

MODEL FORM OPERATING AGREEMENT

Eland State 32 Working Interest Unit

OPERATING AGREEMENT

DATED

October 15 , 2015 ;
year

OPERATOR Matador Production Company

CONTRACT AREA Township 18 South, Range 33 East, N.M.P.M.

Section 32: All, see Exhibit A for depth and other limitations

COUNTY OF Lea , STATE OF New Mexico

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AMERICAN ASSOCIATION OF PETROLEUM
LANDMEN, 4100 FOSSIL CREEK BLVD.
FORT WORTH, TEXAS, 76137, APPROVED FORM.

ARTICLE II.

EXHIBITS

The following exhibits, as indicated below and attached hereto, are incorporated in and made a part hereof:

- ☒ A. Exhibit "A," shall include the following information:
- (1) Description of lands subject to this agreement,
 - (2) Restrictions, if any, as to depths, formations, or substances,
 - (3) Parties to agreement with addresses and telephone numbers for notice purposes,
 - (4) Percentages or fractional interests of parties to this agreement,
 - (5) Oil and Gas Leases and/or Oil and Gas Interests subject to this agreement,
 - (6) Burdens on production.
- ~~B. Exhibit "B," Form of Lease.~~
- ☒ C. Exhibit "C," Accounting Procedure.
- ☒ D. Exhibit "D," Insurance.
- ☒ E. Exhibit "E," Gas Balancing Agreement.
- ☒ F. Exhibit "F," Non-Discrimination and Certification of Non-Segregated Facilities.
- ~~G. Exhibit "G," Tax Partnership.~~
- ☒ H. Other: Model Form Recording Statement to Operating Agreement and Financing Statement

EXHIBIT "A"

Attached to and made a part of that certain Operating Agreement dated October 15, 2015, by and among Matador Production Company, as Operator, and MRC Delaware Resources, LLC et al, as Non-Operators (this "Agreement")

I. CONTRACT AREA:

Township 18 South, Range 33 East, N.M.P.M.
Section 32: All
Containing 640 acres, more or less
Lea County, New Mexico

Save and except the following wellbores:

- Atlantic 32 State #2 (API #30-025-31222) located 1980' FNL & 990' FWL of Section 32, Township 18 South, Range 33 East, N.M.P.M., Lea County, New Mexico.
- Atlantic 32 State #4 (API #30-025-31378) located 1650' FNL & 1650' FWL of Section 32, Township 18 South, Range 33 East, N.M.P.M., Lea County, New Mexico.
- Atlantic 32 State #7 (API #30-025-35237) located 1980' FNL & 780' FWL of Section 32, Township 18 South, Range 33 East, N.M.P.M., Lea County, New Mexico.
- Gazelle 32 State #1 (API #30-025-35009) located 660' FSL & 660' FWL of Section 32, Township 18 South, Range 33 East, N.M.P.M., Lea County, New Mexico.

This Operating Agreement shall replace and supersede all existing Operating Agreements between all or any portion of the parties hereto but only insofar as to the depth limitations from 4,600' to the base of the Bone Spring formation, as defined below, within the Contract Area described in this Operating Agreement.

II. DEPTH RESTRICTIONS:

This Agreement covers all depths from 4,600' subsurface to the base of the Bone Spring formation. As used in this Agreement, the term "base of the Bone Spring formation" shall mean the stratigraphic equivalent of the geologic interval having a subsurface depth ending at a total vertical depth of approximately 10,672', as identified on the LEK 28 Federal #1 (API #30-025-31590) Halliburton Dual Laterolog, located 810' FSL & 660' FWL of Section 28, Township 18 South, Range 33 East, N.M.P.M., Lea County, New Mexico.

