

**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:**

**CASE NO. 12079
Order No. R-11090**

**APPLICATION OF DAVID H. ARRINGTON
OIL & GAS INC. FOR COMPULSORY
POOLING, DIRECTIONAL DRILLING AND
AN UNORTHODOXWELL LOCATION, LEA
COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on November 5, 1998, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 18th day of November, 1998, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given and the Division has jurisdiction of this case and its subject matter.

(2) The applicant, David H. Arrington Oil & Gas Inc, seeks an order pooling all mineral interests from the surface to the base of the Lower Mississippian formation underlying a portion of Irregular Section 3, Township 16 South, Range 35 East, NMPM, Lea County, New Mexico, in the following manner:

Lots 9, 10, 15 and 16 and the SE/4 thereby forming a standard 320-acre gas spacing and proration unit for formations and/or pools spaced on 320 acres within that vertical extent which presently include the Undesignated North Shoe Bar-Atoka Gas Pool, the Undesignated North Hume-Morrow Gas Pool and the Undesignated Townsend-Morrow Gas Pool;

the SE/4 thereby forming a standard 160-acre spacing and proration unit for formations and/or pools spaced on 160 acres within that vertical extent;

the N/2 SE/4 thereby forming a standard 80-acre spacing and proration unit for formations and/or pools spaced on 80 acres within that vertical extent which presently include the South Big Dog-Strawn Pool; and

the NE/4 SE/4 thereby forming a standard 40-acre oil spacing and proration unit for formations and/or pools spaced on 40 acres within that vertical extent.

These units are to be dedicated to the applicant's proposed Parachute Adams Well No. 1 to be directionally drilled from a surface location 1859 feet from the South line and 777 feet from the East line (Unit Q) to an unorthodox bottomhole location 1450 feet from the South line and 990 feet from the East line (Unit Q) of Section 3.

(3) At the hearing, the applicant requested that:

- a) the portion of its application seeking to pool the N/2 SE/4 of Section 3, thereby forming a standard 80-acre spacing and proration unit be dismissed; and
- b) the vertical extent of the pooled interval be limited to that interval from the base of the Strawn formation to the base of the Lower Mississippian formation.

(4) The applicant has the right to drill on these units and proposes to directionally drill its Parachute Adams Well No. 1 to an unorthodox bottomhole location described above.

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

(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 the units the opportunity to recover or receive without unnecessary expense its just and fair share of the production in any pool completion resulting from this order, this application should be approved by pooling all mineral interests, whatever they may be, within the units.

(7) The evidence presented indicates that the proposed bottomhole location for the Parachute Adams Well No. 1 is unorthodox as to the 320, 160 and 40-acre units.

(8) The applicant presented geologic and engineering evidence and testimony which indicate that the proposed directional drilling and unorthodox bottomhole well location are necessary for the following described topographic and geologic reasons:

- a) the primary target within the Parachute Adams Well No. 1 is the "Brunson" Sand interval within the Atoka formation;
- b) a well drilled at a standard location within the SE/4 of Section 3 will be located in close proximity to a northeast to southwest trending fault;
- c) a well drilled at the proposed unorthodox bottomhole location should encounter a thicker sand section within the "Brunson" Atoka Sand interval than a well drilled at a standard gas well location within the SE/4 of Section 3, thereby increasing the likelihood of obtaining commercial gas production; and
- d) the proposed directional drilling is necessary due to topographic considerations, namely the presence of a road and powerline.

(9) No offset operator and/or interest owner appeared at the hearing in opposition to the proposed directional drilling and unorthodox bottomhole location.

(10) Approval of the proposed unorthodox bottomhole location will provide the applicant the opportunity to produce its just and equitable share of the gas in the affected pools and will not violate correlative rights.

(11) The applicant should determine the subsurface location of the kick-off point in the wellbore prior to directional drilling and should conduct a directional survey during or upon completion of directional drilling operations in order to determine the bottomhole location.

(12) The applicant should submit copies of the directional surveys conducted on the well to the Santa Fe and Hobbs offices of the Division.

(13) The applicant should notify the supervisor of the Division's Hobbs District office of the date and time of commencement of directional drilling operations and of the conducting of any directional surveys on the well in order that these operations may be witnessed.

(14) David H. Arrington Oil & Gas, Inc. should be designated the operator of the well and units.

(15) 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.

(16) 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.

(17) 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.

(18) 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.

