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9-6-72

Amoco Production Company
Box 68
Hobbs, NM 88240

Vites Petroleum Corporation
207 South 4th St.
ARTESIA, N.M. 88210

Mr. Carl Foster

MAILED 10/1/72

9-15-72

CASE No.

4833

Application,

Transcripts,

Small Exhibits

ETC.

BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION
STATE LAND OFFICE
SANTA FE, NEW MEXICO
Wednesday, September 27, 1972 at 11:30 A.M.
EXAMINER HEARING

IN THE MATTER OF:

Application of Tesoro Petroleum
Corporation for compulsory pooling
and an unorthodox location, Eddy
County, New Mexico.

Docket No. 21-72
Case No. 4833

BEFORE: ELVIS A. UTZ, Examiner

TRANSCRIPT OF HEARING

dearnley, meier & mc cormick

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1216 FIRST NATIONAL BANK BLDG., EAST ALBUQUERQUE, NEW MEXICO 87103

PROCEEDINGS

MR. UTZ: Call case 4833.

MR. HATCH: Case 4833, Application of Tesoro Petroleum Corporation for compulsory pooling and an unorthodox location, Eddy County, New Mexico.

MR. KELLAHIN: Tom Kellahin of Kellahin and Fox appearing for applicant Tesoro Corporation and I have one witness to be sworn.

(Whereupon, Mr. William R. Larsen was called to the stand and sworn.)

MR. WILLIAM R. LARSEN

having been first duly sworn according to law, upon his oath, testified as follows:

DIRECT EXAMINATION

BY MR. TOM KELLAHIN:

Q Mr. Larsen, will you please state your name and occupation?

A It is William R. Larsen. I am a consulting geologist. I reside at 2103 Ward, Midland, Texas.

Q Have you previously testified before this Commission?

A No, sir, I haven't.

Q For the purposes of this hearing, will you please state briefly your educational background and your employment experience?

A I have a bachelor of arts degree from the Augustine College

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1 in Rock Island, Illinois. That is in geology. I have a
2 master of science degree from the Iowa State University
3 in geology. I worked for the Chevron Oil Company for 16
4 years and I am currently a consulting geologist.

5 Q How are you employed by Tesoro Petroleum Corporation with
6 regard to this application?

7 A I am acting as their representative in this particular
8 case.

9 Q Have you examined and are you familiar with the facts of
10 this application?

11 A Yes, sir, I am.

12 Q What experience do you have with production in Eddy
13 County, New Mexico?

14 A I have been looking at production in Eddy County for some
15 years while I worked for Chevron Oil Company and since
16 that time I have been doing a good bit of work in there
17 as a consultant.

18 MR. KELLAHIN: Mr. Examiner, are the witness's
19 qualifications as an expert acceptable?

20 MR. EXAMINER: Yes, sir, they are.

21 Q (By Mr. Kellahin) Mr. Larsen, will you state just briefly
22 what your applicant is seeking by this application?

23 A Yes, sir. The applicant is seeking an unorthodox well
24 location 660 feet from the south line and 1160 to 1200
25 feet from the east line of Section 28, Township 20 South,

1 Range 26 East, Eddy County, New Mexico.

2 MR. EXAMINER: What was your second footage location?

3 THE WITNESS: 660 from the south line and 1160 to
4 1200 feet from the east line.

5 MR. EXAMINER: 1160 to 1200?

6 THE WITNESS: Yes, sir.

7 MR. EXAMINER: Do you want a 40 foot tolerance?

8 THE WITNESS: I believe 1200 probably would be
9 acceptable.

10 Q (By Mr. Kellahin) In addition to the unorthodox location,
11 is the applicant seeking anything else, Mr. Larsen?

12 A Yes, sir. The applicant is seeking force pooling on this
13 particular tract, 320 acre tract in question.

14 Q Do you have any exhibits prepared in support of your
15 testimony?

16 A I have the structure map and I have a one-4,000 scale land
17 plat showing all of the wells and the operators and lease-
18 holds.

19 Q Let's refer to your land plat here which has been marked
20 as Applicant's Exhibit 1 and will you locate for us this
21 section in the ownership within that section?

22 A The unorthodox location as indicated on the land plat
23 would be 660 feet from the south line and 1200 feet from
24 the east line of Section 28, Township 20 South, Range 26
25 East, Eddy County, New Mexico.

