

**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. 14099
ORDER NO. R-12986**

**APPLICATION OF RSC RESOURCES LIMITED PARTNERSHIP FOR A NON-
STANDARD OIL 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 July 24, 2008, at Santa Fe, New Mexico, before Examiner Terry Warnell.

NOW, on this 3rd day of September, 2008, 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, ("Applicant"), seeks an order establishing a non-standard, 145.53-acre, oil spacing and proration unit and project area in the Wolfcamp formation underlying the S/2N/2 of Section 19, Township 16 South, Range 29 East, NMPM, Eddy County, New Mexico, in the Wolfcamp formation only, and further seeks an order pooling all uncommitted interests in said unit.

(3) The non-standard unit and project area is to be dedicated to Applicant's proposed Lucky Wolf 19 State Com Well No. 1H, (the "proposed well"), a horizontal well to be drilled from a non-standard surface location 1980 feet from the North and 10 feet from the West line (Lot 2) of Section 19, to a terminus, or bottom-hole location, 1980 feet from the North line and 330 feet from the East line of Section 19. The proposed well's point of penetration in the Wolfcamp formation (Wildcat-Wolfcamp Oil Pool) 1980 feet from the North and 622 feet from the West line. Accordingly the well's

location will be standard within the producing area, as defined in Rule 111, of the project area.

(4) At the hearing, Applicant appeared through counsel and presented land testimony setting forth the ownership interests in the proposed non-standard unit and in all adjacent tracts. In addition, Applicant presented technical testimony by affidavit as follows:

(a) The proposed horizontal well will be drilled to a total vertical depth of 6,900 feet or a total measured depth 10,800 feet.

(b) Experience in the nearest area of Wolfcamp production indicates that substantially greater production can be achieved from horizontal wells than from vertical wells.

(c) The proposed well is a reasonable means of development of the Wolfcamp in this location.

(d) All Tracts within this project area are prospective of oil.

(5) Chaparral Energy, LLC, an owner being pooled (the only Party being pooled) within the proposed non-standard unit, and also an owner of offsetting acreage, did not appear or oppose any of the relief requested in the application. No other party appeared in the case, or otherwise opposed the granting of the application.

The Division accordingly concludes that:

(6) A non-standard, 145.53-acre, oil spacing and proration unit (project area) should be established, comprising the S/2 N/2 of Section 19, Township 16 South, Range 29 East, NMPM, in Eddy County, New Mexico, in the Wolfcamp formation, to accommodate the drilling of the proposed well, to be completed as a horizontal well. Section 19 is an irregular section, the S/2 N/2 unit comprises:

Lot 2: 25.55 acres
SE NW: 40.00 acres
SW NE: 40.00 acres
SE NE: 40.00 acres
145.55 acre unit

(7) 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.

(8) Applicant is an owner of an oil and gas working interest within the Unit. Applicant has the right to drill and proposes to drill its Lucky Wolf 19 State Com Well No. 1H (the "proposed well") to a common source of supply at a standard well location within the S/2 N/2 of Section 19.

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

(10) 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 mineral interests, whatever they may be, within the Unit.

(11) At the request of Applicant, RSC Resources, L.P. should be designated the operator of the proposed well and of the Unit.

(12) Any non-consenting (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.

(13) Reasonable charges for supervision (combined fixed rates) should be fixed at \$6,000 per month while drilling and \$600 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.*"

(14) The unorthodox size of the unit described in Finding Paragraph (2) is necessitated by a variation in the legal subdivisions of the U.S. Public Land Surveys, and said unit is not less than 70% of a standard spacing unit. Accordingly, said unit should be established as an approved, non-standard spacing and proration unit for pools spaced as indicated in Finding Paragraph (2).

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of RSC Resources Limited Partnership, all uncommitted mineral interests from the surface to the base of the Wolfcamp formation underlying Lot 2, the SE/4 NW/4 and the S/2 NE/4 (S/2 N/2 equivalent) of Section 19, Township 16 South, Range 29 East, Lot 2, NMPM, Eddy County, New Mexico, are pooled to form a unit and project area in the Wolfcamp formation, to be dedicated to a horizontal oil well in that formation, as described in Ordering Paragraph (3).

(2) The Unit described in Ordering Paragraph (1) is established as an approved, non-standard Wildcat-Wolfcamp Oil spacing unit.

(3) The Unit shall be dedicated to Applicant's Lucky Wolf 19 State Com Well No. 1H, (the "proposed well"), a horizontal well to be drilled from a non-standard surface location 1980 feet from the North and 10 feet from the West line (Lot 2) of

Section 19, to a terminus, or bottom-hole location, 1980 feet from the North line and 330 feet from the East line of Section

19. The proposed well's point of penetration in the Wolfcamp formation, Wildcat Wolfcamp Oil Pool 1980 feet from the North line and 622 feet from the East line, will be standard and within the producing area, as defined in Rule 111, of the project area.

(4) The operator of the Unit shall commence drilling the proposed well on or before November 30, 2008, and shall thereafter continue drilling the well with due diligence to test the Wolfcamp formation.

(5) In the event the operator does not commence drilling the proposed well on or before November 30, 2008, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause.

(6) Should the proposed well not be drilled and completed within 120 days after commencement thereof, Ordering Paragraph (1) shall be of no further effect, and the Unit created by the Order shall terminate unless the operator, prior to the expiration of such 120-day period, files an application with the Division for extension of the time for completion of the proposed well. Such application shall include an affidavit or affidavits setting forth good cause for an extension, supported by satisfactory evidence. The Division Director may grant such application without hearing.

(7) Upon final plugging and abandonment of the proposed well and any other well drilled on the Unit pursuant to Division Rule 36, the pooled unit created by this Order shall terminate, unless this order has been amended to authorize further operations.

(8) Pursuant to the request of Applicant, RSC Resources, L.P. (OGRID 245801) is hereby designated the operator of the proposed well and of the Unit.

(9) After pooling, uncommitted working interest owners are referred to as non-consenting working interest owners. ("Uncommitted 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 non-consenting working interest owner in the Unit an itemized schedule of estimated well costs of the proposed well.

(10) 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 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."

(11) 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 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 notice and hearing.

(12) 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 paid, estimated well costs exceed reasonable well costs.

(13) 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% of the above costs.

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

(15) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$6,000 per month while drilling and \$600 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 each non-consenting working interest.

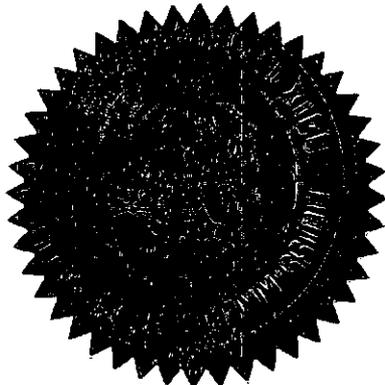
(16) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working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

(17) 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.

(18) 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.

(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.



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

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

MARK E. FESMIRE, P.E.
Director

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