

CASE 4362: Application of WM. J.  
LEMay FOR A NON-STANDARD GAS PRO-  
RATION UNIT & COMPULSORY POOLING.

Case Number

4362

Application  
Transcripts.

Small Exhibits

ETC.

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BEFORE THE  
NEW MEXICO OIL CONSERVATION COMMISSION  
Santa Fe, New Mexico  
May 27, 1970

EXAMINER HEARING

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IN THE MATTER OF: )

Application of William J. LeMay )  
for a non-standard gas proration )  
unit or compulsory pooling, Eddy )  
County, New Mexico. )  
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Case No. 4362

BEFORE: Elvis A. Utz, Examiner

TRANSCRIPT OF HEARING

MR. UTZ: Case 4362.

MR. HATCH: Case 4362, Application of William J. LeMay  
for a non-standard gas proration unit or compulsory pooling,  
Eddy County, New Mexico.

(Whereupon, Applicant's  
Exhibits 1 through 4 were  
marked for identification)

MR. STEVENS: Mr. Examiner, Don Stevens, McDermott,  
Connolly and Stevens for the Applicant. We have one witness,  
Mr. LeMay.

MR. UTZ: Let the record show Mr. LeMay was sworn  
in the last case and will remain under oath. Appearances?

MR. MORRIS: Mr. Examiner, I'm Richard Morris of  
Montgomery, Federici, Andrews, Hannahs, & Morris, Santa Fe,  
appearing for Pubco Petroleum Corporation and King Resources.

MR. UTZ: Pubco and King?

MR. MORRIS: Yes.

MR. UTZ: Other appearances? You may proceed.

WILLIAM J. LeMAY,

called as a witness, having been first duly sworn, was  
examined and testified as follows:

DIRECT EXAMINATION

BY MR. STEVENS:

Q Mr. LeMay, would you state for the Commission what  
you seek by this application?

A What I seek to do is to try and reenter a well in

Section 7, Township 20 South and Range 25 East, Eddy County, New Mexico. In order to do this, I propose a non-standard proration unit in the Dagger-Draw Morrow Field which consists of one well located in Section 36 of the Township and Range.

At a previous hearing, the spacing hearing for the field, 640 acres was established for the Dagger-Draw Field. To date, there has only been one well that's been productive in this field, and since the subject's section being Section 7 is a direct offset to that section, it required either a 640 acre standard proration unit without a hearing or, in my particular case, a request for 320 acres in order to reenter that well.

And as an alternative, forced pooling which I wouldn't want.

Q Would you look at Exhibit 1 and explain it for us?

A Exhibit No. 1 is a land map of the area indicating lease ownership in Section 7 as well as the location of the surrounding wells. The proposed reentry is indicated by the red arrow and surrounded. It was a well inadequately tested and without completion attempt, in my opinion. It shows the Dagger-Draw well right on the section line, 660 out of the south, 1980 from the east line of Section 6.

Now, the lease ownership indicates myself and a Mr. Garrett of Clovis, New Mexico, owning the northwest quarter, the west half of the northeast quarter, and the northwest

quarter of the southwest quarter. The orange acreage is quite complicated. Basically, it involves ownership by Mobil Oil Company, Cities Service; the Monzano interest was purchased by Mr. Garrett and myself, so those are the -- it's a diverse mineral interest. However, in connection with this, with Mobil and Cities Service, I reached agreements on farmout requests from those people.

The southeast 160 acres is formerly owned by only Pubco Petroleum, but they, last year, sold half interest to King Resources and efforts to contact them to get this well reentered, have failed.

Q Could you describe all of your efforts in this respect?

A Well, I started about a year ago, a little over a year ago, contacting Pubco, who at that time was the owner, exclusively, of the southeast 160, and asked them to either join me in drilling the well, paying their proportionate share of the costs, farmout their interest for an override, or either with a small back-in interest or sell me their tract. And all these efforts failed. They indicated at one time they may have entertained a half interest offer, but they never came back with anything firm.

This involved telephone conversations and letters. Finally, at one point in there in October, they were negotiating

with King for the sale of half interest in their lease, which they did do, and subsequently drilled a dry hole in Section 9, the King Resources No. 1, Pubco Commission.

And that was drilled in the late fall of last year and completed as a dry hole. But after that, I started re-negotiations with both them and King Resources and again to no avail.

Q How much gas could you estimate has been produced by the well in Section 6, the Dagger-Draw Field well, since you began negotiating with Pubco?

A Well, it's been making approximately a million cubic feet of gas a day, something slightly smaller than that recently, 24 million a month, so I would estimate about 300,000 mcf has been produced since negotiations.

That well has a cumulative of approximately 1.6 billion cubic feet.

MR. UTZ: Is that the well on the southeast quarter of 6?

THE WITNESS: Yes, it's a new completion from the Strawn and the Morrow. However, the Strawn has never produced much gas. It's been a pretty fair well in the Morrow, however.

Q (By Mr. Stevens) How many other royalty and lease owners did you contact and make agreements with in your efforts to reenter this well, who did agree to go along with your intention?

A Well, it's a complicated situation. We started off with the Buchanan interests which involves a family in Clovis and scattered interests. Mrs. Lucy Bell, I've had extensive correspondence with; she is a lease interest holder under the yellow on Exhibit 1.

I indicated, as I mentioned previously, Mobil, Cities Service, Monzano -- I finally reached an agreement with Monzano and Pubco and finally, King, after the sale was made.

Q But all the King and Pubco had agreed in one form or another, to trade or work with you on that?

A That's correct.

Q Could you take Exhibit No. 2 and describe to us what it contains?

A Exhibit 2 is a structure map on top of the Atoka-Morrow Section. The contour interval was 50 feet. It also shows the net feet of Morrow Sand pay.

Again, we are dealing with Morrow, and these figures should have little quotes around them because of what is productive and what isn't.

I think, however, the logs are quite a bit better in this area and it does point out certain factors. One, again we are dealing with stratigraphic accumulation. I don't think structure has any bearing on reservoir present, which in turn controls gas cumulation. There are two wells classified in the Cemetery Morrow Pool. These wells are in Section 16 and 17

of 2025. They are very poor wells, however, both of which had cumulatives of less than a half a billion and producing at very low rates. There again, with the Morrow, if you have any thickness of sand, porous permeable sand, you make a gas well. If you're thin, or you have a thick section with water, you have a dry hole. And then you have all the in between like these Tessie McKay Wells which aren't very good and probably not commercial, and yet they have produced some gas.

The two wells that are critical in the area, the Monzano Dagger-Draw Well in Section 6 and the Texas-Pacific Buchanan, my proposed reentry in Section 7, are shown on Exhibits 3 and 4.

Q Could you explain to the Commission their significance?

A Yes. In deriving the net pay and also the sand thickness on both wells, I set forth the sand colored in yellow. I might point out, if it is confusing, there are two scales of logs there. Each exhibit pertains only to one well, but I have Xeroxed part of the commercial sample log on the well, the small scale log, and then at the bottom of the page, the detailed sections of the wells available in the case of the Dagger-Draw. I have detailed the gamma ray and I've got coaxial which is a permeability tool and the acoustic log and that's on the Monzano Dagger-Draw.

And the Number 1 Buchanan, I've detailed the gamma ray

IES and the Morrow lateral log, which is similar to the coaxial log, instead of permeability tool, which is helpful in determining what is pay and what isn't.

First of all, with the exhibit number 3, the Manzano No. 1 Dagger-Draw, as you can see, they had a nice section of sand. They did drillstem test water in the lower section. In fact, on the drillstem test in 9354 to 95, that lower sand section, they recovered 97,000 feet of salt water, which is a pretty **indicative** test. However, above that, they've got good drillstem tests and have subsequently completed that as a commercial well.

