

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

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

CASES NOS. 8478 & 8505
Order No. R-7979

APPLICATION OF BTA OIL PRODUCERS FOR
COMPULSORY POOLING, LEA COUNTY,
NEW MEXICO.

APPLICATION OF CHAMA PETROLEUM
COMPANY FOR COMPULSORY POOLING AND
AN UNORTHODOX GAS WELL LOCATION,
LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION

This cause came on for hearing at 8 a.m. on February 27, 1985 at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 11th day of July, 1985, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

- (1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.
- (2) In Case No. 8478, the applicant, BTA Oil Producers, seeks an order pooling all mineral interests in the Pennsylvanian formations underlying the NE/4 of Section 25, Township 20 South, Range 34 East, NMPM, Lea-Pennsylvanian Gas Pool, Lea County, New Mexico, to be dedicated to a well to be drilled at a standard gas well location 660 feet from the North and East lines of said Section 25.
- (3) In Case No. 8505, the applicant, Chama Petroleum Company, seeks an order pooling all mineral interests from the surface to the top of the Wolfcamp formation and in the

Pennsylvanian formations underlying the NE/4 of said Section 25, to form a standard gas spacing and proration unit for any and all formations and/or pools developed on 160-acre spacing, to be dedicated to a well to be drilled at a standard gas well location 660 feet from the North line and 1980 feet from the East line of said Section 25. Applicant further seeks an order pooling all mineral interests in the Wolfcamp formation underlying the E/2 of said Section 25, to form a standard 320-acre gas spacing and proration unit within said vertical limits also to be dedicated to the above-described well which is an unorthodox gas well location for an E/2, 320-acre gas spacing and proration unit in said Section 25. IN THE ALTERNATIVE, the applicant seeks an order pooling all mineral interests from the surface to the top of the Wolfcamp formation for any and all formations and/or pools developed on 160-acre spacing and proration units, underlying the NE/4 of said Section 25, to be dedicated to the above-described well to be drilled at a standard gas well location for a 160-acre spacing and proration unit. Applicant further seeks an order pooling all mineral interests from the top of the Wolfcamp formation to the base of the Morrow formation for any and all formations and/or pools developed on 320-acre spacing and proration units, underlying the E/2 of said Section 25, also to be dedicated to the above-described well which is an unorthodox gas well location for an E/2, 320-acre, gas spacing and proration unit in said Section 25.

(4) At the February 13, 1985 hearing, Case No. 8478 was continued to the February 27, 1985 hearing so that it and Case No. 8505 could be heard simultaneously.

(5) At the time of the February 27, 1985 hearing, Cases Nos. 8478 and 8505 were consolidated for the purpose of testimony and should furthermore be consolidated for the purpose of issuing a single order inasmuch as both cases involve certain common acreage and the granting of one application would necessarily require the concomitant denial of the other.

(6) At the time of the February 27, 1985 hearing the applicant in Case No. 8505, Chama Petroleum Company, requested and received approval to dismiss those portions of its application seeking to force pool any and all formations and/or pools which are developed in 320-acre spacing and proration units and for the unorthodox gas well location thereon.

(7) In Case No. 8505, while all formations from the surface to the base of the Pennsylvanian, with the exception of the Wolfcamp formation, are sought to be pooled by Chama Petroleum Company forming a standard 160-acre gas spacing and

proration unit thereon, the primary target and zone of interest is the Lea-Pennsylvanian Gas Pool.

(8) Each applicant, BTA Oil Producers and Chama Petroleum Company, seeks to be named the operator of the unit which comprises the NE/4 of said Section 25.

(9) The BTA Oil Producers application for compulsory pooling (Case No. 8478) was received by the Division on January 16, 1985, and the Chama Petroleum Company application for compulsory pooling (Case No. 8505) was received by the Division on January 25, 1985.

(10) Each applicant has the right to drill and proposes to drill a well at their respective proposed locations as described in Finding Paragraphs Nos. (2) and (3) above.

(11) BTA Oil Producers holds the lease in the E/2 NE/4 of said Section 25 and Chama Petroleum Company holds the lease in the W/2 NE/4 of said Section 25; therefore both applicants share equally in the working interest of the proposed unit (NE/4 of said Section 25), and neither party has agreed to pool their interests with the other.

