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Attorneys at Law

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Santa Fé, New Mexico 87504-2265

Fax: 505/982-2047

June 20, 1989

HAND-DELIVERED

RECEIVED

Mr. William J. LeMay
Oil Conservation Division
Post Office Box 2088
Santa Fe, New Mexico 87504

JUN 20 1989

OIL CONSERVATION DIVISION

Re: Application of Oryx Energy Company
for Compulsory Pooling
Section 12, T25N, R2W, NMPM
Rio Arriba County, New Mexico

Case 9694

Dear Mr. LeMay:

On behalf of Oryx Energy Company, formerly Sun Exploration and Production Company, we would appreciate the enclosed application being set for hearing on the Examiner's docket now scheduled for July 12, 1989.

The following is a suggested advertisement for this case:

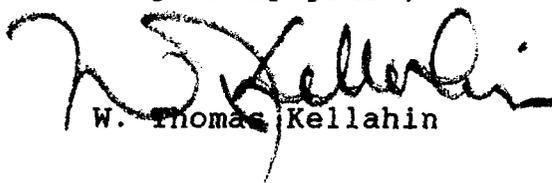
Application of Oryx Energy Company, formerly Sun Exploration and Production Company, for an order pooling all mineral interests in the Gavilan-Mancos Oil Pool underlying a certain 640-acre tract of land in Rio Arriba County, New Mexico. Applicant in the above-styled cause, seeks an order pooling all mineral interests in the Gavilan-Mancos Oil Pool underlying all of Section 12, Township 25 North, Range 2 West, to form a standard 640-acre oil spacing and proration unit in said pool. Said unit is to be dedicated to the Mallon Oil Company's Johnson Federal No. 12-5 Well located in Unit E which is presently completed in and producing from the Gavilan-Mancos Oil Pool. Also to be considered will be the cost of participation in the said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision. Applicant further requests that Mallon Oil Company remain as operator for the well and that the effective date of

KELLAHIN, KELLAHIN and AUBREY

Mr. William J. LeMay
Oil Conservation Division
June 20, 1989
Page 2

any order issued in the case be July 12, 1989, the date of the hearing. Said well is located approximately 4.5 miles east-northwest of the Ojito Post Office, New Mexico.

Very truly yours,



W. Thomas Kellahin

WTK/rs
Encl.

cc: Mr. Charles Grey
Oryx Energy Company
Post Office Box 2880
Dallas, Texas 75221

Mr. John Roe
Dugan Production Company
Post Office Box 2088
Farmington, New Mexico 87401

"Certified Return-Receipt Requested"

All parties listed in Application.

KELLAHIN, KELLAHIN and AUBREY
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July 17, 1989

HAND-DELIVERED

Mr. Michael E. Stogner
Oil Conservation Division
Post Office Box 2088
Santa Fe, New Mexico 87501

RECEIVED

JUL 18 1989

OIL CONSERVATION DIV.
SANTA FE

Re: Application of Oryx Energy Company
for Compulsory Pooling into the
Mallon Operated Johnson Federal
12-5 Well (NMOCD Case No. 9694)

Dear Mr. Stogner:

On behalf of Oryx Energy Company and in accordance with your directions at the conclusion of the hearing of the referenced case held on July 12, 1989, please find enclosed our proposed order for entry in this case.

Very truly yours,

W. Thomas Kellahin

W. Thomas Kellahin

WTK/rs
Encl.

cc: Charles Grey - Oryx-Dallas
Richard Dillon - Oryx-Midland
W. Perry Pearce - Montgomery & Andrews
Owen Lopez, Esq. - Hinkle, Cox, & Eaton

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

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

APPLICATION OF ORYX ENERGY COMPANY
FOR COMPULSORY POOLING,
RIO ARRIBA COUNTY, NEW MEXICO

CASE NO. 9694
ORDER NO. R-

ORYX ENERGY COMPANY'S PROPOSED
ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on July 12, 1989, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this ____ day of July, 1989, 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, Oryx Energy Company ("Oryx"), seeks an order pooling all mineral interest in the Gavilan-Mancos Oil Pool underlying a 640-acre tract being all of Section 12, T25N, R2W, NMPM, Rio Arriba County, New Mexico, to be

Michael E. Stogner

JUL 18 1989

OIL CONSERVATION DIV.
SANTA FE

dedicated to the Mallon Oil Company Johnson Federal 12-5 Well located 1650 feet from the North and 960 feet from the West line (Unit E) of said Section 12, which is presently completed in and producing from the Gavilan-Mancos Oil Pool and which is currently dedicated to a previously approved 320-acre oil spacing and proration unit underlying the W/2 of said Section.

