

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 NOS. 10628 and 10629
ORDER NO. R-9838*

**APPLICATION OF YATES PETROLEUM CORPORATION FOR COMPULSORY
POOLING AND AN UNORTHODOX GAS WELL LOCATION, EDDY COUNTY, NEW
MEXICO**

**APPLICATION OF SANTA FE ENERGY OPERATING PARTNERS, L.P. FOR
COMPULSORY POOLING AND AN UNORTHODOX WELL LOCATION, EDDY
COUNTY, NEW MEXICO**

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on December 17, 1992 and January 21, 1993, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 2nd day of February, 1993 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 in Case 10628, Yates Petroleum Corporation (Yates), seeks an order pooling all mineral interests from the surface to the base of the Morrow formation underlying the following described acreage in Section 27, Township 21 South, Range 24 East, NMPM, Eddy County, New Mexico and in the following manner:

all of Section 27 to form a standard 640-acre gas spacing and proration unit for any and all formations and/or pools developed on 640-acre spacing within said vertical extent, which presently includes only the Undesignated Indian Basin-Upper Pennsylvanian Gas Pool and the Undesignated Indian Basin-Morrow Gas Pool; and

the W/2 of Section 27 to form a standard 320-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within said vertical extent.

Both units are to be dedicated to the plugged and abandoned Pan American Petroleum Corporation Pardue Federal Gas Com Well No. 1 to be re-entered and deepened to the Morrow formation at an unorthodox gas well location 1140 feet from the South line and 1350 feet from the West line (Unit N) of said Section 27.

(3) The applicant in Case No. 10629, Santa Fe Energy Operating Partners, L.P., (Santa Fe), seeks an order pooling all mineral interests from the surface to the base of the Morrow formation underlying the following described acreage in Section 27, Township 21 South, Range 24 East, NMPM, Eddy County, New Mexico and in the following manner:

all of Section 27 to form a standard 640-acre gas spacing and proration unit for any and all formations and/or pools developed on 640-acre spacing within said vertical extent, which presently includes only the Undesignated Indian Basin-Upper Pennsylvanian Gas Pool and the Undesignated Indian Basin-Morrow Gas Pool;

the W/2 of Section 27 to form a standard 320-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within said vertical extent;

the SW/4 of Section 27 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 said vertical extent; and, if applicable,

the W/2 SW/4 of Section 27 to form a standard 80-acre oil spacing and proration unit for any pools developed on 80-acre spacing within said vertical extent.

Said units are to be dedicated to a single well to be drilled at an unorthodox well location 204 feet from the South line and 660 feet from the West line (Unit M) of said Section 27.

(4) Case Nos. 10628 and 10629 were consolidated for purpose of hearing and should be consolidated for purpose of issuing an order inasmuch as the cases involve certain common acreage and the granting of one application would necessarily require the concomitant denial of the other.

(5) Marathon Oil Company, an offset operator and substantial producer of gas from the Indian Basin-Upper Pennsylvanian Gas Pool and Indian Basin-Morrow Gas Pool, entered its appearance in these cases.

(6) There are interest owners in each of the proposed proration units who have not agreed to pool their interests.

(7) The primary zone of interest to both parties is the Cisco/Canyon formation and the Morrow formation.

(8) Said Section 27 is within one mile of both the Indian Basin-Upper Pennsylvanian Gas Pool and the Indian Basin-Morrow Gas Pool boundaries and is therefore subject to the Special Rules and Regulations governing both pools as promulgated by Division Order No. R-8170, as amended, which includes 640-acre spacing and designated well location requirements.

(9) Yates' proposal utilizes an existing wellbore that was drilled in 1966 to a total depth of 8038 feet and tested a portion of the Undesignated Indian Basin-Upper Pennsylvanian Gas Pool dry. Said well, which was subsequently plugged and abandoned in the same year, appears to have adequate surface and intermediate casing strings cemented in place to satisfactorily recomplete in the deeper Morrow interval. It is Yates' intent to deepen said well in said manner so that the Morrow formation and other intervals in the Cisco/Canyon formation that were not originally tested in 1966 can be more thoroughly tested for hydrocarbons.

(10) Yates' proposal to utilize this existing wellbore is a prudent practice in the conservation of oil and gas and can serve to avoid the drilling of unnecessary wells.

(11) The application of Santa Fe is not in the best interest of conservation at this time and its proposed location, being more unorthodox than Yates' location, could serve to impair orderly development of both 640-acre spaced pools.

(12) At this time, the application of Santa Fe Energy Operating Partners, L.P. in Case No. 10629 should be *denied*.

