

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NOS. 9797 and 9832
ORDER NO. R-9135

APPLICATION OF SANTA FE ENERGY
OPERATING PARTNERS, L.P. FOR
COMPULSORY POOLING AND A NON-STANDARD
GAS PRORATION UNIT, EDDY COUNTY, NEW MEXICO.

APPLICATION OF EXXON COMPANY, U.S.A.
FOR COMPULSORY POOLING, A NON-STANDARD
GAS PRORATION UNIT, AN UNORTHODOX GAS
WELL LOCATION AND AN EXEMPTION TO SPECIAL
RULES AND REGULATIONS GOVERNING THE ROCK TANK-
UPPER AND LOWER MORROW GAS POOLS, EDDY COUNTY,
NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on November 29, 1989, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 28th day of March, 1990, the Division Director, having considered the testimony, the record and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

Case No. 9797 and 9832
Order No. R-9135
Page No. 2

(2) The applicant in Case No. 9797, Santa Fe Energy Operating Partners, L.P., (Santa Fe), seeks an order pooling all the mineral interests from the surface to the base of the Morrow formation underlying the following described acreage in Irregular Section 20, Township 23 South, Range 25 East, NMPM, Eddy County, New Mexico, and in the following manner:

- ▶ all of said Section 20 to form a non-standard 599.41-acre, more or less, gas spacing and proration unit for the Undesignated Rock Tank-Lower Morrow Gas Pool and Undesignated Rock Tank-Upper Morrow Gas Pool (both of which are developed on 640-acre spacing); and
- ▶ Lots 1 through 7 and the NW/4 SE/4 (N/2 equivalent) of said Section 20, forming a non-standard 301.37-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within said vertical extent.

Both units are to be dedicated to a single well to be drilled at a standard gas well location 1980 feet from the North and West lines (Unit F) of said Section 20.

(3) The applicant in Case No. 9832, Exxon Company, U.S.A. (Exxon), seeks an order pooling all mineral interests from the top of the Wolfcamp formation to the base of the Morrow formation, underlying the NW/4 NE/4 and Lots 1, 6, 7, 8, 9, 14 and 15 (E/2 equivalent) of Irregular Section 20, Township 23 South, Range 25 East, NMPM, Eddy County, New Mexico, forming a non-standard 301.11-acre, more or less, gas spacing and proration unit. Applicant further seeks to be exempt from the Special Rules and Regulations governing the Rock Tank-Upper and Lower Morrow Gas Pools as promulgated by Division Order No. R-3428, as amended, so that the whole Morrow formation may be developed on statewide rules which include 320-acre spacing. The aforementioned unit is to be dedicated to a well to be drilled at an unorthodox gas well location 600 feet from the North line and 660 feet from the East line (Unit A) of said Section 20.

(4) Each applicant, Santa Fe and Exxon, has the right to drill and both propose to have a well drilled upon their respective units, as described above, to a depth sufficient to test down to the base of the Morrow formation. Also, each applicant proposes to have Santa Fe named the operator of any well and unit resulting from this Order.

Case No. 9797 and 9832
Order No. R-9135
Page No. 3

(5) Case Nos. 9797 and 9832 were consolidated for purpose of hearing and should be consolidated for purpose of issuing an order inasmuch as the cases involve certain common acreage and the granting of one application would necessarily require the concomitant denial of the other.

(6) There are interest owners in each of the proposed proration units who have not agreed to pool their interests.

(7) Section 20 is within one mile of both the Rock Tank-Upper and Lower Morrow Gas Pool boundaries and are therefore subject to the Special Rules and Regulations governing both pools as promulgated by Division Order No. R-3428, as amended, which includes 640-acre spacing and designated well location requirements.

(8) There is insufficient geological evidence available in this area at this time to justify any other spacing than what is allowed by the Division Rules applicable to this particular matter; therefore, the one mile extension to both the Rock Tank-Upper and Lower Morrow Gas Pools by which the Morrow formation is governed should prevail and Exxon's request for 320-acre spacing for said Morrow formation in Section 20 should be denied.

(9) Because of topographical conditions within said Section 20, in that a major "draw" feature traverses the northeastern portion, there was considerable discussion about possible well relocations to minimize well pad cost and to abide by the requirements of the U.S. Bureau of Land Management, the Surface Management Agency in this area.

(10) Insofar as the call of Case No. 9797 was for a well to be drilled at a standard gas well location 1980 feet from the North and West lines (Unit F) of said Section 20, any attempt to relocate this well to an unorthodox gas well location would be beyond the call of this case; however, the establishment of a window in the N/2 equivalent of said Section 20 for an amended well location that would meet the standard well location requirements for both the Morrow zones spaced on 640 acres and all other applicable zones spaced on 320 acres would be permissible and in the best interest of conservation. Therefore said well location should be no closer than 1650 feet from the North, East and West lines of Section 20, nor closer than 660 feet from the half-section line separating the N/2 and S/2 equivalents of Section 20, nor closer than 330 feet from the quarter-quarter section line between Lots 6 and 7.

