

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. 12313
ORDER NO. R-11333

APPLICATION OF DAVID H. ARRINGTON OIL & GAS INC. FOR
COMPULSORY POOLING, DIRECTIONAL DRILLING OF A HORIZONTAL
WELL, AND A NON-STANDARD SPACING UNIT, LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on December 16, 1999, and February 3, 2000, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 16th day of March, 2000, 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 & Gas, Inc. ("Arrington"), seeks an order pooling all uncommitted mineral interests from the surface to the base of the Strawn formation underlying the following described acreage in **Section 10, Township 16 South, Range 37 East, NMPM, Lea County, New Mexico**, and in the following manner:

- (a) the NW/4 SW/4 to form a standard 40-acre spacing and proration unit for any formations and/or pools developed on 40-acre spacing within this vertical extent; and

- (b) the SW/4 to form a non-standard 160-acre proration unit or "project area", as defined by Division Rule 111.A(9), by the combination of two standard 80-acre spacing and proration units comprising the W/2 SW/4 and the E/2 SW/4 of Section 10, in order to accommodate a horizontally drilled wellbore within the Northeast Lovington-Pennsylvanian Pool.

Both units are to be dedicated to the applicant's proposed H & L Variance "10" Well No. 1 which will be horizontally drilled from a surface location 2130 feet from the South line and 330 feet from the West line (Unit L) of Section 10 in the following manner:

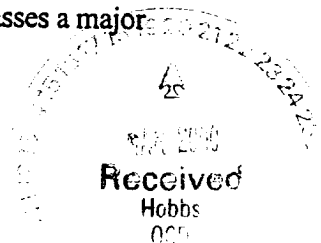
Drill vertically to a depth of approximately 11,100 feet, kick off from vertical and drill in an easterly direction building angle to 30 degrees at a rate of eight degrees per 100 feet. Drill into the Strawn formation at a location approximately 2130 feet from the South line and 510 feet from the West line (Unit L) of Section 10 and run a drill stem test. If commercial production is encountered, set casing, build angle to 90 degrees and drill horizontally through the Strawn formation a lateral distance of approximately 1,400 feet.

The drilling window or producing area for the well, as defined by Division Rule 111.A.(7), will be in conformance with all applicable setback requirements.

(3) The proposed H & L Variance "10" Well No. 1 is located within one mile of the outer boundary of the Northeast Lovington-Pennsylvanian Pool. This pool is currently governed by special pool rules contained within Division Order No. R-3816 which require standard 80-acre spacing and proration units with wells to be located within 150 feet of the center of a governmental quarter-quarter section or lot.

(4) The applicant presented geologic evidence and testimony which demonstrates that:

- (a) there is a Strawn structure which encompasses a major portion of the SW/4 of Section 10;



- (b) a well drilled horizontally, as proposed, should penetrate this Strawn structure in the area of greatest porosity development; and
- (c) the proposed horizontal well should efficiently and effectively drain the reserves in the Strawn formation underlying the SW/4 of Section 10.

(5) The applicant is a working interest owner within the proposed proration units and has the right to drill the H & L Variance "10" Well No. 1 for the purpose of developing the minerals underlying these units.

(6) There are interest owners in the subject proration units that have not agreed to pool their interests.

(7) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford to the owner of each interest in the above-described proration units the opportunity to recover or receive without unnecessary expense its just and fair share of hydrocarbons, this application should be approved by pooling all uncommitted mineral interests, whatever they may be, within the subject proration units.

(8) David H. Arrington Oil & Gas, Inc. should be designated the operator of the subject well and units.

(9) The proposed directional drilling and non-standard proration unit (project area) should be approved.

(10) After pooling, uncommitted working interest owners are referred to as "non-consenting working interest owners." 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 drilling the well.

(12) 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.

(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 \$4,500.00 per month while drilling and \$450.00 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.