III. ADDRESS OF THE PARTIES:

Matador Production Company
MRC Delaware Resources, LLC
One Lincoln Centre
5400 LBJ Freeway, Suite 1500
Dallas, Texas 75240
Attn: David E. Lancaster, Executive Vice President
Phone: (972) 371-5200
Fax: (972) 371-5201
Email:

MRC Spiral Resources Company, LLC
One Lincoln Centre
5400 LBJ Freeway, Suite 1500
Dallas, Texas 75240
Attn:
Phone:
Fax:
Email:

MRC Explorers Resources Company, LLC
One Lincoln Centre
5400 LBJ Freeway, Suite 1500
Dallas, Texas 75240
Attn:
Phone:
Fax:
Email:

Nearburg Exploration Co., L.L.C.
3300 N. A Street, Bld.2, Suite 120
Midland, Texas 79705
Attn: Randy Howard, Land Manager
Phone: (432) 818-2914
Fax:
Email: rhoward@nearburg.com

Colkelan Corporation
903 S. St. Francis Drive, Suite C
Santa Fe, New Mexico 87501
Attn:
Phone:
Fax:
Email:

Nadel and Gussman Capitan LLC
15 East 5th Street, Suite 3200
Tulsa, Oklahoma 74103
Attn:
Phone:
Fax:
Email:

Sybel Blackman Carney, as her separate property
21 Trovita
Irvine, California 92720-1952
Phone:
Fax:
Email:

Dr. Robert B. Cahan and Bernice A. Cahan, husband and wife
2340 Sutter Street
San Francisco, California 94115
Phone:
Fax:
Email:

Lauralind Corporation
P.O. Box 2143
Roswell, New Mexico 88201
Attn:
Phone:
Fax:
Email:

Yvonne Maday Crandell
174 S. Mansfield
Los Angeles, California 90036
Phone:
Fax:
Email:

Rohoel, Inc.
1600 Broadway, Suite 1050
Denver, Colorado 80202
Attn:
Phone: (303) 894-9576
Fax:
Email:

IV. PERCENTAGES OF THE PARTIES:

	<u>Initial, Substitute and Subsequent Wells</u>
MRC Delaware Resources, LLC	57.675459%
MRC Spiral Resources Company, LLC	2.625426%
MRC Explorers Resources Company, LLC	2.375426%
Nearburg Exploration Co., L.L.C.	33.333333%
Colkelan Corporation	0.666666%
Nadel and Gussman Capitan LLC	2.625426%
Sybel Blackman Carney, as her separate property	0.118669%
Dr. Robert B. Cahan and Bernice A. Cahan, husband and wife	0.015823%
Lauralind Corporation	0.250000%
Yvonne Maday Crandell	0.015823%
Rohoel, Inc.	0.297949%
TOTAL	100.00000%

V. Oil and Gas Leases subject to this Agreement:

Oil and Gas Lease K0-1860

Date: October 17, 1961

Lessor: State of New Mexico

Lessee: The Atlantic Refining Company

Recorded: Not recorded

Lands Covered: insofar and only insofar as said lease covers the N½ of Section 32, Township 18 South, Range 33 East, N.M.P.M., Lea County, New Mexico

Oil and Gas Lease VB-0097

Date: May 1, 1987

Lessor: State of New Mexico

Lessee: Harvey E. Yates Company

Recorded: Not recorded

Lands Covered: insofar and only insofar as said lease covers the S½ of Section 32, Township 18 South, Range 33 East, N.M.P.M., Lea County, New Mexico

VI. Burdens on Production:

Burdens of record as of the effective date of this Agreement. All parties are still subject to their own respective leasehold burdens derived from existing contracts entered into prior to the effective date of this Agreement. The contractual interests of the parties outlined herein are derived from the following Joint Operating Agreements:

- 1) South Corbin Bone Spring Prospect Atlantic "32" State #1 Operating Agreement, dated July 28, 1989, between Harvey E. Yates Company, as Operator, and Spiral, Inc. et al, as Non-Operators, covering the N/2 of Section 32, Township 18 South, Range 33 East, N.M.P.M., Lea County, New Mexico.
- 2) Gazelle Prospect Operating Agreement, dated May 28, 1998, between Harvey E. Yates Company, as Operator, and Nearburg Exploration Company, L.L.C. et al, as Non-Operators, covering the S/2 of Section 32, Township 18 South, Range 33 East, N.M.P.M., Lea County, New Mexico. ✓

End of Exhibit "A"

MRC Permian Company

One Lincoln Centre • 5400 LBJ Freeway • Suite 1500 • Dallas, Texas 75240

Voice 972.371.5242 • Fax 214.866.4883

jlirly@matadorresources.com

Jeff Lierly, CPL
Senior Landman

October 28, 2015

VIA CERTIFIED RETURN RECEIPT MAIL

Nearburg Exploration Co., L.L.C.
3300 N. A Street, Bld. 2, Suite 120
Midland, Texas, 79705

