

**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. 11821
Order No. R-10873-A**

**AMENDED APPLICATION OF PALOMA
RESOURCES INC. 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 December 4, 1997, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 22nd day of December, 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) By Order No. R-10873 issued in Case No. 11821 on September 12, 1997, the Division, upon application of Paloma Resources Inc., pooled all mineral interests from the surface to the base of the Strawn formation underlying the W/2 SW/4 and the SW/4 SW/4 of Section 28, Township 16 South, Range 37 East, NMPM, Lea County, New Mexico, thereby forming standard 80-acre and 40-acre spacing and proration units, respectively, to primarily test the Undesignated West Casey-Strawn Pool. Said units were proposed to be dedicated to the existing plugged and abandoned Shell Oil Company Home Stake Well No. 1, located at a standard oil well location 660 feet from the South and West lines (Unit M) of Section 28, which was proposed to be re-entered by the applicant.

(3) The applicant, Paloma Resources Inc. (Paloma), seeks to amend Division Order No. R-10873 by pooling all mineral interests in the Strawn formation underlying the S/2 SW/4 of Section 28, Township 16 South, Range 37 East, NMPM, Lea County, New Mexico, thereby forming a standard 80-acre spacing and proration unit in the Undesignated West Casey-Strawn Pool. Said unit is to be dedicated to the Shell Oil Company Home Stake Well No. 1, located 660 feet from the South and West lines (Unit M) of Section 28, which, in accordance with Division Rule No. 111, will be directionally drilled by the applicant so that the Strawn producing interval in the well will be located within a project area comprising the S/2 SW/4 of Section 28.

(4) Legal counsel appeared on behalf of Paloma and summarized the facts in this case as follows:

- a) in accordance with Division Order No. R-10873, Paloma re-entered the Shell Oil Company Home Stake Well No. 1 and was unsuccessful in its attempt to complete the well as a Strawn producer;
- b) Paloma now proposes to directionally drill the Home Stake Well No. 1 to the east to test the Strawn formation within the SE/4 SW/4 which will necessarily require pooling the S/2 SW/4 of Section 28;
- c) in original Case No. 11821, Paloma pooled only those interest owners within the W/2 SW/4 and SW/4 SW/4 of Section 28 that they were unable to locate;
- d) the interest owners that Paloma seeks to pool in the immediate case are the same interest owners it pooled in original Case No. 11821; and,
- e) Paloma has re-attempted to locate these interest owners for the purpose of securing their voluntary agreement for the proposed directional drilling and the pooling of the S/2 SW/4 of Section 28 in the immediate case, but has been unable to do so.

(5) 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 any pool completion resulting from this order, the subject application should be approved by pooling all mineral interests, whatever they may be, within the S/2 SW/4 of Section 28.

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

(7) 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.

(8) 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 directional drilling of the well.

(9) 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.

(10) 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.

(11) \$6500.00 per month while re-entering and directional drilling and \$650.00 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.

(12) 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.

(13) Upon the failure of the operator of said pooled unit to commence re-entry and directional drilling operations on the Home Stake Well No. 1 on or before March 15 , 1998, the order pooling said unit should become null and void and of no effect whatsoever.

(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.

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be, from the surface to the base of the Strawn formation underlying the S/2 SW/4 of Section 28, Township 16 South, Range 37 East, NMPM, Lea County, New Mexico, are hereby pooled thereby forming a standard 80-acre oil spacing and proration unit for any and all formations and/or pools spaced on 80-acres within said vertical extent which presently includes but is not necessarily limited to the Undesignated West Knowles-Drinkard Pool and the Undesignated West Casey-Strawn Pool. Said unit shall be dedicated to the existing Shell Oil Company Home Stake Well No. 1, located at a standard oil well location 660 feet from the South and West lines (Unit M) of Section 28, which will be re-entered and directionally drilled by the applicant.

PROVIDED HOWEVER THAT, the operator of said unit shall commence re-entry and directional drilling operations on the subject well on or before the 15th day of March, 1998, and shall thereafter continue re-entry and directional drilling operations with due diligence to test the Strawn formation.

PROVIDED FURTHER THAT, in the event said operator does not commence re-entry and directional drilling operations on the subject well on or before the 15th day of March, 1998, Ordering 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 Director 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. (1) of this order should not be rescinded.

(2) Paloma Resources, Inc., is hereby designated the operator of the subject well and unit.

(3) 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.

(4) 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.

(5) 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 objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(6) 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 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.

(7) 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 re-entering and directionally drilling 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.

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

(9) \$6500.00 per month while re-entering and directionally drilling and \$650.00 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.

(10) 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.

(11) 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.

(12) 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.

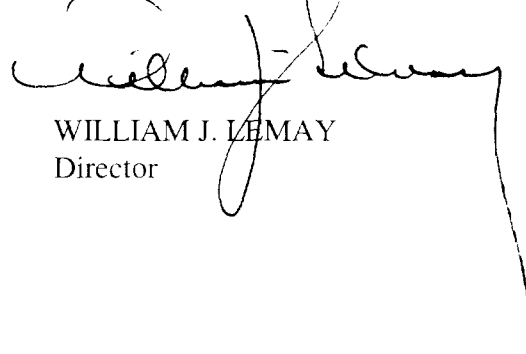
(13) Should all the parties to this forced pooling order reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(14) 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.

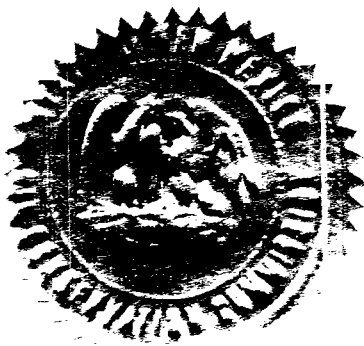
(15) Jurisdiction is hereby retained for the entry of such further orders as the Division may deem necessary.

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

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION



WILLIAM J. LEMAY
Director



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