

**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. 16089
ORDER NO. R-14849**

**APPLICATION OF MARATHON OIL PERMIAN LLC FOR 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) Case Nos. 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 an order pooling all uncommitted interests within a standard, 320.36-acre, more or less, gas spacing unit ("the Unit") in the Wolfcamp formation, Purple Sage; Wolfcamp (Gas) Pool (Pool Code 98220) underlying Lot 1, Lot 2, S/2 NE/4, and SE/4 (E/2 equivalent) of Section 1, Township 23 South, Range 26 East, NMPM, Eddy County, New Mexico.

(4) The Unit will be dedicated to the following wells (collectively the "Proposed Wells"). The completed intervals of the Proposed Wells will be orthodox;

- (a) Applicant's Catapult Fee 23 26 1 WXY Well No. 3H ("3H Well", API No. 30-015-44692), a horizontal well to be drilled from a surface location 337 feet from the South line and 1447 feet from the

East line (Unit O) of Section 36, Township 22 South, Range 26 East, to a bottom-hole location 330 feet from the South line and 2348 feet from the East line (Unit O) of Section 1, Township 23 South, Range 26 East, NMPM;

- (b) Applicant's Catapult Fee 23 26 1 WA Well No. 5H ("5H Well", API No. 30-015-44691), a horizontal well to be drilled from a surface location 337 feet from the South line and 1417 feet from the East line (Unit O) of Section 36, Township 22 South, Range 26 East, to a bottom-hole location 330 feet from the South line and 1339 feet from the East line (Unit P) of Section 1, Township 23 South, Range 26 East, NMPM; and
- (c) Applicant's Catapult Fee 23 26 1 WXY Well No. 10H (API No. 30-015-44690), a horizontal well to be drilled from a surface location 337 feet from the South line and 1357 feet from the East line (Unit O) of Section 36, Township 22 South, Range 26 East, to a bottom-hole location 330 feet from the South line and 330 feet from the East line, (Unit P), of Section 1, Township 23 South, Range 26 East, NMPM.

(5) The proposed wells are within the Purple Sage; Wolfcamp (Gas) Pool (Pool code 98220), which is governed by special pool rules as established by Division Order No. R-14262 which provide for wells to be located no closer than 330 feet from a standard 320-acre deep gas spacing unit outer boundary. The proposed Unit and project area consists of two adjacent quarter sections oriented north to south.

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

- (a) the Wolfcamp 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;
- (c) all quarter sections to be included in the Unit are expected to be productive in the Wolfcamp formation, so that the Unit as requested will not impair correlative rights; and
- (d) Applicant requested a change in the surface and bottom hole locations for the Proposed Wells. The surface location of the 3H Well changed from 463 feet from the South line and 1527 feet from the East line (Unit O) of Section 1, Township 23 South, Range 26 East to 337 from the South line and 1447 feet from the East line (Unit O) of Section 36, Township 22 South, Range 26 East. The

bottom hole location of the 3H well changed from 330 Feet from the North line and 2325 feet from the East line (Unit B/Lot 2) of Section 1, Township 23 South, Range 26 East to 330 feet from the South line and 2348 feet from the East line (Unit O) of Section 1, Township 23 South, Range 26 East. The surface location of the 5H well changed from 463 feet from the South line and 1497 feet from the East line (Unit O) of Section 1, Township 23 South, Range 26 East to 337 feet from the South line and 1417 feet from the East line (Unit O) of Section 36, Township 22 South, Range 26 East. The bottom hole location of the 5H well changed from 330 feet from the North line and 1328 feet from the East line (Unit B/Lot2) to 330 feet from the South line and 1339 feet from the East Line (Unit P) of Section 1, Township 23 South, Range 26 East. The surface location of the 10H well changed from 463 feet from the South line and 1437 feet from the East line (Unit O) of Section 1, Township 23 South, Range 26 East to 337 feet from the South line and 1357 feet from the East line (Unit O) of Section 36, Township 22 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;
- (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) 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.

(9) 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 location.

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

(11) 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 Wolfcamp formation within the Unit.

(12) Applicant's request for 150 days between commencing drilling and completing the wells 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.

(13) The surface locations presented at hearing for the Proposed Wells should be approved, because the Applicant provided proper notice to the affected parties and has notified the district office.

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

(15) To ensure protection of correlative rights, any pooled working interest owner whose address is known should be notified and have an opportunity to protest before the Division grants any extension of the time provided herein for commencing drilling.

