

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

CASE NO. 10513

IN THE MATTER OF THE APPLICATION  
OF HANLEY PETROLEUM INC. FOR A  
DETERMINATION OF REASONABLE WELL  
COSTS, LEA COUNTY, NEW MEXICO

RECEIVED

JUN 0 1991

A P P L I C A T I O N

OIL CONSERVATION DIVISION

Comes now Hanley Petroleum Inc., by and through its attorneys, Kellahin, Kellahin & Aubrey, and in accordance with Division Order R-9480, as amended, applies to the New Mexico Oil Conservation Division for a determination of reasonable well costs for the Kachina 8 Well #2, located in the SW/4NW/4 of Section 8, T18S, R33E, NMPM, Lea County, New Mexico and states:

(1) On March 7, 1991, the Division held a consolidated hearing of the Hanley Petroleum Inc. ("Hanley") compulsory pooling application in Case 10219 and the Santa Fe Energy Operating Partners, L. P. ("Santa Fe") compulsory pooling application in Case 10211.

(2) Hanley and Santa Fe each sought to pool the other in an 80-acre spacing unit in the W/2NW/4 of

Section 8, T18S, R33E, Lea County, New Mexico for a well to be drilled to test the Wolfcamp formation in the South Corbin-Wolfcamp Pool.

(3) Hanley, with a 50% working interest, sought to be named operator for a well to be drilled in the north 40-acres of the spacing unit at an estimated cost of \$667,782.

(4) Santa Fe, with a 25% working interest, sought to be named operator of the same spacing unit but proposed the well be located in the south 40-acres of the spacing unit on a tract owned 25% by Santa Fe and 25% by Heyco for a well estimated to cost \$721,942.

(5) On March 29, 1991, the Division (Examiner Morrow) entered Order R-9480, (Exhibit A attached), granting the Santa Fe application and denying the Hanley application based upon the Examiner's conclusion that while either location would result in a successful Wolfcamp completion, the Santa Fe location was more appropriate because it conformed to an 80-acre diagonal well pattern.

(6) On June 12, 1991, the Commission entered Order R-9480-B (DeNovo) affirming the Examiner order and

modifying the commencement date for the well to September 15, 1991. (See Exhibit B attached hereto).

(7) On June 21, 1991, Santa Fe notified Hanley of its right to elect to participate in the well as a consenting working interest owner under provisions of the compulsory pooling order. (See Exhibit C attached hereto).

(8) On July 19, 1991 Hanley exercised its election under the compulsory pooling order to voluntarily participate in the well. (See Exhibit D attached hereto)

(9) By letter agreement dated September 6, 1991, Hanley proposed to Santa Fe that the stipulate to use the COPAS Accounting Procedures to supplement details that the compulsory pooling order fails to cover. (See Exhibit E attached hereto).

(10) On September 13, 1991, Santa Fe commenced the well and on January 9, 1992 completed the well in the Wolfcamp formation.

(11) On April 23, 1992, Hanley requested Santa Fe to furnish Hanley an itemized schedule of actual well costs. (See Exhibit F attached hereto).

(12) On May 4, 1992, Santa Fe delivered to Hanley a itemized schedule of actual well costs showing a total cost of \$893,715.93. (See Exhibit G attached hereto).

(13) The actual total well costs submitted by Santa Fe to Hanley are \$171,773.93 more than Santa Fe's estimated well costs.

(14) In accordance with the Provisions of Ordering Paragraph (6) of Order R-9480, Hanley objects to the Santa Fe actual costs as not being reasonable and requests that the Division determine reasonable well costs after public notice and hearing as provided therein.

WHEREFORE, Applicant seeks:

(1) An accounting as governed by the COPAS 1984 Accounting Procedures, and

(2) A determination by the New Mexico Oil Conservation Division of the reasonable actual costs of the Kachina "8" No 2 Well.

Application of Hanley Petroleum, Inc.  
Page 5

Respectfully submitted,

KELLAHIN, KELLAHIN & AUBREY,

A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', written over a horizontal line.