(3) Mallon, the current operator of the Johnson Federal 12-5 Well appeared at the hearing in support of the proposed development of said Section 12 on a standard 640-acre spacing and proration unit but opposed to the Oryx proposal for costs of participation.

(4) On December 23, 1983, the Division adopted Order R-7407 which established temporary special rules and regulations for the Gavilan-Mancos Oil Pool, effective as of March 1, 1984, including a provision for 320-acre spacing unit and provided:

Rule 2: No more than one well shall be completed or recompleted on a standard unit containing 320-acres, more or less, consisting of the N/2, S/2, E/2 or W/2 of any governmental section.

and further required:

(2) That any well presently producing from the Gavilan-Mancos Oil Pool which does not have standard 320-acre proration unit, an approved non-standard proration unit, or which does not have a pending application for a hearing for a standard or non-standard proration unit by March, 1984, shall be shut-in until a standard or non-standard unit is assigned to the well.

(5) The evidence in this case indicated that said Johnson Federal 12-5 Well was completed in the Gavilan-Mancos Oil Pool on October 24, 1985 on a 40-acre oil spacing and proration unit consisting of the SW/2NW/4 of said Section 12 in accordance with the statewide spacing rules then in effect.

(6) On January 3, 1986, the Division issued its Order R-8063 in Case No. 8713, effective January 1, 1986, extending the horizontal boundary of the Gavilan-Mancos Oil Pool to include the W/2 of the Section among other lands.

(7) By Pooling Order R-8262 entered August 7, 1986, the W/2 of Section 12 was pooled into a spacing unit for the well in accordance with Order R-7407 and Order R-8063.

(8) By Order R-7407-E entered June 8, 1987, the Division amended the Special Rules and Regulations for the Gavilan-Mancos Oil Pool enlarging the standard spacing and proration units within said pool to 640 acres.

(9) By virtue of it being in existence prior to the issuance of said Division Order No. R-7407-E, a 320-acre non-standard oil spacing and proration unit consisting of the W/2 of said Section 12 and dedicated to said Johnson Federal 12-5 Well was approved pursuant to Rule 2 (a) of said order.

(10) On June 20, 1989, Oryx as an owner in the E/2 of said Section 12, filed an application with the Division for a compulsory pooling order to pool the E/2 of said Section with the W/2 of Section 12 which is already dedicated to the Johnson Federal 12-5 Well and thereby form a 640-acre proration unit.

(11) In addition, Oryx sought to have all E/2 owners participate in their proportionate share of the remaining recoverable production from the Johnson Federal 12-5 Well prospectively from July 12, 1989, by paying 50% of the present value of the remaining producible reserves for the well and allowing for a 15% rate of return on investment. (See Oryx exhibits 29, 30 and 31.)

(12) Oryx's proposed participation formula is based upon the conventional method relied upon by the industry to value producing properties for sale and acquisition.

(13) While Mallon's expert witness testified that he sought to have the E/2 owners pay 50% of the original costs of the well, such a participation formula would require the E/2 owners to contribute \$283,485.50 (being 50% of Mallon's total cost of \$566,971.00) and only receive approximately \$40,000.00 in revenues from the well resulting in a potential loss on the investment to those owners of approximately \$243,485.00.

(14) Mallon and Mesa Grande sought to have the Division adopt the "Loddy Solution" (Order R-8639) of paying 50% of the cost of the well escalated by 12% annum, only because it would be consistent with that order.

(15) That an examination of other Gavilan-Mancos compulsory pooling orders (R-8641, R-8664 and R-8262) entered by the Division demonstrates that those prior orders did not provide the same method of participation as found in the Loddy Solution.

(16) That all such prior orders were entered at a point in the producing life of the respective well when it was expected that each said well had sufficient remaining reserves to reimburse the owners of the undeveloped half section at least an amount equal to the cost of paying for 50% of the costs of the original well.

(17) Unlike the prior pooling cases as set forth above, the Johnson Federal 12-5 Well is not expected to attain payout and is therefore distinguishable.

(18) That by allowing the current owners of the production (W/2 of Section 12) to retain all of the past cumulative production from the well, their correlative rights in relation to the correlative rights of the E/2 owners is reasonably protected.

