

**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. 16351
ORDER NO. R-20040**

**APPLICATION OF MATADOR PRODUCTION COMPANY FOR
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 August 9, 2018, before Examiner Scott A. Dawson, and again on August 23, 2018 before Examiner William V. Jones.

NOW, on this 12th day of October 2018, the Division Director, having considered the testimony, the record and the recommendations of Examiner Dawson,

FINDS THAT:

- (1) Due public notice has been given, and the Division has jurisdiction of these cases and of the subject matter.
- (2) Cases No. 16350, 16351, 16352, and 16353 were consolidated at the hearing for testimony; however, separate orders will be issued for each case.
- (3) Matador Production Company ("Applicant" or "Matador"), seeks an order pooling all uncommitted interests, whatever they may be, in a 160-acre (more or less) standard Horizontal Oil Spacing unit (the "Unit") for oil and gas production from the Bone Spring formation, Antelope Ridge; Bone Spring Pool (Pool code 2200), comprising the E/2 E/2 of Section 19, Township 23 South, Range 35 East, NMPM, Lea County, New Mexico.
- (4) The Unit will be dedicated to the Applicant's Dr Ireland Federal Com Well No. 114H (the "proposed well"; API No. 30-025-45121), a horizontal well to be drilled from a surface location 257 feet from the South line and 330 feet from the East line (Unit P), to a terminus 240 feet from the North line and 330 feet from the East line (Unit A) of Section 19, Township 23 South, Range 35 East. The completed interval of the proposed well will be orthodox.

(5) The proposed well will be drilled horizontally and completed in the Bone Spring formation [Antelope Ridge; Bone Spring Pool]. Said pool is subject to Division Rule 19.15.15.9(A) NMAC, which provides for standard 40-acre units each comprising a governmental quarter-quarter section. The Unit will comprise of four governmental quarter-quarter sections oriented from south to north.

(6) EOG Resources, Inc., EOG Y Resources, LLC, EOG A Resources, LLC, and EOG M Resources, LLC ("EOG") made an entry of appearance and appeared at hearing through counsel. No other party appeared or otherwise opposed this application.

(7) Applicant appeared at the hearing through counsel and presented evidence to the effect that:

- (a) The Bone Spring formation in this area is suitable for development by horizontal drilling.
- (b) Applicant attempted to reach voluntary agreement with the affected parties on a method for election for the proposed well.
- (c) The proposed orientation of the horizontal well from south to north or north to south is appropriate for the proposed Unit.
- (d) Notice was provided to everyone in the mineral estate within the unit.
- (e) Applicant is seeking to compulsory pool working interest owners.
- (f) 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 whose whereabouts could be ascertained by exercise of reasonable diligence.

The Division concludes that:

(8) The application in this case was filed after the June 26, 2018 date in which the horizontal rule amendments became effective (see Order No. R-14689). In addition, the proposed well was permitted for drilling after June 26, 2018.

(9) The acreage dedicated to a horizontal well must consist of a "horizontal spacing unit" as defined in Subsection F of 19.15.16.7 NMAC. Pursuant to Subsection B of 19.15.16.15 NMAC effective June 26, 2018, the proposed horizontal well(s) will be dedicated to a standard Horizontal Spacing Unit.

(10) 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.

(11) Applicant is owner of an oil and gas working interest within the Unit. Applicant has the right to drill and proposes to drill the subject well to a common source of supply within the Unit at the proposed location.

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

(13) 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 interests, whatever they may be, in the oil and gas within the Unit.

(14) Matador Production Company should be designated the operator of the proposed well and the Unit.

(15) 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 subject well.

(16) Reasonable charges for supervision (combined fixed rates) should be fixed at \$7,000 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) All uncommitted interests, whatever they may be, in the oil and gas in the Bone Spring formation underlying a 160-acre (more or less) standard Horizontal Oil Spacing Unit (the "Unit") in the Antelope Ridge; Bone Spring Pool (Pool code 2200), comprising the E/2 E/2 of Section 19, Township 23 South, Range 35 East, NMPM, Lea County, New Mexico, are hereby pooled.

(2) The Unit shall be dedicated to Dr Ireland Federal Com Well No. 114H ("Proposed Well", API No. 30-025-45121), a horizontal well to be drilled from a surface location, 257 feet from the South line and 330 feet from the East line (Unit P), to a terminus 240 feet from the North line and 330 feet from the East line (Unit A) of Section 19, Township 23 South, Range 35 East.

(3) The operator of the Unit shall commence drilling the proposed well(s) on or before October 31, 2019 and shall thereafter continue drilling the proposed well(s) with due diligence to test the Bone Spring formation.

(4) In the event the operator does not commence drilling on or before October 31, 2019 Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause demonstrated by satisfactory evidence.

(5) At least one proposed well must be completed within 120 days after commencement of drilling, or else Ordering Paragraph (1) shall be of no further effect, unless the operator requests in writing an extension of the time for completion of the proposed well or wells for good cause shown by satisfactory evidence and the Division issues written approval.

(6) Upon final plugging and abandonment of the proposed well(s) 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.

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

(8) Matador Production Company (OGRID 228937) is hereby designated the operator of the proposed well(s) and the Unit.

(9) 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 proposed well ("well costs").

(10) Within 30 days from the date the schedule of estimated well costs for each well is furnished, any pooled working interest owner shall have the right to pay its share of estimated well costs for such well 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 for either well as provided above shall remain liable for operating costs but shall not be liable for risk charges to the extent computed based on costs of such well. Pooled working interest owners who elect not to pay their share of estimated well costs as provided in this paragraph for either well shall thereafter be referred to as "non-consenting working interest owners" with respect to any well for which they so elect.

(11) 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 completion of such well.

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, 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.

(12) 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 exceed its share of reasonable well costs.

(13) Production from the subject well(s) shall be separately metered before commingling unless the division grants an exception for surface commingling providing for an allocation method suitable for leases with different ownership, pursuant to Rule 19.15.12.10.B(2) NMAC.

(14) 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 each non-consenting working interest owner; and
- (b) as a charge for the risk involved in drilling the well, 200% of the above costs.

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

(16) Reasonable charges for supervision (combined fixed rates) for each well are hereby fixed at \$7,000 per month, per well, while drilling and \$700 per month, per well, while producing, provided that these rates may be adjusted annually pursuant to the overhead 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, such owner's proportionate share of both the supervision charges and the actual expenditures required for operating such well, not more than what are reasonable.

(17) Except as provided above, all proceeds from production from the subject 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).

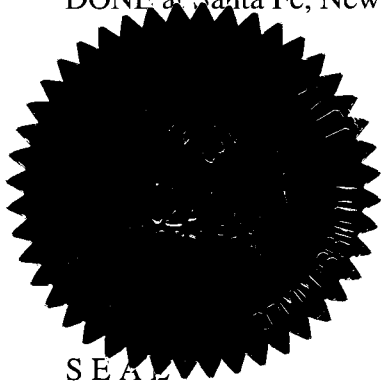
(18) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for allocating costs and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working interests' share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

(19) 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.

(20) The operator of the well 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.

(21) 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 "Heather Riley".

HEATHER RILEY
Director