

**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. 12594
ORDER NO. R-11589**

**APPLICATION OF MATADOR PETROLEUM CORPORATION FOR
COMPULSORY POOLING AND AN UNORTHODOX SUBSURFACE 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 February 22, 2001, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 29th day of May, 2001, 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 its subject matter.

(2) The applicant, Matador Petroleum Corporation ("Matador"), seeks an order pooling all uncommitted mineral interests from the surface to the base of the Morrow formation underlying all of Section 20, Township 22 South, Range 23 East, NMPM, Eddy County, New Mexico, in the following manner:

all of Section 20 forming a standard 640-acre gas spacing and proration unit for the Undesignated Indian Basin-Upper Pennsylvanian Gas Pool; and

the E/2 forming a standard 320-acre gas spacing and proration unit for all formations or pools spaced on 320-acres within this vertical extent which presently include but are not necessarily limited to the Undesignated Southwest Indian Basin-Morrow Gas Pool.

These units are to be dedicated to the applicant's proposed IB Federal Com Well No. 1 to be directionally drilled from an unorthodox surface location 660 feet from the North line and 1146 feet from the East line (Unit A) of Section 20, and terminating within an area no closer than 660 feet from the North and East lines (Unit A) of Section 20, being an unorthodox subsurface location at the top of the Cisco formation at a depth of approximately 7,700 feet within the Indian Basin-Upper Pennsylvanian Gas Pool.

(3) Chevron USA Inc. (Chevron), an offset operator and interest owner in the proposed units, and Kerr-McGee Oil & Gas Onshore LLC (Kerr-McGee), an offset operator, appeared at the hearing through legal counsel.

(4) The applicant has the right to drill and proposes to drill its IB Federal Com Well No. 1 at the unorthodox subsurface location described above.

(5) There are interest owners in the proposed units that have not agreed to pool their interests.

(6) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford to the owner of each interest in the units 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 mineral interests, whatever they may be, within the units.

(7) Matador should be designated the operator of the subject well and units.

(8) The IB Federal Com Well No. 1 is located within one mile of the Indian Basin-Upper Pennsylvanian Gas Pool and is therefore subject to the special rules for this pool.

(9) The Indian Basin-Upper Pennsylvanian Gas Pool is currently classified as a prorated gas pool governed by the "*General Rules for the Prorated Gas Pools of New Mexico/Special Rules and Regulations for the Indian Basin-Upper Pennsylvanian Gas Pool*" as contained within Division Order No. R-8170, as amended, which require standard 640-acre gas spacing and proration units with wells to be located no closer than 1650 feet to the outer boundary of the section nor closer than 330 feet to any governmental quarter-quarter section line or subdivision inner boundary.

(10) Matador presented evidence that demonstrates:

- (a) the primary objective in the IB Federal Com Well No. 1 is the Cisco interval of the Upper Pennsylvanian formation;
- (b) the proposed directional drilling is necessary due to surface obstructions, namely the presence of Dunnaway Draw;
- (c) moving the well to the north and east of a standard well location in Section 20 places the well a greater distance away from the dolomite/limestone transition area within the Cisco formation;
- (d) a well at the proposed unorthodox subsurface location should be structurally higher within the Cisco reservoir than a well drilled at a standard location in the NE/4 of Section 20; and
- (e) a well at the proposed unorthodox subsurface location should encounter a greater amount of dolomite pay within the Cisco reservoir than a well drilled at a standard well location within the NE/4 of Section 20.

(11) Approval of the proposed unorthodox subsurface location will enable the applicant to produce its just and equitable share of the gas within the Indian Basin-Upper Pennsylvanian Gas Pool.

(12) In accordance with the provisions of Division Rule 111.C., the applicant should be required to conduct a directional survey on the well during or upon completion of directional drilling operations in order to ascertain that the bottomhole location of the well is in compliance with the terms of this order.

(13) Matador testified that it has reached an agreement with Kerr McGee and Marathon Oil Company that the IB Federal Com Well No. 1 should be assessed a production penalty of 58.5% in the Indian Basin-Upper Pennsylvanian Gas Pool.

(14) In order to effectively limit production from the well and protect correlative rights, an acreage factor of 0.415 should be assigned to the 640-acre unit in the Indian Basin-Upper Pennsylvanian Gas Pool.

(15) After pooling, uncommitted working interest owners are referred to as non-consenting working interest owners. Any non-consenting working interest owner should be afforded the opportunity to pay its share of estimated well costs to the operator in lieu of paying its share of reasonable well costs out of production.

(16) Any non-consenting 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 percent thereof as a reasonable charge for the risk involved in drilling the well.

