

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. 6962
Order No. R-6424

APPLICATION OF BTA OIL PRODUCERS
FOR SPECIAL POOL RULES AND POOL
EXTENSION, LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on July 9, 1980,
at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 4th day of August, 1980, the Division
Director, having considered the testimony, the record, and
the recommendations of the Examiner, and being fully advised
in the premises,

FINDS:

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

(2) That the applicant, BTA Oil Producers, has completed
its 7909 JV-P Well No. 1 located 1650 feet from the North
line and 2510 feet from the West line of Section 18, Town-
ship 23 South, Range 34 East, NMPM, Lea County, New Mexico,
as a gas well in the Devonian formation, producing through
perforations from 14,660 feet to 14,708 feet.

(3) That said well is located approximately 1.5 miles
south of the Continental Oil Co. Bell Lake Unit Well No. 6,
which is in Unit 0 of Section 6 of said Township 23 South,
Range 34 East, and for which the North Bell Lake-Devonian Gas
Pool was created and defined by the Division March 1, 1962,
comprising the SE/4 of said Section 6.

NMOCD Case No. 13085
October 2, 2003
EGL/Landreth Exhibit No. 3

(4) That the applicant seeks the extension of said North Bell Lake Devonian Gas Pool to include its 7909 JV-P Well No. 1, and further seeks the promulgation of special rules and regulations for said pool including a provision for 640-acre spacing and specified well locations.

* (5) That the evidence presently available indicates that said Bell Lake Unit Well No. 6 and applicant's 7909 JV-P Well No. 1 are indeed both producing from a single common source of supply in the Devonian formation, and that said North Bell Lake-Devonian Gas Pool should be extended to take in said 7909 JV-P Well No. 1.

* (6) That the evidence further indicates that one well in said North Bell Lake-Devonian Gas Pool is capable of draining 640 acres and that 640-acre spacing and proration units should be established for said pool with well locations for future wells to be no closer than 1650 feet to the outer boundary of the unit, nor closer than 330 feet to any quarter-quarter section line.

(7) That an order embodying the above findings is in the interest of conservation, will not cause but will prevent waste, will not impair but will protect correlative rights, and should be approved.

IT IS THEREFORE ORDERED:

(1) That the North Bell Lake-Devonian Gas Pool in Lea County, New Mexico, as heretofore created, defined, and described, is hereby extended to include therein:

TOWNSHIP 23 SOUTH, RANGE 34 EAST, NMPM
Section 6: N/2 and SW/4
Section 7: All
Section 18: All

(2) That Special Rules and Regulations for said North Bell Lake-Devonian Gas Pool are hereby promulgated as follows:

SPECIAL RULES AND REGULATIONS
FOR THE
NORTH BELL LAKE-DEVONIAN GAS POOL

RULE 1. Each well completed or recompleted in the North Bell Lake-Devonian Gas Pool or in the Devonian formation within one mile thereof, and not nearer to or within the limits of another designated Devonian gas pool, shall be spaced, drilled, operated, and produced in accordance with the Special Rules and Regulations hereinafter set forth.

RULE 2. Each well shall be located on a standard unit containing 640 acres, more or less, consisting of a governmental section.

RULE 3. The Director of the Division may grant an exception to the requirements of Rule 2 without notice and hearing when an application has been filed for a non-standard unit and the unorthodox size or shape of the unit is necessitated by a variation in the legal subdivision of the United States Public Land Surveys, or the following facts exist and the following provisions are complied with:

- (a) The non-standard unit consists of quarter-quarter sections or lots that are contiguous by a common bordering side.
- (b) The non-standard unit lies wholly within a governmental section and contains less acreage than a standard unit.
- (c) The applicant presents written consent in the form of waivers from all offset operators and from all operators owning interests in the section in which the non-standard unit is situated and which acreage is not included in said non-standard unit.
- (d) In lieu of Paragraph (c) of this rule, the applicant may furnish proof of the fact that all of the aforesaid operators were notified by registered or certified mail of his intent to form such non-standard unit. The Division Director may approve the application if no such operator has entered an objection to the formation of such non-standard unit within 30 days after the Director has received the application.

