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FEBRUARY 1989
OIL CONSERVATION DIVISION

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. 9595
Order No. R-8879

APPLICATION OF MERIDIAN OIL,
INC. FOR COMPULSORY POOLING,
SAN JUAN COUNTY, NEW MEXICO

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on February 1, 1989, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 22nd day of February, 1989, 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) Division Case Nos. 9593, 9594, 9595, 9596, 9598, and 9599 were consolidated at the time of the hearing for the purpose of testimony.

CASE NO. 9595
Order No. R-8879
Page -2-

(3) The applicant, Meridian Oil, Inc. (Meridian), seeks an order pooling all mineral interests in the Basin-Fruitland Coal Gas Pool underlying the E/2 of Section 32, Township 30 North, Range 8 West, NMPM, San Juan County, New Mexico, forming a standard 320-acre gas spacing and proration unit for said pool, to be dedicated to its Caperton Com Well No. 310 to be drilled at a standard coal gas well location 790 feet from the North line and 1130 feet from the East line (Unit A) of said Section 32.

(4) Amoco Production Company (Amoco), an interest owner in the proposed proration unit who has not agreed to pool its interest, appeared at the hearing in opposition to the applicant's proposed 200 percent risk penalty.

(5) The applicant has the right to drill and proposes to drill a well at a standard coal gas well location as described above.

(6) 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 any pool completion resulting from this order, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

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

(8) 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.

CASE NO. 9595
Order No. R-8879
Page -3-

(9) The applicant has proposed a 200 percent risk penalty be assessed against those interest owners subject to the force-pooling provisions of this order, and in support thereof presented evidence and testimony at the hearing.

(10) At the request of Amoco, Administrative Notice was taken of 13 compulsory pooling cases in the Basin-Fruitland Coal Gas Pool brought before and heard by the Division upon the application of Meridian Oil Inc. on November 21, 1988 and January 15, 1989 (of which Division Orders have subsequently been issued).

(11) The records in these cases indicate that, based upon the evidence and testimony presented, Meridian was granted a risk penalty of 156 percent.

(12) The records further indicate that in each of these previously heard cases, Meridian also requested a 200 percent risk penalty, but that the risk penalty awarded was reduced due to the fact that the presence of coal at each of the wellsites was not deemed by the Division to be in question, and therefore should not be taken into consideration in determining risk.

(13) Meridian, in the immediate cases, has proposed that the risk penalty be based upon geologic, reservoir, economic, and operational parameters and has further testified that the major consideration in determining risk should not be the presence of coal but the characteristics of the coal encountered which in turn has a direct bearing on the producing capability of the wells.

(14) The applicant, which has drilled approximately 200 coal gas wells in the Basin-Fruitland Coal Gas Pool to date, provided no evidence or testimony which would indicate that any of its wells have been plugged and abandoned due to non-productivity.

CASE NO. 9595
Order No. R-8879
Page -4-

(15) The applicant further provided no evidence or testimony which would indicate that any of the wells drilled to date have been plugged and abandoned due to problems encountered while drilling or completing these wells.

(16) The applicant has included certain factors such as market demand, water disposal, gathering facilities and equipment, etc. under its economic and operations risk parameters which do not have a bearing on the producing capability of any given well and should therefore not be considered in assessing risk.

(17) Based upon the evidence and testimony presented in the immediate cases and consideration of the record in the previously heard compulsory pooling cases described in Finding No. (10) above, a risk penalty of 156 percent is fair and reasonable and should be adopted in this case.

(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 156 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(19) Any non-consenting 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 paid estimated well costs exceed reasonable well costs.

CASE NO. 9595
Order No. R-8879
Page -5-

(21) \$3500.00 per month while drilling and \$350.00 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 the failure of the operator of said pooled unit to commence the drilling of the well to which said unit is dedicated on or before June 1, 1989, the order pooling said unit should become null and void and of no effect whatsoever.

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

(25) 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.

CASE NO. 9595
Order No. R-8379
Page -6-

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be, in the Basin-Fruitland Coal Gas Pool underlying the E/2 of Section 32, Township 30 North, Range 8 West, NMPM, San Juan County, New Mexico, are hereby pooled forming a standard 320-acre gas spacing and proration unit for said pool, to be dedicated to the Caperton Com Well No. 310 to be drilled at a standard coal gas well location 790 feet from the North line and 1130 feet from the East line (Unit A) of said Section 32.

PROVIDED HOWEVER THAT, the operator of said unit shall commence the drilling of said well on or before the 1st day of June, 1989, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Basin-Fruitland Coal Gas Pool.

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said well on or before the 1st day of June, 1989, 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 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 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.

CASE NO. 9595
Order No. R-8879
Page -7-

(3) 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 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.

CASE NO. 9595
Order No. R-3879
Page -8-

(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, and
- (B) As a charge for the risk involved in the drilling of the well, 156 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) \$3500.00 per month while drilling and \$350.00 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.

