

COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF ENVIRONMENTAL RESOURCES
OIL AND GAS DIVISION

IN THE MATTER OF THE APPLICATION OF
FELMONT OIL CORPORATION FOR AN
INTEGRATION ORDER COVERING UNIT NO. 15,
APPROVED BY SPACING ORDER NO. 10,
PINE TOWNSHIP, INDIANA COUNTY,
PENNSYLVANIA

INTEGRATION ORDER
DOCKET NO. 10-2

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HISTORY OF THE CASE

1. May 27, 1976, an application was filed in the office of the Oil and Gas Division, Department of Environmental Resources, by Felmont Oil Corporation, Olean, New York, for an Integration Order covering Unit No. 15, containing 321.4 acres, being one of the units approved by Spacing Order No. 10, entered March 20, 1970, covering the Pineton Oriskany Gas Pool, Indiana and Cambria Counties, Pennsylvania. The said application for an Integration Order includes:

- (a) an application for a drilling permit, together with well location plat, for a well to be drilled on the Theodore Smith Farm, approximately in the center of the said Unit No. 15, in Pine Township, Indiana County, Pennsylvania;
- (b) a certified copy of an operating agreement dated November 5, 1969, and a modification thereof dated April 23, 1970, by and between Felmont Oil Corporation, therein designated as Operator, and Consolidated Gas Supply Corporation, T. W. Phillips Gas and Oil Company, Sylvania Corporation, and Delta Drilling Company, the percentage interest of each having been enumerated in said agreement;
- (c) an Authority for Expenditure indicating itemized costs in connection with said well, totaling \$232,136.00 for a producing well, and \$176,569.00 for a dry hole;

- (d) a statement of Distribution of Cost among the various operators in the proposed well, with the percentage interest of each;
- (e) applicant's letter of May 21, 1976, in which the non-participating interest is stated to be that of Dale Bennett and Hulda Bennett, with 3.303 acres in the said unit, which acreage is not leased;
- (f) a map of Unit No. 15, said unit having been approved by Spacing Order No. 10, showing the location of the tracts of land, or portions thereof, in Unit No. 15 belonging to those who have agreed to participate in the proposed well, and the portions of tracts within the unit belonging to those who have not agreed to participate therein;
- (g) a list of the royalty owners, their acreage, and percentage interest in Unit No. 15;
- (h) stipulations of each of the royalty owners whose lands within Unit No. 15 are under lease to one or another of the operators listed in paragraph (b) hereof that they are in agreement as to their acreage and percentage interest in Unit No. 15;
- (i) Agreements by the operators listed in paragraph (b) hereof to advance their shares, in the proportions set forth in the operating agreement, of the costs of the well to be drilled on Unit No. 15 attributable to the shares of the non-participating operators, on the condition that, if such well results in production, they shall be entitled to recover twice the amount of such costs out of the shares of such non-participating operators of the production.

2. June 1, 1976, the Division met for the purpose of considering the application for an Integration Order and reached a decision.

QUESTIONS AT ISSUE

- 1. Is an Integration Order necessary under all the circumstances?
- 2. If an Integration Order is necessary, what should be its terms and conditions?

FINDINGS OF FACT

- 1. The Division finds that this is an application of Felmont Oil Corporation for an order integrating and adjudicating the rights and equities of the owners of oil and gas interests in Unit No. 15, approved by Spacing Order No. 10, and amended by Modification Docket No. 10-A, said unit comprising 321.4 acres, Pine Township, Indiana County, Pennsylvania, that notice has been given in all respects as required by law to the owners of 321.4 acres

within said unit, and that the Division has jurisdiction over the subject matter herein as it pertains to said 321.4 acres. The Division recognizes that only the Huntersville Chert-Oriskany Sandstone Horizons were spaced and formed into units in Spacing Order No. 10, so that the subject matter herein be so limited.

