

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. 15906
ORDER NO. R-14577

APPLICATION OF MARATHON OIL PERMIAN LLC FOR A NON-STANDARD
OIL SPACING AND PRORATION UNIT, NON-STANDARD LOCATION, 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 January 25, 2018, at Santa Fe, New Mexico, before Examiner William V. Jones.

NOW, on this 8th day of February, 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 the subject matter.

(2) Marathon Oil Permian LLC (the "Applicant") seeks approval of a 320-acre non-standard oil spacing and proration unit and project area (the "Unit") for oil and gas production from the Wolfcamp formation, Antelope Ridge; Wolfcamp Pool (Pool code 2220), comprising the E/2 of Section 26, Township 24 South, Range 34 East, NMPM, Lea County, New Mexico.

(3) Applicant further seeks an order pooling all uncommitted interests in the Unit for the Wolfcamp formation.

(4) Applicant seeks to dedicate the Unit to the following wells "the proposed wells", and approval of non-standard locations for each of the wells:

Knife Fight Fee 24 34 26 WXY Well No. 3H, API No. 30-025-44162

SHL: 271 feet from the North line and 1205 feet from the East line,
(Unit A) of Section 26, Township 24 South, Range 34 East, NMPM.

BHL: 150 feet from the South line and 2301 feet from the East line
(Unit O) of Section 26, Township 24 South, Range 34 East, NMPM.

Knife Fight Fee 24 34 26 WA Well No. 6H, API No. 30-025-44212

SHL: 271 feet from the North line and 1175 feet from the East line,
(Unit A) of Section 26, Township 24 South, Range 34 East, NMPM.

BHL: 150 feet from the South line and 1316 feet from the East line
(Unit P) of Section 26, Township 24 South, Range 34 East, NMPM.

Knife Fight Fee 24 34 26 WXY Well No. 19H, API No. 30-025-44163

SHL: 271 feet from the North line and 1115 feet from the East line,
(Unit A) of Section 26, Township 24 South, Range 34 East, NMPM.

BHL: 150 feet from the South line and 330 feet from the East line
(Unit P) of Section 26, Township 24 South, Range 34 East, NMPM.

(5) The proposed wells are within the Antelope Ridge; Wolfcamp Pool and 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.

(6) The proposed Unit and project area consists of eight adjacent quarter-quarter sections all within the E/2 of Section 26. The proposed wells will be oriented and drilled from north to south.

(7) Applicant appeared through counsel and presented the following land, engineering, and geologic evidence:

- (a) the Wolfcamp formation 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 Unit;
- (c) the 6H well will be located very near the center of the E/2 with the 3H and 19H wells located on either side of the center line;
- (d) all wells will be hydraulically fractured and the location of Well No. 6H in the center of the proposed Unit will enable that well to produce from all eight quarter-quarter sections in the proposed Unit;
- (e) the 3H and 19H wells will be drilled in the Wolfcamp XY member and the 6H well will be drilled in the Wolfcamp A member formation, although both of these members are very close vertically and both are near the top of the Wolfcamp formation;

- (f) the entire E/2 should comprise one spacing unit to enable the placement of three, roughly equally spaced wells in the proposed Unit;
- (g) all quarter-quarter sections to be included in the Unit are expected to be productive in the Wolfcamp formation and all will be produced by the proposed wells, so that the Unit as requested will not impair correlative rights;
- (h) notice was provided to affected parties surrounding the proposed Unit;
- (i) notice was provided to affected parties of tracts being encroached by the proposed non-standard locations;
- (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; and
- (k) those potentially affected parties whose whereabouts could not be ascertained were noticed by publication as provided in Rule 19.15.4.12.B NMAC.

(8) EOG Resources, Inc. and EOG Y Resources, Inc. (collectively "EOG."), MRC Permian Company and MRC Permian LKE Company, Robert E. Landreth and Advance Energy Partners LLC all entered appearances and were represented at the hearing through counsel. No other party appeared or otherwise opposed this application.

The Division concludes as follows:

(9) The proposed Knife Fight Fee 24 34 26 WA Well No. 6H is to be located near the center of the proposed Unit to enable an increase in recovery from the proposed Unit and to prevent waste of oil and gas. The well is in a relatively tight member formation within the Wolfcamp formation. The well must be completed with hydraulic fracture treatments which fractures will extend into all eight quarter-quarter sections to be included in the proposed Unit.

(10) The placement and completion of this Well No. 6H will develop and recover oil and gas from all eight standard 40-acre spacing and proration units to be combined into this proposed Unit. The wells to be located on either side of this Well No. 6H will further develop the proposed Unit and will recover additional oil and gas from the proposed Unit.

(11) If Well No. 6H is drilled and completed at the proposed location, the proposed non-standard unit should be approved to enable Applicant to drill horizontal wells

that will efficiently produce the reserves underlying the Unit, thereby preventing waste and protecting correlative rights.

(12) The proposed non-standard locations for each of the proposed wells, as those completed intervals are shown on Applicant's exhibits for this case, should be approved.

(13) 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.

(14) Applicant is 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 described locations.

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

(16) 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.

(17) Marathon Oil Permian LLC (OGRID 372098) should be designated the operator of the proposed wells and the Unit.

(18) To ensure protection of correlative rights, any pooled party should be notified and have an opportunity to protest, before the Division grants any extension of the time provided herein for commencing drilling. After notification, the Division may grant an extension after 20 days receipt if no objection is received.

(19) Infill wells within the Unit should be subject to Division Rules 19.15.13.9 NMAC through 19.15.13.10 NMAC, and the infill wells should be subject to the terms and conditions of this order.

