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OIL CONSERVATION DIV.

99 AUG 20 AM 8:19

August 19, 1998

Hand Delivered

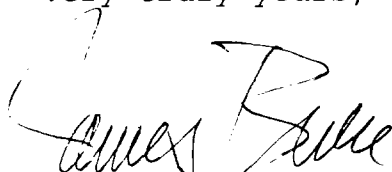
Michael E. Stogner
Oil Conservation Division
2040 South Pacheco Street
Santa Fe, New Mexico 87505

Re: Case 11993; Application of John H. Hendrix Corporation
for compulsory pooling and an unorthodox oil well
location, Lea County, New Mexico

Dear Mr. Stogner:

Enclosed is an order in this matter, proposed by my clients,
requesting a reduced penalty. The only changes from a standard
pooling order are in bold in the proposed order.

Very truly yours,


James Bruce

Attorney for Ruth Anne Yeager
Hansen and Henry Yeager, Jr.

cc: William F. Carr

STATE OF NEW MEXICO
ENERGY, MINERALS, AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

OIL CONSERVATION DIV.
58 AUG 20 AM 8:19

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

APPLICATION OF JOHN H. HENDRIX
CORPORATION FOR COMPULSORY
POOLING AND AN ORTHODOX
WELL LOCATION, LEA COUNTY,
NEW MEXICO.

Case No. 11993
Order No. R-_____

ORDER OF THE DIVISION

(Proposed by Ruth Anne Hansen and Henry Yeager, Jr.)

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on July 9, 1998 and August 6, 1998, at Santa Fe, New Mexico before Examiner Michael E. Stogner.

NOW, on this _____ day of _____, 1998, 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, John H. Hendrix Corporation, seeks an order pooling all mineral interests from 7000 feet subsurface (the approximate top of the Abo formation) to the base of the Strawn formation underlying the E $\frac{1}{2}$ NW $\frac{1}{4}$ of Section 16, Township 20 South, Range 37 East, N.M.P.M., to form a standard 80-acre oil spacing and proration unit for any and all formations and/or pools developed on 80-acre spacing within said vertical extent, which presently includes but is not necessarily limited to the Undesignated Cass-Pennsylvanian Pool, and the NE $\frac{1}{4}$ NW $\frac{1}{4}$ of Section 16 to form a standard 40-acre oil spacing and proration unit for any and all formations and/or pools developed on 40-acre spacing within said vertical extent, including but not necessarily limited to the Southeast Monument-Abo Pool. Said units are to be dedicated to the Wood State Well No. 4, to be located 660 feet from the North line and 2310 feet from the West line (Unit C) of Section 16, or in the alternative to the existing Conoco State CC-16 Well No. 1, located 330 feet from the North line and 2080 feet from the West line (Unit

C) of Section 16.

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

(4) At the hearings on this matter, Ruth Anne Yeager Hansen and Henry Yeager, Jr. entered their appearances and requested that the penalty on non-consenting interest owners be reduced. This request is based on the following:

(a) The applicant proposes to re-enter an existing well to lessen the risk involved in drilling the well. The lower risk results from avoiding lost circulation problems which occur in this area. In addition, using the existing wellbore will reduce the well's cost. (Testimony of Damian Barrett.)

(b) Because the well has already been drilled, the remaining risk should apply only to re-entry and completion operations conducted on the well. Therefore, the risk penalty should be reduced accordingly. (See Order No. R-10975.)

(c) In addition, the following offset wells have recently been drilled and completed in the Abo formation:

<u>Operator</u>	<u>Well Location</u>	<u>Initial Rate BBL oil/MCF gas</u>
Marathon	Unit A \$16	0/487
Marathon	Unit B \$16	182/1782
Marathon	Unit G \$16	68/1854
Marathon	Unit H \$16	145/290
Amerada Hess	Unit J \$16	93/214

Due to immediately offsetting production, the non-consent penalty should be reduced regardless of whether the applicant drills a new well or re-enters the existing well.

(5) Approval of the proposed unorthodox oil well location will afford the parties the opportunity to produce their just and equitable share of the oil in the affected pool, will prevent the drilling of unnecessary wells, and will otherwise prevent waste and protect correlative rights.

