

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. 8098
Order No. R-7486

APPLICATION OF TENNECO OIL
COMPANY FOR COMPULSORY POOLING,
RIO ARRIBA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8 a.m. on March 14, 1984, at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 4th day of April, 1984, 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, Tenneco Oil Company, proposes to drill its Reames Com Well No. 3 at a previously approved unorthodox location 2120 feet from the South line and 2060 feet from the West line of Section 19, Township 26 North, Range 6 West, NMPM, Rio Arriba County, New Mexico, to test the Chacra and Mesaverde formations with the possibility of completing the well as a dual completion.

(3) That if said well is a Chacra/Mesaverde dual completion, the W/2 of said Section 19 would be dedicated to the Blanco-Mesaverde Pool and the SW/4 of said Section 19 would be dedicated to the Chacra zone.

(4) That there are interest owners in the proposed spacing and proration units who have not agreed to pool their interests.

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(5) That the applicant has the right to drill and proposes to drill a well at said unorthodox location thereon.

(6) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each interest in said spacing and proration units the opportunity to recover or receive without unnecessary expense his just and fair share of the gas in said pools, the subject application should be approved by pooling all mineral interests, whatever they may be, within said Chacra and Mesaverde spacing and proration units.

(7) That the applicant should be designated the operator of the subject well and units.

(8) That the applicant proposes that the following estimated well costs allocation formula be established to breakout the well costs into a Chacra working interest partner's cost and the Mesaverde working interest partner's costs:

Chacra costs	=	$1/2 A + B$
Mesaverde costs	=	$1/2 A + C$

Where: A = Estimated common costs;

B = Estimated costs attributable only to the Chacra;

C = Estimated costs attributable only to the Mesaverde.

(9) 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.

(10) That any non-consenting working interest owner who does not pay his share of estimated well costs as described in Finding No. (8) above, 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 drilling of the well.

(11) 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.

(12) 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.

(13) That \$3,000.00 per month while drilling and \$400.00 per month 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.

(14) That 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.

(15) That upon the failure of the operator of said pooled units to commence drilling of the well to which said units are dedicated on or before July 1, 1984, the order pooling said units should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That the applicant, Tenneco Oil Company, is hereby authorized to drill its Reames Com Well No. 3 to test the Chacra and Mesaverde formations, with the possibility of completing the well as a dual completion, at a previously approved unorthodox location 2120 feet from the South line and 2060 feet from the West line of Section 19, Township 26 North, Range 6 West, NMPM, Rio Arriba County, New Mexico.

(2) That the SW/4 of said Section 19 shall be dedicated to the Chacra zone and the W/2 of the section shall be dedicated to the Blanco-Mesaverde Pool.

(3) That all mineral interests, whatever they may be, in the Chacra formation and the Mesaverde formation underlying the SW/4 and the W/2, respectively, of said Section 19, are hereby pooled to form a 160-acre gas spacing and proration unit and a 320-acre gas spacing and proration unit to be dedicated to said Reames Com Well No. 3 as set out in paragraph (2) of this order.

PROVIDED HOWEVER, that the operator of said units shall commence the drilling of said well on or before the 1st day of July, 1984, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Chacra and Mesaverde formations;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 1st day of July, 1984, Order (3) 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 (3) of this order should not be rescinded.

(4) That Tenneco Oil Company is hereby designated the operator of the subject well and units.

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

(6) That the itemized schedule of well costs shall be prepared to reflect actual well costs separately attributable to the Chacra zone and to the Mesaverde zone in accordance with the allocation formula set forth in Finding No. (8) in the Order.

(7) 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.

(8) That the operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs attributable to each zone within 90 days following completion of the well; 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.

(9) 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.

(10) 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 appropriate estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

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

(12) That \$3,000.00 per month while drilling and \$400.00 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 such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(13) 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.

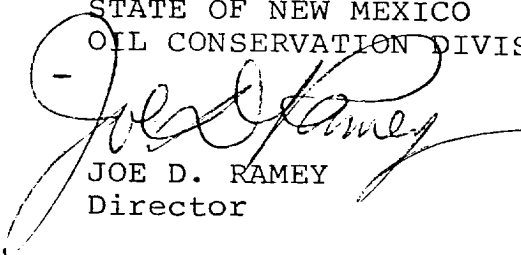
(14) That any well costs or charges which are to be paid out of production shall be withheld only from the working interest's share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(15) That 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; 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.

(16) That 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


JOE D. RAMEY
Director

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