

Jim Brue Draft ORDER

STATE OF NEW MEXICO
DEPARTMENT OF ENERGY, MINERALS AND NATURAL RESOURCES
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED
BY THE OIL CONSERVATION DIVISION FOR
THE PURPOSE OF CONSIDERING:

APPLICATION OF MATADOR PRODUCTION
COMPANY FOR A NON-STANDARD OIL SPACING
AND PRORATION UNIT AND COMPULSORY
POOLING, EDDY COUNTY, NEW MEXICO.

(EXHIBIT # 13)

CASE NO. 15362
ORDER NO. R-_____

ORDER OF THE DIVISION

BY THE DIVISION:

This matter came on for hearing at 8:15 a.m. on August 20, 2015 and September 3, 2015, at Santa Fe, New Mexico, before Oil Conservation Division Examiner William V. Jones.

NOW, on this ____ day of ~~September~~ ^{August}, 2015, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner,

FINDS THAT:

(1) Due notice has been given, and the Division has jurisdiction of this case and of the subject matter.

(2) Matador Production Company ("Applicant") seeks approval of a non-standard 160-acre oil spacing and proration unit (project area) in the Bone Spring formation [Willow Lake-Bone Spring Pool (Pool Code 64450)] comprised of the N/2N/2 of Section 25, Township 24 South, Range 28 East, NMPM, Eddy County, New Mexico (the "Unit"). Applicant further seeks the pooling of all uncommitted interests in the Unit.

(3) The Unit will be dedicated to Applicant's Paul 25-24S-28E RB Well No. 121H (API No. 30-015-43011), a horizontal well to be drilled from a surface location 359 feet from the North line and 247 feet from the West line (Unit D), to a terminus or bottom hole location 380 feet from the North line and 240 feet from the East line (Unit A), of Section 25. The completed interval of the well in the Bone Spring formation will

be orthodox, with the first perforation 380 feet from the North line and 330 feet from the West line, and the last perforation 380 feet from the North line and 330 feet from the East line, of Section 25.

(4) Spacing in the Willow Lake-Bone Spring Pool is governed by statewide Rule 19.15.15.9.A NMAC, which provides for standard 40-acre units, each comprising a governmental quarter-quarter section. The Unit consists of four adjacent quarter-quarter sections.

(5) Applicant appeared at the hearing and presented land and geological evidence to the effect that:

(a) Notice of the proposed Unit was provided to all surrounding affected parties within the Bone Spring formation.

(b) Notice of this compulsory pooling application was provided to all proper interest owners.

(c) The area is suitable for development by horizontal drilling.

(d) The proposed orientation of the horizontal well from West to East is appropriate for the proposed Unit;

(e) All quarter-quarter sections within the Unit are expected to be productive in the Bone Spring formation, so that formation of the Unit will not impair correlative rights.

(6) No other party appeared at the hearing, or otherwise opposed the granting of this application.

The Division concludes as follows:

(7) Approval of the proposed Unit will enable Applicant to drill a horizontal well that will efficiently produce the reserves underlying the Unit, thereby preventing waste, and will not impair correlative rights.

(8) 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.

(9) MRC Permian Company is the owner of an oil and gas working interest within the Unit. Applicant is an affiliate of MRC Permian Company, and operates its wells. Thus, Applicant has the right to drill and proposes to drill the proposed well to a common source of supply within the Unit.

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

(11) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste, and afford to each interest owner 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.

(12) Matador Petroleum Company (OGRID No. 228937) should be designated the operator of the proposed well and of the Unit.

(13) Any pooled working interest owner who does not pay its share of estimated 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 proposed well.

(14) Reasonable charges for supervision (combined fixed rates) should be fixed at \$7000 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) A non-standard 160-acre, more or less, oil spacing and proration unit is hereby established for oil and gas production from the Bone Spring formation consisting of the N/2N/2 of Section 25, Township 24 South, Range 28 East, NMPM, Eddy County, New Mexico.

(2) Pursuant to the application of Matador Production Company all uncommitted interests, whatever they may be, in the oil and gas in the Bone Spring formation underlying the Unit, are hereby pooled.

(3) The Unit shall be dedicated to Applicant's Paul 25-24S-28E RB Well No. 121H, a horizontal well to be drilled from a surface location 359 feet from the North line and 247 feet from the West line (Unit D), to a terminus or bottom hole location 380 feet from the North line and 240 feet from the east line (Unit A), of Section 25. The completed interval of the well in the Bone Spring formation will be orthodox, with the first perforation 380 feet from the North line and 330 feet from the West line, and the last perforation 380 feet from the North line and 330 feet from the East line, of Section 25.

(4) Matador Petroleum Company (OGRID No. 228937) is hereby designated the operator of the well and of the Unit.

(5) The operator of the Unit shall commence drilling the proposed horizontal well on or before _____, 2016 and shall thereafter continue drilling the well with due diligence to test the Bone Spring formation.

(6) In the event the operator does not commence drilling the proposed well on or before _____, 2016, Ordering Paragraphs (1) and (2) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause demonstrated by satisfactory evidence.

(7) Should the proposed well not be drilled and completed within 120 days after commencement thereof, then Ordering Paragraphs (1) and (2) shall be of no further effect, and the Unit and project area created by this Order shall terminate, unless operator appears before the Division Director and obtains an extension of the time for completion of the proposed well for good cause shown by satisfactory evidence. If the proposed well is not completed within 120 days after the commencement of drilling, the operator shall apply to the Division for an amendment to this Order to contract the Unit so that it includes only those quarter-quarter sections in which the well is completed.

(8) Upon final plugging and abandonment of the proposed well and any other well drilled on the Unit pursuant to Rule NMAC 19.15.13.9, the pooled Unit created by this Order shall terminate, unless this Order has been amended to authorize further operations.

(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 an itemized schedule of estimated costs of drilling, completing, and equipping the proposed well ("well costs").

(10) Within 30 days from the date the schedule of estimated well cost is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to Applicant in lieu of paying his share of reasonable well costs out of production, and any such owner who pays his 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 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 said scheduled, the actual

well costs shall be the reasonable well costs; provided, however, that if there is objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(12) Within 60 days following the determination of reasonable well costs, any pooled working interest owner who has paid his or its share of estimated costs in advance as provided above shall pay to Applicant his or its share of the amount that reasonable well costs exceed estimated well costs or shall receive from Applicant the amount, if any, that the estimated well costs that he or it has paid exceed his or its share of 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; 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 \$7000 per month while drilling and \$700 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 is reasonable, that are attributable to the pooled working interest owners.

(16) Except as provided in Paragraphs (13) and (15) above, all proceeds from production from the 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 under the Uniform Unclaimed Property Act (NMSA 1978 Sections 7-8A-1 through 7-8A-28, as amended).

(17) Should all of the parties to this compulsory pooling order reach voluntary agreement subsequent to the entry of this order, the 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 over 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 designated above.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

DAVID CATANACH, DIRECTOR

SEAL