(14) That within 60 days following determination of reasonable well costs, should Dow have paid its share of estimated well costs for either of the above-described modes of participation, it shall pay to Amoco any amount that its share of reasonable well costs for that mode exceed paid estimated well costs and shall receive from Amoco any amount that paid estimated well costs exceed reasonable well costs for that mode.

(15) That Amoco is hereby authorized to withhold the following costs and charges from production:

- (A) The pro rata share of reasonable well costs attributable to Dow if Dow has not paid its share of estimated well costs in accordance with the provisions for pre-payment as set forth in this order.
- (B) As a charge for the risk involved in the drilling of the well, the percentage specified elsewhere herein of the pro rata share of reasonable well costs attributable to Dow if Dow has not paid its share of estimated well costs in accordance with the provisions for pre-payment as set forth in this order.

(16) That the terms and provisions of this order relating to participation or non-participation in the drilling of the subject well to the Morrow formation shall be applicable to the

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drilling to and completion of the well in possible pay zones above the Morrow; that the terms and provisions of this order relating to participation or non-participation in the drilling of the subject well from the base of the Morrow pay through the Devonian pay shall be applicable to the drilling to and completion of the well in possible pay zones between the base of the Morrow and the top of the Devonian.

(17) That \$4200.00 per month while drilling and \$420.00 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.

(18) 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.

(19) 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.

(20) That all proceeds from production from the subject well 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.

(21) That although the application in this case was for pooling of the S/2 of Section 3, Township 23 South, Range 34 East, NMPM, Lea County, New Mexico, to form a 320-acre gas spacing and proration unit to be dedicated to a well to be drilled at a standard location thereon 660 feet from the South line and 1980 feet from the East line of said Section 3, the Division Director shall have authority to approve an alternative location for the unit well without hearing upon application of Amoco, provided all applicable provisions of Rule 104 of the Division Rules and Regulations are met, and provided that such location has been submitted to Dow along with the itemized schedules of well costs required in Orders Nos. (3) through (6) above.

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(22) 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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