

ENERGY AND MINERALS DEPARTMENT

OIL CONSERVATION DIVISION



GARREY CARRUTHERS
GOVERNOR

April 17, 1987

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Roswell, New Mexico 88201

Re: CASE NO. 9086
ORDER NO. R-8433

Applicant:

Harvey E. Yates Company

Dear Sir:

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

Sincerely,

Florene Davidson

FLORENE DAVIDSON
OC Staff Specialist

Copy of order also sent to:

Hobbs OCD x
Artesia OCD x
Aztec OCD

Other Thomas Kellahin

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. 9086
Order No. R-8433

APPLICATION OF HARVEY E. YATES
COMPANY FOR 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 18, 1987, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 17th day of April, 1987, 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, Harvey E. Yates Company (Heyco), seeks an order pooling all mineral interests from the base of the Queen formation (at a depth of approximately 3595 feet) to 300 feet below the top of the Wolfcamp formation (at a depth of approximately 9500 feet) underlying the NE/4 SW/4 and the SE/4 NW/4 of Section 12, Township 18 South, Range 31 East, NMPM, Eddy County, New Mexico, forming two standard 40-acre oil spacing and proration units.

(3) The applicant has the right to drill and proposes to drill its Taylor Deep Federal 12 Well No. 1 at a standard oil well location in the NE/4 SW/4 and its Taylor Deep Federal 12 Well No. 2 at a standard oil well location in the SE/4 NW/4, both in said Section 12, to a sufficient depth to test the Bone Spring formation.

(4) Chevron U.S.A. Inc. (Chevron), a 25% interest owner in each of the proposed 40-acre units, appeared at the hearing in opposition to the application.

(5) The evidence presented at the hearing indicates that the applicant has made numerous attempts to secure Chevron's voluntary joinder in its Heyco Taylor Deep Working Interest Unit consisting of Sections 12 and 13, Township 18 South, Range 31 East, NMPM, Eddy County, New Mexico.

(6) The evidence further indicates that all proposals made by the applicant to Chevron prior to the hearing have contained a provision for the drilling of the Taylor Deep Federal 12 Well No. 1 but contained no such provision for the drilling of the Taylor Deep Federal 12 Well No. 2.

(7) The applicant, in its attempt to secure Chevron's voluntary joinder in the proposed working interest unit, has failed to provide Chevron the information necessary to make an informed decision as to whether or not to participate in the drilling of the Taylor Deep Federal 12 Well No. 2.

(8) It is the intention of the applicant to drill and evaluate the producing capabilities of the Taylor Deep Federal 12 Well No. 1 prior to commencing the drilling of the Taylor Deep Federal 12 Well No. 2.

(9) Chevron proposed that they be given an election period in which to voluntarily join in the drilling of the second well subsequent to the drilling and evaluation of the first well and that they be provided by the applicant drilling reports, logging and testing data, and production reports obtained from the drilling and testing of the Taylor Deep Federal 12 Well No. 1, prior to the expiration of their election period for the second well.

(10) Chevron's request for an extended election period for the Taylor Deep Federal 12 Well No. 2 is reasonable and should be granted; however, it would be unreasonable and unfair to the applicant to extend this election period past the date of the completion of the Taylor Deep Federal 12 Well No. 1.

(11) Chevron's request that the applicant provide them with the data obtained in the drilling and testing of the first well is unreasonable in that should Chevron not elect to participate in the drilling of the first well, they have no right to receive or to be a party to said information, and therefore this request should be denied.

(12) 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 oil in any pool completion resulting from this order, the subject

application should be approved by pooling all mineral interests, whatever they may be, within each of the units described above.

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

(14) 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.

(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 reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the wells.

(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 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) The applicant proposed at the hearing that overhead rates of \$5000.00 per month while drilling and \$500.00 per month while producing be fixed as reasonable charges for supervision.

(19) The applicant provided sufficient evidence to show that its requested rates are fair and reasonable based upon the signed operating agreement which governs operators in the Taylor Deep Working Interest area.