2. The Application, Notice, Testimony, Findings of Fact, Conclusions of Law, Order, and all papers filed in connection with Spacing Order No. 10, and amended by S. O. Modification Order Docket No. 10-A.
3. The plat of Unit 15 submitted with the application, should be incorporated into and made a part of this Order.
4. Unit 15 map and the location plat filed with the application indicate that location of the proposed well to be at approximately the center of Unit No. 15, in Pine Township, Indiana County, 630 feet west of longitude $78^{\circ} 52'30''$ and 9,520 feet south of latitude $40^{\circ} 40'00''$, describe a suitable location for the Theodore Smith No. 1 Well, that the location is in compliance with Spacing Order No. 10, and that the said Notice and Plat should be approved so that a drilling permit may be issued.
5. The operating agreement dated November 5, 1969, and the modification thereof dated April 23, 1970, by and between Felmont Oil Corporation, therein designated as operator, and Consolidated Gas Supply Corporation, T. W. Phillips Gas and Oil Company, Sylvania Corporation, and Delta Drilling Company is a reasonable agreement among the owners of approximately eighty-one percent (81%) of the working interest in Unit No. 15, is based on the proportion of the acreage each of the operators has contributed in the area which was considered to be the area of possible production from the Pineton Oriskany Gas Pool, and said operating agreement should be approved. That the said operating agreement and modification thereof has resulted in the drilling of five wells apparently capable of gas production, and desire to proceed with the sixth well, drilling permit for which is applied for in accordance with this proceeding, is indication that the parties to the said operating

agreement as modified are satisfied as to the division of interest agreed upon in advance of any drilling, and that the same proportionate interest of each in future development of the pool is fair and reasonable in view of past risks, considerations, and developments. Accordingly, the Division finds no reason to change that relationship which has resulted in the discovery, and the successful and orderly development of the pool by the said parties.

6. The Authority for Expenditure filed with the application in which itemized costs are listed in connection with the drilling and completion of the proposed well, totaling \$232,136.00 for a producing well, and \$176,569.00 for a dry hole are fair and reasonable costs, and should be approved.
7. The statement of Distribution of Cost filed with the application, is as follows:

<u>Participants</u>	<u>Percent Interest</u>	<u>Producing Well</u>	<u>Dry Hole</u>
Felmont Oil Corporation	23.721	55,064.28	41,883.40
Consolidated Gas Supply Corporation	33.520	77,812.45	59,186.28
T. W. Phillips Gas and Oil Company	18.320	42,527.32	32,347.44
National Fuel Gas Supply Corporation	4.659	10,816.14	8,227.06
Delta Drilling Company	1.238	2,874.31	2,186.28
A. F. Carino	17.514	40,655.84	30,923.94
Bennett	<u>1.028</u>	<u>2,385.66</u>	<u>1,814.60</u>
	100.000	\$232,136.00	\$176,569.00

8. The list of royalty owners submitted, is as follows:

<u>Item</u>	<u>Property Name</u>	<u>Acreage in Unit</u>	<u>Percentage in Unit</u>
1.	Martin M. Cavanaugh	14.000	4.356
2.	Dale Bennett and Hulda Bennett	3.303	1.028
3.	Anthony Carino	6.042	1.880
4.	C.B.C.	76.520	23.808
5.	Cambria & Indiana Railroad	8.570	2.666
6.	Larry M. Chilenski (formerly Trout)	41.295	12.848
7.	Donald Smith	2.400	0.747
8.	Theodore Smith	126.230	39.275
9.	Vincka Polenik	0.460	0.143
10.	James Carino	29.600	9.210
11.	Paul Polenik	1.600	0.498
12.	Andrew Polenik	11.200	3.485
13.	Allegheny Conference of Wesleyan Connection	<u>0.180</u>	<u>0.056</u>
		321.400	100.000%

