

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. 8985
Order No. R-8332

APPLICATION OF NORTHWEST PIPELINE
CORPORATION FOR COMPULSORY POOLING,
RIO ARriba COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on September 3, 1986, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 4th day of November, 1986, 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, Northwest Pipeline Corporation, seeks an order pooling all mineral interests in the Gavilan-Mancos Oil Pool underlying the S/2 of Section 24, Township 25 North, Range 2 West, NMPM, Rio Arriba County, New Mexico, forming a standard 320-acre oil spacing and proration unit which is dedicated to the Mesa Grande Resources, Inc. Rucker Lake Well No. 2 located at a previously approved unorthodox oil well location (NSL-1705) 1450 feet from the South line and 1520 feet from the West line (Unit K) of said Section 24.

(3) At the time of the hearing the applicant also requested that an Order be entered, (1) designating Mesa Grande Resources, Inc. as the operator of the subject well and unit, (2) dismissing that portion of this application for a charge for the risk involved in drilling the subject well, and (3) authorizing the operator to recover all drilling and completion costs attributable to any and all nonconsenting working interest owners commencing March 1, 1984, as well as their

shares of all costs of operations and overhead charges since that date.

(4) The applicant, Northwest Pipeline Corporation, drilled the Rucker Lake Well No. 2 at a standard location in the NE/4 SW/4 of said Section 24 and completed the same to the Gallup Formation, with a total depth of approximately 8,155 feet on August 25, 1983 and 40 acres was dedicated as the standard spacing or proration unit for that well.

(5) Subsequent thereto, the Division entered Order No. R-7407 effective March 1, 1984 establishing the Gavilan-Mancos Oil Pool and the Special Rules and Regulations, including a provision establishing the standard spacing or proration unit as 320 acres.

(6) On August 17, 1984, Northwest Pipeline Corporation entered into a purchase and sales agreement with Mesa Grande Resources, Inc., whereby Northwest sold to Mesa Grande the Rucker Lake Well No. 2 with other properties effective March 1, 1984.

(7) Pursuant to said agreement, it remains Northwest's obligation to file this application and seek compulsory pooling of those interest owners in the S/2 of said Section 24 who have not agreed to pool their interests subsequent to the rule changes authorizing the formation of the 320-acre unit.

(8) 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 in said pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

(9) Mesa Grande Resources, Inc. should be designated the operator of the subject well and unit.

(10) Any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs commencing March 1, 1984 to the operator in lieu of paying his share of reasonable well costs out of production.

(11) Any non-consenting working interest owner who does not pay his share of estimated well costs from March 1, 1984 should have withheld from production his share of the reasonable well costs since that date.

(12) Any non-consenting interest owner should be afforded the opportunity to object to the actual well costs from March 1, 1984 but actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(13) Following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of actual well 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.

(14) \$475.00 per month while drilling and 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.

(15) 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.

(16) 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.

(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 forced pooling provisions of this order.

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be, in the Gavilan-Mancos Oil Pool underlying the S/2 of Section 24, Township 25 North, Range 2 West, NMPM, Rio Arriba County, New Mexico, are hereby pooled to form a standard 320-acre oil spacing and proration unit to be dedicated to the Mesa Grande Resources, Inc. Rucker Lake Well No. 2 located at a previously approved unorthodox oil well location (NSL-1705) 1450 feet from the South line and 1520 feet from the West line (Unit K) of said Section 24.

(2) Mesa Grande Resources, Inc. is hereby designated the operator of the subject well and unit.

(3) Within 30 days after the effective date of this order, the operator shall furnish the Division and each known non-consenting working interest owner in the subject unit an itemized schedule of the actual well costs from March 1, 1984, and the actual net revenue after deducting expenses from production.

(4) Within 30 days from the date the schedule of actual well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of actual well costs from March 1, 1984 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 the actual well costs as provided above shall remain liable for operating costs.

(5) The actual well costs as of March 1, 1984 as submitted at the hearing shall be the reasonable well costs provided there is no objection to actual well costs within 60 days after entry of this order. If objection is made, 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 the actual well costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed the actual well costs and shall receive from the operator his pro rata share of the amount that the original actual well costs exceed reasonable well costs.

(7) The operator is hereby authorized to withhold from production the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of the actual well costs within 30 days from the date the schedule of actual 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) \$475.00 per month while drilling and 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,

Case No. 8985
Order No. R-8332
-5-

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 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 30 days from the date of first deposit with said escrow agent.

(13) Should all 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 unit 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.

(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



R. L. STAMETS,
Director

S E A L