

**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. 11427
Order No. R-10403-A**

**APPLICATION OF MARALO INC.
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 November 16, 1995, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 29th day of November, 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 of this cause and the subject matter thereof.

(2) The applicant, Maralo Inc., seeks an order pooling all mineral interests from the surface to the base of the Wolfcamp formation underlying the N/2 NE/4 of Section 20, Township 13 South, Range 38 East, NMPM, Southwest Bronco-Wolfcamp Pool, Lea County, New Mexico, thereby forming a standard 80-acre oil spacing and proration unit for said pool. Said unit is to be dedicated to the existing Lowe "20" Well No. 1 located at a previously approved unorthodox location 350 feet from the North line and 1550 feet from the East line (Unit B) of Section 20.

(3) The evidence and testimony presented by the applicant in this case indicates that:

- a) By Order No. R-10403 issued in Case No. 11213 on June 26, 1995, the Division, upon application of Maralo Inc., pooled all mineral interests from the surface to the base of the Wolfcamp formation underlying the NW/4 NE/4 of Section 20, Township 13 South, Range 38 East, NMPM, Lea County, New Mexico. Said unit was to be dedicated to the applicant's proposed Lowe "20" Well No. 1 as described in Finding No. (2) above;

- b) Pursuant to Order No. R-10403, Maralo Inc. drilled the aforesaid Lowe "20" Well No. 1 and completed the well in the Wolfcamp formation; and,
- c) By Order No. R-10504 issued in Case No. 11409 on October 24, 1995, the Division, upon application of Maralo Inc., created the Southwest Bronco-Wolfcamp Pool and promulgated special rules and regulations for said pool including provisions for 80-acre spacing and proration units and designated well locations. The discovery well for the Southwest Bronco-Wolfcamp Pool was the aforesaid Lowe "20" Well No. 1.

(4) In order to comply with the Special Rules and Regulations for the Southwest Bronco-Wolfcamp Pool, the applicant now seeks to pool an additional 40-acre tract, being the NE/4 NE/4 of Section 20, thereby forming a standard 80-acre spacing and proration unit to be dedicated to the Lowe "20" Well No. 1.

(5) The evidence and testimony in this case further indicates that:

- a) the interest ownership between the NE/4 NE/4 and the NW/4 NE/4 of Section 20 is common;
- b) approximately 99 percent of the interest ownership within the proposed spacing unit is voluntarily committed to the unit;
- c) the applicant seeks to pool the interest of Mr. & Mrs. Joe V. Mims and Mr. & Mrs. R. C. Hunton. These are the same interest owners pooled by the previous pooling order (Division Order No. R-10403);
- d) the applicant has thus far been unable to locate the parties described above.

(6) The applicant further seeks to retain the 200 percent risk penalty and overhead rates of \$5200.00 while drilling and \$520.00 while producing which were originally contained within Division Order No. R-10403.

(7) Applicant's request is fair and reasonable.

(8) To avoid the drilling of unnecessary wells, to protect correlative rights, to avoid 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 within the Southwest Bronco-Wolfcamp Pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within the N/2 NE/4 of Section 20.

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

(10) 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.

(11) Any non-consenting working interest owner who does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(12) Any non-consenting working 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.

(13) 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.

(14) \$5200.00 per month while drilling and \$520.00 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.

(15) 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.

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

(17) The operator of the well and unit shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the forced 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 Wolfcamp formation underlying the N/2 NE/4 of Section 20, Township 13 South, Range 38 East, NMPM, Southwest Bronco-Wolfcamp Pool, Lea County, New Mexico, are hereby pooled forming a standard 80-acre oil spacing and proration unit for said pool. Said unit shall be dedicated to the existing Lowe "20" Well No. 1 located at a previously approved unorthodox location 350 feet from the North line and 1550 feet from the East line (Unit B) of Section 20.

(2) Maralo Inc. is hereby designated the operator of the subject well and unit.

(3) Within 30 days from the effective date of this order, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated 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 180 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 objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(6) Within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated well 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 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.
- (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.

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

(9) \$5200.00 per month while drilling and \$520.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(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.

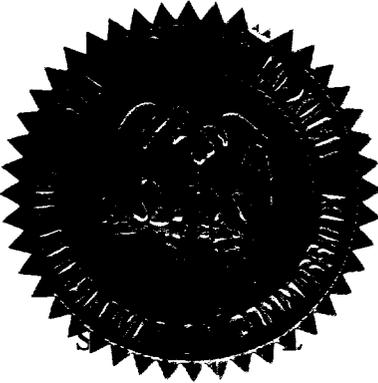
(12) All proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Lea County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; the operator shall notify the Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

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

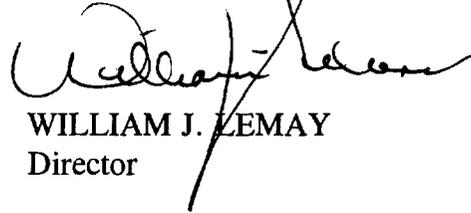
(14) The operator of the well and unit shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

(15) Jurisdiction is hereby 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