On Exhibit 4, the T. P. Buchanan, as you can see by correlation, the sands don't correlate that well, even though they are less than a half a mile apart. There is a thicker interval between the two sands and the lower sand again tested water with a show of gas. However that was a conventional test. The upper sand, they only ran a wire line test. They poured it at 9.96; it's not cubic feet. I think that should be centimeters. It's not **indicative** because with the wire line test, you don't have a chamber that will really measure the volume of gas there, but the pressures were good. And they did not choose on the basis of that wire line test to run pipe.

And, of course, my purpose is to try and reenter that well and production test that upper zone. Possibly even production test the lower zone with pipe in the hole, but the

upper zone, I thought was not adequately tested. They did have 3625 pounds of bottomhole pressure which is substantial and indicates to me, anyway, that there is a chance of commercial gas. It took forty-five minutes to build up to that, so there is naturally some doubt, but I think the well should be further tested and this is what the case is about, what my efforts have been toward.

Q With the risk involved in reentering this, could you give us your estimate in two connections, your risk of making a well on your reentry and the risk of making what would be termed the commercial well?

A Well, first of all, there is a risk in ever getting down to be able to test it. We have no -- although the reports filed to date have indicated that we can probably drill out the plugs and run a string of production casing and production test it. You never know on a reentry whether you're going to be successful or not until you actually move the rig out and start. That's the first great risk, and then the other risk is the fact that even though there is an -- indicating 3625 pounds of pressure, it took forty-five minutes to build up to that pressure, and it may be a little bit tight. We don't know. I would say the chances are pretty good of getting some gas, say like at least one out of two for getting some sort of well, but the risk of getting a commercial well, maybe one out of four.

Q In line, then, with your estimate of the risk here, could you in the event the Commission decides that this tract should be force-pooled, could you recommend a penalty to be assessed against the non consenting party in this case?

A Well, first of all, I don't advocate forced pooling because it changes the economics tremendously on the deal by participating or by farming out or even with small back-in the economics are -- you can live with them. But when you start force-pooling, the economics are bad. However, if the Commission found it necessary to force-pool it, the 1 and 2 on some kind of gas and the 1 and 4 would indicate a 200 to 400 per cent non consent penalty. However, I realize the Commission is limited by statute to 150 per cent, so that is just my estimate of the risk involved.

Q What kind of administrative overhead, both for drilling wells and producing wells, would you recommend in the event there were a forced-pooling provision ordered by the Commission?

A Well, there again, I don't like the forced-pooling aspect.

Q Sorry to lead the witness.

A The figures that I have been dealing with as a participant in some ventures have been \$150 as administrative overhead and that's once the well is on production, and \$750 for drilling a well. These are from my experience with paying other division orders or signing other division orders and paying

other working interests in other ventures.

MR. UTZ: That's a month?

THE WITNESS: A month; yes, sir.

Q (By Mr. Stevens) Your principal request, though, is for either a 320 -- preferably a 320 non-standard gas proration unit, which would allow the operators in the south half to protect the royalty owners correlative rights, perhaps by another well or what have you? You have the 40 acres in that south half. As I understand, you made various offers to Pubco which have been turned down. Would you accept any of the offers you have made to Pubco in the event a well were drilled in the south half as it relates to the 40 acres?

A Yes, I would give Pubco the option of selecting any one of my offers as a reciprocal agreement. If they wanted to buy it, they could, to drill a well in the south half. I would farmout that 40. I would join them in the 40. I would deal with them, certainly, if the Commission found it acceptable to grant the 320 acres, approximately 320 acres.

I think in the request there was an option there to include maybe 480 acres being the south, including the north half in the southwest 160. I feel this is an option; wouldn't be in the best interest of all concerned because then it would be difficult to drill another well in there. You just have 160 acres by itself. However, by splitting the section into

two 320's, I see no difficulty in protecting correlative rights.

Q You stated the Monzano well has produced 2 billion to date. Could you tell us about it.

A It's approximately 1.6 billion.

Q Oh, excuse me. What's its current rate of production?

A A little less than a million a day, in the neighborhood of 24 million per month.

Q And would you testify in your opinion, has the north half of Section 7 been drained at least partially by the Monzano well?

A Definitely. There are some irate landowners in that north half who see this well right next to their acreage certainly draining, and there is no reason it couldn't drain. I feel their rights are not being protected even though a well was drilled on them. There is some -- some merit that the well was drilled, but it just wasn't adequately tested in my opinion.

Q Mr. LeMay, were these exhibits prepared by you or under your direction?

A Yes, they were, by me.

MR. STEVENS: At this time, we move the introduction of Exhibits 1 through 4.

MR. UTZ: Without objection, exhibits 1 through 4

will be entered in the record in this case.

(Whereupon, Applicant's  
Exhibits 1 through 4 were  
admitted into evidence.)

MR. STEVENS: And we have no further questions of  
the witness.

MR. UTZ: Questions of the witness?

MR. MORRIS: Yes, sir.

CROSS EXAMINATION

BY MR. MORRIS:

Q Mr. LeMay, as I understand your primary proposal  
here is to form a non-standard unit comprising all the north  
half of this section.

A That's correct.

Q And your second proposal is what kind of non-standard  
plan?

A As an alternative, I could work with the north half  
and -- the north half in the southwest quarter. That's only  
because I have contacted the people involved in that and they  
are willing to -- I could work with them on getting the reentry.

Q And your third alternative in your application is  
to force-pool the entire section, is that correct?

A Well, that wasn't really my alternative. That was  
to simplify the fact that it's part of the --

Q I understand. That's in the event the Commission  
feels obligated to pool the entire section as a proration unit,

right?

A That's correct, it should be considered under one case. It's easier to consider it under one case.

Q Is there a diversity of royalty in overriding royalty interests among the different colored tracts in Section 7?

A Oh, yes.

Q What color would you call that?

A Beige.

Q The beige?

A The off-color yellow there?

Q Yes, what is the royalty interest there?

A It's basically the Buchanan heirs which involve quite a few individuals. Mrs. Lucy Bell of 905 Axle Street, Clovis, New Mexico, tends to speak for her family in that regard. However, we had to take leases from all of her family. Mr. Buchanan is involved. It's the same family, but there is about five of them.

Q All right. Now, with respect to the orange colored acreage, what is the royalty on that?

A Well, there is some U.S. royalty in that. I don't know if it is all U.S. or there is some fee ownership, but it is under Pubco. I know the Pubco is fee ownership, and I'm not familiar --

Q All right.

A And I think it's the State which we tried to deal with one time, because it was handled by the First National Bank of Albuquerque and Pubco ended up with it.

Q The royalty interest under the Pubco tract is not the same as the royalty interest in the yellow tract or in the orange tract?

A No, it's separate, that's right.

Q Has the United States Geological Survey expressed itself in connection with your proposed application?

A No, they haven't.

Q How many other wells or how many wells have been drilled in the Dagger-Draw Pool, Morrow -- Dagger-Draw-Morrow Pool?

A There is only one producing in the Dagger-Draw-Morrow.

Q Now, that's in Section 6 to the north?

A That's correct.

Q And is it located on a 640-acre spacing unit?

A Yes, it was the well that prompted the hearing.

Q How many other wells have been drilled in this pool?

A Well, the Buchanan Well, then there is a dry hole in the northwest corner of Section 5.

Q Northwest corner of Section 5?

A Yes. I don't recall if that was drilled prior to or subsequent to the Dagger-Draw completion. Monzano -- Foster --

I think it was subsequent to the Dagger-Draw completion.

