

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:

APPLICATION OF SANTA FE SNYDER CORPORATION
FOR COMPULSORY POOLING, LEA COUNTY, NEW
MEXICO.

CASE NO. 12393

APPLICATION OF SOUTHWESTERN ENERGY
PRODUCTION COMPANY FOR COMPULSORY
POOLING AND AN UNORTHODOX OIL WELL
LOCATION, LEA COUNTY, NEW MEXICO.

CASE NO. 12423

ORDER NO. R-11413

ORDER OF THE DIVISION

BY THE DIVISION:

These cases came on for hearing at 8:15 a.m. on May 18 and June 15, 2000, at Santa Fe, New Mexico, before Examiners Michael E. Stogner and David R. Catanach, respectively.

NOW, on this 6th day of July, 2000, the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given and the Division has jurisdiction of these cases and their subject matter.

(2) In Case No. 12393 the applicant, Santa Fe Snyder Corporation ("Santa Fe"), seeks an order pooling all uncommitted mineral interests from the surface to the base of the Morrow formation underlying the following acreage in Section 17, Township 23 South, Range 34 East, NMPM, Lea County, New Mexico:

- (a) the N/2 to form a standard 320-acre lay-down gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within that vertical extent, which presently include but are not necessarily limited to the Undesignated Antelope

Ridge-Strawn Gas Pool, Undesignated Antelope Ridge-Atoka Gas Pool, Undesignated West Antelope Ridge-Atoka Gas Pool, Undesignated Antelope Ridge-Morrow Gas Pool, Undesignated North Bell Lake-Morrow Gas Pool, and Undesignated Mid Bell Lake-Morrow Gas Pool;

- (b) the NW/4 to form a standard 160-acre gas spacing and proration unit for any and all formations and/or pools developed on 160-acre spacing within that vertical extent; and
- (c) the SW/4 NW/4 to form a standard 40-acre oil spacing and proration unit for formations and/or pools developed on 40-acre spacing within that vertical extent, which presently include but are not necessarily limited to the Undesignated North Bell Lake-Delaware Pool and Undesignated North Bell Lake-Bone Spring Pool.

(3) These units are to be dedicated to Santa Fe's proposed Paloma Blanco "17" Federal Well No. 1 (API No. 30-025-35033) to be drilled at a standard location for all three sized units 1980 feet from the North line and 660 feet from the West line (Unit E) of Section 17.

(4) In Case No. 12423 the applicant, Southwestern Energy Production Company ("Southwestern"), seeks an order pooling all uncommitted mineral interests from the surface to the base of the Atoka formation underlying the following acreage in Section 17, Township 23 South, Range 34 East, NMPM, Lea County, New Mexico:

- (a) the W/2 to form a standard 320-acre stand-up gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within that vertical extent, which presently include but are not necessarily limited to the Undesignated Antelope Ridge-Strawn Gas Pool, Undesignated Antelope Ridge-Atoka Gas Pool, and Undesignated West Antelope Ridge-Atoka Gas Pool;

- (b) the NW/4 to form a standard 160-acre gas spacing and proration unit for any and all formations and/or pools developed on 160-acre spacing within that vertical extent; and
- (c) the NW/4 NW/4 to form a standard 40-acre oil spacing and proration unit for formations and/or pools developed on 40-acre spacing within that vertical extent, which presently include but are not necessarily limited to the Undesignated North Bell Lake-Delaware Pool and Undesignated North Bell Lake-Bone Spring Pool.

(5) These units are to be dedicated to Southwestern's proposed Baywatch "17" Federal Well No. 1 to be drilled 1310 feet from the North and West lines (Unit D) of Section 17. This location is standard for the proposed 160 and 320-acre gas units but unorthodox for the proposed 40-acre oil unit pursuant to Division Rule 104.B (1).

(6) At the time of the hearings, Division Cases No. 12393 and 12423 were consolidated for the purpose of presenting testimony. Also, because the approval of one case will correspondingly require the denial of the other and in order to provide a comprehensive decision in these cases, one order should be entered for both cases.

