

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 THE:

APPLICATION OF RSC RESOURCES LIMITED PARTNERSHIP FOR
COMPULSORY POOLING, NON-STANDARD SPACING AND PRORATION
UNIT, AND UNORTHODOX LOCATION, EDDY COUNTY, NEW MEXICO

CASE NO. 14543
ORDER NO. R-13330

ORDER OF THE DIVISION

BY THE DIVISION:

This matter came on for hearing at 8:15 a.m. on September 16, 2010, at Santa Fe, New Mexico, before Examiner William V. Jones.

NOW, on this 28th day of October, 2010, 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) RSC Resources Limited Partnership ("RSC" or "Applicant"), seeks an order creating two non-standard 160-acre oil spacing and proration units for oil production from the Abo formation (Wildcat-Wolfcamp Oil Pool) and from the Wolfcamp formation (Wildcat-Wolfcamp-Abo Pool) within the E/2 W/2 of Section 35, Township 16 South, Range 29 East, NMPM, Eddy County, New Mexico.

(3) Applicant further seeks an order pooling all uncommitted interests within the E/2 W/2 of Section 35, Township 16 South, Range 29 East, NMPM, Eddy County, New Mexico as follows:

(a) Units C, F, K, and N (the E/2 W/2) of Section 35 for oil production from the Abo and the Wolfcamp formations including any Abo or Wolfcamp oil pool spaced on 40-acre oil spacing and proration units.

(b) Unit C (the NE/4 NW/4) of Section 35 for oil production from all formations from the surface down to and including the Wolfcamp formation, and from all pools spaced on standard 40-acre oil spacing and proration units within that vertical extent, including but not limited to, the Square Lake-San Andres Pool (57570), the Undesignated High Lonesome-Queen Pool (30780), and the Undesignated Grayburg Jackson-Seven Rivers-Queen-Grayburg-San Andres Pool (28509).

(4) These units (or the "Unit") should be dedicated to Applicant's proposed Lonesome Wolf 35 Fed Com Well No. 1H (API No. 30-015-NA), (the "proposed well") to be drilled from an unorthodox surface location 150 feet from the North line and 1980 feet from the West line (Unit C) of Section 35. This well is to be drilled vertically to approximately 7600 feet or approximately 200 feet into the top of the Wolfcamp formation, logged and evaluated and then (if prospective) kicked off and drilled horizontally, in the pay interval of either the Abo or the Wolfcamp formation, in a southerly direction to a bottomhole terminus 330 feet from the South line and 1980 feet from the West line (Unit N) of Section 35.

(5) This application also asks for approval of the proposed well to produce at an unorthodox oil well location. Any vertical completion and possibly portions of any horizontal completion in the proposed well will encroach on oil spacing units located to the north in Unit N of offsetting Section 26. It was not clear from the record exactly which party controls this Unit N of Section 26 for any possible completion from the surface through the Wolfcamp formation. The applicant should submit an application to the Division for administrative approval of a non-standard location for the pool or pools actually completed for production in this proposed well. The portion of this application asking for approval of the non-standard location should be dismissed.

(6) Applicant appeared at the hearing and presented testimony and evidence as follows:

- a. Mariner Energy, Inc. is the only party being pooled for 40-acre spaced oil in a vertical well located in Unit C of Section 35. Mariner Energy, Inc., ConocoPhillips Company, and Devon Energy Production Company L.P. are the only parties being pooled for creation of the proposed 160-acre horizontal oil unit.
- b. The Abo formation is the primary target for horizontal drilling in the proposed 160-acre unit. The upper portion of the Wolfcamp formation will be evaluated in a vertical pilot well prior to making a decision as to whether to drill the horizontal well in the Abo or in the Wolfcamp formation. The applicant plans only one horizontal well – targeting the best dolomite pay interval.
- c. All four of the 40-acre oil spacing and proration units being combined for purposes of drilling the proposed horizontal well are expected to contribute production to this well.

- d. The North-South direction for drilling has been chosen in this case as an attempt to improve on the results of horizontal wells drilled in an East-West direction – located in offsetting sections to the north of the proposed well.
- e. Offsetting wells to the north of this location have experienced gassy oil production from the Abo formation.
- f. The most prospective interval above the Abo formation, at the location of this proposed-well, is the San Andres formation. At this well location, the applicant does have rights to the San Andres; therefore it is to be included in this application. There also may be possible pay intervals in the relatively thick Yeso formation.
- g. At the date of the hearing, no other owner had agreed to voluntarily join in this venture.

(7) The applicant agreed at the hearing that in the event this well is initially completed as a horizontal well, then any future up-hole re-completion should be handled with a new, updated AFE and balloting process. If any party then does not voluntarily agree to join in the re-completion, then applicant should re-open this case at another hearing for purposes of compulsory pooling.

(8) If this well is drilled and completed as a horizontal well and not all of the four standard 40-acre oil spacing and proration units are penetrated or completed in the well; then the non-standard oil spacing and proration unit should be reduced in size by omitting the non-drilled or non-completed 40-acre unit or units.

(9) If this well is NOT initially completed as a horizontal well but is instead completed initially as a vertical well in any of the pooled units, then this Order should apply.

(10) RSC sees potential to increase production and recover additional hydrocarbons by drilling horizontally in the Abo or Wolfcamp formations.

