

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. 11077
ORDER NO. R-10214*

**APPLICATION OF SANTA FE ENERGY OPERATING PARTNERS, L.P. FOR
COMPULSORY POOLING, AN UNORTHODOX GAS WELL LOCATION AND
DIRECTIONAL DRILLING, LEA COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on September 1, 1994, at Santa Fe, New Mexico, before Examiner Jim Morrow.

NOW, on this 4th day of October 1994, the Division Director, having considered the testimony, the record and the recommendations of the Examiner, and being fully advised in the premisses,

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, Santa Fe Energy Operating Partners, L.P. (Santa Fe Energy), seeks an order pooling all mineral interests from the surface to the base of the Morrow formation underlying Lots 3 and 4, the E/2 SW/4, and the SE/4 (S/2 equivalent) of Section 18, Township 20 South, Range 34 East, NMPM, Lea County, New Mexico, to form a standard 320.03-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within said vertical extent, which presently includes, but is not necessarily limited to the Undesignated Quail Ridge-Morrow Gas Pool.

(3) The applicant proposes to dedicate said unit to its Sinagua "18" Federal Com Well No. 2 to be directionally drilled from an unorthodox surface gas well location 2041 feet from the South line and 2171 feet from the East line (Unit J) of said Section 18 to an unorthodox bottomhole gas well location within the Morrow formation that is within a 50-foot radius of a point 1300 feet from the South and East lines (Unit P) of said Section 18.

Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as the operator of the well and a charge for risk involved in drilling and completing said well.

(4) Mr. Walter Krug, doing business as Wallen Production Company, appeared at the hearing through counsel in opposition to the application.

(5) Santa Fe Energy and its partners own over 93% of the working interest in the S/2 of Section 18 and have the right to develop the minerals under the acreage. The other interest owners have been contacted with offers for them to participate in the unit or to sell or farm out their interests.

(6) Pool rules for the Quail Ridge-Morrow Gas Pool provide for 320-acre units with wells to be located no closer than 660 feet to the nearest side boundary nor closer than 1980 feet to the nearest end boundary, nor closer than 330 feet to any quarter-quarter section boundary.

(7) The proposed surface location is within a drilling island authorized by the Bureau of Land Management in the Potash Enclave. The BLM denied two proposed vertical locations outside the drilling island. The island is defined by Yates-formation producing wells at each corner, three of which are operated by Wallen Production Company, the protestor.

(8) The bottomhole location was selected for geologic reasons. Santa Fe Energy submitted Middle and Lower Morrow isopach maps in the thicker part of the reservoirs. The proposed location is also positioned to avoid drainage interference with the Sinagua "18" Well No. 1 in the N/2 of Section 18.

(9) Based on the applicant's testimony, 20-inch surface casing would be set at 450 feet and cemented back to surface. The proposed well would be drilled vertically to the top of the Yates formation at approximately 3300 feet. 13 3/8-inch casing would be set and cemented to surface. Verticalhole would be continued to 5200 feet where 8 5/8-inch casing would be set and cemented with sufficient volume to tie back into the 13 3/8-inch casing. At 5500 feet, the well would be kicked off from the vertical in a southeast direction. Angle would be increased to eight degrees from vertical so as to reach the proposed bottomhole location in the Morrow formation at a depth of 13700 feet. 5 1/2-inch casing would be set to total depth for completion in the Morrow. The BLM has approved Santa Fe Energy's "Application for Permit to Drill" which proposed the casing program described above.

(10) The well is expected to cost \$1,229,000 which is \$150,000 more than a vertical well.

(11) Counsel for Wallen Production Company questioned Santa Fe Energy's witness and presented exhibits and statements to support Wallen's concern that drilling through the Yates formation would have an adverse affect on Wallen's nearby Yates completions. Counsel for Wallen asked that a detailed summary of the proposed drilling plan be submitted. Santa Fe Energy submitted the requested information on September 22, 1994.

(12) To avoid the drilling of unnecessary wells, to protect correlative rights, to prevent waste and to afford to the owner of each interest in said units the opportunity to recover or receive without unnecessary expense his just and fair share of the production in any pool completion resulting from this order, the subject application should be approved by pooling all mineral interests, whatever they may be, within said 320-acre unit, and by authorizing directional drilling from the proposed unorthodox surface location to the proposed unorthodox bottomhole location.

(13) The applicant should be designated the operator of the subject well.