1 Q What is the area that will compose the proration unit?

2 A The area that will compose the proration unit is the East
3 Half of Section 28 comprising 320 acres.

4 Q Let's refer to what has been marked as Applicant's
5 Exhibit 2. State briefly what information it contains.

6 A Exhibit 2 is a structure map on top of the Pennsylvanian.
7 It is a one to four thousand base. It indicates the
8 structure in the Springs field and the configuration of
9 the structure as interpreted by me over the proposed well
10 site.

11 Q I would like for you to discuss your proposed unorthodox
12 location. Where would your orthodox location be in this
13 unit?

14 A The orthodox location in this unit would be in the Northeast
15 Quarter of Section 28.

16 Q It would be six sixty and nineteen eighty?

17 A Probably about six sixty and eighteen eighty, yes, out of
18 the north and east of Section 28.

19 Q What are your reasons for seeking the unorthodox location?

20 A We have reason to believe that a well at this particular
21 location would be too far off structure or possibly so far
22 off structure that it would be a dry hole. We feel that
23 the location at the orthodox location would be too far
24 down depth to recover all of the potential reserves that
25 we feel are there.

1 Q Are there any other wells in the immediate area, Mr.
2 Larsen?

3 A No, sir. There are no producing wells in the immediate
4 area of the location.

5 Q At your proposed unorthodox location, what is your opinion
6 with regard to its ability to efficiently and economically
7 drain the designated acreage?

8 A We feel that the unorthodox location that we have proposed
9 is in a position to drain all of the hydrocarbons that
10 can be produced from the conservating limestone and
11 dolomite section all through the eastern half of Section
12 28.

13 Q Your proposed well, if I understand correctly, is adjacent
14 to the Springs Upper Pennsylvanian gas pool?

15 A That is correct.

16 Q What is your proposed depth for this well?

17 A Our proposed depth is 8500 feet. However, this will take
18 us well into the Pennsylvanian section. I do not antici-
19 pate that we would have to drill that deep for production.

20 Q What affect, if any, will this have on the correlative
21 rights of other owners in the area?

22 A The correlative rights of other owners in Section 28 and
23 adjacent sections around it will be protected because the
24 participants in the unit also are participants in the
25 sections that surround us.

1 Q What kind of land is this? Is it State or Federal?

2 A This is Federal acreage.

3 Q Are there any leaseowners or other individuals, let's
4 assume, in Section 33 that are not participating in the
5 proration unit in Section 28?

6 A No, sir. To my knowledge all of the present leaseowners
7 in Section 33 are also participating in the 320 acre unit
8 that we are proposing.

9 Q Does Tesoro anticipate any further development in this
10 area?

11 A Yes, sir. If we are able to establish production at this
12 particular location, we will develop the alternate 320
13 acre tract to the west.

14 Q Let's turn now, Mr. Larsen, to the compulsory pooling part
15 of the application. In the application itself it mentioned
16 three interest owners that have not, at the time of the
17 application, joined you voluntarily in the pooling.
18 They were Amoco, Yates Petroleum and Mr. and Mrs. Carl
19 Foster. What is the status now of your compulsory pooling
20 application?

21 A The status of compulsory pooling at this point is that
22 we are not absolutely sure that the Yates brothers or the
23 Fosters will join. We have verbal agreement from Amoco
24 that they will join.

25 Q I assume you are proceeding along the lines of still having

1 them join you voluntarily?

2 A Yes, sir. We have been attempting to contact the Yates
3 brothers. We hoped to have confirmation of their
4 agreement prior to this meeting but they were not avail-
5 able and we could not get that confirmation.

6 Q In the event you are unable to obtain voluntary agreement
7 between these interestholders, is it your intention then
8 to force pool and have the Commission provide a provision
9 for which you can recover your costs out of production?

10 A Yes, sir. That is our intention.

11 Q You have also asked for a risk factor to be determined
12 by the Commission. Do you have any testimony you would
13 like to present upon a possible percentage risk factor?

14 A The risk factor involved in this prospect is basically
15 one of structure. The prospect was developed principally
16 on a seismic line which runs up the western side of
17 Section 28 in a north-south direction. It indicates roll-
18 off to the north. This is all of the information that we
19 have in terms of structure on which we are basing this
20 prospect. The possibility of not finding porosity
21 development is another critical factor in the prospect.
22 We are dealing principally here with a postdiagenetic
23 porosity development which occurred sometime during Lower
24 Wolfcamp period. If we do not encounter the porosity that
25 we are seeking at this particular location, we have a dry

1 hole.

