

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

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

**CASE NO. 11676
Order No. R-10602-A**

**APPLICATION OF MANZANO OIL
CORPORATION FOR COMPULSORY
POOLING, LEA COUNTY, NEW
MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on January 23, 1997, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 17th day of February, 1997, 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 record, evidence and testimony presented in Case No. 11513, heard by the Division on May 16, 1996, should be incorporated by reference in this order.

(3) By Order No. R-10602, issued in Case No. 11513 on May 23, 1996, the Division, upon application of Manzano Oil Corporation, pooled all mineral interests from the surface to the base of the Strawn formation underlying the NE/4 SW/4 of Section 11, Township 16 South, Range 36 East, NMPM, Lea County, New Mexico, thereby forming a standard 40-acre oil spacing and proration unit for any and all formations and/or pools spaced on 40 acres within said vertical extent, said unit to be dedicated to the applicant's "SV" Chipshot Well No. 1 located at an approved unorthodox location 2164 feet from the South line and 1362 feet from the West line (Unit K) of Section 11.

(4) By Order No. R-10735 issued in Case No. 11675 on January 13, 1997, the Division, upon application of Manzano Oil Corporation, created the North Lovington-Wolfcamp Pool comprising the N/2 and SW/4 of Section 11, Township 16 South, Range 36 East, NMPM, and promulgated temporary rules and regulations which require standard 80-acre spacing and proration units with wells to be located within 150 feet of the center of a governmental quarter-quarter section or lot.

(5) The applicant in the immediate case, Manzano Oil Corporation (Manzano), seeks to effectively amend Division Order No. R-10602 by pooling all mineral interests in the Wolfcamp formation underlying an additional 40-acre tract, being the NW/4 SW/4 of Section 11, Township 16 South, Range 36 East, NMPM, Lea County, New Mexico, thereby forming a standard 80-acre oil spacing and proration unit comprising the N/2 SW/4 of Section 11 for the North Lovington-Wolfcamp Pool. Said unit is to be dedicated to the aforesaid "SV" Chipshot Well No. 1 which has been drilled and completed in the Wolfcamp formation.

(6) No additional testimony was presented in this case by Manzano, however, legal counsel for Manzano presented as evidence written correspondence from Mr. David A. Lynch, an interest owner in the subject proration unit, to the applicant. Such correspondence from Mr. Lynch constitutes an offer to lease his interest in the proposed proration unit.

(7) Legal counsel for Manzano presented a statement summarizing its position in this case. Manzano contends that a new election period in which to allow voluntary participation in the aforesaid "SV" Chipshot Well No. 1 should not be granted to those interest owners within the NW/4 SW/4 of Section 11, and in support thereof states the following:

- a) the interest ownership within the entire SW/4 of Section 11 is common;
- b) prior to the hearing in pooling Case No. 11513, it made a good faith effort to locate all interest owners within the NE/4 SW/4 of Section 11, but was unable to do so;
- c) Mr. Lynch acquired his interest subsequent to the entry of Division Order No. R-10602;

- d) Division Order No. R-10602 effectively pooled all non-committed interest owners, located or not, within the NE/4 SW/4 of Section 11, therefore, the interest acquired by Mr. Lynch is already subject to the forced pooling provisions of Division Order No. R-10602;
- e) the located interest owners within the NE/4 SW/4 of Section 11 have previously been afforded the opportunity to voluntarily participate in the drilling of the "SV" Chipshot Well No. 1; and,
- f) the "SV" Chipshot Well No. 1 has been drilled and completed as a producing well in the Wolfcamp formation, and, any Division order which grants a new election period would in effect grant a "free ride" to those interest owners who were not locatable or who initially elected not to participate in the well. This situation is unfair to Manzano who initially undertook the risk involved in the drilling of the "SV" Chipshot Well No. 1, and who carried the interest of the non-committed owners.

(8) The legal ownership within the SW/4 of Section 11 is common and the "SV" Chipshot Well No. 1, being the subject of Order No. R-10602, has been drilled, therefore, the effect of this application is to dedicate an additional 40 acres of the commonly owned SW/4 of Section 11 to the well. No additional costs for the well will be imposed on these existing owners due to this application.

(9) No election period need therefore be given to these interest owners since such owners were already subject to Order No. R-10602 when Manzano undertook the risk of drilling the well.

(10) 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 within the North Lovington-Wolfcamp Pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within the N/2 SW/4 of Section 11.

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

(12) Any non-consenting working interest owner 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.

(13) 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.

(14) \$5000.00 per month while drilling and \$500.00 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.

(15) 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.

(16) 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.

(17) 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) The application of Manzano Oil Corporation, to effectively amend Division Order No. R-10602 by pooling all mineral interests in the Wolfcamp formation underlying an additional 40-acre tract, being the NW/4 SW/4 of Section 11, Township 16 South, Range 36 East, NMPM, Lea County, New Mexico, thereby forming a standard 80-acre oil spacing and proration unit comprising the N/2 SW/4 of Section 11 for the North Lovington-Wolfcamp Pool, is hereby approved. Said unit shall be dedicated to the applicant's "SV" Chipshot Well No. 1, located at an approved unorthodox location 2164 feet from the South line and 1362 feet from the West line (Unit K) of Section 11, which has been drilled and completed in the Wolfcamp formation.

(2) Manzano Oil Corporation is hereby designated the operator of the subject well and unit.

(3) Any non-consenting working interest owner shall 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.

(4) The operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 180 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 objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(5) 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.
- (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.

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

(7) \$5000.00 per month while drilling and \$500.00 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.

(8) 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.

(9) 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.

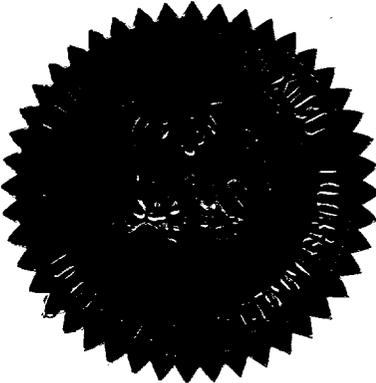
(10) All proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Lea County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; the operator shall notify the Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

(11) 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.

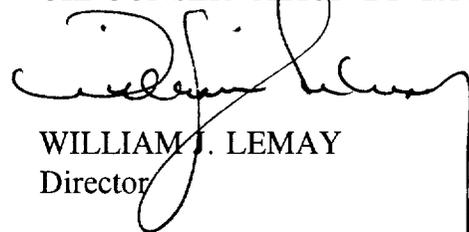
(12) The operator of the well and unit shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

(13) 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


WILLIAM J. LEMAY
Director



NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION
2040 South Pacheco Street
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February 17, 1997

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Attorneys At Law
Post Office Box 2208
Santa Fe, New Mexico 87504

Attn: Bill Carr

**RE: CASE NO. 11676
ORDER NO. R-10602-A**

Dear Sir:

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

Sincerely,


Sally E. Martinez
Administrative Secretary

cc: BLM - Carlsbad
Taxation & Revenue Dept.
