

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. 10993
ORDER NO. R-10147

**APPLICATION OF ARCO PERMIAN FOR COMPULSORY POOLING, EDDY
COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on June 9, 1994, at Santa Fe, New Mexico, before Examiner Jim Morrow.

NOW, on this 5th day of July 1994, the Division Director, having considered the testimony, the record and the recommendations of the Examiners, 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, Arco Permian, seeks an order pooling all mineral interests from the surface to the base of the Morrow formation, underlying the W/2 of Section 36, Township 17 South, Range 30 East, forming a standard 320-acre spacing unit within said vertical extent, which presently includes but is not necessarily limited to the Undesignated Loco Hills-Atoka Gas Pool and the Cedar Lake-Morrow Gas Pool.
- (3) The applicant proposes to dedicate this pooled unit to its Cedar Lake State 36 Well No.1 to be drilled at a standard gas well location 1980 feet from the South line and 660 feet from the West line of said Section 36. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as the operator of the well and a charge for risk involved in drilling and completing said well.

(4) At the hearing, the applicant's attorney asked that the application be amended to include only those formations from the base of the Bone Spring formation to the base of the Morrow formation. The applicant is an interest owner in the W/2 of said Section 36 and has the right to develop the minerals underlying the proposed spacing unit.

(5) The applicant's geologic evidence included a cross-section, a Morrow Sand isopach map and offset production information. The information shows that the Morrow Sand should be productive at the proposed location. An AFE was submitted showing completed well cost of \$798,900.

(6) The applicant's land witness testified that 56.25% of the working interest owners have committed their interest to the proposed unit either through voluntary pooling or farmout agreements. Camterra Resources Partners, Ltd. with 31.25% is considering either a farmout agreement or participation. Meridian Oil Company with 12.50% has not agreed to participate.

(7) Enron Oil and Gas Company and Camterra Resources Partners, Ltd. appeared at the hearing through counsel but did not protest Arco's application.

(8) 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 production in any pool completion resulting from this order, the subject application should be approved by pooling all mineral interests, whatever they may be, from the base of the Bone Spring formation to the base of the Morrow formation within said 320-acre unit.

(9) The applicant should be designated the operator of the subject well to be drilled at the aforementioned standard gas well location.

(10) 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.

(11) 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.

(12) 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.

(13) 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.

(14) At the time of the hearing, the applicant proposed that the reasonable monthly fixed charges for supervision while drilling and producing said well should be initially set at \$5300 and \$530, respectively, and that any such overhead charges included in this order contain provisions for an annual adjustment based on accepted industry practices.

(15) \$5,300 per month while drilling and \$530 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 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.

(16) 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.

(17) Upon the failure of the operator of said pooled units to commence drilling of the well to which said unit is dedicated on or before October 1, 1994, the order pooling said unit should become null and void and of no further effect whatsoever.

(18) 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.

(19) 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) All mineral interests, whatever they may be, from the base of the Bone Spring formation to the base of the Morrow formation underlying the W/2 of Section 36, Township 17 South, Range 30 East, NMPM, Eddy County, New Mexico are hereby pooled to form a standard 320-acre spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within said vertical extent, which presently includes but is not necessarily limited to the Undesignated Loco Hills-Atoka Gas Pool and the Cedar Lake-Morrow Gas Pool.

(2) Said unit is to be dedicated to applicant's Cedar Lake State 36 Well No. 1 to be drilled at a standard gas well location 1980 feet from the South line and 660 feet from the West line of said Section 36.

PROVIDED HOWEVER, the operator of said unit shall commence the drilling of said well on or before the 1st day of October, 1994, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the above described area.

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said well on or before the 1st day of October, 1994, Decretory Paragraph Nos. (1) and (2) 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 Decretory Paragraph Nos. (1) and (2) of this order should not be rescinded.

(3) Arco Permian is hereby designated the operator of the subject 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 an 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 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.

(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; 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.

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

(10) \$5300 per month while drilling and \$530 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 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 interest.

(13) All proceeds from production from the subject well which are not disbursed for any reason shall be placed in escrow in Eddy 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.

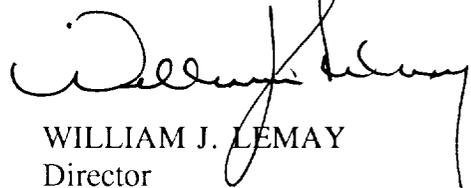
(14) Should all the parties to this force-pooling reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(15) The operator of the subject 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.

(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

S E A L