RULE 4. Each well shall be located no nearer than 1650 feet to the outer boundary of the section and no nearer than 330 feet to any governmental quarter-quarter section line.

RULE 5. The Division Director may grant an exception to the requirements of Rule 4 without notice and hearing when an application has been filed for an unorthodox location necessitated by topographical conditions or the recompletion of a well previously drilled to a deeper horizon. All operators offsetting the proration unit shall be notified of the application by registered or certified mail, and the application shall state that such notice has been furnished. The Director may approve the application upon receipt of written waivers from all

operators offsetting the proration unit or if no objection to the unorthodox location has been entered within 20 days after the Director has received the application.

IT IS FURTHER ORDERED:

(1) That the locations of all wells presently drilling to or completed in the North Bell Lake-Devonian Gas Pool or in the Devonian formation within one mile thereof are hereby approved; that the operator of any well having an unorthodox location shall notify the Hobbs District Office of the Division in writing of the name and location of the well on or before September 1, 1980.

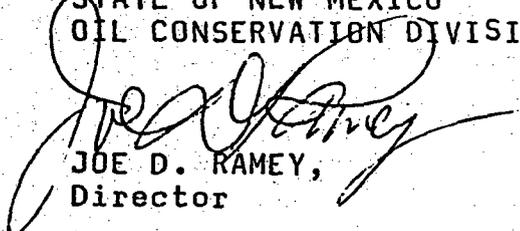
(2) That, pursuant to Paragraph A. of Section 70-2-18, NMSA 1978, contained in Chapter 271, Laws of 1969, existing wells in the North Bell Lake-Devonian Gas Pool shall have dedicated thereto 640 acres in accordance with the foregoing pool rules; or, pursuant to Paragraph C. of said Section 70-2-18, existing wells may have non-standard spacing or proration units established by the Division and dedicated thereto.

Failure to file new Forms C-102 with the Division dedicating 640 acres to a well or to obtain a non-standard unit approved by the Division within 60 days from the date of this order shall subject the well to cancellation of allowable. Until said Form C-102 has been filed or until a non-standard unit has been approved, and subject to said 60-day limitation, each well presently drilling to or completed in the North Bell Lake-Devonian Gas Pool or in the Devonian formation within one mile thereof shall receive no more than one-half of a standard allowable for the pool.

(3) That 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


JOE D. RAMEY,
Director

S E A L

dr/

(TEAS-PENNSYLVANIAN GAS POOL—Cont'd.)

Secretary-Director may approve the application upon receipt of written waivers from all offset operators or if no offset operator has entered an objection to the unorthodox location within 20 days after the Secretary-Director has received the application.

IT IS FURTHER ORDERED:

(1) That any well presently drilling to or completed in the Pennsylvanian formation within the Teas-Pennsylvanian Gas Pool or within one mile of the Teas-Pennsylvanian Gas Pool that will not comply with the well location requirements of Rule 4 is hereby granted an exception to the requirements of said rule. The operator of any such well shall notify the Hobbs District Office of the Commission in writing of the name and location of the well on or before January 1, 1964.

(2) That any operator desiring to dedicate 320 acres to a well presently drilling to or completed in the Teas-Pennsylvanian Gas Pool shall file a new Form C-128 with the Commission on or before January 1, 1964.

(3) That this case shall be reopened at an examiner hearing one year from the date that a pipeline connection is first obtained for a well in the Teas-Pennsylvanian Gas Pool, at which time the operators in the subject pool may appear and show cause why the Teas-Pennsylvanian Gas Pool should not be developed on 160-acre spacing units.

(4) That the first operator to obtain a pipeline connection for a well in the Teas-Pennsylvanian Gas Pool shall notify the Commission in writing of such fact and that the Commission will thereupon issue a supplemental order designating an exact date for reopening this case.

(5) 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.

ANTELOPE RIDGE-DEVONIAN GAS POOL
Lea County, New Mexico

Order No. R-2623, Creating and Adopting Temporary Operating Rules for the Antelope Ridge-Devonian Gas Pool, Lea County, New Mexico, January 1, 1964.

