

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

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

CASE NO. 8631
Order No. R-8007

APPLICATION OF LYNX PETROLEUM
CONSULTANTS, INC. FOR AN UNORTHODOX
GAS WELL LOCATION, COMPULSORY POOLING, AND
A DUAL COMPLETION, LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8 a.m. on June 19, 1985, and on July 17, 1985, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 15th day of August, 1985, 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, Lynx Petroleum Consultants, Inc., seeks an order pooling all mineral interests in the Queen formation underlying the SW/4 of Section 25, Township 16 South, Range 36 East, NMPM, Lea County, New Mexico, to form a standard 160 acre gas spacing unit to be dedicated to its Geraldine Doughty Well No. 1 located at an unorthodox gas well location 1650 feet from the North line and 2310 feet from the East line of said Section 25.

(3) Applicant further seeks determination of the cost of drilling and completing a similar well from the surface to the base of the Queen formation and the allocation of the cost thereof as well as actual operating costs and charges for supervision.

(4) The applicant has drilled to and completed the subject well in the Lovington Paddock Pool pursuant to Division Order No. R-7689, dated September 28, 1984, which authorized

the compulsory pooling of all mineral interests from the surface to the base of the Paddock formation underlying the NE/4 SW/4 of said Section 25. Although the Queen formation was penetrated in the drilling of the well, it was not tested.

(5) The applicant now desires to test the Queen formation, and if the Queen is found to be productive of gas, to dually complete the well in such a manner that the Lovington Paddock production would continue to be produced through tubing in a conventional manner while the Queen production would be produced through the casing-tubing annulus.

(6) There are interest owners in the proposed 160-acre gas spacing and proration unit who have not agreed to pool their interests.

(7) At the time of the hearing, Texaco Inc., a 50 percent divided interest holder in the proposed 160-acre gas unit, appeared and objected to sharing in the costs of drilling this well from the surface to the Queen formation. Texaco Inc. was not a party to the forced pooling that resulted in said Division Order No. R-7689 since they have no working interest within the NE/4 SW/4 of said Section 25.

(8) There is insufficient evidence to show that production from the Queen in the casing-tubing annulus would utilize reservoir energy efficiently, which could result in underground waste and impairment of correlative rights, and that portion of this application seeking a dual completion should be denied.

(9) No offset operator objected to the unorthodox gas well location.

(10) 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 unnecessary expense his just and fair share of the gas in the Queen formation, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit at the above-described unorthodox location.

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

(12) 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.

(13) For purposes of this order, the estimated well costs should be based on the reasonable cost of re-entering the subject well and its completion in the Queen formation, and the salvage cost of the existing equipment from the surface to the base of the Queen formation on the subject well with the exception of pumping equipment.

(14) Subsequent to the hearing, the applicant furnished the Division, at its request, an inventory of the equipment on the subject well and an estimate of its salvage value.

(15) The salvage value of the equipment in the subject well should be set at \$113,500.00 which costs are fair and reasonable.

(16) 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 re-entry and completion of the subject well to the Queen formation.

(17) The evidence presented at the time of the hearing supports a 200 percent risk factor, including, but limited to the fact that there are no wells producing from the Queen formation within 2 miles of the subject well; there are mechanical risks involved in the recompletion of said well in the Queen formation and there are substantial risks of obtaining commercial production in the Queen formation.

(18) For the purpose of this order, actual well costs should refer to the cost of re-entering the subject well and its completion in the Queen formation.

(19) Any non-consenting interest owner should be afforded the opportunity to object to the actual well costs, including the aforesaid salvage value, but that actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(20) 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.

(21) \$3,500.00 per month while re-entering the subject well and its completion in the Queen formation and \$350.00 per month while producing should be fixed as reasonable charges for

supervision (combined fixed rates) while producing from the Queen formation; 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.

(22) 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.

(23) Upon the failure of the operator of said pooled unit to commence re-entry and completion operations in the Queen formation on the subject well to which said unit is dedicated on or before November 1, 1985, the order pooling said unit should become null and void and of no effect whatsoever.

(24) 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.

(25) 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 forced pooling provisions of this order.

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be, in the Queen formation underlying the SW/4 of Section 25, Township 16 South, Range 36 East, NMPM, Lea County, New Mexico, are hereby pooled to form a standard 160-acre gas spacing and proration unit to be dedicated to the Lynx Petroleum Consultants Geraldine Doughty Well No. 1 located at an unorthodox gas well location for the Queen formation, said location being hereby approved.

PROVIDED HOWEVER, that the operator of said unit shall commence completion operations to the Queen formation of said well on or before the first day of November, 1985, and shall thereafter continue the completion of said well with due diligence;

PROVIDED FURTHER, that in the event said operator does not commence the completion of said well in the Queen formation on or before the first day of November, 1985, Ordering Paragraph

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

(A) The pro rata share of reasonable well costs as set forth in Ordering Paragraph Nos. (5) and (6) above, attributable to each non-consenting working interest owner who has not paid his share of estimated well costs plus said \$113,500.00 salvage value 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 re-entering said 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 recompletion 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) \$3,500.00 per month while re-entering the subject well and its completion in the Queen formation and \$350.00 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 unsevered 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

-7-

Case No. 8631
Order No. R-8007

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.

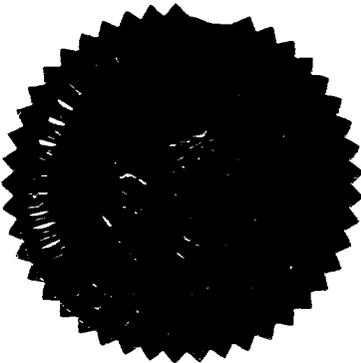
(13) Should all the parties to this forced pooling reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(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) The portion of the applicant's Lynx Petroleum Consultants, Inc., request for the unconventional dual completion of its Geraldine Doughty Well No. 1 located 1650 feet from the North line and 2310 feet from the East line of Section 25, Township 16 South, Range 36 East, NMPM, Lea County, New Mexico, is hereby denied.

(16) 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

R. L. STAMETS,
Director