

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION COMMISSION

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

CASE NO. 8900
Order No.

APPLICATION OF MALLON OIL COMPANY
FOR COMPULSORY POOLING, RIO ARRIBA
COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9:00 a.m. on May 20, 1986, at Santa Fe, New Mexico, before the Commission.

NOW, on this ____ day of June, 1986, the Commission, having considered the testimony, the record, and the briefs submitted by counsel for the parties appearing at the hearing, and being fully advised in the premises,

FINDS:

(1) That due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.

(2) That the applicant, Mallon Oil Company, seeks an order pooling all mineral interests from the top of the Mancos formation to the base of the Dakota formation underlying the W/2 of Section 12, Township 25 North, Range 2 West, N.M.P.M., Rio Arriba County, New Mexico.

(3) That the applicant, having the right to drill a well, drilled its Johnson Federal No. 12-5 Well at a standard location thereon to a depth adequate to penetrate the Dakota formation, and, subsequently, completed the well as an oil well in the Mancos formation.

(4) That as of the dates on which the well was drilled and completed, the Mancos formation underlying the lands which are the subject of this Order was not contained within the boundaries of any oil or gas pool established by the New Mexico Oil Conservation Division.

(5) That on January 3, 1986, the Commission issued its Order No. R-8063 in Case No. 8713, effective January 1, 1986, extending the horizontal boundaries of the Gavilan Mancos Oil Pool to include the lands which are the subject of this Order.

(6) That as a result of the extension of the horizontal boundaries of the Gavilan Mancos Oil Pool the spacing requirement applicable to the applicant's Johnson Federal No. 12-5 well was increased from 40 acres to 320 acres.

(7) That the applicant controlled all of the leasehold operating rights applicable to the Mancos and Dakota formations underlying the 40 acre tract established as the spacing unit for the subject well prior to the extension of the horizontal boundaries of the Gavilan Mancos Oil Pool.

(8) That the applicant controls all of the leasehold operating rights applicable to the Mancos and Dakota formations underlying 240 acres of the 320 acre tract established as the spacing unit for the subject well subsequent to the extension of the horizontal boundaries of the Gavilan Mancos Oil Pool -- which 320 acre tract constitutes the lands which are the subject of this Order.

(9) That Mesa Grande Resources, Inc. controls all of the leasehold operating rights applicable to the Mancos and Dakota formations underlying 80 acres of the 320 acre tract established as the spacing unit for the subject well subsequent to the extension of the horizontal boundaries of the Gavilan Mancos Oil Pool.

(10) That the applicant and Mesa Grande Resources, Inc. have been unable to agree as to terms, conditions and provisions for the pooling of their interests in the lands which are the subject of this Order from the top of the Mancos formation to the base of the Dakota formation to be dedicated to the applicant's Johnson Federal No. 12-5 well.

(11) That the applicant expended the sum of \$565,840.00 to drill and complete the well; that of the total costs incurred in drilling and completing the well, \$255,016.00 are attributable to intangible drilling costs; and that all of said costs were necessarily incurred and are reasonable in amount.

(12) That the applicant has expended the sum of \$24,700.00 in operating the subject well through March 31, 1986; that such costs were necessarily incurred and are reasonable in amount; and that the applicant has incurred operating expenses attributable to the subject well from April 1, 1986 through the date of this Order and can be expected to incur operating expenses attributable to the subject well subsequent to the date of this Order.

(13) That the applicant assumed and paid for 100% of the risk associated with the drilling and completion of the subject well.

(14) That, under the factual circumstances presented in this case, it is appropriate that the risk assumed solely by the applicant be quantified, and that the value of the risk assumed be considered an expense of drilling and completion and be included as an element of the actual costs incurred in the drilling and completion of the subject well.

(15) That, under the factual circumstances presented in this case, a value of the risk assumed solely by the applicant in the drilling and completion of the subject well equal to 100% of the actual intangible drilling costs incurred in the drilling of the well is reasonable in amount.

(16) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford the owner of each interest in the 320 acre spacing unit the opportunity to recover or receive without unnecessary expense its just and fair share of production from the pooled area, the subject application should be approved by pooling all mineral interests, whatever they may be, from the top of the Mancos formation to the base of the Dakota formation within said spacing unit.

(17) That the applicant should be designated the operator of the subject well and spacing unit.

(18) That Mesa Grande Resources, Inc. should be afforded the opportunity to elect to either pay to the operator its proportionate share of the total actual costs incurred in the drilling, completion and operation of the subject well, including the actual cost attributable to the expense represented by the risk assumed solely by the applicant in drilling and completing the subject well, or to pay its proportionate share of such costs out of production; that such election should be made by Mesa Grande Resources, Inc. within fifteen (15) days after the issuance of an Order in this case by the Commission; and that the operator should be entitled to withhold from production Mesa Grande Resources, Inc.'s proportionate share of such costs unless Mesa Grande Resources, Inc. tenders payment of its proportionate share of such costs to operator within thirty (30) days after the issuance of an Order in this case by the Commission.

(19) That \$4,000.00 per month while drilling and \$400.00 per month while producing should be fixed as reasonable charges for supervision of the subject well (combined fixed rates); that in the event Mesa Grande Resources, Inc. elects to pay its proportionate share of the actual costs incurred in the drilling, completion, and operation of the subject well out of production, then the operator should be authorized to

withhold from production the proportionate share of such supervision charges attributable to the interest of Mesa Grande Resources, Inc., 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 the interest of Mesa Grande Resources, Inc.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, from the top of the Mancos formation to the base of the Dakota formation underlying the W/2 of Section 12, Township 25 North, Range 2 West, N.M.P.M., Rio Arriba County, New Mexico, are hereby pooled to form a standard 320 acre oil spacing and proration unit to be dedicated to the Mallon Oil Company Johnson Federal No. 12-5 Well which has been drilled and completed at a standard location thereon.

(2) That Mallon Oil Company is hereby designated the operator of the subject well and unit.

(3) That within 15 days after the issuance of an Order in this case by the Commission, Mesa Grande Resources, Inc. shall elect to either pay to the operator its proportionate share of the total actual costs incurred in the drilling, completion and operation of the subject well, including the actual cost attributable to the expense represented by the risk assumed solely by the applicant in drilling and completing the subject well, or to pay its proportionate share of such costs out of production.

(4) That in the event Mesa Grande Resources, Inc. fails to tender payment of its proportionate share of such costs to operator within 30 days after the issuance of an Order in this case by the Commission, then such failure shall be deemed an election by Mesa Grande Resources, Inc. to pay its proportionate share of such costs out of production, and, in that event, the operator is hereby authorized to withhold such costs from production.

(5) That \$4,000.00 per month while drilling and \$400.00 per month while producing are hereby fixed as reasonable charges for supervision of the subject well (combined fixed rates); that in the event Mesa Grande Resources, Inc. fails to tender payment of its proportionate share of the actual costs incurred in the drilling, completion and operation of the subject well to operator within 30 days after the issuance of an Order in this case by the Commission, then the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to the interest of Mesa Grande Resources, Inc., and in addition thereto, the operator is hereby 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 the interest of Mesa Grande Resources, Inc.

(6) That the operator is hereby authorized to distribute said costs and charges withheld from production to the parties who advanced said costs and charges.

(7) That any well costs or charges which are to be paid out of production shall be withheld only from the working interest share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(8) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

DONE at Santa Fe, New Mexico, on the date and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

R. L. STAMETS,
Chairman and Secretary

ED KELLEY, Member

JIM BACA, Member

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