9. The application included copies of agreements to participate in the drilling of a well in Unit No. 15 by:

Felmont Oil Corporation,
Consolidated Gas Supply Corporation,
T. W. Phillips Gas and Oil Company,
Sylvania Corporation, and
Delta Drilling Company,

each having indicated that it is willing to advance the shares of all non-participating operators of the cost of said well, and if the well results in production, to recover twice the amount of such costs out of the shares of non-participating operators of the production, the shares of the costs of such non-participating operators to be apportioned among the participating operators in the proportions and in the manner set forth in the operating agreement and modification thereof described in paragraph 5 of these findings, the total being in proportion that their total acreage in the unit bears to the 321.4 acres in the unit. The order that may issue as a result of these findings should recognize the willingness hereinabove described.

10. It is recognized that A. F. Carino has filed notice dated April 16, 1976, that he intends to participate in the costs of drilling, completing and operating the proposed well to be drilled on Unit No. 15 in the proportion that 17.514% bears to the total of 100%, or increased to 17.696% in the event that Dale Bennett and Hulda Bennett elect not to participate, and to share in the production accordingly. Any order that may issue as a result of these findings should confirm his right to so participate, should provide that he advance his share of the costs of drilling, completing, and operating attributable to any non-participating operator, that he be entitled to the recovery of twice such costs out of such share, and should determine the time and manner in which he should do so.
11. The Division finds, further, that Dale Bennett and Hulda Bennett, owners of 3.303 acres within Unit No. 15, were properly and legally notified June 9, 1976, that the said drilling permit was applied for, that they were advised properly of the matter thereof, and of the various alternatives available to them in this proceeding. Accordingly, the Division finds that any order that may issue as a result of these findings should provide for advancement of the costs of drilling, completing, and operating the said proposed well attributable to the share of Dale Bennett in the said unit, for the recovery of twice such costs out of such share of production, if any, as provided for in Section 8 (c) of the Oil and Gas Conservation Law of 1961; provided, however, that Dale Bennett and Hulda Bennett be notified that they shall have the right, within ten days of the date of such notice, to elect to participate in their share of the costs of drilling, completing, and operating the said proposed well, by notifying the operator and this Division of their election to participate in said costs, and by paying such costs, accordingly, and that by so participating, they shall have the right to their share of production, if any is developed, from said well.
12. The Division finds that any order granting the request of applicant for this integration would be subject to Section 8 (b) of the said Conservation Law, and any order that may issue should include its provisions as adapted to the subject matter herein.

13. The Division finds that jurisdiction in these proceedings should be retained for all relevant purposes.
14. The Division finds that in the interest of encouraging development in the area, preventing waste, protecting correlative rights, and providing for the orderly development of the pool, this application should be granted.

CONCLUSIONS OF LAW

1. An integration order is necessary under all the circumstances.
2. For the protection of the correlative rights of the parties involved, an orderly plan should be provided for the drilling of the subject well and is described in the order which follows.

ORDER

IT IS THEREFORE ORDERED BY THE DEPARTMENT OF ENVIRONMENTAL RESOURCES, BUREAU OF LAND PROTECTION, DIVISION OF OIL AND GAS, OF THE COMMONWEALTH OF PENNSYLVANIA AS FOLLOWS:

1. The Unit Map and the Location Plat submitted with the application are incorporated into and made a part of this Integration Order, and will be kept on file in the official records of the Division, 1205 Kossman Building, Pittsburgh, Pennsylvania.
2. The provisions of this Order are limited to operations for, and production from, the Huntersville Chert-Oriskany Sandstone Horizons.
3. The Division authorizes the drilling of a well, to be known as the Theodore Smith No. 1 Well, to and into the Huntersville Chert-Oriskany Sandstone Horizons at a location, approximately at the center of Unit No. 15, approved by Spacing Order No. 10, entered March 20, 1970, at the Oil & Gas Conservation Commission, in Pine Township, Indiana County, Pennsylvania, 630 feet west of longitude 78° 52'-30" and 9,520 feet south of latitude 40° 40' and approves the Notice of Proposed Location and Plat filed describing this location.

