

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:

CASE NO. 8631 DE NOVO
Order No. R-8007-B

APPLICATION OF LYNX PETROLEUM
CONSULTANTS, INC. FOR AN UNORTHODOX
GAS WELL LOCATION, COMPULSORY POOLING,
AND DUAL COMPLETION, LEA COUNTY,
NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on October 17, 1985, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 19th day of November, 1985, 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 THAT:

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

(2) The applicant, Lynx Petroleum Consultants, Inc., seeks an order pooling all mineral interests in the Queen formation underlying the SW/4 of Section 25, Township 16 South, Range 36 East, NMPM, Lea County, New Mexico, to form a standard 160 acre gas spacing unit to be dedicated to its Geraldine Doughty Well No. 1 located at an unorthodox gas well location 1650 feet from the South line and 2100 feet from the West line of said Section 25.

(3) Applicant further seeks determination of the cost of drilling and completing a similar well from the surface to the base of the Queen formation and the allocation of the cost thereof as well as actual operating costs and charges for supervision.

(4) The applicant has drilled to and completed the subject well in the Lovington Paddock Pool pursuant to Division Order No. R-7689, dated September 28, 1984, which authorized the compulsory pooling of all mineral interests from the surface to the base of the Paddock formation underlying the NE/4 SW/4 of said Section 25. Although the Queen formation was penetrated in the drilling of the well, it was not tested.

(5) The applicant now desires to test the Queen formation, and if the Queen is found to be productive of gas, to dually complete the well in such a manner that the Lovington Paddock production would continue to be produced through tubing in a conventional manner while the Queen production would be produced through the casing-tubing annulus.

(6) There are interest owners in the proposed 160-acre Queen gas spacing and proration unit who have not agreed to pool their interests.

(7) The matter came on for hearing at 8 a.m. on June 19 and July 17, 1985, at Santa Fe, New Mexico, before Oil Conservation Division (Division) Examiner Michael E. Stogner and, pursuant to his hearing, Order No. R-8007 was issued on August 15, 1985, which granted the application for compulsory pooling, denied the application for dual completion, and allocated well costs on the basis of the salvage value of the equipment in said well plus the actual costs of recompletion into the Queen formation.

(8) On September 13, 1985, application for Hearing De Novo was made by Lynx Petroleum Consultants, Inc. and the matter was set for hearing before the Commission.

(9) The matter came on for hearing de novo on October 17, 1985.

(10) The applicant objects to any order which does not require those parties pooled in the Queen formation to pay their proportionate share of the tangible and intangible drilling costs associated with drilling to that interval.

(11) Texaco Inc., a 50 percent divided interest holder in the proposed 160-acre gas unit, appeared and objected to sharing in the costs of drilling this well from the surface to the Queen formation.

(12) Texaco Inc. was not a party to the forced pooling that resulted in said Division Order No. R-7689 since they have no working interest within the NE/4 SW/4 of said Section 25.

(13) Texaco's objection is based upon their contention that applicant's proposed allocation of costs (57 percent to the Queen horizon and 43 percent to the deeper Paddock horizon) is unfair to the owners in the shallower Queen interval in that it does not reflect the benefits derived by the owners of the deeper horizon of having the upper portion of the hole drilled.

(14) Texaco presented evidence to show that in older wells being recompleted uphole, it is common to charge affected interest owners only for salvage value and recompletion costs.

(15) When Lynx initially approached Texaco relative to dually completing the subject well it was only a few weeks following initial completion and it should not be considered an older well thereby retaining essentially all of its initial value as a wellbore.

(16) When the ownership varies between completion intervals of a dual completion, the owners in each interval derive some benefit from the drilling of the well.

(17) Looking at only the lower interval, those benefits, exclusive of special equipment or drilling cost attributable to either individual interval, may be defined and quantified by the following logic:

- (a) If no hole to a shallower interval would be drilled, the value would be zero.
- (b) If the depth to the shallower interval would be an absolute minimum distance above the lower interval, the value would be essentially 50 percent of the well costs.
- (c) This concept may be restated that the value of the costs of drilling to the shallower interval to the owners in the lower interval should be a percentage of the costs equal to one-half the percentage derived by dividing the depth to the upper interval by the total depth.
- (d) The owners of interest in the deeper interval should be responsible for 100 percent of the costs of drilling from the shallower interval to total depth.

(18) The depth to the shallower interval and the total depth in the well in question in this case are 4075 feet and 6360 feet respectively.

(19) Based upon Findings Nos. 16 and 17 above, the allocation of original tangible and intangible well costs, exclusive of any costs attributable and chargeable solely to either individual zone, should be as follows:

- (a) owners of interests in the shallow interval should pay for 64 percent of the costs of drilling to the depth of 4075 feet; and
- (b) owners of interests in the deeper interval should pay for 36 percent of the costs of drilling to the depth of 4075 feet and 100 percent of the costs for drilling from 4075 feet to total depth.

