

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. 12049
ORDER NO. R-10775-A

**APPLICATION OF MANZANO OIL CORPORATION FOR COMPULSORY
POOLING AND A NON-STANDARD SUBSURFACE OIL WELL
LOCATION/PRODUCING AREA, LEA COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on October 8 and November 5, 1998, at Santa Fe, New Mexico, before Examiners Michael E. Stogner and David R. Catanach, respectively.

NOW, on this 20th 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, Manzano Oil Corporation ("Manzano"), seeks an order pooling all mineral interests within the Undesignated North Lovington-Wolfcamp and Undesignated Northeast Lovington-Pennsylvanian Pools underlying the S/2 SE/4 of Section 2, Township 16 South, Range 36 East, NMPM, Lea County, New Mexico, in order to form a standard 80-acre oil spacing and proration unit for both pools.

(3) This 80-acre unit is within one mile of the Northeast Lovington-Pennsylvanian Pool and any production obtained from the Pennsylvanian interval will therefore be subject to the "*Special Rules and Regulations for the Northeast Lovington-Pennsylvanian Pool*" set forth in Division Order No. R-3816, as amended, which provide for standard 80-acre oil spacing and proration units with wells to be located within 150 feet of the center of either a governmental quarter-quarter section or lot that comprises the unit.

(4) This 80-acre unit is also within one mile of the North Lovington-Wolfcamp Pool and any production obtained from the Wolfcamp formation will be subject to the "*Special Rules and Regulations for the North Lovington-Wolfcamp Pool*" set forth in Division Order No. R-10735, as amended, which also provide for standard 80-acre oil spacing and proration units with wells to be located within 150 feet of the center of either a governmental quarter-quarter section or lot that comprises the unit.

(5) This well was drilled in mid-1997 to a total depth of 11,851 feet. After testing dry in the Strawn formation this well was temporarily abandoned.

(6) The S/2 SE/4 of Section 2 consists of some 58 different fee tracts all within a housing subdivision located just outside of the City of Lovington, New Mexico.

(7) Manzano has proposed to all unleased mineral owners and working interest owners the formation of the subject 80-acre spacing unit and the recompletion of the subject well and has obtained the voluntary agreement of more than 97% of the interest ownership within the 80-acre spacing unit; however, the remaining balance of the interest owners in the proposed units have not agreed to pool their interests.

(8) Manzano has the right to drill for and develop those minerals underlying the subject 80-acre unit. Further, Manzano has made a good faith effort to reach a voluntary agreement with all mineral interest owners underlying this unit and is therefore entitled to seek compulsory pooling.

(9) This unit is to be dedicated to the existing "SV" Killer Bee Well No. 1 (API No. 30-025-33807), to be redesignated the Odyssey Well No. 1, located at an unorthodox surface oil well location 487 feet from the South line and 1270 feet from the East line (Unit O) of Section 2 (approved by Division Order No. R-10775, issued in Case No. 11725 and dated February 27, 1997). Further, in accordance with Division Rules 104.F and 111(C)2, the applicant seeks approval to recomplete this well by directionally drilling to a non-standard subsurface oil well location/producing area within the proposed 80-acre unit for both the Undesignated North Lovington-Wolfcamp and Undesignated Northeast Lovington-Pennsylvanian Pools that will be no closer than 510 feet to the east, south, and west boundaries of the unit nor closer than 171 feet to the western boundary of the unit.

(10) This well is to be kicked-off at an approximate depth of 9,000 feet and directionally drilled to a true vertical depth of 11,800 in order to test down to the deeper Strawn interval at the proposed non-standard subsurface oil well location/producing area. The geological evidence presented indicates that this subsurface location to the deeper Strawn formation for the Odyssey Well No. 1 will serve to position this wellbore in the S/2

SE/4 of Section 2 at a more favorable geologic position within the Undesignated Northeast Lovington-Pennsylvanian Pool than a well drilled at a standard location thereon.

(11) No offset operators, other interest owners, or interested party appeared at the hearing to object to the proposed directional drilling, unorthodox bottomhole well location/producing area within the Undesignated North Lovington-Wolfcamp and Undesignated Northeast Lovington-Pennsylvanian Pools, or the pooling of this acreage.

(12) Approval of this subject application will afford the applicant the opportunity to produce its just and equitable share of production within both the Undesignated North Lovington-Wolfcamp and Undesignated Northeast Lovington-Pennsylvanian Pools underlying the S/2 SE/4 of Section 2, will prevent the economic loss caused by the drilling of unnecessary wells, exhibits sound engineering practices by utilizing an existing wellbore, is in the best interest of conservation and will otherwise prevent waste and protect correlative rights.

(13) The applicant should be required to determine the subsurface location of the kick-off point of the Odyssey Well No. 1 prior to directional drilling and should subsequently be required to conduct an accurate wellbore survey during or upon completion of drilling operations from the kick-off point to total depth to determine its true depth and course.

(14) The applicant should be required to notify the supervisor of the Division's Hobbs District Office of the date and time the directional surveys are to be conducted so that they may be witnessed. The applicant should further be required to provide a copy of the directional surveys to the Division's offices in Santa Fe and Hobbs upon completion.

(15) To avoid the drilling of unnecessary wells, to protect correlative rights, to prevent waste and to afford to the owner of each interest in this unit the opportunity to recover or receive without unnecessary expense its fair share of hydrocarbon production in the Undesignated North Lovington-Wolfcamp and Undesignated Northeast Lovington-Pennsylvanian Pools, the subject application should be approved by pooling all mineral interests, whatever they may be, within this unit.

(16) Manzano should be designated the operator of the subject well and unit.