(19) That in the absence of adoption of the Oryx proposed participation formula, the owners in the W/2 of Section 12 will produce the remaining reserves underlying the E/2 of Section 12 without any compensation being paid to the owners in the E/2 of Section 12 thereby violating their correlative rights.

(20) Mallon and Oryx have been able to agree upon the following terms and conditions that would apply in the event the Division grants the compulsory pooling application:

(a) That Mallon remains as operator;

(b) That any working interest owner in the Section has the right under compulsory pooling statutes (Section 70-2-17[c]) to seek a compulsory pooling for the existing well;

(c) That the months overhead operating charge should be \$380.00 per month;

(d) That the original actual costs of the well when completed in 1986 as set forth in Order R-8622 were \$565,840.00;

(e) That a 30 day notice period should be afforded by Mallon to any working interest owner in the E/2 of said Section after entry of the order and within which to pay their proportionate share of reasonable reimbursement to the original owners for participation; and

(f) That in the event any working interest owner in the E/2 fails to make timely payment within the period required, that interest shall be deemed to have elected not to participate and Mallon shall have the right to recover out of production that parties share of the reimbursement, plus an additional 200%.

(21) That Mallon and Oryx have not been able to agree upon the reasonable charge to any consenting working interest owner in the E/2 of Section 12 for participation in the Johnson Federal 12-5 Well.

(22) Based upon the pressure interference analysis presented by Oryx which shows that said well is subject to pressure depletion by Gavilan-Mancos wells more than one mile away, the drilling of a well in the E/2 of said Section 12 does not appear to be necessary.

(23) Based upon the reservoir economic analysis presented by Oryx for both the W/2 and E/2 of Section 12, the correlative rights of the working interest, royalty interest and overriding royalty interest owners in both the W/2 and E/2 of Section 12 will be protected by approval of this application.

(24) Oryx presented a reservoir economic analysis for Section 12 which demonstrates that there are insufficient reserves remaining in the E/2 of Section 12 to justify the drilling of an additional well in the Section.

(25) To avoid the drilling of unnecessary wells, to protect correlative rights, to avoid waste and to afford the owners of each interest in the 640-acre unit the opportunity to recover or receive without unnecessary expense its just and fair share of production from the Gavilan-Mancos Oil Pool, the exemption for the original 320-acre unit should be withdrawn and 640-acre spacing made effective as of July 12, 1989.

(26) There is nothing in Order R-8262 or the Compulsory Pooling Statute (70-2-17[c]) or the rules and regulation of the Division which preclude the owners of the producing well from receiving less than the proportionate share of actual original costs of the well from the parties who want to now participate in the remaining production from the well, provided that sum is fair and reasonable.

(27) To require Oryx and other E/2 owners to participate in the well by paying their proportionate share of the original costs of a well drilled in 1985 would be a windfall for the working interest owners in the W/2 of Section 12 and violates the correlative rights of the working interest owners in the E/2 of Section 12.

(28) That Mallon should be designated the operator of the subject well and spacing unit.

(29) The Division finds that a payment of a proportionate share of the original actual costs of drilling, completing, and equipping the Johnson Federal 12-5 Well by the

working interest owners in the E/2 of Section 12 would violate the correlative rights of the owners in the undeveloped 320-acre spacing unit.

(30) The Division finds that a method of cost allocation that is reasonable and adequately compensates the original owners for the investment made on behalf of the new owners is one that is based upon the value of remaining reserves, which sum is found to be \$73,200.00.

(31) Oryx and other E/2 working interest owners should be afforded the opportunity to elect to either pay to the operator their proportionate share of the total sum of \$73,200.00 for participation in the Johnson Federal 12-5 Well, or to pay their proportionate share of such sum out of production; such election should be made by Oryx and any other working interest owner in the E/2 of Section 12 within thirty (30) days after receipt of notification by Mallon of the issuance of an Order in this case by the Division; and the operator should be entitled to withhold from production said working interest owners proportionate share of such costs unless said owner so elects and tenders payment of their proportionate share of such costs to operator within thirty (30) days after the issuance of the Order in this case.

(32) Should Oryx or any working interest owner in the E/2 of Section 12 not so elect and pay their share of such well costs within said period, they should have withheld from production their share of \$73,200.00 plus an additional 200 percent thereof as a reasonable charge for the risk involved in the well.

(33) \$380.00 per month while producing should be fixed as reasonable charges for supervision of the subject well (combined fixed rates); that in the event any E/2 working interest owner elects to pay their proportionate share of the actual costs incurred in the drilling, completion, and operation of the subject well out of production, then the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to the interest of said owner 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 the interest of said owner.

