

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. 8699
Order No. R-7817-B

APPLICATION OF TXO PRODUCTION
CORPORATION FOR AMENDMENT OF
DIVISION ORDER NO. R-7817, AS
AMENDED, EDDY COUNTY, NEW
MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8 a.m. on September 11, 1985, at Santa Fe, New Mexico, before Examiner Gilbert P. Quintana.

NOW, on this 15th day of November, 1985, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

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

(2) Division Order No. R-7817, as amended by Order No. R-7817-A, approved an unorthodox gas well location for the Morrow formation 660 feet from the South line and 660 feet from the East line of Section 2, Township 22 South, Range 27 East, Eddy County, New Mexico, for a well to have dedicated thereto the S/2 of said Section 2.

(3) The applicant, TXO Production Corporation, seeks the amendment of said order to provide for a non-standard 160-acre gas spacing and proration unit comprising the SE/4 of said Section 2 for the Wolfcamp formation to be dedicated to said well at the unorthodox location specified in Finding No. (2) above.

(4) The applicant further seeks to compulsorily pool the E/2 of said Section 2 from the base of the Wolfcamp formation to the base of the Morrow formation and dedicate the E/2

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of the subject section to any Morrow formation completion in lieu of the S/2 of said section as previously approved.

(5) The applicant has the right to drill and proposes to drill a well at the location described in Finding No. (2) and proposes to dedicate the lands as described in Findings Nos. (3) and (4).

(6) There are interest owners in the proposed 320-acre Morrow gas spacing and proration unit who have not agreed to pool their interests.

(7) To avoid the drilling of unnecessary wells, to protect correlative rights, to avoid waste, 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 and gas in any pool completion resulting from this order, the subject application should be approved by pooling all mineral interests, whatever they may be, from the base of the Wolfcamp formation to the base of the Morrow formation within said unit.

(8) The applicant should be designated the operator of the subject well and units.

(9) 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.

(10) Since the interests of the parties are different in each proration unit, it will be necessary to estimate well costs on the basis of a well to the Wolfcamp formation drilled to 10,000 feet and a well drilled on to 11,800 feet to the Morrow formation.

(11) When the ownership varies between completion intervals of a dual completion, the owners in each interval derive some benefit from the drilling of the well.

(12) Looking at only the lower interval, those benefits, exclusive of special equipment or drilling cost attributable to either individual interval, may be defined and quantified by the following logic:

- (a) If no hole to a shallower interval would be drilled, the value would be zero.

- (b) If the depth to the shallower interval would be an absolute minimum distance above the lower interval, the value would be essentially 50 percent of the well costs.
- (c) This concept may be restated that the value of the costs of drilling to the shallower interval to the owners in the lower interval should be a percentage of the costs equal to one-half the percentage derived by dividing the depth to the upper interval by the total depth.
- (d) The owners of interest in the deeper interval should be responsible for 100 percent of the costs of drilling from the shallower interval to total depth.

(13) The depth to the shallower interval and the total depth in the well in question in this case are 10,000 feet and 11,800 feet respectively.

(14) Based upon Findings Nos. (11) and (12) above, the allocation of original tangible and intangible well costs, exclusive of any costs attributable and chargeable solely to either individual zone, should be as follows:

- (a) owners of interests in the shallow interval should pay for 58 percent of the costs of drilling to the depth of 10,000 feet; and
- (b) owners of interests in the deeper interval should pay for 42 percent of the costs of drilling to the depth of 10,000 feet and 100 percent of the costs for drilling from 11,800 feet to total depth.

(15) The evidence presented by the applicant does not justify the application of the maximum 200 percent risk penalty factor.

(16) 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.

(17) Any non-consenting working interest owner should be afforded the opportunity to object to the actual well costs

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but actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(18) 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.

(19) \$5,374.00 per month while drilling and \$538.00 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 actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(20) 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.

(21) 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 February 1, 1986, the order pooling said unit should become null and void and of no effect whatsoever.

(22) 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.

(23) The operator of the well and unit should notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the force pooling provisions of this order.

(24) No party objected to the proposed non-standard unit in the Wolfcamp zone and it should be approved.

IT IS THEREFORE ORDERED THAT:

(1) The unorthodox location for a well for the Morrow formation at a point 660 feet from the South line and 660

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feet from the East line of Section 2, Township 22 South, Range 27 East, NMPM, Eddy County, New Mexico, as approved by Division Order No. R-7817-A is hereby affirmed.

(2) A 160-acre non-standard gas spacing and proration unit comprising the SE/4 of said Section 2 for the Wolfcamp formation is hereby approved.

(3) Division Orders Nos. R-7817 and R-7817-A are hereby rescinded.

(4) All mineral interests, whatever they may be, from the base of the Wolfcamp formation to the base of the Morrow formation underlying the E/2 of Section 2, Township 22 South, Range 27 East, NMPM, Eddy County, New Mexico, are hereby pooled to form a 320-acre Morrow gas spacing and proration unit to be dedicated to a well to be drilled at an unorthodox location 660 feet from the South line and 660 feet from the East line of said Section 2.

PROVIDED HOWEVER THAT, the operator of said unit shall commence the drilling of said well on or before the 1st day of February, 1986, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Morrow formation.

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said well on or before the 1st day of February, 1986, Order No. (4) 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 No. (4) of this order should not be rescinded.

(5) TXO Production Corporation is hereby designated the operator of the subject well and units.

(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 prepared in accordance with Finding No. (14) of this order.

(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, 150 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.

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

(12) \$5,374.00 per month while drilling and \$538.00 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 Eddy 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 to this force pooling reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(17) The operator of the well and unit shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the force pooling provisions of this order.

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

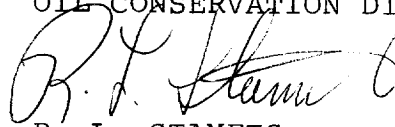
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DONE at Santa Fe, New Mexico, on the day and year
hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in dark ink, appearing to read "R. L. Stamets", is written over the typed name.

R. L. STAMETS
Director

S E A L

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