Re: Eland State 32-18S-33E RN #123H Participation Proposal
SHL: 154' FNL & 1859' FEL; BHL: 240' FSL & 1870' FEL
Section 32, Township 18 South, Range 33 East
Lea County, New Mexico

Nearburg Exploration Co., L.L.C.:

MRC Permian Company and its operating company Matador Production Company (collectively "MRC") propose the drilling of the Eland State 32-18S-33E RN #124H well (the "Well"), located in the W/2E/2 of Section 32, Township 18 South, Range 33 East, Lea County, New Mexico, to test the Bone Spring formation. The estimated cost of drilling, testing, completing, and equipping the Well is \$6,185,429, as itemized on the enclosed Authority for Expenditure ("AFE") dated October 27, 2015.

The Well will be drilled to a total vertical depth of 9,750' and a total measured depth of 14,850', producing a treatable lateral of approximately 4,604' within the Bone Spring formation to be completed with 12 stages.

MRC is proposing to drill the Well under the terms of the modified 1989 AAPL form of Operating Agreement ("OA") which was previously furnished for your review and approval. The Operating Agreement will cover all of Section 32, Township 18 South, Range 33 East, Lea County, New Mexico from the surface to the base of the Bone Spring formation ("Contract Area") pursuant to the following terms:

- 100/300/300% Non-consent penalty
- \$7,000/\$700 Drilling and Producing overhead rate

Please note that this well proposal will replace the Eland State 32-18S-33E RN #124H proposal as the Initial Test Well for the OA that will supersede two existing Operating Agreements currently in place, one of which governs the N½ of Section 32, and the other that governs the S½ of Section 32, for all future wells within the Contract Area as to the specified depths. By entering into the new OA that will blend the contractual interests in the existing Operating Agreements, MRC and all

working interest parties will benefit from having one agreement govern operations for future horizontal development.

MRC requests that you indicate your election to participate in the drilling and completion of the Well in the space provided below, sign and return one (1) copy of this letter along with your geological well requirements, the AFE, and the OA to the undersigned.

Nearburg Exploration Co., L.L.C. will own approximately 33.333333% working interest in the Well, subject to title verification.

If your election is to participate in the drilling and completion of the Well, please sign and return a copy of the enclosed AFE within thirty (30) days of receipt of this notice. Please be aware that the enclosed AFE is only an estimate of costs to be incurred and by electing to participate in the Well, each working interest owner shall be responsible for its proportionate share of all costs incurred.

Please contact me if you have any questions.

Sincerely,



Jeff Lierly, CPL

Enclosures

Please elect one of the following and return to sender.

_____ Party hereby elects to participate for its proportionate share of the costs detailed in the enclosed AFE associated with the Eland State 32-18S-33E RN #123H.

_____ Party hereby elects not to participate for its proportionate share of the costs detailed in the enclosed AFE associated with the Eland State 32-18S-33E RN #123H.

_____ I / We are interested in selling our interest in the Contract Area, please contact us to discuss.

By: _____

Title: _____

Date: _____

District I
1629 N. French Dr., Hobbs, NM 88240
Phone: (575) 393-6161 Fax: (575) 393-0720
District II
811 S. First St., Artesia, NM 88210
Phone: (575) 748-1283 Fax: (575) 748-9720
District III
1000 Rio Brazos Road, Aztec, NM 87410
Phone: (505) 334-6178 Fax: (505) 334-6170
District IV
1220 S. St. Francis Dr., Santa Fe, NM 87505
Phone: (505) 476-3460 Fax: (505) 476-3462

State of New Mexico
Energy, Minerals & Natural Resources
Department
OIL CONSERVATION DIVISION
1220 South St. Francis Dr.
Santa Fe, NM 87505

FORM C-102

Revised August 1, 2011

Submit one copy to appropriate

District Office

☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

1 API Number		2 Pool Code		3 Pool Name	
4 Property Code		5 Property Name ELAND STATE 32-18S-33E RN			6 Well Number #123H
7 OGRID No.		8 Operator Name MATADOR PRODUCTION COMPANY			9 Elevation 3754'
10 Surface Location					
UL or lot no. B	Section 32	Township 18-S	Range 33-E	Lot Ida -	Feet from the 154'
		North/South line NORTH		Feet from the 1859'	East/West line EAST
				County LEA	
UL or lot no. 0	Section 32	Township 18-S	Range 33-E	Lot Ida -	Feet from the 240'
		North/South line SOUTH		Feet from the 1870'	East/West line EAST
				County LEA	
11 Dedicated Acres 160		12 Joint or Infill		13 Consolidation Code	
14 Order No.					

