

STATE OF NEW MEXICO
 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
 OIL CONSERVATION COMMISSION

IN THE MATTER OF THE HEARING
 CALLED BY THE OIL CONSERVATION
 COMMISSION OF NEW MEXICO FOR
 THE PURPOSE OF CONSIDERING:

CASE 9832 (De Novo)

APPLICATION OF EXXON CORPORATION FOR
 COMPULSORY POOLING AND AN UNORTHODOX
 WELL LOCATION, LEA COUNTY, NEW MEXICO.

CASE 9797 (De Novo)

APPLICATION OF SANTA FE ENERGY OPERATING
 PARTNERS, L.P., FOR COMPULSORY POOLING
 AND A NON-STANDARD GAS PRORATION UNIT,
 EDDY COUNTY, NEW MEXICO

Order No. R-9135-A

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9:00 a.m. on May 24, 1990, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 9th day of July, 1990, the Commission, a quorum being present, having considered the testimony presented and the exhibits received at said hearing, and being fully advised in the premises,

FINDS THAT:

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

(2) The Applicant, Exxon Corporation ("Exxon") seeks an order pooling all uncommitted mineral interests from the top of the Wolfcamp formation to the base of the Morrow formation underlying the E/2 of Section 20, Township 23 South, Range 25 East, Eddy County, New Mexico, for a non-standard 301.11-acre gas spacing and proration unit for any and all formations and/or pools spaced on 320-acre spacing and

Page 2
Case 9832 (De Novo)
Case 9797 (De Novo)
Order No. R-9135-A

for an exemption from the Special Rules and Regulations governing the Rock Tank Upper and Lower Morrow Gas Pools as promulgated by Division Order No. R-3452, as amended. Said unit is to be dedicated to a well to be drilled at an unorthodox gas well location 1500 feet from the North line and 1100 feet from the East line of Section 20.

(3) The applicant in Case No. 9797, Santa Fe Energy Operating Partners, L.P., ("Santa Fe"), seeks an order pooling all the mineral interests from the surface to the base of the Morrow formation underlying the following described acreage in Irregular Section 20, Township 23 South, Range 25 East, NMPM, Eddy County, New Mexico, and in the following manner:

all of said Section 20 to form a non-standard 599.41-acre, more or less, gas spacing and proration unit for the Undesignated Rock Tank-Lower Morrow Gas Pool and Undesignated Rock Tank-Upper Morrow Gas Pool (both of which are developed on 640-acre spacing); and

Lots 1 through 7 and the NW/4 NE/4 (N/2 equivalent) of said Section 20, forming a non-standard 301.37-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing.

Both units are to be dedicated to a single well to be drilled at a standard gas well location in the SE/4 NW/4 (Unit F) of said Section 20.

(4) The dispute between Exxon and Santa Fe is over the size of the Morrow spacing unit, orientation of the spacing unit and the well location.

(5) Exxon and Santa Fe are in agreement that:

- (a) Section 20 could be developed on 320-acre gas spacing but Santa Fe expressed a preference for 640-acre spacing units for the Morrow formation;
- (b) Santa Fe should be designated the operator;
- (c) Santa Fe's proposed AFE is appropriate;
- (d) a 200% risk factor penalty is justified regardless of where the well is drilled in the section; and

