

**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. 12682
ORDER NO. R-11653**

**APPLICATION OF DAVID H. ARRINGTON OIL AND GAS, INC. FOR
COMPULSORY POOLING, DIRECTIONAL DRILLING, AND AN UNORTHODOX
SUBSURFACE WELL LOCATION, LEA COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on June 28, 2001, at Santa Fe, New Mexico before Examiner Michael E. Stogner.

NOW, on this 10th day of September, 2001, 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, David H. Arrington Oil and Gas, Inc. ("Arrington"), seeks an order pooling all uncommitted mineral interests from the surface to the base of the Mississippian formation underlying the following acreage in Section 30, Township 15 South, Range 35 East, NMPM, Lea County, New Mexico:

- (a) Lots 3 and 4, the E/2 SW/4, and the SE/4 (S/2 equivalent) to form a standard 321.91-acre lay-down gas spacing and proration unit for any formation and/or pool developed on 320-acre spacing within that vertical extent, which presently includes the Undesignated North Hume-Morrow Gas Pool and Undesignated North Eidson-Morrow Gas Pool;
- (b) The SE/4 to form a standard 160-acre gas spacing and proration unit for any formation and/or pool

developed on 160-acre spacing within that vertical extent; and

- (c) the SE/4 SE/4 (Unit P) to form a standard 40-acre oil spacing and proration unit for any formation and/or pool developed on 40-acre spacing within that vertical extent, which presently includes the Undesignated Townsend-Permo Upper Pennsylvanian Pool and Undesignated Big Dog-Strawn Pool.

(3) The applicant proposes to re-enter the plugged and abandoned BTA Oil Producers Townsend 9401 "JV-P" Well No. 1 (**API No. 30-025-32468**) (the "subject well"), which is to be redesignated the John's Hopper Well No. 1, located at a standard well location 760 feet from the South line and 1700 feet from the East line (Unit P) of Section 30.

(4) Division records indicate that the subject well was originally drilled in May/June, 1994 by BTA Oil Producers to a depth of 12,750 feet in order to test the Strawn formation. In mid-July, 1994 BTA Oil Producers plugged and abandoned this well after it tested dry.

(5) It is Arrington's intent to re-enter this well and drill out the existing plugs to an approximate depth of 9,250 feet, which is approximately 500 feet above the top of the Wolfcamp formation, kick-off in an easterly direction, and continue drilling directionally in order to obtain a bottomhole location within the Mississippian formation at a point 660 feet from the South and East lines (Unit P) of Section 30, which is considered to be a standard gas well location.

(6) Arrington further seeks an order approving the following unorthodox subsurface oil well locations/producing areas or drilling windows that will result from Arrington's proposed directional drilling plans:

- (a) in the Wolfcamp, Cisco, and Canyon formations:

- (i) no closer than the normal set-back requirement of 330 feet to the northern boundary of the subject 40-acre oil spacing and proration unit;

- (ii) no closer than 660 feet to the East and South lines of Section 30; and

(iii) no closer than 10 feet to the eastern boundary of this unit; and

(b) in the Strawn and Atoka formations:

(i) no closer than the normal set-back requirement of 330 feet to the northern boundary of the subject 40-acre oil spacing and proration unit;

(ii) no closer than 660 feet to the East and South lines of Section 30; and

(iii) no closer than 140 feet to the eastern boundary of this unit.

(7) The mineral interests within the S/2 equivalent of Section 30 are undivided and are therefore common throughout; therefore, the proportional shares underlying each sized unit are equal in this instance. The applicant is a working interest owner within the 321.91-acre, 160-acre, and 40-acre units and therefore has the right to drill for and develop the minerals underlying these units.

(8) At this time, however, not all of the working interest owners in these units have agreed to pool their interests.

(9) The primary objective within the John's Hopper Well No. 1 is the gas bearing Atoka, Morrow, and Mississippian formations. The shallower oil bearing Wolfcamp, upper-Pennsylvanian, and Strawn intervals are considered secondary targets.

(10) The applicant testified that it expected to encounter no production above the Wolfcamp formation.

(11) The surface location of the subject well is within the SW/4 SE/4 (Unit O) of Section 30. The proposed directional drilling plans for the subject well are for the wellbore to cross into the offsetting 40-acre tract to the east in Unit P while in the Wolfcamp formation. Since the applicant requested the forced pooling provisions to include only the SE/4 SE/4 (Unit P) of Section 30 for any possible oil production, that portion of this application seeking to force pool any intervals above the Wolfcamp interval should be dismissed at this time. Further, since there are no intervals from the top of the Wolfcamp formation to the base of

the Mississippian formation that are subject to 160-acre spacing [see Division Rule 104.C (3)], that portion of this application requesting the formation of a standard 160-acre unit should also be dismissed.

(12) The applicant presented evidence demonstrating that the proposed directional drilling and resulting unorthodox bottomhole locations are necessitated by geologic considerations within the deeper gas bearing Atoka and Morrow formations.

(13) In accordance with the provisions of Division Rule 111.C (4), the applicant should be required to conduct a directional survey on the well during or upon completion of directional drilling operations in order to ascertain that the subsurface location of the well and Arrington's proposed drilling plans are in compliance with the terms of this order

(14) No offset operator or interest owner appeared at the hearing in opposition to the proposed unorthodox bottomhole oil well locations/producing areas or forced pooling.

(15) Approval of the proposed directional drilling and unorthodox bottomhole locations/producing areas will provide the applicant the opportunity to test the various formations by utilizing a single wellbore and will allow the applicant to encounter the deeper gas bearing formations at geologically optimum bottomhole locations within the S/2 equivalent of Section 30, thereby increasing the likelihood of obtaining commercial hydrocarbon production.

