



# HINKLE SHANOR LLP

ATTORNEYS AT LAW

PO BOX 2068

SANTA FE, NEW MEXICO 87504

505-982-4554 (FAX) 505-982-8623

WRITER:

Gary W. Larson,  
Partner

glarson@hinklelawfirm.com

April 2, 2018

VIA HAND DELIVERY

Florene Davidson  
Oil Conservation Division  
1220 S. St. Francis Drive  
Santa Fe, NM 87505

Re: Llano Energy, LLC Application

APR 02 2018 PM03:42

Case 16079

Dear Florene:

Enclosed please find: (i) for filing, the original and one (1) copy of an application by Llano Energy, LLC ("Llano") for approval of a 320-acre, non-standard oil spacing and proration unit to be dedicated to the Sarah #1-H well and an orthodox well location and for compulsory pooling, and (ii) a proposed hearing notice. I will email the proposed hearing notice to you in Word format.

As stated in the application, Special Energy requests that the application be placed on the Division's May 3, 2018 hearing docket.

Thank you for your assistance.

Very truly yours,

Gary W. Larson

GWL:jwl  
Enclosures

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

**APPLICATION OF LLANO ENERGY,  
LLC FOR A NON-STANDARD  
SPACING AND PRORATION UNIT,  
COMPULSORY POOLING, AND AN  
UNORTHODOX WELL LOCATION,  
LEA COUNTY, NEW MEXICO**

APR 02 2018 PM03:42

Case No. 16079

**APPLICATION**

Pursuant to NMSA § 70-2-17 and 19.15.15.13 NMAC, Llano Energy, LLC (“Llano”) applies for an order (i) approving a 320-acre, non-standard spacing and proration unit (“project area”) in the E/2 of Section 29, Township 12 South, Range 38 East, Lea County, New Mexico, (ii) pooling all uncommitted mineral interests in the San Andres formation in the proposed project area, and (iii) approving an unorthodox location for the Sarah #1-H horizontal well. In support of its Application, Llano states:

1. Llano is a working interest owner in the E/2 of Section 29 and has the right to drill a well thereon.
2. Llano proposes to dedicate the above-referenced non-standard spacing and proration unit as the project area for its Sarah #1-H well, which will be horizontally drilled from a surface location in Unit A in Section 32 to a bottom hole location in Unit A in Section 29, Township 12 South, Range 38 East.
3. The completed interval for the Sarah #1-H well will be unorthodox. The first take point will be 100 feet from the South line and last take point will be 100 feet from the North line of Section 29.

4. Llano has contracted with Special Energy Corporation (“Special Energy”) to drill and operate the Sarah #1-H well. Consequently, Llano requests that the Division designate Special Energy (OGRID No. 138008) as the operator of the well.

5. Llano has undertaken diligent, good-faith efforts to obtain voluntary agreements from all mineral interest owners in the proposed project area to participate in the drilling of the Sarah #1-H well, but has been unable to obtain voluntary agreements from all of the mineral interest owners.

6. The pooling of those uncommitted mineral interests will avoid the drilling of unnecessary wells, prevent waste, and protect correlative rights.

7. In order to allow Llano to obtain its just and fair share of the oil and gas underlying the subject lands, all uncommitted mineral interest owners in the non-standard spacing and proration unit should be pooled and Special Energy should be designated the operator of the proposed horizontal well and the project area.

8. Llano seeks approval of an unorthodox location for the Sarah #1-H well to maximize the recovery of oil and gas reserves within the project area.

WHEREFORE, Llano requests that this application be set for hearing on May 3, 2018 and that, after notice and hearing, the Division enter an order:

- A. Approving a 320-acre non-standard spacing and proration unit (project area) in the San Andres formation in the E/2 of Section 29, Township 12 South, Range 38 East, in Lea County;
- B. Pooling all uncommitted mineral interests in the proposed project area;
- C. Approving the unorthodox location for the Sarah #1-H well;
- D. Designating Special Energy as the operator of the project area and the Sarah #1-H well;

E. Authorizing Llano to recover its costs of drilling, equipping, and completing the well;

F. Considering the cost of drilling and completing the well and allocating the cost among the uncommitted mineral interest owners;

G. Approving the actual operating charges and costs of supervision during drilling and after completion, together with a provision for adjusting the rates pursuant to the COPAS accounting procedure; and

H. Imposing a 200% penalty for the risk assumed by Llano in drilling and completing the Sarah #1-H well against any mineral interest owner who does not voluntarily participate in the drilling of the well.

HINKLE SHANOR LLP



Gary W. Larson

P.O. Box 2068

Santa Fe, NM 87504-2068

Phone: (505) 982-4554

Facsimile: (505) 982-8623

glarson@hinklelawfirm.com

*Counsel for Llano Energy, LLC*

## PROPOSED NOTICE

Case No. 16079 : Application of Llano Energy, LLC for a non-standard oil spacing and proration unit, compulsory pooling, and an unorthodox well location, Lea County, New Mexico. Applicant seeks an order (i) creating a 320-acre, non-standard oil spacing and proration unit (project area) comprised of the E/2 of Section 29, Township 12 South, Range 38 East, NMPM, in Lea County, (ii) pooling all uncommitted mineral interests in the San Andres formation underlying this acreage, and (iii) approving an unorthodox location for the Sarah #1-H well. The project area is to be dedicated to the Sarah #1-H well, which will be horizontally drilled from a surface location in Unit A in Section 32 to a bottom hole location in Unit A of Section 29, Township 12 South, Range 38 East. The completed interval for the well will be unorthodox. Also to be considered will be the cost of drilling and completing the well and the allocation of the cost, the designation of Special Energy Corporation (OGRID No. 138008) as the operator of the well, and a 200% charge for the risk involved in drilling and completing the well. The proposed project area is located approximately nine (9) miles east of Tatum, New Mexico.

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