

**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. 15908
ORDER NO. R-14598**

**APPLICATION OF MARATHON OIL PERMIAN LLC FOR A NON-STANDARD
SPACING AND PRORATION UNIT, NON-STANDARD LOCATIONS AND
COMPULSORY POOLING, LEA COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on December 21, 2017 at Santa Fe, New Mexico, before Examiner Scott A. Dawson.

NOW, on this 7th day of March, 2018, 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) Cases No. 15908 and 15909 were consolidated at the hearing; however, separate orders will be issued for each case.
- (3) Marathon Oil Permian LLC ("Applicant or Marathon"), seeks approval of a 160-acre non-standard oil spacing and proration unit and project area (the "Unit") for oil and gas production from the Bone Spring formation, Red Hills; Bone Spring, North Pool (Pool code: 96434), comprising the W/2 W/2 of Section 15, Township 24 South, Range 34 East, NMPM, Lea County, New Mexico. Applicant further seeks an order pooling all uncommitted interests in the Unit for the Bone Spring formation.
- (4) The Unit will be dedicated to the following wells (the "proposed wells") to be completed at non-standard locations in separate Bone Spring Sands;

- (a) Applicant's Flowmaster 24 34 15 SB Well No. 4H (API No. 30-025-43666) a horizontal well to be drilled from a surface location, 343 feet from the North line and 1233 feet from the West line (Unit D) to a terminus or bottom hole location 330 feet from the South line and 661 feet from the West line (Unit M) of Section 15, Township 24 South, Range 34 East, NMPM, Lea County. The first [uppermost] perforation will be 200 feet from the North line and 662 feet from the West line. The last [lowermost] perforation will be 200 feet from the South line and 661 feet from the West line.
 - (b) Applicant's Flowmaster 24 34 15 TBU Well No. 5H (API No. 30-025-44164) a horizontal well to be drilled from a surface location, 343 feet from the North line and 1183 feet from the West line (Unit D) to a terminus or bottom hole location 330 feet from the South line and 661 feet from the West line (Unit M) of Section 15, Township 24 South, Range 34 East, NMPM. The first [uppermost] perforation will be 200 feet from the North line and 662 feet from the West line. The last [lowermost] perforation will be 200 feet from the South line and 661 feet from the West line.
- (5) The proposed wells are within the Red Hills; Bone Spring, North Pool (Pool code: 96434), and are subject to Division Rule 19.15.15.9(A) NMAC, which provides for 330-foot setbacks from the unit boundaries and standard 40-acre units each comprising a governmental quarter-quarter section. The proposed Unit and project area consists of four adjacent quarter-quarter sections oriented north to south.
- (6) Applicant appeared at the hearing through counsel and presented evidence to the effect that:
- (a) The Bone Spring in this area is suitable for development by horizontal drilling;
 - (b) the proposed orientation of the horizontal wells from north to south is appropriate for the proposed Unit.
 - (c) each quarter-quarter section in the proposed unit can be expected to contribute substantially to production from the Bone Spring formation;
 - (d) the completed first and last locations of both wells will be unorthodox; therefore, Applicant requests approval of non-standard locations on both wells;
 - (e) the Flowmaster 24 34 15 SB Well No. 4H is targeting the 2nd Bone Spring sand;

- (f) the Flowmaster 24 34 15 TBU Well No. 5H is targeting the 3rd Bone Spring sand;
- (g) Applicant is seeking to dedicate the proposed wells to one spacing unit by drilling both wells from one pad in consecutive order;
- (h) notice was provided to affected parties of offsetting tracts being encroached by the non-standard locations;
- (i) notice was provided to lessees or operators of surrounding tracts;
- (j) 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;
- (k) Applicant stated that two parties did not receive notice; and
- (l) 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) MRC Permian Company, MRC Permian LKE Company and COG Operating LLC entered appearances and were represented through counsel.

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

The Division concludes that:

(9) The proposed non-standard unit should be approved to enable Applicant to drill two horizontal wells that will efficiently produce the reserves underlying the Unit, thereby preventing waste, and protecting correlative rights.

