

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

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

CASE NO. 9782
ORDER NO. R-9067

APPLICATION OF ORYX ENERGY COMPANY
FOR COMPULSORY POOLING AND AN UNORTHODOX
WELL LOCATION, LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on October 18, 1989, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 1st day of December, 1989, 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, Oryx Energy Company, seeks an order pooling all mineral interests from the surface to the base of the Morrow formation, underlying the following described acreage in Section 22, Township 22 South, Range 34 East, NMPM, Lea County, New Mexico, and in the following manner:

- a) the S/2 to form a standard 320-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing, which presently includes but is not necessarily limited to the Undesignated Antelope Ridge-Atoka Gas Pool, Undesignated Antelope Ridge-Morrow Gas Pool, Undesignated Ojo Chiso-Strawn Gas Pool and Undesignated Ojo Chiso-Morrow Gas Pool;
- b) the SW/4 to form a standard 160-acre gas spacing and proration unit for any and all formations and/or pools developed on 160-acre spacing; and

Case No. 9782
 Order No. R-9067
 Page No. 2

- c) the SW/4 SW/4 to form a standard 40-acre oil spacing and proration unit for any and all formations and/or pools developed on 40-acre spacing.

(3) All of the above-described units are to be dedicated to a single well to be drilled at an unorthodox location 1090 feet from the South line and 990 feet from the West line (Unit M) of said Section 22.

(4) Working interest ownership in the proposed 320, 160 and 40-acre units are as follows:

Working Interest Owner	% Interest Underlying the 320-acre unit	% Interest Underlying the 160-acre unit	% Interest Underlying the 40-acre unit
Oryx Energy Company	75%	50%	50%
Pacific Enterprises Suite 500-West 10 Desta Drive Midland, TX 79705	13.75%	27.5%	27.5%
BTA Oil Producers 104 South Pecos Midland, TX 79701	5%	10%	10%
Joe Reynolds 2333 50th Street Lubbock, TX 79421	6.25%	12.5%	12.5%

(5) At the time of the hearing, none of the working interest owners, other than the applicant's interest, have committed in writing to participate in the subject venture.

(6) At the hearing, Joe Reynolds appeared and objected to the applicant's proposed S/2 orientation of the 320-acre spacing for both the Atoka and Morrow formations.

(7) Joe Reynolds' 6.25% working interest in the S/2 oriented spacing unit would increase to a 12.5% working interest if a W/2 orientation for the spacing unit were adopted.

(8) Both parties appearing in this case agreed that the primary objective is the Atoka formation and that the Morrow is secondary.

Case No. 9782
Order No. R-9067
Page No. 3

(9) Both the Atoka and Morrow zones tested dry in the Apache Corporation Federal "22" Well No. 1 located 1980 feet from the South line and 990 feet from the East line (Unit I) of said Section 22, which was drilled in early 1987.

(10) The geologic data presented at the hearing indicates that the potential gas-bearing reservoir in the Atoka formation is limited to the SW/4 and slightly into the western portion of the SE/4, and does not extend into the NW/4 of said Section 22.

(11) A S/2, 320-acre gas spacing and proration unit should be established for the Atoka formation and any other zones developed on 320-acre spacing.

(12) The geologic evidence also indicates that a well drilled at the proposed unorthodox location has a greater chance of encountering potential Atoka pay than would a well drilled at a standard location. Because the risk is reduced by the unorthodox location, the maximum penalty of 200% requested by applicant is not justified.

(13) 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 oil and/or gas in any pool resulting from this order, the subject application should be approved by pooling all mineral interests, whatever they may be, within said units.

(14) The applicant should be designated the operator of the subject well and units.

(15) 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.

(16) Any non-consenting working interest owner who does not pay his share of estimated well costs should have withheld from production his share of reasonable well costs plus an additional 175 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(17) Any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(18) 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.

Case No. 9782
Order No. R-9067
Page No. 4

(19) At the time of the hearing the applicant requested that overhead rates of \$5800.00 per month while drilling and \$580.00 per month while producing be fixed as reasonable charges for supervision.

(20) The 1988 Survey of Combined Fixed-Rate Charges for Oil and Gas Producers, published by Ernst & Whinney, shows average overhead rates of \$5950.00 while drilling and \$524.00 while producing for a gas well drilled to 15,000 feet in this area.

(21) The proposed overhead rates should be adjusted to reflect amounts more consistent with the rates described above.

(22) \$5250.00 per month while drilling and \$525.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); 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.

(23) 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.

(24) Upon the failure of the operator of said pooled units to commence drilling of the well to which said units are dedicated on or before February 1, 1990, the order pooling said unit should become null and void and of no further effect whatsoever.

(25) 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.

(26) The operator of the well and units should 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.

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be, from the surface to the base of the Morrow formation, underlying the following described acreage in Section 22, Township 22 South, Range 34 East, NMPM, Lea County, New Mexico, are hereby pooled in the following manner: the S/2 to form a standard 320-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing; the SW/4 to form a standard 160-acre gas spacing and proration unit for any and all formations and/or pools developed on 160-acre spacing; and the SW/4 SW/4 to form

Case No. 9782
Order No. R-9067
Page No. 5

a standard 40-acre oil spacing and proration unit for any and all formations and/or pools developed on 40-acre spacing. All of the above-described units are to be dedicated to a well to be drilled at an unorthodox well location 1090 feet from the South line and 990 feet from the West line (Unit M) of said Section 22.

PROVIDED HOWEVER THAT, the operator of said unit shall commence the drilling of said well on or before the 1st day of February, 1990, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test from the surface to the base of the Morrow formation.

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said well on or before the 1st day of February, 1990, 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 drilled to completion, or abandonment, 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) Oryx Energy Company is hereby designated the operator of the subject well and units.

(3) 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 units 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 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, 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.

Case No. 9782
Order No. R-9067
Page No. 6

(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 in the 320-acre spacing and proration unit 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; and
- (B) As a charge for the risk involved in the drilling of the well, 175 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner in the said unit 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) \$5250.00 per month while drilling and \$525.00 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 and applicable spacing and proration unit, not in excess of what are reasonable, attributable to each non-consenting working interest.

(10) Any unleased 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.

Case No. 9782
 Order No. R-9067
 Page No. 7

(12) All proceeds from production from the subject well which are not disbursed for any reason shall 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) Should all the parties to this force-pooling reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(14) The operator of the well and units 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.

(15) 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

Victor J. Lyon

for

WILLIAM J. LEMAY
 Director

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