

**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. 12597
ORDER NO. R-11581**

**APPLICATION OF RICHARDSON PRODUCTION COMPANY FOR
COMPULSORY POOLING, SAN JUAN COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on February 22, 2001, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 8th day of May, 2001, the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given and the Division has jurisdiction of this case and its subject matter.

(2) Division Cases No. 12597, 12598 and 12599 were consolidated at the hearing for the purpose of testimony.

(3) The applicant, Richardson Production Company ("Richardson"), seeks an order pooling all uncommitted mineral interests from the surface to the base of the Pictured Cliffs formation underlying the E/2 of Section 9, Township 29 North, Range 14 West, NMPM, San Juan County, New Mexico, in the following manner:

the E/2 to form a standard 320-acre gas spacing and proration unit for formations and/or pools developed on 320-acre spacing within that vertical extent, including the Basin-Fruitland Coal Gas Pool; and

the NE/4 to form a standard 160-acre gas spacing and proration unit for formations and/or pools developed on 160-acre spacing within that vertical extent, including the

Undesignated Twin Mounds-Fruitland Sand-Pictured Cliffs
Gas Pool.

These units are to be dedicated to the applicant's proposed Ropco Well No. 9-1 to be drilled at a standard gas well location 835 feet from the North line and 860 feet from the East line (Unit A) of Section 9.

(4) The applicant has the right to drill and proposes to drill its Ropco Well No. 9-1 at a standard gas well location within the NE/4 NE/4 of Section 9.

(5) There are interest owners in the proposed units that have not agreed to pool their interests.

(6) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford to the owner of each interest in the units 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 mineral interests, whatever they may be, within the units.

(7) Richardson should be designated the operator of the subject well and units.

(8) The evidence presented demonstrates that the proposed Ropco Well No. 9-1 will be downhole commingled in the Basin-Fruitland Coal and Twin Mounds-Fruitland Sand-Pictured Cliffs Gas Pools.

(9) Richardson estimates the total well costs for the Ropco Well No. 9-1 to be approximately \$219,179. Of this amount, Richardson proposed that drilling and completion costs attributable to the Basin-Fruitland Coal Gas Pool should be \$104,986, and that drilling and completion costs attributable to the Twin Mounds-Fruitland Sand-Pictured Cliffs Gas Pool should be \$114,192.

(10) After pooling, uncommitted working interest owners are referred to as non-consenting working interest owners. Any non-consenting working interest owner should be afforded the opportunity to pay its share of estimated well costs to the operator in lieu of paying its share of reasonable well costs out of production.

(11) The applicant requested that a risk penalty of 200 percent be assessed against non-consenting working interest owners with regards to both a Basin-Fruitland Coal Gas Pool completion and a Twin Mounds-Fruitland Sand-Pictured Cliffs Gas Pool completion.

(12) Any non-consenting 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:

- (a) 156 percent of the well costs attributable to a Fruitland Coal completion as a reasonable charge for the risk involved in drilling to and completing the Basin-Fruitland Coal Gas Pool; and
- (b) 200 percent of the well costs attributable to a Fruitland Sand/Pictured Cliffs completion as a reasonable charge for the risk involved in drilling to and completing the Twin Mounds-Fruitland Sand-Pictured Cliffs Gas Pool.

(13) 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.

(14) Following determination of reasonable well costs, any non-consenting working interest owner who has paid its 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.

(15) Reasonable charges for supervision (combined fixed rates) should be fixed at \$5,000.00 per month while drilling and \$500.00 per month while producing, provided that this rate should be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedures-Joint Operations*." The operator should be 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 each non-consenting working interest.

(16) All proceeds from production from the well that 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) If the operator of the pooled units fails to commence drilling the well to which the units are dedicated on or before July 1, 2001, or if all the parties to this forced pooling reach voluntary agreement subsequent to the entry of this order, this order should become

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of no effect.

(18) The operator of the well and units should notify 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) Pursuant to the application of Richardson Production Company, all uncommitted mineral interests from the surface to the base of the Pictured Cliffs formation underlying the E/2 of Section 9, Township 29 North, Range 14 West, NMPM, San Juan County, New Mexico, are hereby pooled in the following manner:

the E/2 to form a standard 320-acre gas spacing and proration unit for formations and/or pools developed on 320-acre spacing within that vertical extent, including the Basin-Fruitland Coal Gas Pool; and

the NE/4 to form a standard 160-acre gas spacing and proration unit for formations and/or pools developed on 160-acre spacing within that vertical extent, including the Undesignated Twin Mounds-Fruitland Sand-Pictured Cliffs Gas Pool.

These units shall be dedicated to the applicant's Ropco Well No. 9-1 to be drilled at a standard gas well location 835 feet from the North line and 860 feet from the East line (Unit A) of Section 9.

(2) The operator of the units shall commence drilling the proposed well on or before July 1, 2001, and shall thereafter continue drilling the well with due diligence to test the Fruitland Coal and Pictured Cliffs formations.

(3) In the event the operator does not commence drilling the well on or before July 1, 2001, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause shown.

(4) Should the well not be drilled to completion or be abandoned within 120 days after commencement thereof, the operator shall appear before the Division Director and show cause why Ordering Paragraph (1) should not be rescinded.

(5) Richardson Production Company is hereby designated the operator of the subject well and units.

(6) After pooling, uncommitted working interest owners are referred to as non-consenting working interest owners. After the effective date of this order, the operator shall furnish the Division and each known non-consenting working interest owner in the units an itemized schedule of estimated well costs.

(7) Within 30 days from the date the schedule of estimated well costs is furnished, any non-consenting 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, 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.

(8) The operator shall furnish the Division and each known non-consenting 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 the schedule, the actual well costs shall be the reasonable well costs; provided, however, that 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.

(9) Within 60 days following determination of reasonable well costs, any non-consenting 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 its share of the amount that estimated well costs exceed reasonable well costs.

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

- (a) the proportionate share of reasonable well costs attributable to each non-consenting working interest owner who has not paid its share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished;
- (b) an additional amount representing a reasonable charge for the risk involved in drilling and completing the well in question, computed as follows: 156 percent of

that portion of the amount in paragraph 10(a), above, attributable to the cost of drilling and completing in the Basin-Fruitland Coal Gas pool, *plus* 200 percent of that portion of the amount in paragraph 10(a), above, attributable to the additional cost of drilling to the Twin Mounds Fruitland Sand-Pictured Cliffs Gas Pool and completing in that pool.

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

(12) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$5,000.00 per month while drilling and \$500.00 per month while producing, provided that this rate 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 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 this order.

(14) 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.

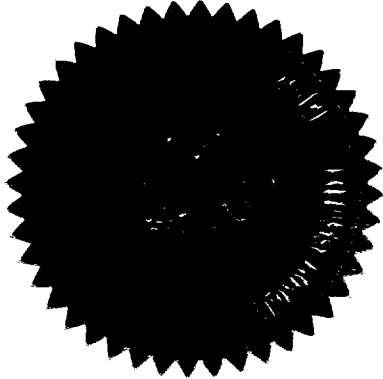
(15) All proceeds from production from the well that are not disbursed for any reason shall be placed in escrow in San Juan County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership. The operator shall notify the Division of the name and address of the escrow agent within 30 days from the date of first deposit with the escrow agent.

(16) 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.

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

(18) 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

Lori Wrotenbery
LORI WROTENBERY
Director