2 Q What is your risk with regard to drilling of non-economical
3 well?

4 A Our risk is at least 50 per cent.

5 Q Do you have any proposed costs of supervision for the
6 well?

7 A We have an idea that in this area from our performance in
8 our areas near here that we can operate for about \$130
9 a month in terms of an operating expense.

10 Q In the event of force pooling then it would be your desire
11 to have the cost of supervision taken out of production
12 and that to be allocated among the different owners?

13 A That is correct.

14 Q Does Tesoro intend to be the operator?

15 A Yes, sir. They will be the operator.

16 Q Do you have anything else you would like to add, Mr. Larsen?

17 A I might mention an unorthodox location at this point.

18 Q To the southwest?

19 A To the south in Section 2 and Section 3 within the Springs
20 field.

21 Q Do you have any knowledge of the wells?

22 A There is obviously--no, sir, I don't. I don't have any
23 knowledge as to why these locations were picked as they
24 are. As far as the productivity of both wells, they are
25 very good wells.

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1 Q In your opinion, Mr. Larsen, will approval of this
2 application prevent waste and not impair the correlative
3 rights of others?

4 A Very definitely. I feel that the unorthodox location that
5 we are requesting will very definitely conserve the hydro-
6 carbons in the reservoir. Any other location but that
7 one, I am sure, would leave hydrocarbons which we could
8 not produce.

9 Q Were Exhibits 1 and 2 prepared by you or under your
10 direction?

11 A These were prepared by me.

12 MR. KELLAHIN: Mr. Examiner, I move the introduction
13 of Applicant's Exhibits 1 and 2.

14 MR. EXAMINER: Without objection Exhibits 1 and 2
15 will be entered into the record in this case.

16 MR. KELLAHIN: That concludes our direct examination.

17 CROSS EXAMINATION

18
19 BY MR. UTZ:

20 Q Mr. Larsen, do you have a farm-out on the Southeast
21 Quarter of Section 28?

22 A Yes, sir. We have agreements with Humble, Gulf, City
23 Service on all of the West Half of Section 28. These are
24 released now to Tesoro by farm-out agreement.

25 MR. HATCH: I am confused on your ownership because

1 you said the West Half.

2 THE WITNESS: I included the entire West Half of
3 Section 28. The question was the Southwest Quarter, I believe.

4 MR. HATCH: I am still confused because I need to
5 know your application is for the East Half of 28.

6 THE WITNESS: Yes, sir.

7 MR. HATCH: I need to know what acreage Tesoro has
8 presently control of in the East Half of Section 28.

9 THE WITNESS: They have the full 320 acres.

10 MR. HATCH: Then you don't need a pooling order.

11 MR. KELLAHIN: We don't have it all. The application
12 indicates that Mr. Foster is the owner of the Northwest.

13 MR. HATCH: The only one not controlled by Tesoro?

14 THE WITNESS: They are not controlled and they would
15 be involved in the force pooling.

16 MR. KELLAHIN: In the application we may have some
17 wrong acreage here. If you will look at Amoco we have indi-
18 cated Yates and Amoco had a working interest underlying the
19 South Half of the Northeast Quarter and Southeast Quarter of
20 the Southeast Quarter as well as the Northeast of the Northeast
21 all in Section 28.

22 MR. HATCH: That is another thing I was going to get
23 into.

24 MR. KELLAHIN: There is an error.

25 MR. HATCH: On the Southeast of the Southeast is that

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1 Tesoro's.

2 THE WITNESS: We have made a farm-out agreement on
3 that acreage and both Gulf and Pan-American have agreed to
4 join.

5 MR. HATCH: Agreed to join and a farm-out are not the
6 same and the reason I am asking is because of the location of
7 your well which if I am reading your application is on that
8 acreage.

9 THE WITNESS: Yes, sir.

10 MR. HATCH: We are considering here a pooling. They
11 may have agreed to join and may agree to let you drill your
12 well there, but I am trying to find out who has the right today
13 at the time of the hearing to drill in that Southeast of the
14 Southeast.

