

Entered October 7, 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. 7679
Order No. R-7094

APPLICATION OF C & K PETROLEUM, INC.
FOR THE AMENDMENT OF ORDER NO. R-4857-A
AND 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 September 29, 1982, at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 7th day of October, 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 by Order No. R-4857, entered September 10, 1974, the Division pooled all mineral interests, whatever they may be, in the Pennsylvanian formation underlying the SW/4 SE/4 of Section 27, Township 16 South, Range 37 East, NMPM, Lea County, New Mexico, to form a standard 40-acre oil spacing and proration unit to be dedicated to a well to be drilled at an orthodox location for said unit, and further providing that in the event said well should be completed in the Devonian formation, said formation would also be deemed to be pooled.

(3) That subsequent to the entry of the aforesaid order, the applicant, C & K Petroleum, Inc., completed the well as a dry hole in the Devonian formation and plugged said well back to the Strawn formation where it was completed as a producing oil well.

(4) That by Order No. R-4992, dated April 1, 1975, the Division created the Casey-Strawn Pool comprising the SE/4 of

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Section 27, Township 16 South, Range 37 East, and promulgated Special Rules and Regulations therefor, including a provision for 80-acre spacing and proration units.

(5) That by Order No. R-4857-A entered April 1, 1975, the Division amended the area pooled in said Order No. R-4857 from the SW/4 SE/4 of Section 27, Township 16 South, Range 37 East, NMPM, Lea County, New Mexico, to the entire S/2 SE/4 of said Section 27, to comply with the spacing provisions as set forth in the aforesaid Order No. R-4992.

(6) That the applicant, C & K Petroleum, Inc., now seeks the amendment of Division Order No. R-4857-A to provide that the lands pooled by said order shall be the W/2 SE/4 of Section 27, Township 16 South, Range 37 East, NMPM, with such acreage to be dedicated to its Shipp 27 Well No. 2 located in Unit O of said Section 27.

(7) That all mineral interests in the S/2 SE/4 and W/2 SE/4 of said Section 27 are identical, and the aforesaid proposed amendment will not adversely affect any party's interest in the subject well.

(8) That the amendment of Order No. R-4857-A as proposed will not cause waste nor violate correlative rights and should be approved.

(9) That the applicant further seeks an order pooling all mineral interests in the Pennsylvanian formation underlying the E/2 SE/4 of the aforesaid Section 27 to be dedicated to a well to be drilled at a standard location in Unit P of said Section 27.

(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 oil 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

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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 200 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 paid estimated well costs exceed reasonable well costs.

(17) That \$4180.00 per month while drilling and \$423.00 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.

(19) 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 January 1, 1983, the order pooling said unit should become null and void and of no effect whatsoever.

(20) That the effective date of this order and of the amendment and pooling contained herein should be 7:00 o'clock a.m. October 1, 1982.

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IT IS THEREFORE ORDERED:

(1) That that portion of Order Paragraph (1) of Order No. R-4857-A within quotation marks is hereby amended to read in its entirety as follows:

"(1) That all mineral interests, whatever they may be, in the Pennsylvanian formation underlying the W/2 SE/4 of Section 27, Township 16 South, Range 37 East, NMPM, Lea County, New Mexico, are hereby pooled to form a standard 80-acre oil spacing and proration unit to be dedicated to a well to be drilled at an orthodox location for said unit."

(2) It is further ordered that all mineral interests, whatever they may be, in the Pennsylvanian formation underlying the E/2 SE/4 of the aforesaid Section 27, Lea County, New Mexico, are hereby pooled to form a standard 80-acre oil spacing and proration unit to be dedicated to a well to be drilled at a standard location in Unit P of said Section 27.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the 1st day of January, 1983, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Pennsylvanian formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 1st day of January, 1983, Order (2) 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 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Order (2) of this order should not be rescinded.

(3) That C & K Petroleum, Inc. is hereby designated the operator of the subject well and unit.

(4) That 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.

(5) 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

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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.

(6) 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.

(7) 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.

(8) 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, 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.

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

(10) That \$4180.00 per month while drilling and \$423.00 per month while producing are hereby fixed as reasonable

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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.

(11) 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.

(12) 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.

(13) 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.

(14) That the effective date of this order and of the amendment and pooling contained herein shall be 7:00 o'clock a.m. October 1, 1982.

(15) 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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