

**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. 15234

**APPLICATION OF ANSCHUTZ OIL COMPANY, LLC FOR COMPULSORY
POOLING AND AN UNORTHODOX OIL WELL LOCATION, RIO ARRIBA
COUNTY, NEW MEXICO**

CASE NO. 15246

**APPLICATION OF ANSCHUTZ OIL COMPANY, LLC FOR COMPULSORY
POOLING, RIO ARRIBA COUNTY, NEW MEXICO**

ORDER NO. R-13945

ORDER OF THE DIVISION

BY THE DIVISION:

Case No. 15234 came on for hearing at 8:15 a.m. on November 20, 2014, at Santa Fe, New Mexico, before Examiner William V. Jones.

Case No. 15246 came on for hearing at 8:15 a.m. on December 18, 2014, at Santa Fe, New Mexico, before Examiner Phillip R. Goetze.

NOW, on this 13th day of January, 2015, the Division Director, having considered the testimony, the record and the recommendations of the Examiners,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of these cases and of the subject matter.

(2) In Case No. 15246, Anschutz Oil Company, LLC ("Applicant"), made application to compulsory pool two unsigned working interest owners who had not been identified by applicant as interest owners within the Case No. 15234. Both of these cases involve the same proposed well and compulsory pooling of the same spacing unit. Both cases are being consolidated into one hearing order.

(3) In Case No. 15234, Applicant seeks approval of a non-standard location within an existing 960-acre non-standard Mancos oil spacing unit ("the Unit"), for its proposed horizontal Regina Com 25-2-14-15 Well No. 1H ("the proposed well"; API No. 30-039-31203).

(4) Applicant further seeks in both Cases an order pooling all uncommitted mineral interests in the Unit.

(5) The proposed well will be drilled from a surface location within Unit letter B of Section 14, Township 25 North, Range 2 West, NMPM, Rio Arriba County, New Mexico. The well is planned for oil production from the Mancos formation, with first perforation/production at approximately 830 feet from the North line and 2310 feet from the West line (Unit letter C). The well will be drilled in a westerly direction to a terminus at approximately 830 feet from the North line and 330 feet from the West line of offsetting Section 15.

(6) This portion of the Mancos formation is contained within the Gavilan-Mancos Pool (27194). This pool has special pool rules promulgated in Order No. R-7407 (as amended). Among other things, such rules allow for 640-acre oil spacing and proration units and well locations no more than 790 feet from the outer boundary of the spacing unit.

(7) The proposed well location is non-standard in that it encroaches on the east half of Section 14, the southeast of Section 9, and offsetting Section 16. Proper notice was provided as to the well's unorthodox location and no protests were received. The well's proposed location within the Unit should be approved.

(8) Applicant appeared at the November 20th, 2014 hearing (Case No. 15234) and presented land evidence in person and geologic evidence by affidavit:

- (a) The proposed well is expected to be similar in geologic characteristics, yet up-dip, to the offsetting Elk Com 24 Well No. 1H and the Davis Federal Com 3 Well No. 15, both located to the north. The west half of Section 14 and all of Section 15 are expected to contribute to the production from this well.
- (b) The interval being proposed to drill horizontally is expected to be extremely low permeability and therefore only productive from a relatively long horizontal completion.
- (c) Hunt Oil Company had previously obtained a permit to drill the proposed well as a horizontal laydown within the N/2 S/2 of Section 15 and N/2 SW/4 of Section 14 and obtained a non-standard spacing unit permit from the Division, NSP-1974, issued January 31 of 2014. However, Anschutz is moving this proposed well, prior to spud, to the location proposed in

this Case. The non-standard spacing unit is still in effect and held by the proposed well, whose permit to drill is still in effect.

