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W. THOMAS KELLAHIN\*

\*NEW MEXICO BOARD OF LEGAL SPECIALIZATION  
RECOGNIZED SPECIALIST IN THE AREA OF  
NATURAL RESOURCES-OIL AND GAS LAW

JASON KELLAHIN (RETIRED 1991)

March 28, 2000

Bureau of Land Management  
2909 West Second Street  
Roswell, New Mexico 88201  
Attn: Mr. Amando Lopez

**Via Federal Express**

Commissioner of Public Lands  
P. O. Box 1148  
Santa Fe, New Mexico 87504  
Attn: Mr. Pete Martinez

**Via Hand Delivery**

Re: SEMU Well No. 135  
Application of Conoco, Inc. for  
preliminary approval for the expansion of the SEMU Unit  
to include the SW/4SE/4 of Section 25, T20S, R37E, NMPM  
North Hardy-Tubb-Drinkard Pool, Lea County, New Mexico

Gentlemen:

On behalf of Conoco Inc., please find enclosed our request for preliminary approval for the expansion of the Southeast Monument Unit Area ("SEMU") to include an additional 40-acre tract of State of New Mexico lands. This request is based upon the following:

1. Applicant, Conoco, Inc., ("Conoco") is the operator of the Southeast Monument Unit Area ("SEMU") which includes the N/2SE/4 of Section 25, T20S, R37E. **See Exhibit 1.**

2. On July 21, 1999, the New Mexico Oil Conservation Division ("Division") issued Administrative Order NSL-4333 which approved Conoco's application to drill its SEMU Unit Well No. 135 at an unorthodox location 1330 feet from the South line and 1980 feet from the East line (Unit J) of Section 25 to be dedicated to a standard 160-acre oil spacing and proration unit in the North Hardy-Strawn Pool consisting of the SE/4 of this section. **See Exhibit 2.**

3. The unorthodox well location provided for encroachment towards an interior 40-acre tract within the 160-acre spacing and proration unit.

4. The well was located in the NW/4SE/4 (Unit J) which is part of Federal Oil & Gas Lease No. LC-031696-A covering the N/2SE/4 of this section but only 10 feet from the north boundary of the SW/4SE/4 (Unit O) which is part of State of New Mexico Oil & Gas Lease No. B-11349 covering the S/2SE/4 of this section. **See Exhibit 3.**

5. Although the working interest ownership is common between the NW/4SE/4 and the SW/4SE/4 of this section, the royalty ownership is not.

6. The SEMU Well No. 135 was drilled but failed to produce from the Strawn formation.

7. Instead of abandoning this wellbore, on December 23, 1999, Conoco applied to the Division for approval to recomplete the well, up hole, in the Tubb/Drinkard formation at an unorthodox location for production from the North Hardy-Tubb-Drinkard Pool. **See Exhibit 4.**

8. The opportunity to use a previously drilled wellbore to obtain production from the Tubb/Drinkard formations instead of drilling of a new well at a standard well location substantially reduces the cost and thereby avoids the drilling of an unnecessary well and prevents waste.

9. The North Hardy-Tubb-Drinkard Pool is spaced on 40-acre oil spacing with standard well location not closer than 330 feet to a side boundary.

10. On January 3, 2000, the Division **denied** Conoco application to recomplete this well at an unorthodox location in the North Hardy-Tubb-Drinkard Pool because it might adversely affect the correlative rights of the State of New Mexico in the adjoining 40-acre State of New Mexico lease in the SW/4SE/4 of this section. **See Exhibit 5.**

11. In order to protect the correlative rights of the State and Federal royalty owners, Conoco has proposed to Mr. Michael E. Stogner of the Division the formation of an 80-acre non-standard proration and spacing unit consisting of these two 40-acre tracts with the approval of the Bureau of Land Management ("BLM") and the Commissioner of Public Lands, State of New Mexico ("SLO") for the equitable sharing

of royalties pursuant to a standard form communitization agreement covering this proposed non-standard proration and spacing unit.

12. Mr. Stogner has informed Conoco that he is opposed to the creation of an 80-acre non-standard proration unit as the mechanism for sharing the royalty in this case.