(20) Any pooled working interest owner who does not pay its share of estimated well costs of any well should have withheld from production from such well its share of reasonable well costs plus an additional 200% thereof as a reasonable charge for the risk involved in drilling the proposed wells.

(21) Reasonable charges for supervision (combined fixed rates) should be fixed at \$7000 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 overhead adjustment provision of the COPAS form titled "*Accounting Procedure-Joint Operations*."

(22) EOG filed a pre-hearing statement in which it argued that the Division does not have the authority to approve the requested non-standard unit because it cannot be "efficiently and economically drained and developed by one well, as required for a standard proration unit by 70-2-17(B), NMSA. 1978. The argument is not well taken. 70-2-18(C), NMSA 1978 authorizes the Division to create non-standard spacing or proration units. Spacing and proration units are not the same thing. *Rutter & Wilbanks v. NMOCC*, 87 N.M. 286, 288 (NM Sup 1975). The Unit may be approved as a non-standard spacing unit without regard to whether or not it may constitute a non-standard proration unit because the allowable for the Unit can be computed pursuant to Division Rule 19.15.16.B(3) NMAC based on the allowables provided for the standard proration units included in the Unit.

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Marathon Oil Permian LLC, a 320-acre non-standard oil spacing unit and project area (the "Unit") is hereby established for oil and gas production from the Wolfcamp formation, Antelope Ridge; Wolfcamp Pool (Pool code 2220), comprising the E/2 of Section 26, 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 Wolfcamp formation underlying 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;

Knife Fight Fee 24 34 26 WXY Well No. 3H, API No. 30-025-44162

SHL: 271 feet from the North line and 1205 feet from the East line,
(Unit A) of Section 26, Township 24 South, Range 34 East, NMPM.
BHL: 150 feet from the South line and 2301 feet from the East line
(Unit O) of Section 26, Township 24 South, Range 34 East, NMPM.

Knife Fight Fee 24 34 26 WA Well No. 6H, API No. 30-025-44212

SHL: 271 feet from the North line and 1175 feet from the East line,
(Unit A) of Section 26, Township 24 South, Range 34 East, NMPM.
BHL: 150 feet from the South line and 1316 feet from the East line
(Unit P) of Section 26, Township 24 South, Range 34 East, NMPM.

Knife Fight Fee 24 34 26 WXY Well No. 19H, API No. 30-025-44163

SHL: 271 feet from the North line and 1115 feet from the East line,
(Unit A) of Section 26, Township 24 South, Range 34 East, NMPM.
BHL: 150 feet from the South line and 330 feet from the East line
(Unit P) of Section 26, Township 24 South, Range 34 East, NMPM.

(4) The non-standard locations for each of the proposed wells as the completed intervals are shown on forms C-102 of the exhibits for this case, are hereby approved.

(5) The operator of the Unit shall commence drilling the first proposed well, the Knife Fight Fee 24 34 26 WA Well No. 6H, API No. 30-025-44212 on or before February 28, 2019, and shall thereafter continue drilling the proposed wells with due diligence to test the Wolfcamp formation.

(6) In the event the operator does not commence drilling such well 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.

(7) The operator shall notify each pooled working interest owner whose address is known 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 in 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) Unless the Knife Fight Fee 24 34 26 WA Well No. 6H, API No. 30-025-44212 is drilled and completed within 120 days after commencement of said 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 files a written request for extension alleging good cause and supported by satisfactory evidence, and the Division approves the extension in writing.

(9) If the Knife Fight Fee 24 34 26 WA Well No. 6H, API No. 30-025-44212 is not completed by hydraulic fracture treatment in all of the standard spacing units included in the proposed project area (or Unit) then the operator shall apply to the Division for an amendment to this order to contract the Unit so that it includes only those standard spacing units in which said well is completed, and to provide appropriate spacing units for the other proposed wells.

(10) Upon final plugging and abandonment of the proposed well or wells and any other well drilled on the Unit pursuant to Division Rule 19.15.13.9 NMAC, the pooled Unit shall terminate, unless this Order has been amended to authorize further operations.

(11) Infill wells within the Unit shall be subject to the terms and conditions of this order.

(12) Marathon Oil Permian LLC (OGRID 372098) is hereby designated the operator of the proposed well or wells and the Unit.

(13) 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 a

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

(14) Within 30 days from the date the schedule of estimated well costs is furnished for any well, 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 for any well shall remain liable for operating costs but shall not be liable for risk charges for such well. 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."

(15) 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 of each well within 90 days following completion of the proposed wells. 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.

(16) 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 or wells 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.

(17) 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:

- (a) The proportionate share of reasonable well costs attributable to such interest; and
- (b) As a charge for the risk involved in drilling the well, 200% of the above costs.

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

(19) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$7000 per month, per well, while drilling and \$700 per month, per well, while producing, provided that these rates may, at the election of the operator, be adjusted annually pursuant to the overhead adjustment provisions of the COPAS form titled "*Accounting Procedure-Joint Operations*." The operator is authorized to withhold from each pooled working

interest owner's share of production from each well the proportionate share of both the supervision charges and the actual expenditures required for operating such well, not more than what are reasonable, attributable to such pooled working interest owner.

(20) During the cost recovery period for any well, the operator shall furnish to the Division and to each known non-consenting pooled working interest owner, annually, and within 90 days after payout occurs, a schedule of all revenues attributable to each such well, 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 well, except for "well costs" reported pursuant to Ordering Paragraph (13), 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 operating 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 operating costs after public notice and hearing.

(21) Except as provided above, all proceeds from production from the proposed well or 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).

(22) 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.

(23) 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.

(24) The operator of the wells and the Unit shall notify the Division in writing of the subsequent voluntary agreement of any party subject to the compulsory pooling provisions of this order.

(25) Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

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



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

Heather Riley
HEATHER RILEY
Director