Q I see. Now --

A Excuse me. I was going to say it had only five feet of tight pay and it was a dry hole.

Q Now, Pubco has drilled a well in this area too, have they not?

A Pubco drilled a well in Section 9. Pubco and King Resources together as a joint venture.

Q And was that drilled after the Dagger-Draw pool rules for adoption?

A Yes, but it's over a mile from the pool, so it wouldn't conform to the pool rules.

Q So, at the present time the only well that we have is the one producing well which is to the north?

A That is correct. These two wells in the Cemetery Morrow are basically the same pay, "The Morrow Pay."

However, as you can see, they are not very well developed, and they have full production history and they would have to be considered non-commercial.

Q Now, who was the applicant for 640-acre spacing in this area?

A Monzano was. They are the operators of the Dagger-Draw well.

Q I think you had pointed out that your area here, all of Section 7 would be subject to the 640-acre pool rules of

the Dagger-Draw-Morrow pool; is that correct?

A Yes, it's an offset proration unit.

Q Turning to the risk aspect of the matter, in the event the Commission determines to force-pool Section 7 into a standard unit for the drilling of this, or reentry of this well, looking at the risk factor that the Commission is permitted by the statute, to award, and looking at it on a sliding scale of anywhere between zero and fifty per cent, fifty per cent being the maximum that could be awarded in the event that this were a complete wildcat well, where would you say that a reentry as a direct offset to a producing well would lie in that field between zero and fifty per cent.

MR. STEVENS: Objection.

Q (By Mr. Morris) Limiting your observation to the risk involved in the drilling of the well?

MR. STEVENS: Objection. The question presumes that fifty per cent would be allocated only to the wildcat well and I don't have any evidence that that's what the Legislature intended.

MR. UTZ: The statute doesn't differentiate as to development wells and wildcat wells, is what you're saying?

MR. STEVENS: Right.

MR. UTZ: I think your objection is well taken.

Q (By Mr. Morris) Mr. LeMay, looking at the scale

of risk, whether it be a wildcat well or a development well, but in view of your situation of being in direct offset to a producing well which you have testified is a good well, what would be the risk that would appear reasonable to you on a sliding scale between zero and fifty for the risk involved in the drilling of the well?

A Well, the well's already drilled. We are trying to reenter it. The fact that you're proposing a penalty, in a sense, I think you can answer that question by accepted industry practice in operating agreements. I haven't read or signed an operating agreement that had a non-consent provision of less than 200 per cent in the last three years, because the Legislature has taken it upon itself to propose legislation which the body must be acted on and limit itself to 150 per cent.

The chinchiest deal I can think of should carry 150 per cent, in my estimation. Otherwise, I think Pubco and King Resources would be breathing down my door to join me in this reentry.

To be more specific, it's a well that's already been drilled and therefore, the reentry aspect carries some risk in its own right, the mechanical aspects of reentering the hole. The aspects of getting any kind of gas at all, I gave it a one and two. You might even call it chinchier than that. That's not a commercial limit, however. That's just some form of gas

and there is no way of knowing how commercial the well is, whether it's another Dagger-Draw or Cemetery Morrow without prolonged testing. And this testing wasn't done initially when the well was done, and therefore it was my purpose to do it to production test the well.

Q Well, Mr. LeMay, whether you agree with the Legislature or not, would you agree with me that the risk involved in the reentry of this well is minimal?

A In the reentry?

Q Yes.

A I think to reenter the well, you might consider it a small risk.

Q Thank you.

A I mean, just the mechanical aspects of reentry.

MR. MORRIS: That's all.

CROSS EXAMINATION

BY MR. UTZ:

Q How about the chances of making a well out of it?

A Commercial aspects are wide open. I have no idea. I like the looks of the log. I like the pressure, but I don't like the fact that it took forty-five minutes to build up to 3,625 pounds compared to another test off that water zone that built up, I think, in fifteen minutes. There is a water zone underlying the gas, those two sand pays there, when they tested it. They had a quicker pressure build-up on the curve, so I like some

of the aspects, but I have strong feelings about whether the well will be commercial or not and there is no way to predict that unless you have production tests.

Q I guess I wasn't paying attention when you were outlining the royalty interests under this 640-acre tract. I was trying to figure out how Pubco got that 360, I guess.

A That's a good question. I was kind of wondering that myself.

Q The yellow interest. Is it Federal?

A The yellow is fee.

Q It's all fee?

A Yes.

Q How about the orange acreage, is it all Federal?

A I think it's all Federal; yes, there may be some fee, but if there is I have no knowledge of it.

Q And is the green acreage fee?

A Yes, that's correct; the green acreage is fee.

Q So the entire 640 is predominately fee acreage?

A That's correct. The majority of it.

Q That would be as to the royalty interests? How about the overriding royalty interest?

A It's a very complicated breakdown. Our assignment that we got from Monzano, we brought their interest out. It's

loaded with override, and override has been accumulated through there with various dealings. It's diverse and there is some overriding royalty interest already on the orange tract, I know.

As far as the green, I don't know. The yellow or the orange, there is no other overriding royalty except the mineral interests overriding.

Q But I think it goes without belaboring the matter any further, that your preference is a non-standard unit specifically in the north half of the Section?

A That's correct.

Q In the event the Commission does not see fit to do that, you would accept forced-pooling?

A Have to, I guess, if I want to get the well drilled.

MR. UTZ: Are there other questions of the witness?

MR. HATCH: Is Pubco and King Resources objecting to the formation of a 318-acre non-standard proration unit?

MR. MORRIS: Yes, sir.

MR. HATCH: The 478?

MR. MORRIS: Yes, we think the entire section should be formed as a standard spacing unit under the rules adopted for this pool. We are objecting to the formation of the non-standard unit.

MR. HATCH: You're not objecting to the pooling?

MR. MORRIS: No. We urge the Commission to pool it.

MR. HATCH: But as a non-consenting --

MR. MORRIS: Pubco and King are in the position of probably being non-consenting interests. However, we would assume that the ordinary options available in the pooling orders, will be made available so that they could determine within, I think it's usually 30 days under the order, and after taking a look at the AFE on the well, whether they would be consenting or non-consenting parties.

MR. UTZ: After the well was completed?

MR. MORRIS: No, I think the way the usual pooling order reads, is that -- and correct me if I'm wrong -- but after the record order is entered, the operator has a certain period of time, usually thirty days, to submit an estimate of costs that would be involved, and then the parties that have not joined at that point have a certain period of time, I think it's another thirty days, to elect whether to pay their share of those costs and become consenting parties or either elect or by doing nothing, elect to remain non-consenting parties.

I cannot commit either Pubco or King Resources to a non-consenting position at this point. However, I will say that the negotiations that have taken place up to this point with Mr. LeMay -- they have not been able to reach agreement

on terms of farmout or sale or joinder.

MR. UTZ: Other questions?

MR. TRAYWICK: I would like to ask Mr. LeMay a question, if I may. This is probably not important, but the docket sets up your alternate secondary proposal to force-pool Section 7, Morrow formation. Was it your intent just to have that cover the Morrow formation?

THE WITNESS: Yes, I didn't intend it to cover all formations. Could I interject something at this point?

MR. UTZ: Sure.

THE WITNESS: My last conversation which was with John Bullard of King Resources, indicated to me they weren't opposed to my forming a 320-acre non-standard unit in there. In fact, he said, go ahead and do it and we might give you some support, so it's confusing to me that there is objection from both parties. And I just wanted to be sure that King was involved with Pubco's objections.

MR. MORRIS: Well, let me make that clear. I've been instructed by Mr. Charles Ramsey of Pubco that I was appear for both Pubco and King Resources, King Resources being actually the operator of this quarter-section, and that King Resources agreed with Pubco's position as I have outlined.