No allowable will be assigned to this completion until all interests have been consolidated or a non-standard unit has been approved by the division.

<p>17 OPERATOR CERTIFICATION</p> <p>I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief, and that this organization either owns a working interest or undivided mineral interest in the land including the proposed bottom hole location or has a right to drill this well at this location pursuant to a contract with an owner of such a mineral or working interest, or to a voluntary pooling agreement or a compulsory pooling order heretofore entered by the division.</p> <p>Signature _____ Date _____</p> <p>Printed Name _____</p> <p>E-mail Address _____</p>	
<p>18 SURVEYOR CERTIFICATION</p> <p>I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true to the best of my belief.</p> <p>Date of Survey 10/14/2015 Signature _____</p> <p>PROFESSIONAL SURVEYOR NEW MEXICO 18329</p> <p>Certificate Number _____</p>	

MATADOR PRODUCTION COMPANY

ONE LINCOLN CENTRE • 5400 LBJ FREEWAY • SUITE 1500 • DALLAS, TEXAS 75240

Phone (972) 371-5200 • Fax (972) 371-5201

ESTIMATE OF COSTS AND AUTHORIZATION FOR EXPENDITURE

DATE:	Oct 27, 2015	AFE NO.:	0	
WELL NAME:	Eland State 32-18S-33E RN #123H	FIELD:	Bone Spring	
LOCATION:		MD/TVD:	14850/9750	
COUNTY/STATE:	Lea	LATERAL LENGTH:	4,604	
MRC WI:	57.68%	DRILLING DAYS:	22.5	
GEOLOGIC TARGET:	2nd BS	COMPLETION DAYS:	7	
REMARKS:	Drill a horizontal well and complete with 12 stages, BS Gen 2 frac design.			

	DRILLING COSTS	COMPLETION COSTS	PRODUCTION COSTS	TOTAL COSTS
INTANGIBLE COSTS				
01 Land / Legal / Regulatory	\$ 38,700			\$ 38,700
02 Location, Surveys & Damages	111,500	137,500	4,000	253,000
10 Drilling	817,500			817,500
16 Cementing & Flost Equip	185,000			185,000
20 Logging / Formation Evaluation		6,000		6,000
21 Mud Logging	25,000			25,000
23 Mud Circulation System	44,080			44,080
24 Mud & Chemicals	50,000	18,000		68,000
25 Mud / Wastewater Disposal	155,000			155,000
26 Freight / Transportation	38,000	12,000		48,000
28 Rig Supervision / Engineering	97,200	45,750	18,000	160,950
31 Drill Bits	115,000			115,000
32 Fuel & Power	120,000			120,000
33 Water	27,500	305,200		332,700
34 Drig & Completion Overhead	13,500	12,000		25,500
36 Plugging & Abandonment				
38 Directional Drilling, Surveys	178,000			178,000
40 Completion Unit, Swab, CTU		55,000	28,000	83,000
44 Perforating, Wireline, Slickline		55,500	20,000	75,500
45 High Pressure Pump Truck		30,000		30,000
46 Stimulation		1,140,000		1,140,000
47 Stimulation Flowback & Disp		41,500		41,500
48 Insurance	27,000			27,000
50 Labor	119,000	19,500	5,000	144,500
51 Rental - Surface Equipment	79,300	146,650	12,000	237,950
52 Rental - Downhole Equipment	25,000	26,500		51,500
53 Rental - Living Quarters	52,025	21,160	10,000	83,185
54 Contingency	231,431	207,226	9,800	448,457
TOTAL INTANGIBLES >	2,545,736	2,279,488	107,800	4,833,022
TANGIBLE COSTS	DRILLING COSTS	COMPLETION COSTS	PRODUCTION COSTS	TOTAL COSTS
41 Surface Casing	\$ 62,150			\$ 62,150
42 Intermediate Casing	155,200			155,200
43 Drilling Liner				
44 Production Casing	372,628			372,628
45 Production Liner				
46 Tubing			48,750	48,750
47 Wellhead	55,000		60,000	115,000
48 Packers, Liner Hangers		20,900	15,000	35,900
49 Tanks				
50 Production Vessels			74,000	74,000
51 Flow Lines			50,000	50,000
52 Rod string			38,280	38,280
53 Artificial Lift Equipment			115,000	115,000
54 Compressor				
55 Installation Costs			102,000	102,000
56 Surface Pumps			5,000	5,000
58 Non-controllable Surface			41,000	41,000
59 Non-controllable Downhole				
61 Downhole Pumps			15,000	15,000
63 Measurement & Meter Installation			12,500	12,500
64 Gas Conditioning / Dehydration				
65 Interconnecting Facility Piping				
66 Gathering / Bulk Lines				
67 Valves, Dumps, Controllers				
68 Tank / Facility Containment				
69 Flare Stack				
70 Electrical / Grounding				
71 Communications / SCADA			10,000	10,000
72 Instrumentation / Safety				
TOTAL TANGIBLES >	644,978	20,900	586,530	1,252,408
TOTAL COSTS >	3,190,713	2,300,388	694,330	6,185,429

