BEFORE EXAMINER [illegible]
Oil Conservation Division
ORYX Exhibit No. 7
Case No. 9802

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. 9619
Order No. R-8913

APPLICATION OF SANTA FE
EXPLORATION COMPANY FOR
AN UNORTHODOX GAS WELL
LOCATION, DUAL COMPLETION,
AND COMPULSORY POOLING,
EDDY COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on March 29, 1989, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 12th day of April, 1989, 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, Santa Fe Exploration Company, seeks an order pooling all mineral interests in the Undesignated Indian Basin-Upper Pennsylvanian Gas Pool and the Undesignated Indian Basin-Morrow Gas Pool, underlying all of Section 8, Township 21 South, Range 23 East, NMPM, Eddy County, New Mexico, forming a standard 640-acre gas spacing and proration unit for both pools.

(3) Production from both zones is to be from a dually completed well to be located at a proposed unorthodox gas well location 660 feet from the South and East lines (Unit P) of said Section 8.

(4) The applicant has the right to drill and proposes to drill a well at the unorthodox gas well location described above.

(5) There are interest owners in the proposed proration unit who have not agreed to pool their interests.

(6) 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 said unit.

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

(8) The evidence presented at the hearing and information obtained from Division records indicates that there have been two wells previously drilled in said Section 8, these being the Robert N. Enfield Indian Basin Well No. 3 located at a standard location 1650 feet from the South and East lines (Unit J), which was drilled in 1966, tested in the Upper Pennsylvanian, and was apparently deemed non-commercial and subsequently plugged and abandoned, and the Odessa Natural Gasoline Company Standard Federal "A" Well No. 1 located at an unorthodox gas well location 660 feet from the South and West lines (Unit M), which was drilled in 1962, tested in the Upper Pennsylvanian, and was also subsequently plugged and abandoned.

(9) Geologic evidence and testimony presented at the hearing indicates that a well at the proposed unorthodox location will better enable the applicant to produce the gas underlying the proposed proration unit.

(10) Marathon Oil Company (Marathon), the operator of the North Indian Basin Unit Area which encompasses acreage immediately to the East of said Section 8, entered an appearance at the hearing in this case.

(11) Evidence presented at the hearing indicates that the applicant has voluntarily reached an agreement with Marathon Oil Company as to a production penalty to be assessed against the subject well due to its proposed unorthodox location.

(12) The proposed 60 percent production penalty is based upon the proposed well location's east-west variance from a standard well location or 990/1650.

(13) The agreement, presented as applicant's Exhibit No. (6), stipulates that said 60 percent penalty is to be applied against any producing well rate, and to this end, Marathon has proposed that the well's daily production be limited to 40 percent of the CAOF established by test as required by Rule 401 of the Division Rules and Regulations or 40 percent of its prorated allowable, whichever is less.

(14) Both the Indian Basin-Upper Pennsylvanian Gas Pool and the Indian Basin-Morrow Gas Pool are prorated gas pools governed by the Rules and Regulations for the Prorated Gas Pools in New Mexico as promulgated by Division Order No. R-8170.

(15) The method of determining the well's gas allowable should be acoomplished by assigning the subject well an acreage factor of 0.40 in the subject pools inasmuch as the alternate method proposed by Marathon does not blend itself well into the current gas proration system and would be very difficult to administer.

(16) No other offset operator objected to the proposed unorthodox gas well location.

(17) Approval of the proposed unorthodox location and dual completion will afford the applicant the opportunity to produce its just and equitable share of the gas in the subject pools, will prevent the economic loss caused by the drilling of unnecessary wells, avoid the augmentation of risk arising from the drilling of an excessive number of wells, and will otherwise prevent waste and protect correlative rights, provided that the subject well's gas allowable in the subject pools be penalized as described in Finding No. (15) above.

(18) 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.

(19) 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 drilling of the well.

(20) 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.

(21) 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.

(22) $5000.00 per month while drilling and $500.00 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.

(23) 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.

(24) Upon the failure of the operator of said pooled unit to commence the drilling of the well to which said unit is dedicated on or before July 15, 1989, the order pooling said unit should become null and void and of no effect whatsoever.

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

(26) 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 Undesignated Indian Basin-Upper Pennsylvanian Gas Pool and the Undesignated Indian Basin-Morrow Gas Pool underlying all of Section 8, Township 21 South, Range 23 East, NMPM, Eddy County, New Mexico, are hereby pooled to form a standard 640-acre gas spacing and proration unit for said pools, to be dedicated to a well to be drilled at an unorthodox gas well location, also hereby approved, 660 feet from the South and East lines (Unit P) of said Section 8.

(2) The applicant is further authorized to dually complete the subject well in the Undesignated Indian Basin-Upper Pennsylvanian Gas Pool and the Undesignated Indian Basin-Morrow Gas Pool.

PROVIDED HOWEVER THAT, the operator of said unit shall commence the drilling of said well on or before the 15th day of July, 1989, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Upper Pennsylvanian and Morrow formations.

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said well on or before the 15th day of July, 1989, 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 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.

(3) Santa Fe Exploration Company is hereby designated the operator of the subject well and unit.

(4) 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.

(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 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 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.

(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 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 the well costs.

(10) $5000.00 per month while drilling and $500.00 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 immediately 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 parties to this forced pooling order reach voluntary agreement subsequent to entry of this order, the forced pooling provisions of 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.

(16) For purposes of assigning gas allowables, the subject well shall be assigned an acreage factor of 0.40 in the Undesignated Indian Basin-Upper Pennsylvanian Gas Pool and the Undesignated Indian Basin-Morrow Gas Pool.

(17) 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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