

Entered October 26, 1979

JRF

STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION

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

CASES NOS. 6590 AND 6612  
Order No. R-6158

APPLICATION OF GRACE PETROLEUM CORPORATION  
FOR COMPULSORY POOLING AND AN UNORTHODOX  
GAS WELL LOCATION, LEA COUNTY, NEW MEXICO.

APPLICATION OF GULF OIL CORPORATION FOR  
COMPULSORY POOLING AND AN UNORTHODOX GAS  
WELL LOCATION, LEA COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on August 7, 1979, at Santa Fe, New Mexico, before the New Mexico Oil Conservation Commission, hereinafter referred to as the "Commission."

NOW, on this 26th day of October, 1979, the Commission, a quorum being present, having considered the testimony, the record, 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. 6590, the applicant, Grace Petroleum Corporation, seeks an order pooling all mineral interests in the Morrow formation underlying Lots 9, 10, 15, and 16, and the SE/4 of Section 6, Township 21 South, Range 32 East, NMPM, South Salt Lake-Morrow Gas Pool, Lea County, New Mexico.
- (3) That in Case No. 6612, the applicant, Gulf Oil Corporation, seeks an order pooling all mineral interests in the Morrow formation underlying Lots 9 through 16 of Section 6, Township 21 South, Range 32 East, NMPM, South Salt Lake-Morrow Gas Pool, Lea County, New Mexico.
- (4) That each applicant, Grace Petroleum Corporation and Gulf Oil Corporation, seeks to be named the operator of the unit each seeks to have pooled.

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(5) That each applicant further seeks authority to drill a well at an unorthodox gas well location 4650 feet from the South line and 660 feet from the East line of said Section 6.

(6) That Cases Nos. 6590 and 6612 were consolidated for purpose of hearing and should be consolidated for purpose of issuing an order inasmuch as the cases involve certain common acreage and the granting of one application would necessarily require the concomitant denial of the other.

(7) That there was no objection to the unorthodox location proposed by both applicants, and said location should be approved.

(8) That Grace Petroleum Corporation has the right to drill and proposes to drill a well on its proposed unit to test the Morrow formation underlying said unit.

(9) That Gulf Oil Corporation has the right to drill and proposes to drill a well on its proposed unit to test the Morrow formation underlying said unit.

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

(11) That the approval of the proration unit proposed to be pooled by Grace would include only lands which are presently under lease, and would result in a unit with the following working interest ownership:

	Acres	Percentage
Grace et al	240.00	75.00
Gulf	<u>80.00</u>	<u>25.00</u>
Total	320.00	100.00

(12) That the approval of the proration unit proposed to be pooled by Gulf would include two unleased Federally-owned lots, being Lots 12 and 13 of Section 6, and would result in a unit with the following present working interest ownership:

	Acres	Percentage
Gulf	120.00	36.85164
Grace et al	120.00	36.85164
Unleased	<u>85.63</u>	<u>26.29672</u>
Total	325.63	100.00000

(13) That according to the testimony, there would be no appreciable delay in which the unit well would be drilled, should the proposed Grace unit be approved.

(14) That according to the testimony, considerable uncertainty exists as to the time frame in which the unit well would be drilled, should the proposed Gulf unit be approved.

(15) That under the circumstances, it would appear appropriate for the Commission to consider, among other things, the three following factors in deciding which of the two applicants should prevail in this cause:

- (1) precedence of application
- (2) immediacy of drilling plans for the unit well
- (3) experience in drilling operations and well completions in the immediate area

(16) That the Grace application for compulsory pooling was received by the Division on June 11, 1979, and the Gulf application for compulsory pooling was received by the Division on July 12, 1979.

(17) That Grace has immediate plans for drilling the proposed unit well, whereas Gulf has no immediate plans for drilling the proposed unit well.

(18) That Grace has successfully drilled about ten wells in the immediate area, whereas Gulf has drilled no wells in the immediate area.

(19) That the evidence indicates that Lots 9, 10, 15, and 16, and the SE/4 of Section 6, Township 21 South, Range 32 East, NMPM, South Salt Lake-Morrow Gas Pool, Lea County, New Mexico, can be efficiently and economically drained and developed by a well drilled at the unorthodox location described in Finding No. (5) above.

(20) That considering all aspects of the subject cause, it appears to the Commission that the application of Grace Petroleum Corporation in Case No. 6590 should have preference over the application of Gulf Oil Corporation in Case No. 6612.

(21) 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 Grace Petroleum Corporation should be approved by pooling all mineral interests, whatever they may be, in the Morrow formation underlying Lots 9, 10, 15, and 16, and the SE/4 of Section 6, Township 21 South, Range 32 East, NMPM, South Salt Lake-Morrow Gas Pool, Lea County, New Mexico, to be dedicated to a well to be drilled at the proposed unorthodox location for said unit.

(22) That the application of Gulf Oil Corporation for an order pooling all mineral interests in the Morrow formation underlying Lots 9 through 16 of Section 6, Township 21 South, Range 32 East, NMPM, Lea County, New Mexico, should be denied.

(23) That the applicant, Grace Petroleum Corporation, should be designated the operator of the subject well and unit.

(24) 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.

(25) 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 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(26) 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.

(27) 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.

(28) That \$2672.00 per month while drilling and \$373.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that 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.

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(29) 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.

(30) 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 February 1, 1980, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That Cases Nos. 6590 and 6612 are hereby consolidated into one cause for entry of order.

(2) That all mineral interests, whatever they may be, in the Morrow formation underlying Lots 9, 10, 15, and 16, and the SE/4 of Section 6, Township 21 South, Range 32 East, NMPM, South Salt Lake-Morrow Gas Pool, Lea County, New Mexico, are hereby pooled to form a standard 320-acre gas spacing and proration unit to be dedicated to a well to be drilled at an unorthodox location 4650 feet from the South line and 660 feet from the East line of said Section 6.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the first day of February, 1980, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Morrow formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the first day of February, 1980, Order (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 Order (2) of this order should not be rescinded.

(3) That Grace Petroleum Corporation is hereby designated the operator of the subject well and unit.

(4) That 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) 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 Division 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 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, that 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) 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, 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) That the operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(10) That \$2672.00 per month while drilling and \$373.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that 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) 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 immediately be placed in escrow in Lea County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that 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.

IT IS FURTHER ORDERED:

(1) That the application of Gulf Oil Corporation for an order pooling all mineral interests in the Morrow formation underlying Lots 9 through 16 of Section 6, Township 21 South, Range 32 East, NMPM, South Salt Lake-Morrow Gas Pool, Lea County, New Mexico, to be dedicated to a well to be drilled at a point 4650 feet from the South line and 660 feet from the East line of said Section 6 is hereby denied.

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(2) 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

ALEX J. ARMIJO, Member

  
EMERY C. ARNOLD, Member

  
JOE D. RAMEY, Member & Secretary

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