4. Felmont Oil Corporation is authorized to be operator of Unit No. 15, Spacing Order No. 10-2.
5. The operating agreement dated November 5, 1969, and the modification thereof dated April 23, 1970, by and between Felmont Oil Corporation, therein designated as operator, and Consolidated Gas Supply Corporation, T. W. Phillips Gas and Oil Company, Sylvania Corporation, and Delta Drilling Company is hereby approved.
6. A. F. Carino has given notice of his election to participate in the said well to be drilled on Unit No. 15. His right to so participate is hereby confirmed, and by paying the proportionate share designated as 17.511% or as a participant's share with Bennetts' non-participating interest of 17.696% and at the same time as the participating operators listed in paragraph 5 hereof, he shall be entitled to his proportionate share of production, if any is developed, from the said well. A copy of the operating agreement between A. F. Carino and the operator of Unit No. 15 shall be filed with the Division, and is to be kept in the records of the Division.
7. Dale Bennett and Hulda Bennett, owners of 3.303 acres within Unit No. 15, are the only operators in the unit who have not elected to participate in the costs of drilling, completing, and operating the said well. They should be notified, and by providing them with a copy of this order is notified, that they shall have the right to participate, by notifying this Division and the operator of the said well within ten (10) days from the receipt of this order that they elect to participate, and by paying their proportionate share that their acreage of 3.303 acres bears to the 321.4 acres in the unit to the operator within said time, they shall be entitled to their proportionate share of production, if any is developed, from the said well. In the event that Dale Bennett and Hulda Bennett do so elect, a copy of the operating agreement shall be filed with the Division, and is to be kept in the records of the Division.

8. In the event that the costs for the said share of Dale Bennett and Hulda Bennett are not paid within the ten days provided by this order, it shall be considered that they have elected not to participate in the said costs of said well, and the operators who have elected to participate in said costs shall pay said costs for the share of Dale Bennett and Hulda Bennett described hereinabove, the operators listed in paragraph 5 hereof in accordance with the percentage interest agreed upon in the said operating agreement, and A. F. Carino in the proportion that his percentage bears of the total percentage in the unit, and the said participating operators shall be entitled to the share of production, if any, from Unit No. 15 accruing to the said interest of Dale Bennett and Hulda Bennett, exclusive of one-eighth of the production, until the market value of such share of the production equals double the share of such costs payable by or charged to the said interest of Dale Bennett and Hulda Bennett. In calculating such costs, a reasonable charge for supervision may be included, together with costs of operation, and for interest at the rate of six percent (6%) from the time such costs were expended until such time as double such costs are recovered.
9. For the purpose of this order, the approximate cost of \$232,136.00 for a productive well, and \$176,569.00 for a dry hole, is fixed as the cost of drilling and completing the said well.
10. The statement of Distribution of Cost filed with the application and as corrected and included in the findings of fact to this order is hereby approved.
11. The statements of owners included in the findings of fact hereto is approved. However, the Division assumes no responsibility as to title in the various ownerships, and if title corrections are required, the operator shall inform the Commission accordingly.

12. All operations, including, but not limited to, the commencement, drilling, or operation of the well in Unit No. 15 for which this integration order has been entered, shall be deemed for all purposes the conduct of such operations, upon each separately owned tract in the unit by the several owners thereof. That portion of the production allocated to a separately owned tract included in the unit shall, when produced, be deemed, for all purposes, to have been actually produced from such tract by a well drilled thereon.
13. The Division hereby retains jurisdiction in these proceedings for all relevant purposes.

By the Division of Oil and Gas

Bruce E. Ziegler

Bruce E. Ziegler, Chief

Dated: *JUNE 9, 1976*

Jack M. Lietz

NOTARY PUBLIC

My Commission Expires June 4, 1978
Harrisburg, Pa. Dauphin County