

**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 TO CONSIDER:**

**CASE NO. 16088
ORDER NO. R-14848**

**APPLICATION OF MARATHON OIL PERMIAN LLC FOR A NON-STANDARD
SPACING AND PRORATION UNIT AND COMPULSORY POOLING, EDDY
COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on May 17, 2018 at Santa Fe, New Mexico, before Examiner Scott A. Dawson, and again on June 14, 2018, before Examiner Michael A. McMillan.

NOW, on this 30th day of August 2018, the Division Director, having considered the testimony, the record and the recommendations of Examiner Dawson,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of this case and of the subject matter.

(2) Cases No. 16088 and 16089 were consolidated at the hearing for testimony, and a single order is being issued for each case.

(3) Marathon Oil Permian LLC ("Marathon" or "Applicant"), seeks approval of a 160.09-acre, more or less, non-standard oil spacing and proration unit and project area ("the Unit") in the Bone Spring formation, Cass Draw; Bone Spring Pool (Pool Code 10380) underlying Lot 1, SE/4 NE/4, and E/2 SE/4 (E/2 E/2 equivalent) of Section 1, Township 23 South, Range 26 East, NMPM, Eddy County, New Mexico. Applicant further seeks an order pooling all uncommitted interests within the Unit in the Bone Spring formation.

(4) The Unit will be dedicated to the Catapult Fee 23 26 1 TB Well No. 6H ("Proposed Well", API No. 30-015-44689) which will be drilled from a surface location, 337 feet from the South line and 1387 feet from the East line (Unit O) of Section 36,

Township 22 South, Range 26 East, to a terminus 330 feet from the South line and 1009 feet from the East line (Unit P) of Section 1, Township 23 South, Range 26 East. The completed interval of the Proposed Well will be orthodox.

(5) The proposed well is within the Cass Draw; Bone Spring Pool (Pool code 10380), which is governed by statewide Rule 19.15.15.9(A) NMAC, which provides for standard 40-acre units, each comprising a governmental quarter-quarter section. The Unit and project area consists of four adjacent quarter-quarter sections.

(6) Applicant appeared at the hearing through counsel and presented evidence to the effect that:

- (a) the Bone Spring formation in this area is suitable for development by horizontal drilling;
- (b) the proposed orientation of the horizontal well from north to south is appropriate for the Unit; and
- (c) All quarter-quarter sections are expected to equally contribute production from the well in the proposed Unit;
- (d) Applicant requested that the surface location of the proposed well be changed from 463 feet from the South line and 1467 feet from the East line (Unit O) of Section 1, Township 23 South, Range 26 East to 337 feet from the South line and 1387 feet from the East line (Unit O) of Section 36, Township 22 South, Range 26 East and the bottom hole location to be changed from 330 feet from the North line and 998 from the East line (Unit A/Lot1) of Section 1, Township 23 South, Range 26 East to 330 feet from the South line and 1009 feet from the East line of Section 1, Township 23 South, Range 26 East;
- (e) Applicant had requested 150 days between drilling and completing of the first well; versus the standard Division practice of granting only 120 days after the commencement of the first well and completion. Normally, if the first well is not completed within 120 days after spud the order is terminated. Also, the first well should be completed in all quarter-sections 120 days after spud. Applicant requested the extra time because of scheduling completion crews; and
- (f) notice by certified mail was provided to all uncommitted interest owners in the proposed Unit whose interests were evidenced by a conveyance instrument, either of record or known to Applicant when the Application was filed, and to heirs known to Applicant of deceased persons who appear as owners in such instruments; and

- (g) those potentially affected parties whose whereabouts could not be ascertained were noticed by publication as provided in Rule 19.15.4.12.B NMAC.

(7) No other party entered an appearance or otherwise opposed this application.

The Division concludes that:

(8) Approval of the proposed non-standard unit will enable Applicant to drill a horizontal well that will efficiently produce the reserves underlying the Unit, thereby preventing waste, and will not impair correlative rights.