Order No. R-2623-A, January 13, 1966, makes permanent the rules adopted in Order No. R-2623.

Application of Shell Oil Company for the Creation of a Devonian Gas Pool and for Special Pool Rules, Lea County, New Mexico.

CASE NO. 2945
Order No. R-2623

ORDER OF THE COMMISSION

BY THE COMMISSION: This cause came on for hearing at 9 o'clock a.m. on December 4, 1963, at Santa Fe, New Mexico, before Elvis A. Utz, Examiner duly appointed by the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission," in accordance with Rule 1214 of the Commission Rules and Regulations.

NOW, on this 19th day of December, 1963, the Commission, a quorum being present, having considered the application, the evidence adduced, and the recommendations of the Examiner, Elvis A. Utz, 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, Shell Oil Company, seeks the creation of a new gas pool for Devonian production and the promulgation of temporary special rules and regulations governing said pool, including provisions for 640-acre spacing units and limited well locations.

(3) That a new gas pool for Devonian production should be created and designated the Antelope Ridge-Devonian Gas Pool; that said pool was discovered by the Shell Oil Company Harris-Federal Well No. 1, located in Unit N of Section 27, Township 23 South, Range 34 East, NMPM, Lea County, New Mexico.

(4) That in order to prevent the economic loss caused by the drilling of unnecessary wells, to avoid the augmentation of risk arising from the drilling of an excessive number of wells, to prevent reduced recovery which might result from the drilling of too few wells, and to otherwise prevent waste and protect correlative rights, temporary special rules and regulations providing for 640-acre spacing units should be promulgated for the Antelope Ridge-Devonian Gas Pool.

(5) That the temporary special rules and regulations should provide for limited well locations in order to assure orderly development of the pool and protect correlative rights.

(6) That the temporary special rules and regulations should be established for a two-year period in order to allow the operators in the subject pool to gather reservoir information to establish the area that can be efficiently and economically drained and developed by one well.

(7) That this case should be reopened at an examiner hearing in January, 1966, at which time the operators in the subject pool should be prepared to appear and show cause why the Antelope Ridge-Devonian Gas Pool should not be developed on 160-acre spacing units.

IT IS THEREFORE ORDERED:

(1) That a new pool in Lea County, New Mexico, classified as a gas pool for Devonian production is hereby created and designated the Antelope Ridge-Devonian Gas Pool consisting of the following-described area:

TOWNSHIP 23 SOUTH, RANGE 34 EAST, NMPM
Section 27: All
Section 33: E/2, E/2 W/2
Section 34: All

TOWNSHIP 24 SOUTH, RANGE 34 EAST, NMPM
Section 4: All

(2) That Special Rules and Regulations for the Antelope Ridge-Devonian Gas Pool are hereby promulgated as follows, effective January 1, 1964.

SPECIAL RULES AND REGULATIONS
FOR THE
ANTELOPE RIDGE-DEVONIAN GAS POOL

RULE 1. Each well completed or recompleted in the Antelope Ridge-Devonian Gas Pool or in the Devonian formation within one mile of the Antelope Ridge-Devonian Gas Pool, and not nearer to nor within the limits of another designated Devonian gas pool, shall be spaced, drilled, operated, and produced in accordance with the Special Rules and Regulations hereinafter set forth.

RULE 2. Each well completed or recompleted in the Antelope Ridge-Devonian Gas Pool shall be located on a standard unit containing 640 acres, more or less, consisting of a single governmental section.

ANTELOPE RIDGE-DEVONIAN GAS POOL - Cont'd.)

RULE 3. The Secretary-Director of the Commission may grant an exception to the requirements of Rule 2 without notice and hearing when an application has been filed for a non-standard unit and the unorthodox size or shape of the unit is necessitated by a variation in the legal subdivision of the United States Public Lands Survey, or the following facts exist and the following provisions are complied with:

(a) The non-standard unit consists of quarter-quarter sections or lots that are contiguous by a common bordering side.

(b) The non-standard unit lies wholly within a single governmental section and contains less acreage than a standard unit.

