

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION COMMISSION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONSIDERING:

2-310-82
State Com 318 #1

CASE NO. 7509
Order No. R-7033

APPLICATION OF SUPRON ENERGY
CORPORATION FOR COMPULSORY POOLING,
SAN JUAN COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:



This cause came on for hearing at 9 a.m. on April 22, 1982, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 6th day of August, 1982, the Commission, having considered the testimony, the record, and the exhibits, and being fully advised in the premises,

FINDS:

- (1) That due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.
- (2) That the applicant, Supron Energy Corporation, seeks an order pooling all mineral interests down through the Dakota formation underlying the S/2 of Section 2, Township 31 North, Range 8 West, NMPM, San Juan County, New Mexico, to be dedicated to a well to be drilled at a standard location in the SW/4 of said section.
- (3) That the applicant owns an oil and gas lease on the S/2 S/2 and NE/4 SW/4 of said Section 2, and that Crown Central Petroleum who owns the NW/4 SW/4 has agreed to join so that the applicant thereby controls 75 percent of the working interest in the proposed spacing and proration unit and has the right to drill thereon, which it proposes to do.
- (4) That Riggs Oil & Gas Corporation is the owner of the N/2 SE/4 of said Section 2, and appeared at the hearing in opposition to Supron's proposal to pool the S/2 of Section 2 and drill an 8,250-foot well to test the Dakota formation underlying said lands.

(5) That the Mesaverde and Dakota formations in this area require the dedication of 320 acres to each well and that other formations in the area require the dedication of only 160 acres to each well.

(6) That if the applicant drills a well at a standard location in the SW/4 of said section and achieves production in any zone other than the Mesaverde or Dakota formations, the opponent to this application, Riggs, will have no interest in that production.

(7) That both parties agree, and the geological evidence tends to confirm, that the Mesaverde formation underlying the proposed spacing and proration unit is a good prospect for obtaining commercial production.

(8) That the geological evidence concerning the Dakota prospect is somewhat less conclusive, but the evidence appears to preponderate towards the view that prospects for commercial production from the Dakota formation are much more uncertain than such prospects for the Mesaverde and that Riggs is justified in not desiring to participate in going to the Dakota.

(9) That to avoid the drilling of unnecessary wells, to protect correlative rights, 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 gas underlying the subject lands, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit, and Supron should be designated operator of the subject well and unit, provided however, that Riggs should be given the opportunity to participate in the drilling of the subject well on a split-risk basis, i.e., (1) to participate in drilling and completion costs to the Mesaverde formation without penalty or to go non-consent to the Mesaverde and participate in the Mesaverde subject to a certain charge for the risk involved in drilling to said formation, and (2), to participate in the additional drilling and completion costs from the Mesaverde to the Dakota without penalty or to go non-consent from the Mesaverde to the Dakota and participate in the Dakota subject to a separate and different charge for the risk involved in the additional drilling.

(10) That it is the intent of this order to break the drilling of the subject well down into two separate and distinctive phases: (1) from the surface of the ground through the Mesaverde pay; and (2) from the base of the Mesaverde pay through the Dakota pay; to provide alternative selections to the poolee, Riggs; and to provide cost accounting for a single

Mesaverde completion vs. a single Dakota completion or a Mesaverde-Dakota dual completion.

(11) To the above ends, all charges and costs which would be directly attributable to a single Mesaverde completion should be charged to the Mesaverde zone and subject to the Mesaverde risk factor provided herein, if applicable, and paid out of Mesaverde production only; all charges and costs which would be directly attributable to the drilling of a single Dakota completion from the base of the Mesaverde pay through the Dakota pay as well as any extra up-hole charges and costs resulting from drilling the well to the Dakota above and beyond what would normally be spent drilling to the Mesaverde only (such as extra hole size, extra casing and cementing, rig charges, etc.) should be charged to the Dakota zone and subject to the Dakota risk factor provided herein, if applicable, and paid out of Dakota production only; all common charges to a Mesaverde-Dakota dual (including the separation packer, dual Christmas tree, etc.) shall be split between the two zones and each portion made subject to the risk factor for that zone and paid out of production from that zone.

(12) That after the effective date of this order and within 60 days prior to commencing the subject well, Supron should furnish the Division and Riggs itemized schedules of estimated well costs as follows:

- A. A cost estimate for a normal single Mesaverde test well to the anticipated Mesaverde completion depth (6,300 $\pm$ feet).
- B. A cost estimate for a normal single Dakota test well to the anticipated Dakota completion depth (8,250 $\pm$ feet).
- C. A cost estimate for a Mesaverde-Dakota dual completion at the above depths.

(13) That the cost estimate prescribed in Finding No. (12) A above should include only normal drilling, testing, and completion costs with a suitably sized drilling rig and normal mud, logging, and testing charges and casing and cementing costs for a single Mesaverde completion without anticipation of drilling beyond the expected Mesaverde completion depth.