PREPARED BY MATADOR PRODUCTION COMPANY:

Drilling Engineer: Patrick Walsh	Team Lead - WTX/NM	KTS
Completions Engineer: Cliff Humphreys		KTS
Production Engineer: Trent Goodwin		

MATADOR RESOURCES COMPANY APPROVAL:

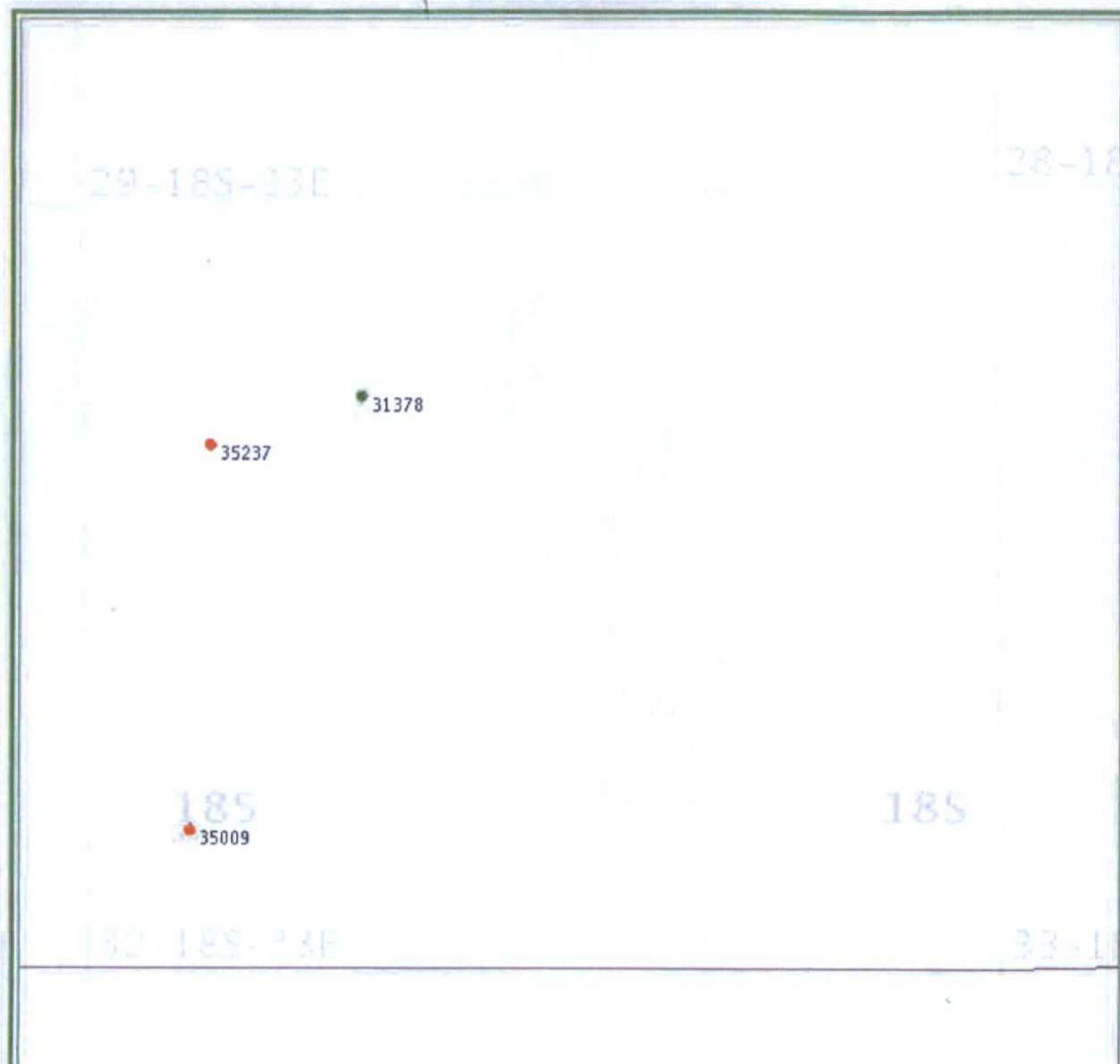
Executive VP, COO/CFO _____ DEL	VP - Res Engineering _____ BMH	VP - Drilling _____ BG
Executive VP, Legal _____ CA	Exec Dir - Exploration _____	VP - Production _____ TG
President _____ MVH	VP & General Manager _____	

