

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:

CASES NOS. 11244 & 11246
Order No. R-_____

APPLICATION OF AMOCO PRODUCTION COMPANY
FOR COMPULSORY POOLING,
SAN JUAN COUNTY, NEW MEXICO

APPLICATION OF RICHARDSON OPERATING COMPANY
FOR COMPULSORY POOLING AND AN UNORTHODOX GAS
WELL LOCATION, SAN JUAN COUNTY, NEW MEXICO

**RICHARDSON OPERATING COMPANY'S
PROPOSED
ORDER OF THE DIVISION**

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on April 20, 1995 at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this _____ day of _____, 1995, 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 over the parties, of this cause and the subject matter thereof.

(2) The applicant in Case 11246, Richardson Operating Company, ("ROPCO"), seeks:

(a) an order pooling all mineral interests from the surface to the base of the base of the Pictured Cliffs formation underlying the NW/4 of Section 12, Township 29 North, Range 13 West, NMPM, San Juan County, New Mexico 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, which presently includes but is not necessarily limited to the Undesignated West Kutz-Pictured Cliffs Pool;

(b) to be dedicated to its proposed ROPCO Fee "12" Well No. 4 to be drilled at a potential unorthodox gas well location within 200 feet of a point 147 feet from the North line and 1500 feet from the West line of said Section 12 for gas production from the West Kutz-Pictured Cliffs Gas Pool.

(3) The applicant in Case 11244, Amoco Production Company ("AMOCO), seeks an order pooling the same spacing unit as described above to be dedicated to its proposed Burnham Gas Com "A" Well No. 1 to be drilled at a standard gas well location 1520 feet from the West line and 1450 feet from the North line (Unit F) of said Section 12.

(4) Each applicant (ROPCO and AMOCO) has the right to drill and each proposes to drill their respective well to a depth sufficient to test the Pictured Cliffs formation for gas production.

(5) Cases Nos. 11244 and 11246 were consolidated for the purpose of hearing and should be consolidated for purpose of issuing an order since the cases involve common acreage and the granting of one application would require the denial of the other.

(6) In support of its application in Case No. 11246, ROPCO submitted the following evidence through its exhibits and the testimony of its witnesses:

(a) On January 11, 1993, and on December 2, 1993, ROPCO proposed to Amoco a voluntary agreement for ROPCO to drill a well on the subject acreage or in lieu thereof a purchase and sale of acreage but both were rejected by Amoco;

(b) On January 27, 1995 ROPCO commenced producing its ROPCO Federal "12" Well No. 2 in Unit H of said Section 12 as a downhole commingled Pictured Cliffs and Fruitland Coal Gas producing well for an actual completed well costs of \$177,379 (excluding compression);

(c) On February 14, 1995, Amoco's proposed a single Pictured Cliffs well to be drilled for an estimated total completed well costs of \$216,260.00 which included \$30,000 for the cost of a compressor;

(d) On March 6, 1995, in response to Amoco's proposal for a single Pictured Cliffs well, ROPCO proposed a Pictured Cliffs Gas well to be drilled for an estimated total completed well costs of \$152,117.00 which did not include a compressor;

(e) On March 9, 1995, Amoco filed a compulsory pooling application with the NMOCD seeking to pool ROPCO and other working interest owners;

(f) On March 14, 1995, ROPCO filed a compulsory pooling application seeking to pool Amoco's interest;

(g) There are seven different working interest owners in the spacing units and, as of the date of the hearing, ROPCO had obtained the voluntary agreement from five of the seven working interest owners with Amoco refusing to join ROPCO and with Kerr-McGee electing to join which ever party prevailed before the Division;

(h) ROPCO's petroleum engineer testified that:

(i) ROPCO's AFE was substantially less than the Amoco's AFE and that that difference was significant;

(ii) by conservative estimates, operations by ROPCO would result in extending the life of the subject well an additional 4 years resulting in the recovery of an additional 149,000 MCF of gas for a potential increased net cash flow (undiscounted) of \$370,282;

(iii) it was not physically possible to drill and complete the well as proposed by Amoco;

(iv) ROPCO's well proposal represented the greatest benefit at the least risk for all interest owners.