(c) The applicant presents written consent in the form of waivers from all offset operators and from all operators owning interests in the section in which the non-standard unit is situated and which acreage is not included in said non-standard unit.

(d) In lieu of paragraph (c) of this rule, the applicant may furnish proof of the fact that all of the aforesaid operators were notified by registered or certified mail of his intent to form such non-standard unit. The Secretary-Director may approve the application if no such operator has entered an objection to the formation of such non-standard unit within 30 days after the Secretary-Director has received the application.

RULE 4. Each well completed or recompleted in the Antelope Ridge-Devonian Gas Pool shall be located in the SW/4 NE/4, NW/4 SE/4, NE/4 SW/4, or SE/4 NW/4 of a governmental section and no nearer than 330 feet to any governmental quarter-quarter section line.

RULE 5. The Secretary-Director may grant an exception to the footage requirements of Rule 4 without notice and hear-

ing when an application has been filed for an unorthodox location necessitated by topographical conditions or the recompletion of a well previously drilled to another horizon, provided the well will be located no nearer than 330 feet to the outer boundary of the unit. All operators offsetting the proposed unorthodox location shall be notified of the application by registered or certified mail, and the application shall state that such notice has been furnished. The Secretary-Director may approve the application upon receipt of written waivers from all offset operators or if no offset operator has entered an objection to the unorthodox location within 20 days after the Secretary-Director has received the application.

IT IS FURTHER ORDERED:

(1) That any well presently drilling to or completed in the Antelope Ridge-Devonian Gas Pool that does not comply with the well location requirements of Rule 4 is hereby granted an exception to said rule. The operator of any such well shall notify the Hobbs District Office of the Commission in writing of the name and location of the well on or before January 1, 1964.

(2) That any operator desiring to dedicate 640 acres to a well presently drilling to or completed in the Antelope Ridge-Devonian Gas Pool shall file a new Form C-128 with the Commission on or before January 1, 1964.

(3) That this case shall be reopened at an examiner hearing in January, 1966, at which time the operators in the subject pool may appear and show cause why the Antelope Ridge-Devonian Gas Pool should not be developed on 160-acre spacing units.

(4) 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.

NORTH BELL LAKE-DEVONIAN GAS POOL
Lea County, New Mexico

Order No. R-6424, Adopting Operating Rules for the North Bell Lake-Devonian Gas Pool, Lea County, New Mexico, August 4, 1980.

Application of BTA Oil Producers for Special Pool Rules and Pool Extension, Lea County, New Mexico.

CASE NO. 6962
Order No. R-6424

ORDER OF THE DIVISION

BY THE DIVISION: This cause came on for hearing at 9 a.m. on July 9, 1980, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 4th day of August, 1980, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

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

(2) That the applicant, BTA Oil Producers, has completed its 7909 JV-P Well No. 1 located 1650 feet from the North line and 2510 feet from the West line of Section 18, Township 23 South, Range 34 NMPM, Lea County New Mexico, as a gas well in the Devonian formation, producing through perforations from 14,660 feet to 14,708 feet.

(3) That said well is located approximately 1.5 miles south of the Continental Oil Co. Bell Lake Unit Well No. 6, which is in Unit O of Section 6 of said Township 23 South, Range 34 East, and for which the North Bell Lake-Devonian Gas Pool was created and defined by the Division March 1, 1962, comprising the SE/4 of said Section 6.

(4) That the applicant seeks the extension of said North Bell Lake Devonian Gas Pool to include its 7909 JV-P Well No. 1, and further seeks the promulgation of special rules and regulations for said pool including a provision for 640-acre spacing and specified well locations.

(5) That the evidence presently available indicates that said Bell Lake Unit Well No. 6 and applicant's 7909 JV-P Well No. 1 are indeed both producing from a single common source of supply in the Devonian formation, and that said North Bell Lake-Devonian Gas Pool should be extended to take in said 7909 JV-P Well No. 1.

