

**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. 9796
Order No. R-9121**

**APPLICATION OF SANTA FE ENERGY
OPERATING PARTNERS, L.P. FOR
COMPULSORY POOLING AND AN
UNORTHODOX GAS WELL LOCATION,
LEA COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on December 13, 1989, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 27th day of February, 1990, 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, Santa Fe Energy Operating Partners, L.P., seeks an order pooling all mineral interests from the surface to the base of the Morrow formation underlying the E/2 of Section 22, Township 19 South, Range 33 East, NMPM, Lea County, New Mexico, forming a standard 320-acre gas spacing and proration unit for any and all formations and/or pools being developed on 320-acre spacing, which presently includes but is not necessarily limited to the Undesignated Gem-Morrow Gas Pool and the Undesignated East Gem-Morrow Gas Pool.

(3) The applicant has the right to drill and proposes to drill a well at an unorthodox gas well location 660 feet from the North and East lines (Unit A) of said Section 22.

**CASE NO. 9796
Order No. R-9121
Page -2-**

(4) Harvey E. Yates, Explorers Petroleum, and Spiral Inc., all interest owners in the proposed proration unit, have not agreed as of the date of the hearing to pool their interests.

(5) Mitchell Energy Corporation (Mitchell), Monsanto Oil Corporation (Monsanto), and Texaco Producing Inc. (Texaco), all affected offset operators, appeared at the hearing in opposition to the proposed unorthodox location.

(6) The geologic evidence presented by the applicant indicates that the primary and secondary objectives within the proposed well are what the applicant has described respectively as the "Sapphire" sand within the Morrow formation and the "Wynell" sand within the Atoka formation.

(7) The "Sapphire" sand has been found to be productive in the Mitchell Sapphire Federal Well No. 1 located in Unit J of Section 23, being the affected offset acreage to the east, and the "Wynell" sand has been found to be productive in the Monsanto Manzano Wynell Federal Well No. 1 located in Unit I of Section 15, being the affected offset acreage to the north.

(8) Testimony by the opponents also indicates that a well will be drilled at a standard location in the S/2 of Section 14, being the affected offset acreage to the northeast, to test the above-described sands.

(9) The applicant presented geologic evidence and testimony which describes the "Sapphire" sand as a northwest to southeast trending channel sand with maximum net sand and maximum porosity development occurring essentially in the NE/4 NE/4 of said Section 22, and further describes the "Wynell" sand as a northeast to southwest trending channel sand with maximum net sand and maximum porosity development also occurring in the NE/4 NE/4 of said Section 22.

(10) The applicant contends that the proposed unorthodox well location is necessary in order to encounter the "Sapphire" and "Wynell" sands in the areas of maximum net sand and porosity development (net sand thickness greater than 40 feet and 10 feet, respectively) and at the highest point structurally, which will increase the likelihood of obtaining commercial production.

CASE NO. 9796
Order No. R-9121
Page -3-

(11) The applicant also seeks the proposed location in order to distance itself from the Pan American Laguna Plata Federal Well No. 1, which was drilled in 1962 and is located at a standard gas well location 1980 feet from the South line and 710 feet from the East line (Unit I) of said Section 22, which encountered approximately 18 feet of net sand in the "Sapphire" sand member, and tested at a non-commercial rate of approximately 358 MCF of gas per day.

(12) The applicant's geologic evidence indicates that a well at the proposed location will gain no structural advantage in either the Morrow or Atoka formations over a well drilled at a standard location 1980 feet from the North line and 660 feet from the East line (Unit H) of said Section 22.

(13) The applicant's geologic evidence further indicates that a well at the proposed location will gain only a slight advantage in terms of net sand thickness encountered within the Morrow and Atoka formations over a well drilled at a standard location as described above.

(14) The applicant's geologic presentation in this case gives no indication that a well drilled at a standard location in the NE/4 of said Section 22 may not be a commercial producer or that such well will not effectively and efficiently drain the proposed proration unit.

(15) The opposition in this case also presented extensive geologic evidence which was prepared with the aid of seismic data not utilized by the applicant, and which varies considerably with the geologic interpretation presented by the applicant.

(16) The opposition's geologic evidence indicates that in terms of encountering the greatest amount of net sand and porosity in the Morrow formation, a well located at a standard location being either 1980 feet from the North line and 660 feet from the East line (Unit H) or 1980 feet from the North line and 1980 feet from the East line (Unit G) of said Section 22 is preferable to the applicant's proposed location.

(17) The applicant's request for an unorthodox gas well location is not justified and should therefore be denied.

**CASE NO. 9796
Order No. R-9121
Page -4-**

(18) 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 production 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.

(19) The applicant should be designated the operator of the unit and well to be drilled at a standard gas well location thereon.

(20) 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.

(21) 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.

(22) 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.

(23) 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.

(24) \$6400.00 per month while drilling and \$575.00 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.

CASE NO. 9796
Order No. R-9121
Page -5-

(25) 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.

(26) Upon the failure of the operator of said pooled unit to commence the drilling of the well to which said unit is dedicated on or before June 1, 1990, the order pooling said unit should become null and void and of no effect whatsoever.

(27) 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.

(28) 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 portion of the application requesting approval for an unorthodox gas well location 660 feet from the North and East lines (Unit A) of Section 22, Township 19 South, Range 33 East, NMPM, Undesignated Gem-Morrow and Undesignated East Gem-Morrow Gas Pools, Lea County, New Mexico, is hereby denied.

(2) All mineral interests, whatever they may be, from the surface to the base of the Morrow formation underlying the E/2 of Section 22, Township 19 South, Range 33 East, NMPM, Lea County, New Mexico, are hereby pooled forming a standard 320-acre gas spacing and proration unit for any and all formations and/or pools being developed on 320-acre spacing, which presently includes but is not necessarily limited to the Undesignated Gem-Morrow Gas Pool and the Undesignated East Gem-Morrow Gas Pool. Said unit shall be dedicated to a well to be drilled at a standard gas well location thereon.

PROVIDED HOWEVER THAT, the operator of said unit shall commence the drilling of said well on or before the 1st day of June, 1990, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Morrow formation.

CASE NO. 9796
Order No. R-9121
Page -6-

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said well on or before the 1st day of June, 1990, Ordering Paragraph No. (2) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division Director 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. (2) of this order should not be rescinded.

(3) Santa Fe Energy Operating Partners, L.P. is hereby designated the operator of the well and unit.

(4) 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.

(5) 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.

(6) 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 objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(7) Within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated well 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.

CASE NO. 9796
Order No. R-9121
Page -7-

(8) 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.

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

(10) \$6400.00 per month while drilling and \$575.00 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.

(11) 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.

(12) 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.

CASE NO. 9796
Order No. R-9121
Page -8-

(13) 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.

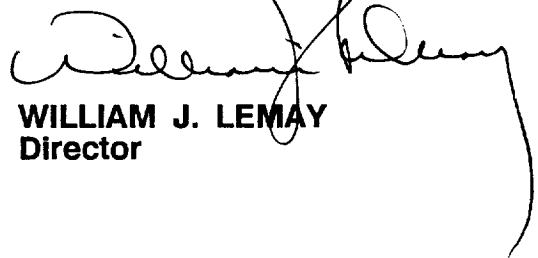
(14) Should all parties to this forced pooling order reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(15) 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.

(16) 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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