(6) 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 completion resulting from this order, the subject application should be approved by pooling all mineral interests, whatever they may be, within said units.

(7) The applicant should be designated the operator of the subject well and unit.

(8) 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.

(9) 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 50 percent thereof as a reasonable charge for the risk involved in drilling or recompleting the well.

(10) Any non-consenting working 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.

(11) 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.

(12) \$3,500.00 per month while drilling and \$350.00 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.

(13) 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.

(14) Upon the failure of the operator of said pooled unit to commence drilling or recompletion operations on the subject well on

or before _____ 1, 1998, this order pooling the subject unit should become null and void and of no effect whatsoever.

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

(16) 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) All mineral interests, whatever they may be, from 7000 feet subsurface to the base of the Strawn formation underlying the E $\frac{1}{2}$ NW $\frac{1}{4}$ of Section 16, Township 20 South, Range 37 East, N.M.P.M., are hereby pooled to form (a) an 80-acre oil spacing and proration unit for any and all formations and/or pools developed on 80-acre spacing within said vertical extent, which presently includes but is not necessarily limited to the Undesignated Cass-Pennsylvanian Pool, and (b) a 40-acre oil spacing and proration unit comprising the NE $\frac{1}{4}$ NW $\frac{1}{4}$ of Section 16 for any and all formations and/or pools developed on 40-acre spacing within said vertical extent, including but not necessarily limited to the Southeast Monument-Abo Pool. Said units shall be dedicated either to the Wood State Well No. 4, located at a standard oil well location 660 feet from the North line and 2310 feet from the West line (Unit C) of Section 16, or to the existing Conoco State CC-16 Well, located at an unorthodox oil well location 330 feet from the North line and 2080 feet from the West line (Unit C) of Section 16.

PROVIDED HOWEVER THAT, the operator of said unit shall commence drilling or recompletion operations on the subject well on or before the 1st day of _____ 1998, 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 drilling or recompletion operations on the well on or before the 1st day of _____, 1998, 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 Director 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.

(2) John H. Hendrix Corporation is hereby designated the operator of the subject well and unit.

(3) After the effective date of this order and within 90 days prior to commencing operations, 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 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 or recompletion of the well, 50 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) \$3,500.00 per month while drilling and \$350.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rate). 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 Lea County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; and 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 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 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 is hereby retained for the entry of such further orders as the Division may deem necessary.

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

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

[Seal]

LORI WROTENBERY
Director

CAMPBELL, CARR, BERGE
& SHERIDAN, P.A.
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August 19, 1998

HAND-DELIVERED

Mr. Michael E. Stogner, Hearing Examiner
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
2040 South Pacheco Street
Santa Fe, New Mexico 87505

OIL CONSERVATION DIV.
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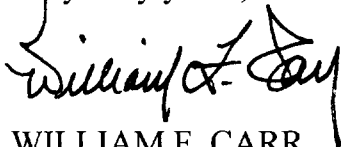
Re: *Oil Conservation Division Case No. 11993:*
Application of John H. Hendrix Corporation for Compulsory Pooling, Lea
County, New Mexico

Dear Mr. Stogner:

Pursuant to your request, enclosed for your consideration is John H. Hendrix Corporation's proposed Order with reference to the July 9, 1998 Examiner hearing in the above-referenced case. For your easy reference, I have also provided it on disk.

If you need anything further from John H. Hendrix Corporation to proceed with your consideration of this matter, please advise.

Very truly yours,



WILLIAM F. CARR

WFC:mlh

Enclosure

cc: Mr. Damian Barrett

**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:**

**APPLICATION OF JOHN H. HENDRIX
CORPORATION FOR COMPULSORY
POOLING, LEA COUNTY, NEW MEXICO.**

**CASE NO. 11993
ORDER NO. R-_____**

OIL CONSERVATION DIV.
98 AUG 19 PM 3:53

**JOHN H. HENDRIX CORPORATION'S
PROPOSED ORDER OF THE DIVISION**

BY THE DIVISION:

