

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. 8557  
Order No. R-7968

APPLICATION OF SOUTHLAND ROYALTY  
COMPANY FOR COMPULSORY POOLING,  
EDDY COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

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

NOW, on this 21st day of June, 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 public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) The applicant, Southland Royalty Company, hereinafter referred to as "Southland", seeks an order pooling all mineral interests from the surface to the top of the Wolfcamp formation underlying the NW/4 of Section 21, Township 16 South, Range 27 East, to form a standard 160-acre spacing and proration unit for any and all formations and/or pools on 160-acre spacing, to be dedicated to a well to be drilled at a standard location thereon. The applicant further seeks an order pooling all mineral interests from the top of the Wolfcamp formation to the base of the Pennsylvanian formation (Duffield-Pennsylvanian Gas Pool inclusive) underlying the W/2 of said Section 21 to form a standard 320-acre gas spacing and proration unit within said vertical limits also to be dedicated to the above-mentioned well at a standard gas well location for a 320-acre gas spacing and proration unit.

(3) The applicant, in the alternative, seeks an order pooling all mineral interests from the surface to the top of the Wolfcamp formation and all mineral interests in the

Duffield-Pennsylvanian Gas Pool underlying the NW/4 of said Section 21 to form a standard 160-acre spacing and proration unit for any and all formations and/or pools on 160-acre spacing, to be dedicated to a well to be drilled at a standard location thereon. The applicant further seeks an order pooling all mineral interests in the Wolfcamp formation underlying the W/2 of said Section 21 to form a standard 320-acre gas spacing and proration unit in said formation also to be dedicated to the above-mentioned well at a standard gas well location for a 320-acre gas spacing and proration unit.

(4) The applicant has the right to drill and proposes to drill a well at a standard location on said proration units.

(5) Southland's proposed location is 1980 feet from the North line and 990 feet from the West line of said Section 21 and its principal target is the Duffield-Pennsylvanian Gas Pool in the lower Pennsylvanian (Atoka-Morrow) formation.

(6) A standard spacing and proration unit for the Duffield-Pennsylvanian Gas Pool is 160 acres.

(7) The first portion of the application requesting 320-acre pooling of the Duffield-Pennsylvanian Gas Pool is inappropriate because of 160-acre spacing of said pool and will therefore not be considered.

(8) The applicant's alternate request for pooling will therefore be considered.

(9) Donald R. Link and Dennis R. Link, hereinafter referred to as "Links", appeared and opposed Southland's proposed location and west-half proration and spacing unit.

(10) The Links have proposed to Southland a standard location for drilling in the NE/4 of Section 21 with a spacing and proration unit consisting of the north half of said section.

(11) The Links have no plan at this time to drill a well at their proposed location.

(12) The forming of a 160-acre spacing and proration unit for all applicable formations, said target formation inclusive, will not violate the Links' correlative rights.

(13) The forming of a west-half 320-acre spacing and proration unit for the Wolfcamp formation will not violate the Links' correlative rights.

(14) To avoid the drilling of unnecessary wells, to protect correlative rights, and to afford 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 in said pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within the NW/4 of said Section 21 in all formations above the top of the Wolfcamp formation and in the Pennsylvanian formation and within the W/2 of Section 21 in the Wolfcamp formation.

(15) The applicant in this case should be designated the operator of the subject well and units.

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

(17) 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 100 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

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

(19) 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.

(20) \$4,600.00 per month while drilling and \$460.00 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.

-4-

Case No. 8557  
Order No. R-7968

(21) 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.

(22) 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 October 1, 1985, the order pooling said unit should become null and void and of no effect whatsoever.

(23) Should all the parties to this forced pooling reach voluntary agreement subsequent to entry of this order, this order should thereafter be of no further effect.

(24) 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 forced pooling provisions of this order.

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be, from the surface to the top of the Wolfcamp formation and the Pennsylvanian formation underlying the NW/4 of Section 21, Township 16 South, Range 27 East, NMPM, Eddy County, New Mexico, and all mineral interests, whatever they may be, in the Wolfcamp formation underlying the W/2 of said Section 21, are hereby pooled to form standard gas spacing and production units to be dedicated to a well to be drilled at a standard location thereon.

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said well on or before the 1st day of October, 1985, 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 120 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) Southland Royalty Company is hereby designated the operator of the subject well and units.

(3) After the effective date of this order, the operator shall furnish the Division and each known working interest owner in the subject units an itemized schedule of estimated well costs.

(4) 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 appropriate 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 coverage.

(5) 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.

(6) 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.

(7) 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, 100 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share

-6-

Case No. 8557  
Order No. R-7968

of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

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

(9) \$4,600.00 per month while drilling and \$460.00 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.

(10) 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.

(11) 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.

(12) 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.

(13) Should all the parties to this forced pooling reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

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

-7-

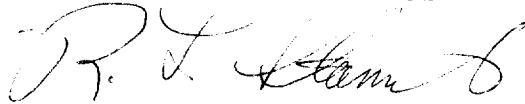
Case No. 8557

Order No. R-7968

(15) 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

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

R. L. STAMETS  
Director

S E A L

fd/