

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

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JUN 16 1980

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

O. C. D.
ARTESIA, OFFICE

CASE NO. 6897
Order No. R-6367

APPLICATION OF McCLELLAN OIL
CORPORATION FOR TWO COMPULSORY
POOLINGS, CHAVES COUNTY, NEW
MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on May 21, 1980, at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 5th day of June, 1980, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

- (1) That due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.
- (2) That the applicant, McClellan Oil Corporation, seeks an order pooling all mineral interests from 1200 feet below the surface to the base of the Abo formation underlying the SW/4 and the SE/4 of Section 30, Township 6 South, Range 26 East, NMPM, Chaves County, New Mexico.
- (3) That the applicant has the right to drill and proposes to drill a gas well at a standard location on each of the afore-said 160-acre spacing and proration units.
- (4) That there are interest owners in the proposed proration units who have not agreed to pool their interests.
- (5) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each interest in said units the opportunity to recover or receive

without unnecessary expense his just and fair share of the gas in said pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said units.

(6) That the applicant should be designated the operator of the subject wells and units.

(7) That 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.

(8) That 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 drilling of each of said wells.

(9) That any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but that actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(10) That 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.

(11) That \$1500.00 per month per well while drilling and \$220.00 per month per well while producing should be fixed as reasonable charges for supervision (combined fixed rates); that 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.

(12) That all proceeds from production from either of the subject wells 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.

(13) That upon the failure of the operator of said pooled unit to commence drilling of the first of said wells on one of said units on or before September 15, 1980, the order pooling said units should become null and void and of no effect whatsoever.

(14) That upon failure of the operator to drill a well to completion, or abandonment, on the second spacing and proration unit herein pooled or to dedicate such unit to another Abo well within 12 months after the effective date of this order, Order No. (1) of this order should be null and void and of no effect whatsoever with respect to said second spacing and proration unit.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, from 1200 feet below the surface to the base of the Abo formation underlying the SW/4 and the SE/4 of Section 30, Township 6 South, Range 26 East, NMPM, Chaves County, New Mexico, are hereby pooled to form two standard 160-acre gas spacing and proration units, each to be dedicated to a gas well to be drilled at a standard location thereon.

PROVIDED HOWEVER, that the operator of said units shall commence the drilling of the first of said wells on or before the 15th day of September, 1980, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Abo formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 15th day of September, 1980, Order (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 Order (1) of this order should not be rescinded.

PROVIDED FURTHER, that should the second of said wells not be drilled to completion, or abandonment, within 12 months after the effective date of this order or if the pooled acreage is not otherwise dedicated to an Abo gas well, said operator shall appear before the Division Director and show cause why Order (1) of this order should not be rescinded as to such well and unit.

(2) That McCellan Oil Corporation is hereby designated the operator of the subject wells and units.

(3) That after the effective date of this order and within 90 days prior to commencing either of said wells, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(4) That 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 that 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) That 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 each of said wells; that 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, that 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) That 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) That 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.

(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 days from the date the schedule of estimated well costs is furnished to him.

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

(9) That \$1500.00 per month while drilling and \$220.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that 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 said wells, not in excess of what are reasonable, attributable to each non-consenting working interest.

(10) That 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) That 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 royalty interests.

(12) That all proceeds from production from either of the subject wells which are not disbursed for any reason shall immediately be placed in escrow in Chaves County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that 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) That jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

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S E A L

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION
JOE D. RAMSEY
Director

DONE at Santa Fe, New Mexico, on the day and year herein-
above designated.

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