BY  
W. Thomas Kellahin  
P. O. Box 2265  
Santa Fe, New Mexico 87504  
(505) 982-4285  
ATTORNEYS FOR APPLICANT

appt601.215

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:

CASES NOS. 10211 AND 10219  
Order No. R-9480

APPLICATION OF SANTA FE ENERGY OPERATING  
PARTNERS, L.P. FOR COMPULSORY POOLING,  
LEA COUNTY, NEW MEXICO

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APPLICATION OF HANLEY PETROLEUM INC. FOR  
COMPULSORY POOLING, LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on March 7, 1991, at Santa Fe, New Mexico, before Examiner Jim Morrow.

NOW, on this 29th day of March, 1991, 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 in Case 10211, Santa Fe Energy Operating Partners, L.P., (Santa Fe), seeks an order pooling all mineral interests from the surface to the base of the Wolfcamp formation underlying the following described acreage in Section 8, Township 18 South, Range 33 East, NMPM, Lea County, New Mexico, in the following manner:

- (a) The W/2 NW/4 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 South Corbin-Wolfcamp Pool;

- (b) The SW/4 NW/4 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, which presently includes but is not necessarily limited to the Undesignated West Corbin-Delaware, Undesignated Central Corbin-Queen, Undesignated West Corbin-San Andres and Undesignated Corbin-Bone Spring Pools.

Both units are to be dedicated to a single well to be drilled at a standard oil well location 1980 feet from the North line and 660 feet from the West line (Unit E) of said Section 8.

(3) The applicant in Case 10219, Hanley Petroleum Inc. (Hanley), originally sought an order pooling all mineral interests from the surface to the base of the Wolfcamp formation underlying the following described acreage in Section 8, Township 18 South, Range 33 East, NMPM, Lea County, New Mexico, in the following manner:

- (a) The W/2 NW/4 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 South Corbin-Wolfcamp Pool;
- (b) The SW/4 NW/4 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, which presently includes but is not necessarily limited to the Undesignated West Corbin-Delaware, Undesignated Central Corbin-Queen, Undesignated West Corbin-San Andres, and Undesignated Corbin-Bone Spring Pools.

Both units would have been dedicated to a single well to be drilled at a standard oil well location 1980 feet from the North line and 660 feet from the West line (Unit E) of said Section 8.

(4) Hanley amended its application in Case 10219 and at the hearing requested approval for an 80-acre oil spacing and proration unit as described in Finding No. (3)(a) above with said unit to be dedicated to a well to be drilled at a standard oil well location 660 feet from the North and West lines (Unit D) of said Section 8. A 40-acre oil spacing and proration unit in Unit D would not require compulsory pooling since Hanley's working interest in the NW/4 NW/4 of said Section 8 is 100%.

(5) Each applicant (Santa Fe and Hanley) has the right to drill and each proposes to drill a well on their respective units, as described above in Findings (2) and (4), to a depth sufficient to test the Wolfcamp formation.

(6) Cases Nos. 10211 and 10219 were consolidated for the purpose of hearing and should be consolidated for purpose of issuing an order since the cases involve common acreage and the granting of one application would require the denial of the other.

(7) This matter has been the subject of previous Oil Conservation Division and Oil Conservation Commission actions involving Hanley's subpoena request for certain Santa Fe records.

(8) A representative of the Harvey E. Yates Company appeared at the hearing in support of Santa Fe's application.

(9) There are interest owners in the proposed units who have not agreed to pool their interests.

(10) The primary objective of either proposed well would be a Wolfcamp completion in the Undesignated South Corbin-Wolfcamp Pool to offset Santa Fe's recently completed Kachina "8" Federal Well No. 1 in the NE/4 NW/4 of said Section 8. It flowed 411 barrels of oil, 59 barrels of water and 577 MCF of gas per day on initial potential on January 13, 1991. Santa Fe's Form C-115 production report shows that the well produced 8143 barrels of oil, 213 barrels of water and 9374 MCF of gas during January, 1991.

(11) Pool rules for the South Corbin-Wolfcamp pool provide for 80-acre standard spacing and proration units with wells to be located within 150 feet of the center of a governmental quarter-quarter section or lot.