(7) Section 17, Township 23 South, Range 34 East, NMPM, Lea County, New Mexico is a standard sized and shaped governmental section containing 640 acres. The N/2 is a single federal lease (U. S. Government lease No. NM-97157) dated September 1, 1996 with undivided working interest owned 50 % by Santa Fe and 50 % by Southwestern. The S/2 is another single federal lease (U. S. Government lease No. LC-065194) dated May 1, 1951 with 100 % working interest ownership by Santa Fe.

(8) With respect to the two proposed 320-acre gas spacing and proration units, the evidence presented indicates that:

- (a) Santa Fe's proposed lay-down 320-acre gas unit, being the N/2 of Section 17, consists of one federal oil and gas lease;

- (b) Southwestern's proposed stand-up 320-acre gas unit, being the W/2 of Section 17, would involve the consolidation of the two above-described federal oil and gas leases;
- (c) on May 1, 2000, the United States Bureau of Land Management ("BLM") issued a letter to the Division stating the BLM's position opposing communitization of multiple leases when a single federal lease can be developed in conformity with established well spacing;
- (d) further, under certain conditions, the BLM will grant exceptions if adequate engineering and/or geological data indicates communitization of multiple leases will result in more efficient drainage of an area;
- (e) by letter dated May 11, 2000, Southwestern submitted its geological data to the BLM in support of its proposed stand-up 320-acre gas unit;
- (f) similarly, on May 16, 2000, Santa Fe submitted its geological data to the BLM for its proposed lay-down 320-acre gas unit; and
- (g) on May 17, 2000, the BLM approved Santa Fe's "*Application for Permit to Drill*" ("APD").

(9) At the conclusion of the May 18, 2000 hearing, this matter was continued to the June 15, 2000 hearing for advertisement purposes and to give the BLM additional time to process both Santa Fe's and Southwestern's requests.

(10) By letter dated May 31, 2000 from the BLM, the Division was advised that, pursuant to 43 CFR 3105.2-2, the BLM had determined that it was in the public's best interest to approve Santa Fe's proposed lay-down 320-acre gas unit, being the N/2 of Section 17, in order to avoid the communization of multiple federal leases and requested the Division consider dismissing Southwestern's application in Case No. 12423.

(11) At the June 15, 2000 hearing Southwestern's legal counsel requested Case No. 12423 be dismissed.

(12) Santa Fe and Southwestern have been unable to reach a mutually acceptable agreement to voluntarily pool their interests; therefore, a compulsory pooling order in favor of Santa Fe should be entered.

(13) After pooling, uncommitted working interest owners are referred to as "non-consenting working interest owners."

(14) To avoid the drilling of unnecessary wells, to protect correlative rights, to prevent waste and to afford to the owner of each interest in the units the opportunity to recover or receive without unnecessary expense its just and fair share of hydrocarbon production in any pool resulting from this order, this application should be approved by pooling all uncommitted mineral interests, whatever they may be, within these units.

(15) Santa Fe should be designated the operator of the subject well and units.

(16) Any non-consenting working interest owner should be afforded the opportunity to pay its share of estimated well costs to the operator in lieu of paying its share of reasonable well costs out of production.

(17) Any non-consenting working interest owner who does not pay its share of estimated well costs should have withheld from production its 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.

(18) 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.

(19) Following determination of reasonable well costs, any non-consenting working interest owner who has paid its 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.

(20) Reasonable charges for supervision (combined fixed rates) should be fixed at \$6,000.00 per month while drilling and \$600.00 per month while producing, provided that this rate should be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled

"Accounting Procedure-Joint Operations." The operator should be authorized to withhold from production the proportionate share of both the supervision charges and the actual expenditures required for operating the well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(21) All proceeds from production from the well that 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) If the operator of the pooled units fails to commence drilling the well to which the units are dedicated on or before October 1, 2000, or if all the parties to this forced pooling reach voluntary agreement subsequent to entry of this order, this order should become of no effect.