(14) That the cost estimate prescribed in Finding No. (12) B above should include only normal drilling, testing, and completion costs with a suitably sized drilling rig and normal mud, logging, and testing charges and casing and cementing costs

for a single Dakota completion without anticipation of an upper pay (Mesaverde) being present or requiring testing.

(15) That the cost estimate prescribed in Finding No. (12) C above should include normal drilling, testing, and completion costs with a suitably sized drilling rig and normal mud, logging, and testing charges and casing and cementing costs for a Mesaverde-Dakota dual completion.

(16) That within 30 days from the date the above-described schedules of estimated well costs are furnished to it, Riggs should make its election as to whether to participate in the subject well.

(17) That if it elects to participate, Riggs should have the opportunity of choosing its mode of participation, i.e., whether to participate in drilling to and completing in the Mesaverde only, or to participate in drilling and completing in both the Mesaverde and Dakota.

(18) That if it elects to participate, Riggs should be afforded the opportunity of paying its share of estimated well costs for the mode selected in lieu of paying its share of reasonable well costs out of production.

(19) That should Riggs elect not to pay its share of estimated well costs from the surface down through the Mesaverde pay, it should have its share of reasonable well costs for said formation withheld from production from the Mesaverde formation plus a reasonable percentage of such costs as a charge for the risk involved in the drilling of said well to the Mesaverde.

(20) That considering the geological and engineering evidence presented at the hearing, 150 percent of reasonable well costs is an adequate and appropriate charge for the risk involved in drilling said well to the Mesaverde formation.

(21) That should Riggs elect to pay its share of estimated well costs from the surface to the Mesaverde, but elect not to pay its share of estimated well costs from the base of the Mesaverde pay down through the Dakota pay, it should have its share of well costs for drilling from the Mesaverde to the Dakota withheld from production from the Dakota formation plus a reasonable percentage thereof as a charge for the risk involved in the drilling of said well from the Mesaverde to the Dakota.

(22) That considering the geological and engineering evidence presented at the hearing, 200 percent of reasonable well costs from the Mesaverde to the Dakota is an adequate and

appropriate charge for the risk involved in drilling said well from the Mesaverde to the Dakota.

(23) That should Riggs elect to participate in either of the above-described modes of participation, its payment of its share of estimated well costs for that mode should be made to Supron in accordance with some customary and mutually agreeable system for billing and payment which is common to the industry; that should Riggs so elect to participate and pay its share of estimated well costs for the mode selected, it should remain liable for operating costs but should not be liable for risk charges for that mode of participation. Reasonable drilling and completion costs advanced by Supron beyond the mode selected and prepaid by Riggs should be subject to the risk factors described above and withheld from production from the appropriate formation together with operating costs.

(24) That within 90 days following completion of the well, the operator should furnish the Oil Conservation Division and Riggs an itemized schedule of actual well costs for drilling and completion of the well, broken down into two segments: from the surface through the Mesaverde pay, and from the base of the Mesaverde pay through the Dakota pay; that if no objection to such actual well costs is received by the Division, and the Division has not objected to such actual well costs within 45 days following receipt of said schedule, the actual costs should be considered reasonable costs; provided however, that if there is an objection to actual well costs within said 45-day period, the Division should determine reasonable well costs after public notice and hearing.

(25) That within 60 days following determination of reasonable well costs, should Riggs have paid its share of estimated well costs for either of the above-described modes of participation, it should pay to Supron any amount that its share of reasonable well costs for that mode exceed paid estimated well costs and should receive from Supron any amount that paid estimated well costs exceed reasonable well costs for that mode.

(26) That \$2500.00 per month while drilling and \$250.00 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.

(27) That all proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow in San Juan County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership.

(28) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before November 1, 1982, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be in the Mesaverde and Dakota formations underlying the S/2 of Section 2, Township 31 North, Range 8 West, NMPM, San Juan County, New Mexico, are hereby pooled to form a standard 320-acre gas 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 the drilling of said well on or before the first day of November, 1982, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Dakota formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the first day of November, 1982, 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 90 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) That Supron Energy Corporation is hereby designated the operator of the subject well and unit.

(3) That after the effective date of this order and within 60 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject unit itemized schedules of estimated well costs as follows:

- A. A cost estimate for a normal single Mesaverde test well to the anticipated Mesaverde completion depth (6,300 ± feet).

B. A cost estimate for a normal single Dakota test well to the anticipated Dakota completion depth (8,250 - feet).

C. A cost estimate for a Mesaverde-Dakota dual completion at the above depths.

(4) That the cost estimate prescribed in Order No. (3) A above shall include only normal drilling, testing, and completion costs with a suitably sized drilling rig and normal mud, logging, and testing charges and casing and cementing costs for a single Mesaverde completion without anticipation of drilling beyond the expected Mesaverde completion depth.

