

**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 NOS. 15341 (re-opened)  
and 15477 (re-opened)  
ORDER NO. R-14609**

**APPLICATION OF RKI EXPLORATION AND PRODUCTION, LLC TO RE-  
OPEN CASE NOS. 15341 AND 15477 TO REPLACE ORDER NOS. R-14016-A AND  
R-14154 IN ORDER TO FORM A SINGLE SPACING AND PRORATION UNIT  
TO CONFORM WITH THE PURPLE SAGE; WOLFCAMP GAS POOL, EDDY  
COUNTY, NEW MEXICO**

**ORDER OF THE DIVISION**

**BY THE DIVISION:**

This case came on for hearing at 8:15 a.m. on November 30, 2017, at Santa Fe, New Mexico, before Examiner William V. Jones.

NOW, on this 12<sup>th</sup> 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) These cases were consolidated at hearing, and a single order is being issued for both cases.
- (3) RKI Exploration and Production, LLC ("RKI" or "Applicant") seeks to amend existing Order Nos. R-14016-A and R-14154 to approve a single 320-acre gas spacing unit pursuant to the standard spacing for the Purple Sage; Wolfcamp Gas Pool.
- (4) Division Order No. R-14016-A, issued on November 2, 2015, pooled all uncommitted interests within the Wolfcamp formation [Brushy Draw; Wolfcamp Pool (Pool Code 97136)] underlying the W/2 E/2 of Section 17, Township 26 South, Range 30 East, NMPM, in Eddy County, New Mexico. The order dedicated the 160-acre non-

standard spacing unit to RKI's RDX Federal Com 17 Well No. 26H (API No. 30-015-42752).

(5) Division Order No. R-14154, issued on April 25, 2016, pooled all uncommitted interests within the Wolfcamp formation [Brushy Draw; Wolfcamp Pool (Pool Code 97136)] underlying the E/2 E/2 of Section 17, Township 26 South, Range 30 East, NMPM, in Eddy County, New Mexico. The order dedicated the 160-acre non-standard spacing unit to RKI's RDX Federal Com 17 Well No. 40H (API No. 30-015-43634).

(6) After issuance of Order No. R-14154, RKI drilled and completed the RDX Federal Com 17 Well No. 41H (API No. 30-015-42743) within the E/2 E/2 of Section 17 as an infill well.

(7) The RDX Federal Com 17 Wells Nos. 26H, 40H and 41H are the "Subject Wells."

(8) Division Order No. R-14262, issued on January 5, 2017, created the Purple Sage; Wolfcamp Gas Pool, and abolished all existing Wolfcamp pools within the boundaries of that pool, including the Brushy Draw; Wolfcamp. Division Order No. R-14262 permits existing or permitted wells within the Purple Sage-Wolfcamp Pool to "increase spacing to the standard 320-acre gas spacing unit in the Pool by filing an application to increase spacing as provided by the Division rules." *See* Order No. R-14262, Ordering Paragraph (7) on Page 8.

(9) Both above-described spacing units are now within the boundaries of the Purple Sage; Wolfcamp Gas Pool.

(10) No other party entered an appearance or otherwise opposed this application.

(11) Applicant appeared at hearing through counsel and presented by affidavit the following testimony:

(a) On March 1, 2017, the Oil Conservation Division District Office approved a Form C-102 placing the RDX Federal Com 17 No. 41H in the Purple Sage; Wolfcamp Gas Pool;

(b) To conform with the Division's standard spacing for the Purple Sage; Wolfcamp Gas Pool, RKI seeks to form a spacing unit comprised of the E/2 of Section 17, Township 26 South, Range 30 East, NMPM, Eddy County, New Mexico;

(c) EOG Resources Inc. is the only pooled working interest owner under Division Order Nos. R-14016-A and R-14154. EOG owns the same proportional interest in the E/2 E/2 and W/2 E/2 of Section 17. Accordingly, the working and net revenue interests of the pooled working interest owner will not change;

(d) The overriding royalty and royalty owners are identical and own identical interests throughout the E/2 of Section 17; and

(e) Applicant has provided notice of this application and hearing and a copy of the joint operating agreement to all interest owners in the E/2 of Section 17.

The Division concludes as follows:

(12) All "Subject Wells" have been drilled and completed in the E/2 of Section 17 and are recognized by the Division as being within the Purple Sage; Wolfcamp Gas Pool.

(13) RKI has provided proper notice of its intention to change the dedicated acreage for each well from the existing 160 acres to the current standard 320-acre gas spacing unit size allowed in the Purple Sage; Wolfcamp Gas Pool.