(6) That the evidence further indicates that one well in said North Bell Lake-Devonian Gas Pool is capable of draining 640 acres and that 640-acre spacing and proration units should be established for said pool with well locations for future wells to be no closer than 1650 feet to the outer boundary of the unit, nor closer than 330 feet to any quarter-quarter section line.

(7) That an order embodying the above findings is in the interest of conservation, will not cause but will prevent waste, will not impair but will protect correlative rights, and should be approved.

IT IS THEREFORE ORDERED:

(1) That the North Bell Lake-Devonian Gas Pool in Lea County, New Mexico, as heretofore created, defined, and described, is hereby extended to include therein:

TOWNSHIP 23 SOUTH, RANGE 34 EAST, NMPM
Section 6: N/2 and SW/4
Section 7: All
Section 18: All

(2) That Special Rules and Regulations for said North Bell Lake-Devonian Gas Pool are hereby promulgated as follows:

SPECIAL RULES AND REGULATIONS
FOR THE
NORTH BELL LAKE-DEVONIAN GAS POOL

RULE 1. Each well completed or recompleted in the North Bell Lake-Devonian Gas Pool or in the Devonian formation within one mile thereof, and not nearer to or within the limits of another designated Devonian gas pool, shall be spaced, drilled, operated, and produced in accordance with the Special Rules and Regulations hereinafter set forth.

RULE 2. Each well shall be located on a standard unit containing 640 acres, more or less, consisting of a governmental section.

RULE 3. The Director of the Division may grant an exception to the requirements of Rule 2 without notice and hearing when an application has been filed for a non-standard unit and the unorthodox size or shape of the unit is necessitated by a variation in the legal subdivision of the United States Public Land Surveys, or the following facts exist and the following provisions are complied with:

(a) The non-standard unit consists of quarter-quarter sections or lots that are contiguous by a common bordering side.

(b) The non-standard unit lies wholly within a governmental section and contains less acreage than a standard unit.

(c) The applicant presents written consent in the form of waivers from all offset operators and from all operators owning interests in the section in which the non-standard unit is situated and which acreage is not included in said non-standard unit.

(d) In lieu of Paragraph (c) of this rule, the applicant may furnish proof of the fact that all of the aforesaid operators were notified by registered or certified mail of his intent to form such non-standard unit. The Division Director may approve the application if no such operator has entered an objection to the formation of such non-standard unit within 30 days after the Director has received the application.

RULE 4. Each well shall be located no nearer than 1650 feet to the outer boundary of the section and no nearer than 330 feet to any governmental quarter-quarter section line.

RULE 5. The Division Director may grant an exception to the requirements of Rule 4 without notice and hearing when an application has been filed for an unorthodox location necessitated by topographical conditions or the recompletions of a well previously drilled to a deeper horizon. All operators offsetting the proration unit shall be notified of the application by registered or certified mail, and the application shall state that such notice has been furnished. The Director may approve the application upon receipt of written waivers from all operators offsetting the proration unit or if no objection to the unorthodox location has been entered within 20 days after the Director has received the application.

(NORTH BELL LAKE-DEVONIAN GAS POOL - Cont'd.)

IT IS FURTHER ORDERED:

(1) That the locations of all wells presently drilling to or completed in the North Bell Lake-Devonian Gas Pool or in the Devonian formation within one mile thereof are hereby approved; that the operator of any well having an unorthodox location shall notify the Hobbs District Office of the Division in writing of the name and location of the well on or before September 1, 1980.

(2) That, pursuant to Paragraph A. of Section 70-2-18, NMSA 1978, contained in Chapter 271, Laws of 1969, existing wells in the North Bell Lake-Devonian Gas Pool shall have dedicated thereto 640 acres in accordance with the foregoing pool rules; or, pursuant to Paragraph C. of said Section 70-2-18, existing wells may have non-standard spacing or proration units established by the Division and dedicated thereto.

Failure to file new Forms C-102 with the Division dedicating 640 acres to a well or to obtain a non-standard unit approved by the Division within 60 days from the date of this order shall subject the well to cancellation of allowable. Until said Form C-102 has been filed or until a non-standard unit has been approved, and subject to said 60-day limitation, each well presently drilling to or completed in the North Bell Lake-Devonian Gas Pool or in the Devonian formation within one mile thereof shall receive no more than one-half of a standard allowable for the pool.