13. In the alternative, Mr. Stogner has proposed that the Division will approve the dedication of this unorthodox well location to a standard 40-acre spacing unit consisting of Unit J of this section provided the Bureau of Land Management ("BLM") and Commissioner of Public Lands for the State of New Mexico ("SLO") will approve a unit agreement as the mechanism for sharing the royalties covering the two 40-acre tracts.

14. Mr. Stogner's recommendation is based upon prior Division cases in which the SLO has approved the use of a unit agreement as the mechanism for sharing royalties in the absence of the Division's approval of a non-standard proration and spacing unit. For an example involving state lands, see Division's approval of Cobra Oil and Gas Corporation's application for a 40-acre unorthodox well location and the SLO's approval of the Lewis Unit covering an 80-acre tract in Sections 3 and 4 of T10S, R36E, Lea County OCD Cases 11465 & 11466 (Order R-10554). For an example involving federal and state lands, see the Division's approval of Odyssey Partners Ltd.'s 40-acre unorthodox well location and the BLM/SLO approval of the Marigold Unit covering an 80-acre tract in Sections 6 and 7 of T12S, R38E, Lea County, NM, OCD Case 10980 (Order R-10125).

15. The SLO has informed Conoco that it is not feasible to use a new unit agreement for sharing royalties in this manner because, among other things, the unit agreement contains contraction provisions which will cause the unit area to be reduced to the size of the Division approved spacing unit, which, in the absence of an approved 80-acre non-standard proration unit, will be the 40-acre tract upon which the well is located thus excluding the SLO from sharing in the royalty payments from the SEMU Well No. 135.

16. The SLO has informed Conoco that the only available regulatory mechanism which complies with the requirements of the SLO and the BLM is the utilization of a communitization agreement for an area consistent with the Division's approved non-standard proration unit area.

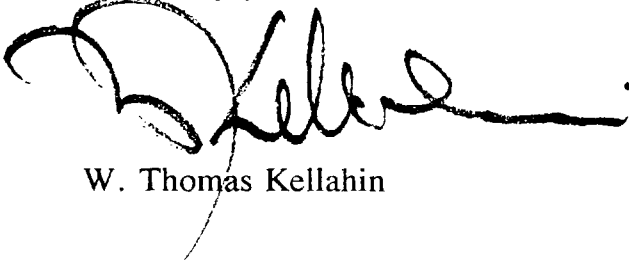
Bureau of Land Management  
Commissioner of Public Lands  
March 28, 2000  
-Page 4-

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17. Conoco requests the SLO and BLM consider expanding the SEMU unit to include this 40-acre tract and thereby adopt Mr. Stogner's suggestion that a unit agreement covering the two 40-acre tracts could be utilized as the form by which the BLM and SLO would share royalty instead of a communitization agreement based upon the Division having approved an 80-acre non-standard proration unit.

Accordingly, Conoco requests preliminary approval of the expansion of the SEMU unit to include this 40-acre tract. In the alternative, Conoco requests that the BLM and SLO and BLM adopt a form of agreement which all parties can utilize to resolve the share of royalties in this instance.

Very truly yours,

A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', with a long horizontal flourish extending to the right.

W. Thomas Kellahin

cc: Oil Conservation Division  
Attn: Michael E. Stogner  
Conoco, Inc.  
Attn: Charles Rule





NEW MEXICO ENERGY, MINERALS  
& NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION  
2040 South Pacheco Street  
Santa Fe, New Mexico 87505  
(505) 827-7131

July 21, 1999

Conoco, Inc.  
10 Desta Drive - Suite 100W  
Midland, Texas 79705-4500  
Attention: Kay Maddox

*Administrative Order NSL-4333*

Dear Ms. Maddox:

Reference is made to the following: (i) your application dated July 20, 1999; and (ii) the records of the New Mexico Oil Conservation Division ("Division"), including the file in Case No. 12182: all concerning Conoco, Inc.'s request for an exception to Rule 4 of the *"Temporary Special Pool Rules for the North Hardy-Strawn Pool,"* as promulgated by Division Order No. R-11221, issued in Case No. 12182 dated July 12, 1999, in order to drill the proposed SEMU Well No. 135 at an unorthodox oil well location 1330 feet from the South line and 1980 feet from the East line (Unit J) of Section 25, Township 20 South, Range 37 East, NMPM, Lea County, New Mexico.