THE WITNESS: The instruction came from Pubco and not King, however.

MR. MORRIS: Correct.

THE WITNESS: I'm asking the question; can I do that?

I just wondered if you had any contact at all with King's personnel?

MR. MORRIS: No.

THE WITNESS: There is some doubt in my mind whether King would concur with Pubco.

MR. MORRIS: Let me put it this way. I've told you everything I know about it and I think that if there is any position to the contrary, you would have to produce a letter or some written instructions.

MR. UTZ: The sub-collateral letter of classification.

THE WITNESS: Yes.

MR. UTZ: Other questions of the witness?

MR. STEVENS: A couple more, unless someone else has --

MR. UTZ: Proceed.

REDIRECT EXAMINATION

BY MR. STEVENS:

Q In your offers to others in that Section 7, did you make basically the same offers to Pubco that you have made to various other owners?

A Exactly the same.

Q Did you discuss AFE's with Pubco?

A Only in as short written correspondence when Pubco

was somewhat interested in joining me. I estimated a cost of 40 to 50,000 to reenter that well and production test the Morrow. This is correspondence with Orin Crane who requested that I submit a rough AFE and these are my -- still my estimated costs, but, as you know, with a reentry, you don't know what kind of trouble you are going to run into.

Q Are your offers that you made to Pubco still good?

A Yes.

MR. STEVENS: No questions.

MR. UTZ: Are there other questions of the witness?

The witness may be excused.

(Whereupon, witness excused)

Statements in the case?

MR. MORRIS: Yes, sir, a short statement.

MR. UTZ: You have the privilege of going last.

MR. MORRIS: Mr. Examiner, Pubco's position has, I think, been heard by this Commission before in another case, which I might say is still pending decision before this Commission. I am referring to the Duggan case. Basically, it is Pubco's position that the compulsory pooling statute was designed for the orderly development of pools on standard spacing and proration units and where there are field rules, specifying the size proration unit, these rules are mandatory by the Commission when the compulsory ruling statute is in

vote.

Now, the applicant here, I think has recognized that by putting that in as an alternative, even though he likes that as an alternative, he recognizes the statute. And certainly as I've already stated, Pubco does wish to take the position in this case that the compulsory pooling statute should not be in vote to form a standard unit in this field.

Now, Pubco owns commercial acreage in this area and tends to do some more drilling in this area. They think it is too early in the development of this field to start making exceptions on spacing.

Now, I'm sure that the Commission takes these matters into consideration when they initially adopt any form of wide spacing in a pool and it's for the very reason for wide spacing is to avoid the unnecessary expense that is incurred in the drilling of unnecessary wells for the development of the pool. We think that's what would happen here if a non-standard unit of anything, or a unit of any size less than 640 acres is adopted by the Commission.

Concerning the risk factor that should be adopted, I think our position on that is pretty clear, that by practice, the Commission has reserved the 50 per cent factor for wildcat or extremely high-risk wells and in continuation of its long standing administrative interpretation of this provision of the

forced pooling statute, that something less than fifty per cent should be established for this pool.

Now, where it is a reentry and where the applicant himself recognizes there is minimal risk involved in the drilling or reentry of the well, we think something in the nature of a ten or fifteen per cent risk factor would be appropriate. We would be the first ones to recognize that this is not in line with non-consent provisions of communitization agreements, but we have known that for a long time. This is an old story to the Commission, but until the Legislature feels fit to change it, you're dealing with a maximum limitation of fifty per cent that has to be viewed and applied in perspective.

For that reason, we do recommend a ten to fifteen per cent risk factor in this case.

Thank you.

MR. STEVENS: Mr. Examiner, we are actually looking at four alternatives instead of three. Instead of 480-acre spacing for forced pooling, there was one other one which Pubco did not go along with it. They could have joined, farmed out, or sold, or one other thing, they could have waived their right as provided under the rules as related to the Dagger-Draw field. There was a right set up in there to have non-standard units without hearing if certain conditions were met and if

there were a waiver by the other operators.

Well, Pubco chose not to waiver, so by those various methods they didn't go along with the first alternative and that would be the easier one.

Second alternative is 320-acre spacing. This, in effect, is to get a well drilled and reentered to prevent the continuing drainage of this field. As opposed and 480 acres would be roughly the same, as opposed to the forced pooling provision which Pubco proposes it will go along with.

Since it was set up for non-standard units and the hearing rules themselves provided there were a waiver, since there were all the other alternatives available to Pubco, we feel that the 320-acre spacing unit would be a reasonable unit for the Commission to go along with giving Pubco the right to protect the royalty interest in the south half as they will.

These offers, as Mr. LeMay stated, to initially go ahead and pool the whole unit are still in force, so it would seem that would be Pubco's best efforts. The 320-acre spacing application would, in our estimation, be the second best possibility for the Commission. The third possibility, 480-acres being roughly the same as 320, the forced-pooling is not desired principally because of the statutory limitation on the penalty clause at fifty percent. If it does become operative in your decision based on the fact that you do have, basing

your testimony of 200 or 400 per cent risk factor here, it would seem that 450 per cent minimum should be the risk factor, and the penalty factor.

Counsel talks of wildcat or high risk wells being reserved the fifty per cent here. Well, about a half to three-fourths of a mile away, that would be normally be a wildcat. It is a high risk well in that it was plugged by a previous operator.

For these reasons, we feel the Commission should grant 320-acre spacing for this unit for 318 acres. That's all.

MR. UTZ: Other statements? The case will be taken under advisement.

I N D E X

WITNESS	PAGE
WILLIAM J. LeMAY	
Direct Examination by Mr. Stevens	2
Cross Examination by Mr. Morris	13
Cross Examination by Mr. Utz	19
Redirect Examination by Mr. Stevens	24

E X H I B I T S

Applicant's Exhibits 1 through 4	2
----------------------------------	---

I, David Bingham, Court Reporter in and for the County of Bernalillo, State of New Mexico, do hereby certify that the foregoing and attached Transcript of Hearing before the New Mexico Oil Conservation Commission, was reported by me; and that the same is a true and correct record of the said proceedings, to the best of my knowledge, skill and ability.

David Bingham  
Court Reporter

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 4362, heard by me on July 1, 1970.

[Signature] Examiner  
New Mexico Oil Conservation Commission



## OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO

P. O. BOX 2088 - SANTA FE

87501

GOVERNOR  
DAVID F. CARGO  
CHAIRMAN

LAND COMMISSIONER  
ALEX J. ARMIJO  
MEMBER

STATE GEOLOGIST  
A. L. PORTER, JR.  
SECRETARY - DIRECTOR

June 10, 1970

Mr. Donald G. Stevens  
McDermott, Connelly & Stevens  
Attorneys at Law  
Post Office Box 1904  
Santa Fe, New Mexico

Re: Case No. 4362  
Order No. R-3972  
Applicant:  
William J. LeMay

Dear Sir:

Enclosed herewith are two copies of the above-referenced Commission order recently entered in the subject case.

Very truly yours,

A. L. PORTER, Jr.  
Secretary-Director

ALP/ir

Copy of order also sent to:

Hobbs OCC x

Artesia OCC x

Aztec OCC           

Other Mr. Richard S. Morris

BEFORE THE OIL CONSERVATION COMMISSION  
OF THE STATE OF NEW MEXICO

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

CASE No. 4362  
Order No. R-3972

APPLICATION OF WILLIAM J. LEMAY  
FOR A NON-STANDARD GAS PRORATION  
UNIT OR COMPULSORY POOLING, EDDY  
COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on May 27, 1970,  
at Santa Fe, New Mexico, before Examiner Elvis A. Utz.

