

STATE OF NEW MEXICO *DHC*
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. 8640
Order No. R-7998

APPLICATION OF CAULKINS OIL
COMPANY FOR COMPULSORY POOLING, *AND DHC*
RIO ARriba COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

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OIL CON. DIV.

DIST. 3

This cause came on for hearing at 8 a.m. on July 2, 1985, at Santa Fe, New Mexico, before Examiner Gilbert P. Quintana.

NOW, on this 8th 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, Caulkins Oil Company, seeks an order pooling all mineral interests in the Basin-Dakota and Blanco-Mesaverde Pools underlying the (N/2 of Section 20, Township 26 North, Range 6 West, NMPM, Rio Arriba County, New Mexico, to form a standard 320-acre gas spacing and proration unit in both pools, and an order pooling all mineral interests in the Pictured Cliffs and Chacra formations underlying the NE/4 of said Section 20, to form a standard 160-acre gas spacing and proration unit in both formations, to be dedicated to a well to be drilled at a standard location thereon.

(3) The applicant further seeks approval to downhole commingle Blanco-Mesaverde and Basin-Dakota production, to downhole commingle Pictured Cliffs and Chacra production, and finally to dually complete through parallel strings of tubing both commingled production streams in the subject well.

(4) The applicant has the right to drill and proposes to drill a well at a standard location in the NE/4 of Section 20.

(5) There is an interest owner in the proposed proration unit, El Paso Natural Gas Company/Meridian Oil, Inc., who has not agreed to pool its interest.

(6) The N/2 of said Section 20 is a standard 320-acre spacing and proration unit for the Blanco-Mesaverde and Basin-Dakota Pools and the NE/4 of the same section is a standard 160-acre spacing and proration unit for the Pictured Cliffs and Chacra formations.

(7) Evidence was presented establishing that 120 acres of the proposed 320-acre spacing unit, being the N/2 NW/4 and SW/4 NW/4 of said Section 20, is under lease to Meridian Oil, Inc. and/or El Paso Natural Gas Company, and that El Paso Natural Gas Company, predecessor in interest to Meridian Oil, Inc., hereafter referred to as "Meridian", created overriding royalty burdens on said 120 acres of \$3.96 and \$3.73 per mcf of gas.

(8) Evidence was also presented that for each \$858.37 of income per day attributable to Meridian's interest in said well, Meridian must pay out \$1,508.76 per day, leaving Meridian with a negative daily working interest of \$650.39.

(9) If Meridian proved to be a non-consenting participant in the proposed well, payout for its interest would never occur.

(10) Participating working interest owners in the proposed spacing unit will be required to bear the cost and risk of drilling the well in which one-half interest of the well will never pay out.

(11) Said overriding royalty burden placed on Meridian's acreage is in excess of reasonable overriding royalties based on current economic and marketing conditions.

(12) Compulsory pooling of the proposed proration unit under such conditions would not be just or reasonable.

(13) To compulsorily pool the entire N/2 of said Section 20 in the Blanco-Mesaverde and Dakota formations would cause the operator of the well to bear an unreasonable, and therefore unnecessary, cost burden as to that portion of the proration unit bearing said overriding royalty.

(14) In order to protect correlative rights, prevent waste, and to avoid compulsory pooling under terms that are not just or reasonable, any compulsory pooling order issuing in this case should provide for voluntary reduction of the overriding royalty for the N/2 NW/4 and the SW/4 NW/4 of said Section 20 to a reasonable figure, within a reasonable time, or for the pooling of the N/2 of said Section 20 exclusive of the N/2 NW/4 and the SW/4 NW/4.

(15) Subject to the conditions contained in Finding No. (14) above, to avoid the drilling of unnecessary wells, to prevent waste and to protect correlative rights and to afford 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 any pool thereunder, the subject application should be approved by pooling all mineral interests, whatever they may be, within said units in the Basin-Dakota and Blanco-Mesaverde Pools and the Pictured Cliffs and Chacra formations.