This cause came on for hearing at 8:15 a. m. on July 9, 1998 at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this ____ day of August, 1998, 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, John H. Hendrix Corporation ("Hendrix") seeks an order pooling all mineral interests in all formations from the top of the Abo formation, at an approximate depth of 7000 feet, to the base of the Strawn formation in all formations developed on 80-acre spacing, including the Cass-Pennsylvanian Pool, in the E/2 NW/4 and in all formations developed on 40-acre spacing, including the Southeast Monument-Abo Pool in the NE/4 NW/4, of Section 16, Township 20 South, Range 37 East, NMPM, Lea County, New Mexico. The unit is to be dedicated to either the Wood State Well No. 4 to be drilled

at a location 660 feet from the North line and 2310 feet from the West line (Unit C) of Section 16, or in the alternative, to the Conoco State CC-16 Well No. 1 located at a location 330 feet from the North line and 2080 feet from the West line of Section 16.

(3) Hendrix originally proposed to dedicate the subject pooled units to the Wood State Well No. 4, however, on July 2, 1998 Hendrix was able to reach an agreement with Conoco Inc. for the acquisition of its State CC-16 Well No. 1 which can be re-entered and deepened to test the subject formations.

(4) The Cass-Pennsylvanian Pool is developed pursuant to Special Pool Rules and Regulations (Order No. R-2825, dated December 7, 1964) which provides for 80-acre spacing with wells to be located within 150 feet of the center of a quarter-quarter section. Accordingly, while each of the proposed wells are at standard locations in the Abo formation, they are at unorthodox locations in the Pennsylvanian formation.

(5) The Conoco State CC-16 Well No. 1 was drilled in 1996 to test the Tubb formation. This well is capable of only marginal production and is to be abandoned in the Tubb formation.

(6) Use of this relatively new wellbore will result in savings of approximately \$94,000 in drilling costs which will benefit all owners in these pooled units.

(7) Operators in this area have experienced lost circulation in the Grayburg-San Andres formation resulting in substantial drilling cost overruns. Use of the Conoco State CC-16 Well No. 1 will avoid the potential for lost circulation in the Grayburg-San Andres formation and which could substantially increase the costs of developing these pooled units.

(8) Hendrix requested that it be able to recover the costs of drilling the Wood State Well No. 4, or, if Hendrix re-enters the Conoco State CC-16 Well No. 1, the following costs:

- (a) The costs of \$320,000 for acquisition of the Conoco State CC-16 Well No. 1;
- (b) The cost of the Conoco facilities at this well of \$51,834.00;
- (c) Recompletion costs based on its AFE of \$133,730; and
- (d) A 200 percent risk penalty to be charged to any working interest owner who

does not pay its share of costs in advance to be applied against the costs of drilling the Wood State Well No. 4 or the \$320,000.00 cost of acquisition of the Conoco State CC-66 Well No. 1 and all recompletion costs incurred by Hendrix.

(9) At the time of the hearing Mr. and Mrs. Roger Hansen and Dr. Henry Yeager, Jr., owners of 50% of the working interest in the subject spacing and proration units, appeared through legal counsel and requested that a risk penalty of less than 200% be imposed on their interest in the event they remain non-consent in either of the proposed wells. The basis for their request is that if the well is reentry, the mechanical risk of making a commercial well is reduced, and that there are successful wells in the subject formations in offsetting tracts.

(10) If Hansen and Yeager do not participate in the development of these spacing units, Hendrix will have to carry 50% of the working interest in the proposed well.

(11) If the risk penalty does not apply to the entire cost of acquiring the Conoco State CC-16 Well No. 1 wellbore, Hendrix, representing only 50% of the working interest, cannot economically justify the use of this wellbore and will have to drill the Wood State Well No. 4.

(12) Hendrix witness testified that the risk of making a commercial well will remain high even using the wellbore of the Conoco State CC-16 Well No. 1 and that the benefit for all owners in these units or re-entering the Conoco State CC-16 Well No. 1 is the ability to better control the costs associated with the development of these spacing unit.