NON OPERATING PARTNER APPROVAL:

Company Name: _____	Working interest (%): _____	Tax ID: _____
Signed by: _____	Date: _____	
Title: _____	Approval: Yes _____ No (mark one) _____	

The costs on this AFE are estimates only and may not be confirmed or any specific item at the time of the project. Tolerances for completion under the AFE may be delayed up to a year after the well has been completed. In executing this AFE, the Participant agrees to pay the proportionate share of actual costs incurred including legal, location, regulatory, and other costs under the terms of the applicable well operating agreement, regulatory order or other agreement covering the well. Participant shall be required to pay the proportionate share of the Operator's well cost and general liability insurance when Participant exercises its right to participate in the well. Participant shall be required to pay the proportionate share of the Operator's well cost and general liability insurance when Participant exercises its right to participate in the well.

Untitled Search



Untitled Search

API#	Operator	Lease	Well#	County	Legal	Reservoir Name	Well Status	Prac. IP (BO/D)	Prac. IP (MCF/D)	First Prod.	Avg. (BO/D)	Avg. (MCF/D)	Last Prod.	Cumulative Oil	Cumulative Gas	Cumulative Water
30-025-31378	MATADOR PRODUCTION COMPANY	ATLANTIC 32 STATE	004	LEA	S:32, T:18S, R:33E	QUEEN	Active	59.23	28.13	Oct 1991	0.55		Jul 2015	43,422	33,813	22,642
30-025-35237	MATADOR PRODUCTION COMPANY	ATLANTIC 32 STATE	007	LEA	S:32, T:18S, R:33E	MORROW, SOUTH (GAS)	Active	11.52	626.55	Dec 2001	0.77	80.53	Sep 2015	7,977	755,164	445
30-025-35009	MATADOR PRODUCTION COMPANY	GAZELLE 32 STATE	001	LEA	S:32, T:18S, R:33E	MORROW, SOUTH (GAS)	Active	111.00	2,345.03	Jul 2000	1.03	171.27	Sep 2015	75,911	5,516,536	7,985

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 8606
Order No. R-8013

APPLICATION OF DOYLE HARTMAN FOR
SIMULTANEOUS DEDICATION AND
COMPULSORY POOLING, LEA COUNTY,
NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8 a.m. on July 2, 1985, at Santa Fe, New Mexico, before Examiner Gilbert P. Quintana.

