

**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. 10471 (Reopened)  
Order No. R-9673-A**

**APPLICATION OF SOUTHWEST ROYALTIES,  
INC. FOR COMPULSORY POOLING, EDDY  
COUNTY, NEW MEXICO.**

**ORDER OF THE DIVISION**

**BY THE DIVISION:**

This cause came on for hearing at 8:15 a.m. on October 15, 1992, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 24th day of November, 1992, 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) By Order No. R-9673 issued in Case No. 10471 on May 6, 1992, the Division, upon application of Southwest Royalties, Inc. (Southwest), pooled all mineral interests from the surface to the base of the Canyon formation underlying the NE/4 of Section 17, Township 19 South, Range 25 East, NMPM, Eddy County, New Mexico, forming a standard 160-acre spacing and proration unit for any and all formations and/or pools developed on 160-acre spacing within said vertical extent, which included the North Dagger Draw-Upper Pennsylvanian Pool. Said unit was to be dedicated to a well to be drilled at a standard location within the SW/4 NE/4 (Unit G) of Section 17.

(3) The interests effectively pooled by said Order No. R-9673 included an 85.75 percent interest, more or less, owned by Conoco Inc. (Conoco) and a 1.75 percent interest, more or less, owned by Martha L. (Scarlett) Nunes, whom the applicant could not locate. Both parties failed to join within the notice period and were deemed to have elected not to participate in the well.

(4) On July 17, 1992, Southwest commenced the drilling of its Dagger Draw Well No. 1 at a standard location 660 feet from the North line and 1980 feet from the East line (Unit B) of Section 17, rather than in Unit G as authorized by Order No. R-9673.

(5) Conoco objected to the relocation of the well from Unit G to Unit B and on August 25, 1992, filed a competing compulsory pooling application (Case No. 10560). Such application sought the pooling of the NE/4 of Section 17, said unit to be dedicated to the Dagger Draw Well No. 1. Included in the application was a request by Conoco to be named operator of the subject well and unit.

(6) On August 14, 1992, Southwest filed an application to reopen Case No. 10471 to request that Division Order No. R-9673 be amended to authorize the change in well location from Unit G to Unit B of Section 17.

(7) Both Case Nos. 10471 (Reopened) and 10560 were originally scheduled to be heard on September 17, 1992.

(8) Prior to the hearing on September 17, 1992 in Case Nos. 10471 (Reopened) and 10560, Southwest and Conoco signed a written settlement of the matters in dispute, which, among other things, authorized Conoco to assume operations on the Dagger Draw Well No. 1 and to proceed with completion efforts. The agreement further contained a provision whereby Southwest was allowed to commence drilling a second well, the Dagger Draw "A" Well No. 1 at a standard location in Unit G of Section 17.

(9) With no evidence or testimony presented in Case Nos. 10471 (Reopened) and 10560 at the hearing on September 17, both cases were continued to the October 15, 1992 docket.

(10) On October 15, 1992, at the hearing of Case No. 10471 (Reopened), in order to implement the terms of the agreement between Conoco and Southwest, Southwest now seeks an order pooling all mineral interests from the surface to the base of the Canyon formation underlying the NE/4 of Section 17, Township 19 South, Range 25 East, NMPM, North Dagger Draw-Upper Pennsylvanian Pool, forming a standard 160-acre spacing and proration unit for said pool. Said unit is to be dedicated to the proposed Dagger Draw "A" Well No. 1 to be drilled at a standard location in Unit G of Section 17.

(11) Case No. 10560 was not heard on October 15, 1992 and was continued to the December 3, 1992 docket.

(12) While the settlement between Southwest and Conoco contemplates joint operators of the spacing unit with Conoco developing the N/2 of the spacing unit and Southwest operating the S/2 of the spacing unit, such a settlement would be inconsistent with the established practice of the Division to not have joint operators within a single spacing unit.

(13) Both Southwest and Conoco agree that a satisfactory resolution of that issue can be postponed until both wells are drilled, completed and producing capabilities established for each well.