The SW/4 of Section 25, being a standard 160-acre oil spacing and proration unit within the governing limits of the North Hardy-Strawn Pool, is to be dedicated to this well.

It is our understanding that Conoco, Inc. is seeking this location exception based on a 3-D seismic survey of the immediate area, whereby it contends that a well drilled at this location, will be at a more favorable geologic position within the Undesignated North Hardy-Strawn Pool underlying the subject 160-acre unit.

The subject application has been duly filed under the provisions of Division Rule 104.F and the applicable provisions of the rules governing this pool.

By the authority granted me under the provisions of: (i) Rule 5 of these special pool rules; and (ii) Division Rule 104.F(2), the unorthodox oil well location of the proposed SEMU Well No. 135 is hereby approved.

Sincerely,

Lori Wrotenbery  
Director

LW/MES/kv

cc: New Mexico Oil Conservation Division - Hobbs  
U. S. Bureau of Land Management - Carlsbad  
File: Case No. 12182



Revised February 21, 1994  
instructions on back  
Submit to Appropriate District Office  
State Lease - 4 Copies  
Fee Lease - 3 Copies

District IV  
PO Box 2088, Santa Fe. NM 87504-208

☐ AMENDED REPORT

# WELL LOCATION AND ACREAGE DEDICATION PLAT

API Number N/A	2 Pool Code	3 Pool Name North Hardy Strawn
4 Property Code	5 Property Name SEMU	6 Well Number #135
7 OGRID No.	8 Operator Name Conoco Inc., 10 Desta Drive, Ste. 100W, Midland, TX 79705-4500	9 Elevation

## 10 Surface Location

UL or lot no	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
J	25	20S	37E		1330'	South	1980'	East	Lea

## 11 Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
12 Dedicated Acres	13 Joint or Infill	14 Consolidation Code		15 Order No.					
160									

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED  
OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

A hand-drawn diagram on a grid. A dashed rectangle is drawn. The horizontal dimension is labeled 1980' and the vertical dimension is labeled 1530'. A small circle is located at the bottom-left corner of the dashed rectangle.

## 17 OPERATOR CERTIFICATION

I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief

Signature \_\_\_\_\_

**Kay Maddox**

Printed Name

Regulatory Agent

**Title**

July 20, 1999

Date \_\_\_\_\_

## 18 SURVEYOR CERTIFICATION

I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.

Date of Survey

**Signature and Seal of Professional Surveyor:**

**EXHIBIT**

3

**Certifica**

Mid-Continent Region  
Exploration/Production

Conoco Inc.  
10 Desta Drive, Suite 100W  
Midland, TX 79705-4500  
(915) 686-5400

CT 13-483  
NSL-4333

December 23, 1999

New Mexico Oil Conservation, District 1  
2040 S. Pacheco  
Santa Fe, NM 87504-2088

RE: Application for Non-standard Location  
SEMU #135  
North Hardy Tubb-Drinkard (Oil) 96356  
Section 25, T-20-S, R-37-E, J  
1980' FEL & 1330' FSL  
API # 390-045-34666  
Lea County, NM

Dear Mr. Stogner,

Conoco, Inc respectfully requests a non-standard location order for the SEMU # 135. This well is located 1980' FEL and 1330' FSL. The rules for this 40 acre oil pool state that the well needs to 330' from the quarter/quarter section lines. The well should be at least 1650' FSL to be a standard location. The N ½ of the S ½, and the N ½ of Section 25 is federal lease #031696A. The offsetting Section to the west, Section 26 is also federal lease # 031696. The SW ¼ of the SW ¼ of Section 25 is a 40 acre state lease # B-230 100% owned by Chevron, our partners. The SE ¼ of the SW ¼ of Section 25 is a 40 acre state lease #E-1402 operated by Conoco.

Conoco, Inc is the only offset operator. Conoco, Inc respectfully requests that their application be approved to provide them the opportunity to utilize #135 wellbore profitably. This will prevent economic waste by allowing immediate accessibility to test and produce the Tubb. If there are any further questions regarding this application please call me as soon as possible at (915) 686-5798 or if before January 3, (915) 664-9500.

