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 NOS. 9372 and 9374
Order No. R-8680

APPLICATION OF SANTA FE ENERGY OPERATING PARTNERS, L.P. FOR COMPULSORY POOLING AND A NON-STANDARD GAS PRORATION UNIT, EDDY COUNTY, NEW MEXICO.

APPLICATION OF BASS ENTERPRISES PRODUCTION COMPANY FOR COMPULSORY POOLING AND TWO NON-STANDARD GAS PRORATION UNITS, EDDY COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on May 11, 1988, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 5th day of July, 1988, 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 Case Nos. 9372 and 9374 were consolidated at the time of the hearing for the purpose of testimony, and inasmuch as both cases concern portions of the same acreage in Section 30, Township 21 South, Range 28 East, NMPM, Eddy County, New Mexico, one order should be entered for both cases.

(3) The applicant in Case No. 9372, Santa Fe Energy Operating Partners, L.P., (Santa Fe Energy) seeks an order pooling all mineral interests from the surface to the base of the Morrow formation underlying the E/2 W/2 and Lots 1 through 4 of Section 30, Township 21 South, Range 28 East, NMPM, Eddy County, New Mexico, forming a non-standard 313.12-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing, to be dedicated to a well to be drilled at a standard gas well location 1980 feet from the South line and 990 feet from the West line (Unit L) of said Section 30.

(4) The applicant in Case No. 9374, Bass Enterprises Production Company, (Bass Enterprises) seeks an order pooling all mineral interests from the surface to either the base of the Morrow formation or to a depth of 12,100 feet, whichever is deeper, underlying the SE/4, E/2 SW/4, and Lots 3 and 4 of Section 30, Township 21 South, Range 28 East, NMPM, to form a non-standard 316.44-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within said vertical limits and the E/2 SW/4 and Lots 3 and 4 of said Section 30 to form a non-standard 156.44-acre gas spacing and proration unit for any and all formations and/or pools within said vertical limits developed on 160-acre spacing, both in Eddy County, New Mexico, and both aforementioned units to be dedicated to a single well to be drilled at a standard gas well location 1980 feet from the South and West lines (Unit K) of said Section 30.

(5) The evidence presented indicates that Bass is the owner of all the acreage in said Section 30 with the exception of Lot 4, which is owned by Santa Fe Energy, and further that the subject acreage in Section 30 is wholly contained within the horizontal limits of the Big Eddy Unit, operated by Bass and approved by Division Order No. R-152, dated May 1, 1952. Lot 4, however, is not committed to the unit.

(6) Testimony and evidence by both parties at the hearing indicate that the primary objective in each respective proposed well is the Strawn formation and that both proposed well locations are within one mile of the outer boundary of the East Carlsbad-Strawn Gas Pool which is currently governed by General Statewide 320-acre gas spacing.

(7) Both parties presented extensive geologic testimony and evidence at the hearing which indicates their respective geologic and reservoir interpretations of the Strawn formation underlying the subject area.

(8) While both parties agreed upon the presence of a gas-water contact within the Strawn formation underlying Section 30, they disagreed upon the exact location of said gas-water contact, the actual amount of gas-productive acreage in said Section 30, and the optimum well location for the development of the gas reserves in the section.

(9) Although the geologic and reservoir characteristics of the Strawn formation underlying Section 30 are subject to interpretation, Bass Enterprises presented a more detailed interpretation and appeared to have a better understanding of the Strawn formation underlying the subject acreage.

(10) According to the geologic evidence presented by Santa Fe Energy, a well at the location proposed by Bass Enterprises would penetrate the Strawn formation in the area that they have defined as gas productive and above the gas-water contact, and as such would likely be productive according to both parties' geologic interpretations.

(11) According to the geologic evidence presented by Bass Enterprises, a well at the location proposed by Santa Fe Energy would likely penetrate the Strawn formation in an area which is non-productive.

(12) The well location proposed by Bass represents the more favorable of the two locations proposed for encountering commercial gas production in the Strawn formation.

(13) While both parties have experience in the drilling of Strawn wells in this area and are both considered competent in the drilling and operation of Strawn wells, Bass Enterprises is by far the majority interest owner in either proposed proration unit and as such stands to gain or lose substantially more than Santa Fe Energy.

(14) A well drilled at either proposed location would also likely end up as being a unit well within the Big Eddy Unit, and as such, Bass Enterprises, as operator of said unit, would be the operator to drill and operate the subject well under the unit agreement.

(15) 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 application by Bass Enterprises should be approved by pooling all mineral interests, whatever they may be, within said non-standard gas proration units.

(16) The application of Santa Fe Energy for compulsory pooling and a non-standard gas proration unit should be denied.

(17) Bass Enterprises should be designated the operator of the subject well and unit.

(18) The proposed non-standard gas proration units proposed by Bass Enterprises are necessitated by a variation in the U.S. Public Lands Survey.

(19) 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.

(20) 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 150 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(21) 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.

(22) 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.

(23) $5500.00 per month while drilling and $550.00 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.

(24) 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.

(25) 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 October 1, 1988, the order pooling said unit should become null and void and of no effect whatsoever.

(26) 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.

(27) 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) The application of Santa Fe Energy Operating Partners, L.P. for an order pooling all mineral interests from the surface to the base of the Morrow formation underlying the E/2 W/2 and Lots 1 through 4 of Section 30, Township 21 South, Range 28 East, NMPM, Eddy County, New Mexico, forming a non-standard 313.12-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing to be dedicated to a well drilled at a standard location thereon, is hereby denied.

(2) All mineral interests, whatever they may be, from the surface to either the base of the Morrow formation or to a depth of 12,100 feet, whichever is deeper, underlying the SE/4, E/2 SW/4, and Lots 3 and 4 of Section 30, Township 21 South, Range 28 East, NMPM, Eddy County, New Mexico, are hereby pooled to form a non-standard 316.44-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within said vertical limits and the E/2 SW/4 and Lots 3 and 4 of said Section 30 to form a non-standard 156.44-acre gas spacing and proration unit for any and all formations and/or pools within said vertical limits developed on 160-acre spacing, both aforementioned non-standard gas proration units, also hereby approved, to be dedicated to a well to be drilled at a standard gas well location 1980 feet from the South and West lines (Unit K) of said Section 30.

PROVIDED HOWEVER, the operator of said units shall commence the drilling of said well on or before the 1st day of October, 1988, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Morrow formation.

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said well on or before the 1st day of October, 1988, Ordering Paragraph No. (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 Ordering Paragraph No. (2) of this order should not be rescinded.

(2) Bass Enterprises Production Company is hereby designated the operator of the subject well and units.

(3) 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 units 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 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 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.

(6) 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.

(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 the well, 150 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) $5500.00 per month while drilling and $550.00 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 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 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 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

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