

**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:**

**APPLICATION OF JOHN H. HENDRIX
CORPORATION FOR COMPULSORY
POOLING, LEA COUNTY, NEW MEXICO.**

**CASE NO. 12085
ORDER NO. R-_____**

**JOHN H. HENDRIX CORPORATION'S
PROPOSED ORDER OF THE DIVISION**

BY THE DIVISION:

This cause 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 ____ day of November, 1998, 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, John H. Hendrix Corporation ("Hendrix") seeks an order pooling all mineral interests in the Abo formation, Southeast Monument-Abo Pool, underlying the following acreage in Section 16, Township 20 South, Range 37 East, NMPM, Lea County, New Mexico:

(a) the SE/4 NW/4 (Unit F) forming a 40-acre spacing and proration unit

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to be dedicated to the 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 of said Section 16, or in the alternative,

- (b) the E/2 NW/4 of said section (Units C and F) forming an 80-acre project area to be dedicated to the Wood State Well No. 5 if drilled as a horizontal well from a standard surface location 1650 feet from the North line and 2310 feet from the West line to a vertical depth of 7050 feet and then to be kicked off approximately 1300 feet to the North with the horizontal wellbore penetrating the two 40-acre spacing and proration units which comprise this 80-acre project area.

(3) John H. Hendrix Corporation owns an interest in each of the proposed spacing units in said Section 16 and has the right to drill for and develop the minerals underlying the proposed spacing units. At this time, however, not all of the working interest owners in these units have agreed to pool their interests.

(4) No affected party appeared at the hearing and presented evidence in opposition to the requested pooling of the subject spacing and proration units.

(5) To avoid the drilling of unnecessary wells, to protect correlative rights, to prevent waste and to afford to the owner of each interest in the units the opportunity to recover or receive without unnecessary expense a just and fair share of hydrocarbon production in any pool resulting from this order, this application should be approved by pooling all mineral interests, whatever they may be, within the units for each proposed well in the Abo formation.

(6) Mr. and Mrs. Roger Hansen and Dr. Henry Yeager, Jr., owners of 50% of the working interest in the subject spacing and proration units, wrote the Division and requested that a risk penalty of less than 200% be imposed on their interest in the event they remain non-consent in either of the proposed wells.

(7) If Hansen and Yeager do not voluntarily participate in the development of these spacing units, Hendrix will carry 50% of the working interest in the proposed well.

(8) Hendrix' evidence shows that the Abo sands in the area of interest are thin and erratic and that there are non-commercial Abo tests to the immediate west and to the north of the proposed acreage.

(9) Most of the commercial wells in the subject area are completed in more than one pay zone which includes the Eumont, Grayburg, San Andres, Paddock, Blinbry, Tubb, Drinkard, Abo and Strawn formations. Since the Hendrix lease only covers the Strawn and Abo formations, the risk of a commercial well is increased.

(10) Hendrix' evidence established that the risk of making a commercial well will remain high for drilling horizontally and that the benefit of horizontal drilling for all owners in this unit is the ability, with just one wellbore, to better control the costs associated with the development of this acreage.

(11) There is substantial risk associated with the drilling of the Wood State Well No. 5 as either a horizontal or vertical well.

(12) John H. Hendrix Corporation should be designated operator of the well and units.

(13) 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.

(14) 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.

(15) 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.

(16) 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.

(17) 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.

(18) All proceeds from production from the well that are not disbursed for any reason should be placed in escrow to be paid to the owner thereof upon demand and proof of ownership.

(19) If the operator of the pooled units fails to commence drilling the well on or before March 1, 1999, or if all the parties to this forced pooling reach voluntary agreement subsequent to this order, this order should become null and void, unless extended by the Director for good cause shown.

(20) The operator of the well and units should notify the Director in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

IT IS THEREFORE ORDERED THAT:

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

- (a) the SE/4 NW/4 (Unit F) forming a 40-acre spacing and proration unit to be dedicated to the 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 of said Section 16, or in the alternative,
- (b) the E/2 NW/4 of said section (Units C and F) forming an 80-acre project area to be dedicated to the Wood State Well No. 5 if drilled as

a horizontal well from a standard surface location 1650 feet from the North line and 2310 feet from the West line to a vertical depth of 7050 feet and then to be kicked off approximately 1300 feet to the North with the horizontal wellbore penetrating the two 40-acre spacing and proration units which comprise this 80-acre project area.

PROVIDED HOWEVER THAT, the operator of said units shall commence the drilling of said well on or before the first day of March, 1999, and shall thereafter continue the drilling of said well with diligence to a depth sufficient to test the Abo formation.

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said well on or before the first day of March 1999, Ordering Paragraph No. (1) of this order shall be of no further effect, 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) John H. Hendrix Corporation is hereby designated operator of the subject well and units.

(3) After the effective date of this order and within 90 days 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.

(4) Within 30 days from the date of receipt of the schedule of estimated well costs, any non-consenting working interest owner shall have the right to pay its share of estimated wells 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.

(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) If the Wood State Well No. 5 is drilled horizontally or vertically:

- (1) 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 after receiving the schedule of estimated well costs; and
- (2) as a charge for the risk involved in drilling the well, an additional 200 percent of such 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 rate) 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 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 be placed in escrow in Lea County, New Mexico, to be paid to the 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 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 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) 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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