NOW, on this 10th day of June, 1970, the Commission, a  
quorum being present, 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 Commission has jurisdiction of this cause and the subject  
matter thereof.

(2) That the applicant, William J. LeMay, seeks approval  
for a 318.9-acre non-standard gas proration unit comprising Lots  
1 and 2 and the E/2 NW/4 and NE/4 of Section 7, Township 20 South,  
Range 25 East, NMPM, Dagger Draw-Morrow Gas Pool, Eddy County,  
New Mexico, or a 478-acre non-standard unit comprising Lots 1, 2,  
3, and 4, and the E/2 W/2 and NE/4 of said Section 7.

(3) That in the alternative to the above, applicant seeks  
an order pooling all mineral interests in the Morrow formation  
underlying said Section 7.

(4) That the applicant has the right to drill and proposes  
to re-enter a well located 1650 feet from the North line and

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CASE No. 4362  
Order No. R-3972

1650 feet from the West line of said Section 7 in the Dagger Draw-Morrow Gas Pool.

(5) That the Special Rules and Regulations governing the Dagger Draw-Morrow Gas Pool provide that each well shall be located on a standard unit containing 640 acres, more or less, consisting of a governmental section.

(6) That there are interest owners in said Section 7 who have not agreed to the formation of either of said proposed non-standard proration units and have not agreed to pool their interests to form a standard proration unit comprising all of said Section 7.

(7) That the applicant's request for approval of either of the above-described non-standard proration units should be denied.

(8) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford the owner of each interest in said Section 7 the opportunity to recover or receive without unnecessary expense his just and fair share of the gas in the Dagger Draw-Morrow Gas Pool, all mineral interests, whatever they may be in said pool within said Section 7 should be pooled to form a standard 640-acre proration unit to be dedicated to the above-described well.

(9) That the applicant, William J. LeMay, should be designated the operator of the subject well and unit.

(10) 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.

(11) That any non-consenting working interest owner that does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 50% thereof as a reasonable charge for the risk involved in the completion of the well.

(12) That any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but that said actual well costs should be adopted as the reasonable well costs in the absence of such objection.

-3-

CASE No. 4362

Order No. R-3972

(13) That following determination of reasonable well costs, any non-consenting working interest owner that 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.

(14) That \$150.00 per month should be fixed as a reasonable charge for supervision (combined fixed rates) for the subject well; that the operator should be authorized to withhold from production the proportionate share of such supervision charge 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.

(15) 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.

IT IS THEREFORE ORDERED:

(1) That the application of William J. LeMay for approval for a 316.9-acre non-standard gas proration unit comprising Lots 1 and 2 and the E/2 NW/4 and NE/4 of Section 7, Township 20 South, Range 25 East, NMPM, Dagger Draw-Morrow Gas Pool, Eddy County, New Mexico, or a 478-acre non-standard unit comprising Lots 1, 2, 3, and 4, and the E/2 W/2 and NE/4 of said Section 7, is hereby denied.

(2) That all mineral interests, whatever they may be, in the Dagger Draw-Morrow Gas Pool underlying Section 7, Township 20 South, Range 25 East, NMPM, Eddy County, New Mexico, are hereby pooled to form a 640-acre gas spacing unit to be dedicated to a well to be re-entered 1650 feet from the North line and 1650 feet from the West line of said Section 7.

(3) That William J. LeMay is hereby designated the operator of the subject well and unit.

(4) That the operator shall furnish the Commission and each known working interest owner in the subject unit an itemized

CASE No. 4362  
Order No. R-3972

schedule of estimated well costs within 30 days following the date of this order.

(5) 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.

(6) That the operator shall furnish the Commission and each known working interest owner in the subject unit an itemized schedule of actual well costs within 30 days following completion of the well; that if no objection to the actual well costs is received by the Commission, and the Commission has not objected within 60 days following completion of the well, the actual well costs shall be the reasonable well costs; provided however, that if there is an objection to actual well costs within said 60-day period, the Commission will determine reasonable well costs after public notice and hearing.

(7) That within 30 days following determination of reasonable well costs, any non-consenting working interest owner that 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.

(8) 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 completion of the well, 50% of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has

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CASE No. 4362

Order No. R-3972

(8) (B) continued from Page 4 -

not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

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

(10) That \$150.00 per month is hereby fixed as a reasonable charge for supervision (combined fixed rates) for the subject well; that the operator is hereby authorized to withhold from production the proportionate share of such supervision charge 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 the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(11) 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.

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

(13) That all proceeds from production from the subject well which are not disbursed for any reason shall be placed in escrow in Eddy County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Commission of the name and address of said escrow agent within 90 days from the date of this order.

(14) 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. 4362

Order No. R-3972

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO  
OIL CONSERVATION COMMISSION

  
*David F. Cargo*  
DAVID F. CARGO, Chairman

*Alex J. Armijo*  
ALEX J. ARMIJO, Member

*A. L. Porter, Jr.*  
A. L. PORTER, Jr., Member & Secretary

esx/

*270*

LAW OFFICES  
McDERMOTT, CONNELLY & STEVENS  
P. O. Box 1904  
Santa Fe, New Mexico 87501

MAY 7 7 16 PM '70

May 6, 1970

Tel: 505 983-7301

Oil Conservation Commission  
State of New Mexico  
Land Office Building  
Santa Fe, New Mexico

Attention: Mr. George Hatch

Gentlemen:

In case No. 4362 William J. LeMay made application for a non-standard gas proration unit in Section 7, Township 20 South, Range 75 East, Eddy County, New Mexico.

It is requested that this application be amended to include, in the alternative, a request for force-pooling of the SE/4 of Section 7 with the remainder of the section and the assessment of a penalty provision.

Yours very truly,

William J. LeMay

By Donald G. Stevens  
McDermott, Connelly & Stevens  
Attorneys for Applicant

DGS:sj

*file in  
Case 4362*

Case 436 Z

Heard 5-27-70

Res. 6-3-70

Grant Mr. J. De May &  
ltd. forced pooled debit  
for this Buchanan #1, a re-  
entry.

Operator has all of the sec. 7  
but the 50% which is owned  
by Pubco Pct. and King Resources.  
This 1/4 sec. is to be forced  
pooled as follows:

Employ a risk factor of 150%.  
Grant a cost of supervision  
for the well of 150 \$/sec. plus  
a proportionate share of the  
actual cost of operations.  
Give Pubco & King the usual  
opportunity to share the cost  
of rework in cash.

Thudor

Docket No. 13-70

DOCKET: EXAMINER HEARING - WEDNESDAY - MAY 27, 1970

9 A.M. - OIL CONSERVATION COMMISSION CONFERENCE ROOM,  
STATE LAND OFFICE BUILDING - SANTA FE, NEW MEXICO

The following cases will be heard before Elvis A. Utz, Examiner, or Daniel S. Nutter, Alternate Examiner:

