

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. 11768
ORDER NO. R-10833

APPLICATION OF SIRGO BROTHERS ENERGY CORPORATION FOR
COMPULSORY POOLING, SAN JUAN COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on May 1 and on May 29, 1997 at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 9th day of July, 1997, 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, Sirgo Brothers Energy Corporation, pursuant to Division General Rules 1207.A(2), (3), and (4), seeks an order pooling all mineral interests underlying the S/2 NW/4 of Section 12, Township 29 North, Range 15 West, NMPM, San Juan County, New Mexico, to form a standard 80-acre oil spacing and proration unit for the Cha Cha-Gallup Oil Pool. Said 80-acre unit is to be dedicated to the existing Moore Well No. 1 (API No. 30-45-24742) located at a standard oil well location 1980 feet from the North line and 660 feet from the West line (Unit E) of said Section 12.

(3) The applicant further requests that such order be entered: (i) designating Mountain States Petroleum Corporation as the operator of the subject well and 80-acre unit; (ii) foregoing any charge for risk involved in the drilling or recompletion of said well; and, (iii) authorizing the operator to recover its actual costs in returning the Moore

Well No. 1 to production.

(4) The proposed unit is within the boundaries of the Cha Cha-Gallup Oil Pool which is governed by special rules and regulations as promulgated by Division Order No. R-1800, as amended, which require standard 80-acre oil spacing and proration units with wells to be located within 150 feet of the center of either quarter-quarter section in the 80-acre unit.

(5) According to the information submitted by the applicant and records on file with the Division:

(i) S & I Oil Company of Farmington, New Mexico drilled the Moore Well No. 1 (API No. 30-45-24742) at a standard location 1980 feet from the North line and 660 feet from the West line (Unit E) of said Section 12 in mid-1981 to a total depth of 4,700 feet, and subsequently completed said well within the Cha Cha-Gallup Oil Pool on July 25, 1981;

(ii) cumulative Cha Cha-Gallup production from the Moore Well No. 1 from July, 1981 to June, 1994 totals 3,394 barrels of oil and 421 MCF of casinghead gas;

(iii) by Division Order No. R-10278, issued in Case 11144 and dated December 14, 1994, S & I Oil Company was ordered to plug and abandon said Moore Well No. 1;

(iv) said Order No. R-10278 further stipulated that should S & I Oil Company fail or refuse to plug said well, the Division would then take such action as deemed necessary;

(v) this well to date has not been plugged and abandoned;

(vi) the applicant in this case, through prior arrangement has agreed to take over operations of this well; and,

(vii) the estimated cost for returning the Moore Well No. 1 to producing status, which includes but is not limited to

the costs of re-entry, completing, and equipping is \$10,995.00.

(6) Walter M. Kennedy of Kirtland, New Mexico, an 11.25 percent unleased mineral interest owner in the proposed 80-acre oil unit, was represented by legal counsel, Thomas J. Hynes of Farmington, New Mexico, and filed a written objection to this application on April 23, 1997. At the time of the May 1, 1997 hearing no interested party appeared in opposition to this application, however Mr. Kennedy's written objection of April 23, 1997 was noted. The case was then continued to the May 29, 1997 examiners hearing, at which time no interested party appeared or objected to the subject application.

(7) Approval of this application is in the best interest of conservation, utilizes an existing wellbore in such a manner that helps prevent waste, allows all interests within said 80-acre oil spacing and proration unit to share equally in production that would not otherwise be available without the drilling of an additional well.

(8) The Kennedy's correlative rights will be protected by approval of this application with the aforementioned recompletion costs herein deemed reasonable and fair. Further, said non-consenting interest will receive his proportionate share of production from the subject well without a risk penalty.

(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 80-acre unit the opportunity to recover or receive without unnecessary expense his just and fair share of oil production in the Cha Cha-Gallup Oil Pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

(10) Mountain States Petroleum Corporation should be designated the operator of the subject well and 80-acre unit.