- (d) Anschutz Oil Company, LLC has obtained interest in this spacing unit and this well through agreement with Hunt Oil Company and asked that Anschutz Exploration Corporation be named as operator of the Unit and of this well. Anschutz Exploration Corporation has a federal bond and has obtained an OGRID No. 146909 allowing it to operate within New Mexico.
- (e) The Unit consists of both federal and fee lands. The fee leases sometimes have no pooling clause or the owners were not located. There are unleased and unsigned royalty interests as well as uncommitted working interests.

(9) On December 18th, 2014, applicant appeared in Case No. 15246 and presented land testimony by affidavit. The two additional interests were identified and explained, as was the pressing need for that hearing. Exhibits 1 and 2 were presented and accepted.

(10) No other party appeared at either hearing, or otherwise opposed the granting of these applications.

The Division concludes that:

(11) Two or more separately owned tracts are embraced within the Unit, and/or there are royalty interests and/or undivided interests in oil and gas minerals in one or more tracts included in the Unit that are separately owned.

(12) Applicant is owner of an oil and gas working interest within the Unit. Applicant has the right to drill and proposes to drill the proposed well to a common source of supply within the Unit at the proposed location.

(13) There are interest owners in the Unit that have not agreed to pool their interests as well as interest owners that have not been located.

(14) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford to the owner of each interest in the Unit the opportunity to recover or receive without unnecessary expense its just and fair share of hydrocarbons, this application should be approved by pooling all uncommitted interests, whatever they may be, in the oil and gas within the Unit.

(15) Anschutz Exploration Corporation should be designated the operator of the proposed well and of the Unit.

(16) Any pooled working interest owner who does not pay its share of estimated well costs should have withheld from production its share of reasonable well costs plus an additional 200% thereof as a reasonable charge for the risk involved in drilling the proposed well.

(17) From a "Land" perspective, this prospect has been extremely expensive and time consuming for the Applicant to put together. However, the expected supervision rates for drilling and producing should be separate from the upfront, sunk Land costs. Applicant did not present specific data to support the requested \$10,500 drilling rate and \$1500 producing rate and these rates seem exceptionally higher than the Division sees in other pooling cases.

(18) Reasonable charges for supervision (combined fixed rates) should be fixed at \$7,500 per month while drilling and \$750 per month while producing, provided that these rates should be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "Accounting Procedure-Joint Operations."

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to these two applications of Anschutz Oil Company, LLC, all uncommitted interests, whatever they may be, in the oil and gas located in the Mancos formation underlying the non-standard oil spacing and proration unit ("the Unit") previously approved in administrative Order No. NSP-1974, are hereby pooled.

(2) The Unit shall be dedicated to Applicant's **Regina Com 25-2-14-15 Well No. 1H** ("the proposed well"; API No. 30-039-31203), to be drilled from a surface location within Unit letter B of Section 14, Township 25 North, Range 2 West, NMPM, Rio Arriba County, New Mexico. The well shall be drilled as proposed to first perforation at approximately 830 feet from the North line and 2310 feet from the West line (Unit letter C) and thereafter in a westerly direction to a terminus at approximately 830 feet from the North line and 330 feet from the West line of offsetting Section 15. The unorthodox location of the completed interval within the Unit is hereby approved.

(3) The operator of the Unit shall commence drilling the proposed well on or before January 1, 2016, and shall thereafter continue drilling the proposed well with due diligence to test the Mancos formation.

(4) In the event the operator does not commence drilling the proposed well on or before January 1, 2016, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause demonstrated by satisfactory evidence.

(5) Should the proposed well not be drilled and completed within 120 days after commencement thereof, then Ordering Paragraph (1) shall be of no further effect, and the Unit and project area shall terminate, unless operator appears before the Division Director and obtains an extension of the time for completion of the proposed well for

good cause shown by satisfactory evidence. If the proposed well is not completed in all of the Sections or partial Sections included in the Unit within 120 days after commencement of drilling, then the operator shall apply to the Division to contract the Unit so that it includes only the Sections in which the well is completed.