NOW, on this 20th day of August, 1985, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

- (1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.
- (2) The applicant, Doyle Hartman, seeks an order pooling all mineral interests from the surface to the base of the Jalmat Gas Pool underlying the NW/4 of Section 8, Township 24 South, Range 37 East, NMPM, Lea County, New Mexico, forming a previously approved 160-acre non-standard spacing and proration unit in the Jalmat Gas Pool.
- (3) The applicant proposes to simultaneously dedicate said gas proration unit to his existing E. E. Jack Well No. 1 located 1980 feet from the North line and 660 feet from the West line (Unit E) of said Section 8 and his proposed E. E. Jack Well No. 5 to be drilled at a standard location within said unit.
- (4) Marilyn A. Tarlton, interest owner in the subject proration unit and trustee of the surviving trustor's trust of the Lortscher Family Trust, dated November 26, 1980, has not agreed to the drilling of said E. E. Jack Well No. 5.

(5) Evidence was presented showing that an operating agreement entitled, "Operating Agreement", dated January 16, 1951, covering the subject unit area, was entered into by and between Howard Hogan, operator, and Charles T. Scott, Harold S. Russell, Herbert J. Schmitz, and F. D. Lortscher, non-operators.

(6) Said operating agreement was modified December 15, 1954, by an agreement entitled, "Modification of Operating Agreement" and was entered into by and between R. Olsen, operator, and the same non-operators in Finding No. (5) above.

(7) The applicant, Doyle Hartman, controls 66.667 percent of the subject proration unit, including the titles of Howard Hogan, R. Olsen, Herbert J. Schmitz, and Charles T. Scott, Jr.

(8) Marilyn A. Tarlton controls the title of F. D. Lortscher, which is 20 percent of the subject proration unit.

(9) Ms. Tarlton contends that the applicant, other interest owners, and herself are governed by the operating agreements in Findings Nos. (5) and (6) above, hereafter referred to as the "Agreements."

(10) The "Agreements" have provisions for the drilling of additional wells on the subject proration unit, including provisions for non-consent drilling risk penalties, drilling supervision charges, and production supervision charges.

(11) The applicant failed to provide evidence to refute that the "Agreements" are not binding and do not govern the operation of the subject proration unit.

(12) Because of a lack of evidence to the contrary, it appears that the "Agreements" are current binding operating agreements for the subject proration unit, having provisions governing those issues to be addressed in compulsory pooling cases obviating the need for such a hearing in this case.

(13) The compulsory pooling portion of this application should be denied.

(14) The simultaneous dedication portion of this application should be approved, provided the proposed new well is drilled under the provisions of the "Agreements."

-3-

Case No. 8606

Order No. R-8013

IT IS THEREFORE ORDERED THAT:


(1) The portion of the application of Doyle Hartman seeking an order pooling all mineral interests from the surface to the base of the Jalmat Gas Pool underlying the NW/4 of Section 8, Township 24 South, Range 37 East, NMPM, Lea County, New Mexico, is hereby denied.

(2) The previously approved 160-acre non-standard gas proration unit, comprising the NW/4 of said Section 8, shall be simultaneously dedicated to the proposed E. E. Jack Well No. 5 and the applicant's E. E. Jack Well No. 1 located in Unit E of said Section 8 provided the E. E. Jack Well No. 5 is drilled under the terms of the "Agreements."

(3) Jurisdiction of this cause 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



R. L. STAMETS
Director

S E A L

fd/

**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. 11960
Order No. R-11009**

**APPLICATION OF REDSTONE OIL & GAS
COMPANY FOR COMPULSORY POOLING
AND AN UNORTHODOX GAS WELL
LOCATION, EDDY COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on April 2, 1998, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 28th day of July, 1998, 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) At the request of the applicant, the record, evidence and testimony presented in Case No. 11927, heard by the Division on February 5th and March 5th, 1998, were incorporated in this case.

(3) The applicant, Redstone Oil & Gas Company (Redstone), seeks an order pooling all mineral interests from the surface to the base of the Morrow formation underlying the following described area in Section 12, Township 23 South, Range 24 East, NMPM, Eddy County, in the following manner:

all of Section 12 thereby forming a standard 640-acre gas spacing and proration unit for any formations and/or pools spaced on 640 acres within that vertical extent, which presently include but are not necessarily limited to the Rock Tank-Lower Morrow and Rock Tank-Upper Morrow Gas Pools; and,

the N/2 of Section 12 thereby forming a standard 320-acre gas spacing and proration unit for any formations and/or pools spaced on 320 acres within that vertical extent.