15 THE WITNESS: Tesoro has that right.

16 MR. EXAMINER: Do you have a farm-out on it?

17 THE WITNESS: Yes, sir.

18 MR. HATCH: Then Tesoro has a right to drill anyplace
19 in the Southeast?

20 THE WITNESS: Yes, sir, we do.

21 MR. HATCH: My next question--I think I misunderstood
22 perhaps a minute ago when you were saying that a standard
23 location for a well would be in the Northeast Quarter of
24 Section 28. I think you meant the Northeast of the Southeast
25 or the Northwest of the Southeast.

1 THE WITNESS: I imagine an unorthodox location could
2 be placed in the northern portion of the Southeast Quarter,
3 that is correct, but we feel that with the seismic evidence
4 that we have that we are falling off structure too fast for us
5 to go in. The justification for drilling here is not too good.

6 MR. EXAMINER: A standard location would be nineteen
7 eighty from the south, would it not?

8 THE WITNESS: Yes, sir.

9 MR. EXAMINER: So you are wanting to move from nineteen
10 eighty from the south to six sixty from the south which is the
11 extent of your non-standard location?

12 THE WITNESS: That's correct.

13 MR. KELLAHIN: Are we correct on the acreage now
14 with regards to the compulsory pooling?

15 MR. HATCH: If I understand correctly, the only thing
16 that Tesoro does not have the right to drill on is the North-
17 west of the Northeast of 28 but I think then you said perhaps
18 there was some other acreage.

19 MR. KELLAHIN: We have got Carl Foster and his wife
20 as owners of the Northwest Quarter of the Northeast Quarter in
21 Section 28.

22 With regards to Yates, what acreage do they have at
23 the present time?

24 THE WITNESS: They have this 1.1 per cent of the
25 working interest underlying the South Half of the Northeast

1 Quarter of the Southeast Quarter of the Southeast Quarter and
2 the Northeast Quarter of the Northeast Quarter all of which are
3 in Section 28.

4 MR. KELLAHIN: The application then is correct on
5 that acreage?

6 THE WITNESS: Yes.

7 MR. EXAMINER: Now, the Northeast Quarter of the
8 Northeast Quarter on this little map here shows Pan-American.
9 You don't mean the Northwest of the Northeast, do you?

10 MR. KELLAHIN: Yes, sir. It should be the Northwest
11 of the Northeast.

12 MR. EXAMINER: Are there any further questions of
13 the witness? The witness may be excused.

14 Statements in the case?

15 Case will be taken under advisement.

16 * * * * *

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I N D E X

WITNESS

PAGE

MR. WILLIAM R. LARSEN

Direct Examination by Mr. Tom Kellahin

3

Cross Examination by Mr. Utz

11

E X H I B I T S

PAGE

Applicant's Exhibit Number 1 -
Land plat

11

Applicant's Exhibit Number 2 -
Structure map

11

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STATE OF NEW MEXICO)
COUNTY OF BERNALILLO) : ss.

I, MARCIA J. HUGHES, Court Reporter, do hereby certify
that the above and foregoing pages are a true and correct
transcript of the proceedings had before the New Mexico Oil
Conservation Commission on Wednesday, September 27, 1972.

Marcia J. Hughes

Sept. 27 1972
[Signature]
4833



OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO
P. O. BOX 2088 - SANTA FE
87501

October 10, 1972

**GOVERNOR
BRUCE KING
CHAIRMAN**

**LAND COMMISSIONER
ALEX J. ARMIJO
MEMBER**

**STATE GEOLOGIST
A. L. PORTER, JR.**

SECRETARY - DIRECTOR

Mr. Tom Kellahin
Kellahin & Fox
Attorneys at Law
Post Office Box 1769
Santa Fe, New Mexico

Re: Case No. 4833

Order No. R-4413

Applicant:

Tesoro Petroleum Corporation

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.

A. L. PORTER, Jr.
Secretary-Director *AP*

ALP/ir

Copy of order also sent to:

Hobbs OCC x

Artesia OCC **x**

Aztec OCC

Other _____

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. 4833
Order No. R-4413

APPLICATION OF TESORO PETROLEUM
CORPORATION FOR COMPULSORY POOLING
AND AN UNORTHODOX LOCATION, EDDY
COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on September 27, 1972, at Santa Fe, New Mexico, before Examiner Elvis A. Utz.