(3) That 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.

SOUTHWEST EUNICE-SAN ANDRES POOL
Lea County, New Mexico

Order No. R-6466, Creating and Adopting Operating Rules for the Southwest Eunice-San Andres Pool, Lea County, New Mexico, September 10, 1980, as Amended by Order No. R-6466-A, September 10, 1980.

Application of Zia Energy, Inc. for Pool Creation, Special Pool Rules, and an NGPA Determination, Lea County, New Mexico.

CASE NO. 6861
Order No. R-6466

ORDER OF THE DIVISION

BY THE DIVISION: This cause came on for hearing at 9 a.m. on May 7, 1980, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 10th day of September, 1980, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

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

(2) That the applicant, Zia Energy, Inc., seeks the creation of a new San Andres oil pool for its State "C" Well No. 1, which is located 1980 feet from the North line and 1982 feet from the West line of Section 17, Township 22 South, Range 37 East, NMPM, Lea County, New Mexico, and the promulgation of special rules for said pool, including a provision for a gas-oil ratio limitation of 10,000 cubic feet of gas per barrel of oil.

(3) That the applicant further seeks a determination that said State "C" Well No. 1 has discovered a new onshore reservoir and should be exempt from the behind-the-pipe exclusion, and that new wells completed in said new reservoir are entitled to the NGPA Section 102 "New Onshore Reservoir" Wellhead Price Ceiling Category, although said reservoir had been penetrated by other wells which penetrated the San Andres formation prior to April 20, 1977, alleging that oil and gas could not have been produced in commercial quantities by such old wells prior to April 20, 1977.

(4) That the evidence establishes that to have plugged back and recompleted one of said wells in the San Andres formation in April, 1977, would have cost \$112,230, and that actual operating costs plus overhead expense during an estimated 15-year life for such a well would total \$273,285.

(5) That the evidence establishes that the estimated oil reserves available to the subject well total 13,406 barrels, and that its gas reserves total some 328,500 Mcf, and that the oil reserves at an April, 1977, stripper oil price of \$13.00 per barrel less 12.5 percent royalty and .075005 percent state taxes have a 1977 value of \$141,055, and that the gas reserves at an April, 1977, price of \$0.62 per Mcf less 12.5 percent royalty and .075005 percent state taxes have a 1977 value of \$164,845, for a total 1977 value for the well's oil and gas reserves of \$305,900.

(6) That using the subject well's reserves and applying the FERC economics test to determine whether an old well which penetrated the San Andres formation could have been economically plugged back and recompleted in the San Andres or whether it should be exempt from the "Behind-the-Pipe" exclusion (market value of the production less 1.6 times development cost plus operating costs) indicates that the economics of such a well would be:

$$\$305,900 - [1.6 (\$112,230) + \$273,285] = -\$146,953$$

(7) That pursuant to the above formula, such recompletion as described above would be an uneconomic venture, and the Behind-the-Pipe exclusion does not apply.

(8) That the engineering and geological evidence presented establishes that applicant's State "C" Well No. 1 is indeed producing oil and gas from a new onshore San Andres reservoir separate and distinct from any other San Andres reservoir, and that the nearest commercial San Andres production is some 2-3/4 miles away.

(9) That a new pool for San Andres production should be created and designated as the Southwest Eunice-San Andres Pool, with vertical limits comprising the San Andres formation and horizontal limits as follows:

TOWNSHIP 22 SOUTH, RANGE 37 EAST, NMPM
Section 17: NW/4

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. 10267
Order No. R-9493

APPLICATION OF PACIFIC ENTERPRISES
OIL COMPANY (USA) FOR COMPULSORY
POOLING, LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on April 18, 1991, at Santa Fe, New Mexico, before Examiner Jim Morrow.

