



STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION



BRUCE KING
GOVERNOR

ANITA LOCKWOOD
CABINET SECRETARY

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87504
(505) 827-5800

April 11, 1994

RODEY, DICKASON, SLOAN
AKIN & ROBB, P.A.
Attorneys at Law
P. O. Box 1357
Santa Fe, New Mexico 87504

RE: CASE NO. 10934
ORDER NO. R-10095

Dear Sir:

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

Sincerely,

Sally Martinez
Sally Martinez
Administrative Secretary

cc: BLM Carlsbad
Taxation & Revenue Dept.
Scott Hall

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

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

*CASE NO. 10934
ORDER NO.R-10095*

**APPLICATION OF SOUTHWEST ROYALTIES, INC. FOR COMPULSORY
POOLING AND A NON-STANDARD GAS PRORATION UNIT, LEA COUNTY,
NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on March 17 and March 31, 1994, at Santa Fe, New Mexico, before Examiners Jim Morrow and Michael E. Stogner, respectively.

Now, on this 11th day of April 1994, 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, Southwest Royalties Inc. (Southwest), seeks an order pooling all mineral interests from the surface to the base of the San Andres formation or to a depth of 4900 feet, whichever is deeper, underlying the NE/4 SW/4 of Section 29, Township 18 South, Range 37 East, NMPM, Lea County, New Mexico, forming a standard 40-acre oil spacing and proration unit within said vertical extent. Said unit is to be dedicated to a well to be drilled at a standard oil well location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as the operator of the well and a charge for risk involved in drilling said well.

(3) The applicant has the right to develop the subject unit and produce oil underlying it; at this time however, not all the working interest owners in the proposed 40-acre oil spacing and proration unit have agreed to pool their interests.

(4) The applicant represents the full working interest under the unit except for two unleased mineral interests totaling 13.125%, and a working interest of approximately 35% held by Jennings Drilling Co., a terminated and defunct general partnership whose general partners have agreed to participate in the project.

(5) The primary objective of the well is the San Andres with a secondary target of the Queen-Penrose Section. Total cost of the completed well is estimated at \$275,100.

(6) The applicant's witness submitted a structure map and a log section which indicates the well location is near the top of a Queen Sand structure. Offset Queen and Penrose wells are marginally productive in the area. The San Andres formation is productive in the Hobbs Pool located several miles to the east.

(7) To avoid the drilling of unnecessary wells, to protect correlative rights, to prevent 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 gas in said pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

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

(9) 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.

(10) 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 risk involved in the drilling of the well.

(11) 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.

(12) 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.

(13) The applicant requested that combined fixed rate overhead charges be set at \$4000 and \$425 based on Ernst and Young survey results. 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.

(14) 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 upon demand and proof of ownership.

(15) Upon the failure of the operator of said pooled unit to commence work on the infill well to which said unit is to be dedicated on or before June 1, 1994, the order pooling said unit should become null and void and of no further effect whatsoever.

(16) 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.

(17) The operator of the well and unit 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.

(18) No offset operator or interest owner appeared at the hearing in opposition to this application.

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be, from the surface to the base of the San Andres formation or to a depth of 4900 feet, whichever is deeper, underlying the NE/4 SW/4 of Section 29, Township 18 South, Range 37 East, NMPM, Lea County, New Mexico, are hereby pooled to form a standard 40-acre oil spacing and proration unit within said vertical extent.

(2) Said unit is to be dedicated to a well to be drilled at a standard oil well location thereon.

PROVIDED HOWEVER THAT, the operator of said unit shall commence the drilling of said well on or before the 1st day of June, 1994, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the San Andres formation.

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said well on or before the 1st day of June, 1994, Decretory Paragraphs Nos. (1) and (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 drilled to completion or abandonment within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Decretory Paragraph Nos. (1) and (2) of this order should not be rescinded.

(3) Southwest Royalties Inc. is hereby designated the operator of the subject well and unit.

(4) After the effective date of this order and prior to commencing work on said well, the operator shall furnish the Division and each working interest owner in the subject unit 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 thirty days from the date the schedule of the estimated well costs is furnished to him; and
- (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 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 well costs.

(10) \$4000 per month while drilling and \$425 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.

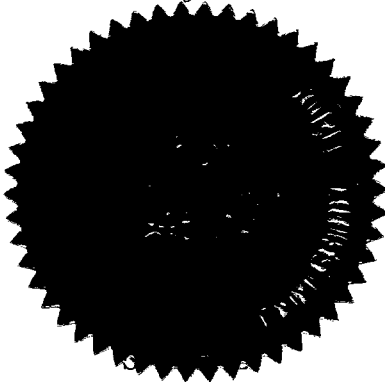
(13) All proceeds from production from the subject well which are not disbursed for any reason shall be placed in escrow in Lea County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; the operator shall notify the Division of the name and address of said escrow agent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

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

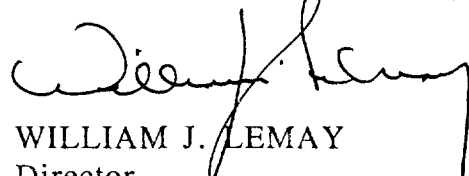
(15) The operator of the subject well and unit shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the force-pooling provisions of this order.

(16) Jurisdiction of this cause is retained for 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