(i) Because the risk of a non-productive well is low, ROPCO's geologist requested a risk factor penalty of 150% for the Pictured Cliffs;

(j) ROPCO's landman testified in support of the use of its Joint Operating Agreement with overhead rates of \$3,500/month drilling and \$450/month producing;

(k) Mr. Rod Markham, one of the working interest owners in the spacing units, testified in support of ROPCO:

because he had contacted Amoco's engineer, Greg Grotke, and was surprised that Amoco did not know that the PC produced water and required disposal; Amoco did not know that there was any potential for Fruitland Coal gas production; that Grotke had not looked at any logs in this area; that Amoco was planning to run 2-7/8" tubing for a production string when in fact nothing larger than 2-3/8" would physically fit in the well as proposed by Amoco; and

because Amoco's AFE was too expensive and ROPCO's AFE was more typical of actual well costs in this area.

(7) To support its application in Case No. 11244, AMOCO presented the following evidence through its exhibits and the testimony of its witnesses:

(a) On February 14, 1995, Amoco proposed the drilling of a well for production from the Pictured Cliffs Gas Pool for an estimated completed well cost of \$216,260 which included \$30,000 for a compressor;

(b) On March 6, 1995, Amoco received ROPCO's proposal for a Pictured Cliffs Gas well for an estimated total completed well costs of \$152,117.00 which did not include a compressor;

(c) On March 9, 1995, Amoco filed a compulsory pooling application with the NMOCD seeking to pool ROPCO and other working interest owners;

(e) As of the date of the hearing, Amoco has 83 % working interest in the Pictured Cliffs spacing unit;

(f) Amoco's petroleum engineer testified that it desired to package this well with five other PC wells in order for it to be economic and also proposed that this well be drilled with coiled tubing and use of slim-hole technology in an effort to test the application of this technology in the San Juan Basin.

(g) Amoco's petroleum engineer requested a risk factor penalty of 200 % for the Pictured Cliffs with overhead rates of \$3,582/month drilling and \$498/month producing;

(8) The Division **FINDS** that it should decide the compulsory pooling issues in this case based upon its statutory obligation to prevent waste and protect correlative rights utilizing the following criteria and analysis:

(a) ROPCO was the first operator to propose the development of the Pictured Cliffs formation in the W/2 of Section 12 and within the last 90 days, ROPCO has successfully drilled, completed and now produces two such wells in the NE/4 and the SE/4 of said Section 12;

(b) ROPCO is recently active in drilling Pictured Cliffs formation gas wells in this immediate area while Amoco's Pictured Cliffs gas wells are more than six miles away

(c) while Amoco has the majority working interest in this spacing unit, it has been unsuccessful in obtaining the joinder of any other working interest owner;

(d) Amoco prematurely filed its compulsory pooling application without affording an opportunity to the other working interests owners to reach a voluntarily agreement with Amoco;

(e) Excluding Amoco and ROPCO, there are five other working interest owners in this spacing unit of which none have agreed to join with Amoco and of which four have agreed to join ROPCO with the fifth electing to join which ever party prevailed before the Division;

(f) ROPCO has proposed the drilling of a "conventional" Pictured Cliffs-Gas well for an estimated total completed well cost of \$151,117.00;

(g) Amoco has proposed the drilling of an experimental well utilizing coiled tubing and slim-hole (2-7/8" tubing) technology for an estimated total completed well costs of \$216,260 (said sum excludes Amoco's \$30,000 compressor costs);

(h) Amoco's AFE is some \$50,000 higher than the ROPCO's AFE despite the fact that Amoco proposes to reduce costs by "packaging" five other wells into a proposed drilling program;