(20) \$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 wells, not in excess of what are reasonable, attributable to each non-consenting working interest.

(21) All proceeds from production from 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.

(22) Upon the failure of the operator to commence drilling of the Taylor Deep Federal 12 Well No. 1 to which the NE/4 SW/4 of Section 12 is to be dedicated on or before July 1, 1987, the order pooling both of the subject units should become null and void and of no effect whatsoever.

(23) Upon the failure of the operator to commence drilling of the Taylor Deep Federal 12 Well No. 2 within 60 days after putting the Taylor Deep Federal 12 Well No. 1 on production, the order pooling the SE/4 NW/4 of Section 12 should become null and void and of no effect whatsoever.

(24) 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.

(25) The operator of the wells and units 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, from the base of the Queen formation (at a depth of approximately 3595 feet) to 300 feet below the top of the Wolfcamp formation (at a depth of approximately 9500 feet) underlying the NE/4 SW/4 and the SE/4 NW/4 of Section 12, Township 18 South, Range 31 East, NMPM, Eddy County, New Mexico, are hereby pooled to form two standard 40-acre oil spacing and proration units to be dedicated to the applicant's Taylor Deep Federal 12 Well Nos. 1 and 2, respectively, both located at standard locations thereon.

PROVIDED HOWEVER, the operator of the NE/4 SW/4 of said Section 12 shall commence the drilling of a well thereon, being the Taylor Deep Federal 12 Well No. 1, on or before the first day of July, 1987, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Bone Spring formation;

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said well on or before the first day of July, 1987, 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.

PROVIDED FURTHER THAT, the operator of the SE/4 NW/4 of said Section 12 shall, within 60 days after putting the aforesaid Taylor Deep Federal 12 Well No. 1 on production, commence the drilling of a well thereon, being the Taylor Deep Federal 12 Well No. 2, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Bone Spring formation.

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said Taylor Deep Federal 12 Well No. 2 within said 60 day period decretory paragraph (1) of this order shall be null and void and of no effect whatsoever with respect to the SE/4 NW/4 of said Section 12, 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 the commencement thereof, said operator shall appear before the Division Director and show cause why Order (1) of this order should not be rescinded with respect to the SE/4 NW/4 of said Section 12.

(2) Harvey E. Yates Company is hereby designated the operator of the subject wells and units.

(3) After the effective date of this order and within 90 days prior to commencing each of said wells, 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 for the Taylor Deep Federal 12 Well No. 1 is furnished to him, and within 60 days from the date the schedule of estimated well costs for the Taylor Deep Federal 12 Well No. 2 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.

(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 each 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.

(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:

(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 each 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 the time period described in No. (4) above.

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

(9) \$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.

(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.

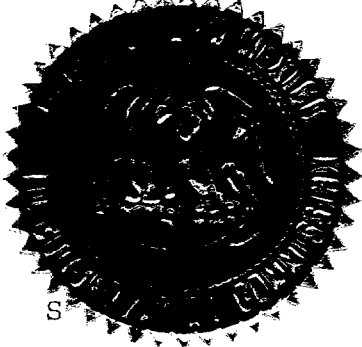
(12) All proceeds from production from the subject wells which are not disbursed for any reason shall immediately be placed in escrow in Eddy County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; the operator shall notify the Division of the name and address of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

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

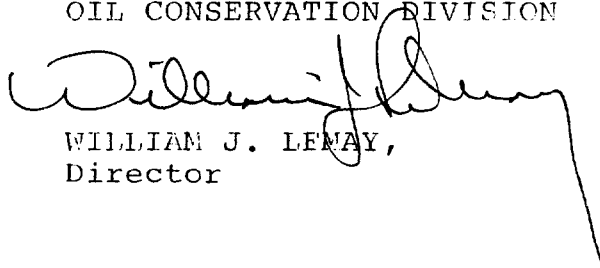
(14) The operator of the wells and units shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

(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


WILLIAM J. LEMAY,
Director