



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

August 26, 1994

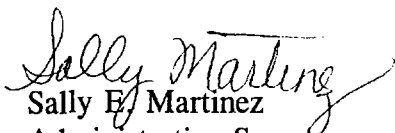
KELLAHIN AND KELLAHIN
Attorneys at Law
P. O. Drawer 2265
Santa Fe, New Mexico 87504

RE: CASE NO. 10996
ORDER NO. R-10182

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
Bill Carr
Ernest Carroll
Taxation & Revenue

**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. 10996
Order No. R-10182**

**APPLICATION OF ANADARKO PETROLEUM
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 August 18, 1994, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 29th day of August, 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, Anadarko Petroleum Corporation (Anadarko), seeks an order pooling all mineral interests in the Morrow formation underlying the W/2 of Section 22, Township 18 South, Range 32 East, NMPM, Lea County, New Mexico, forming a standard 320-acre gas spacing and proration unit for the Undesignated North Lusk-Morrow Gas Pool. Said unit is to be dedicated to the existing Querecho Plains Unit Well No. 1 located at a standard gas well location 1980 feet from the South and West lines (Unit K) of Section 22.

(3) According to applicant's evidence and testimony, the history of the Querecho Plains Unit Well No. 1 is as follows:

- a) well was drilled in July, 1956 by Shell Oil Company and completed in the Pennsylvanian (Strawn) formation. As a result of this completion, the Division created the Querecho Plains-Pennsylvanian Oil Pool. The dedicated acreage for the Querecho Plains-Pennsylvanian Pool was the NE/4 SW/4 of Section 22;
- b) on June 27, 1989, Gary L. Bennett purchased and assumed operations on the subject well. Gary L. Bennett subsequently filed a notice to perforate the subject well in the Morrow formation from 12,530 feet to 12,644 feet; Included in the notice was a request for a non-standard gas proration unit comprising the S/2 NW/4, SW/4 and W/2 SE/4 of Section 22. The request was not approved, however, the applicant apparently proceeded with the Morrow completion and reported the Morrow production as Querecho Plains-Pennsylvanian Pool production;
- c) Anadarko purchased and assumed operations on the Querecho Plains Unit Well No. 1 on September 26, 1990. On October 4, 1990, the Morrow was temporarily abandoned with a bridge plug set at 11,909 feet. The Pennsylvanian was placed back on production on October 18, 1990. The well is currently producing from the Querecho Plains-Pennsylvanian Pool at a rate of 13 barrels of oil per day.

(4) According to applicant's testimony, it plans to re-enter the well and complete the Morrow formation. Subsequently, the subject well will be dually completed and produced from the Strawn and Morrow formations.

(5) There are interest owners within the NE/4 NW/4 of Section 22 who have not agreed to pool their interests.

(6) Further testimony by the applicant indicates that it has reached voluntary agreement with certain interest owners within the NE/4 NW/4 of Section 22. The terms of the agreement include a provision whereby the applicant will utilize recompletion costs to the Morrow formation (estimated at \$63,400) as total well costs, and will not charge any interest owner for the value of the existing wellbore.

(7) Estimated recompletion costs should be adopted as estimated well costs under the terms of this order.

(8) 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 the Undesignated North Lusk-Morrow Gas Pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

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

(10) Any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated recompletion costs (\$63,400) to the operator in lieu of paying his share of reasonable well costs out of production.

(11) Any non-consenting working interest owner who does not pay his share of estimated recompletion 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 recompleting the subject well.

(12) Any non-consenting working interest owner should be afforded the opportunity to object to the actual recompletion costs but actual recompletion costs should be adopted as the reasonable well costs in the absence of such objection.

(13) Following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated recompletion costs should pay to the operator any amount that reasonable well costs exceed estimated recompletion costs and should receive from the operator any amount that paid estimated recompletion costs exceed reasonable well costs.

(14) Applicant proposed that the overhead rates while recompleting and producing the subject well be established at \$5439.00 and \$863.00, respectively.

(15) The producing well rate should be adjusted to reflect a more reasonable amount.

(16) \$5439.00 per month while drilling and \$543.00 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.

(17) 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.

(18) Upon the failure of the operator of said pooled unit to commence recompletion operations on the subject well on or before December 1, 1994, the order pooling said unit should become null and void and of no effect whatsoever.

(19) 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.

(20) 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, in the Morrow formation underlying the W/2 of Section 22, Township 18 South, Range 32 East, NMPM, Lea County, New Mexico, are hereby pooled forming a standard 320-acre gas spacing and proration unit for the Undesignated North Lusk-Morrow Gas Pool. Said unit shall be dedicated to the existing Querecho Plains Unit Well No. 1 located at a standard gas well location 1980 feet from the South and West lines (Unit K) of Section 22.

PROVIDED HOWEVER THAT, the operator of said unit shall commence the recompletion of said well on or before the 1st day of December, 1994, and shall thereafter continue with due diligence to test the Morrow formation.

PROVIDED FURTHER THAT, in the event said operator does not commence the recompletion of said well on or before the 1st day of December, 1994, 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 recompleted 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) Anadarko Petroleum Corporation 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 recompletion operations, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated recompletion costs.

(4) Within 30 days from the date the schedule of estimated recompletion costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated recompletion 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 recompletion 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 recompletion costs within 90 days following completion of the well; if no objection to the actual recompletion costs is received by the Division and the Division has not objected within 45 days following receipt of said schedule, the actual recompletion costs shall be the reasonable well costs; provided however, if there is objection to actual recompletion 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 recompletion costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated recompletion costs and shall receive from the operator his pro rata share of the amount that estimated recompletion 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 recompletion costs within 30 days from the date the schedule of estimated recompletion costs is furnished to him.
- (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 recompletion costs within 30 days from the date the schedule of estimated recompletion 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) \$5439.00 per month while drilling and \$543.00 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.

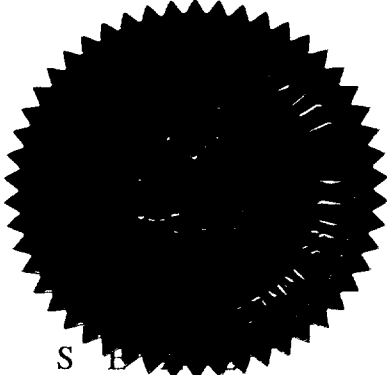
(12) All proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Lea County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; the operator shall notify the Division of the name and address of said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

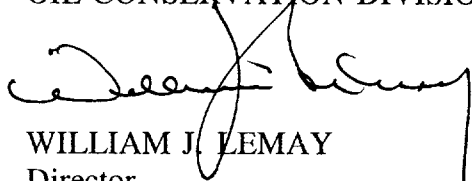
(14) The operator of the well and unit shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

(15) Jurisdiction of this cause 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