(i) Amoco's proposed operating costs for the well were estimated to be substantially higher than ROPCO's costs and would include more than \$300/month in additional costs plus additional unspecified amounts for Amoco's computerized "Jupiter" well monitoring system;

(j) Since risk of an unsuccessful completion is low, the risk penalty should be set at 150% for this pool;

(k) It would violate the correlative rights of the other working interest owners to allow Amoco to obtain a compulsory order which compels the other owners to pay for an experimental science project which Amoco desires to undertake with this well;

(l) the ROPCO well proposal its AFE represent an accurate and fair estimate of the costs of such a well when compared to ROPCO's actual costs of \$123,272.00 for the offsetting well in the SE/4 of said Section 12 and therefore should be approved and adopted by the Division;

(m) Designation of ROPCO as operator and approval of its AFE and well proposal is conservatively estimated to extend the life of said well by approximately 4 years longer than the Amoco proposal and thereby potentially recovering an additional 149,000 MCF of gas thereby preventing waste.

(9) ROPCO's application should be **GRANTED**.

(10) Amoco's application should be **DENIED**.

(11) No offset operator and/or interest owner appeared at the hearing in opposition to ROPCO's proposed unorthodox gas well location.

(12) Amoco waived any objection to the proposed ROPCO potential unorthodox well location which should be approved in order to minimize surface disturbance in the area.

(13) Approval of ROPCO's proposed unorthodox gas well location will allow the interest owners to recover the gas reserves in the Pictured Cliffs formations underlying the proposed proration unit without waste and without violating correlative rights.

(14) Approval as set forth above and in the following order will avoid the drilling 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) The application of Richardson Operating Company ("ROPCO") in Case No. 11246 as described in Finding (2) of this order is hereby **GRANTED**.

(2) The application of Amoco Production Company ("Amoco") in Case 11244 as described in Finding (3) of this order is hereby **DENIED**.

(3) all mineral interests, **WHATEVER THEY MAY BE**, from the surface to the base of the base of the Pictured Cliffs formation underlying the NW/4 of Section 12, Township 29 North, Range 13 West, NMPM, San Juan County, New Mexico, are hereby pooled in 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, which presently includes but is not necessarily limited to the Undesignated West Kutz-Pictured Cliffs Pool to be dedicated to its proposed ROPCO Fee "12" Well No. 4 to be drilled at a potential

unorthodox gas well location within 200 feet of a point 147 feet from the North line and 1500 feet from the West line of said Section 12.

(4) Richardson Operating Company ("ROPCO") is hereby designated operator of the subject well and the corresponding spacing unit.

(5) ROPCO's proposed drilling-completion program and the corresponding Authority for Expenditures ("AFE") as described in ROPCO Exhibit 15 is hereby **APPROVED**.

(6) The terms and conditions of the AAPL Form 610-1989 Model Form Operating Agreement (ROPCO Exhibit 8) are incorporated herein by reference and shall be binding upon all parties pooled.

PROVIDED HOWEVER THAT, the operator of said unit shall commence the drilling of said well on or before the ____th day of _____, 1995, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Pictured Cliffs formation.

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said well on or before the ____th day of _____, 1995, Decretory Paragraph No. (2) 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 Decretory Paragraph No. (2) of this order should not be rescinded.

(7) 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.

(8) 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.

(9) 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.

(10) 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.

(11) 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 of schedule of estimated well costs is furnished to him; and
- B. As a charge for the risk involved in the drilling of the well, 150 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.

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

(13) \$3,500 per month while drilling and \$450 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.

(14) The operator shall furnish the Division and each known working interest owner an itemized schedule of actual **operating** well costs to be charged on a monthly basis in the form of a joint interest billing within 90 days following completion of the well; if no objection to the actual operating well cost or the joint interest billing 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.

(15) 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.

(16) 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.

(17) All proceeds from production from the subject well which are not disbursed for any reason shall be placed in escrow in San Juan 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.

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

(19) 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 compulsory pooling provisions of this order.

(20) 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