

STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING  
CALLED BY THE OIL CONSERVATION  
DIVISION FOR THE PURPOSE OF  
CONSIDERING:

CASE NO. 9694  
ORDER NO. R-8262-A

APPLICATION OF ORYX ENERGY COMPANY  
FOR AN ORDER POOLING ALL MINERAL  
INTERESTS IN THE GAVILAN-MANCOS OIL  
POOL UNDERLYING A CERTAIN 640-ACRE  
TRACT OF LAND IN RIO ARriba COUNTY,  
NEW MEXICO

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on July 12, 1989, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 31st day of July, 1989, 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, Oryx Energy Company, formerly Sun Exploration and Production Company, seeks an order pooling all mineral interests in the Gavilan-Mancos Oil Pool underlying all of Section 12, Township 25 North, Range 2 West, NMPM, Rio Arriba County, New Mexico, forming a standard 640-acre oil spacing and proration unit for said pool. Said unit is to be dedicated to the existing Mallon Oil Company Johnson Federal "12" Well No. 5 located 1650 feet from the North line and 960 feet from the West line (Unit E) of said Section 12 which is presently completed in and producing from the Gavilan-Mancos Oil Pool and dedicated to a previously approved 320-acre non-standard oil spacing and proration unit (as provided by Rule 2(a) of Division Order No. R-7407-E, as amended) consisting of the W/2 of said Section 12.

(3) Mallon Oil Company, the current operator of the Johnson Federal "12" Well No. 5 appeared at the hearing in support of the proposed development of said Section 12 on a standard 640-acre spacing and proration unit but opposed Oryx Energy Company's proposed costs of participation.

(4) On December 23, 1983, the Division adopted Order R-7407 which established temporary special rules and regulations for the Gavilan-Mancos Oil Pool, effective as of March 1, 1984, including a provision for 320-acre spacing units and provided:

"Rule 2: No more than one well shall be completed or recompleted on a standard unit containing 320 acres, more or less, consisting of the N/2, S/2, E/2 or W/2 of any governmental section."

and further required:

"(2) That any well presently producing from the Gavilan-Mancos Oil Pool which does not have a standard 320-acre proration unit, an approved non-standard proration unit or which does not have a pending application for a hearing for a standard or non-standard proration unit by March, 1984, shall be shut-in until a standard or non-standard unit is assigned to the well."

(5) The record indicates that said Johnson Federal "12" Well No. 5 was completed in the Gavilan-Mancos Oil Pool on October 24, 1985 on a 40-acre oil spacing and proration unit consisting of the SW/4 NW/4 of said Section 12 in accordance with the statewide spacing rules then in effect.

(6) On January 3, 1986, the Division issued its Order R-8063 in Case No. 8713, effective January 1, 1986, extending the horizontal boundary of the Gavilan-Mancos Oil Pool to include the W/2 of said Section 12 among other lands.

(7) By Division Order No. R-8262 entered August 7, 1986, the W/2 of Section 12 was pooled into a spacing unit for the well in accordance with said Order Nos. R-7407 and R-8063.

(8) By Order R-7407-E entered June 8, 1987, the Division amended the Special Rules and Regulations for the Gavilan-Mancos Oil Pool enlarging the standard spacing and proration units within said pool to 640-acres.

(9) By virtue of its being in existence prior to the issuance of said Division Order No. R-7407-E, a 320-acre non-standard oil spacing and proration unit consisting of the W/2 of said Section 12 and dedicated to said Johnson Federal "12" Well No. 5 was approved pursuant to Rule 2(a) of said order.

(10) On June 20, 1989, Oryx Energy Company, as an owner in the E/2 of said Section 12, filed an application with the Division for an order pooling the E/2 of said Section 12 with the W/2 which is already dedicated to the Johnson Federal "12" Well No. 5 and thereby forming a 640-acre proration unit.

(11) Both Mallon Oil Company and Oryx Energy Company have been able to agree upon the following terms and conditions that would apply in the event the Division grants the compulsory pooling application:

- (a) Mallon Oil Company shall continue as operator of the subject well and the 640-acre oil spacing and proration unit;
- (b) any working interest owner in the Section has the right under compulsory pooling statutes (Section 70-2-17[c]) to seek a compulsory pooling for the existing well;
- (c) The subject spacing and proration unit should be made effective July 12, 1989;
- (d) The monthly overhead operating charge should be \$380.00 per month;
- (e) The original actual costs of the well when completed in 1986 as set forth in Order R-8262 were \$565,840.00;
- (f) A 30-day notice period should be afforded by Mallon to any working interest owner in the E/2 of said Section after entry of the order within which to pay their proportionate share of the reasonable reimbursement to the original owners for participation; and
- (g) In the event any working interest owner in the E/2 fails to make timely payment within the period required, that interest shall be deemed to have elected not to participate and Mallon shall have the right to recover out of production that party's share of the reimbursement.