(11) Notice of the proposed 160-acre non-standard oil spacing and proration unit was provided to all surrounding affected parties within the Abo and Wolfcamp formations.

(12) Notice of the compulsory pooling application was provided to those parties not already committed to the drilling of this proposed well.

(13) Devon Energy Production Company L.P. made an appearance in this case and appeared at the hearing but did not oppose this application. No other party appeared at the hearing, or otherwise opposed the granting of this application.

(14) Approval of the proposed non-standard 160-acre spacing and proration unit will enable Applicant to drill a horizontal well that will in reasonable probability

efficiently produce the reserves underlying the Unit, thereby preventing waste, and will not impair correlative rights.

(15) 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.

(16) 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 well to a common source of supply within the Unit at the proposed location.

(17) Within the proposed Unit, all parties owning interests were located, but some parties have chosen not to participate in the drilling of the proposed well.

(18) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford to each interest owner 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 proposed Unit.

(19) RSC Resources Limited Partnership (245801) should be designated the operator of the proposed well and of the Unit.

(20) 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 well.

(21) 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) The application from RSC Resources Limited Partnership ("Applicant") for creation of two non-standard 160-acre oil spacing and proration units is hereby approved for oil production from the Abo formation (Wildcat-Wolfcamp Oil Pool) and from the Wolfcamp formation (Wildcat-Wolfcamp Abo Pool) within the E/2 W/2 of Section 35, Township 16 South, Range 29 East, NMPM, Eddy County, New Mexico.

(2) All uncommitted interests are hereby pooled within the E/2 W/2 of Section 35, Township 16 South, Range 29 East, NMPM, Eddy County, New Mexico as follows:

- a. Units C, F, K, and N (the E/2 W/2) of Section 35 for oil production from the Abo and the Wolfcamp formations including any Abo or Wolfcamp oil pool spaced on 40-acre oil spacing and proration units.
- b. Unit C (the NE/4 NW/4) of Section 35 for oil production from all formations from the surface down to and including the Wolfcamp formation, and from all pools spaced on standard 40-acre oil spacing and proration units within that vertical extent, including but not limited to, the Square Lake-San Andres Pool (57570), the Undesignated High Lonesome-Queen Pool (30780), and the Undesignated Grayburg Jackson-Seven Rivers-Queen-Grayburg-San Andres Pool (28509).

(3) The proposed units (or the "Unit") are hereby dedicated to the proposed Lonesome Wolf 35 Fed Com Well No. 1H (API No. 30-015-NA), (the "proposed well") to be drilled from an unorthodox surface location 150 feet from the North line and 1980 feet from the West line (Unit C) of Section 35. This well shall be drilled vertically to approximately 7600 feet or approximately 200 feet into the top of the Wolfcamp formation, logged and evaluated and then (if prospective) kicked off and drilled horizontally, in the pay interval of either the Abo or the Wolfcamp formation, in a southerly direction to a bottomhole terminus 330 feet from the South line and 1980 feet from the West line (Unit N) of Section 35.

(4) Applicant's portion of the application asking for approval of a non-standard location for the proposed well is hereby dismissed and such application is remanded back to the administrative process.

(5) RSC Resources Limited Partnership (OGRID 245801) is hereby designated the operator of the well and of the Unit.

(6) The operator of the Unit shall commence drilling the proposed well on or before November 1, 2011, and shall thereafter continue drilling the well with due diligence to test depths into the top portion of the Wolfcamp formation.

(7) In the event the operator does not commence drilling the proposed well on or before November 1, 2011, Ordering Paragraph (3) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause demonstrated by satisfactory evidence.

(8) If the proposed well is drilled and completed as a horizontal well and not all of the four standard 40-acre oil spacing and proration units are penetrated or completed in the well; then the non-standard oil spacing and proration unit shall be reduced in size by omitting the non-drilled or non-completed 40-acre unit or units.

(9) In the event this well is initially completed as a horizontal well, then this Order shall not apply to any future up-hole re-completion.

(10) Should the proposed well not be drilled and completed within 180 days after commencement thereof, then Ordering Paragraphs (1), (2), and (3) shall be of no further effect, and the Unit 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.

(11) Upon final plugging and abandonment of the proposed well and any other well drilled on the Unit pursuant to Division Rule Part 13, Sections 9 through 11, the pooled Unit created by this Order shall terminate, unless this order has been amended to authorize further operations.

(12) 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").

(13) 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."

(14) 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.

(15) 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.

(16) The operator is hereby authorized to withhold the following costs and charges from production:

- (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.

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

(18) Reasonable charges for supervision (combined fixed rates) 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 in excess of what are reasonable, attributable to pooled working interest owners.

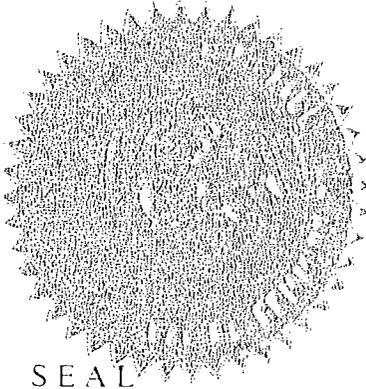
(19) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working interests' share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(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 Unit shall notify the Division in writing of the subsequent voluntary agreement of all parties subject to the forced 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

A handwritten signature in black ink, appearing to read "Mark E. Fesmire".

MARK E. FESMIRE, P.E.
Acting Director

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