(17) Any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(18) Following determination of reasonable well costs, any non-consenting working interest owner who has paid its share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(19) Reasonable charges for supervision (combined fixed rates) should be fixed at \$6,000.00 per month while drilling and \$600.00 per month while producing. The operator should be 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 each non-consenting working interest.

(20) All proceeds from production from the well that are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(21) If the operator of the pooled units fails to commence drilling the well to which the units are dedicated on or before September 1, 2001, or if all the parties to this forced pooling reach voluntary agreement subsequent to the entry of this order, this order should become of no effect.

(22) The operator of the well and units should notify the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Matador Petroleum Corporation, all uncommitted mineral interests from the surface to the base of the Morrow formation underlying all of Section 20, Township 22 South, Range 23 East, NMPM, Eddy County, New Mexico, are hereby pooled in the following manner:

all of Section 20 forming a standard 640-acre gas spacing and proration unit for the Undesignated Indian Basin-Upper Pennsylvanian Gas Pool; and

the E/2 forming a standard 320-acre gas spacing and proration unit for all formations or pools spaced on 320-acres within this vertical extent which presently include but are not necessarily limited to the Undesignated Southwest Indian Basin-Morrow Gas Pool.

These units shall be dedicated to the applicant's proposed IB Federal Com Well No. 1 to be directionally drilled from an unorthodox surface location 660 feet from the North line and 1146 feet from the East line (Unit A) of Section 20, and terminating at an unorthodox bottomhole location for the Undesignated Indian Basin-Upper Pennsylvanian Gas Pool, also hereby approved, within an area no closer than 660 feet from the North and East lines (Unit A) of Section 20, **provided however**, in order to protect correlative rights, the 640-acre unit is hereby assigned an acreage factor of 0.415 in the Indian Basin-Upper Pennsylvanian Gas Pool.

(2) The operator of the units shall commence drilling the proposed well on or before September 1, 2001, and shall thereafter continue drilling the well with due diligence to test the Morrow formation.

(3) In the event the operator does not commence drilling the well on or before September 1, 2001, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause shown.

(4) Should the well not be drilled to completion or be abandoned within 120 days after commencement thereof, the operator shall appear before the Division Director and show cause why Ordering Paragraph (1) should not be rescinded.

(5) Matador Petroleum Corporation is hereby designated the operator of the subject well and units.

(6) After pooling, uncommitted working interest owners are referred to as non-consenting working interest owners. After the effective date of this order and within 90 days prior to commencing the well, the operator shall furnish the Division and each known non-consenting working interest owner in the units an itemized schedule of estimated well costs.

(7) Within 30 days from the date the schedule of estimated well costs is furnished, any non-consenting 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, 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.

(8) The operator shall furnish the Division and each known non-consenting working interest owner an itemized schedule of actual well costs within 90 days following completion of the 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 the reasonable well costs; provided, however, that 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.

(9) Within 60 days following determination of reasonable well costs, any non-consenting 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 its share of the amount that estimated well costs exceed reasonable well costs.

(10) 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 who has not paid its share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished; and
- (b) as a charge for the risk involved in drilling the well, 200 percent of the above costs.

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

(12) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$6,000.00 per month while drilling and \$600.00 per month while producing. 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 each non-consenting working interest.

(13) 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.

(14) 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.

(15) All proceeds from production from the well that are not disbursed for any reason shall be placed in escrow in Eddy County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership. The operator shall notify the Division of the name and address of the escrow agent within 30 days from the date of first deposit with the escrow agent.

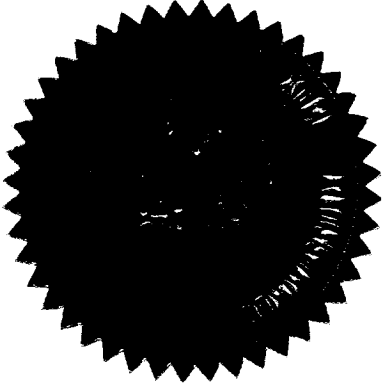
(16) Should all the parties to this compulsory pooling order reach voluntary agreement subsequent to entry of this order, the compulsory pooling provisions of this order shall thereafter be of no further effect.

(17) The operator of the well and units shall notify the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

(18) In accordance with the provisions of Division Rule 111.C., the applicant shall conduct a directional survey on the well during or upon completion of directional drilling operations in order to ascertain that the bottomhole location of the well is in compliance with the terms 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.



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STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in cursive script, reading "Lori Wrotenbery".

LORI WROTENBERY
Director