(16) 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.

(17) 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.

(18) 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) Pursuant to the application of Marathon Oil Permian LLC, all uncommitted interests are hereby pooled, whatever they may be, in the oil and gas within a standard

320.36-acre, more or less, gas spacing unit ("the Unit") in the Wolfcamp formation, Purple Sage; Wolfcamp (Gas) Pool (Pool Code 98220) underlying Lot 1, Lot 2, S/2 NE/4, and SE/4 (E/2 equivalent) of Section 1, Township 23 South, Range 26 East, NMPM, in Eddy County, New Mexico.

(2) The Unit shall be dedicated to the Applicant's following wells (collectively "Proposed Wells"):

- (a) Catapult Fee 23 26 1 WXY Well No. 3H (the "3H proposed well"; API No. 30-015-44692), a horizontal well to be drilled from a surface location 337 feet from the South line and 1447 feet from the East line (Unit O) of Section 36, Township 22 South, Range 26 East, to a bottom hole location 330 feet from the South line and 2348 feet from the East line (Unit O) of Section 1, Township 23 South, Range 26 East. The completed interval of the proposed 3H well within the Unit is orthodox.
- (b) Catapult Fee 23 26 1 WA Well No. 5H (the "5H proposed well"; API No. 30-015-44691), a horizontal well to be drilled from a surface location 337 feet from the South line and 1417 feet from the East line (Unit O) of Section 36, Township 22 South, Range 26 East, to a bottom hole location 330 feet from the South line and 1339 feet from the East line (Unit P) of Section 1, Township 23 South, Range 26 East. The completed interval of the proposed 5H well within the Unit is orthodox.
- (c) Catapult Fee 23 26 1 WXY Well No. 10H (the "10H proposed well"; API No. 30-015-44690), a horizontal well to be drilled from a surface location 337 feet from the South line and 1357 feet from the East line (Unit O) of Section 36, Township 22 South, Range 26 East, to a bottom hole location 330 feet from the South line and 330 feet from the East line (Unit P) of Section 1, Township 23 South, Range 26 East. The completed interval of the proposed 10H well within the Unit is orthodox.

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

(4) In the event the operator does not commence drilling at least one of the proposed wells on or before August 31, 2019, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause demonstrated by satisfactory evidence.

(5) The operator shall notify each pooled working interest owner for whom it has a valid address before it files with the Division any request for extension of the time to

commence drilling and shall certify its compliance with this requirement in its request for extension. The Division may grant an extension at its discretion after 20 days from receipt of the request if no objection is received. Otherwise, the Division shall not grant the extension without a hearing.

(6) Unless at least one of the proposed wells is drilled and completed within 150 days after commencement of the first such well, then Ordering Paragraph (1) 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.

(7) Upon final plugging and abandonment of the 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 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 an itemized schedule of estimated costs of drilling, completing and equipping the proposed wells ("well costs").

(10) Within 30 days from the date the schedule of estimated well costs is furnished, any pooled 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. Pooled working interest owners who elect not to pay their share of estimated well costs as provided in this paragraph shall thereafter be referred to as "non-consenting working interest owners."

(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 within 90 days following completion of the proposed 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. 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.

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

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

- (a) the proportionate share of reasonable well costs attributable to each such 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.

(15) Reasonable charges for supervision (combined fixed rates) for the well 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 overhead provisions 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 wells, not more than what are reasonable, attributable to pooled working interest owners.

(16) Except as provided above, all proceeds from production from the proposed wells 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 7-8A-31, as amended).

(17) 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.

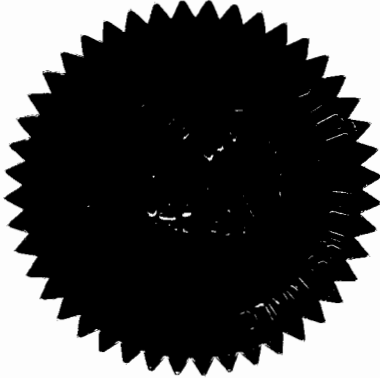
(18) Should all the parties to this compulsory pooling order reach voluntary agreement after entry of this order, this order shall thereafter be of no further effect.

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

(20) If the applicant proposes infill wells within the Unit, the proposed infill wells shall be subject to Division Rule 19.15.13 NMAC.


(21) 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.



S E A L

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


HEATHER RILEY
Director