NOW, on this 30th day of April, 1991, 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, Pacific Enterprises Oil Company (USA), seeks an order pooling all mineral interests from the surface to the base of the Devonian formation underlying the following described acreage in Section 4, Township 23 South, Range 34 East, NMPM, Lea County, New Mexico, in the following manner: ✓

All of Section 4 to form a 639.52-acre gas spacing and proration unit for the Undesignated North Bell Lake-Devonian Gas Pool which is spaced on 640 acres; ✓

Lots 3 and 4, S/2 NW/4 and SW/4 (W/2 equivalent) to form a 320.16-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within said vertical extent which includes, but is not necessarily limited to the Undesignated North Antelope Ridge-Wolfcamp Gas Pool, Undesignated Antelope Ridge-Atoka Gas Pool, Undesignated North Bell Lake-Morrow Gas Pool and the Undesignated Antelope Ridge-Morrow Gas Pool;

EXHIBIT

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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 within said vertical extent; and;

the NE/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 within said vertical extent which presently includes but is not necessarily limited to the Undesignated Northwest Antelope Ridge-Bone Spring Pool.

All of the above units are to be dedicated to a single well to be drilled at a standard location 1980 feet from the South line and 1980 feet from the West line (Unit K) of said Section 4.

(3) The applicant has the right to drill and proposes to drill a well at the above location to a depth of approximately 15,000 feet to test the Devonian Formation.

(4) Applicant's witness submitted cross-sections and a Devonian structure map (based on seismic data) which indicate that the proposed well will penetrate the Devonian formation at a favorable structural position.

(5) Applicant's witness also submitted information concerning Bone Springs, Wolfcamp, Atoka and Morrow completions in the area which indicates there is a possibility for successful completion of the proposed well in these formations.

(6) Based on an AFE submitted by the applicant, the well is expected to cost \$2,168,000 (\$1,787,000 to drill and test and \$381,000 for completion).

(7) Applicant's witness also stated that in addition to well costs, an additional \$2,000,000 expenditure would be required for a treating plant to remove H₂S from gas produced from the Devonian, if commercial Devonian production is established. This should not be considered a part of well costs.

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

(9) 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 production from 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.

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

(11) 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 or production.

(12) 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 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(13) 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.

(14) 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.

(15) At the hearing, applicant's witness proposed that combined fixed rate overhead charges be set at \$6,000 per month while drilling and \$600 per month while producing.

(16) Based on Ernst and Young survey results for 1990, \$6,000 per month while drilling and \$520 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.

(17) 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.

(18) 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 July 15, 1991, the order pooling said unit should become null and void and of no further effect whatsoever.

(19) 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.

(20) 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 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 Devonian formation, underlying the following described acreage in Section 4, Township 23 South, Range 34 East, NMPM, Lea County, New Mexico, are hereby pooled in the following manner:

✓ All of Section 4 to form a 639.52-acre gas spacing and proration unit for the Undesignated North Bell Lake-Devonian Gas Pool which is spaced on 640 acres;

Lots 3 and 4, S/2 NW/4 and SW/4 (W/2 equivalent) to form a 320.16-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within said vertical extent which includes, but is not necessarily limited to the Undesignated North Antelope Ridge-Wolfcamp Gas Pool, Undesignated Antelope Ridge-Atoka Gas Pool, Undesignated North Bell Lake-Morrow Gas Pool and the Undesignated Antelope Ridge-Morrow Gas Pool;

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 within said vertical extent; and,

the NE/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 within said vertical extent which presently includes but is not necessarily limited to the Undesignated Northwest Antelope Ridge-Bone Spring Pool.

(2) Said unit(s) are to be dedicated to a well to be drilled at a standard location 1980 feet from the South line and 1980 feet from the West line (Unit K) of said Section 4.

PROVIDED HOWEVER THAT, the operator of said unit shall commence the drilling of said well on or before the 15th day of July, 1991, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Devonian Formation.

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said well on or before the 15th day of July, 1991, Decretory 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 Secretary Paragraph No. (1) of this order should not be rescinded.

(3) Pacific Enterprises Oil Company (USA) is hereby designated the operator of the subject well and unit.

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

(5) 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.

(6) 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 cost 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 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 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) \$6,000 per month while drilling and \$520 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 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.

(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 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 force-pooling reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

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