

Entered December 2, 1983
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STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION COMMISSION

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

CASE NO. 7984
Order No. R-7393

APPLICATION OF JACK J. GRYNBERG
FOR COMPULSORY POOLING, CHAVES
COUNTY, NEW MEXICO

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on October 18, 1983, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 2nd day of December, 1983, the Commission, a quorum being present, having considered the testimony presented and the exhibits received at said hearing, 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 the applicant, Jack J. Grynberg, seeks an order pooling all mineral interests from the surface through and including the Abo formation underlying the SW/4 of Section 20, Township 9 South, Range 27 East, NMPM, Chaves County, New Mexico, and all mineral interests from the top of the Wolfcamp formation to the Precambrian formation underlying the W/2 of said Section 20, said units to be dedicated to a single well to be drilled at a standard location thereon.

(3) That in companion Case 7982, Yates Petroleum Corporation seeks an unorthodox well location 1980 feet from the North line and 990 feet from the West line of said Section 20, to test all formations from the top of the Wolfcamp through the Montoya formation, the N/2 of said Section 20 to be dedicated to said well.

(4) That in companion Case 7983, Yates Petroleum Corporation seeks compulsory pooling of all mineral interests

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in the Abo formation underlying the SW/4 and all mineral interests in all formations below the top of the Wolfcamp formation underlying the S/2 of said Section 20, said units to be dedicated to a single well to be drilled at an unorthodox location, for the Wolfcamp and deeper horizons, at a point 1980 feet from the South line and 600 feet from the West line of said Section 20.

(5) That these cases were consolidated with this case for the purpose of obtaining testimony.

(6) That the spacing in this area is 160 acres for Abo gas and 320 acres for Wolfcamp and older gas.

(7) That while all formations from the Wolfcamp and below are sought to be pooled, the primary "deep" target is the Fusselman formation.

(8) That although evidence was presented that wells in the Fusselman formation might not drain 320 acres, no party to these cases had applied for an amendment to the applicable 320-acre spacing rules.

(9) That all parties to these cases agreed that the West half of said Section 20 should be more productive than the East half in the Fusselman formation.

(10) That the West half of said Section 20 is a logical spacing unit for the Wolfcamp and older formations.

(11) That Jack J. Grynberg is also an interest owner in Section 19, Township 9 South, Range 27 East, Chaves County, New Mexico, which section lies immediately West of said Section 20.

(12) That Mr. Grynberg objects to the unorthodox locations proposed by Yates Petroleum Corporation.

(13) That approval of the two Yates applications for wells at unorthodox locations would result in such wells having a calculated drainage radius outside their proration units of 116 net acres greater, in said Section 19, than wells at standard locations.

(14) That approval of said unorthodox locations, with the resultant change in net drainage outside the assigned proration units, would result in drainage across lease lines not offset by counter drainage and would, therefore, result in violation of correlative rights.

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(15) That to prevent the violation of correlative rights, the applications of Yates Petroleum Corporation in Case No. 7982 and Case 7983 should be denied.

(16) That the application of Jack J. Grynberg in Case 7984 should be approved.

(17) That the applicant, Jack J. Grynberg, has the right to drill and proposes to drill a well at a standard location thereon.

(18) That the proposed 160-acre spacing unit would apply to and should only be approved in the Abo formation.

(19) That the proposed 320-acre spacing unit would apply to and should only be approved from the top of the Wolfcamp to the Precambrian formation.

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

(21) That to avoid the drilling of unnecessary wells, to prevent waste, to protect correlative rights, and to afford to the owner of each interest in said units the opportunity to recover or receive without unnecessary expense his just and fair share of the gas in any appropriate pool covered by said units, the subject application should be approved by pooling all mineral interests, whatever they may be, within said units.

(22) That the applicant should be designated the operator of the subject well and units.

(23) 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.

(24) That since the interests of the parties are different in each proration unit, it will be necessary to estimate well costs on the basis of a well to the Abo formation drilled to 5,200 feet and a well to the Precambrian formation drilled to 6350 feet.

(25) That estimated well costs for the Abo formation, except for costs directly attributable to the Precambrian, should be estimated on the basis of depth for each formation and that costs for the Abo formation should not exceed 81.89 percent of the total cost of the proposed well, (5200 foot Abo depth/6350 foot total depth = 0.8189).

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(26) That any non-consenting working interest owner who 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.

(27) 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.

(28) 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.

(29) That \$2,825.00 per month while drilling and \$283.00 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.

(30) 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.

(31) 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 March 1, 1984, 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, from the surface through and including the Abo formation underlying the SW/4 and all mineral interests from the top of the Wolfcamp formation to the Precambrian formation underlying the W/2, all in Section 20, Township 9 South, Range 27 East, NMPM, Chaves County, New Mexico, are hereby pooled to form a standard 160-acre and a 320-acre gas spacing and proration unit to be dedicated to a well to be drilled at a standard location thereon.

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PROVIDED HOWEVER, that the operator of said units shall commence the drilling of said well on or before the 1st day of March, 1984 and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Wolfcamp and Precambrian formations;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 1st day of March, 1984, Order (1) 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 (1) of this order should not be rescinded.

(2) That Jack J. Grynberg is hereby designated the operator of the subject well and unit.

(3) That after the effective date of this order and within 90 days prior to commencing said well, the operator shall furnish the Commission and each known working interest owner in the subject units two itemized schedules of estimated well costs, one to be for a well to the Abo formation drilled to a depth of 5,200 feet and the second for a well to the Precambrian formation drilled to a depth of 6350 feet.

(4) That the itemized schedule of well costs shall be prepared to reflect actual well costs properly attributable to each zone in accordance with Finding No. (25) in this order.

(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

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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 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) 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 \$ 2,825.00 per month while drilling and \$285.00 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

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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 interest's 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 Chaves 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.

(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 hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

JIM BACA, Member



ED KELLEY, Member



JOE D. RAMEY, Member and
Secretary

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