(9) Two or more separately owned tracts are embraced within the Unit, and/or there are royalty interests and/or undivided interests in oil and gas minerals in one or more tracts included in the Unit that are separately owned.

(10) Applicant is an owner of an oil and gas working interest within the Unit. Applicant has the right to drill and proposes to drill the proposed wells to a common source of supply within the Unit at the proposed locations.

(11) There are interest owners in the Unit that have not agreed to pool their interests.

(12) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford to the owner of each interest in the Unit 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 interests, whatever they may be, in the oil and gas in the Bone Spring formation within the Unit.

(13) The surface location of the Catapult Fee 23 26 1 TB Well No. 6H ("Proposed Well") should be located 337 feet from the South line and 1387 feet from the East line (Unit O) of Section 36, Township 22 South, Range 26 East. The bottom hole location of the Proposed well will be 330 feet from the South line and 1009 feet from the East line (Unit P) of Section 1, Township 23 South, Range 26 East, NMPM, Eddy County, New Mexico.

(14) Subsequent to the Hearing, the Artesia District Office placed the Proposed Well into the Cass Draw; Bone Spring Pool (10380). This pool is subject to statewide rules for oil spacing and proration units.

(15) Applicant's request for 150 days between commencing drilling and completing the well is fair and reasonable. Applicant provided reasonable explanation for the increased time, and the overall length of time from 120 days to 150 days should not warrant special provisions, as required in other cases.

(16) Marathon Oil Permian LLC should be designated the operator of the proposed wells and of the Unit.

(17) Infill wells within the Unit should be subject to Division Rules 19.15.13.9 NMAC through 19.15.13.10 NMAC and to the terms and conditions of this order.

(18) Any pooled working interest owner who does not pay its share of estimated well costs for any well in advance should have withheld from production its share of reasonable well costs of such well plus an additional 200% thereof as a reasonable charge for the risk involved in drilling the well.

(19) Reasonable charges for supervision (combined fixed rates) should be fixed at \$7,000 per month, per well, while drilling and \$700 per month, per well, while producing, provided that these rates should be adjusted annually pursuant to the COPAS form titled "*Accounting Procedure-Joint Operations*."

IT IS THEREFORE ORDERED THAT:

(1) A 160.09-acre, more or less, non-standard oil spacing and proration unit and project area ("the Unit") is hereby established for oil and gas production from the Bone Spring formation, Cass Draw; Bone Spring Pool (Pool Code 10380) underlying Lot 1, SE/4 NE/4 and E/2 SE/4 (E/2 E/2) of Section 1, Township 23 South, Range 26 East, NMPM, in Eddy County, New Mexico.

(2) Pursuant to the application of Marathon Oil Permian LLC, all uncommitted interests, whatever they may be, in the oil and gas in the Bone Spring formation underlying the Unit, are hereby pooled.

(3) The Unit shall be dedicated to the Applicant's Catapult Fee 23 26 1 TB Well No. 6H (the "Proposed Well"; API No. 30-015-44689), a horizontal well to be drilled from a surface location 337 feet from the South line and 1387 feet from the East line, (Unit O) of Section 36, Township 22 South, Range 26 East, to a terminus or bottom hole location 330 feet from the South line and 1009 feet from the East line (Unit P) of Section 1, Township 23 South, Range 26 East. The completed interval of the proposed well within the Unit is orthodox.

(4) The operator of the Unit shall commence drilling the proposed well on or before August 31, 2019 and shall thereafter continue drilling the wells with due diligence to test the Bone Spring formation.

(5) In the event the operator does not commence drilling the proposed well on or before August 31, 2019, Ordering Paragraphs (1) and (2) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause demonstrated by satisfactory evidence.

(6) Unless the proposed well is drilled and completed within 150 days after commencement of the first such well, then Ordering Paragraphs (1) and (2) shall be of no further effect, and the unit and project area created by this order shall terminate, unless operator appears before the Division Director and obtains an extension of the time for completion of the proposed wells for good cause shown by satisfactory evidence. If the proposed well is not completed in all quarter-quarter sections included in the Unit within 150 days after commencement of drilling, then the operator shall apply to the Division for an amendment to this Order to contract the Unit so that it includes only those quarter-quarter sections in which at least one well is completed.