(12) BTA Oil Producers made the first attempt to voluntarily pool the subject lands controlled by Chama Petroleum Company in the proposed unit, by having transmitted an Authorization For Expenditure, "AFE", to Chama Petroleum Company on January 4, 1985, whereas Chama responded negatively by letter dated January 14, 1985 with claims that the BTA Oil Producers AFE was "excessive" and that no well location was specified.

(13) According to the geological evidence and testimony presented by both parties at the time of the hearing, both parties are in agreement as to the geology underlying the unit and that the proposed location of the Chama Petroleum Company well is higher on the Morrow structure and is slightly up dip from the proposed BTA Oil Producers well location, thereby making the proposed Chama well location more favorable.

(14) Although BTA Oil Producers made the first attempt to secure voluntary agreement for the subject acreage, the application of Chama Petroleum Company in Case No. 8505 should be given preference over the application of BTA Oil Producers in Case No. 8478 based upon their geologically preferable location.

(15) To avoid the drilling of unnecessary wells, to protect correlative rights, to avoid waste, and to afford to the owner of each interest in said unit the opportunity to

recover or receive without unnecessary expense his just and fair share of the gas underlying the proposed spacing and proration unit, the application of Chama Petroleum Company in Case No. 8505 should be approved by pooling all mineral interests, whatever they may be, from the surface to the top of the Wolfcamp formation and in the Pennsylvanian formations underlying the NE/4 of Section 25, Township 20 South, Range 34 East, NMPM, Lea County, New Mexico, to be dedicated to a well to be drilled at a standard gas well location 660 feet from the North line and 1980 feet from the East line of said Section 25.

(16) The application of BTA Oil Producers in Case No. 8478 for an order pooling all mineral interests in the Pennsylvanian formations underlying the same acreage as described above, should be denied.

(17) Chama Petroleum Company should be designated the operator of the well and unit described in Finding Paragraph No. (17) above.

(18) 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.

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

(20) 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.

(21) 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.

(22) At the time of the hearing the applicant proposed that the reasonable monthly fixed charges for supervision while drilling and producing should be \$5300.00 and \$585.00 respectively.

(23) The above drilling and producing charges are above the normal monthly fixed charges in this area for a well to a

comparable depth and should therefore be adjusted to reflect a more reasonable rate.

(24) \$4800.00 per month while drilling and \$480.00 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.

(25) 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.

(26) Upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before September 1, 1985, the order pooling said unit should become null and void and of no effect whatsoever.

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

(28) The operator of the well and unit shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

IT IS THEREFORE ORDERED THAT:

(1) Division Cases Nos. 8478 and 8505 are hereby consolidated for the entry of a single order.

(2) The application of BTA Oil Producers (Case No. 8478) seeking an order pooling all mineral interests in the Pennsylvanian formations underlying the NE/4 of Section 25, Township 20 South, Range 34 East, NMPM, Lea-Pennsylvanian Gas Pool, Lea County, New Mexico, to be dedicated to a well to be drilled at a standard gas well location 660 feet from the North and East lines of said Section 25, is hereby denied.

(3) All mineral interests, whatsoever they may be, from the surface to the top of the Wolfcamp formation and in the Pennsylvanian formations underlying the NE/4 of said Section 25

are hereby pooled to form a standard 160-acre gas spacing and proration unit for any and all formations and/or pools developed on 160-acre spacing, to be dedicated to a well to be drilled at a standard gas well location 660 feet from the North line and 1980 feet from the East line of said Section 25.

PROVIDED HOWEVER THAT, the operator of said unit shall commence the drilling of said well on or before the first day of September, 1985, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test all of the Pennsylvanian formations;

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said well on or before the first day of September, 1985, Ordering paragraph No. (3) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

PROVIDED FURTHER THAT, should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Ordering paragraph No. (3) of this order should not be rescinded.

(4) Chama Petroleum Company is hereby designated the operator of the subject well and unit.

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

(6) 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.

(7) 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.

(8) 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.

(9) 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 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.

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

(11) \$4800.00 per month while drilling and \$480.00 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.

(12) 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.

(13) 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.

(14) All proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Lea 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.

(15) 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.

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

(17) 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



R. L. STAMETS
Director

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