(12) In support of its application in Case No. 10211, Santa Fe submitted the following information through its exhibits and the testimony of its witnesses:

- (a) Santa Fe's proposed location for its Kachina 8 Federal Well No. 2 in the SW/4 NW/4 of said Section 8 would conform to an 80-acre diagonal spacing pattern. Santa Fe believes this would provide better recovery than Hanley's location which would be a direct West offset to Santa Fe's Kachina 8 Federal Well No. 1.
- (b) Cross-sections, structure maps and isopach maps were submitted to show the favorable conditions at the Santa Fe location. Their geology shows that the proposed location would be approximately 20 feet lower on the Wolfcamp structure than their Kachina 8 Well No. 1 and would have about the same thickness of clean Wolfcamp carbonate. The Santa Fe location is 50 feet lower structurally than

the Hanley location but would encounter a great thickness of clean carbonate in the Wolfcamp according to Santa Fe's testimony.

- (c) Santa Fe's witnesses testified that lower structural position would not necessarily result in increased water production from the Wolfcamp.
- (d) Santa Fe's engineering witness estimated that a well at the Santa Fe location would recover 50,000 to 60,000 barrels more oil than one at the Hanley location.
- (e) Cross-sections, structure maps and porosity maps submitted by Santa Fe indicate that the Bone Spring formation would be productive at the Hanley location but would be water productive at the Santa Fe location. Santa Fe recommended allocation of well costs between the Wolfcamp and the Bone Spring if the Hanley location is approved.
- (f) Santa Fe's estimated well cost is \$721,942. They expect to recover 100,000 barrels of oil from the Wolfcamp. Monthly overhead rates of \$6,260 while drilling and \$626 while producing were requested along with a 200% risk penalty.
- (g) Santa Fe and the Harvey E. Yates Company each have 50% working interest in the SW/4 NW/4 of said Section 8.

(13) To support its application in Case No. 10219, Hanley presented the following information through its exhibits and the testimony of its witnesses:

- (a) Structure and isopach maps and cross-sections were submitted to show that their proposed location is the better choice. Their geology shows that the Hanley location would be approximately 25 feet higher on the Wolfcamp structure than Santa Fe's location and would encounter approximately the same thickness of net clean Lower Wolfcamp limestone.
- (b) Decline curves to estimate the reserves for Wolfcamp completions in the area were submitted. This data along with an estimate of the reserves for Santa Fe's Kachina "8" Federal Well No. 1 was used to construct an "Iso-Production" map for use in estimating ultimate recovery. Hanley's Wolfcamp recovery estimates are 260,000 barrels

for their location and 130,000 barrels for the Santa Fe location.

- (c) Water production data from Wolfcamp completions in the Corbin area was used by Hanley to support their testimony that wells lower on the Wolfcamp structure produce more water.
- (d) Hanley submitted a Bone Spring structure map indicating their proposed location would be approximately 100 feet higher on the Bone Spring structure than the Santa Fe location.
- (e) Hanley's estimated cost for a Wolfcamp well is \$667,782. They proposed a method for allocating and amortizing well costs in the event the well is eventually plugged back for a completion attempt in the Bone Spring or other zone in which the ownership differs from that in the Wolfcamp. Monthly overhead rates of \$5,184 while drilling and \$485 while producing were suggested based on the mean rates in the Ernst and Young 1990 survey. A risk penalty of 150% was recommended at the Hanley location. Hanley's witnesses testified that the risk would be higher at the Santa Fe location.
- (f) Payout calculations prepared by Hanley show that a Wolfcamp well will payout in four months at their location and in eight months at the Santa Fe location.

(14) Santa Fe's compulsory pooling application was received by OCD on December 12, 1990, Hanley's initial application was received by OCD on January 2, 1991, and their amended application was received on February 12, 1991. Hanley began efforts to develop their acreage after Santa Fe filed its application.

(15) Based on the evidence and testimony received in these cases, either the Santa Fe or the Hanley location should result in a successful Wolfcamp completion. Evidence shows that Santa Fe's is the more appropriate location since it conforms to an 80-acre diagonal spacing pattern and should therefore result in better recovery of reserves. Santa Fe's application should be approved and they should be designated as operator. Overhead charges for supervision should be set at \$5,184 while drilling and \$485 while producing. Since risk of an unsuccessful completion is low, the risk penalty should be set at 100%. The 40-acre spacing unit applied for in Santa Fe's application is not required since all of the working interests in

the SW/4 NW/4 of said Section 8 have reached voluntary agreement concerning the pooling of their interests.

