



NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION
2040 South Pacheco Street
Santa Fe, New Mexico 87505
(505) 827-7131

October 27, 1997

Santa Fe Energy Resources, Inc.
c/o James Bruce
P. O. Box 1056
Santa Fe, New Mexico 87504

Case 11558

Re: *Administrative application for two non-standard subsurface gas well locations for Santa Fe Energy Resources, Inc.'s Topaz "19" Federal Com Well No. 1 (API No. 30-025-22564) in Unit "N" of Section 19, Township 20 South, Range 34 East, NMPM, Undesignated West Lynch-Morrow Gas Pool or Undesignated Quail Ridge-Morrow Gas Pool, Lea County, New Mexico.*

Dear Mr. Bruce:

Subsequent to my review of the subject application dated September 26, 1997, I found that this particular well had been the subject of a hearing in June, 1995 (Case 11296). What, if any, is the current status of Division Order No. R-10387, see copy attached. If the provisions of said order are no longer applicable, what information presented then is still applicable now and explain in detail any differences.

Should you have any questions concerning this matter, please contact me in Santa Fe at (505) 827-8185.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael E. Stogner", written over a horizontal line.

Michael E. Stogner
Chief Hearing Officer/Engineer

cc: Oil Conservation Division - Hobbs
File: Case 11296

**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. 11296
Order No. R-10387**

**APPLICATION OF SANTA FE ENERGY
RESOURCES INC. FOR COMPULSORY
POOLING, DIRECTIONAL DRILLING,
AND AN UNORTHODOX BOTTOMHOLE
GAS WELL LOCATION, LEA COUNTY,
NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on June 1, 1995, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 7th day of June, 1995, 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, Santa Fe Energy Resources, Inc., seeks an order pooling all mineral interests from the surface to the base of the Morrow formation underlying the following described acreage in Section 19, Township 20 South, Range 34 East, NMPM, and in the following manner:

Lots 1 through 4 and the E/2 W/2 (W/2 equivalent) to form a 320.28-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 and the Undesignated West Lynch-Morrow Gas Pool; and,

Lots 3 and 4 and the E/2 SW/4 (SW/4 equivalent) to form a 160.19-acre gas spacing and proration unit for any and all formations and/or pools developed on 160-acre spacing within said vertical extent.

(3) Said unit(s) are to be dedicated to the plugged and abandoned Cities Service Oil Company Government "N" Com Well No. 1-Y (API No. 30-025-22564) (to be re-designated the Sinagua "19" Federal Com Well No. 2) located 660 feet from the South line and 2084 feet from the West line (Unit N) of Section 19, wherein the applicant proposes to re-enter said well and recomplete by kicking off from the vertical and directionally drilling the wellbore in a northerly direction into the Morrow formation at an unorthodox bottomhole gas well location within 50 feet of a point 1060 feet from the South line and 2084 feet from the West line of Section 19.

(4) The applicant has the right to re-enter the proposed Sinagua "19" Federal Com Well No. 2.

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

(6) Division records indicate that the subject well was drilled in 1968 by Cities Service Oil Company to test the Devonian formation. The well tested dry and was subsequently plugged and abandoned.

(7) According to applicant's evidence and testimony, re-entering the proposed Sinagua "19" Federal Com Well No. 2 as opposed to drilling a new well within the W/2 of Section 19 to test the Morrow formation will significantly reduce the costs associated with such a venture.

(8) Further testimony by the applicant indicates that some damage to the Morrow formation may have occurred during the drilling of the Sinagua "19" Federal Com Well No. 2. The applicant seeks authority to directionally drill the subject well in order to minimize the risk of encountering the damaged area within the Morrow formation.

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

(10) Approval of the proposed directional drilling and unorthodox bottomhole gas well location will afford the applicant the opportunity to produce its just and equitable share of the gas in the affected pool(s), will prevent the drilling of unnecessary wells, and will otherwise prevent waste and protect correlative rights.

(11) To avoid the drilling of unnecessary wells, to protect correlative rights, to avoid waste, and to afford to the owner of each interest in said unit(s) 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, whether they may be, within said unit(s).

(12) The applicant should be designated the operator of the subject well and unit(s).

(13) Re-entry and directional drilling costs should be adopted as estimated well costs for the purpose of this order.

(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 the reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in re-entering and directionally drilling the well.

(16) 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.

(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) \$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 such 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.

(19) 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.

(20) Upon the failure of the operator of said pooled unit(s) to commence re-entry and directional drilling operations on the subject well on or before September 1, 1995, the order pooling the subject unit(s) should become null and void and of no effect whatsoever.

(21) 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.

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

(23) The applicant should be required to conduct a directional survey to determine the location of the kick-off point prior to directional drilling and subsequent to completion of directional drilling operations in order to determine the bottomhole location of the subject well.

(24) The applicant should be required to notify the supervisor of the Division's Hobbs district office of the date and time of conductance of any directional surveys in order that the same may be witnessed. In addition, the applicant should be required to submit copies of the directional surveys to both the Santa Fe and Hobbs offices of the Division upon completion.

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be, from the surface to the base of the Morrow formation underlying the following described acreage in Section 19, Township 20 South, Range 34 East, NMPM, are hereby pooled in the following manner:

Lots 1 through 4 and the E/2 W/2 (W/2 equivalent) to form a 320.28-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 and the Undesignated West Lynch-Morrow Gas Pool; and,

Lots 3 and 4 and the E/2 SW/4 (SW/4 equivalent) to form a 160.19-acre gas spacing and proration unit for any and all formations and/or pools developed on 160-acre spacing within said vertical extent.

Said unit(s) shall be dedicated to the plugged and abandoned Cities Service Oil Company Government "N" Com Well No. 1-Y (API No. 30-025-22564) (to be re-designated the Sinagua "19" Federal Com Well No. 2) located 660 feet from the South line and 2084 feet from the West line (Unit N) of Section 19, which will be re-entered by the applicant and directionally drilled in a northerly direction so as to penetrate the Morrow formation at an unorthodox bottomhole gas well location within 50 feet of a point 1060 feet from the South line and 2084 feet from the West line of Section 19, also hereby approved.

PROVIDED HOWEVER THAT, the operator of said unit(s) shall commence re-entry and directional drilling operations on the subject well on or before the 1st day of September, 1995, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Morrow formation.

PROVIDED FURTHER THAT, in the event said operator does not commence re-entry and directional drilling operations on the well on or before the 1st day of September, 1995, Ordering Paragraph No. (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division Director 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 Ordering Paragraph No. (1) of this order should not be rescinded.

(2) Santa Fe Energy Resources, Inc., is hereby designated the operator of the subject well and unit(s).

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

(4) 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.

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

(7) 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.

(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.

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

(9) \$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.

(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 subject well which 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 said escrow agent within 30 days from the date of first deposit with said 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 unit(s) shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

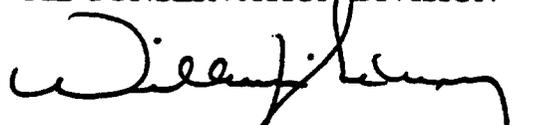
(15) The applicant shall conduct a directional survey to determine the location of the kick-off point prior to directional drilling and subsequent to completion of directional drilling operations in order to determine the bottomhole location of the subject well.

(16) The applicant shall notify the supervisor of the Division's Hobbs district office of the date and time of conductance of any directional surveys in order that the same may be witnessed. In addition, the applicant shall submit copies of the directional surveys to both the Santa Fe and Hobbs offices of the Division upon completion.

(17) 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.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION



WILLIAM J. LEMAY
Director

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