

**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. 12085
Order No. R-11110**

**APPLICATION OF JOHN H. HENDRIX
CORPORATION FOR COMPULSORY
POOLING AND A HORIZONTAL WELL,
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 14th day of December, 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, John H. Hendrix Corporation (Hendrix), seeks an order pooling all mineral interests in the Abo formation, Southeast Monument-Abo Pool, underlying the following described acreage in Section 16, Township 20 South, Range 37 East, NMPM, Lea County, New Mexico in the following manner:

the SE/4 NW/4 to form a standard 40-acre oil spacing and proration unit to be dedicated to its proposed Wood State Well No. 5 to be drilled as a vertical well at a standard location 1650 feet from the North line and 2310 feet from the West line (Unit F) of Section 16; or

In the Alternative,

the E/2 NW/4 to form an 80-acre project area (as defined by Division Rule No. 111.A. (7)) to be dedicated to its proposed Wood State Well No. 5 ***in the event this well is drilled as a horizontal well*** from a standard surface location 1650 feet from the North line and 2310 feet from the West line (Unit F) of Section 16 in the following manner:

Kicking-off from vertical at a depth of approximately 7,050 feet building a medium radius curve to an angle of 90 degrees and thereafter drilling laterally in a northerly direction a distance of approximately 1300 feet such that the producing interval and terminus of the wellbore are located no closer than 330 feet from the outer boundary of the project area.

(3) The applicant owns an interest in both the NE/4 NW/4 and SE/4 NW/4 of Section 16 and has the right to drill for and develop the oil and gas reserves underlying these units.

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

(5) Evidence and testimony presented in this case indicate that:

a) by Order No. R-11047 dated September 16, 1998, the Division, upon application of John H. Hendrix Corporation, pooled all mineral interests in all formations from the top of the Abo formation to the base of the Strawn formation underlying the following described acreage in Section 16, Township 20 South, Range 37 East, NMPM, Lea County, New Mexico, in the following manner:

the E/2 NW/4 to form a standard 80-acre gas spacing and proration unit for the Undesignated Cass (Pennsylvanian) Pool; and

the NE/4 NW/4 to form a standard 40-acre oil spacing and proration unit for any formations and/or pools spaced on 40 acres within that vertical extent which presently includes, but is not necessarily limited to the Southeast Monument-Abo Pool.

These units are to be dedicated to either the existing Conoco, Inc. State "CC-16" Well No. 1 (API No. 30-025-33284), located 330 feet from the North line and 2080 feet from the West line (Unit C) of Section 16, or to the proposed Wood State Well No. 4 to be drilled at a location 660 feet from the North line and 2310 feet from the West line (Unit C) of Section 16.

b) Marathon Oil Company (Marathon) has proposed drilling a horizontal well to test the Abo formation, Southeast Monument-Abo Pool, within the NE/4 of Section 16;

c) Hendrix' method of developing the oil and gas reserves in the Strawn and Abo formations underlying the SE/4 NW/4 and the NE/4 NW/4 of Section 16, by (i) re-entering the Conoco, Inc. State "CC-16" Well No. 1, (ii) drilling the Wood State Well No. 4, and/or (iii) vertically or horizontally drilling the Wood State Well No. 5, are contingent upon the success of Marathon's proposed horizontal well in the NE/4 of Section 16;

d) if Marathon's horizontal well is successful, Hendrix will horizontally drill its proposed Wood State Well No. 5 in the manner described in Finding No. (2) above, and if the well is not successful, or if Marathon ultimately does not drill its well, Hendrix will drill the Wood State Well No. 5 as a conventional vertical well within the SE/4 NW/4 of Section 16;

e) substantial cost savings will be achieved by drilling a horizontal well to develop the oil and gas reserves underlying the E/2 NW/4 as opposed to drilling two vertical wells within these units; and

f) no offset operator and/or interest owner appeared at the hearing in opposition to the proposed compulsory pooling and horizontal drilling.

(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 applicant should be designated the operator of the well and units.

(8) Mr. and Mrs. Roger Hansen and Dr. Henry Yeager, Jr., owners of a combined 50% of the working interest in the proposed spacing units, wrote the Division and requested that a risk penalty of less than 200 percent be imposed on their interest in the event they remain non-consent in either the horizontally or vertically drilled Wood State Well No. 5.

(9) Applicant presented sufficient evidence to justify its proposed risk penalty of 200 percent.

(10) 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.

(11) 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.

(12) 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.

(13) 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.

(14) Reasonable charges for supervision (combined fixed rates) should be fixed at \$3,500.00 per month while drilling and \$350.00 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.

(15) 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.

(16) If the operator of the pooled units fails to commence drilling the well to which the units are dedicated on or before March 15, 1998, or if all the parties to this forced pooling reach voluntary agreement subsequent to entry of this order, this order should be of no effect.

(17) 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.

(18) The applicant should be required to determine the actual location of the kick-off point within the Wood State Well No. 5 prior to commencing horizontal drilling operations. The applicant should also be required to conduct a directional survey on the lateral portion of the wellbore during or upon completion of horizontal drilling operations in order to determine the location of the producing interval and bottomhole location.

(19) The applicant should be required to submit copies of all directional surveys conducted on the Wood State Well No. 5 to the Division's Santa Fe and Hobbs offices.

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be, in the Abo formation, Southeast Monument-Abo Pool, underlying the following described acreage in Section 16, Township 20 South, Range 37 East, NMPM, Lea County, New Mexico, are hereby pooled in the following manner:

the SE/4 NW/4 to form a standard 40-acre oil spacing and proration unit to be dedicated to the proposed Wood State Well No. 5 to be drilled as a vertical well at a standard location 1650 feet from the North line and 2310 feet from the West line (Unit F) of Section 16; or

In the Alternative,

the E/2 NW/4 to form an 80-acre project area (as defined by Division Rule No. 111.A. (7)) to be dedicated to the proposed Wood State Well No. 5 ***in the event this well is drilled as a horizontal well*** from a standard surface location 1650 feet from the North line and 2310 feet from the West line (Unit F) of Section 16 in the following manner:

Kicking-off from vertical at a depth of approximately 7,050 feet building a medium radius curve to an angle of 90 degrees and thereafter drilling laterally in a northerly direction a distance of approximately 1300 feet such that the producing interval and terminus of the wellbore are located no closer than 330 feet from the outer boundary of the project area.

PROVIDED HOWEVER THAT, the operator of the units shall commence drilling the well on or before March 15, 1998, and shall thereafter continue drilling the well with due diligence to a depth sufficient to test the Abo formation.

PROVIDED FURTHER THAT, in the event the operator does not commence drilling the well on or before March 15, 1998, 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) John H. Hendrix Corporation 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.

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(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 \$3,500.00 per month while drilling and \$350.00 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.

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(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 actual location of the kick-off point within the Wood State Well No. 5 prior to commencing horizontal drilling operations. The applicant shall also conduct a directional survey on the lateral portion of the wellbore during or upon completion of horizontal drilling operations in order to determine the location of the producing interval and bottomhole location.

(16) The applicant shall submit copies of all directional surveys conducted on the Wood State Well No. 5 to the Division's Santa Fe and Hobbs offices.

(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


LORI WROTENBERY
Director

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