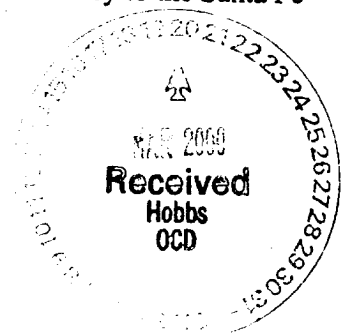
(15) All proceeds from production from the well that are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(16) If the operator of the pooled units fails to commence drilling operations on the H & L Variance "10" Well No. 1 on or before June 15, 2000, or if all the parties to this forced pooling reach voluntary agreement subsequent to entry of this order, this order should become 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 determine the subsurface location of the kick-off point of the H & L Variance "10" Well No. 1 prior to directional drilling and should subsequently conduct an accurate wellbore survey during or upon completion of horizontal drilling operations from the kick-off point to total depth to determine its true depth and course.

(19) The applicant should notify the supervisor of the Hobbs District Office of the Division of the date and time the directional surveys are to be conducted so that they may be witnessed. The applicant should provide a copy of the directional survey to the Santa Fe and Hobbs Offices of the Division upon completion.



IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of David H. Arrington Oil & Gas, Inc., all uncommitted mineral interests from the surface to the base of the Strawn formation underlying the following described acreage in Section 10, Township 16 South, Range 37 East, NMPM, Lea County, New Mexico, are hereby pooled in the following manner:

- (a) the NW/4 SW/4 to form a standard **40-acre** spacing and proration unit for any formations and/or pools developed on 40-acre spacing within this vertical extent; and
- (b) the SW/4 to form a non-standard **160-acre** proration unit or "project area", as defined by Division Rule 111.A(9), by the combination of two standard 80-acre spacing and proration units comprising the W/2 SW/4 and the E/2 SW/4 of Section 10, in order to accommodate a horizontally drilled wellbore within the Northeast Lovington-Pennsylvanian Pool.

Both units are to be dedicated to the applicant's H & L Variance "10" Well No. 1 which will be horizontally drilled from a surface location 2130 feet from the South line and 330 feet from the West line (Unit L) of Section 10 in the following manner:

Drill vertically to a depth of approximately 11,100 feet, kick off from vertical and drill in an easterly direction building angle to 30 degrees at a rate of eight degrees per 100 feet. Drill into the Strawn formation at a location approximately 2130 feet from the South line and 510 feet from the West line (Unit L) of Section 10 and run a drill stem test. If commercial production is encountered, set casing, build angle to 90 degrees and drill horizontally through the Strawn formation a lateral distance of approximately 1,400 feet.

The drilling window or producing area for the well, as defined by Division Rule 111.A.(7), will be in conformance with all applicable setback requirements.

(2) The operator of the units shall commence drilling operations on the H & L Variance "10" Well No. 1 on or before June 15, 2000, and shall thereafter continue drilling the well with due diligence to test the Strawn formation.

(3) In the event the operator does not commence drilling operations on the H & L Variance "10" Well No. 1 on or before June 15, 2000, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause shown.

(4) 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.

(5) David H. Arrington Oil & Gas, Inc. is hereby designated the operator of the subject well and units.

(6) After pooling, uncommitted working interest owners are referred to as "non-consenting working interest owners." After the effective date of this order and within 90 days prior to commencing drilling operations, the operator shall furnish the Division and each known non-consenting working interest owner in the units an itemized schedule of estimated well costs.

(7) 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.

(8) 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 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.

(9) 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

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exceed estimated well costs and shall receive from the operator its share of the amount that estimated well costs exceed reasonable well costs.

(10) 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.

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

(12) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$4,500.00 per month while re-entering and \$450.00 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.

(13) 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.

(14) 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.

(15) 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) 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.

(17) 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.

(18) The applicant shall determine the subsurface location of the kick-off point of the H & L Variance "10" Well No. 1 prior to directional drilling and shall subsequently conduct an accurate wellbore survey during or upon completion of horizontal drilling operations from the kick-off point to total depth to determine its true depth and course.

(19) The applicant shall notify the supervisor of the Hobbs District Office of the Division of the date and time the directional surveys are to be conducted so that they may be witnessed. The applicant shall provide a copy of the directional survey to the Santa Fe and Hobbs Offices of the Division upon completion.

(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.



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


LORI WROTENBERY
Director

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