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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:

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OIL CON. DIV.
DIST. 3 CASE NO. 11432
ORDER NO. R-7992-A

APPLICATION OF SOUTHLAND ROYALTY COMPANY FOR COMPULSORY
POOLING, RIO ARRIBA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on December 7, 1995, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 15th day of December, 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) On July 26, 1985 the New Mexico Oil Conservation Division ("Division") issued Order No. R-7992 in Case No. 8637 upon the application of Southland Royalty Company ("Southland"), which order pooled all mineral interests from the top of the Mancos formation to the base of the Dakota formation underlying the 320 acres comprising the N/2 of Section 25, Township 25 North, Range 2 West, NMPM, Rio Arriba County, New Mexico. Said 320-acre unit was dedicated to Southland's Hill Federal Well No. 2-Y (API No. 30-039-23852) drilled at a location considered to be standard for both the Gavilan-Mancos Oil and Basin-Dakota Pools 1710 feet from the North line and 1760 feet from the East line (Unit G) of said Section 25.

(3) Division records indicate the Hill Federal Well No. 2-Y was drilled to a total depth of 8,225 feet in the fall of 1985 and subsequently completed in the Gavilan-

Mancos Oil Pool.

(4) At this time Southland is seeking from the Division an order pooling all mineral interests in the Undesignated Blanco-Mesaverde Pool underlying the N/2 of said Section 25 thereby forming a standard 320-acre gas spacing and proration unit for said pool.

(5) Said unit is to be dedicated to the aforementioned Hill Federal Well No. 2-Y to be plugged back from the Mancos formation and recompleted up-hole into the Mesaverde gas producing interval.

(6) There are other owners of mineral interest in the proposed reoriented proration unit who have not agreed to pool their interests.

(7) At the time of the hearing the following mineral owners with working interests in the N/2 of said Section 25, henceforth to be known as "*the consolidated interests*" for the purpose of this order were represented by legal counsel:

(a)	Ramona B. Sweet, Trustee of the Ramona B. Sweet Revocable Trust	1.56250%
(b)	Hooper, Kimball & Williams, Inc.	12.5000%
(c)	Mabel Reed, Trustee for the Warren Clark Trust	0.30518%
(d)	Mabel Reed and W. W. Oatman, Co-Trustees of the Warren Clark Testamentary Trust	0.16022%
(e)	Carolyn Clark Trust	0.32806%
(f)	<u>Christopher C. Phillips</u>	<u>1.56250%</u>
	Total for the Consolidated Interests	16.41846%.

(8) At the time of the hearing Southland either owned or controlled 74.20654% of the working interests in the Mesaverde interval underlying the N/2 of said Section 25. The remaining 9.375% in this particular unit have either agreed to be carried non-consent or have not objected to this application.

(9) 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 320-acre unit the opportunity to recover or receive without unnecessary expense his just and fair share of gas production in the Undesignated Blanco-Mesaverde Pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

(10) Southland Royalty Company should be designated the operator of the subject well and unit.

(11) 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.

(12) Any non-consenting working interest owner who does not pay his share of estimated well costs should have withheld from production his share of reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the recompletion of the well.

(13) Any non-consenting interest owner should be afforded the opportunity to object to the actual recompletion costs but actual recompletion costs should be adopted as the reasonable recompletion costs in the absence of such objection.

(14) Following determination of reasonable recompletion costs, any non-consenting working interest owner who has paid his share of estimated costs should pay to the operator any amount that reasonable recompletion costs exceed estimated recompletion costs and should receive from the operator any amount that paid estimated recompletion costs exceed reasonable recompletion costs.

(15) *Southland proposed fixed overhead and administrative costs for the Hill Federal Well No. 2-Y to be \$4,950.00 per month while recompleting and \$494.98 per month while producing. "The consolidated interests" objected to Southland's figure and requested the Division consider "like" charges for wells between 5,001 feet to 10,000 feet in depth as cited from the "1994 - Fixed Rate Overhead Survey", published by Ernst & Young, LLP of Houston, Texas.*

FINDING: Such overhead and administrative charges as proposed by Southland are deemed to be fair and reasonable and should therefore be included in the provisions of this order.

(16) \$4,950.00 per month while recompleting and \$494.98 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.

(17) 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.

(18) Upon the failure of the operator of said pooled unit to commence recompletion of the well to which said acreage is dedicated on or before March 15, 1996, the order pooling said unit should become null and void and of no further effect whatsoever.

(19) 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.

(20) 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 force-pooling provisions of this order.

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be, in the Undesignated Blanco-Mesaverde Pool underlying the N/2 of Section 25, Township 25 North, Range 2 West, NMPM, Rio Arriba County, New Mexico, are hereby pooled to form a standard 320-acre gas spacing and proration unit for said pool. Said unit shall be dedicated to the existing Hill Federal Well No. 2-Y (API No. 30-039-23852), located at a standard gas well location 1710 feet from the North line and 1760 feet from the East line (Unit G) of said Section 25.

PROVIDED HOWEVER THAT, the operator of said unit shall commence recompleting said well, with due diligence, on or before the fifteenth day of March, 1996.

PROVIDED FURTHER THAT, in the event said operator does not commence with the recompleting of said well on or before the fifteenth day of March, 1996, Decretory 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 for good cause shown.

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

(2) Southland Royalty Company is hereby designated the operator of the subject well and standard 320-acre gas spacing and proration 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 recompletion costs to the operator in lieu of paying his share of reasonable recompletion costs out of production, and any such owner who pays his share of estimated recompletion 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 recompletion costs within 90 days following said recompletion; if no objection to the actual recompletion costs is received by the Division and the Division has not objected within 45 days following receipt of said schedule, the actual recompletion costs shall be the reasonable recompletion costs; provided however, if there is an objection to actual recompletion costs within said 45-day period the Division will determine reasonable recompletion costs after public notice and hearing.

(6) Within 60 days following determination of reasonable recompletion costs, any non-consenting working interest owner who has paid his share of estimated recompletion costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable recompletion costs exceed estimated recompletion costs and shall receive from the operator his pro rata share of the amount that estimated recompletion costs exceed reasonable recompletion costs.

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

- (a) The pro rata share of reasonable recompletion 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

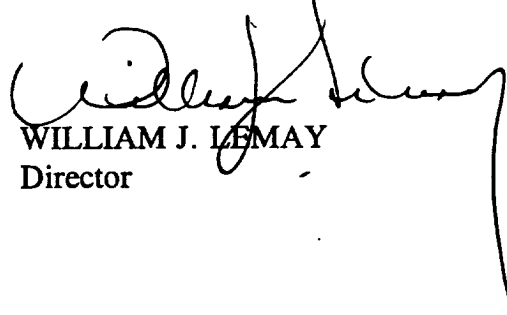
the schedule of estimated recompletion costs is furnished to him; and

- (b) As a charge for the risk involved in recompleting the well, 200 percent of the pro rata share of reasonable recompletion 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 recompletion costs is furnished to him.
- (8) The operator shall distribute said costs and charges withheld from production to the parties who advanced the recompletion costs.
- (9) \$4,950.00 per month while recompleting and \$494.98 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 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 force-pooling reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.
- (14) The operator of the subject well and standard 320-acre gas spacing and proration 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) 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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