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

(35) 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 compulsory pooling provisions of this order.

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be within the Mancos formation underlying all of Section 12, Township 25 North, Range 2 West, NMPM, Rio Arriba County, New Mexico, are hereby pooled to form a standard 640-acre oil spacing and proration unit to be dedicated to the Mallon Oil Company Johnson Federal 12-5 Well which has been drilled and completed at a standard location thereon.

(2) Mallon Oil Company is hereby designated the operator of the subject well and unit.

(3) Within thirty (30) days after receipt of this order, Oryx and any other working interest owner in the E/2 of Section 12 shall have the right to pay their share of the \$83,000.00 to the operator in lieu of paying their share out of production and any such owner who so pays their share as provided shall remain liable for operating costs from July 12, 1989 forward, but shall not be liable for risk charges.

(4) The operator is hereby authorized to withhold the following costs and charges from production:

(a) The pro rata share of said \$73,200.00 sum attributable to each non-consenting working interest owner who has not paid his share of said sum as provided in Paragraph (3) of this order; 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 their share of said sum as provided in Paragraph (3) of this order.

(5) \$380.00 per month while producing are hereby fixed as reasonable charges for supervision of the subject well (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 expenditure required for operating the subject well, not in excess of what are reasonable, attributable to the interest of each non-consenting working interest.

(6) 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.

(7) All proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Rio Arriba 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 thirty (30) days from the date of first deposit with said escrow agent.

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

(9) 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.

(10) 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 date and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

WILLIAM J. LEMAY
DIRECTOR

S E A L

KELLAHIN, KELLAHIN and AUBREY

Attorneys at Law

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Karen Aubrey

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July 17, 1989

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Mr. Michael E. Stogner
Oil Conservation Division
Post Office Box 2088
Santa Fe, New Mexico 87501

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JUL 18 1989

OIL CONSERVATION DIV.
SANTA FE

Re: Application of Oryx Energy Company
for Compulsory Pooling into the
Mallon Operated Johnson Federal
12-5 Well (NMOCD Case No. 9694)

Dear Mr. Stogner:

. On behalf of Oryx Energy Company and in accordance with
your directions at the conclusion of the hearing of the
referenced case held on July 12, 1989, please find enclosed
our proposed order for entry in this case.

Very truly yours,

W. Thomas Kellahin

W. Thomas Kellahin

WTK/rs
Encl.

cc: Charles Grey - Oryx-Dallas
Richard Dillon - Oryx-Midland
W. Perry Pearce - Montgomery & Andrews
Owen Lopez, Esq. - Hinkle, Cox, & Eaton

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

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

APPLICATION OF ORYX ENERGY COMPANY
FOR COMPULSORY POOLING,
RIO ARriba COUNTY, NEW MEXICO

CASE NO. 9694
ORDER NO. R-

RECEIVED

JUL 18 1989

OIL CONSERVATION DIV.
SANTA FE

ORYX ENERGY COMPANY'S PROPOSED
ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on July 12, 1989, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this ____ day of July, 1989, 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, Oryx Energy Company ("Oryx"), seeks an order pooling all mineral interest in the Gavilan-Mancos Oil Pool underlying a 640-acre tract being all of Section 12, T25N, R2W, NMPM, Rio Arriba County, New Mexico, to be

dedicated to the Mallon Oil Company Johnson Federal 12-5 Well located 1650 feet from the North and 960 feet from the West line (Unit E) of said Section 12, which is presently completed in and producing from the Gavilan-Mancos Oil Pool and which is currently dedicated to a previously approved 320-acre oil spacing and proration unit underlying the W/2 of said Section.

(3) Mallon, the current operator of the Johnson Federal 12-5 Well appeared at the hearing in support of the proposed development of said Section 12 on a standard 640-acre spacing and proration unit but opposed to the Oryx proposal for costs of participation.

(4) On December 23, 1983, the Division adopted Order R-7407 which established temporary special rules and regulations for the Gavilan-Mancos Oil Pool, effective as of March 1, 1984, including a provision for 320-acre spacing unit and provided:

Rule 2: No more than one well shall be completed or recompleted on a standard unit containing 320-acres, more or less, consisting of the N/2, S/2, E/2 or W/2 of any governmental section.

and further required:

(2) That any well presently producing from the Gavilan-Mancos Oil Pool which does not have standard 320-acre proration unit, an approved non-standard proration unit, or which does not have a pending application for a hearing for a standard or non-standard proration unit by March, 1984, shall be shut-in until a standard or non-standard unit is assigned to the well.