(17) Any non-consenting working interest owner should be afforded the opportunity to pay a proportionate share of estimated re-entry, recompletion, and directional drilling costs to the operator.

(18) The applicant requested that a risk penalty of 200 percent be assessed against

non-consenting interest owners.

(19) Inasmuch as the well has already been drilled, the remaining risk should apply only to re-entry, recompletion, and directional drilling operations to be conducted on the well. The risk penalty should therefore be reduced accordingly.

(20) Any non-consenting working interest owner who does not pay its share of estimated re-entry, recompletion, and directional drilling costs should have withheld from production its share of reasonable costs plus an additional 150 percent thereof as a reasonable charge for the risk involved in the re-entry, recompletion, and directional drilling of the well.

(21) Any non-consenting interest owner should be afforded the opportunity to object to the actual re-entry, recompletion, and directional drilling costs but actual costs should be adopted as the reasonable costs in the absence of such objection.

(22) 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 costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(23) Reasonable charges for supervision (combined fixed rates) should be fixed at \$5,000.00 per month while re-entering, recompleting, and directional drilling and \$500.00 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.

(24) 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.

(25) If the operator of the pooled unit fails to commence re-entry/recompletion operations on the Odyssey Well No. 1 on or before February 15, 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 further effect.

(26) Should any of the parties to this force-pooling reach voluntary agreement, this order should thereafter be of no further effect as to those parties.

(27) Manzano should notify the Division in writing of the subsequent voluntary

agreement of all parties subject to the force-pooling provisions of this order.

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be, within the Undesignated North Lovington-Wolfcamp and Undesignated Northeast Lovington-Pennsylvanian Pools underlying the S/2 SE/4 of Section 2, Township 16 South, Range 36 East, NMPM, Lea County, New Mexico, are hereby pooled in order to form a standard 80-acre oil spacing and proration unit for both pools. This unit is to be dedicated to Manzano Oil Corporation's ("Manzano") existing "SV" Killer Bee Well No. 1 (API No. 30-025-33807), to be redesignated the Odyssey Well No. 1, located at an unorthodox surface oil well location 487 feet from the South line and 1270 feet from the East line (Unit O) of Section 2, Township 16 South, Range 36 East, NMPM, Lea County, New Mexico (approved by Division Order No. R-10775, issued in Case No. 11725 and dated February 27, 1997). Further, in accordance with Division Rules 104.F and 111(C)2, Manzano is authorized to recomplete this well by directionally drilling to a non-standard subsurface oil well location/producing area within the S/2 SE/4 of Section 2, being a standard 80-acre oil spacing and proration unit for both the Undesignated North Lovington-Wolfcamp and Undesignated Northeast Lovington-Pennsylvanian Pools, that will be no closer than 510 feet to the east, south, and west boundaries of the unit nor closer than 171 feet to the western boundary of the unit.

PROVIDED HOWEVER THAT, the operator shall commence re-entry, recompletion, and directional drilling operations on the well on or before February 15, 1999, and shall thereafter continue the re-entry and recompletion operations on the well by directionally drilling in the manner described above in Ordering Paragraph No. (1) to a depth sufficient to test the Strawn formation.

PROVIDED FURTHER THAT, in the event the operator does not commence re-entry, recompletion, and directional drilling operations on the well on or before February 15, 1999, Ordering Paragraph No. (1) of this order 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 re-entered, recompleted, and directionally drilled or abandoned, within 120 days after commencement thereof, the operator shall appear before the Division Director and show cause why Ordering Paragraph No. (1) of this order should not be rescinded.

(2) Manzano is hereby designated the operator of the well and unit.

(3) After the effective date of this order and within 90 days prior to commencing

re-entry, recompletion, and directional drilling operations on this well, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated re-entry, recompletion, and directional drilling 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 recompletion 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 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 the re-entry, recompletion, and directional drilling the Odyssey Well No. 1, 150 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 \$5,000.00 per month while re-entering, recompleting, and directional drilling and \$500.00 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 the terms of this order.

(11) 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.

(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 any of the parties to this force-pooling reach voluntary agreement, this order should thereafter be of no further effect as to those parties.

(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 units 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) Prior to commencing directional drilling operations on the Odyssey Well No. 1, the operator shall establish the location of the kick-off point by means of a directional survey acceptable to the Division.

PROVIDED HOWEVER THAT during or upon completion of directional drilling operations, the applicant shall conduct an accurate wellbore survey from the kick-off point to total depth in order that the subsurface bottomhole location, as well as the wellbore's true

depth and course, may be determined.

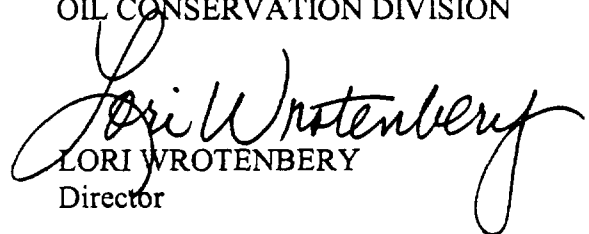
(17) The operator shall notify the supervisor of the Division's Hobbs District Office of the date and time the wellbore surveys are to be conducted so that they may be witnessed. The applicant shall further provide a copy of the wellbore surveys to the Santa Fe and Hobbs offices of the Division upon completion.

(18) Form C-105 shall be filed in accordance with Division Rule No. 1105 and the operator shall indicate thereon true vertical depth in addition to measured depths for the Odyssey Well No. 1. The operator shall also establish the location of the kick-off point by means of a directional survey acceptable to the Division.

(19) Jurisdiction of this case 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


LORI WROTENBERY
Director

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