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

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

CASE NO. 11406
Order No. R-10507

APPLICATION OF MERIDIAN OIL INC.
FOR COMPULSORY POOLING, RIO
ARRIBA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

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This cause came on for hearing at 8:15 a.m. on October 19, 1995, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 1st day of November, 1995, 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, Meridian Oil Inc. (Meridian), seeks an order pooling all mineral interests in the Mesaverde formation underlying the E/2 of Section 22, Township 25 North, Range 3 West, NMPM, Rio Arriba County, New Mexico, forming a standard 320-acre gas spacing and proration unit in the Blanco-Mesaverde Gas Pool. Said unit is to be dedicated to the existing Meridian Oil Inc. Arco Hill Well No. 1 located at a standard gas well location 1650 feet from the North line and 1780 feet from the East line (Unit G) of Section 22.

(3) According to Division records, the Arco Hill Well No. 1 was drilled in 1985 by Arco Oil & Gas Company and completed in the West Lindrith Gallup-Dakota Oil Pool. Meridian assumed operations on the well on April 1, 1990.

(4) The Arco Hill Well No. 1 produced from the West Lindrith Gallup-Dakota Oil Pool from 1985 until July, 1991.

(5) According to applicant's testimony and Division records, the Arco Hill Well No. 1, which has not produced for several years, has reached its economic limit in the West Lindrith Gallup-Dakota Oil Pool.

(6) The well is currently dedicated to a standard 160-acre oil spacing and proration unit in the West Lindrith Gallup-Dakota Oil Pool comprising the NE/4 of Section 22.

(7) The applicant proposes to permanently abandon the Gallup-Dakota interval in the Arco Hill Well No. 1 and recomplete to the Mesaverde formation in order to recover gas reserves underlying the E/2 of Section 22.

(8) Meridian is the owner of all interests within the NE/4 of Section 22 (Federal Lease No. NM-04075). There are eight different working interest owners within the SE/4 of Section 22 (being the record title owners under Federal Lease No. SF-081334).

(9) Meridian has attempted to reach a voluntary agreement with all working interest owners within the SE/4 of Section 22, but has been unable to do so.

(10) The applicant has the right to recomplete the aforesaid Arco Hill Well No. 1 to the Blanco-Mesaverde Gas Pool.

(11) The consent of or the compulsory pooling of said record title owners is required by the United States Bureau of Land Management (USBLM) before communitization of Federal Lease Nos. NM-04075 and SF-081334 is approved.

(12) To avoid the drilling of unnecessary wells, to protect correlative rights, to avoid 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 production in the Blanco-Mesaverde Gas Pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

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

(14) Meridian proposed that recompletion costs to the Mesaverde interval, estimated at \$226,610.00, be adopted as estimated well costs for the purpose of this order. Meridian seeks no compensation for the value of the existing wellbore from the various working interest owners within the E/2 of Section 22.

(15) Meridian's estimated recompletion costs, \$226,610.00 should be adopted as estimated well costs.

(16) Any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs (\$226,610.00) 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 the reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in recompleting the subject well.

(18) Any non-consenting working 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) \$4176.00 per month while recompleting and \$452.00 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 recompletion operations on the well to which said unit is dedicated on or before February 1, 1996, the order pooling said unit should become null and void and of no effect whatsoever.

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

(24) 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.

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be, including record title ownership, in the Mesaverde formation underlying the E/2 of Section 22, Township 25 North, Range 3 West, NMPM, Rio Arriba County, New Mexico, are hereby pooled forming a standard 320-acre gas spacing and proration unit in the Blanco-Mesaverde Gas Pool. Said unit shall be dedicated to the existing Meridian Oil Inc. Arco Hill Well No. 1 located at a standard gas well location 1650 feet from the North line and 1780 feet from the East line (Unit G) of Section 22, which shall be recompleted from the West Lindrith Gallup-Dakota Oil Pool to the Blanco-Mesaverde Gas Pool.

PROVIDED HOWEVER THAT, the operator of said unit shall commence recompletion operations on said well on or before the 1st day of February, 1996.

PROVIDED FURTHER THAT, in the event said operator does not commence recompletion operations on said well on or before the 1st day of February, 1996, Ordering 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 Director for good cause shown.

PROVIDED FURTHER THAT, should said well not be recompleted within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Ordering Paragraph No. (1) of this order should not be rescinded.

(2) Meridian Oil Inc. 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 recompletion operations, 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 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 well 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.

(B) As a charge for the risk involved in recompleting 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) The operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(9) \$4176.00 per month while drilling and \$452.00 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 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 30 days from the date of first deposit with said escrow agent.

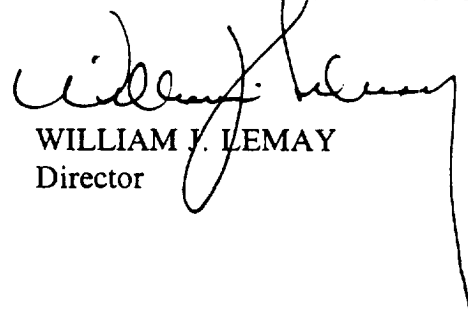
(13) Should all the parties to this forced pooling order reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(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 forced pooling provisions of this order.

(15) Jurisdiction is hereby 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


WILLIAM J. LEMAY
Director

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