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. 16435
ORDER NO. R-20432

APPLICATION OF MATADOR PRODUCTION COMPANY FOR A NON-STANDARD SPACING AND PRORATION UNIT 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 November 15, 2018, at Santa Fe, New Mexico, before Examiner Michael A. McMillan.

NOW, on this 25th day of March 2019, 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) Cases No. 16407 and 16435 were consolidated at the hearing for testimony; however, separate orders will be issued for each case.

(3) Matador Production Company (the "Applicant") seeks approval of a 160-acre non-standard oil spacing and proration unit for oil and gas production from the Upper Wolfcamp formation, Wildcat; Upper Wolfcamp (Oil) Pool (Pool code 98286), comprising the E/2 W/2 of Section 35, Township 22 South, Range 32 East, NMPM, Lea County, New Mexico. Applicant further seeks an order pooling all uncommitted interests in the Unit for the Upper Wolfcamp formation.

(4) The Unit will be dedicated to the Brad Dyer Federal Well No. 202H ("Proposed Well": API No. 30-025-45194), a horizontal well to be drilled from a surface location, 330 feet from the South line and 2159 feet from the West line (Unit N) to a terminus 100 feet from the North line and 1650 feet from the West line (Unit C) of Section 35, Township 22 South, Range 32

East. Per the application, the completed interval of the Proposed Well will be at "orthodox location".

(5) The proposed well will be drilled horizontally and completed in the Upper Wolfcamp formation [Wildcat; Upper Wolfcamp (Oil) Pool]. Said pool is subject to Division Rule 19.15.15.9(A) NMAC, which provides for standard 40-acre spacing and proration units each comprising a governmental quarter-quarter section.

(6) The allowed setback footage distance for each of the proposed horizontal oil wells is specified in Paragraph (1) of Subsection C of 19.15.16.15 NMAC effective June 26, 2018. Said rules allow the first or last take points to be no closer than 100 feet, and the setbacks measured perpendicular to the well path to be a minimum of 330-foot from the outer boundary of the horizontal spacing unit.

(7) No other party appeared or otherwise opposed this application.

(8) Applicant appeared through counsel and presented the following land and technical evidence:

(a) The Wolfcamp formation in this area is suitable for development by horizontal drilling.

(b) The proposed orientation of the horizontal well or wells from south to north is appropriate for the Unit.

(c) All quarter-quarter sections to be included in the Unit are expected to be substantially productive in the Wolfcamp formation, so that the Unit as requested will not impair correlative rights.

(d) Applicant requested that the non-standard spacing portion of the application be dismissed;

(e) 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.

(f) Out of abundance of caution, those potentially affected parties whose whereabouts could not be ascertained were noticed by publication as provided in Rule 19.15.4.12.B NMAC.

<u>The Division Concludes That</u>

(9) The application in this case was filed, and the Well[s] were permitted, on or after the June 26, 2018 date on which amendments to 19.15.16.7 and 19.15.16.15 NMAC (prescribing new spacing rules for horizontal wells) became effective (see Order No. R-14689). Hence the Well[s] must be spaced, permitted and drilled pursuant 19.15.16.15 NMAC, as amended effective June 26, 2018.

(10) Provided that the Unit constitutes a standard horizontal spacing unit for each of the Well[s] under now effective rules, no non-standard spacing unit approval is needed. If, however, the Unit is not a standard horizontal spacing unit for any of the Well(s), the operator must obtain approval of a non-standard horizontal spacing unit pursuant to 19.15.16.15.B(5) prior to producing such well.

(11) Applicant's request to dismiss the portion of the case asking for a non-standard spacing and proration unit should be granted.

(12) 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.

(13) 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 well to a common source of supply within the Unit at the described location.

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

(15) 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.

(16) Matador Production Company (OGRID 228937) should be designated the operator of the proposed well and the Unit.

(17) 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.

(18) 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 well.

(19) 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.*"

IT IS THEREFORE ORDERED THAT

(1) All uncommitted interests, whatever they may be, in the oil and gas in the Upper Wolfcamp formation underlying a 160-acre standard Horizontal Oil Spacing Unit (the "Unit") in the Wildcat; Upper Wolfcamp (Oil) Pool (Pool code 98286), comprising the E/2 W/2 of Section 35, Township 22 South, Range 32 East, NMPM, Lea County, New Mexico, are hereby pooled.

(2) The portion of the case asking for approval of a non-standard spacing and proration unit is hereby dismissed.

(3) The Unit will be dedicated to the Brad Dyer Federal Well No. 202H ("Proposed Well": API No. 30-025-45194), a horizontal well to be drilled from a surface location, 330 feet from the South line and 2159 feet from the West line (Unit N), to a terminus 100 feet from the North line and 1650 feet from the West line (Unit C) of Section 35, Township 22 South, Range 32 East. Per the application, the completed interval of the Proposed Well will be at "orthodox" location.

(4) The operator of the Unit shall commence drilling the proposed well on or before March 31, 2020 and shall thereafter continue drilling the proposed well with due diligence to test the Wolfcamp formation.

(5) In the event the operator does not commence drilling on or before March 31, 2020 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.

(6) In the event the operator does not commence completion operations within one year after commencement of drilling operations pursuant to this order, then the compulsory pooling provisions of this order shall be of no effect unless operator obtains a written time extension from the Division Director pursuant to a written request stating its reasons for such extension and attaching satisfactory evidence.

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

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

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

(10) 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 the proposed well ("well costs").

(11) Within 30 days from its receipt of the schedule of estimated well costs for any well, any pooled working interest owner shall have the right to pay its share of estimated well costs of 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 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."

(12) 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 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 public notice and hearing.

(13) 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.

(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 such interest; 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) 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.

(17) During the cost recovery period, 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 proposed well, 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 well, except for "well costs" reported pursuant to requirements herein, 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.

(18) Except as provided above, all proceeds of production from the proposed well 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).

(19) 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 costs that are to be paid out of production shall be withheld only from the working interests' share of production, and no costs shall be withheld from production attributable to royalty interests.

(20) 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.

(21) The operator of the well 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.

(22) 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

GABRIEL WADE
Acting Director

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