(5) The evidence in this case indicated that said Johnson Federal 12-5 Well was completed in the Gavilan-Mancos Oil Pool on October 24, 1985 on a 40-acre oil spacing and proration unit consisting of the SW/2NW/4 of said Section 12 in accordance with the statewide spacing rules then in effect.

(6) On January 3, 1986, the Division issued its Order R-8063 in Case No. 8713, effective January 1, 1986, extending the horizontal boundary of the Gavilan-Mancos Oil Pool to include the W/2 of the Section among other lands.

(7) By Pooling Order R-8262 entered August 7, 1986, the W/2 of Section 12 was pooled into a spacing unit for the well in accordance with Order R-7407 and Order R-8063.

(8) By Order R-7407-E entered June 8, 1987, the Division amended the Special Rules and Regulations for the Gavilan-Mancos Oil Pool enlarging the standard spacing and proration units within said pool to 640 acres.

(9) By virtue of it being in existence prior to the issuance of said Division Order No. R-7407-E, a 320-acre non-standard oil spacing and proration unit consisting of the W/2 of said Section 12 and dedicated to said Johnson Federal 12-5 Well was approved pursuant to Rule 2 (a) of said order.

(10) On June 20, 1989, Oryx as an owner in the E/2 of said Section 12, filed an application with the Division for a compulsory pooling order to pool the E/2 of said Section with the W/2 of Section 12 which is already dedicated to the Johnson Federal 12-5 Well and thereby form a 640-acre proration unit.

(11) In addition, Oryx sought to have all E/2 owners participate in their proportionate share of the remaining recoverable production from the Johnson Federal 12-5 Well prospectively from July 12, 1989, by paying 50% of the present value of the remaining producible reserves for the well and allowing for a 15% rate of return on investment. (See Oryx exhibits 29, 30 and 31.)

(12) Oryx's proposed participation formula is based upon the conventional method relied upon by the industry to value producing properties for sale and acquisition.

(13) While Mallon's expert witness testified that he sought to have the E/2 owners pay 50% of the original costs of the well, such a participation formula would require the E/2 owners to contribute \$283,485.50 (being 50% of Mallon's total cost of \$566,971.00) and only receive approximately \$40,000.00 in revenues from the well resulting in a potential loss on the investment to those owners of approximately \$243,485.00.

(14) Mallon and Mesa Grande sought to have the Division adopt the "Loddy Solution" (Order R-8639) of paying 50% of the cost of the well escalated by 12% annum, only because it would be consistent with that order.

(15) That an examination of other Gavilan-Mancos compulsory pooling orders (R-8641, R-8664 and R-8262) entered by the Division demonstrates that those prior orders did not provide the same method of participation as found in the Loddy Solution.

(16) That all such prior orders were entered at a point in the producing life of the respective well when it was expected that each said well had sufficient remaining reserves to reimburse the owners of the undeveloped half section at least an amount equal to the cost of paying for 50% of the costs of the original well.

(17) Unlike the prior pooling cases as set forth above, the Johnson Federal 12-5 Well is not expected to attain payout and is therefore distinguishable.

(18) That by allowing the current owners of the production (W/2 of Section 12) to retain all of the past cumulative production from the well, their correlative rights in relation to the correlative rights of the E/2 owners is reasonably protected.

(19) That in the absence of adoption of the Oryx proposed participation formula, the owners in the W/2 of Section 12 will produce the remaining reserves underlying the E/2 of Section 12 without any compensation being paid to the owners in the E/2 of Section 12 thereby violating their correlative rights.

(20) Mallon and Oryx have been able to agree upon the following terms and conditions that would apply in the event the Division grants the compulsory pooling application:

(a) That Mallon remains as operator;

(b) That any working interest owner in the Section has the right under compulsory pooling statutes (Section 70-2-17[c]) to seek a compulsory pooling for the existing well;

(c) That the monthly overhead operating charge should be \$380.00 per month;

(d) That the original actual costs of the well when completed in 1986 as set forth in Order R-8622 were \$565,840.00;

(e) That a 30 day notice period should be afforded by Mallon to any working interest owner in the E/2 of said Section after entry of the order and within which to pay their proportionate share of reasonable reimbursement to the original owners for participation; and

(f) That in the event any working interest owner in the E/2 fails to make timely payment within the period required, that interest shall be deemed to have elected not to participate and Mallon shall have the right to recover out of production that parties share of the reimbursement, plus an additional 200%.