(16) Approval as set out in Finding (15) above and in the following order will avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford 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 pool resulting from this order.

IT IS THEREFORE ORDERED THAT:

(1) The application of Hanley Petroleum Inc. in Case No. 10219 as described in Findings (3) and (4) of this order is hereby denied.

(2) All mineral interests, whatever they may be, from the surface to the base of the Wolfcamp, underlying the W/2 NW/4 of Section 8, Township 18 South, Range 33 East, NMPM, Lea County, New Mexico, are hereby pooled to form an 80-acre oil spacing and proration unit to be dedicated to a well to be drilled at a standard oil well location 1980 feet from the North line and 660 feet from the West line (Unit E) of said Section 8.

PROVIDED HOWEVER THAT, the operator of said unit shall commence the drilling of said well on or before the 15th day of June, 1991, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Wolfcamp formation.

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said well on or before the 15th day of June, 1991, Decretory Paragraph No. (2) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division 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 Decretory Paragraph No. (2) of this order should not be rescinded.

(3) Santa Fe Energy Operating Partners, L.P. is hereby designated the operator of the subject well and unit.

(4) After the effective date of this order and 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 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.

(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 said schedule, the actual well costs shall be the reasonable well costs; provided however, if there is an objection to actual well costs within said 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 his share of estimated 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.

(8) 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; and
- B. As a charge for the risk involved in the drilling of the well, 100 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.

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

(10) \$5,184 per month while drilling and \$485 per month while producing are hereby fixed as reasonable charges for supervision (combined

fixed rates); 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.

(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 the terms of this order.

(12) 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.

(13) All proceeds from production from the subject well which are not disbursed for any reason shall be placed in escrow in Lea County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; 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.

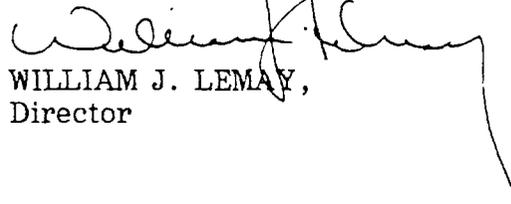
(14) Should all the parties to this force-pooling reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

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

(16) Jurisdiction of this cause 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

  
WILLIAM J. LEMAY,  
Director

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:

CASES NOS. 10211 AND 10219 DE NOVO  
Order No. R-9480-B

APPLICATION OF SANTA FE ENERGY OPERATING  
PARTNERS, L.P. FOR COMPULSORY POOLING,  
LEA COUNTY, NEW MEXICO

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APPLICATION OF HANLEY PETROLEUM INC. FOR  
COMPULSORY POOLING, LEA COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9:00 a.m. on May 9, 1991, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 12th day of June, 1991, the Commission, a quorum being present, having considered the testimony presented and the exhibits received at said hearing, and being fully advised in the premises,

FINDS THAT:

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

(2) The applicant in Case 10211, Santa Fe Energy Operating Partners, L.P., (Santa Fe), seeks an order pooling all mineral interests from the surface to the base of the Wolfcamp formation underlying the following described acreage in Section 8, Township 18 South, Range 33 East, NMPM, Lea County, New Mexico, in the following manner:

- (a) The W/2 NW/4 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 South Corbin-Wolfcamp Pool;

- (b) The SW/4 NW/4 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, which presently includes but is not necessarily limited to the Undesignated West Corbin-Delaware, Undesignated Central Corbin-Queen, Undesignated West Corbin-San Andres and Undesignated Corbin-Bone Spring Pools.

Both units are to be dedicated to a single well to be drilled at a standard oil well location in the SW/4 NW/4 (Unit E) of said Section 8.

(3) The applicant in Case 10219, Hanley Petroleum Inc. (Hanley), originally sought an order pooling all mineral interests from the surface to the base of the Wolfcamp formation underlying the following described acreage in said Section 8 and in the following manner:

- (a) The W/2 NW/4 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 South Corbin-Wolfcamp Pool;
- (b) The NW/4 NW/4 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, which presently includes but is not necessarily limited to the Undesignated West Corbin-Delaware, Undesignated Central Corbin-Queen, Undesignated West Corbin-San Andres, and Undesignated Corbin-Bone Spring Pools.