(13) Use of the existing wellbore of the Conoco State CC-16 Well No. 1, instead of drilling the Wood State Well No. 4, will result in lower costs for all interest owners in the well and also will benefit all owners by assuring that additional cost over runs do not occur as a result of lost circulation in the Grayburg-San Andres formation.

(14) Hendrix should be entitled to recover the value of the Conoco State CC-16 Well No. 1 which, in the absence of any other testimony, is determined to be \$320,000, and the reasonable costs of the recompletion of the Conoco State CC-16 Well No. 1. The risk penalty established by this order for those interests which are not voluntarily committed to

the well shall apply to these costs.

FINDING: Hendrix is entitled to recover costs as follows:

- (a) \$320,000 for the cost of the acquisition of the wellbore of the Conoco State CC-16 Well No. 1;
- (b) \$51,834.00 for facilities at the site of the Conoco State CC-16 Well No. 1;
- (c) the reasonable costs of recompletion; and
- (d) a risk charge as hereinafter established for the risk assumed in the acquisition and the recompletion of the Conoco State CC-16 Well No. 1.

(15) Hendrix evidence established that most of the commercial wells in the subject area are completed in more than one pay zone which includes the Eumont, Grayburg, San Andres, Paddock, Blinbry, Tubb, Drinkard, Abo and Strawn formations. Since the Hendrix lease only covers the Strawn and Abo formations the risk of a commercial well is increased for Hendrix.

(16) The evidence further established that the subject wells in the Strawn formation are located on the west flank on a structural nose that produces to the northwest and the southeast. There are dry holes to the west of the subject acreage and non-commercial wells to the east.

(17) Hendrix presented evidence on the Abo formation which shows that the Abo sands are thin and erratic in the area of interest.

FINDING: There is substantial risk associated with either the drilling of the Wood State Well No. 4 or the reentry of the Conoco State CC-16 Well No. 1 and a 200% risk penalty should apply to those owners who do not voluntarily participate in the development of the subject spacing or proration units.

(18) John H. Hendrix Corporation owns an interest in each of the proposed spacing units in said Section 16 and has the right to drill for and develop the minerals underlying the

proposed spacing units.

(19) To avoid the drilling of unnecessary wells, to protect correlative rights, to prevent waste and to afford to the owner of each interest in the units the opportunity to recover or receive without unnecessary expense a just and fair share of hydrocarbon production in any pool resulting from this order, this application should be approved by pooling all mineral interests, whatever they may be, within the units and approving an unorthodox well location for each well in the Pennsylvanian formation.

FINDING: All mineral interests in all formations from the top of the Abo formation, at the approximate depth of 7000 feet, to the base of the Strawn formation should be pooled in the following manner:

- (a) The E/2 NW/4 to form a standard 80-acre lay-down gas spacing and proration unit for all formations and or pools developed on 80-acre spacing; and
- (b) The NE/4 NW/4 to form a standard 40-acre oil spacing and proration unit for formations and/or pools developed on 40-acre spacing.

(20) John H. Hendrix Corporation should be designated operator of the well and units.

(21) Any non-consenting working interest owner should be afforded the opportunity to pay its share of estimated well costs to the operator in lieu of paying its share of reasonable well costs out of production.

(22) Any non-consenting working interest owner who does not pay its share of estimated well costs should have withheld from production its share of reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(23) 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.

(24) Following determination of reasonable well costs, any non-consenting working interest owner who has paid its 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.

(25) Reasonable charges for supervision (combined fixed rates) should be fixed at \$3,500.00 per month while drilling and \$350.00 per month while producing. The operator should be authorized to withhold from production the proportionate share of both the supervision charges and the actual expenditures required for operating the well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(26) All proceeds from production from the well that are not disbursed for any reason should be placed in escrow to be paid to the owner thereof upon demand and proof of ownership.

(27) If the operator of the pooled units fails to commence drilling the well on or before December 1, 1998, or if all the parties to this forced pooling reach voluntary agreement subsequent to this order, this order should become null and void, unless extended by the Director for good cause shown.

(28) The operator of the well and units should notify the Director in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of his order.