(23) The operator of the well and units should notify 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 Southwestern Energy Production Company in **Case No. 12423**, as further described in Finding Paragraph Nos. (4) and (5) of this order is hereby **dismissed**.

(2) Pursuant to the application of Santa Fe Snyder Corporation ("Santa Fe") in **Case No. 12393**, all uncommitted mineral interests, whatever they may be, from the surface to the base of the Morrow formation underlying the following described acreage in Section 17, Township 23 South, Range 34 East, NMPM, Lea County, New Mexico, are hereby pooled in the following manner:

- (a) the N/2 to form a standard 320-acre lay-down gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within that vertical extent, which presently include but are not necessarily limited to the Undesignated Antelope Ridge-Strawn Gas Pool, Undesignated Antelope Ridge-Atoka Gas Pool, Undesignated West Antelope Ridge-Atoka Gas Pool, Undesignated Antelope Ridge-Morrow Gas Pool, Undesignated North Bell Lake-Morrow Gas Pool, and Undesignated Mid Bell

Lake-Morrow Gas Pool;

- (b) the NW/4 to form a standard 160-acre gas spacing and proration unit for any and all formations and/or pools developed on 160-acre spacing within that vertical extent; and
- (c) the SW/4 NW/4 to form a standard 40-acre oil spacing and proration unit for formations and/or pools developed on 40-acre spacing within that vertical extent, which presently include but are not necessarily limited to the Undesignated North Bell Lake-Delaware Pool and Undesignated North Bell Lake-Bone Spring Pool.

(3) These three units are to be dedicated to Santa Fe's proposed Paloma Blanco "17" Federal Well No. 1 (API No. 30-025-35033) to be drilled at a standard location for all three sized units 1980 feet from the North line and 660 feet from the West line (Unit E) of Section 17.

PROVIDED HOWEVER THAT, the operator of the units shall commence drilling the well on or before October 1, 2000, and shall thereafter continue drilling the well with due diligence to a depth sufficient to test the Morrow formation.

PROVIDED FURTHER THAT, in the event the operator does not commence drilling the well on or before October 1, 2000, Ordering Paragraph (2) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause shown.

PROVIDED FURTHER THAT, should the well not be drilled to completion or abandoned within 120 days after commencement thereof, the operator shall appear before the Division Director and show cause why Ordering Paragraph (2) should not be rescinded.

(4) Santa Fe is hereby designated the operator of the subject well and units.

(5) After pooling, uncommitted working interest owners are referred to as "non-consenting working interest owners." After the effective date of this order and within 90 days prior to commencing the well; the operator shall furnish the Division and each known non-consenting working interest owner in the units an itemized schedule of estimated well costs.

(6) Within 30 days from the date the schedule of estimated well costs is furnished, any non-consenting working interest owner shall have the right to pay its share of estimated well costs to the operator in lieu of paying its share of reasonable well costs out of production, and any such owner who pays its 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 non-consenting 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 the schedule, the actual well costs shall be the reasonable well costs; provided, however, that if there is an objection to actual well costs within the 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 its share of estimated costs in advance as provided above shall pay to the operator its share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator its 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 proportionate share of reasonable well costs attributable to each non-consenting working interest owner who has not paid its share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished; and
- (b) as a charge for the risk involved in drilling the well, 200 percent of the above costs.

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

(11) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$6,000.00 per month while drilling and \$600.00 per month while producing, provided that this rate shall be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations*." The operator is hereby authorized to withhold

from production the proportionate share of both the supervision charges and the actual expenditures required for operating the well, not in excess of what are reasonable, attributable to each non-consenting working interest.

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

(13) All proceeds from production from the well that are not disbursed for any reason shall 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 the escrow agent within 30 days from the date of first deposit with the escrow agent.

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

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

(16) Jurisdiction of this case 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


LORI WROTENBERY
Director

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