

## Shell Western E&P Inc.

An affiliate of Shell Oil Company



P O Box 831  
Houston TX 77001

February 14, 1992

Ms. Evelyn Downs  
New Mexico Oil Conservation Division  
1000 W. Broadway  
P. O. Box 1980  
Hobbs, NM 88240

Dear Ms. Downs:

SUBJECT: NON-UNIT WELLBORE  
C/NM/025/87/101, UNIT TRACT #1  
SE/4NE/4 SEC. 10-T21S-R37E  
NE DRINKARD UNIT  
LEA COUNTY, NEW MEXICO

Recently, it came to Shell Western E&P Inc.'s (SWEPI's) attention that a non-unit wellbore existed within the unitized boundaries of the NE Drinkard Unit from which Hondo Drilling Co., the well operator was producing out of the Drinkard formation. Said well, located in the SE/4NE/4 SEC. 10-T21S-R37E (Hawk B-10 #1) apparently has been producing from a portion of unitized interval (Drinkard) since the inception of the unit (12/1/87). Additional research and information provided by Conoco reveals that pursuant to a 1952 Farmout Agreement with J. W. Rodgers and subsequent later conveyances, title to the Drinkard formation eventually vested with Hondo drilling Co., et al. As such, it would appear that Hondo Drilling Co. et al has an effective claim of interest to production from the Drinkard formation on this acreage. This interest had been contributed to the Unit by Conoco, et al (ARCO, Chevron and Amoco) subsequent to their farmout to Rodgers.

An additional complicating factor exists with regard to production from the unitized interval (Blinbry-Tubb-Drinkard) in a unit well (NEDU #410) located within the same SE/4NE/4 of Section 10. Our records indicate this well has been productive in the Drinkard formation since 9/88. As such, it would appear that Hondo Drilling Co., et al is entitled to operating cash income (OCI) from production out of the Drinkard formation from 9/88 forward. SWEPI, as Unit Operator, wishes

to advise that we are diligently attempting to reach a fair and equitable resolution to each of these issues with Conoco and will keep your office apprised once agreement has been reached between all parties involved.

Yours very truly,



D. B. Champlin  
Western District  
Onshore Land Division

DBC:sae

cc: Shell Western E&P Inc.  
R. R. Haag, Western Division Production  
WCK 5468

Shell Oil Company  
M. L. Fry, E&P-Continental, Legal Department  
WCK 2244