Case No. 9797 and 9832
Order No. R-9135
Page No. 4

(11) To avoid the drilling of unnecessary wells, to protect correlative rights, to prevent waste and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the gas in any pool resulting from this order, the application of Santa Fe Energy Operating Partners, L.P. in Case No. 9797 should be approved by pooling all mineral interests, whatever they may be from the surface to the base of the Morrow formation, underlying following described acreage in Irregular Section 20, Township 23 South, Range 25 East, NMPM, Eddy County, New Mexico, and in the following manner:

- ▶ all of said Section 20 to form a non-standard 599.41-acre, more or less, gas spacing and proration unit for the Undesignated Rock Tank-Lower Morrow Gas Pool and Undesignated Rock Tank-Upper Morrow Gas Pool (both pools which are developed on 640-acre spacing); and
- ▶ Lots 1 through 7 and the NW/4 SE/4 (N/2 equivalent) of said Section 20, forming a non-standard 301.37-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within said vertical limits.

Both units are to be dedicated to a single well to be drilled at a standard gas well location meeting the requirements as described above in Finding Paragraph No. (10).

(12) Santa Fe Energy Operating Partners, L.P. should be designated the operator of the subject well and units.

(13) 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.

(14) Any non-consenting working interest owner who does not pay his share of estimated well costs should have withheld from production his share of reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(15) Any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but actual well costs should be adopted as the reasonable well costs in the absence of such objection.

Case No. 9797 and 9832
Order No. R-9135
Page No. 5

(16) Following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(17) \$5500.00 per month while drilling and \$550.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(18) 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.

(19) Upon the failure of the operator of said pooled unit to commence drilling of the well to which said units are dedicated on or before June 15, 1990, the order pooling said units should become null and void and of no further effect whatsoever.

(20) Should all the parties to this force-pooling reach voluntary agreement subsequent to entry of this order, this order should thereafter be of no further effect.

(21) The operator of the well and units should notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the force-pooling provisions of this order.

IT IS THEREFORE ORDERED THAT:

(1) The application of Exxon Company, U.S.A. in Case No. 9832 for an order pooling all mineral interests, whatever they may be, from the top of the Wolfcamp formation to the base of the Morrow formation, underlying the NW/4 NE/4 and Lots 1, 6, 7, 8, 9, 14 and 15 (E/2 equivalent) of Section 20, Township 23 South, Range 25 East, NMPM, Eddy County, New Mexico, forming a non-standard 301.11-acre gas spacing and proration unit to be dedicated to a well to be drilled at an unorthodox gas well location 600 feet from the North line and 660 feet from the East line (Unit A) of said Section 20 is hereby denied.

Case No. 9797 and 9832
Order No. R-9135
Page No. 6

(2) All mineral interests, whatever they may be, from the surface to the base of the Morrow formation, underlying following described acreage in Irregular Section 20, Township 23 South, Range 25 East, NMPM, Eddy County, New Mexico, and in the following manner are hereby pooled:

- ▶ all of said Section 20 to form a non-standard 599.41-acre, more or less, gas spacing and proration unit for the Undesignated Rock Tank-Lower Morrow Gas Pool and Undesignated Rock Tank-Upper Morrow Gas Pool (both pools which are developed on 640-acre spacing); and
- ▶ Lots 1 through 7 and the NW/4 SE/4 (N/2 equivalent) of said Section 20, forming a non-standard 301.37-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within said vertical limits.

Both units are to be dedicated to a single well to be drilled at a standard gas well location being no closer than 1650 feet from the North, East and West lines of Section 20, nor closer than 660 feet from the half-section line separating the N/2 and S/2 equivalents of Section 20, nor closer than 330 feet from the quarter-quarter section line between Lots 6 and 7.

PROVIDED HOWEVER THAT, the operator of said unit shall commence the drilling of said well on or before the 15th day of June, 1990, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test from the surface to the base of the Morrow formation.

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said well on or before the 15th day of June, 1990, Decretory Paragraph No. (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

PROVIDED FURTHER THAT, should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Decretory Paragraph No. (2) of this order should not be rescinded.

(3) Santa Fe Energy Operating Partners, L.P. is hereby designated the operator of the subject well and units.

Case No. 9797 and 9832
Order No. R-9135
Page No. 7

(4) After the effective date of this order and within 90 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject units an itemized schedule of estimated well costs.

(5) Within 30 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(6) The operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; if no objection to the actual well costs is received by the Division and the Division has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, if there is an objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(7) Within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

(8) The operator is hereby authorized to withhold the following costs and charges from production:

- (A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him; and

Case No. 9797 and 9832
Order No. R-9135
Page No. 8

(B) As a charge for the risk involved in the drilling of the well, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

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

(10) \$5500.00 per month while drilling and \$550.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(11) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

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

(13) 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; the operator shall notify the Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

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

(15) The operator of the well and units shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the force-pooling provisions of this order.

Case No. 9797 and 9832
Order No. R-9135
Page No. 9

(16) Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

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

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION



WILLIAM J. LEMAY
Director

S E A L