NOW, on this 10th day of October, 1972, 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, Tesoro Petroleum Corporation, seeks an order pooling all mineral interests in the Springs-Upper Pennsylvanian Gas Pool underlying the E/2 of Section 28, Township 20 South, Range 26 East, NMPM, Eddy County, New Mexico, to be dedicated to a well to be drilled at an unorthodox location 660 feet from the South line and from 1160 to 1200 feet from the East line of said Section 28.

(3) That the applicant has the right to drill and proposes to drill a well to the Upper Pennsylvanian formation at the above-described unorthodox location.

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

(5) That a well drilled at the above-described unorthodox location should encounter the producing formation in the subject pool structurally higher than a well drilled at a standard location.

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CASE NO. 4833

Order No. R-4413

(6) That the entire E/2 of said Section 28 can be efficiently and economically drained and developed by the subject well.

(7) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each interest in the E/2 of said Section 28 the opportunity to recover or receive without unnecessary expense his just and fair share of the gas in said pool, all mineral interest, whatever they may be in the Springs-Upper Pennsylvanian Gas Pool underlying the E/2 of said Section 28 should be pooled to be dedicated to a well to be drilled at an unorthodox location as described above.

(8) That the applicant should be designated the operator of the subject well and unit.

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

(10) That any non-consenting working interest owner 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 25% thereof as a reasonable charge for the risk involved in the drilling of the well.

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

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

(13) That \$130.00 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.

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

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Case No. 4833
Order No. R-4413

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Springs-Upper Pennsylvanian Gas Pool underlying the E/2 of Section 28, Township 20 South, Range 26 East, NMPM, Eddy County, New Mexico, are hereby pooled to form a 320-acre gas proration unit to be dedicated to a well to be located at an unorthodox location 660 feet from the South line and from 1160 to 1200 feet from the East line of said Section 28.

(2) That Tesoro Petroleum Corporation is hereby designated the operator of the subject well and unit.

(3) 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 60 days following the date of this order.

(4) That within 60 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 or provided above shall remain liable for operating costs but shall not be liable for risk charges.

(5) 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 60 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 receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, that if there is an objection to actual well costs within said 60-day period, the Commission will determine reasonable well costs after public notice and hearing.

(6) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner that 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 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.

(7) 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 said estimated well costs within 60 days from

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Case No. 4833

Order No. R-4413

the date the schedule of estimated well costs is furnished to him.

- (3) As a charge for the risk involved in the drilling of the well, 25% 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 60 days from the date the schedule of estimated well costs is furnished to him.

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

(9) That \$130.00 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.

(10) 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.

(11) 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.

(12) 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.

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

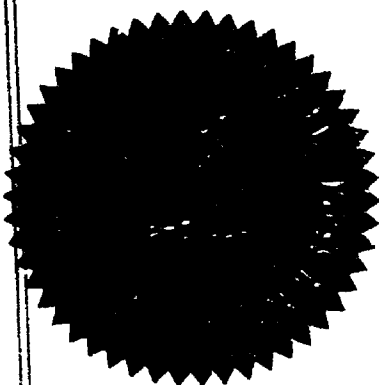
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Case No. 4833

Order No. R-4413

DONE at Santa Fe, New Mexico, on the day and year herein-
above designated.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION



Bruce King
BRUCE KING, Chairman

Alex J. Armijo
ALEX J. ARMILJO, Member

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

S E A L

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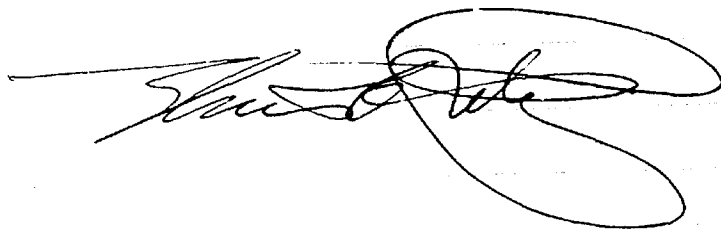
4833

Heard 9-27-72

Rec 9-28-72

Grant Desor's request for
comp. pooling in E^{1/2} sec. 28-
20 S + 20 E. for all ~~MT~~ and
O.R.

