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. 15595
ORDER NO. R-14292

APPLICATION OF MATADOR PRODUCTION 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 December 1, 2016 at Santa Fe, New Mexico before Examiner William V. Jones and again on December 15, 2016 before Examiner Michael A. McMillan.

NOW, on this 3rd day of February, 2017, the Division Director, having considered the testimony, the record and the recommendations of the Examiners,

FINDS THAT:

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

(2) Cases No. 15595, 15596, 15598, and 15599 were consolidated at the hearing on December 1, 2016, for the purpose of testimony. Notice Exhibit No. 7 was presented and admitted in Cases No. 15595, 15598, and 15599, on December 15, 2016. Exhibits A, B, and C, were admitted in Case No. 15596 on January 5, 2017. Separate Orders are being issued for each case.

(3) In Case No. 15595, Matador Production Company (the "Applicant") seeks an order pooling all uncommitted mineral interests in a standard 320-acre gas spacing unit (the "Unit") for production of oil and gas from the Wolfcamp formation, Forehand Ranch; Wolfcamp Gas Pool (76780), comprising the N/2 of Section 14, Township 23 South, Range 27 East, NMPM, Eddy County, New Mexico.

(4) The Unit will be dedicated to Applicant's Kathy Coleman 14 23S 27E RB Well No. 206H (the "proposed well"; API No. 30-015-Pending), a horizontal well to be drilled from a surface location 1852 feet from the North line and 361 feet from the East line (Unit H) to a bottom-hole location 1651 feet from the North line and 240 feet from the West line (Unit E), both in Section 14, Township 23 South, Range 27 East, NMPM.

(5) The surface and bottom hole locations shown above are as presented at the hearing on Division Form C-102 and in exhibits showing well proposal letters. The application in this case differed in that the surface location was listed as 1881 feet from the North line and 335 feet from the East line and the bottom hole location was listed as 2311 feet from the North line and 240 feet from the West line, both of Section 14. These lands are owned in Fee and the actual surface and bottom hole locations of this well may differ from the footage mentioned when the well is permitted to be drilled.

(6) The application in this case listed the proposed gas well as being within the Forehand Ranch; Wolfcamp Gas Pool. However, the Forehand Ranch; Wolfcamp Gas Pool has been abolished, effective February 1, 2017, by Division Order No. R-14262 issued in Case No. 15535. Said Order also created the Purple Sage; Wolfcamp Gas Pool (Pool Code 98220) and promulgated Special Pool Rules for that pool allowing wells to be located no closer than 330 feet from the exterior boundary of the applicable spacing unit or project area.

(7) The proposed well will be placed within the Purple Sage; Wolfcamp Gas Pool and the location of the completed interval of the proposed well will be standard for gas production within the Unit.

(8) Applicant appeared through counsel and presented the following land and geologic evidence:

(a) the Wolfcamp formation in this area is suitable for development by horizontal drilling;

(b) the proposed orientation of the horizontal well from east to west is appropriate for the Unit;

(c) all separately owned tracts 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;

(d) notice was provided to all interest owners subject to pooling proceedings as affected parties of the proposed compulsory pooling within the Unit; and

(e) notice of this proceeding was published in a newspaper of general circulation in this county containing the names of all affected parties who were not successfully served with notice.

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

The Division concludes as follows:

(10) The unorthodox portion of this application is no longer needed and should be dismissed.

(11) 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.

(12) Applicant is owner or affiliate of an 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.

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

(14) 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 a 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.

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

(16) 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.

(17) Reasonable charges for supervision (combined fixed rates) should be fixed at $7000 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, all uncommitted interests, whatever they may be, in the oil and gas in the Wolfcamp formation, Purple Sage; Wolfcamp Gas Pool (Pool Code 98220), within a standard 320-acre gas spacing unit (the "Unit") comprising the N/2 of Section 14, Township 23 South, Range 27 East, NMPM, Eddy County, New Mexico, are hereby pooled.

(2) The Unit shall be dedicated to Applicant's Kathy Coleman 14 23S 27E RB Well No. 206H (the "proposed well"; API No. 30-015-Pending), a horizontal well to be drilled from a surface location 1852 feet from the North line and 361 feet from the East line (Unit H) to a bottom-hole location 1651 feet from the North line and 240 feet from the West line (Unit E), both in Section 14, Township 23 South, Range 27 East, NMPM. The location of the completed interval will be standard for gas production within the Unit. The unorthodox portion of this application is hereby dismissed without prejudice.

(3) The operator of the Unit shall commence drilling the proposed well on or before February 28, 2018, and shall thereafter continue drilling the proposed well with due diligence to test the Wolfcamp formation.

(4) In the event the operator does not commence drilling the proposed well on or before February 28, 2018, 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) Should the proposed well not be drilled and completed within 120 days after commencement thereof, 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 well for good cause shown by satisfactory evidence.

(6) 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.

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

(8) 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").

(9) 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."

(10) 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.

(11) 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.

(12) 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.

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

(14) Reasonable charges for supervision (combined fixed rates) for the well are hereby fixed at *$7000 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 more than what are reasonable, attributable to pooled working interest owners.

(15) Except as provided in Paragraphs (12) and (14) 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 7-8A-31, as amended).

(16) 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.

(17) 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.

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

(19) 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

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