(20) In addition, all owners in the Queen formation should be liable for the costs of the proposed completion in said formation.

(21) No offset operator objected to the unorthodox gas well location.

(22) To avoid the drilling of unnecessary wells, to protect correlative rights, to prevent waste, 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 the Queen formation, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit at the above-described unorthodox location.

(23) The applicant should be designated the operator of the subject well and unit.

(24) Any non-consenting working interest owner should be afforded the opportunity to pay his share of previous well costs and recompletion costs attributable to such owner as described in Findings Nos. (18) and (19) above to the operator in lieu of paying his share of such well costs out of production.

(25) Any non-consenting working interest owner who does not pay his share of costs (estimated well costs) should have withheld from production his share of the reasonable well costs plus an additional 100 percent thereof as a reasonable charge for the risk involved in the re-entry and completion of the subject well to the Queen formation.

(26) Any non-consenting interest owner should be afforded the opportunity to object to the actual well costs, including original well costs and recompletion costs, but such costs

should be adopted as the reasonable well costs in the absence of such objection.

(27) 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.

(28) \$3,500.00 per month while re-entering the subject well and its completion in the Queen formation and \$350.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates) while producing from the Queen formation; 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.

(29) 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) Upon the failure of the operator of said pooled unit to commence re-entry and completion operations in the Queen formation on the subject well to which said unit is dedicated on or before March 1, 1986, the order pooling said unit should become null and void and of no effect whatsoever.

(31) Should all the parties to this force pooling reach voluntary agreement subsequent to entry of this order, this order should thereafter be of no further effect.

(32) The operator of the well and unit should notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be, in the Queen formation underlying the SW/4 of Section 25, Township 16 South, Range 36 East, NMPM, Lea County, New Mexico, are hereby pooled to form a standard 160-acre gas spacing and proration unit to be dedicated to the Lynx Petroleum Consultants

Geraldine Doughty Well No. 1 located at an unorthodox gas well location 1650 feet from the South line and 2100 feet from the West line of said Section 25, said location being hereby approved.

PROVIDED HOWEVER THAT, the operator of said unit shall commence completion operations to the Queen formation of said well on or before the first day of March 1986, and shall thereafter continue the completion of said well with due diligence;

PROVIDED FURTHER THAT, in the event said operator does not commence the completion of said well in the Queen formation on or before the first day of March 1986, Ordering Paragraph No. (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 completed or abandoned in the Queen formation, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Ordering Paragraph No. (1) of this order should not be rescinded.

(2) Lynx Petroleum Consultants 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 additional well costs to re-enter and complete said well from the Lovington Paddock Pool to the Queen formation.

(4) The applicant shall concurrently furnish the Division and each known working interest owner in the subject unit an itemized schedule of the reallocation of the original costs of said Geraldine Doughty Well No. 1 prepared in accordance with Finding No. (18) of this order.

(5) Within 30 days from the date the schedules of actual and estimated additional well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of such costs to the operator in lieu of paying his share of reasonable well costs out of production, and any such owner who pays his share of such well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(6) The operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs attributable to all parties within 90 days following completion of the well to the Queen formation; 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, 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) Within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of actual and estimated additional well costs, as provided above, shall pay to the operator his pro rata share of the amount that reasonable well costs exceed said actual and estimated additional well costs and shall receive from the operator his pro rata share of the amount that such well costs exceed reasonable well costs.

(8) The operator is hereby authorized to withhold the following costs and charges from production:

- (A) The pro rata share of reasonable well costs as set forth in Ordering Paragraphs Nos. (3) and (4) above, attributable to each non-consenting working interest owner who has not paid his share of reallocated initial well costs and estimated additional well costs within 30 days from the date said schedules of well costs are furnished to him.
- (B) As a charge for the risk involved in re-entering said well, 100 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 actual and estimated costs within 30 days from the date the schedule of estimated well costs is furnished to him.

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

(10) \$3,500.00 per month while re-entering the subject well and its completion in the Queen formation and \$350.00 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.

(11) 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) 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) 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.

(14) Should all the parties to this forced pooling reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(15) The operator of the well and unit shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the force pooling provisions of this order.

(16) The portion of the applicant's Lynx Petroleum Consultants, Inc. request for the unconventional dual completion of its Geraldine Doughty Well No. 1 located 1650 feet from the North line and 2310 feet from the East line of Section 25, Township 16 South, Range 36 East, NMPM, Lea County, New Mexico, is hereby denied.

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

-9-

Case No. 8631 De Novo
Order No. R-8007-B

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



R. L. STAMETS, Chairman
and Secretary

S E A L