(13) To avoid the drilling of unnecessary wells, to protect correlative rights, to prevent waste and to afford the owner of each interest in any applicable resulting unit the opportunity to recover or receive without unnecessary expense his just and fair share of the gas in any pool resulting from this order, the application of Yates Petroleum

Corporation in Case No. 10628 should be approved by pooling all mineral interests, whatever they may be, from the surface to the base of the Morrow formation, underlying the following described acreage in Section 27, Township 21 South, Range 24 East, NMPM, Eddy County, New Mexico, and in the following manner:

all of Section 27 to form a standard 640-acre gas spacing and proration unit for any and all formations and/or pools developed on 640-acre spacing within said vertical extent, which presently includes only the Undesignated Indian Basin-Upper Pennsylvanian Gas Pool and the Undesignated Indian Basin-Morrow Gas Pool; and

the W/2 of Section 27 to form a standard 320-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within said vertical extent.

Both units are to be dedicated to the plugged and abandoned Pan American Petroleum Corporation Pardue Federal Gas Com Well No. 1 to be re-entered and deepened to the Morrow formation at an unorthodox gas well location 1140 feet from the South line and 1350 feet from the West line (Unit N) of said Section 27.

(14) Yates Petroleum Corporation should be designated the operator of the subject well and unit.

(15) 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.

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

(17) 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.

(18) 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.

(19) \$5400.00 per month while re-entering and deepening and \$540.00 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.

(20) 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.

(21) Upon the failure of the operator of said pooled unit to commence prudent re-entry operations on the well to which said unit is dedicated on or before May 1, 1993, the order pooling said units should become null and void and of no further effect whatsoever.

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

(23) The operator of the well and units should 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.

IT IS THEREFORE ORDERED THAT:

(1) The application of Santa Fe Energy Operating Partners, L.P. in Case No. 10629 for an order pooling all mineral interests from the surface to the base of the Morrow formation underlying certain acreage in Section 27, Township 21 South, Range 24 East, NMPM, Eddy County, New Mexico and for a well to be drilled in conjunction with said forced pooling request at an unorthodox location 204 feet from the South line and 660 feet from the West line (Unit M) of said Section 27 is hereby *denied*.

(2) The application of Yates Petroleum Corporation in Case No. 10628 is *granted* and all mineral interests, whatever they may be, from the surface to the base of the Morrow formation, underlying the following described acreage in Section 27, Township 21 South, Range 24 East, NMPM, Eddy County, New Mexico and in the following manner, are hereby pooled:

all of Section 27 to form a standard 640-acre gas spacing and proration unit for any and all formations and/or pools developed on 640-acre spacing within said vertical extent, which presently includes only the Undesignated Indian Basin-Upper Pennsylvanian Gas Pool and the Undesignated Indian Basin-Morrow Gas Pool; and

the W/2 of Section 27 to form a standard 320-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within said vertical extent.

Both units are to be dedicated to the plugged and abandoned Pan American Petroleum Corporation Pardue Federal Gas Com Well No. 1 to be re-entered and deepened to the Morrow formation at an unorthodox gas well location 1140 feet from the South line and 1350 feet from the West line (Unit N) of said Section 27.

PROVIDED HOWEVER THAT, the operator of said units shall re-enter and commence drilling to deepen said well on or before the 1st day of May, 1993, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Morrow formation.

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said well on or before the 1st day of May, 1993, Decretory Paragraph No. (2) 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 re-entered and deepened to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Decretory Paragraph No. (2) of this order should not be rescinded.

(3) Yates Petroleum Corporation is hereby designated the operator of the subject well and units.

(4) After the effective date of this order and within 90 days prior to commencing re-entry and deepening operations on said well, the operator shall furnish the Division and each known working interest owner in the subject units an itemized schedule of estimated well costs.

(5) 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.

(6) 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.

(7) 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.

(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 estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him; and
- (B) As a charge for the risk involved in the re-entering and deepening 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.

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

(10) \$5400.00 per month while re-entering and deepening and \$540.00 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 be placed in escrow in Eddy 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.

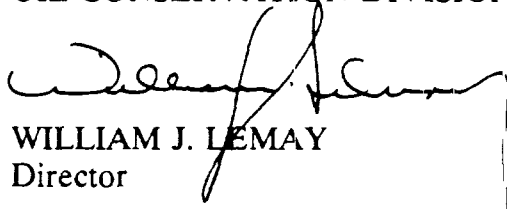
(14) Should all the parties to this force-pooling reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(15) The operator of the subject well and units 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.

(16) 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


WILLIAM J. LEMAY
Director

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