(6) Upon final plugging and abandonment of the proposed well and any other well drilled on the Unit pursuant to Division Rule 19.15.13.9 NMAC, the pooled unit shall terminate, unless this Order has been amended to authorize further operations.

(7) Anschutz Exploration Corporation (OGRID 146909) is hereby designated the operator of the well and the Unit.

(8) After pooling, uncommitted working interest owners are referred to as pooled working interest owners. ("Pooled working interest owners" are owners of working interests in the Unit, including unleased mineral interests, who are not parties to an operating agreement governing the Unit.) After the effective date of this order, the operator shall furnish the Division and each known pooled working interest owner in the Unit an itemized schedule of estimated costs of drilling, completing and equipping the proposed well ("well costs").

(9) Within 30 days from the date the schedule of estimated well costs is furnished, any pooled working interest owner shall have the right to pay its share of estimated well costs to the operator in lieu of paying its share of reasonable well costs out of production as hereinafter provided, and any such owner who pays its share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges. Pooled working interest owners who elect not to pay their share of estimated well costs as provided in this paragraph shall thereafter be referred to as "non-consenting working interest owners."

(10) The operator shall furnish the Division and each known pooled working interest owner (including non-consenting working interest owners) an itemized schedule of actual well costs within 90 days following completion of the proposed 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 the schedule, the actual well costs shall be deemed to be the reasonable well costs. If there is an objection to actual well costs within the 45-day period, the Division will determine reasonable well costs after public notice and hearing.

(11) Within 60 days following determination of reasonable well costs, any pooled working interest owner who has paid its share of estimated costs in advance as provided above shall pay to the operator its share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator the amount, if any, that the estimated well costs it has paid exceed its share of reasonable well costs.

(12) The operator is hereby authorized to withhold the following costs and charges from production from the well:

- (a) The proportionate share of reasonable well costs attributable to each non-consenting working interest owner; and
- (b) as a charge for the risk involved in drilling the well, 200% of the above costs.

(13) The operator shall distribute the costs and charges withheld from production, proportionately, to the parties who advanced the well costs.

(14) Reasonable charges for supervision (combined fixed rates) for the well are hereby fixed at \$7,500 per month while drilling and \$750 per month while producing, provided that these rates shall be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations.*" The operator is authorized to withhold from production the proportionate share of both the supervision charges and the actual expenditures required for operating the well, not in excess of what are reasonable, attributable to pooled working interest owners.

(15) Except as provided in Paragraphs (12) and (14) above, all proceeds from production from the proposed well that are not disbursed for any reason shall be held for the account of the person or persons entitled thereto pursuant to the Oil and Gas Proceeds Payment Act (NMSA 1978 Sections 70-10-1 through 70-10-6, as amended). If not disbursed, such proceeds shall be turned over to the appropriate authority as and when required by the Uniform Unclaimed Property Act (NMSA 1978 Sections 7-8A-1 through 70-8A7-8A-28, as amended).

(16) Any unleased mineral interests 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 this order. Any well costs or charges that 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.

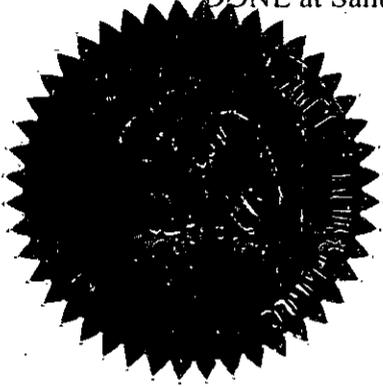
(17) Should all the parties to this compulsory pooling order reach voluntary agreement subsequent to entry of this Order, this order shall thereafter be of no further effect.

(18) This Order is contingent upon approval by the United States Bureau of Land Management of pooling of the federal interests included in the Unit.

(19) The operator of the well and Unit shall notify the Division in writing of the subsequent voluntary agreement of all parties subject to the compulsory pooling provisions of this Order.

(20) Jurisdiction of this case 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.



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

David R. Catanach

DAVID R. CATANACH
Director