

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

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

**CASE NO. 11372
Order No. R-10475**

**APPLICATION OF ANSON GAS CORPORATION
FOR COMPULSORY POOLING, DIRECTIONAL
DRILLING, AND AN UNORTHODOX BOTTOMHOLE
OIL WELL LOCATION, LEA COUNTY, NEW
MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on August 24 and September 21, 1995, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 3rd day of October, 1995, 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) The applicant, AnSon Gas Corporation, seeks an order pooling all mineral interests within the Devonian formation underlying the NE/4 NW/4 of Section 33, Township 16 South, Range 38 East, NMPM, Lea County, New Mexico, thereby forming a standard 40-acre oil spacing and proration unit. This unit is to be dedicated to the existing Mary "33" Well No. 1 as described in further detail below.

(3) The applicant further seeks authority to recomplete its existing Mary "33" Well No. 1, located at a standard surface oil well location 2040 feet from the North line and 2310 feet from the West line (Unit F) of said Section 33, by kicking off from the vertical and directionally drilling said well in such a manner so as to bottom the well in the Devonian formation within the NE/4 NW/4 at an unorthodox oil well location that is no closer than 26 feet to the southern boundary of such tract nor closer than 103 feet from the eastern boundary of the tract (this being a point that is 1294 feet from the North line and 2537 feet from the West line of Section 33).

(4) According to Division records and evidence and testimony presented by the applicant, the Mary "33" Well No. 1 was originally drilled by the applicant in April, 1995 as an 11,500 foot Strawn oil test. The well subsequently proved to be non-productive in the Strawn interval.

(5) The applicant consolidated the interests within the Strawn formation underlying the SE/4 NW/4 of Section 33 by compulsory pooling proceedings which resulted in the issuance of Division Order No. R-10169 dated August 9, 1994.

(6) During July, 1995, the applicant directionally drilled the Mary "33" Well No. 1 to an unorthodox bottomhole location 1294 feet from the North line and 2537 feet from the West line (Unit C) of Section 33, and has completed this well in the Devonian formation at an initial producing rate of approximately 375 barrels of oil and 267 MCF gas per day.

(7) The applicant now seeks:

- a) to consolidate, by forced pooling proceedings, the interest ownership within the NE/4 NW/4 of Section 33, which includes some interest owners whom the applicant was unable to locate;
- b) utilize \$754,300 as reasonable well costs under a Division forced pooling order (this includes original well costs to drill the aforementioned Strawn 11,500 foot test (\$436,900) plus \$317,400 for directional drilling and completion costs in the Devonian formation);
- c) assess non-consenting interest owners in the proposed proration unit a risk penalty of 200 percent and overhead rates of \$6000.00 per month while drilling and \$600.00 per month while producing under a Division forced pooling order.

(8) The only interest owner located by the applicant and being pooled in these proceedings are those interests of E. Lila Snow whose interest totals some 0.15 percent within the spacing unit. Ms. Snow has thus far declined to voluntarily participate in the well.

(9) Two other interest owners being pooled in these proceedings, The Imperial Trust Company of Canada and Paul Balbaud, whose combined interest totals some 0.2916 percent, were not located by the applicant.

(10) The proposed unorthodox bottomhole oil well location, according to applicant's geologic evidence and testimony, represents a structurally high optimum location in which to develop the oil and gas reserves within the Devonian formation underlying the proposed proration unit.

(11) Directional drilling the Mary "33" Well No. 1 results in the saving of a considerable amount of drilling costs.

(12) AnSon Gas Corporation is the operator of all affected offset acreage, and no offset operator and/or interest owner appeared at the hearing in opposition to the proposed unorthodox bottomhole oil well location or directional drilling.

(13) The evidence and testimony presented in this case indicate that:

- a) the interest within the Devonian formation underlying the NE/4 NW/4 of Section 33 should be pooled as proposed by the applicant;
- b) directional drilling and completion costs (\$317,400) should be adopted as well costs;
- c) a risk penalty of 100 percent should be assessed against non-consenting interest owners;
- d) a new election period in which to voluntarily participate in the well should be provided to non-consenting interest owners within the spacing unit.
- e) the proposed directional drilling and unorthodox bottomhole oil well location should be approved.

(14) To avoid the drilling of unnecessary wells, to protect correlative rights, to avoid waste, and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the production in the Devonian formation, the subject application should be approved by pooling all mineral interests, whatever they may be, within the NE/4 NW/4 of Section 33.

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

(16) Any non-consenting working interest owner should be afforded the opportunity to pay his share of well costs (\$317,400) to the operator in lieu of paying his share of well costs out of production.

(17) Any non-consenting working interest owner who does not pay his share of well costs should have withheld from production his share of the well costs plus an additional 100 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(18) Any non-consenting working 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.

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

(20) \$6000.00 per month while drilling and \$600.00 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.

(21) 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.

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

(23) 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) All mineral interests, whatever they may be, within the Devonian formation underlying the NE/4 NW/4 of Section 33, Township 16 South, Range 38 East, NMPM, Lea County, New Mexico, are hereby pooled forming a standard 40-acre oil spacing and proration unit. This unit shall be dedicated to the Mary "33" Well No. 1 as described in further detail below.

(2) The application of AnSon Gas Corporation to recomplete its existing Mary "33" Well No. 1, located at a standard surface oil well location 2040 feet from the North line and 2310 feet from the West line (Unit F) of said Section 33, by kicking off from the vertical and directionally drilling said well in such a manner so as to bottom the well in the Devonian formation within the NE/4 NW/4 at an unorthodox oil well location that is no closer than 26 feet to the southern boundary of such tract nor closer than 103 feet from the eastern boundary of the tract (this being a point that is 1294 feet from the North line and 2537 feet from the West line of Section 33), is hereby approved.

(3) AnSon Gas Corporation is hereby designated the operator of the subject well and unit.

(4) After the effective date of this order, AnSon Gas Corporation shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of well costs.

(5) Within 30 days from the date the schedule of well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of 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 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 of the effective date of this order; if no objection to the actual well costs is received by the Division and the Division has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, if there is objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(7) Within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of well costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed well costs and shall receive from the operator his pro rata share of the amount that 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 well costs within 30 days from the date the schedule of well costs is furnished to him.
- (B) As a charge for the risk involved in the drilling of the well, 100 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 well costs within 30 days from the date the schedule of 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) \$6000.00 per month while drilling and \$600.00 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 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.

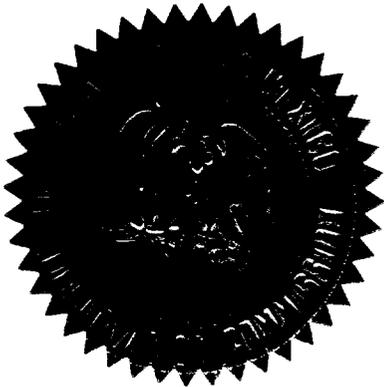
(14) Should all the parties to this forced pooling order reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(15) The operator of the well and 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.

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(16) Jurisdiction is hereby 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

A handwritten signature in black ink, appearing to read "William J. Lemay", written over the typed name and title.

WILLIAM J. LEMAY
Director