(19) Reasonable charges for supervision (combined fixed rates) should be fixed at \$6,000.00 per month while drilling and \$600.00 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.

(20) All proceeds from production from the well that 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.

(21) If the operator of the pooled units fails to commence drilling the well to which the units are dedicated on or before February 1, 1999, or if all the parties to this forced pooling reach voluntary agreement subsequent to entry of this order, this order should become of no effect.

(22) The operator of the well and units should notify 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) Pursuant to the application of David H. Arrington Oil & Gas Inc, all mineral interests, whatever they may be, from the base of the Strawn formation to the base of the Lower Mississippian formation underlying a portion of Irregular Section 3, Township 16 South, Range 35 East, NMPM, Lea County, New Mexico, are hereby pooled in the following manner:

Lots 9, 10, 15 and 16 and the SE/4 thereby forming a standard 320-acre gas spacing and proration unit for formations and/or pools spaced on 320 acres within that vertical extent which presently include the Undesignated North Shoe Bar-Atoka Gas Pool, the Undesignated North Hume-Morrow Gas Pool and the Undesignated Townsend-Morrow Gas Pool;

the SE/4 thereby forming a standard 160-acre spacing and proration unit for formations and/or pools spaced on 160 acres within that vertical extent; and

the NE/4 SE/4 thereby forming a standard 40-acre oil spacing and proration unit for formations and/or pools spaced on 40 acres within that vertical extent.

These units shall be dedicated to the applicant's Parachute Adams Well No. 1 which will be directionally drilled from a surface location 1859 feet from the South line and 777 feet from the East line (Unit Q) to an unorthodox bottomhole location no closer than 1450 feet from the South line and 990 feet from the East line (Unit Q) of Section 3.

PROVIDED HOWEVER THAT, the operator of the units shall commence drilling the well on or before February 1, 1999, and shall thereafter continue drilling the well with due diligence to a depth sufficient to test the Lower Mississippian formation.

PROVIDED FURTHER THAT, in the event the operator does not commence drilling the well on or before February 1, 1999, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause shown.

PROVIDED FURTHER THAT, should the well not be drilled to completion or abandoned within 120 days after commencement thereof, the operator shall appear before the Division Director and show cause why Ordering Paragraph (1) should not be rescinded.

(2) David H. Arrington Oil & Gas, Inc. is hereby designated the operator of the well and units.

(3) After the effective date of this order and within 90 days prior to commencing the well, the operator shall furnish the Division and each known working interest owner in the units an itemized schedule of estimated well costs.

(4) Within 30 days from the date the schedule of estimated well costs is furnished, any non-consenting working interest owner shall have the right to pay its share of estimated well 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.

(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 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.

(6) Within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid its share of estimated well 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.

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

- (a) 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 from the date the schedule of estimated well costs is furnished; and
- (b) as a charge for the risk involved in drilling the well, 200 percent of the above costs.

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

(9) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$6,000.00 per month while drilling and \$600.00 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.

(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 this order.

(11) Any well costs or charges that are to be paid out of production shall be withheld only from the working interests' share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(12) All proceeds from production from the well that 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. 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.

(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 units shall notify the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

(15) The applicant shall determine the subsurface location of the kick-off point in the wellbore prior to directional drilling and shall conduct a directional survey during or upon completion of directional drilling operations in order to determine the bottomhole location.

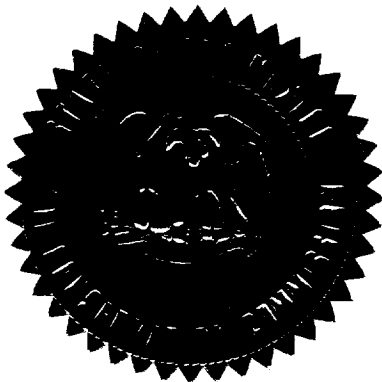
(16) The applicant shall submit copies of the directional surveys conducted on the well to the Santa Fe and Hobbs offices of the Division.

(17) The applicant shall notify the supervisor of the Division's Hobbs District office of the date and time of commencement of directional drilling operations and of the conducting of any directional surveys on the well in order that these operations may be witnessed.

(18) The portion of the application seeking to compulsory pool the N/2 SE/4 of Section 13, thereby forming a standard 80-acre spacing and proration unit, is hereby dismissed.

(19) 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 day and year hereinabove designated.



S E A L

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

Lori Wrotenbery
LORI WROTENBERY
Director