(7) Upon final plugging and abandonment of both proposed well and any other well drilled on the Unit pursuant to Division Rule 19.15.13.9 NMAC, the pooled unit created by this order shall terminate unless this order has been amended to authorize further operations.

(8) Marathon Oil Permian LLC (OGRID 372098) is hereby designated the operator of the wells and of the Unit.

(9) After pooling, uncommitted working interest owners are referred to as pooled working interest owners. ("Pooled working interest owners" are owners of working interests in the Unit, including unleased mineral interests, who are not parties to an operating agreement governing the Unit.) After the effective date of this order, the operator shall furnish the Division and each known pooled working interest owner in the Unit separate itemized schedules of estimated costs of drilling, completing and equipping each proposed well ("well costs").

(10) Within 30 days from the date the schedule of estimated well costs for each well is furnished, any pooled working interest owner shall have the right to pay its share of estimated well costs for such well 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 for either well as provided above shall remain liable for operating costs but shall not be liable for risk charges to the extent computed based on costs of such well. Pooled working interest owners who elect not to pay their share of estimated well costs as provided in this paragraph for either well shall thereafter be referred to as "non-consenting working interest owners" with respect to any well for which they so elect.

(11) The operator shall furnish the Division and each known pooled working interest owner (including non-consenting working interest owners) an itemized schedule of actual well costs for each proposed well within 90 days following completion of such well. If no objection to the actual well costs for any well is received by the Division, and the Division has not objected, within 45 days following receipt of the schedule for such well, the actual well costs shall be deemed to be the reasonable well costs. If there is an objection to actual well costs within the 45-day period, the Division will determine reasonable well costs for such well after public notice and hearing.

(12) Within 60 days following determination of reasonable well costs for any well, any pooled working interest owner who has paid its share of estimated costs of such well 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 the amount, if any, that the estimated well costs it has paid for such well exceed its share of reasonable well costs.

(13) The operator is hereby authorized to withhold the following costs and charges from each non-consenting working interest owner's share of production from each well:

- (a) the proportionate share of reasonable well costs attributable to each non-consenting working interest owner; and
- (b) as a charge for the risk involved in drilling the well, 200% of the above costs.

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

(15) Except as provided in the foregoing paragraphs, all proceeds from production from the well that are not disbursed for any reason shall be held for the account of the person or persons entitled thereto pursuant to the Oil and Gas Proceeds Payment Act (NMSA 1978 Sections 70-10-1 through 70-10-6, as amended). If not disbursed, such proceeds shall be turned over to the appropriate authority as and when required by the Uniform Unclaimed Property Act (NMSA 1978 Sections 7-8A-1 through 70-8A-31, as amended).

(16) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$7,000 per month, per well, while drilling and \$700 per month, per well, while producing, provided that these rates shall be adjusted annually pursuant to the COPAS form titled "*Accounting Procedure-Joint Operations*." The operator is authorized to withhold from production from each well the proportionate share of both the supervision charges and the actual expenditures required for operating of such well, not in excess of what are reasonable, attributable to pooled working interest owners.

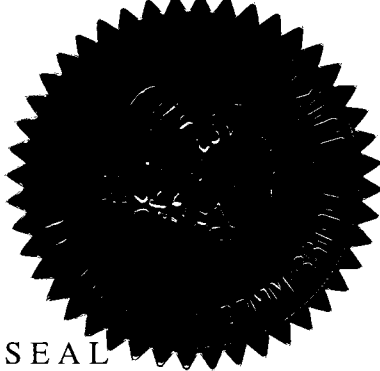
(17) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for allocating costs and charges under this order. Any costs that are to be paid out of production shall be withheld only from the working interests' share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

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

(19) The operator of the wells and Unit shall notify the Division in writing of the subsequent voluntary agreement of any party subject to the compulsory pooling provisions 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.



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in black ink, appearing to read "Heather Riley".

HEATHER RILEY
Director