(12) Mallon and Oryx have not been able to agree upon the reasonable charges to any consenting working interest owner in the E/2 of Section 12 for participation in the Johnson Federal "12" Well No. 5.

(13) Oryx Energy Company seeks to have all E/2 owners participate in their proportionate share of the remaining recoverable production from the Johnson Federal "12" Well No. 5 prospectively from July 12, 1989, by paying 50% of the present value of the remaining producible reserves for the well and allowing for a 15% rate of return on investment, which should be half of \$73,200.00.

(14) Mallon Oil Company at the time of the hearing presented evidence showing that the actual costs of drilling and completing the Johnson Federal "12" Well No. 5, to date, is \$566,971.00. Mallon Oil Company, supported by Mesa Grande Resources (an interest owner in the existing unit), proposes that the owners in the E/2 of said Section 12 (being half of the 640-acre unit) be required to pay 50% of this cost or \$283,485.50.

(15) Testimony was presented at the hearing that all parties agreed that the well was seriously depleted and the original cost of the well will not be returned based on production after July 12, 1989; therefore, a risk penalty is not appropriate in this matter.

(16) Inasmuch as this case is similar in nature to and involves the same well as heard in Division Case No. 8900 in which said Order No. R-8262 was issued, those parties seeking to participate in the well and proposed proration unit should be required to tender the sum of \$283,485.00.

(17) Mallon Oil Company should remain the operator of the subject well and the enlarged unit.

(18) Oryx Energy Company and other working interest owners in the E/2 of Section 12 should be afforded the opportunity to elect either to pay to the operator their proportionate share of the total sum of \$283,485.00 for participation in the Johnson Federal "12" Well No. 5, or pay their proportionate share of such sum out of production; such election should be made by Oryx and any other working interest owner in the E/2 of Section 12 within thirty (30) days after receipt of notification by Mallon of the issuance of an Order in this case by the Division; and the operator should be entitled to withhold from production said working interest owners' proportionate share of such costs to operator within thirty (30) days after the issuance of the Order in this case.

(19) Should Oryx or any working interest owner in the E/2 of said Section 12 not so elect to pay their share of such well costs within said period, they should have withheld from production their share of \$283,485.00 as a reasonable charge for participation in the well.

(20) \$380.00 per month while producing should be fixed as a reasonable charge for supervision of the subject well (combined fixed rates); in the event that any E/2 working interest owner elects to pay their proportionate share of actual costs incurred in the drilling, completion and operation of the subject well out of production, then the operator shall be authorized to withhold from production the proportionate share of such supervision charges attributable to the interest of said owner 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 the interest of said owner.

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

(22) 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 compulsory pooling provisions of this order.

IT IS THEREFORE ORDERED THAT:

(1) A standard 640-acre oil spacing and proration unit is hereby established consisting of Section 12, Township 25 North, Range 2 West, NMPM, Gavilan-Mancos Oil Pool, Rio Arriba County, New Mexico, and all oil and gas mineral interests in this pool underlying said Section 12 are hereby pooled and dedicated to the Mallon Oil Company, Johnson Federal "12" Well No. 5 located 1650 feet from the North line and 960 feet from the West line (Unit E) of said Section 12 and Mallon Oil Company is designated as the operator of said well and unit effective July 12, 1989.

(2) The operator is to account to and pay each owner in said enlarged unit his prorata share of production from the enlarged unit from the effective date of this order; provided said owners of working interests in the E/2 of said Section 12 shall within 30 days after receipt of a copy of this Order together with an invoice in the amount due pay their prorata share of one half the cost of said well, or \$283,485.00; or in the event of failure to make such payment shall have taken out of production by the operator said amount until operator has been paid the monies required by this Order.

(3) A reasonable supervision charge is hereby determined to be \$380.00 per month for said well and the operator is hereby authorized to withhold from production the proportionate share of such supervision charge attributable to each non-paying working interest as well as the proportionate share of actual expenditures for operating the well.

Case No. 9694  
Order No. R-8262-A  
Page No. 6

(4) Any well costs or charges which are to be paid out of production shall be withheld only from the working interests' share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(5) All proceeds from production from the subject well which are not disbursed for any reason shall be immediately placed in escrow in an insured bank in Rio Arriba 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 thirty days from the date of first deposit with said escrow agent.

(6) Should all parties to this force-pooling reach voluntary agreement subsequent to the entry of this Order, this Order shall thereafter be of no further effect.

(7) The operator of the well 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.

(8) The force-pooling provisions of Division Order No. R-8262 issued in Case No. 8900 shall not be affected by this order and as such shall remain in full force and effect as to division of costs and proceeds of production attributed to the W/2 of Section 12.

(9) 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

*Victor 2 Lyon*  
*for* WILLIAM J. LEMAY  
Director

S E A L