CASE NO. 9595
Order No. R-8879
Page -9-

(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 San Juan 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 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 of this cause is retained for the entry of such further orders as the Division may deem necessary.

Submit 3 Copies
to Appropriate
District Office

State of New Mexico
Energy, Minerals and Natural Resources Department

Form C-103
Revised 1-1-89

DISTRICT I
P.O. Box 1980, Hobbs, NM 88240

DISTRICT II
P.O. Drawer DD, Artesia, NM 88210

DISTRICT III
1000 Rio Brazos Rd., Aztec, NM 87410

OIL CONSERVATION DIVISION

P.O. Box 2088
Santa Fe, New Mexico 87504-2088

WELL API NO.

5. Indicate Type of Lease

STATE ☒

FEE ☐

6. State Oil & Gas Lease No.
B-10037-65

7. Lease Name or Unit Agreement Name

Caperton

8. Well No.

310

9. Pool name or Wildcat

Basin Fruitland Coal

SUNDRY NOTICES AND REPORTS ON WELLS
(DO NOT USE THIS FORM FOR PROPOSALS TO DRILL OR TO DEEPEN OR PLUG BACK TO A
DIFFERENT RESERVOIR. USE "APPLICATION FOR PERMIT"
(FORM C-101) FOR SUCH PROPOSALS.)

1. Type of Well:

OIL
WELL ☐

GAS
WELL ☒

OTHER

2. Name of Operator

Meridian Oil Inc.

3. Address of Operator

PO Box 4289 Farmington, NM 87401

4. Well Location

Unit Letter A : 790 Feet From The North Line and 1130 Feet From The East Line

Section

32

Township

30N

Range

8W

NMPM

San Juan

County

10. Elevation (Show whether DF, RKB, RT, GR, etc.)

6125' GL

11. Check Appropriate Box to Indicate Nature of Notice, Report, or Other Data

NOTICE OF INTENTION TO:

PERFORM REMEDIAL WORK ☐

PLUG AND ABANDON ☐

TEMPORARILY ABANDON ☐

CHANGE PLANS ☐

PULL OR ALTER CASING ☐

OTHER: ☐

SUBSEQUENT REPORT OF:

REMEDIAL WORK ☐

ALTERING CASING ☐

COMMENCE DRILLING OPNS. ☐

PLUG AND ABANDONMENT ☐

CASING TEST AND CEMENT JOB ☐

OTHER: ☐

12. Describe Proposed or Completed Operations (Clearly state all pertinent details, and give pertinent dates, including estimated date of starting any proposed work) SEE RULE 1103.

05-28-89

Spudded well at 4:00 pm 05-28-89. Drilled to 429'. Ran 9 jts. 9 5/8", 36.0#, K-55 surface casing set at 429'. Cemented with 300 sks. Class "B" with 1/4#/sk. gel-flake and 3% calcium chloride (354 cu.ft.) circulated to surface. WOC 12 hrs. Tested 600#/30 minutes, held ok.

05-31-89

TD 2804'. Ran 66 jts 5 1/2", 15.5#, K-55 8rd csg, 2792' set @ 2804'. Float shoe @ 2804'. Cemented with 1110 sx. Class "B" 25/75 Poz with 0.8% fluid loss additive (1298 cu.ft.) followed by 100 sks. Class "B" 50/50 Poz with 2% gel and 0.8% fluid loss additive (121 cu.ft.). Circulated to surface.

I hereby certify that the information above is true and complete to the best of my knowledge and belief.

SIGNATURE

Regina M. Smith

TITLE

Regulatory Affairs

DATE

6-1-89

TYPE OR PRINT NAME

TELEPHONE NO.

(This space for State Use)

Original Signed by FRANK T. CHAVEZ

SUPERVISOR DISTRICT ☒

APPROVED BY

TITLE

DATE

JUN 05 1989

CONDITIONS OF APPROVAL, IF ANY:

DEVIATION REPORT

Name of Company Meridian Oil			Address P. O. Box 4289, Farmington NM 87499		
Lease Caperton	Well No. 310	Unit Letter A	Section 32	Township 030-N	Range 008-W
Pool Basin Fruitland Coal			County San Juan		

Depth (Ft.)

Deviation (Degrees)


125'	1 deg
246'	1 1/4 deg
434'	1 1/2 deg
672'	2 deg
829'	2 deg
985	1 3/4 deg
1144'	1 1/4 deg
1454'	1 deg
1949'	1 1/2 deg
2450'	1 3/4 deg
2802'	1 deg

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JUL 18 1989

OIL CON. DIST. 3

I, the undersigned, certify that I, acting in my capacity as Petroleum Engineer of Meridian Oil, am authorized by said Company to make this report; and that this report was prepared by me or under my supervision and directions and that the facts stated herein are true to the best of my knowledge and belief.



Subscribed and sworn to before me this 5th day of June, 1989


Notary Public in and for San Juan County, New Mexico

My Commission expires August 17, 1992