

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. 8302
Order No. R-7768

APPLICATION OF ALPHA TWENTY-ONE
PRODUCTION CO. FOR COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8 a.m. on August 22, 1984, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 10th day of January, 1985, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

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

(2) The applicant, Alpha Twenty-One Production Co., seeks an order pooling all mineral interests from the surface to the base of the Grayburg formation underlying the NW/4 SE/4 (Unit J) of Section 32, Township 18 South, Range 37 East, NMPM, Lea County, New Mexico, to form a standard 40-acre oil spacing and proration unit thereon.

(3) At the time of the hearing the applicant proposed said proration unit be dedicated to either the Schermerhorn Oil Corporation Linam "A" Well No. 1 located 1980 feet from the South and East lines to be re-entered or in the alternative a new well to be drilled at a standard location 1650 feet from the South and East lines of said Section 32.

(4) Subsequent to the hearing the New Mexico Oil Conservation Division records were reviewed and show that the applicant was named the operator of said Linam "A" Well No. 1 on June 1, 1984, (which has not been plugged and abandoned); that furthermore, on August 2, 1984, said well's name was

changed to Mike Well No. 2; and that said well is temporarily shut-in at this time.

(5) The applicant has both the right and proposes to recomplete said Mike Well No. 2 or to drill a new well at a standard location within the NW/4 SE/4 of said Section 32.

(6) There are interest owners in the proposed proration unit who have not agreed to pool their interests.

(7) 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 oil in any pool completion resulting from this order, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

(8) The applicant should be designated the operator of the unit and its dedicated well.

(9) 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.

(10) 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.

(11) 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.

(12) 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.

(13) \$ 2,500.00 per month while recompleting or drilling and \$ 300.00 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.

(14) 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.

(15) Upon the failure of the operator of said pooled unit to commence recompletion or drilling operations of the well to which said unit is dedicated on or before April 1, 1985, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be, from the surface to the base of the Grayburg formation underlying the NW/4 SE/4 (Unit J) of Section 32, Township 18 South, Range 37 East, NMPM, Lea County, New Mexico, are hereby pooled to form a standard 40-acre oil spacing and proration unit to be dedicated to the existing Mike Well No. 2 located 1980 feet from the South and East lines of Section 32 or in the alternative, to a new well to be drilled by the applicant at a standard location 1650 feet from the South and East lines of said Section 32.

PROVIDED HOWEVER, that the operator of said unit shall commence the recompletion or drilling of the well on or before the first day of April, 1985, and shall thereafter continue the recompletion or drilling of said well with due diligence to a depth sufficient to test the Grayburg formation;

PROVIDED FURTHER, that in the event said operator does not commence the recompletion or drilling of the well on or before the first day of April, 1985, 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 the well not be carried 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) Alpha Twenty-One Production Company is hereby designated the operator of the subject well and unit.

(3) Within 90 days after the effective date of this order, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

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

(9) \$ 2,500.00 per month while recompleting or drilling and \$ 300.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); 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.

(10) 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) 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.

(12) 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; 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) Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

-6-

Case No. 8302
Order No. R-7768

DONE at Santa Fe, New Mexico, on the day and year
hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION



R. L. STAMETS,
Director

S E A L