Both units would have been dedicated to a single well to be drilled at a standard oil well location in the NW/4 NW/4 (Unit D) of said Section 8.

(4) On March 7, 1991, the Division held a consolidated hearing of the Hanley pooling case (10219) and the Santa Fe Energy pooling case (10211).

(5) On March 29, 1991, the Division entered Order No. R-9480 granting the Santa Fe Energy application and denying the Hanley Petroleum application.

(6) On April 4, 1991, Santa Fe Energy notified Hanley that it must make an election within 30 days in order to participate in the well to be drilled pursuant to Order No. R-9480. The Director issued a Stay of Order R-9480 with the agreement of the parties on April 10, 1991 by Division Order No. R-9480-A.

(7) On April 8, 1991, Hanley, a party adversely affected by Order No. R-9480, filed its De Novo Application with the Division.

(8) A representative of the Harvey E. Yates Company appeared at the hearing in support of Santa Fe's application.

(9) There are interest owners in the proposed units who have not agreed to pool their interests.

(10) The primary objective of either proposed well would be a Wolfcamp completion in the Undesignated South Corbin-Wolfcamp Pool to offset Santa Fe's recent completion, the Kachina "8" Federal Well No. 1 in the NE/4 NW/4 of said Section 8.

(11) Pool rules for the South Corbin-Wolfcamp pool provide for 80-acre standard spacing and proration units with wells to be located within 150 feet of the center of a governmental quarter-quarter section or lot.

(12) Hanley presented geologic testimony and exhibits which showed a depositional model depicting the Wolfcamp hingeline trending East-West with areas of maximum porosity development aligned North-South at right angles to the projected hingeline. Their preferred location in Unit D of Section 8 would be structurally higher than Santa Fe's location in Unit E and was projected to have similar net pay but higher ultimate oil recovery than a Wolfcamp completion in Unit E.

(13) Santa Fe presented geological testimony and exhibits which showed the Wolfcamp hingeline to be trending northeast-southwest in the vicinity of the Kemnitz-Townsend trend 6 miles northwest with porosity development aligned northeast-southwest roughly parallel to the hingeline. Their preferred location in Unit E was projected to have greater net pay development in a slightly lower structural position than a well located in Unit D.

(14) Santa Fe's interpretation conformed to existing well control and was correct in its placement of the Wolfcamp hingeline while Hanley's interpretation was flawed by improper placement of the Wolfcamp hingeline and its strained isopach interpretation of existing well control.

(15) Santa Fe's interpretation of carbonate zonation within the Wolfcamp presented a more complete analysis of the available data than Hanley's single pay zone concept.

(16) Hanley's contention that a lower structural position, such as the Santa Fe preferred location, would produce significantly higher water recoveries was effectively refuted by Santa Fe who demonstrated very small water recoveries from Wolfcamp completions in the area.

(17) Neither Santa Fe nor Hanley anticipated commercial Bone Springs production although the geology favored Hanley's location in Unit D over Santa Fe's location in Unit E.

(18) Pressure-production information presented by Santa Fe demonstrated that 80-acre drainage occurs in the Wolfcamp in this area and that 40-acre spacing would constitute waste.

(19) Based upon Finding Paragraph Nos. (12), (13), (14), (15), (16), (17) and (18) of this order, the W/2 NW/4 should be the assigned proration unit and the subject well should be a legal location in the SW/4 NW/4 (Unit E) of Section 8, Township 18 South, Range 33 East, NMPM, Lea County, New Mexico.

(20) Hanley and Santa Fe both seek to be and are qualified to be operator. Although Hanley has held its lease in the NW/4 NW/4 for almost five years, it has not been actively involved in development or acquisition and only filed its application after Santa Fe's was filed. Santa Fe has actively pursued interest in acquisition in the area and has drilled or participated in several wells in the area. Therefore Santa Fe should be named operator of the well.

(21) Santa Fe's witness testified that Santa Fe has completed 11 commercial producers out of a total of 12 wells drilled in the area resulting in a commercial success ratio. Since commercial success is so high in the area the penalty should be 100%.

(22) The evidence further cited at said de novo hearing indicates that said Division Order No. R-9480 entered March 29, 1991, should be affirmed.