The only interests not signed
up are Yates Pet. Corp. with
1.1 & 457 of MT. in S^{1/2} NE^{1/4} + SE^{1/4} SE^{1/4}
NW^{1/4} of NE^{1/4} and
Mr. & Mrs. Carl Foster NW^{1/4} / NW^{1/4}
28



BEFORE THE
OIL CONSERVATION COMMISSION OF NEW MEXICO

IN THE MATTER OF THE APPLICATION
OF TESORO PETROLEUM CORPORATION
FOR COMPULSORY POOLING AND FOR
AN UNORTHODOX LOCATION, EDDY
COUNTY, NEW MEXICO.

Case 4833

A P P L I C A T I O N

Comes now TESORO PETROLEUM CORPORATION and, as provided by Section 65-3-14, New Mexico Statutes 1953, as amended, applies to the Oil Conservation Commission of New Mexico for an order pooling all of the mineral interests in and under E/2 of Section 28, Township 20 South, Range 26 East, N.M.P.M., Eddy County, New Mexico and for an unorthodox well location, 660 feet from the South line and 1160-1200 feet from the East line of Section 28, Township 20 South, Range 26 East, N.M.P.M., Eddy County, New Mexico, and in support thereof would show the Commission:

1. Applicant is the owner of the right to drill and develop the above described acreage.

2. Applicant has obtained voluntary agreement for pooling from all but the following:

A) AMOCO Production Company which has 25% of the working interest and Yates Petroleum Corporation which has 1.10457% of the working interest underlying the S/2 of NE/4, SE/4 of SE/4, and the ^{NW}NE/4 of NE/4 all in Section 28, Township 20 South, Range 26 East, N.M.P.M., Eddy County, New Mexico, and

B) Mr. Carl Foster and wife, owners of the NW/4

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of the NE/4 of Section 28, Township 20 South, Range 26 East, N.M.P.M., Eddy County, New Mexico.

3. As required by the provisions of Commission Rule 104, Applicant proposes to dedicate the E/2 of Section 28, Township 20 South, Range 26 East, N.M.P.M. to the well.

4. Applicant has been unable to obtain voluntary agreement for the pooling of the unpooled interests indicated in paragraph 2 above, and in order to avoid the drilling of unnecessary wells, to protect correlative rights, and to prevent waste, the Commission should pool all interests in the spacing or proration unit as a unit.

5. Applicant proposes to drill a well ~~in an undesignated~~ ^{Adjacent To The} Springs-Upper Pennsylvanian Gas Pool to a depth of 8,500 feet at an unorthodox location, 660 feet from the South line and 1160-1200 feet from the East line of Section 28, Township 20 South, Range 26 East, N.M.P.M., Eddy County, New Mexico.

6. Applicant requested location is more advantageous for drilling than the orthodox location because of topographical reasons occasioned by the channel of the Pecos River.

7. Approval of this application will result in the recovery of gas not otherwise recoverable and will prevent waste and will not impair correlative rights.

WHEREFORE, applicant respectfully requests that the Commission set this matter for hearing before the Commission or the Commission's duly appointed examiner, and that after notice and hearing as required by law, the Commission enter its order pooling all interest underlying the E/2 of Section 28, Township 20 South, Range 26 East, N.M.P.M., Eddy County, New Mexico, together with provision for applicant to recover

his costs out of the production including a risk factor to be determined by the Commission and with provision for the payment of operating costs and costs of supervision out of production to be allocated among the owners as their interest may appear and further for approval of the unorthodox location as described above, and for such further orders as may be proper in the premises.

Respectfully submitted,

TESORO PETROLEUM CORPORATION

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Attorneys for Applicant

DRAFT

GMH/dr

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. 4833

Order No. R-4413

APPLICATION OF TESORO PETROLEUM
CORPORATION FOR COMPULSORY POOLING
AND AN UNORTHODOX LOCATION, EDDY
COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on September 27, 1972, at Santa Fe, New Mexico, before Examiner Elvis A. Utz.

NOW, on this _____ day of _____, 1972, 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, Tesoro Petroleum Corporation, seeks an order pooling all mineral interests in the Springo-Upper Pecos ~~formation~~ underlying the E/2 of Section 28, Township 20 South, Range 26 East, NMPM, _____

Eddy County, New Mexico, Applicant further seeks authority to

~~drill a well at an unorthodox location~~ to be dedicated to a well to be drilled at an unorthodox location 660 feet from the south line and 1160 to 1200 feet from the East line of said Section 28.