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be, in all formations from the top of the Abo formation, at an approximate depth of 7000 feet, to the base of the Strawn formation underlying the following described acreage in Section 16, Township 20 South, Range 37 East, NMPM, Lea County, New Mexico, are hereby pooled in the following manner:

- (a) the E/2 NW/4 to form a standard 80-acre lay-down gas spacing and proration unit for formations and/or pools developed on 80-acre spacing, which presently includes but is not necessarily limited to the Cass-Pennsylvanian Pool; and

- (b) the NE/4 NW/4 to form a standard 40-acre oil spacing and proration unit for formations and/or pools developed on 40-acre spacing which presently includes but is not limited to the Southeast Monument-Abo Pool.

These units are to be dedicated to either the Wood State Well No. 4 to be drilled at a location 660 feet from the North line and 2310 feet from the West line (Unit C) of Section 16, or in the alternative, to the Conoco State CC-16 Well No. 1 located at a location 330 feet from the North line and 2080 from the West line (Unit C) of said Section 16.

PROVIDED HOWEVER THAT, the operator of said units shall commence the drilling of said well on or before the first day of December, 1998, and shall thereafter continue the drilling of said well with diligence to a depth sufficient to test the Strawn formation.

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said well on or before the first day of December 1998, Ordering Paragraph No. (1) of this order shall be of no further effect, unless said operator obtains a time extension from the Division Director 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.

(2) Unorthodox well locations in the Pennsylvanian formation for the Wood State Well No. 4 proposed at a location 660 feet from the North line and 2310 feet from the West line and the Conoco State CC-16 Well No. 1 located 330 feet from the North line and 2080 feet from the West line of Section 16, Township 20 South, Range 37 East, NMPM, Lea County, New Mexico are hereby approved.

(3) John H. Hendrix Corporation is hereby designated operator of the subject well and units.

(4) 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 unit an itemized schedule of estimated well costs.

(5) Within 30 days from the date of receipt of the schedule of estimated well costs, any non-consenting working interest owner shall have the right to pay its share of estimated wells costs to the operator in lieu of paying its share of reasonable well costs out of production, and any such owner who pays its share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(6) 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 the schedule, the actual well costs shall be the reasonable well costs; provided, however, that if there is an objection to actual well costs within the 45-day period, the Division will determine reasonable well costs after public notice and hearing.

(7) Within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid its share of estimated costs in advance as provided above shall pay to the operator its share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator its share of the amount that estimated well costs exceed reasonable well costs.

(8) The operator is hereby authorized to withhold the following costs and charges from production:

(a) If the Wood State Well No. 4 is drilled:

- (1) the proportionate share of reasonable well costs attributable to each non-consenting working interest owner who has not paid its share of estimated well costs within 30 days after receiving the schedule of estimated well costs; and
- (2) as a charge for the risk involved in drilling the well, an additional 200 percent of such costs.

(b) If the wellbore of the Conoco State CC-16 Well No. 1 is used:

- (1) The proportionate share of the \$320,000.00 cost of acquisition of the wellbore and the \$51,834.00 cost of facilities at the well site and the reasonable cost of recompletion of the well attributable to each non-consenting working interest owner who has not given its share of costs within 30 days after receiving the schedule of estimated well costs; and
- (2) And a charge for the risk of acquisition of the wellbore and reasonable costs of recompleting an additional 200 percent of such costs.

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

(10) Reasonable charges for supervision (combined fixed rate) are hereby fixed at \$3,500.00 per month while drilling and \$350.00 per month while producing. The operator is hereby authorized to withhold from production the proportionate share of both the supervision charges and the actual expenditures required for operating the well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(11) 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 this order.

(12) Any well costs or charges that 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.

(13) All proceeds from production from the well that are not disbursed for any reason shall be placed in escrow in Lea County, New Mexico, to be paid to the owner thereof upon demand and proof of ownership. The operator shall notify the Division of the name and address of the escrow agent within 30 days from the date of first deposit with the escrow agent.

(14) Should all the parties to this forced pooling reach voluntary agreement

Case No. 11993

Order No. R-_____

Page 10

subsequent to entry of this order, this order shall thereafter be of no further effect.

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

(16) Jurisdiction of this case 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

LORI WROTENBERY
Director

S E A L