Page 3
Case 9832 (De Novo)
Case 9797 (De Novo)
Order No. R-9135-A

- (e) Overhead rates of \$5,500.00 per month while drilling and \$550.00 per month while producing are fair and reasonable.
- (6) On the issue of Morrow spacing, Exxon provided geologic and engineering evidence to show that Section 20 was separated from the Rock Tank Upper and Lower Gas Pools based primarily upon the fact that Section 20 lies down-dip from the water leg of the Rock Tank field.
- (7) Santa Fe did not present evidence to refute Exxon's contention of separation.
- (8) Exxon and Santa Fe presented geologic maps each projecting a different sand within the Morrow formation as the primary exploratory objective. Structural interpretations were in general agreement showing the N/2 of Section 20 to be higher structurally and less risky geologically than the S/2 of Section 20.
- (9) Based upon structural evidence two standard locations drilled in the N/2 of Section 20 would be the less risky alternative and would involve stand up proration units comprising the E/2 and W/2 of Section 20.
- (10) It would be presumptuous for the Commission to favor one wildcat prospect over another but it is appropriate for the Commission to prevent waste by favoring locations that are standard, minimize cost, reduce environmental impact and conform to surface use requirements of appropriate agencies.
- (11) Topographical conditions are a major factor in locating a well in the NW/4 of Section 20 because a major "draw" traverses the NE/4 of said Section.
- (12) A standard location in the SE/4 NW/4 of Section 20 would prevent waste by minimizing cost, reducing environmental impact, satisfying safety concerns and would protect the correlative rights of all parties.
- (13) There appear to be significant equity issues involving a proposed Morrow test operated by Siete in Section 21 offsetting Section 20 to the East and equity issues dictated by the size and orientation of the spacing unit but these issues lie beyond the scope of this hearing.
- (14) 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

Page 4
Case 9832 (De Novo)
Case 9797 (De Novo)
Order No. R-9135-A

resulting from this order, all mineral interests, whatever they may be from the surface to the base of the Morrow formation, underlying following described acreage in Irregular Section 20, Township 23 South, Range 25 East, NMPM, Eddy County, New Mexico, should be pooled to form a spacing unit consisting of Lots 2, 3, 4, 5, 10, 11, 12 and 13 (W/2 equivalent) of said Section 20, forming a non-standard 298.30-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within said vertical limits.

(15) Santa Fe Energy Operating Partners, L.P. should be designated the operator of the subject well and units.

(16) 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.

(17) 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.

(18) 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.

(19) 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.

(20) \$5,500.00 per month while drilling and \$550.00 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.

(21) 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.

(22) Upon the failure of the operator of said pooled unit to commence drilling of the well to which said units are dedicated on or before

Page 5
Case 9832 (De Novo)
Case 9797 (De Novo)
Order No. R-9135-A

October 1, 1990, the order pooling said units should become null and void and of no further effect whatsoever.

(23) 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.

(24) The operator of the well and units 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 Morrow formation, underlying the following described acreage in irregular Section 20, Township 23 South, Range 25 East, NMPM, Eddy County, New Mexico, and in the following manner are hereby pooled:

Lots 2, 3, 4, 5, 10, 11, 12 and 13 (W/2 equivalent) of said Section 20, forming a non-standard 298.30-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within said vertical limits.

Said unit is to be dedicated to a single well to be drilled at a standard gas well location in the SE/4 NW/4 (Lot 5) of Section 20.

PROVIDED HOWEVER THAT, the operator of said unit shall commence the drilling of said well on or before the 1st day of October, 1990, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test from the surface to the base of the Morrow formation.

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said well on or before the 1st day of October, 1990, 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 Decretory Paragraph No. (2) of this order should not be rescinded.

Page 6
Case 9832 (De Novo)
Case 9797 (De Novo)
Order No. R-9135-A

(2) Santa Fe Energy Operating Partners, L.P. is hereby designated the operator of the subject well and unit.

(3) After the effective date of this order and within 90 days 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.

(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 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.

(6) 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.

(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; 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

Page 7
Case 9832 (De Novo)
Case 9797 (De Novo)
Order No. R-9135-A

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) \$5,500.00 per month while drilling and \$550.00 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 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.

(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 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.

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

Page 8
Case 9832 (De Novo)
Case 9797 (De Novo)
Order No. R-9135-A

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

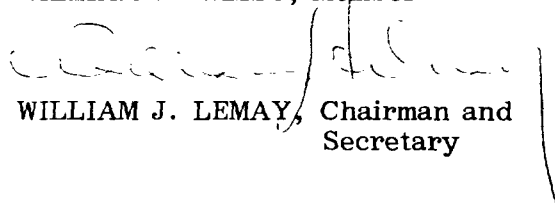
STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION



WILLIAM R. HUMPHRIES, Member



WILLIAM W. WEISS, Member



WILLIAM J. LEMAY, Chairman and Secretary

S E A L

dr/