(14) Towards that end, Southwest and Conoco, with the concurrence of the Division, agree that the following issues should be held in abeyance pending the completion and establishment of accurate producing rates for both wells:

- (a) The pooling of the NE/4 of Section 17 with regards to the Julie Well No. 2 (formerly the Dagger Draw Well No. 1);
- (b) The assignment of an appropriate allowable to both the Julie Well No. 2 and the Dagger Draw "A" Well No. 1;
- (c) A determination of whether the spacing unit should be subdivided into two 80-acre non-standard spacing and proration units consisting of the N/2 and S/2 of the NE/4 of Section 17 and the appropriate allocation of the allowable;
- (d) The rights, remedies and obligations to and from Martha L. (Scarlett) Nunes;
- (e) Designation of an operator and/or sub-operator(s) for the spacing unit and the subject wells;
- (f) Appropriate amendments to the subject order to accommodate Conoco's operation of the spacing unit for the Julie Well No. 2; and
- (g) If necessary, appropriate amendments to the subject order to modify the pooling to create two non-standard 80-acre spacing and proration units.

(15) Southwest failed to conform to the requirements set forth in Division Order No. R-9673, namely the drilling of a well in the SW/4 NE/4 of Section 17, but it did file its Application for Permit to Drill, Deepen or Plug Back (Form C-101) designating the drill site of that well to be at a standard location in the NW/4 NE/4 (Unit B) of Section 17, which was duly approved by the Division's Hobbs district office on July 16, 1992.

(16) For purposes of this order, the following action should be authorized:

- (a) Conoco shall be temporarily authorized to operate the Julie Well No. 2 in Unit B and shall receive a temporary test allowable of 100 percent of a standard 160-acre allowable until such time as the Dagger Draw "A" Well No. 1 is in actual production. The allowable for both wells subsequent to that shall be 50 percent of the standard 160-acre allowable for a period of not more than 90 days following first production from the Dagger Draw "A" Well No. 1; and
- (b) All mineral interests from the surface to the base of the Canyon formation underlying the NE/4 of Section 17 shall be pooled. Southwest shall be authorized to drill and operate the proposed Dagger Draw "A" Well No. 1 located in Unit G. Southwest shall commence the drilling of said well on or before December 31, 1992 and if the subject well is productive, it shall receive a temporary test allowable of one-half of a standard 160-acre allowable for a period of not more than 90 days following first production.

(17) Division Order No. R-9673 should be superceded by this order.

(18) Case No. 10471 should be reopened and heard in conjunction with Case No. 10560 at such time as both wells in the NE/4 of Section 17 are completed and have been tested. The issues to be considered at such hearing should include those issues set forth in Finding No. (14) above.

(19) As a result of Conoco and Southwest signing a joint operating agreement for this spacing unit, Martha L. (Scarlett) Nunes is the only working interest owner in the proposed unit who has not agreed to pool her interest.

(20) The primary objective of both the Conoco Julie Well No. 2 in Unit B and the Southwest Dagger Draw "A" Well No. 1 in Unit G is the North Dagger-Draw Upper Pennsylvanian Pool which is spaced on 160 acres but allows for multiple wells.

(21) Overhead charges for supervision should be set at \$5600.00 while drilling and \$560.00 while producing.

(22) Approval as set forth herein will avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the production in any pool resulting from this order.

**IT IS THEREFORE ORDERED THAT:**

(1) Division Order No. R-9673 is hereby superceded by this order.

(2) All mineral interests, whatever they may be, from the surface to the base of the Canyon formation underlying the NE/4 of Section 17, Township 19 South, Range 25 East, NMPM, North Dagger Draw-Upper Pennsylvanian Pool, Eddy County, New Mexico, are hereby pooled forming a standard 160-acre oil spacing and proration unit for said pool. Said unit shall be dedicated to the Southwest Royalties, Inc. Dagger Draw "A" Well No. 1 to be drilled at a standard oil well location 1650 feet from the North line and 1880 feet from the East line (Unit G) of Section 17.

