

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. 9645
ORDER NO. R-8939

APPLICATION OF BP EXPLORATION, INC.
FOR COMPULSORY POOLING AND DIRECTIONAL
DRILLING, LEA COUNTY, NEW MEXICO

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on May 10, 1989, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 16th day of May, 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, BP Exploration, Inc., seeks an order pooling all mineral interests from the surface to the top of the Atoka formation underlying the SE/4 SW/4 (Unit N) of Section 30, Township 17 South, Range 38 East, NMPM, Lea County, New Mexico, forming a standard 40-acre oil spacing and proration unit for any and all formations and/or pools within said vertical extent developed on 40-acre spacing which presently includes, but is not necessarily limited to, the Undesignated Hobbs Channel-Bone Spring Pool, Undesignated Hobbs Channel - San Andres Pool and the Undesignated Hobbs Channel-Wolfcamp Pool.

(3) The applicant proposes to dedicate said unit to a well to be directionally drilled from an unorthodox surface oil well location 1138 feet from the South line and 1633 feet from the West line of said Section 30 to a standard bottomhole oil well location.

(4) Said directional drilling will serve to better accommodate private residences in the area, which is a semi-rural community, and to avoid houses and other structures in a manner that causes the least disturbance to those closest to the drilling location.

(5) No interested party objected to the proposed directional drilling of this subject well.

(6) The applicant proposes to drill vertically from the surface to a kick-off point at a depth of approximately 9000 feet, build angle to a rate of 1.5 degrees per 100 feet in a south-southeasterly direction, hold angle at approximately 15.8 degrees and continue drilling to a proposed bottomhole location 100 feet from a target point of 660 feet from the South line and 1817 feet from the West line (Unit N) of said Section 30.

(7) Subsequent to the above-described directional drilling should said well be a producer, a continuous multi-shot directional survey should be made of the wellbore from total depth to the surface.

(8) Evidence presented at the hearing indicates that the well drilled in the aforementioned manner will be considered a standard oil well location for those completion intervals below approximately 10,080 feet true vertical depth; any completion above this point will be unorthodox.

(9) If any such completion is found to be at an unorthodox location from the directional survey of the wellbore, appropriate authorization pursuant to the Division General Rules or any such special rules which might exist will be required prior to producing from such affected zones.

(10) The applicant has a right to develop this acreage and proposes to directionally drill said well for this purpose.

(11) There are interest owners in the proposed proration unit who have not agreed to pool their interests.

(12) To avoid the drilling of unnecessary wells, to protect correlative rights, to prevent 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 any pool completion resulting from this order, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

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

(14) 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.

(15) Any non-consenting working interest owner who does not pay his share of estimated well costs should have withheld from production his share of reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(16) 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.

(17) 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.

(18) The applicant presented adequate testimony to justify that \$5700.00 per month while drilling and \$570.00 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.

(19) 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.

(20) 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 August 15, 1989, the order pooling said unit should become null and void and of no further effect whatsoever.

(21) 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.

(22) 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.

IT IS THEREFORE ORDERED THAT:

(1) The applicant, BP Exploration, Inc., is hereby authorized to directionally drill a well from an unorthodox surface oil well location 1138 feet from the South line and 1633 feet from the West line of Section 30, Township 17 South, Range 38 East, NMPM, Lea County, New Mexico, wherein the applicant proposes to drill vertically to a depth of approximately 9000 feet, kick-off at this point in a south-southeasterly direction, build angle to a rate of 1.5 degrees per 100 feet, hold angle at approximately 15.8 degrees and continue drilling to a bottomhole location within 100 feet of a target point 660 feet from the South line and 1817 feet from the East line of said Section 30.

PROVIDED HOWEVER THAT, subsequent to the above-described directional drilling, should said well be a producer, a continuous multi-shot directional drilling survey shall be made of the wellbore from total depth to the surface with shot points not more than 100 feet apart; the operator shall cause the surveying company to forward a copy of the survey report directly to the Santa Fe office of the Division, P.O. Box 2088, Santa Fe, New Mexico 87504-2088, and the operator shall notify the Division's Hobbs District Office of the date and time said survey is to be commenced.

(2) Form C-105 shall be filed in accordance with Division Rule 1105 and the operator shall indicate thereon true vertical depth in addition to measured depths.

IT IS FURTHER ORDERED THAT:

(3) All mineral interests, whatever they may be, from the surface to the top of the Atoka formation underlying the SE/4 SW/4 (Unit N) of Section 30, Township 17 South, Range 38 East, NMPM, Lea County, New Mexico, are hereby pooled to form a standard 40-acre oil spacing and proration unit for any and all formations and/or pools within said vertical extent developed on 40-acre spacing (which presently includes but is not limited to the Undesignated Hobbs Channel-Bone Spring Pool, Undesignated Hobbs Channel-San Andres Pool, and the Undesignated Hobbs Channel-Wolfcamp Pool), said unit to be dedicated to the above-described well.

PROVIDED HOWEVER THAT, the operator of said unit shall commence the drilling of said well on or before the 15th day of August, 1989, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test from the surface to the top of the Atoka formation.

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said well on or before the 15th day of August, 1989, Ordering Paragraph No. (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.

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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) BP Exploration, Inc. is hereby designated the operator of the subject well and unit.

(5) Prior to producing from any zone it shall be determined from the directional survey of the subject well whether any completion interval is considered to be orthodox or unorthodox pursuant to any rules affecting that particular zone, whereby the applicant shall be required to seek appropriate authorization if needed.

(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.

(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, 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.

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(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; and
- (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.

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

(12) \$5700.00 per month while drilling and \$570.00 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 unleased 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 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.

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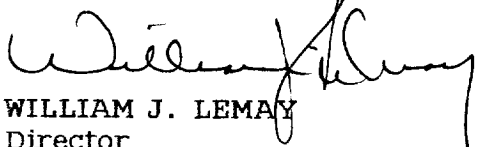
(16) Should all the parties to this force-pooling reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(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.

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

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


WILLIAM J. LEMAY
Director

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