(10) The proposed non-standard locations for both wells should be approved.

(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 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.

(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 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.

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

(16) 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.

(17) 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.

(18) 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.

(19) Applicant should provide the pooled parties an estimated payout report ("Payout Report") by April 30 of the following year after the proposed well is completed. Further, Applicant should provide Payout Reports on a yearly basis, and within 90 days after payout occurs. Once in receipt of the required information, the pooled party may request a hearing if it believes the revenues reported are inaccurate or the expenses are inaccurate or unreasonable.

(20) 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 Permian LLC, a 160-acre (more or less) non-standard oil spacing and proration unit and project area ("the Unit") is hereby established for oil and gas production from the Bone Spring formation, Red Hills; Bone Spring, North Pool (Pool Code 96434), comprising the W/2 W/2 of Section 15, Township 24 South, Range 34 East, NMPM, Lea County, New Mexico.

(2) All uncommitted interests, whatever they may be, in the oil and gas in the Bone Spring formation within the Unit are hereby pooled.

3) The Unit shall be dedicated to Applicant's following wells (the "proposed wells") all drilled and completed at non-standard locations;

- (a) Flowmaster 24 34 15 SB Well No. 4H (API No. 30-025-43666) a horizontal well to be drilled from a surface location, 343 feet from the North line and 1233 feet from the West line (Unit D) to a terminus or bottom hole location 330 feet from the South line and 661 feet from the West line (Unit M) of Section 15, Township 24 South, Range 34 East, NMPM; and
- (b) Flowmaster 24 34 15 TBU Well No. 5H (API No. 30-025-44164) a horizontal well to be drilled from a surface location, 343 feet from the North line and 1183 feet from the West line (Unit D) to a terminus or bottom hole location 330 feet from the South line and 661 feet from the West line (Unit M) of Section 15, Township 24 South, Range 34 East, NMPM.

(4) The non-standard locations for each of the proposed wells are hereby approved as follows: The first [uppermost] perforation 200 feet from the North line and 662 feet from the West line and the last [lowermost] perforation 200 feet from the South line and 661 feet from the West line.

(5) The operator of the Unit shall commence drilling at least one of the proposed wells on or before March 31, 2019, and shall thereafter continue drilling the wells with due diligence to test the Bone Spring formation.

(6) In the event the operator does not commence drilling at least one of the proposed wells on or before March 31, 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.

(7) 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.

(8) Should the operator fail to complete at least one of the proposed wells within 120 days after commencement of the first well, 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.

(9) Upon final plugging and abandonment of both 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.

(10) Marathon Oil Permian LLC (OGRID 372098) is hereby designated the operator of the wells and of the Unit.

(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 separate itemized schedules of estimated costs of drilling, completing and equipping of each proposed well ("well costs").

(12) Within 30 days from the date it receives the schedule of estimated well costs for each well, 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.

(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 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.

(14) 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.

(15) The operator is hereby authorized to withhold the following costs and charges from each non-consenting working interest owner's share of production from each well, separately:

- (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 for each well.

(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 more than what are reasonable, attributable to pooled working interest owners.

(18) During the cost recovery period, the operator shall furnish to the Division and to each known non-consenting pooled working interest owner, on April 30 of the year following the year in which the wells are completed, annually thereafter, and within 90 days after payout occurs, a schedule of all revenues attributable to the proposed wells, and all charges for supervision and operating costs charged against such revenues. Operating costs shall include all reasonable costs actually incurred for the maintenance and operation of the wells, except for "well costs" reported pursuant to Ordering Paragraph (12), that are properly chargeable to the joint account pursuant to COPAS procedures. If no objection to the operating costs is received by the Division, and the Division has not objected within 45 days following receipt of any schedule, the costs shall be deemed to be the reasonable well costs. If there is an objection to the accuracy or reasonableness of operating costs reported within the 45-day period, the Division will determine reasonable well costs after public notice and hearing.

(19) 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).

(20) Any unleased mineral interests 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.

(21) 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.

(22) 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.

(23) 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

Heather Riley

HEATHER RILEY
Director