(21) That Mallon and Oryx have not been able to agree upon the reasonable charge to any consenting working interest owner in the E/2 of Section 12 for participation in the Johnson Federal 12-5 Well.

(22) Based upon the pressure interference analysis presented by Oryx which shows that said well is subject to pressure depletion by Gavilan-Mancos wells more than one mile away, the drilling of a well in the E/2 of said Section 12 does not appear to be necessary.

(23) Based upon the reservoir economic analysis presented by Oryx for both the W/2 and E/2 of Section 12, the correlative rights of the working interest, royalty interest and overriding royalty interest owners in both the W/2 and E/2 of Section 12 will be protected by approval of this application.

(24) Oryx presented a reservoir economic analysis for Section 12 which demonstrates that there are insufficient reserves remaining in the E/2 of Section 12 to justify the drilling of an additional well in the Section.

(25) To avoid the drilling of unnecessary wells, to protect correlative rights, to avoid waste and to afford the owners of each interest in the 640-acre unit the opportunity to recover or receive without unnecessary expense its just and fair share of production from the Gavilan-Mancos Oil Pool, the exemption for the original 320-acre unit should be withdrawn and 640-acre spacing made effective as of July 12, 1989.

(26) There is nothing in Order R-8262 or the Compulsory Pooling Statute (70-2-17[c]) or the rules and regulation of the Division which preclude the owners of the producing well from receiving less than the proportionate share of actual original costs of the well from the parties who want to now participate in the remaining production from the well, provided that sum is fair and reasonable.

(27) To require Oryx and other E/2 owners to participate in the well by paying their proportionate share of the original costs of a well drilled in 1985 would be a windfall for the working interest owners in the W/2 of Section 12 and violates the correlative rights of the working interest owners in the E/2 of Section 12.

(28) That Mallon should be designated the operator of the subject well and spacing unit.

(29) The Division finds that a payment of a proportionate share of the original actual costs of drilling, completing, and equipping the Johnson Federal 12-5 Well by the

working interest owners in the E/2 of Section 12 would violate the correlative rights of the owners in the undeveloped 320-acre spacing unit.

(30) The Division finds that a method of cost allocation that is reasonable and adequately compensates the original owners for the investment made on behalf of the new owners is one that is based upon the value of remaining reserves, which sum is found to be \$73,200.00.

(31) Oryx and other E/2 working interest owners should be afforded the opportunity to elect to either pay to the operator their proportionate share of the total sum of \$73,200.00 for participation in the Johnson Federal 12-5 Well, or to pay their proportionate share of such sum out of production; such election should be made by Oryx and any other working interest owner in the E/2 of Section 12 within thirty (30) days after receipt of notification by Mallon of the issuance of an Order in this case by the Division; and the operator should be entitled to withhold from production said working interest owners proportionate share of such costs unless said owner so elects and tenders payment of their proportionate share of such costs to operator within thirty (30) days after the issuance of the Order in this case.

(32) Should Oryx or any working interest owner in the E/2 of Section 12 not so elect and pay their share of such well costs within said period, they should have withheld from production their share of \$73,200.00 plus an additional 200 percent thereof as a reasonable charge for the risk involved in the well.

(33) \$380.00 per month while producing should be fixed as reasonable charges for supervision of the subject well (combined fixed rates); that in the event any E/2 working interest owner elects to pay their proportionate share of the actual costs incurred in the drilling, completion, and operation of the subject well out of production, then the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to the interest of said owner 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 the interest of said owner.

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

(35) 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 compulsory pooling provisions of this order.

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be within the Mancos formation underlying all of Section 12, Township 25 North, Range 2 West, NMPM, Rio Arriba County, New Mexico, are hereby pooled to form a standard 640-acre oil spacing and proration unit to be dedicated to the Mallon Oil Company Johnson Federal 12-5 Well which has been drilled and completed at a standard location thereon.

(2) Mallon Oil Company is hereby designated the operator of the subject well and unit.

(3) Within thirty (30) days after receipt of this order, Oryx and any other working interest owner in the E/2 of Section 12 shall have the right to pay their share of the \$83,000.00 to the operator in lieu of paying their share out of production and any such owner who so pays their share as provided shall remain liable for operating costs from July 12, 1989 forward, but shall not be liable for risk charges.