(14) RKI's proposal to dedicate the Subject Wells to a standard 320-acre gas spacing unit (the "Unit") consisting of the E/2 of Section 17, should be approved. Division Order Nos. R-14016-A and R-14154 should be replaced by this order. The non-standard spacing units created by those orders should be replaced by the Unit and all uncommitted interests in the Wolfcamp formation within the Unit should be pooled.

(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 owner of an oil and gas working interest within the Unit. Applicant has the right to drill and has drilled the Subject Wells to a common source of supply within the Unit.

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

(18) 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.

(19) Any pooled working interest owner who has not paid its share of estimated well costs of any well should have withheld from its share of 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 Subject Wells.

(20) RKI Exploration & Production, LLC (OGRID No. 246289) should be designated the operator of the Subject Wells and of the Unit.

(21) 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.

(22) Reasonable charges for supervision (combined fixed rates) should be fixed at \$7,500 per month, per well, while drilling and \$750 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) Division Order Nos. R-14016-A and R-14154 are hereby vacated and replaced by this order.

(2) Pursuant to the application of RKI Exploration & Production, LLC, a standard 320-acre gas spacing unit ("the Unit") is hereby established for oil and gas production from the Wolfcamp formation, Purple Sage; Wolfcamp Pool (Pool Code 98220), comprising the E/2 of Section 17, Township 26 South, Range 30 East, NMPM, Eddy County, New Mexico. The Unit replaces the non-standard spacing units established by Order Nos. R-14016-A and R-14154, effective on the first day of the first month after the issuance of this order.

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

(4) The Unit shall be dedicated to the following "Subject Wells" (and subsequently to any additional infill well drilled within the Unit pursuant to 19.15.13.9 NMAC):

a. RDX Federal Com 17 Well No. 26H (API 30-015-42752) a horizontal well drilled from a surface location, 200 feet from the South line and 1425 feet from the East line (Unit O) to a terminus or bottom hole location 284 feet from the North line and 1836 feet from the East line (Unit B) of Section 17, Township 26 South, Range 30 East, NMPM;

b. RDX Federal Com 17 Well No. 40H (API 30-015-43634) a horizontal well drilled from a surface location, 175 feet from the North line and 1310 feet from the East line (Unit A) to a terminus or bottom hole location 330 feet from the South line and 404 feet from the East line (Unit P) of Section 17, Township 26 South, Range 30 East, NMPM;

c. RDX Federal Com 17 Well No. 41H (API 30-015-42743) a horizontal well drilled from a surface location, 165 feet from the North line and 1086 feet from the East line (Unit A) to a terminus or bottom hole location 330 feet from the South line and 404 feet from the East line (Unit P) of Section 17, Township 26 South, Range 30 East, NMPM;

(5) Upon final plugging and abandonment of all Subject Wells and any other well drilled on the Unit pursuant to Division Rule 19.15.13.9 NMAC, the pooled unit created by this order shall terminate unless this order has been amended to authorize further operations.

(6) RKI Exploration & Production LLC (OGRID 246289) is hereby designated the operator of the Subject Wells and of the Unit.

(7) 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.)

(8) 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 Subject Well within 90 days following issuance of this order. 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.

(9) 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.

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

(11) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$7,500 per month, per well, while drilling and \$750 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 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 of such well, not more than what are reasonable, attributable to such pooled working interest owner.

(12) During the cost recovery period, the operator shall furnish to the Division and to each known non-consenting pooled working interest owner, within 90 days following issuance of this order, annually thereafter until payout occurs and within 90 days after payout occurs, a schedule of all revenues attributable to the subject wells, and all charges for supervision and operating costs charged against such revenues. Operating costs

shall include all reasonable costs incurred for the maintenance and operation of the wells that are properly chargeable to the joint account pursuant to COPAS procedures, except for "well costs" reported as required above. 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.

(13) 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).

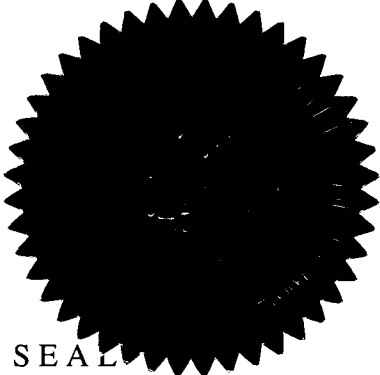
(14) Any unleased mineral interests shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for allocating costs and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working interests'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

(15) 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.


(16) 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.

(17) 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  
Division Director