- CASE 4357: Application of Stallworth Oil & Gas for an unorthodox oil well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to drill an infill producing oil well at an unorthodox location, 1315 feet from the South and East lines of Section 25, Township 16 South, Range 30 East, in its Square Lake Grayburg-San Andres Waterflood Project, Eddy County, New Mexico.
- CASE 4358: Application of Union Oil Company of California for a non-standard gas proration unit and unorthodox location, Roosevelt County, New Mexico. Applicant, in the above-styled cause, seeks approval for a 240-acre non-standard gas proration unit comprising the NE/4 and E/2 SE/4 of Section 18, Township 8 South, Range 38 East, Bluit-San Andres Associated Pool, Roosevelt County, New Mexico, to be dedicated to its Federal 18 Well No. 2 at an unorthodox location 660 feet from the South and East lines of said Section 18. Applicant further requests that the allowable assigned to the subject well be effective as of May 1, 1970.
- CASE 4359: Application of Pan American Petroleum Corporation for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to drill a gas well at an unorthodox location 1650 feet from the South line and 990 feet from the West line of Section 22, Township 18 South, Range 26 East, Atoka-Pennsylvanian Gas Pool, Eddy County, New Mexico.
- CASE 4360: Application of Pan American Petroleum Corporation to directionally drill, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to locate its Byers "A" Well No. 30 at a point 663 feet from the North line and 1935 feet from the West line of Section 3, Township 19 South, Range 38 East, Hobbs (Grayburg-San Andres) Pool, Lea County, New Mexico, and directionally drill said well to a bottom-hole location 330 feet from the North line and 1650 feet from the West line of said Section 3.
- CASE 4341: (Continued from the April 29, 1970, Examiner Hearing)  
Application of Pan American Petroleum Corporation for two non-standard gas proration units, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval of two non-standard

Examiner Hearing - May 27, 1970

-2-

Docket No. 13-70

(Case 4341 continued)

gas proration units for its State "C" Tract 13 Well No. 5, a dual completion, located 1980 feet from the North line and 660 feet from the West line of Section 36, Township 21 South, Range 37 East, Lea County, New Mexico, said units to be comprised as follows:

Blinebry Gas Pool - 240 acres - NW/4  
and W/2 NE/4

Tubb Gas Pool - 200 acres - W/2 NW/4,  
NE/4 NW/4 and W/2 NE/4

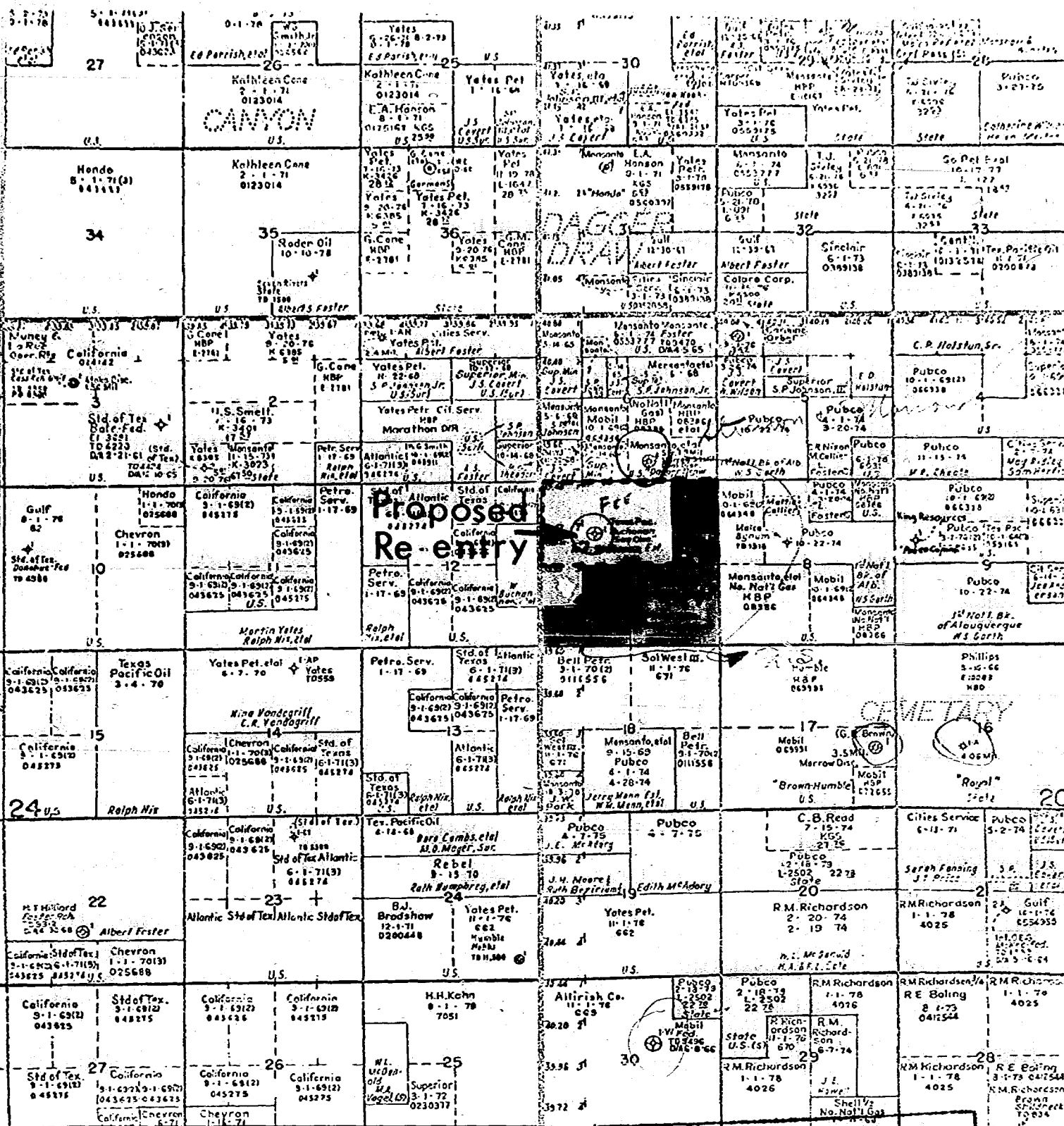
CASE 4361: Application of Read & Stevens for an unorthodox gas well location, Chaves County, New Mexico. Applicants, in the above-styled cause, seek authority to drill a gas well at an unorthodox location 990 feet from the South and West lines of Section 6, Township 15 South, Range 28 East, Buffalo Valley-Pennsylvanian Gas Pool, Chaves County, New Mexico, to be dedicated to a gas proration unit comprising the W/2 of said Section 6.

CASE 4362: Application of William J. LeMay for a non-standard gas proration unit or compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for a 318.9-acre non-standard gas proration unit comprising Lots 1 and 2 and the E/2 NW/4, and NE/4 of Section 7, Township 20 South, Range 25 East, Dagger Draw-Morrow Gas Pool, Eddy County, New Mexico, or a 478-acre non-standard unit comprising Lots 1, 2, 3, and 4, and the E/2 W/2, and NE/4 of said Section 7. In the alternative, applicant seeks an order pooling all mineral interests from the surface of the ground down to and including the Morrow formation underlying said Section 7. The acreage in the above proposals is to be dedicated to a well 1650 feet from the North and West lines of said Section 7 which is to be re-entered.