(4) The operator is hereby authorized to withhold the following costs and charges from production:

(a) The pro rata share of said \$73,200.00 sum attributable to each non-consenting working interest owner who has not paid his share of said sum as provided in Paragraph (3) of this order; 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 their share of said sum as provided in Paragraph (3) of this order.

(5) \$380.00 per month while producing are hereby fixed as reasonable charges for supervision of the subject well (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 expenditure required for operating the subject well, not in excess of what are reasonable, attributable to the interest of each non-consenting working interest.

(6) 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.

(7) All proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Rio Arriba 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 thirty (30) days from the date of first deposit with said escrow agent.

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

(9) 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.

(10) 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 date and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

WILLIAM J. LEMAY
DIRECTOR

S E A L

MONTGOMERY & ANDREWS

PROFESSIONAL ASSOCIATION
ATTORNEYS AND COUNSELORS AT LAW

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A. K. Montgomery (1903-1987)
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July 18, 1989

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REPLY TO SANTA FE OFFICE

Mr. Michael Stogner
Hearing Examiner
Oil Conservation Division
State Land Office Building
Santa Fe, New Mexico 87503

Re: Application of Oryx Energy Company for Compulsory
Pooling - OCD Case No. 9694

Dear Mr. Stogner:

Attached please find the proposed Order submitted to you by Mallon Oil Company. As you recall, Mallon Oil Company is the operator of the Johnson Federal Well 12-5 and Oryx Energy's application in this case seeks to participate in that well.

The attached draft order is based largely upon the order entered by the Commission in the Loddy pooling case which was referred to during the hearing of this matter. Because of the length of time that the Johnson Federal 12-5 Well has been producing, Mallon believes that it is appropriate to eliminate the interest rate which was applied in the Loddy order and that 12% interest provision is not included in this draft order.

Mr. Michael Stogner
July 18, 1989
Page 2

If we can be of further assistance to you in this matter,
please do not hesitate to let me know.

Sincerely,

A handwritten signature in black ink, appearing to read 'W. Perry Pearce', written in a cursive style.

W. Perry Pearce

WPP/rmm/27
Attachment
cc: W. Thomas Kellahin, Esquire
Owen M. Lopez, Esquire

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 NO. 9694
Order No. R-

APPLICATION OF ORYX ENERGY COMPANY
FOR AN ORDER POOLING ALL MINERAL
INTERESTS IN THE GAVILAN-MANCOS OIL
POOL, RIO ARRIBA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

This cause came on for hearing at 8:15 a.m. on July 12, 1989, at Santa Fe, New Mexico, before the Oil Conservation Division of New Mexico, hereinafter referred to as the "Division."

NOW, on this _____ day of July, 1989, the Division, 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 has been given as required by the law and the Division has jurisdiction of this cause and the subject matter thereof.

(2) Applicant Oryx Energy Company is an interest owner in the E/2 of Section 12, Township 25 North, Range 2 West, NMPM, Rio Arriba County, New Mexico, and has filed an application to establish a standard 640-acre oil spacing and proration unit in the Gavilan-Mancos Oil Pool consisting of all of Section 12 and seeks to pool all oil and gas mineral interests in the Gavilan-Mancos Pool underlying this section.

(3) Mallon Oil Company is an owner of and the operator of a producing oil well, the Johnson Federal No. 12-5, drilled and completed in the Gavilan-Mancos Oil Pool at a location 1650 feet from the North line and 960 feet from the West line of Section 12, Township 25 North, Range 2 West, NMPM, Rio Arriba County, New Mexico.

(4) That Oil Conservation Commission Order R-7407-E, entered July 8, 1987, established the standard proration unit size in the Gavilan-Mancos Oil Pool at 640 acres, consisting of a governmental section, but provided an exception for proration units formed prior to the date of the order.

(5) Applicant demonstrated that reserves underlying the E/2 of Section 12 are insufficient to justify the drilling of a second well in that section and demonstrated that the Johnson Federal Well No. 12-5 will adequately drain the reserves from the section so that approval of this application will prevent waste from drilling an unnecessary well and will protect the correlative rights of the owners in both the E/2 and W/2 of the section.

(6) To avoid the drilling of an unnecessary well, to protect correlative rights, to prevent waste and to afford to the owner an interest in Section 12 the opportunity to recover, without unnecessary expense, their just and fair share of the hydrocarbons in the Gavilan-Mancos Oil Pool, the subject application should be approved by establishing a standard 640-acre oil spacing and proration unit consisting of Section 12, Township 25 North, Range 2 West, NMPM, Rio Arriba County, New Mexico, and pooling all oil and gas mineral interests in the Gavilan-Mancos Oil Pool into said unit.

