

**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. 15302
ORDER NO. R-13997**

**APPLICATION OF MATADOR PRODUCTION COMPANY FOR A NON-
STANDARD SPACING AND PRORATION UNIT, COMPULSORY POOLING,
AND A NON-STANDARD LOCATION, EDDY COUNTY, NEW MEXICO**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on May 28, 2015, at Santa Fe, New Mexico, before Examiner William V. Jones.

NOW, on this 8th day of June, 2015, 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 of the subject matter.

(2) Matador Production Company (the "Applicant") seeks approval of a non-standard 320-acre spacing and proration unit (the "Unit") in the Wolfcamp formation, Pierce Crossing; Wolfcamp, NW Gas Pool (Pool Code 96712) comprising the S/2 of Section 13, Township 24 South, Range 28 East, NMPM, Eddy County, New Mexico. Applicant further seeks to compulsory pool all uncommitted interests within the Unit.

(3) The Unit is to be dedicated to Applicant's Janie Conner 13 24S 28E RB Well No. 224H (the "proposed well"; API No. 30-015-43037), a horizontal well to be drilled from a surface location 445 feet from the South line and 255 feet from the East line (Unit letter P) of Section 14 to a terminus 331 feet from the South line and 240 feet from the East line (Unit letter P) of Section 13 and is to be completed at a non-standard location. Applicant further seeks approval of this non-standard location.

(4) The proposed well is located within the Pierce Crossing; Wolfcamp, NW Gas Pool (Pool Code 96712). Spacing and setbacks within this pool are governed by statewide gas Rule 19.15.15.10B. NMAC, which provides for 660-foot setbacks and standard 320-acre units, each comprising a governmental half section.

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

- (a) The proposed 320-acre Unit consists of fee lands with multiple owners and many who could not be located;
- (b) the Wolfcamp formation in this area is suitable for development by horizontal drilling;
- (c) the proposed orientation of the horizontal well East to West or West to East is appropriate for the Unit;
- (d) the proposed unorthodox location of this gas well within the Unit was picked to optimize recovery from the Unit assuming a relatively low permeability to gas or oil;
- (e) Applicant testified that even though the Division has this portion of the Wolfcamp formation as part of a gas pool, the expected gas-oil ratio of the encountered hydrocarbons is below 10,000:1; and
- (f) Applicant provided notice to all uncommitted interest owners within the Unit and to all affected parties within lands offsetting the Unit that are being encroached.

(6) No other party appeared at the hearing, or otherwise opposed the granting of this application.

The Division concludes as follows:

(7) The proposed Unit is a standard gas spacing unit within the Pierce Crossing; Wolfcamp, NW Gas Pool. Consequently, that portion of the application seeking approval of a non-standard 320-acre spacing unit is not necessary, and should therefore be dismissed.

(8) Applicant testified that even though the proposed well is within the Division-designated Pierce Crossing; Wolfcamp, NW Gas Pool, the well will be completed in a Wolfcamp interval that is anticipated to be oil productive rather than gas productive. However, the actual nature of the production from the proposed well will not be known until the well is drilled.

(9) Standard spacing in a Wolfcamp oil pool in this area is 40 acres.

(10) Pursuant to Rule 19.15.16 NMAC, the Division cannot approve a 320-acre oil horizontal project area consisting of the S/2 of Section 13 because the proposed well will not "develop" each of the 40-acre spacing units within that project area.

(11) The application of Matador for the compulsory pooling of a 320-acre gas spacing unit and for a non-standard well location should be approved. However, in the event that the Janie Connor 13 24S 28E RB Well No. 224H is completed as an oil well in the Wolfcamp formation, the applicant should be required to re-open this case: (i) to establish a 160-acre non-standard oil spacing and proration unit ("project area"); and (ii) compulsory pool any uncommitted interests within this 160-acre non-standard oil spacing and proration unit.

(12) The proposed well's location within the S/2 of Section 13 will be unorthodox as a gas well, with the lowermost perforation at a location 330 feet from the South line and 330 feet from the East line and uppermost perforation at a location 330 feet from the South line and 330 feet from the West line and the proposed completed interval will encroach on lands offsetting the Unit to the east, the southeast, the south, the southwest, and to the west.

(13) The requested non-standard location for this "gas" well should be approved to allow Applicant to drill a horizontal well that will efficiently produce the reserves underlying the Unit, thereby preventing waste, and will not impair correlative rights.

(14) 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.

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

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

(17) 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, that owner's 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 within the Unit.

(18) Matador Production Company should be designated the operator of the proposed well and the Unit.

(19) Any pooled 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 drilling the proposed well.

(20) Reasonable charges for supervision (combined fixed rates) should be fixed at \$7,000 per month while drilling and \$700 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*."

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Matador Production Company, the requested non-standard well location is hereby approved for the **Janie Connor 13 24S 28E RB Well No. 224H** (the "proposed well"; API No. 30-015-43037), a horizontal well to be drilled from a surface location 445 feet from the South line and 255 feet from the East line (Unit letter P) of Section 14 to a terminus 331 feet from the South line and 240 feet from the East line (Unit letter P) of Section 13.

(2) The proposed well shall be dedicated to a standard 320-acre gas spacing unit (the "Unit") for production from the Wolfcamp formation, Pierce Crossing; Wolfcamp, NW Gas Pool (Pool Code 96712) consisting of the S/2 of Section 13, Township 24 South, Range 28 East, NMPM, in Eddy County, New Mexico.

(3) All uncommitted oil and gas interests, whatever they may be, in the Unit are hereby pooled.

(4) Applicant's request for approval of a 320-acre project area consisting of the S/2 of Section 13 is dismissed. Applicant's request for approval of a 320-acre non-standard spacing and proration unit consisting of the S/2 of Section 13 is also dismissed.

(5) In the event that the Janie Connor 13 24S 28E RB Well No. 224H is completed as an oil well in the Wolfcamp formation, the applicant shall re-open this case: (i) to establish a 160-acre non-standard oil spacing and proration unit ("project area"); and (ii) compulsory pool any uncommitted interests within this 160-acre non-standard oil spacing and proration unit.

(6) Matador Production Company (OGRID 228937) is designated the operator of the well and the Unit.

(7) The operator of the Unit shall commence drilling the proposed well on or before June 30, 2016, and shall thereafter continue drilling the proposed well with due diligence to test the Wolfcamp formation.

(8) In the event the operator does not commence drilling the proposed well on or before June 30, 2016, 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.

(9) Should the proposed well not be drilled and completed within 120 days after commencement thereof, 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 well for good cause shown by satisfactory evidence.

(10) 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.

(11) 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 well ("well costs").

(12) 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."

(13) 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.

(14) 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.

(15) The operator is hereby authorized to withhold the following costs and charges from 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.

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

(17) Reasonable charges for supervision (combined fixed rates) for the well are hereby fixed at \$7,000 per month while drilling and \$700 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 pooled working interest owners.

(18) Except as provided in Paragraphs (15) and (17) above, all proceeds from production from the proposed 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 70-8A7-8A-28, as amended).

(19) Any unleased mineral interests 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.

(20) 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.

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

(22) 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

David R. Catanach

DAVID R. CATANACH
Director