CASE 4352: (Continued from the May 13, 1970, Examiner Hearing)  
Application of Jack L. McClellan for the creation of a new gas pool or, in the alternative, the establishment of pool rules for two existing pools, Chaves and Lea Counties, New Mexico. Applicant, in the above-styled cause, seeks the creation of a new Queen gas pool comprising the following-described acreage:

CHAVES COUNTY, NEW MEXICO

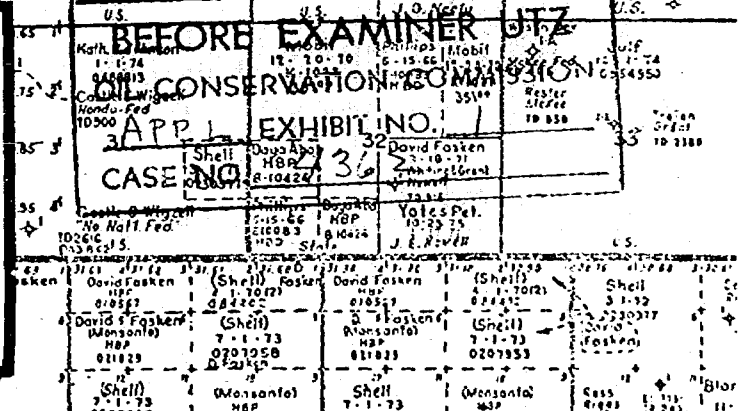
Township 15 South, Range 29 East  
Section 11: SE/4

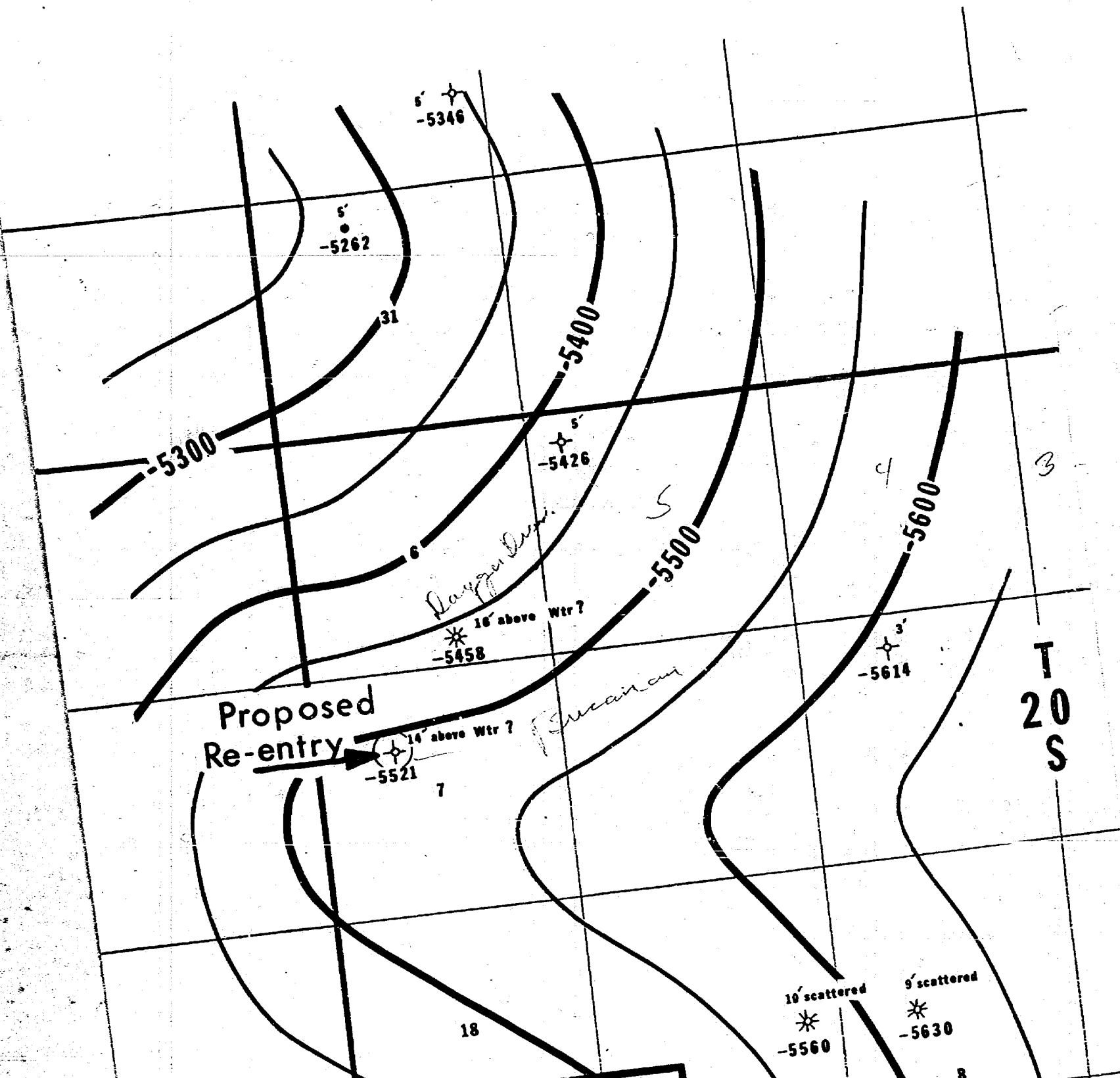


CASE NO. 4362 - DAGGER DRAW MORROW  
EXHIBIT NO. 1

LAND OWNERSHIP MAP

- ☐ LeMay - Garrett
- ☒ LeMay - Garrett & others who have agreed to farmout
- ☒ Pubco & King Resources
- William J. LeMay - Geologist





CASE NO. 4362 - DAGGER DRAW MORROW  
EXHIBIT NO. 2

STRUCTURE MAP  
Datum: Top Atoka-Morrow  
C.I.: 50 feet  
3' Net feet of Morrow sand pay

William J. LeMay - Geologist

R-25-E

BEFORE EXAMINER UTZ  
OIL CONSERVATION COMMISSION  
APP. EXHIBIT NO. 2  
CASE NO. 4362



# Induction Electric Log

# Sonic Log

CASE NO. 4362 - DAGGER DRAW MORROW  
EXHIBIT NO. 4

Log of Morrow --- T.P. No. 1 Buchanan

 Sand  
 Pay

William J. LeMay - Geologist

Vertical Scale  
1 inch = 100 feet

WLT Rec 996 CF-4  
3612 3/15/45

Base Morrow

DOWNHOLE CALIBRATION - SONIC SURVEY

1140 M. 300' 100 M. 300' 100 M. 300'

# DETAIL LOG Gamma Ray -- IES

# MicroLaterolog

RECOMMENDED RESERVATIONS

9000  
9000  
9000

6AS

WATER?

14' porous sand

Vertical Scale  
1 inch = 40 feet

20' porous sand

Texas Pacific Oil Co.  
#1 Buchanan Gas Com  
1650' FNL & FWL  
Sec. 7, T.20-S, R.25-E  
TD. 9500

BEFORE EXAMINER UTZ  
OIL CONSERVATION COMMISSION  
APPL EXHIBIT NO. 4  
CASE NO. 4362

BEFORE THE  
OIL CONSERVATION COMMISSION OF NEW MEXICO

APPLICATION OF WILLIAM J. LeMAY  
FOR AN ORDER APPROVING A NON-  
STANDARD DRILLING AND PRORATION  
UNIT, DAGGER DRAW FIELD, EDDY  
COUNTY, NEW MEXICO

Case No. 4362

APPLICATION

*well location?*

Comes now William J. LeMay and applies to the Oil Conservation Commission of the State of New Mexico for the approval of a non-standard gas proration unit for the production of gas from the Morrow formation in the Dagger Draw Field, Eddy County, New Mexico, as an exception to Commission Order R-2919, made final by the Commission on February 23, 1967, which set up 640 acres spacing for the field.

It is requested that said non-standard gas proration unit shall consist of Lots 1, 2, E1/2 NW1/4 and NE1/4 of Section 7, Township 20 South, Range 25 East, Eddy County, New Mexico, containing a total of 318.9 acres, more or less, or, in the alternative, a non-standard gas proration unit consisting of Lots 1, 2, 3, 4, E1/2 W1/2, and NE1/4 of Section 7 above Township and Range, containing 478 acres, more or less, and in support thereof would show the Commission:

1. Applicant is the owner of the right to drill for, develop and produce from the Morrow formation in either of the above-described non-standard gas proration units.

2. Applicant has proposed to communitize its acreage with that located in the SE1/4 of Section 7, but has been unable to obtain a communitization agreement, a farmout or a purchase of said acreage.