(7) Applicant has requested that the pooling of the E/2 of Section 12 into a standard 640-acre spacing and proration unit in the Gavilan-Mancos Oil Pool should be accomplished effective July 12, 1989.

(8) Applicant seeks to obtain 50% participation in the Johnson Federal 12-5 well upon payment of \$36,300.00 which is 50% of the applicants estimate of the remaining value of production from the well discounted at a rate of 15%.

(9) Mallon Oil Company and Mesa Grande Resources appeared at the hearing and urged that the appropriate participation formula for the E/2 of Section 12 is to require the interest owners in that E/2 section to bear one-half of the cost of drilling and completing the well.

(10) Applicant seeks the imposition of a risk penalty equal to 200% of their prorata share of the cost of drilling and completing the Johnson Federal 12-5 Well.

(11) Mallon Oil Company presented evidence that the actual cost of drilling and completing the Johnson Federal 12-5 Well was \$566,971.00 and therefore urged the Division that the parties seeking to participate in that well be required to tender the sum of \$283,485.00.

(12) In the event that parties seeking to participate in the Johnson Federal 12-5 Well do not agree to the payment of this sum, the sum may be deducted from future production from the Johnson 12-5 Well, along with a deduction for a risk penalty in the amount of 200% of this sum as compensation to present interest owners in the Johnson 12-5 Well for the risks taken in drilling and completing this well.

(13) A reasonable charge for supervision and administrative overhead is \$389.00 per month.

(14) Should the parties hereto subsequently enter into a joint operating agreement, this Order should become void and of no further effect regarding the items covered in the operating agreement.

(15) Mallon Oil Company should remain the operator of the Johnson Federal 12-5 Well.

IT IS THEREFORE ORDERED THAT:

(1) A standard 640-acre oil spacing and proration unit is hereby established consisting of Section 12, Township 25 North, Range 2 West, NMPM, Gavilan-Mancos Oil Pool, Rio Arriba County, New Mexico, and all oil and gas mineral interests in this pool underlying said Section 12 are hereby pooled and dedicated to the Mallon Oil Company, Johnson Federal Well No. 12-5 located 1650 feet from the North line and 960 feet from the West line of said Section 12, and Mallon Oil Company is designated as the operator of said well effective July 12, 1989.

(2) The operator is to account to and pay each owner in said enlarged unit his prorata share of production from the enlarged unit from the effective date of this order; provided said owners of working interests in the E/2 of said Section 12 shall within 30 days after receipt of a copy of this Order together with an invoice in the amount due pay their prorata share of the cost of said well, or \$283,485.00, as described in Finding No. 11 hereinabove; or in the event of failure to make such payment shall have taken out of production by the operator said amount plus 200% of their prorata share until operator has been paid the monies required by this Order.

(3) A reasonable supervision charge is hereby determined to be \$389.00 per month for said well and the operator is hereby authorized to withhold from production the proportionate share of such supervision charge attributable to each non-paying working interest as well as the proportionate share of actual expenditures for operating the well.

(4) Any well costs or charges which are to be paid out of production shall be withheld only from the working interests share of production, and no costs or charges shall be withheld from production attributable to the royalty interests.

(5) All proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Rio Arriba 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 thirty days from the date of first deposit with said escrow agent.

(6) Should all parties to this force pooling reach voluntary agreement subsequent to the entry of this Order, this Order shall thereafter be of no further effect.

(7) The operator of the well 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.

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

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

WILLIAM J. LEMAY, Director



STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

GARREY CARRUTHERS
GOVERNOR

August 1, 1989

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(505) 827-5800

Mr. Thomas Kellahin
Kellahin, Kellahin, & Aubrey
Attorneys at Law
Post Office Box 2265
Santa Fe, New Mexico

Re: CASE NO. 9694
ORDER NO. R-8262-A

Applicant:

Oryx Energy Company

Dear Sir:

Enclosed herewith are two copies of the above-referenced
Division order recently entered in the subject case.

Sincerely,

Florene Davidson

FLORENE DAVIDSON
OC Staff Specialist

Copy of order also sent to:

Hobbs OCD x
Artesia OCD x
Aztec OCD x

Other Perry Pearce, Owen Lopez