(11) Any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated recompletion costs to the operator in lieu of paying his share of said costs out of production.

(12) Any non-consenting working interest owner who does not pay his share of estimated costs as approved by this order should have withheld from production his share of reasonable well costs.

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

(14) Following determination of reasonable recompletion costs, any non-consenting working interest owner who has paid his share of estimated costs should pay to the operator any amount that reasonable recompletion costs exceed estimated recompletion costs and should receive from the operator any amount that paid estimated recompletion costs exceed reasonable recompletion costs.

(15) \$400.00 per month while recompleting and producing said well 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.

(16) 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.

(17) 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.

(18) 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, in the Cha Cha-Gallup Oil Pool underlying the S/2 NW/4 of Section 12, Township 29 North, Range 15, West, NMPM, San Juan County, New Mexico, are hereby pooled to form a standard 80-acre oil spacing and proration unit for said pool.

(2) Said 80-acre unit is to be dedicated to the existing Moore Well No. 1 (API No. 30-45-24742) located at a standard oil well location 1980 feet from the North line and 660 feet from the West line (Unit E) of said Section 12.

(3) Mountain States Petroleum Corporation is hereby designated the operator of the subject well and 80-acre unit.

(4) Within 30 days from the date of this order, any non-consenting working interest owner shall have the right to pay his share of estimated recompletion costs to

the operator in lieu of paying his share of reasonable recompletion costs out of production, and any such owner who pays his share of estimated recompletion costs as provided above shall remain liable for operating costs.

(5) Any non-consenting working interest owner may, within 45 days after receiving the schedule of actual recompletion, file with the Division an objection to such costs; if no objection to the actual recompletion costs is received by the Division and the Division has not objected within 45 days following receipt of said schedule, the actual recompletion costs shall be the reasonable recompletion costs; provided however, if there is an objection to actual well costs within the aforesaid 45-day period, the Division will determine reasonable well costs after public notice and hearing.

(6) Within 60 days following determination of reasonable recompletion costs, any non-consenting working interest owner who has paid his share of estimated recompletion costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable recompletion costs exceed estimated recompletion costs and shall receive from the operator his pro rata share of the amount that estimated recompletion costs exceed reasonable recompletion costs.

(7) The operator is hereby authorized to withhold from production the pro rata share of reasonable recompletion costs attributable to each non-consenting working interest owner who has not paid his share of actual recompletion costs within 30 days from the date the schedule of actual recompletion costs is furnished to him.

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

(9) \$400.00 per month while recompleting and producing said well 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.

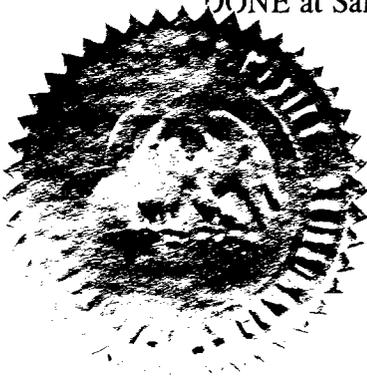
(12) All proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in San Juan County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; the operator shall notify the Division of the name and address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

(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.

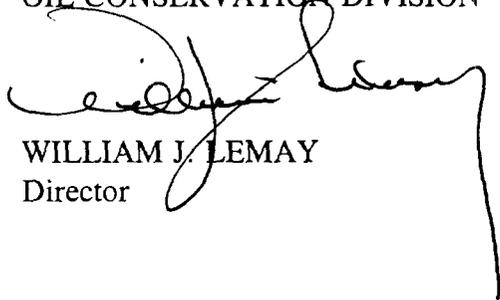
(14) The operator of the subject well and 80-acre unit shall notify the Director of the Division in writing of the subsequent voluntary agreement of any or all parties subject to the force-pooling provisions of this order.

(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


WILLIAM J. LEMAY
Director