(16) The applicant, Caulkins Oil Company, should be designated the operator of the subject well and unit.

(17) Any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated and actual well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(18) 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% thereof as a reasonable charge for the risk involved in drilling and completing the subject well.

(19) 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.

(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 estimated well costs reasonably paid exceed reasonable well costs.

(21) A cost of \$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); 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 failure of the operator of said pooled units to commence drilling of the well to which said units are dedicated on or before November 1, 1985, the order pooling said unit should become null and void and of no effect whatsoever.

(24) The applicant's request to downhole commingle the Blanco-Mesaverde and Basin-Dakota Pools, and the Pictured Cliffs and Chacra formations, and to dually complete the respective commingled streams with parallel strings of tubing will not result in reservoir damage, waste, or the violation of any correlative rights.

(25) The applicant's request to complete the subject well as described in Finding No. (24) above should be granted provided the supervisor of the Division's Aztec District Office is consulted in approving the specific details of such a completion.

(26) The applicant should consult with the supervisor of the Division's Aztec District Office to formulate a reasonable allocation of production from each respective producing zone and an assignment of an allowable to the well.

(27) The results of the allocation determination should be delivered to the Division's Santa Fe office for incorporation into the records of this case.

approve the unit as a non-standard proration and spacing unit consisting of that portion of the N/2 of said Section 20 excluding the N/2 NW/4 and the SW/4 NW/4.

(4) The operator shall notify the Division of the decision of Meridian Oil, Inc., requesting approval of the non-standard proration unit if said party chooses not to or is unable to amend its overriding royalty interest.

(5) 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 estimated well costs.

(6) 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.

(7) 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, 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.

(8) 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.

(9) 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

(28) Approval of the subject application will afford the applicant the opportunity to produce its just and equitable share of the gas in the affected pool, will prevent economic loss caused by the drilling of unnecessary wells, avoid the augmentation of risk arising from the drilling of an excessive number of wells, and will otherwise prevent waste and protect correlative rights.

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be, in the Blanco-Mesaverde and Basin-Dakota Pools underlying the N/2 of Section 20, Township 20 North, Range 6 West, NMPM, Rio Arriba County, New Mexico, are hereby pooled to form a standard 320-acre spacing and proration unit and all mineral interests, whatever they may be, in the Pictured Cliffs and Chacra formations underlying the NE/4 of said Section 20 are hereby pooled to form a standard 160-acre spacing and proration unit to be dedicated to a well to be drilled at a standard location thereon.

PROVIDED HOWEVER THAT, the operator of said unit shall commence drilling of said well on or before November 1, 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 drilling of said well on or before November 1, 1985, Order (1) of this order shall be null and void and of no effect whatsoever.

PROVIDED FURTHER THAT, should said well not be completed 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.

(2) Caulkins Oil Company is hereby designated the operator of the subject well and unit.

(3) Within 30 days from the date the schedule of estimated well costs is furnished to Meridian Oil, Inc., it shall make an election to voluntarily reduce overriding royalty not in excess of a total 12.5 percent for its 120-acre lease, and in the event it does not make that election, the N/2 NW/4 and the SW/4 NW/4 of said Section 20 shall be excluded from the proration and spacing unit and the Division shall upon written request automatically

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.

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

(11) \$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); 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.

(12) 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.

(13) 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.

(14) 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.

(15) The applicant, Caulkins Oil Company, is hereby authorized to downhole commingle the Blanco-Mesaverde and Basin-Dakota Pools, downhole commingle the Pictured Cliffs and Chacra formations, and dually complete the respective commingled streams with parallel strings of tubing provided the supervisor of the Division's Aztec District Office is consulted in approving the specific details of such a completion.

(16) The applicant shall consult the supervisor of said district office to formulate a reasonable allocation of production from each respective producing zone and an assignment of allowable to the well.

(17) The determined production allocation factors for each producing zone shall be delivered to the Division's Santa Fe office for incorporation into the records of this case.

(18) 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

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