

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

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

CASE NO. 8553
Order No. R-7770-A

APPLICATION OF YATES PETROLEUM
CORPORATION TO AMEND ORDER NO.
R-7770 TO COMPULSORY POOL
ADDITIONAL INTERESTS AND CHANGE
OPERATOR, LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8 a.m. on April 10, 1985, at Santa Fe, New Mexico, before Examiner Gilbert P. Quintana.

NOW, on this 7th day of August, 1985, 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) Division Order No. R-7770, dated January 8, 1985, authorized Harvey E. Yates Company to pool all mineral interests from the top of the Wolfcamp formation to the bottom of the Mississippian formation underlying the N/2 of Section 24, Township 14 South, Range 35 East, NMPM, Lea County, New Mexico, forming a standard 320-acre gas spacing and proration unit dedicated to a well to be drilled at a standard location thereon.

(3) The applicant, Yates Petroleum Corporation, seeks the amendment of Division Order No. R-7770 to change the operator from Harvey E. Yates Company to Yates Petroleum Corporation.

(4) The applicant further seeks the amendment of said order to include the pooling of any oil producing horizons from the surface to the base of the Mississippian formation and should oil production be established, the creation of eight standard oil spacing and proration units in the N/2 of Section 24.

(5) The N/2 of Section 24 is a standard 320-acre gas spacing and proration unit for gas completions from the top of the Wolfcamp formation to the base of the Mississippian formation.

(6) The N/2 of Section 24 contains eight standard 40-acre oil spacing and proration units consisting of standard quarter-quarter sections.

(7) The applicant has the right to drill and is drilling a gas well at a standard location thereon.

(8) The applicant has a right to drill and proposes to drill an oil well on each 40-acre oil spacing unit in the N/2 of said Section 24 at standard locations thereon.

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

(10) 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 units the opportunity to recover or receive without unnecessary expense his just and fair share of the gas or oil in any pool completion resulting from this order, the subject application should be approved by pooling said mineral interests within the N/2 of Section 24.

(11) The applicant should be designated the operator of the subject wells and units.

(12) The pooling authorization granted by this order should expire as to the 320-acre gas spacing unit or any 40-acre oil spacing unit in the N/2 of said Section 24 which does not contain a producing or producible gas well or oil well, respectively, on August 1, 1988, unless the Director of the Division should extend said expiration date for good cause shown.

(13) 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.

(14) Prior to the drilling of any well in the pooled area, non-consenting working interest owners should be afforded the opportunity to participate in such well as set forth in Finding No. (13) above.

(15) 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 drilling the well.

(16) 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.

(17) 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.

(18) \$5,000.00 per month while drilling and \$500.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates) for any well drilled or producing under terms of this order; 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 any such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(19) All proceeds from production from any of the subject wells 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.

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

(21) 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 forced pooling provisions of this order.

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests from the surface to the base of the Mississippian formation forming 40-acre oil spacing and proration units being standard quarter-quarter sections and all mineral interests from the top of the Wolfcamp formation to the base of the Mississippian formation forming a 320-acre gas spacing and proration unit, all underlying the N/2 of Section 24, Township 14 South, Range 35 East, NMPM, Lea County, New Mexico, are hereby pooled, said units to be dedicated to a well or wells to be drilled at standard locations thereon.

PROVIDED HOWEVER THAT, the pooling authorization granted by this order shall expire as to the 320-acre gas spacing unit or any 40-acre oil spacing unit in the N/2 of said Section 24 which does not contain a producing or producible gas well or oil well, respectively, on August 1, 1988, unless the Director of the Division shall extend said expiration date for good cause shown.

(2) Yates Petroleum Corporation is hereby designated the operator of any well and unit subject to the terms of this order.

(3) After the effective date of this order and within 90 days prior to commencing any well on said pooled acreage, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(4) 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 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 well costs within 90 days following completion of any 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, that if there is an objection to actual well costs within said 45-day period the Division will determine the 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 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.

(7) The operator is hereby authorized to withhold the following costs and charges from production for any individual well subject to the terms of this order:

- (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.
- (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.

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

(9) \$5,000 per month while drilling and \$500.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates) for any well drilled or producing subject to the terms of this order; 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 any such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(10) Any unsevered 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 any well subject to the terms of this order 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 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 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


R. L. STAMETS
Director