(23) The date by which a well on the pooled unit should be commenced should be changed from June 15, 1991 to September 15, 1991.

IT IS THEREFORE ORDERED THAT:

(1) Division Order No. R-9480, issued in consolidated Case Nos. 10211 and 10219 and dated March 29, 1991, is hereby affirmed and adopted as the order of the Commission.

(2) Decretory Paragraph (2) of said order is amended to read as follows:

All mineral interests, whatever they may be, from the surface to the base of the Wolfcamp, underlying the W/2 NW/4 of Section 8, Township 18 South, Range 33 East, NMPM, Lea County, New Mexico, are hereby pooled to form an 80-acre oil spacing and proration unit to be dedicated to a well to be drilled at a standard oil well location 1980 feet from the North line and 660 feet

from the West line (Unit E) of said Section 8.

PROVIDED HOWEVER THAT, the operator of said unit shall commence the drilling of said well on or before the 15th day of September, 1991, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Wolfcamp formation.

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said well on or before the 15th day of September, 1991, Decretory Paragraph No. (2) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division 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 Decretory Paragraph No. (2) of this order should not be rescinded.

(3) Jurisdiction of this cause 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 COMMISSION

*Bill Weiss*

WILLIAM W. WEISS, Member

*Jami Bailey*

JAMI BAILEY, Member

*William J. Lemay*  
WILLIAM J. LEMAY, Chairman and  
Secretary

S E A L

dr/



**Santa Fe Energy Operating Partners, L.P.**

Santa Fe Pacific Exploration Company  
Managing General Partner

CERTIFIED MAIL - RETURN RECEIPT

June 20, 1991

Hanley Petroleum, Inc.  
415 West Wall, Suite 1500  
Midland, Texas 79701-4473

ATTN: James W. Rogers

Re: SFEOP Cont. #NM-4257  
Kachina "8" Fed Com #2  
Wolfcamp test - 11,500'  
W/2NW/4 Sec. 8,  
T-18-S, R-33-E  
Lea County, New Mexico

Dear Mr. Rogers:

Enclosed please find a copy of the Order No. R-9480-B in the matter of the De Novo Hearing for Compulsory Pooling the above described acreage.

In accordance with the order, please find enclosed Santa Fe Energy Operating Partners L.P.'s Well Cost Estimate (AFE) for the drilling of the above captioned well. Please note, Hanley has 30 days from receipt of this Well Cost Estimate to make its election to join or to be carried Non-Consent under the order.

If you have any questions, please do not hesitate to contact the undersigned.

Thank you in advance for your cooperation in this matter.

Sincerely yours,

SANTA FE ENERGY OPERATING PARTNERS, L.P.  
By: Santa Fe Pacific Exploration Company  
Managing General Partner

By: Larry Murphy  
Larry Murphy, Senior Landman

LM/efw  
Encls a/s

cc: Harvey E. Yates Company  
P.O. Box 1933  
Roswell, New Mexico 88202  
ATTN: Melissa Randle

EFW2061  
Permian Basin District  
880 W. Texas, Suite 1330  
Midland, Texas 79701  
915/687-3551

EXHIBIT "D"

**HANLEY PETROLEUM INC.**

ESTABLISHED 1993

415 WEST WALL, SUITE 1500/MIDLAND, TEXAS 79701-4473/915-684-8051 FAX: 915-685-1104

July 19, 1991

Santa Fe Energy Operating Partners, L.P.  
Permian Basin District  
550 W. Texas, Suite 1330  
Midland, Texas 79701

Attn: Mr. Larry Murphy  
Senior Landman

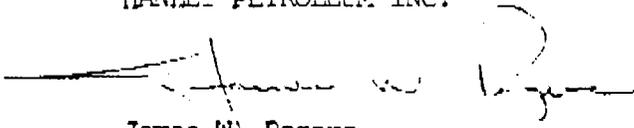
RE: SFEOP Cont. #NM-4257  
Kachina "8" Fed. Com. #2  
Wolfcamp Test - 11,500'  
W1/4 Sec. 8, T-18-S, R-33-E  
Lea County, New Mexico

Gentlemen:

Pursuant to your notice letter dated June 20, 1991, please find attached hereto your AFE for the captioned well which has been executed by an appropriate official of Hanley Petroleum Inc. This signifies our election to join in the drilling of the captioned well as a 50% paying participant under NMOCC Order No. R-9480-B dated June 12, 1991.

