

Entered March 15, 1974
R.H.P.

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONSIDERING:

CASES NOS. 5157 AND 5164
Order No. R-4742

APPLICATION OF CITIES SERVICE OIL
COMPANY FOR COMPULSORY POOLING,
EDDY COUNTY, NEW MEXICO.

APPLICATION OF JAKE L. HAMON
FOR COMPULSORY POOLING AND FOR
AN UNORTHODOX LOCATION, EDDY
COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on January 30, 1974,
at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 15th day of March, 1974, the Commission,
a quorum being present, having considered the testimony, the
record, and the recommendations of the Examiner, and being fully
advised in the premises,

FINDS:

(1) That due public notice having been given as required
by law, the Commission has jurisdiction of this cause and the
subject matter thereof.

(2) That in Case No. 5157, the applicant, Cities Service
Oil Company, seeks an order pooling all mineral interests in
the Pennsylvanian formation underlying the S/2 of Section 9,
Township 21 South, Range 27 East, NMPM, Burton Flats Field, Eddy
County, New Mexico.

(3) That in Case No. 5164, the applicant, Jake L. Hamon,
seeks an order pooling all mineral interests in the Strawn and
Morrow formations underlying the E/2 of Section 9, Township 21
South, Range 27 East, NMPM, Burton Flats Field, Eddy County,
New Mexico.

(4) That both applicants, Cities Service Oil Company and
Jake L. Hamon, seek to be named the operator of the unit each
seeks to have pooled.

Cases Nos. 5157 and 5164
Order No. R-4742

(5) That Cases Nos. 5157 and 5164 were consolidated as both cases involve some common acreage and the granting of one application would result in a denial of the other.

(6) That Cities Service Oil Company has the right to drill and proposes to drill its State C-P Well No. 1 at an orthodox location for its proposed unit to test the Pennsylvanian formation underlying said unit.

(7) That Jake L. Hamon has the right to drill and proposes to drill his Federal 9 Com Well No. 1 at an unorthodox location for his proposed unit to test the Strawn and Morrow formation underlying said unit.

(8) That the evidence indicates that all of said Section 9 is underlain by the Strawn limestone and the Morrow Sand.

(9) That there is a reasonable expectation that both formations can reasonably be presumed productive of gas from all of said Section 9.

(10) That there are interest owners in both proposed proration units who have not agreed to pool their interests.

(11) That the evidence indicates that the entire S/2 of the above-described Section 9 can be efficiently and economically drained and developed by a well located at an orthodox location within the S/2 of said Section 9.

(12) That there is a reasonable expectation that the entire N/2 of the above-described Section 9 could be efficiently and economically drained and developed by a well located within the N/2 of said Section 9.

(13) That to avoid the drilling of unnecessary wells, to protect correlative rights, 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 gas in said pool, the application of Cities Service Oil Company should be approved by pooling all mineral interests, whatever they may be, in the Pennsylvanian formation underlying the S/2 of Section 9, Township 21 South, Range 27 East, NMPM Burton Flats Field, Eddy County, New Mexico, to be dedicated to a well to be drilled at a standard location for said unit.

(14) That the application of Jake L. Hamon for an order pooling all mineral interests in the Strawn and Morrow formations underlying the E/2 of Section 9, Township 21 South, Range 27 East, NMPM, Burton Flats Field, Eddy County, New Mexico, should be denied.

(15) That the applicant Cities Service Oil Company should be designated the operator of the well and unit described in Finding No. (13) above.

(16) That 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.

(17) That any non-consenting working interest owner that does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 25 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(18) That any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but that actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(19) That following determination of reasonable well costs, any non-consenting working interest owner that 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.

(20) That \$205.00 per month is hereby fixed as a reasonable charge for supervision (combined fixed rates), provided that this rate shall be adjusted on the first day of April of each year following the effective date of this order based on the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers as shown by "The Index of Average Weekly Earnings of Crude Petroleum and Gas Production Workers" as published by the United States Department of Labor, Bureau of Labor Statistics; that the operator is hereby authorized to withhold from production the proportionate share of such supervision charge 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.

(21) That 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.

(22) That 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 June 15, 1974, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That the application of Jake L. Hamon for an order pooling all mineral interests in the Strawn and Morrow formations underlying the E/2 of Section 9, Township 21 South, Range 27 East, NMPM, Burton Flats Field, Eddy County, New Mexico, is hereby denied.

(2) That all mineral interests, whatever they may be, in the Pennsylvanian formation underlying the S/2 of Section 9, Township 21 South, Range 27 East, NMPM, Burton Flats Field, Eddy County, New Mexico, are hereby pooled to form a standard 320 acre gas spacing and proration unit to be dedicated to its State C-P Well No. 1 to be drilled at an orthodox location for said unit.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the 15th day of June, 1974, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Pennsylvanian formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 15th day of June, 1974, Order (2) of this order shall be null and void and of no effect whatsoever;

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 Commission and show cause why Order (2) of this order should not be rescinded.

(3) That Cities Service Oil Company is hereby designated the operator of the subject well and unit.

(4) That after the effective date of this order and within 30 days prior to commencing said well, the operator shall furnish the Commission and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(5) That 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 that 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) That the operator shall furnish the Commission and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; that if no objection to the actual well costs is received by the Commission and the Commission has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, that if there is an objection to actual well costs within said 45-day period the Commission will determine reasonable well costs after public notice and hearing.

(7) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner that 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) That 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, 25 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) That the operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(10) That \$205.00 per month is hereby fixed as a reasonable charge for supervision (combined fixed rates), provided that this rate shall be adjusted on the first day of April of each year following the effective date of this order; that the adjustment shall be computed by multiplying

the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the preceding calendar year as shown by "The Index of Average Weekly Earnings of Crude Petroleum and Gas Production Workers" as published by the United States Department of Labor, Bureau of Labor Statistics, and the adjusted rate shall be the rates currently in use, plus or minus the computed adjustment; that the operator is hereby authorized to withhold from production the proportionate share of such supervision charge 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) That any unsevered 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.

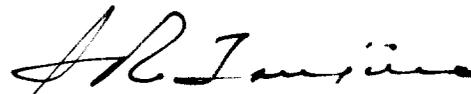
(12) That any well costs or charges which are to be paid out of production shall be withheld only from the working interests share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(13) That 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; that the operator shall notify the Commission of the name and address of said escrow agent within 90 days from the date of this order.

(14) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year herein-above designated.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION



I. R. TRUJILLO, Chairman

ALEX J. ARMIJO, Member



A. L. PORTER, Jr., Member & Secretary

S E A L

dr/