(14) Any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(15) Any non-consenting working interest owner who does not pay his share of estimated well costs should have withheld from production his 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.

(16) Any non-consenting 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.

(17) Following determination of reasonable well costs, any non-consenting working interest owner who has paid his 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.

(18) At the time of the hearing, the applicant proposed that the reasonable monthly fixed charges for supervision while drilling and producing said well should be set at \$5200.00 and \$520.00, respectively.

(19) \$5200.00 per month while drilling and \$520.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); the operator should be authorized to withhold from production the proportionate share of supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(20) All proceeds from production from the subject well which 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) Upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before January 1, 1995, the pooling herein ordered should become null and void and of no further effect whatsoever.

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

(23) The operator of the well and unit should 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.

(24) The applicant should be required to determine the subsurface location of the kick-off point prior to directional drilling and should subsequently be required to conduct accurate wellbore surveys during or upon completion of the drilling operations from the kick-off point to total depth to determine the well's true depth and course.

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

(26) No offset operator or interest owner other than Wallen Production Company, appeared at the hearing in opposition to the application.

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be, from the surface to the base of the Morrow formation underlying Lots 3 and 4, the E/2 SW/4, and the SE/4 (S/2 equivalent) of Section 18, Township 20 South, Range 34 East, NMPM, Lea County, New Mexico, are hereby pooled to form a standard 320.03-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within said vertical extent, which presently includes, but is not necessarily limited to the Undesignated Quail Ridge-Morrow Gas Pool.

(2) Said unit shall be dedicated to the applicant's Sinagua "18" Federal Com Well No. 2 to be directionally drilled from an unorthodox surface gas well location 2041 feet from the South line and 2171 feet from the East line (Unit J) of said Section 18 to an unorthodox bottomhole gas well location within the Morrow formation that is within a 50-foot radius of a point 1300 feet from the South and East lines (Unit P) of said Section 18. Said unorthodox locations and said directional drilling are hereby authorized.

(3) The applicant shall determine the subsurface location of the kick-off point prior to directional drilling and shall conduct accurate wellbore surveys during or upon completion of drilling operations from the kick-off point to total depth to determine the well's true depth and course.

(4) The applicant shall notify the supervisor of the Hobbs District Office of the Division of the date and time said directional surveys are to be conducted so that they may be witnessed. The applicant shall provide copies of said directional surveys to the Santa Fe and Hobbs offices of the Division upon completion.

(5) The applicant shall notify the supervisor of the Hobbs District Office of the Division of any drilling problems encountered while drilling between the depths of 3000 and 5200 feet.

(6) The applicant shall comply with Division Order No. R-111-P, pertaining to drilling in potash areas of Eddy and Lea Counties, New Mexico.

PROVIDED HOWEVER THAT, the operator of said unit shall commence the drilling of said well on or before the 1st day of January 1995, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the formations within the above described vertical interval.

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said well on or before the 1st day of January 1995, the forced pooling provisions 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 the forced pooling provisions of this order should not be rescinded.

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

(8) 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.

(9) 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.

(10) 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.

(11) 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 estimated well costs exceed reasonable well costs.

(12) 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, 200 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.

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

(14) \$5200.00 per month while drilling and \$520.00 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.

(15) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(16) 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.

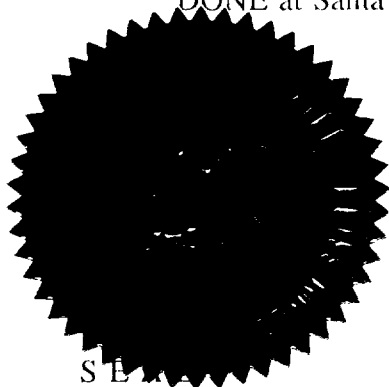
(17) All proceeds from production from the subject well which are not disbursed for any reason shall be placed in escrow in Lea County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; the operator shall notify the Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

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

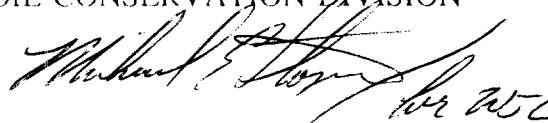
(19) The operator of the subject well and unit shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the force-pooling provisions of this order.

(20) 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

A handwritten signature in black ink, appearing to read 'William J. Lemay', with a large, stylized flourish extending to the right.

WILLIAM J. LEMAY
Director

S E