(5) That the cost estimate prescribed in Order No. (3) B above shall include only normal drilling, testing, and completion costs with a suitably sized drilling rig and normal mud, logging, and testing charges and casing and cementing costs for a single Dakota completion without anticipation of an upper pay (Mesaverde) being present or requiring testing.

(6) That the cost estimate prescribed in Order No. (3) C above shall include normal drilling, testing, and completion costs with a suitably sized drilling rig and normal mud, logging, and testing charges and casing and cementing costs for a Mesaverde-Dakota dual completion.

(7) That within 30 days from the date the above-described schedules of estimated well costs are furnished to it, Riggs shall make its election as to whether to participate in the subject well.

(8) That if it elects to participate, Riggs shall have the opportunity of choosing its mode of participation, i.e., whether to participate in drilling to and completing in the Mesaverde only, or to participate in drilling to and completing in both the Mesaverde and Dakota.

(9) That if it elects to participate, Riggs shall be afforded the opportunity of paying its share of estimated well costs for the mode selected in lieu of paying its share of reasonable well costs out of production.

(10) That should Riggs elect not to pay its share of estimated well costs from the surface down through the Mesaverde pay, it shall have its share of reasonable well costs for said formation withheld from production from the Mesaverde formation plus 150 percent thereof as a charge for the risk involved in the drilling of said well to the Mesaverde.

(11) That should Riggs elect to pay its share of estimated well costs from the surface to the Mesaverde, but elect not to pay its share of estimated well costs from the base of the Mesaverde pay down through the Dakota pay, it shall have its share of well costs for drilling from the Mesaverde to the Dakota withheld from production from the Dakota formation plus 200 percent thereof as a charge for the risk involved in the drilling of said well from the Mesaverde to the Dakota.

(12) That should Riggs elect to participate in either of the above-described modes of participation, its payment of its share of estimated well costs for that mode shall be made to Supron in accordance with some customary and mutually agreeable system for billing and payment which is common to the industry; that should Riggs so elect to participate and pay its share of estimated well costs for the mode selected, it shall remain liable for operating costs but shall not be liable for risk charges for that mode of participation. Reasonable drilling and completion costs advanced by Supron beyond the mode selected and prepaid by Riggs shall be subject to the risk factors described above and withheld from production from the appropriate formation together with operating costs.

(13) That within 90 days following completion of the well, the operator shall furnish the Division and Riggs an itemized schedule of actual well costs for drilling and completion of the well, broken down into two segments: from the surface through the Mesaverde pay adjusted downward for any extra up-hole charges and costs per Finding No. (11), and from the base of the Mesaverde pay through the Dakota pay including any extra up-hole charges and costs per Finding No. (11); that if no objection to such actual well costs is received by the Division and the Division has not objected to such actual well costs within 45 days following receipt of said schedule, the actual costs shall be considered reasonable costs; provided however, that if there is an objection to actual well costs for either or both segments within said 45-day period, the Division shall determine reasonable well costs for each segment after public notice and hearing.

(14) That within 60 days following determination of reasonable well costs, should Riggs have paid its share of estimated well costs for either of the above-described modes of participation, it shall pay to Supron any amount that its share of reasonable well costs for that mode exceed paid estimated well costs and shall receive from Supron any amount that paid estimated well costs exceed reasonable well costs for that mode.

(15) That Supron is hereby authorized to withhold the following costs and charges from production:

- (A) The pro rata share of reasonable well costs attributable to Riggs if Riggs has not paid its share of estimated well costs in accordance with the provisions for pre-payment as set forth in this order.
- (B) As a charge for the risk involved in the drilling of the well, the percentage specified elsewhere herein of the pro rata share of reasonable well costs attributable to Riggs if Riggs has not paid its share of estimated well costs in accordance with the provisions for pre-payment as set forth in this order.

(16) That \$2500.00 per month while drilling and \$250.00 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.

(17) 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.

(18) 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.

(19) That all proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in San Juan 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.

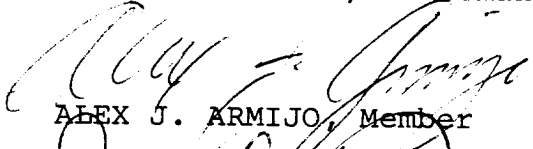
(20) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

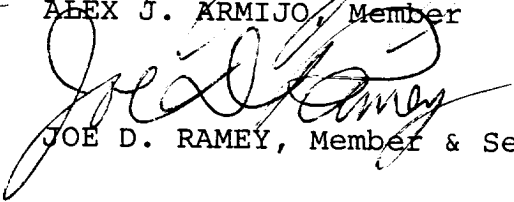
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Case No. 7509
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DONE at Santa Fe, New Mexico, on the day and year
hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

EMERY C. ARNOLD, Chairman,


ALEX J. ARMIJO, Member


JOE D. RAMEY, Member & Secretary

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