These units are proposed to be dedicated to a well to be drilled at an unorthodox gas well location 500 feet from the North line and 2515 feet from the East line (Unit B) of Section 12.

(4) This case was heard in conjunction with Case No. 11877, a competing force pooling application filed by Fasken Land and Minerals, Ltd. (Fasken), which was heard by the Division on February 5th and March 5th, 1998.

(5) By letter dated June 23, 1998, Redstone advised the Division that it has reached a voluntary agreement with Fasken with regards to the development of the subject acreage, and requested that the force pooling portion of this case be dismissed.

(6) Redstone's request to dismiss the force pooling portion of this case should be granted.

(7) The evidence and testimony presented in this case indicates that:

- a) the proposed well is located within both the Rock Tank-Upper Morrow and Rock Tank-Lower Morrow Gas Pools, both of which are governed by special rules and regulations promulgated by Division Order No. R-3428, which require standard 640-acre spacing and proration units with wells to be located no closer than 1650 feet from the outer boundary of the section nor closer than 330 feet from any governmental quarter-quarter section line or subdivision inner boundary;
- b) the proposed well is located within one mile of the Rock Tank-Upper Pennsylvanian Pool, which is currently governed by Rule 104.C. of the Division Rules and Regulations, which requires standard 320-acre gas spacing and proration units with wells to be located no closer than 1650 feet from the nearest end boundary nor closer than 660 feet from the nearest side boundary of the spacing unit nor closer than 330 feet from any quarter-quarter section line or subdivision inner boundary; and,

- c) applicant's geologic evidence and testimony demonstrate that a well drilled at the proposed location will best enable the applicant to recover the remaining gas reserves within the Upper Morrow "A" Sand interval underlying Section 12.

(8) *Excluding Fasken, which has effectively withdrawn its objections in this case, no other offset operator and/or interest owner appeared at the hearing in opposition to the proposed unorthodox gas well location.*

(9) Approval of the proposed unorthodox gas well location will provide the applicant the opportunity to produce its just and equitable share of the gas underlying the proposed proration unit(s), and will not violate correlative rights.

IT IS THEREFORE ORDERED THAT:

(1) The application of Redstone Oil & Gas Company for an order pooling all mineral interests from the surface to the base of the Morrow formation underlying all of Section 12, Township 23 South, Range 24 East, NMPM, Eddy County, New Mexico, thereby forming a standard 640-acre gas spacing and proration unit, and the N/2 of Section 12 thereby forming a standard 320-acre gas spacing and proration unit, these units to be dedicated to a well to be drilled at an unorthodox gas well location 500 feet from the North line and 2515 feet from the East line (Unit B) of Section 12, is hereby dismissed.

(2) The applicant, Redstone Oil & Gas Company, is hereby authorized to drill a well at an unorthodox gas well location 500 feet from the North line and 2515 feet from the East line (Unit B) of Section 12, Township 23 South, Range 24 East, NMPM, Eddy County, New Mexico, to test the Rock Tank-Upper Morrow Gas Pool, Rock Tank-Lower Morrow Gas Pool and Rock Tank-Upper Pennsylvanian Gas Pool.

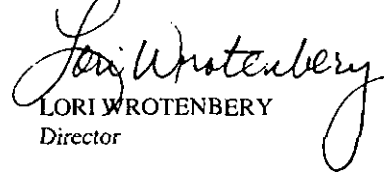
(3) All of Section 12 shall be dedicated to the well forming a standard 640-acre gas spacing and proration unit in the Rock Tank-Upper and Rock Tank-Lower Morrow Gas Pools, and the N/2 of Section 12 shall be dedicated to the well forming a standard 320-acre gas spacing and proration unit in the Rock Tank-Upper Pennsylvanian Gas Pool.

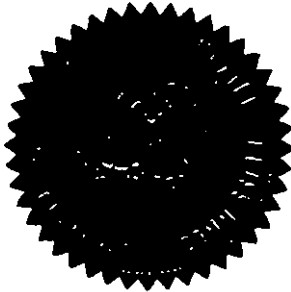
(4) Jurisdiction is hereby retained for the entry of such further orders as the Division may deem necessary.

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DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


LORI WROTENBERY
Director



S E A L