Yours very truly,

HANLEY PETROLEUM INC.

  
James W. Rogers  
Vice President Land

/pjm

Attachment

cc: Harvey E. Yates Company  
P.O. Box 1933  
Roswell, New Mexico 88202  
Attn: Melissa Pandle

EXHIBIT "D"

EXHIBIT "E"

**HANLEY PETROLEUM INC.**  
ESTABLISHED 1983

415 WEST WALL, SUITE 1500/MIDLAND, TEXAS 79701-4473/915-684-8051 FAX: 915-685-1104

September 6, 1991

HAND DELIVERED

Santa Fe Energy Operating Partners, L.P.  
550 West Texas, Suite 1330  
Midland, Texas 79701

Attention: Mr. Larry Murphy  
Senior Landman

Dear Mr. Murphy:

Re: NMOCD Cases 10211 and 10219 DeNovo  
Order R-9480-B  
Kachina "8" Fed Com #2 Well

I have received your letter of September 3, 1991. While I believe Santa Fe and Hanley have reached an understanding of the process by which Hanley will voluntarily participate under the compulsory pooling Order R-9480 and R-9480-B for the subject well, I am reluctant to sign your letter of September 3, 1991, because it does not completely reflect our supplemental agreement to those orders. While we have been unable to agree on an operating agreement to substitute for the compulsory pooling order, I think there is no dispute that we can utilize the COPAS Accounting Procedures to supplement details that the pooling order fails to cover.

Accordingly, I wish to reconfirm with you on behalf of our respective working interest owners in this well the following:

- (1) Hanley on behalf of its 50% gross working interest owners in this well has timely and to the satisfaction of Santa Fe properly elected to voluntarily participate in this well subject to the terms and conditions of the compulsory pooling order except as modified by the parties as set forth herein;
- (2) That the parties will be bound by the supplemental terms set forth on Exhibit A attached to this letter and made a part hereof.

## EXHIBIT "E"

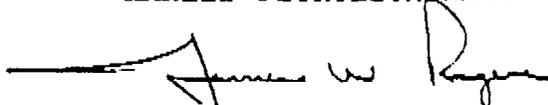
Mr. Larry Murphy  
September 6, 1991  
Page 2

- (3) That instead of being obligated to prepay its share of the costs of the subject well, the Hanley working interest owners shall instead be allowed to pay invoices as submitted by Santa Fe;
- (4) That the parties shall be governed by the COPAS 1984 Accounting Procedures as set forth on Exhibit B attached to this letter and made a part hereof; and
- (5) Notwithstanding anything to the contrary, Hanley and its interest owners shall have the right to take their share of production from the well located in the spacing unit and formation provided for in the pooling order.

To confirm your company's acceptance of this supplemental agreement to the pooling order, I request that you sign a copy of this letter and return it to me for my records.

Yours very truly,

HANLEY PETROLEUM INC.



James W. Rogers  
Vice President Land

/bam

Attachments

Agreed to and accepted this \_\_\_\_\_ day of September 1991.

SANTA FE ENERGY OPERATING  
PARTNERS, L.P.

By: \_\_\_\_\_

KELLAHIN, KELLAHIN AND AUBREY

ATTORNEYS AT LAW

EL PATIO BUILDING

117 NORTH GUADALUPE

POST OFFICE BOX 2265

SANTA FE, NEW MEXICO 87504-2265

TELEPHONE (505) 982-4285

TELEFAX (505) 982-2047

W. THOMAS KELLAHIN\*  
KAREN AUBREY†

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

JASON KELLAHIN (RETIRED 1991)

April 23, 1992

James Bruce, Esq.  
Hinkle, Cox, Eaton,  
Coffield & Hensley  
500 Marquette, N.W.  
Suite 800  
Albuquerque, New Mexico 87102-2121