**PROVIDED HOWEVER THAT**, the applicant shall commence the drilling of the Dagger Draw "A" Well No. 1 on or before the 31st day of December, 1992, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Canyon formation.

**PROVIDED FURTHER THAT**, in the event the applicant does not commence the drilling of said well on or before the 31st day of December, 1992, Ordering Paragraph No. (2) of this order shall be null and void and of no effect whatsoever, unless said operator, after notice to Conoco, 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, the applicant shall appear before the Division Director and show cause why Ordering Paragraph No. (2) of this order should not be rescinded.

(3) Southwest Royalties, Inc. (Southwest) is hereby designated the operator of the Dagger Draw "A" Well No. 1.

(4) After the effective date of this order, Southwest shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(5) With the exception of Conoco Inc. which has already agreed to be a non-consenting party in the Dagger Draw "A" Well No. 1 under the Joint Operating Agreement signed between Southwest and Conoco, any non-consenting working interest owner shall, within 30 days from the date the schedule of estimated well costs is furnished to him, have the right to pay his share of the 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.

(6) Southwest 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.

(7) 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) 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 the 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, 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 costs is furnished to him.

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

(10) \$5600.00 per month while drilling and \$560.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); Southwest 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, Southwest 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 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 to the Dagger Draw "A" Well No. 1 under the terms of this order.

(12) Any well costs or charges attributed to the Dagger Draw "A" Well No. 1 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 Dagger Draw "A" Well No. 1 which are not disbursed for any reason shall be placed in escrow in Eddy 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 force-pooling reach voluntary agreement subsequent to the entry of this order, this order shall thereafter be of no further effect.

(15) Southwest, as operator of the Dagger Draw "A" Well No. 1, 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) Case No. 10471 shall be reopened and heard in conjunction with Case No. 10560 at such time as the Julie Well No. 2 and the Dagger Draw "A" Well No. 1 are completed and have been tested. The issues to be considered at such hearing shall include the following:

- (a) The pooling of the NE/4 of Section 17 with regards to the Julie Well No. 2;
- (b) The assignment of an appropriate allowable to both the Julie Well No. 2 and the Dagger Draw "A" Well No. 1;

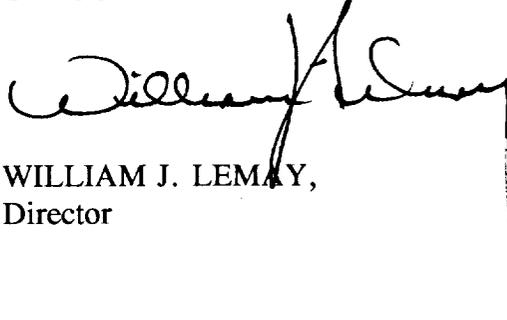
- (c) A determination of whether the spacing unit should be subdivided into two 80-acre non-standard spacing and proration units consisting of the N/2 and S/2 of the NE/4 of Section 17 and the appropriate allocation of the allowable;
- (d) The rights, remedies and obligations to and from Martha L. (Scarlett) Nunes;
- (e) Designation of an operator and/or sub-operator(s) for the spacing unit and the subject wells;
- (f) Appropriate amendments to the subject order to accommodate Conoco's operation of the spacing unit for the Julie Well No. 2; and
- (g) If necessary, appropriate amendments to the subject order to modify the pooling to create two non-standard 80-acre spacing and proration units.

(17) Conoco, pending resolution of those issues described above, is hereby temporarily authorized to operate the Julie Well No. 2. Said well shall receive a temporary test allowable of 100 percent of a standard 160-acre allowable until such time as the Dagger Draw "A" Well No. 1 is in actual production. The allowable for both wells subsequent to that shall be 50 percent of the standard 160-acre allowable for a period of not more than 90 days following first production from the Dagger Draw "A" Well No. 1.

(18) 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



WILLIAM J. LEMAY,  
Director

S E A L