Sincerely,

*Kay Maddox*

Kay Maddox  
Regulatory Agent - Conoco, Inc.

CC: OCD - Hobbs, NM







NEW MEXICO ENERGY, MINERALS  
& NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION  
2040 South Pacheco Street  
Santa Fe, New Mexico 87505  
(505) 827-7131

January 3, 2000

Conoco, Inc.  
10 Desta Drive - Suite 100-W  
Midland, Texas 79705-4500

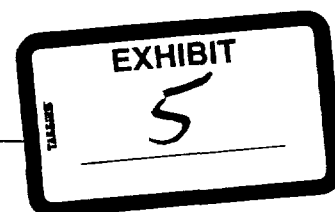
Attention: Kay Maddox

**Re: Administrative application for an exception to Division Rule 104.B (1) for Conoco, Inc. to recompleate its existing SEMU Well No. 135 (API No. 30-025-34666) at an unorthodox Tubb/Drinkard oil well location 1330 feet from the South line and 1980 feet from the East line (Unit J) of Section 25, Township 20 South, Range 37 East, NMPM, Lea County, New Mexico, whereby the NW/4 SE/4 of Section 25 is to be dedicated to this well in order to form a standard 40-acre oil spacing and proration unit for the Undesignated North Hardy-Tubb-Drinkard Pool.**

Dear Ms. Maddox:

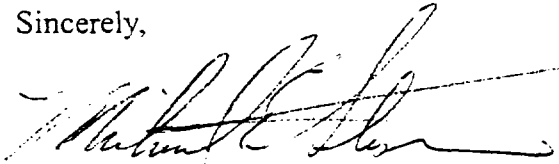
I am in receipt of your application dated December 23, 1999, which essentially seeks to amend Division Administrative Order NSL-4333, dated July 21, 1999. This order authorized Conoco, Inc. to drill this well at an "internal" unorthodox oil well location within a 160-acre spacing and proration unit for the North Hardy-Strawn Pool. In this case no violation of correlative rights occurs since the well meets the standard 660-foot setback requirements from the outer boundary of its assigned spacing unit. The Division's records show that the SE/4 of Section 25 would share the royalties from this Strawn production in the following manner: (i) 50 percent to the Federal government since the N/2 SE/4 of Section 25 is within United States Government lease No. LC-031696-A; and (ii) 50 percent to the appropriate beneficiary of the New Mexico State Trust Lands since the S/2 of Section 25 is within a state lease issued by the New Mexico State Land Office as State Lease No. B-11349.

Conoco, Inc.'s proposed recompletion is for a pool that is governed under Division Rule 104.B (1), which requires 40-acre spacing and proration units that comprise a legal subdivision of the U. S. Public Land Surveys, which is a single governmental quarter-quarter section or lot. If this well is recompleted to any zone that is spaced on 40 acres, requiring the NW/4 SE/4 Unit J of Section 25 to be dedicated to such production, 100 percent of the royalty interests would be attributed to the aforementioned Federal lease. Assuming radial drainage from a well that is only 10 feet away from a designated property boundary line, at least 50 percent of its production would naturally be attributed to the offsetting property. In your case, assuming the well is indeed straight, 100 percent of the royalties will go to the Federal lease and none would be attributed to the State Trust lands. This constitutes a direct and blatant violation of correlative rights.



Your application to recomplete this well to the Undesignated North Hardy-Tubb-Drinkard Pool, or any other pool developed on 40-acre spacing, is denied.

Sincerely,



Michael E. Stogner  
Chief Hearing Officer/Engineer

MES/kv

cc: New Mexico Oil Conservation Division – Hobbs  
U. S. Bureau of Land Management - Carlsbad  
New Mexico State Land Office - Santa Fe  
Ms. Kathy Valdes, NMOCD - Santa Fe  
Ms. Lori Wrotenbery, Director - NMOCD, Santa Fe  
~~Mr. W. Thomas Kellahin, Legal Counsel for Conoco, Inc. - Santa Fe~~