(16) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste, and afford to the owner of each interest in the remaining 321.91-acre gas and 40-acre oil units the opportunity to recover or receive without unnecessary expense its 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, from the top of the Wolfcamp formation to the base of the Mississippian formation, within the 321.91-acre gas and 40-acre oil units.

(17) Arrington should be designated the operator of the subject well and units.

(18) After pooling, uncommitted working interest owners are referred to as non-consenting working interest owners. ("Uncommitted working interest owners" are owners of working interests within the units, including unleased mineral interests, who are not parties to an operating agreement governing the units.) 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.

(19) 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% thereof as a reasonable charge for the risk involved in re-entering, recompleting, and directionally drilling the well.

(20) 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.

(21) 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.

(22) Reasonable charges for supervision (combined fixed rates) should be fixed at \$6,000.00 per month while re-entering, recompleting, and directionally drilling and \$ 600.00 per month while producing, provided that these rates should be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations*." 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.

(23) Except as noted in Findings No. (19) and (22) above, 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.

(24) If the operator fails to commence re-entry/recompletion and directional drilling operations on the well to which the units are dedicated on or before December 15, 2001, or if all the parties to this forced pooling reach voluntary agreement subsequent to the entry of this order, this order should become of no effect.

(25) The operator may request from the Division Director an extension of the December 15, 2001 deadline for good cause.

(26) The operator should notify the Division 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) Pursuant to the application of David H. Arrington Oil and Gas, Inc. ("Arrington"), all uncommitted mineral interests, whatever they may be, from the top of the Wolfcamp formation to the base of the Mississippian formation underlying the following described acreage in Section 30, Township 15 South, Range 35 East, NMPM, Lea County, New Mexico, are hereby pooled in the following manner:

- (a) Lots 3 and 4, the E/2 SW/4, and the SE/4 (S/2 equivalent) to form a standard 321.91-acre lay-down gas spacing and proration unit for any formation and/or pool developed on 320-acre spacing within that vertical extent, which presently includes the Undesignated North Hume-Morrow Gas Pool and Undesignated North Eidson-Morrow Gas Pool; and
- (b) the SE/4 SE/4 (Unit P) to form a standard 40-acre oil spacing and proration unit for any formation and/or pool developed on 40-acre spacing within that vertical extent, which presently includes the Undesignated Townsend-Permo Upper Pennsylvanian Pool and Undesignated Big Dog-Strawn Pool.

(2) These units are to be dedicated to the previously plugged and abandoned BTA Oil Producers Townsend 9401 "JV-P" Well No. 1 (**API No. 30-025-32468**), which is to be redesignated the John's Hopper Well No. 1, located at a standard surface oil and gas well location 760 feet from the South line and 1700 feet from the East line (Unit P) of Section 30. Further, in accordance with Division Rules 104.F and 111.C, Arrington is authorized to re-enter this well and drill out the existing plugs to an approximate depth of 9,250 feet, which is approximately 500 feet above the top of the Wolfcamp formation, kick-off in an easterly direction, and continue drilling directionally so as to encounter:

- (a) the Wolfcamp, Cisco, and Canyon formations within an area that is:
 - (i) no closer than the normal set-back requirement of 330 feet to the northern boundary of the subject 40-acre oil spacing and proration unit;

- (ii) no closer than 660 feet to the East and South lines of Section 30; and
 - (iii) no closer than 10 feet to the eastern boundary of this unit;
 - (b) the Strawn and Atoka formations within an area that is:
 - (i) no closer than the normal set-back requirement of 330 feet to the northern boundary of the subject 40-acre oil spacing and proration unit;
 - (ii) no closer than 660 feet to the East and South lines of Section 30; and
 - (iii) no closer than 140 feet to the eastern boundary of this unit; and
 - (c) the Mississippian formation at a standard bottomhole gas well location that is as close as reasonably possible to a point that is 660 feet from the South and East lines (Unit P) of Section 30.
- (3) Arrington is hereby designated the operator of the subject well and units.
- (4) Those portions of the original application for the: (i) formation of a 160-acre spacing unit; and (ii) forced pooling of all mineral interests from the surface to the top of the Wolfcamp formation, are hereby **dismissed**.
- (5) The operator shall commence re-entry, recompletion, and directional drilling operations on the aforementioned well on or before December 15, 2001, and shall thereafter continue the recompletion and directional drilling operations on the well with due diligence in order to test the Mississippian formation.
- (6) In the event the operator does not commence re-entry/recompletion and directional drilling operations on the proposed well on or before December 15, 2001, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause.

(7) Should the proposed well not be re-entered/recompleted and directionally drilled to completion, or be 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.

(8) After pooling, uncommitted working interest owners are referred to as non-consenting working interest owners. After the effective date of this order, the operator shall furnish the Division and each known non-consenting working interest owner in the units an itemized schedule of estimated well costs.

(9) 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 as hereinafter provided, 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.

(10) The operator shall furnish the Division and each known non-consenting 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 deemed to 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.

(11) 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.

(12) 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 re-entering, recompleting, and directional drilling the well, 200% of the above costs.

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

(14) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$6,000.00 per month while re-entering, recompleting, and directionally drilling and \$600.00 per month while producing, provided that these rates shall be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations*." The operator is 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) Except as provided in Ordering Paragraphs No. (12) and (14) above, 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 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.

(16) 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. 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.

(17) Should all the parties to this compulsory pooling order reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(18) 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.

(19) In accordance with the provisions of Division Rule 111.C (4), the applicant shall conduct a directional survey on the well during or upon completion of directional drilling operations in order to ascertain that the bottomhole location of the well is in compliance with the terms of this order.

(20) 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.



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

Lori Wrotenbery
LORI WROTENBERY
Director