(5) That a well drilled at the above described unorthodox location should encounter the producing formation in the subject pool substantially equal to a well drilled at a standard location. (6) That the entire 5/8" of said Section 28 can be effectively and economically drained and developed by the subject well.

(3) That the applicant has the right to drill and ~~seek~~ ^{propose} ~~authority~~ to drill a well to be located 660 feet from the South line and 1160 to 1200 feet from the East line of said Section 28 to the ~~Upper Pennsylvanian~~ ^{Upper Pennsylvanian} formation, adjacent to the ~~Springe Upper Pennsylvanian Gas Pool.~~ ^{at the above described unorthodox location.}

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

(7) ⁽¹⁵⁾ That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each interest in the E/2 of said Section 28 the opportunity to recover or receive without unnecessary expense his just and fair share of the gas in said pool, all mineral interest, whatever they may be in the ~~Springe Upper Pennsylvanian Gas Pool.~~ ^{formation} underlying the E/2 of said Section 28 should be pooled. ^{to be dedicated to a well to be drilled at an unorthodox location as described above.}

(8) ⁽¹⁶⁾ That the applicant should be designated the operator of the subject well and unit.

(9) ⁽¹⁷⁾ That any non-consenting working interest owner should be afforded the opportunity to pay his share of ^{estimated} ~~actual~~ well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(10) ⁽¹⁸⁾ 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 25% thereof as a reasonable charge for the risk involved in the drilling of the well.

(11) ⁽¹⁹⁾ 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.

(12) That following determination of reasonable well costs, the non-consenting interest owner should pay his share of the actual well costs plus an additional 25% thereof as a reasonable charge for the risk involved in the drilling of the well.

(13) ~~(10)~~ That \$130.00 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.

(14) ~~(11)~~ 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 all mineral interest, whatever they may be, in the ~~Spring-Upper Pennsylvanian Gas Pool~~ ^{formation} underlying the E/2 of Section 28, Township 20 South, Range 26 East, NMPM, , , Eddy County, New Mexico, are hereby pooled to form a 320-acre gas proration unit to be dedicated to a well to be located at an unorthodox location 660 feet from the South line and ^{from} 1160 to 1200 feet from the East line of said Section 28.

(2) That Tesoro Petroleum Corporation is hereby designated the operator of the subject well and unit.

(5) ~~(8)~~ That the operator shall furnish the Commission and each known working interest owner in the subject unit an itemized schedule of ~~actual~~ ^{estimated} well costs within 60 days following ~~actual~~ ^{estimated}.

(3) 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 60 days following the date of this order.

(4) That within 60 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, directly or indirectly, to the operator, in cash or by check, his share of the estimated well costs, but that if he fails to do so, he shall be deemed to have waived his right to object to the schedule of estimated well costs and shall be deemed to have agreed to the schedule of estimated well costs and shall not be liable for costs and charges not included in the schedule.

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~~the date of this order~~; that if no objection to the actual well costs is received by the Commission, and the Commission has not objected within 60 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, that if there is an objection to actual well costs within said 60-day period, the Commission will determine reasonable well costs after public notice and hearing.

(4) That within 60 days from the date the schedule of said actual well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of said actual well costs to the operator in lieu of paying his share of actual well costs out of production, and that any such owner who pays his share of said actual well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(7) ~~That~~ That the operator is hereby authorized to withhold the following costs and charges from production:

(A) The pro rata share of ~~actual~~ ^{reasonable} well costs attributable to each non-consenting working interest owner who has not paid his share of said ~~actual~~ ^{reasonable} well costs within 60 days from the date the schedule of ~~actual~~ ^{reasonable} well costs is furnished to him.

(B) As a charge for the risk involved in the drilling of the well, 25% of the pro rata share of ~~actual~~ ^{reasonable} well costs attributable to each non-consenting working interest owner who has not paid his share of ~~actual~~ ^{reasonable} well costs within 60 days from the date the schedule of ~~actual~~ ^{reasonable} well costs is furnished to him.

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

(9) ~~That~~ That \$230.00 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.

(10) ~~That~~ 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.

(5) That 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 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.

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- (11) ~~11~~ 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.
- (12) ~~12~~ 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.
- (13) ~~13~~ 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 herein-
above designated.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

BRUCE KING, Chairman

ALEX J. ARMIJO, Member

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

S E A L

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