

**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. 15931
ORDER NO. R-14587**

**APPLICATION OF MATADOR PRODUCTION COMPANY 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 January 11, 2018 at Santa Fe, New Mexico, before Examiner Michael A. McMillan and again on February 8, 2018 before Examiner, Phillip R. Goetze.

NOW, on this 14th day of February, 2018, the Division Director, having considered the testimony, the record and the recommendations of Examiner McMillan,

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 ("Matador" or "Applicant"), seeks approval of a non-standard 152.55-acre (more or less) oil spacing and proration unit and project area ("the Unit") in the Bone Spring formation, Scanlon Draw; Bone Spring Pool (Pool Code 55510) underlying Lot 3, N/2 SE/4, and the NE/4 SW/4 (N/2 S/2 equivalent) of Section 19, Township 19 South, Range 29 East, NMPM, Eddy County, New Mexico. Applicant further seeks an order pooling all uncommitted interests within the Unit in the Bone Spring formation.

(3) The Unit will be dedicated to two horizontal wells: Applicant's Marbob 19 State Com Well No. 123H and Applicant's Marbob 19 State Com Well No. 133H ("the proposed wells"). The Marbob 19 State Com Well No. 123H (API No. 30-015-Pending) will be drilled from a surface location, 1534 feet from the South line and 310 feet from the West line (Lot 3/Unit L) to a terminus, 1980 feet from the South line and 240 feet from the East line (Unit I) of Section 19. The Marbob 19 State Com Well No. 133H (API

No. 30-015-Pending) will be drilled from a surface location, 1564 feet from the South line and 310 feet from the West line (Lot 3/Unit L) to a terminus, 1980 feet from the South line and 240 feet from the East line (Unit I) of Section 19. Notwithstanding the non-standard location of the surface and bottom hole location, the completed interval of the proposed wells will be at orthodox locations.

(4) Oil spacing in this pool 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.

(5) Applicant appeared at the hearing through counsel and presented geologic evidence by affidavit 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 wells from west to east is appropriate for the Unit;
- (c) all quarter sections to be included in the Unit are expected to be productive in the Bone Spring formation, so that the Unit as requested will not impair correlative rights;
- (d) diverse ownership of overriding royalty owners ("royalty owners") exists within the Bone Spring formation within the Unit. Applicant is working with the royalty owners to create identical ownership of the royalty owners. Further, the royalty owners have a voluntary agreement and are not subject to compulsory pooling;
- (e) Applicant is seeking to drill the two wells for economic efficiencies associated with pad drilling and completion;
- (f) the Second Bone Spring Sand is the target interval of the Marbob 19 State Com Well No. 123H. Further, the Third Bone Spring Sand is the target interval of the Marbob 19 State Com Well No. 133H;
- (g) 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 whose whereabouts could be ascertained by exercise of reasonable diligence; and

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

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

The Division concludes that:

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

(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 locations.

(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 Bone Spring formation within the Unit.

(12) Matador Production Company should be designated the operator of the proposed wells and of the Unit.

(13) 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.

(14) 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 non-standard 152.55-acre (more or less) oil spacing and proration unit and project area ("the Unit") is hereby established for oil and gas production from the Bone Spring formation, Scanlon Draw; Bone Spring Pool (Pool Code 55510) underlying Lot 3, N/2 SE/4, NE/4 SW/4 (N/2 S/2 equivalent) of Section 19, Township 19 South, Range 29 East, NMPM, in Eddy County, New Mexico.

(2) Pursuant to the application of Matador Production Company, 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 Applicant's Marbob 19 State Com Well No. 123H and Applicant's Marbob 19 State Com Well No. 133H ("the proposed wells"). The Marbob 19 State Com Well No. 123H (API No. 30-015-Pending) will be drilled from a surface location, 1534 feet from the South line and 310 feet from the West line (Lot 3/Unit L) to a terminus, 1980 feet from the South line and 240 feet from the East line (Unit I) of Section 19. The Marbob 19 State Com Well No. 133H (30-015-Pending) will be drilled from a surface location, 1564 feet from the South line and 310 feet from the West line (Lot 3/Unit L) to a terminus, 1980 feet from the South line and 240 feet from the East line (Unit P) of Section 19. Notwithstanding the non-standard surface locations and bottom hole locations, the completed intervals of both wells will be at orthodox locations.

(4) The operator of the Unit shall commence drilling the proposed wells on or before February 28, 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 wells on or before February 28, 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) Should the proposed wells 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 wells for good cause shown by satisfactory evidence. If neither of the proposed wells is completed in all quarter-quarter sections included in the Unit within 120 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 of the proposed wells and any other well drilled on the Unit pursuant to Division Rule 19.1513.9 NMAC, the

pooled unit created by this order shall terminate unless this order has been amended to authorize further operations.

(8) Matador Production Company (OGRID 228937) 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) Production from the proposed wells shall be separately metered before commingling unless the Division grants an exception for surface commingling providing for an allocation method suitable for leases with different ownership, pursuant to Rule 19.15.12.10.B(2) NMAC.

(14) The operator is hereby authorized to withhold the following costs and charges from each non-consenting 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.

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

(16) 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).

(17) 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.

(18) 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 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.

(19) 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.

(20) 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.

(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.



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**STATE OF NEW MEXICO
OIL CONSERVATION DIVISION**

Heather Riley
HEATHER RILEY
Director