

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. 9162
Order No. R-8472

APPLICATION OF AMERIND OIL COMPANY
FOR COMPULSORY POOLING AND A NON-
STANDARD OIL PRORATION UNIT, LEA
COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on July 1, 1987, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 15th day of July, 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, Amerind Oil Company, seeks an order pooling all mineral interests in the Strawn or Atoka formation underlying the SW/4 SE/4 and the SE/4 SW/4 of Section 28, Township 16 South, Range 37 East, NMPM, Lea County, New Mexico, to form a non-standard oil proration unit to be dedicated to a well to be drilled at a standard location thereon and completed in either the Casey Strawn, West Casey Strawn, or Northeast Lovington Pennsylvanian Pool.

(3) The applicant has the right to drill and proposes to drill its Shipp Well No. 3 at a standard location 510 feet from the South line and 1980 feet from the East line of said Section 28.

(4) The proposed well lies within the jurisdictional boundaries of the Casey Strawn, West Casey Strawn, and Northeast Lovington Pennsylvanian Pools, all of which are governed by special rules and regulations which require 80-acre

spacing and proration units consisting of the N/2, S/2, E/2, or W/2 of a governmental quarter section.

(5) Rio Pecos Corporation, an interest owner in the proposed proration unit who has not agreed to pool their interest, appeared at the hearing in opposition to the non-standard proration unit.

(6) Rio Pecos Corporation presented as evidence at the hearing signed letters of objection from various interest owners in the S/2 of said Section 28 who objected to the forming of the proposed non-standard proration unit.

(7) The applicant presented evidence that shows that three wells, which are located respectively in the SW/4 SW/4, the SE/4 SE/4, and the NW/4 SE/4 of said Section 28, have previously been drilled to and were tested in the Strawn formation without encountering commercial quantities of hydrocarbons.

(8) The applicant further testified that in order to form a standard spacing unit for the proposed Shipp Well No. 3, which would consist of either the W/2 SE/4 or the S/2 SE/4 of said Section 28, acreage which has already been proven non-productive (as described in Finding No. (7) above) would have to be included within said standard unit.

(9) The applicant is also the owner and operator of two Strawn producing wells, the Meyers Well No. 1, located in Unit C of Section 33, and the Shipp Well No. 1, located in Unit B of Section 33, both in Township 16 South, Range 37 East, NMPM, Lea County, New Mexico.

(10) Rio Pecos Corporation presented geologic evidence that indicates that the proposed well would produce from the same structure in the Strawn formation as the Meyers Well No. 1 and the Shipp Well No. 1.

(11) Rio Pecos Corporation contends that the SE/4 SW/4 of Section 28 is currently being drained by the Amerind Meyers Well No. 1.

(12) Based upon the geologic evidence presented at the hearing and the fact that 80-acre spacing has been established in the three Strawn pools in this area, it is likely that drainage in the SE/4 SW/4 of Section 28 is occurring from the Amerind Meyers Well No. 1

(13) Rio Pecos Corporation further testified that the formation of a non-standard proration unit as proposed would

violate their correlative rights by precluding the drilling of a second Strawn well which could be located in the SE/4 SW/4 of said Section 28, which they feel is necessary in order to offset drainage from the Amerind Meyers Well No. 1.

(14) No data currently exists with which to make a determination of how large an area the applicant's proposed well would drain or if the proposed well would effectively compensate for the drainage in the SE/4 SW/4 of said Section 28.

(15) In order to protect the correlative rights of the various interest owners in the S/2 of Section 28, these interest owners should be allowed to retain the option of drilling a second well in the SE/4 SW/4 of Section 28.

(16) Further, the evidence presented does not conclusively show that there is no productive acreage underlying the SE/4 SE/4 or the NW/4 SE/4 which might contribute production to a standard proration unit in the SE/4 of said Section 28.

(17) Approval of the applicant's proposed non-standard proration unit and compulsory pooling of the SE/4 SW/4 of said Section 28 would not serve to protect correlative rights and should therefore be denied.

(18) In order to allow the applicant the opportunity to recover his share of the production in the pool, a non-standard proration unit consisting of the SW/4 SE/4 of said Section 28 should be established and the portion of the application pooling the SW/4 SE/4 of said Section 28 should be approved by pooling all mineral interests, whatever they may be, within said unit.

(19) At such time as the well is completed the applicant should be allowed to reopen this case if it is determined that a proration unit other than that proposed or is approved should be dedicated to the well.

(20) The applicant should be designated the operator of the subject well and unit.

(21) 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.

(22) 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.

(23) 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.

(24) 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.

(25) \$5000.00 per month while drilling and \$500.00 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.

(26) 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.

(27) 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 November 1, 1987, the order pooling said unit should become null and void and of no effect whatsoever.

(28) 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.

(29) 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) The application of Amerind Oil Company for a non-standard proration unit consisting of the SW/4 SE/4 and the

SE/4 SW/4 of Section 28, Township 16 South, Range 37 East, NMPM, Lea County, New Mexico, is hereby denied.

(2) The application of Amerind Oil Company for compulsory pooling of the SE/4 SW/4 of said Section 28 is hereby denied.

(3) All mineral interests, whatever they may be, in the Strawn and Atoka formation underlying the SW/4 SE/4 of Section 28, Township 16 South, Range 37 East, NMPM, Lea County, New Mexico, are hereby pooled to form a non-standard 40-acre oil spacing and proration unit, also hereby approved, to be dedicated to a well to be drilled at a standard location thereon.

PROVIDED HOWEVER, the operator of said unit shall commence the drilling of said well on or before the 1st day of November, 1987, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Strawn and Atoka formation;

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said well on or before the 1st day of November, 1987, Ordering paragraph (3) 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 Ordering Paragraph No. (3) of this order should not be rescinded.

(4) Amerind Oil Company is hereby designated the operator of the subject well and unit.

(5) 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.

(6) 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.

(7) 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, 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.

(8) 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.

(9) 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.

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

(11) \$5000.00 per month while drilling and \$500.00 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.

(12) 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.

(13) 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.

(14) 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; 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.

(15) 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.

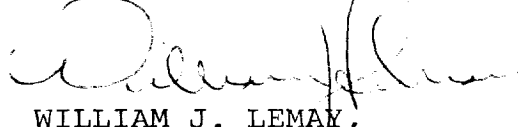
(16) The operator of the well and unit shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

(17) At such time as the well is completed, the applicant may reopen this case if it is determined that a proration unit other than that proposed or approved by this order should be dedicated to the subject well.

(18) 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


WILLIAM J. LEMAY,
Director

S E A L