VIA FACSIMILE  
(505) 768-1529

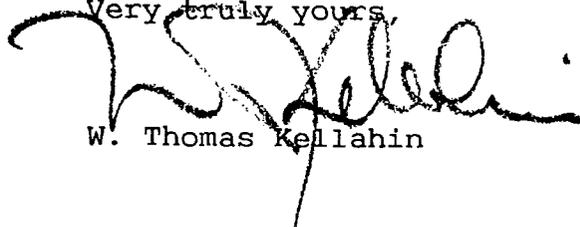
RE: NMOCD Cases 10211 and 10219 DeNovo  
Order R-9480, as amended.  
Santa Fe Energy Kachina 8 No. 2 Well  
W/2NW/4 Sec 8, 18S, 33E  
Lea County, New Mexico

Dear Mr. Bruce:

Hanley Petroleum Inc. has informed me that it has not received an itemized schedule of actual well costs within 90 days following completion of the referenced well as required in the compulsory pooling order. By our calculation, the 90-day period expired on April 8, 1992.

I am writing to express our concern that Santa Fe Energy Operating Partners L.P. has either failed to comply with the order or has overlooked this requirement. I request your assistance in either forwarding to me a copy of the itemized actual well costs or an explanation within the next ten days.

Very truly yours,



W. Thomas Kellahin

WTK/jcl

xc: Via Facsimile  
James Rogers-Hanley Petroleum, Inc.

ltrt423.215

EXHIBIT "G"

ENT: \_\_\_\_\_

**SANTA FE ENERGY RESOURCES, INC.**

**Midland, Texas**

TO: Jim Rogers Handley Pet.  
(Name) (Location)

FROM: Gary Green

DATE: 5/4/92 TIME NEEDED: \_\_\_\_\_

REGARDING: Kachina "8" #2

As per your Request enclosed  
Only Costs for this Well

2 Pages (not including cover letter)

IF YOU DO NOT RECEIVE ALL PAGES, CALL: 1-915-687-3551

ASK FOR: WANDA

DISPOSITION OF ORIGINAL:

Return to Sender \_\_\_\_\_

Mail to Receiver \_\_\_\_\_

File \_\_\_\_\_

Destroy \_\_\_\_\_

**RECEIVED**  
 MAY -4 1992  
 LAND DEPT.  
 MIDLAND, TX

SANTA FE ENERGY RESOURCES, INC.  
 DRILLING COSTS FOR KACHINA 8 #2  
 LEA COUNTY, NEW MEXICO

100% COSTS

GG 5/4 TP  
 ST LES  
 PD DB  
 EW DF  
 PR DRFT  
 File

\*\* EXPENSE  
 LABOR TAXES 1340.34  
 \*\* Subtotal \*\* 1340.34

\*\* DRILLING TANGIBLES  
 CONTRACT SERVICES 430.05  
 CASING 131979.79  
 TUBING 41771.02  
 WELLHEAD EQUIPMENT 7635.13  
 OTHER CONTROLLABLE MATERIAL 0.00  
 NON-CONTROLLABLE MATERIAL 2993.42  
 \*\* Subtotal \*\* 184809.41

\*\* DRILLING INTANGIBLES  
 COMPANY LABOR 17427.84  
 LOCATION AND ROADS 16053.47  
 FUEL, WATER, AND POWER 12672.19  
 DRILLING CONTRACTORS SERVICES 207602.73  
 DRILLING & COMPLETION FLUIDS 12151.65  
 BITS AND REAMERS 2810.88  
 CEMENTING SERVICE & EQUIPMENT 70999.98  
 CASING TESTING & INSPECTION 15515.87  
 LEGAL COSTS 19244.91  
 JIB-PMTA 23.10  
 JIB-DEVELOPEMENT OVERHEAD 11538.58  
 JIB-LABOR BURDEN 5769.85  
 MISCELLANEOUS 12143.35  
 \*\* Subtotal \*\* 644916.19

\*\* LEASE FACILITIES  
 MARKETING GATHERING FACILITIES 62649.99  
 \*\* Subtotal \*\* 62649.99

\*\*\* Total \*\*\* 893715.93

Post-It™ brand fax transmittal memo 7671 # of pages 1

To	WANDA WADE	From	KEES GORDON
Co.	SFER-MIDLAND	Co.	SFER-HOUSTON
Dept.		Phone	(713) 268-5613
Fax #	(915) 687-1699	Fax #	