## KELLAHIN AND KELLAHIN

ATTORNEYS AT LAW EL PATIO BUILDING 117 NORTH GUADALUPE POST OFFICE BOX 2265

SANTA FE, NEW MEXICO 87504-2265

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)

TELEPHONE (505) 982-4285 TELEFAX (505) 982-2047

Via Federal Express

Via Hand Delivery

March 28, 2000

Bureau of Land Management 2909 West Second Street Roswell, New Mexico 88201

Attn: Mr. Amando Lopez

Commissioner of Public Lands P. O. Box 1148 Santa Fe, New Mexico 87504

Attn: Mr. Pete Martinez

SEMU Well No. 135 Re:

> 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.

- -Page 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 0) 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

<u>-Page 3-</u>

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.

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,

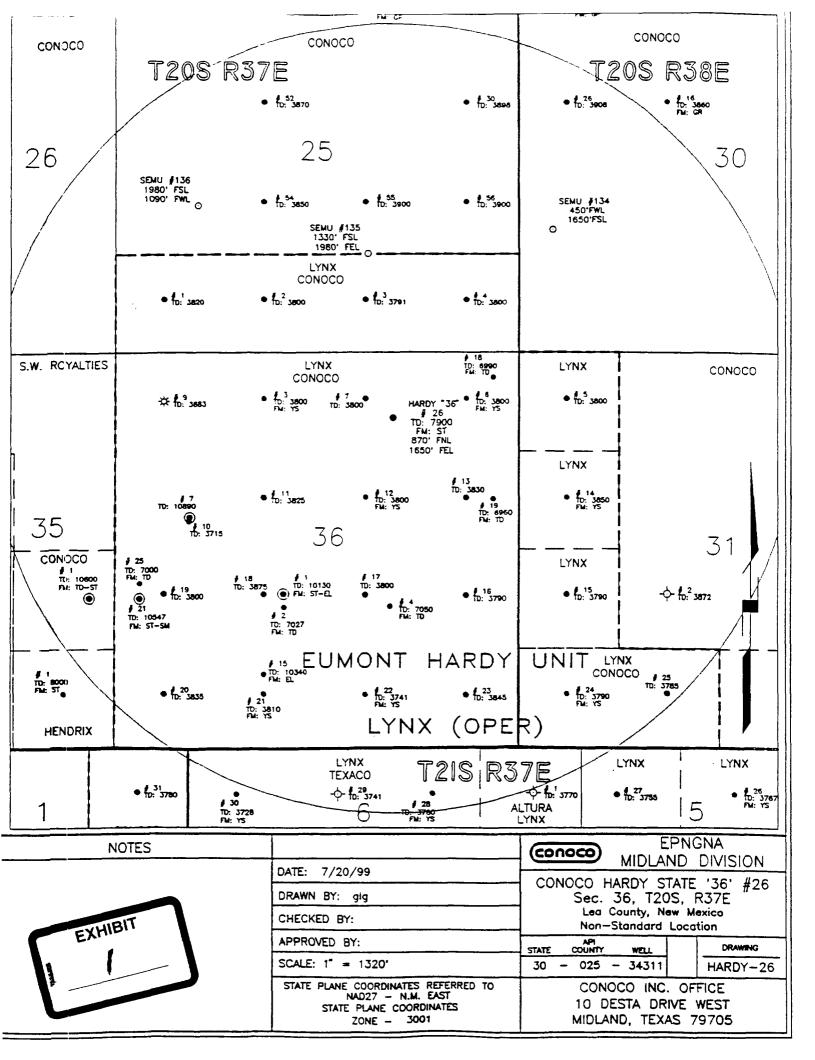
W. Thomas Kellahin

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.

ES for DRC

Sincerely,

Lori Wrotenbery

Director

LW/MES/kv

cc: New Mexico Oil Conservation Division - Hobbs

U. S. Bureau of Land Management - Carisbad

File: Case No. 12182

District | PO Box 1980, Hobbs. NM 88241-198

State of New Mexico
Energy, Minerals & Natural Resources Department

Revised February 21, 1994 instructions on back

District II PO Drawer DD, Artesia, NM88211-071 District III 1000 Rio Brazos Rd. Aztec, NM8741

OIL CONSERVATION DIVISION PO Box 2088 Santa Fe, NM 87504-2088

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

API Number N/A 2 Pool Code 3 Pool Name North Hardy Strawn  4 Property Code 5 Property Name 6 Well Number SEMU #135  7 OGRID No. 8 Operator Name 9 Elevation  Conoco Inc., 10 Desta Drive, Ste. 100W, Midland, TX 79705-4500  10 Surface Location  ULCIGINO Section Township Range Lot Idn Feet from the North/South line Feet from the Location I 1980' East Lea  11 Bottom Hole Location If Different From Surface  ULCIGINO Section Township Range Lot Idn Feet from the North/South line Feet from the East/West line County  12 Dedicated Acres 13 Joint or Infil 14 Consolidation Code 15 Order No. 160  NO ALLOWA BLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION  16  17 OPERATOR CERTIFICATION 1 hereby early that the information contained herein is true and complete to the best of my knowledge and beinf July 20, 1999  Date July 20, 1999  Date			WE	LL LO	CATION	AND ACE	REAGE DEDIC	CATION PL		_ AMD.	NDED REPOR	
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Mid-Continent Region Exploration/Production Conoco Inc. 10 Desta Drive, Suite 100W Midland, TX 79705-4500 (915) 686-5400

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.

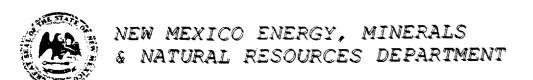
Conoco, Inc is the only offset operator. Conoco, Inc respectfully requests that their application be approved to provide them the opportunity to utilize#135 wellbore profitably. This will prevent economic waste by allowing immediate accessibility to test and produce the Tubb. If there are any further 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

Regulatory Agent - Conoco, Inc.

CC; OCD - Hobbs, NM



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 recomplete 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, Township20 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 <u>denied</u>.

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

M. Thomas Kellahin, Legal Counsel for Conoco, Inc. -Santa-Fe-