

Entered July 22, 1980
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STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 6933
Order No. R-6395

APPLICATION OF YATES PETROLEUM
CORPORATION FOR TWO COMPULSORY
POOLINGS, EDDY COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on June 25, 1980, at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 22nd day of July, 1980, the Division Director, 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 Division has jurisdiction of this cause and the subject matter thereof.

(2) That the applicant, Yates Petroleum Corporation, seeks an order pooling all mineral interests in the Morrow formation underlying two 320-acre proration units, being the N/2 and the S/2 of Section 2, Township 19 South, Range 25 East, NMPM, Eddy County, New Mexico.

(3) That the applicant has the right to drill and proposes to drill a well on each of said proration units at a standard location thereon.

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

(5) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each interest in each of said units the opportunity to recover or receive without unnecessary expense his just and fair share of

the gas in said pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said units.

(6) That the applicant should be designated the operator of the subject wells and units.

(7) That any non-consenting working interest owner should be afforded the opportunity to pay his share of appropriate estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(8) That any non-consenting working interest owner who does not pay his share of appropriate 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.

(9) 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.

(10) That 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.

(11) That \$2000.00 per month while drilling and \$278.00 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 chargeable to the appropriate well required for operating the said well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(12) That all proceeds from production from either of the subject wells 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.

(13) That upon the failure of the operator of said pooled units to commence drilling of the well to which either of said units is dedicated on or before December 1, 1980, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Morrow formation underlying the N/2 and underlying the S/2 of Section 2, Township 19 South, Range 25 East, NMPM, Eddy County, New Mexico, are hereby pooled to form two standard 320-acre gas spacing and proration units each to be dedicated to a well to be drilled at a standard location thereon.

PROVIDED HOWEVER, that the operator of said units shall commence the drilling of both of said wells on or before the 1st day of December, 1980, and shall thereafter continue the drilling of said wells 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 either of said wells on or before the 1st day of December, 1980, Order (1) of this order shall be null and void and of no effect whatsoever as to such well and unit, unless said operator obtains a time extension from the Division for good cause shown.

PROVIDED FURTHER, that should either of said wells 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 (1) of this order should not be rescinded as to such well and unit.

(2) That Yates Petroleum Corporation is hereby designated the operator of the subject wells and units.

(3) That after the effective date of this order and within 90 days prior to commencing either of said wells, the operator shall furnish the Division and each known working interest owner in the appropriate unit an itemized schedule of estimated well costs.

(4) 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.

(5) 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.

(6) That 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.

(7) 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.

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

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(9) That \$2000.00 per month while drilling and \$278.00 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 under each well 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 each such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(10) 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.

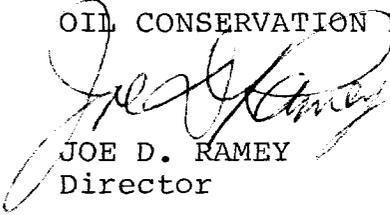
(11) That any well costs or charges which are to be paid out of production shall be withheld only from the working interests share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(12) That all proceeds from production from the subject wells which are not disbursed for any reason shall immediately 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 Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

(13) That 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



JOE D. RAMEY
Director

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