

BEFORE THE

OIL CONSERVATION DIVISION

DEPARTMENT OF ENERGY, MINERALS AND NATURAL RESOURCES

RECEIVED

FEB 26 1991

IN THE MATTER OF THE APPLICATION
OF NORTHWEST PIPELINE CORPORATION
FOR CLARIFICATION OF ITS ORDER
NO. R-8332 RELATING TO COMPULSORY
POOLING, RIO ARriba COUNTY,
NEW MEXICO

OIL CONSERVATION DIV.
SANTA FE

CASE NO. 10265

APPLICATION

NORTHWEST PIPELINE CORPORATION (Northwest), through its undersigned attorneys, hereby makes application for clarification of Order No. R-8332 of the Oil Conservation Division and states:

1. The Oil Conservation Division heretofore entered its Order No. R-8332 on November 4, 1986, pooling all mineral interests in the Gavilan-Mancos Oil Pool underlying the S/2 Section 24, Township 25 North, Range 2 West, N.M.P.M., Rio Arriba County, New Mexico forming a standard 320 acre oil spacing and proration unit dedicated to the Mesa Grande Resources Inc. (Mesa Grande) Rucker Lake Well No. 2.

2. That Order also designated Mesa Grande operator of the subject well and unit and expressly provided, in part, that:

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

Reasonable well costs were established, subject to objections, but no objections were made thereto.

3. Northwest had previously drilled the Rucker Lake No. 2 Well and dedicated the SW/4 of said Section 24 thereto as a standard spacing or proration unit. After the entry of Order No. R-7407 on December 20, 1983, establishing the Gavilan-Mancos Oil Pool and the Special Rules and Regulations therefor effective March 1, 1984, Northwest proposed the S/2 of said Section 24 as a standard spacing or proration unit for that Rucker Lake No. 2 Well. All the owners of interest in the proposed 320 acre unit approved the Communitization Agreement for the S/2 of said Section 24, and duly executed the Operating Agreement relating thereto except for:

Mountain States Natural Gas Corporation
Post Office Box 35426
Tulsa, Oklahoma 74135

Northwest withheld payment of revenue received from the sale of production from the Rucker Lake No. 2 Well pending the execution of the Operating Agreement by all the working interest owners, or the determination of reasonable well costs by the Division. Upon execution of the Operating Agreement by those working interest owners, Northwest released their share of the monies so held by Northwest. As heretofore noted, Mountain States Natural Gas Corporation was the sole working interest owner which failed to execute the proposed Operating Agreement, and Northwest therefore filed its Application in Case No. 8985 for compulsory pooling.

4. As was stated in prior case No. 8985 (for which Order No. R-8332 was issued), Northwest had entered into an agreement with

Mesa Grande whereby Northwest sold, and Mesa Grande purchased the Rucker Lake No. 2 Well effective March 1, 1984 at 7:00 a.m., the same effective date of the Special Rules and Regulations established by the Oil Conservation Division for the Gavilan-Mancos Oil Pool in its Order No. R-7407.

5. Northwest had been the operator of the Rucker Lake No. 2 Well through the month of August, 1985, a time when Mesa Grande assumed that position effective September 1, 1985 at 7:00 a.m.

6. After the entry of Order No. R-8332 on November 4, 1986, and acting pursuant thereto, Northwest timely and properly accounted to Mesa Grande for the proceeds of production attributable to the interest of Mountain States Natural Gas Corporation for the months of March, 1984 through August, 1985, deducting therefrom Mountain States Natural Gas Corporation's share of drilling and completion costs for the Rucker Lake No. 2 Well and its share of the costs of operation and maintenance during that same time period. Northwest remitted the balance so owing Mountain States Natural Gas Corporation to Mesa Grande, and upon information and belief, Northwest avers that Mesa Grande thereafter paid such sum(s) to Mountain States Natural Gas Corporation.

7. Mountain States Natural Gas Corporation thereafter filed its petition in the District Court of Tulsa County, State of Oklahoma against Northwest Pipeline Corporation and Mesa Grande Resources Inc. alleging, among other things, that Northwest "wholly failed and refused to account to Mountain States Natural Gas Corporation" for its share of production from the Rucker Lake No.

2 Well "since the date of first production."

8. The Oil Conservation Division expressly retained jurisdiction in Case No. 8985 for the entry of such further orders as the Division might deem necessary. Pursuant thereto, the Division should review the procedure of accounting and payment so adopted by the parties to Mountain States Natural Gas Corporation, and determine whether or not the same was proper.

WHEREFORE, Northwest requests that this matter be set for hearing before a duly appointed examiner and that after notice of hearing as required by law and the rules of the Division, the Division enter its Order further clarifying its Order No. R-8332 and particularly paragraphs (7) and (8) thereof, heretofore quoted, and determine whether or not the procedure of that accounting and payment from Northwest to Mesa Grande (and Mountain States Natural Gas Corporation) conformed thereto and was proper, and specifically including the question of whether or not Mountain States Natural Gas Corporation was entitled to a share of the proceeds of production from the initial delivery date or only from March 1, 1984, the effective date of the Division's Order No. R-7407.

Respectfully submitted,

RODEY, DICKASON, SLOAN, AKIN & ROBB, P.A.



By

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