3. Unless applicant is granted approval of a non-standard gas proration unit consisting of 318.9 acres, or in the alternative, a non-standard gas proration unit consisting of 478.0 acres, as

DOCKET MAILED

Date 5-14-78

proposed herein, it will be denied its right to obtain its just and equitable share of the gas underlying its lands.

4. Approval of the application will result in the recovery of gas that probably would not otherwise be recovered, will prevent waste, and correlative rights of the other owners in the area will be protected.

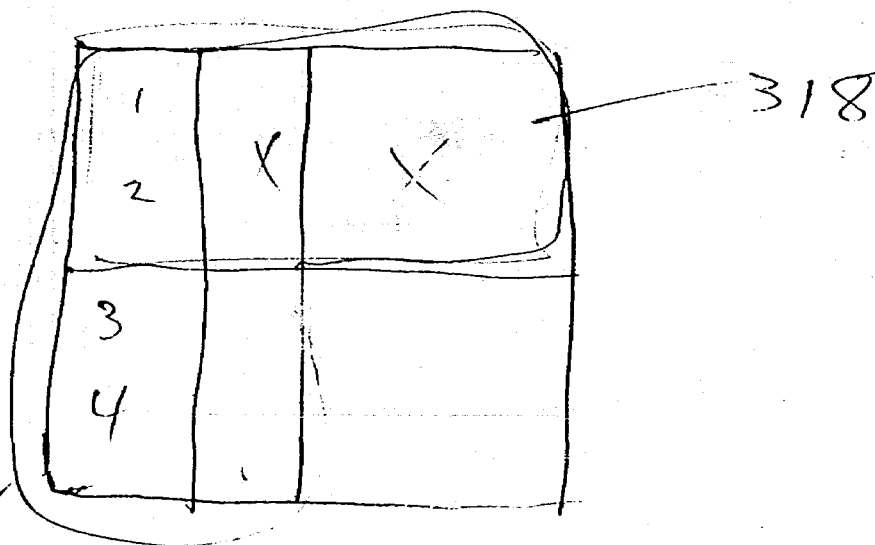
THEREFORE applicant prays that this matter be set for hearing before the Commission, or before the Commission's duly appointed examiner, and that after notice and hearing as required by law, the Commission enter its order approving a non-standard gas proration unit for Morrow Sand production, as prayed for.

Respectfully submitted,

WILLIAM J. LeMAY

By Donald G. Stevens  
McDermott, Connelly & Stevens  
P. O. Box 1904  
Santa Fe, New Mexico 87501

Attorneys for Applicant



DRAFT

GMH/esr

June 3, 1970

BEFORE THE OIL CONSERVATION COMMISSION  
OF THE STATE OF NEW MEXICO

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

APPLICATION OF WILLIAM J. LeMAY  
FOR A NON-STANDARD GAS PRORATION  
UNIT OR COMPULSORY POOLING, EDDY  
COUNTY, NEW MEXICO.

CASE No. 4362

Order No. R-3912

320  
160  
1 89.43  
2 39.47  
3 39.53  
4 39.57  
638.00

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on May 27, 1970,  
at Santa Fe, New Mexico, before Examiner Elvis A. Utz.

NOW, on this        day of June, 1970, the Commission, a  
quorum being present, 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 Commission has jurisdiction of this cause and the subject  
matter thereof.

(2) That the applicant, William J. LeMay, seeks approval  
for a 318.9-acre non-standard gas proration unit comprising Lots  
1 and 2 and the E/2 NW/4, and NE/4 of Section 7, Township 20  
South, Range 25 East, NMPM, Dagger Draw-Morrow Gas Pool, Eddy  
County, New Mexico, or a 478-acre non-standard unit comprising  
Lots 1, 2, 3, and 4, and the E/2 W/2 ~~and~~ <sup>NE/4</sup> of said Section  
7.

(3) That in the alternative to the above, applicant seeks  
an order pooling all mineral interests in the Morrow formation  
underlying said Section 7.

(4) That the applicant has the right to drill and proposes to re-enter a well located 1650 feet from the North line and 1650 feet from the West line of said Section 7 in the Dagger Draw-Morrow Gas Pool.

(5) That the Special Rules and Regulations governing the Dagger Draw-Morrow Gas Pool provide that each well shall be located on a standard unit containing 640 acres, more or less, consisting of a governmental section.

(6) That there are interest owners in said Section 7 who have not agreed to the formation of either of said proposed non-standard proration units and have not agreed to pool their interests to form a standard proration unit comprising all of said Section 7.

(7) That the applicant's request for approval of <sup>either</sup> ~~one~~ of the above-described non-standard proration units should be denied.

(8) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford the owner of each interest in said Section 7 the opportunity to recover or receive without unnecessary expense his just and fair share of the gas in the Dagger Draw-Morrow Gas Pool, all mineral interests, whatever they may be in said pool within said Section 7 should be pooled to form a standard 640-acre proration unit to be dedicated to the above-described well.

(9) That the applicant, William J. LeMay, should be designated the operator of the subject well and unit.

(10) 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.

(11) That any non-consenting working interest owner that does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 50% thereof as a reasonable charge for the risk involved in the ~~drilling~~ <sup>completion</sup> of the well.

(12) That any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but that said actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(13) That following determination of reasonable well costs, any non-consenting working interest owner that 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.

(14) That \$150.00 per month should be fixed as a reasonable charge for supervision <sup>(combined fixed rates)</sup> for the subject well; that the operator should be authorized to withhold from production the proportionate share of such supervision charge 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.

(15) 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.

IT IS THEREFORE ORDERED:

(1) That the application of William J. LeMay for approval for a 318.9-acre non-standard gas proration unit comprising Lots 1 and 2 and the E/2 NW/4, and NE/4 of Section 7, Township 20 South, Range 25 East, NMPM, Dagger Draw-Morrow Gas Pool, Eddy County, New Mexico, or a 478-acre non-standard unit comprising Lots 1, 2, 3, and 4, and the E/2 W/2, and <sup>NE/4</sup> NW/4 of said Section 7, is hereby denied.

(SEE UNDER)

~~SE-located 1050 feet from the north line and 1650~~  
feet from the west line of said Section 7

(3) That William J. LeMay is hereby designated the operator of the subject well and unit.

(4) That the operator shall furnish the Commission and each known working interest owner in the subject unit an itemized schedule of estimated well costs within 30 days following the date of this order.

(5) 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.

(6) That the operator shall furnish the Commission and each known working interest owner in the subject unit an itemized schedule of actual well costs within 30 days following completion of the well; that if no objection to the actual well costs is received by the Commission, and the Commission has not objected within 60 days following completion of the well, the actual well

costs shall be the reasonable well costs; provided however, that if there is an objection to actual well costs within said 60-day period, the Commission will determine reasonable well costs after public notice and hearing.

(7) That within 30 days following determination of reasonable well costs, any non-consenting working interest owner that 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.

(8) 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 ~~well~~ <sup>completion</sup> of the well, 50 % 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.

(9) That the operator shall distribute said costs and

charges withheld from production to the parties who advanced the well costs.

(10) That \$ 150 per month is hereby fixed as a reasonable charge for supervision for the subject well, <sup>(combined fixed rates)</sup> that the operator is hereby authorized to withhold from production the proportionate share of such supervision charge 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 the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

~~hereby authorized to withhold from production the proportionate share of such cost attributable to each non-consenting working interest.~~

(11) 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.

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

(13) That all proceeds from production from the subject well which are not disbursed for any reason shall be placed in escrow in Eddy County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Commission of the name and address of said escrow agent within 90 days from the date of this order.

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

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

Case 4363: Application of JACK  
L. MCCLELLAN FOR UNORTHODOX GAS  
WELL LOCATION, ROOSEVELT COUNTY.