

**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 15621
ORDER NO R 14321**

**APPLICATION OF OPAL RESOURCES OPERATING CO, LLC AND OPAL
RESOURCES II, LLC FOR A NON STANDARD SPACING AND PRORATION
UNIT, A NON STANDARD PROJECT AREA, 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 March 2 2017 at Santa Fe New Mexico before Examiner Michael A McMillan

NOW on this 31st day of March 2017 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) Opal Resources Operating Co LLC (Applicant or Opal) and Opal Resources II LLC seek approval of a 200-acre non standard oil spacing and proration unit and project area (the Unit) for oil and gas production from the Abo formation Nadine Abo East Pool (Pool code 47393) comprising the W/2 W/2 of Section 29 and the NW/4 NW/4 of Section 32 all in Township 19 South Range 39 East NMPM Lea County New Mexico Applicant further seeks an order pooling all uncommitted interests in the Unit for the Abo formation

(3) The Unit will be dedicated to the Applicant s Jade 19 39 29 State Com Well No 1H (the proposed well API No 30-025 43294) a horizontal well to be drilled from a surface location 400 feet from the North line and 400 feet from the West line (Unit D) of Section 29 Township 19 South Range 39 East to a terminus or bottom hole location 1122 feet from the North line and 400 feet from the West line (Unit D) of

Section 32 The completed interval of the proposed well in the Abo formation is orthodox

(4) The subject well is within the Nadine Abo East Pool (pool code 47393) and is subject to Division Rule 19 15 15 9(A) NMAC which provides for 330-foot setbacks from the unit boundaries and standard 40-acre units each comprising a governmental quarter-quarter section The proposed Unit and project area consists of five adjacent quarter-quarter sections oriented north to south

(5) Applicant appeared at the hearing through counsel and presented land and engineering evidence to the effect that

- (a) Opal Resources Operating Co LLC should be designated operator of the Unit
- (b) the Abo formation in this area is suitable for development by horizontal drilling
- (c) each quarter-quarter section in the proposed unit can be expected to contribute more or less equally to production from the Abo formation
- (d) notice was provided for compulsory pooling within the Unit to all locatable interest owners subject to pooling proceedings
- (e) Applicant is requesting to compulsory pool working interest owners as well as record title owners who have divested all operating rights in the Abo formation
- (f) notice was provided for formation of the non-standard spacing unit to lessees or operators of surrounding tracts
- (g) Applicant requested that reasonable charges for supervision (combined fixed rates) be fixed at \$9 750 per month while drilling and \$975 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* The Applicant stated that the combined fixed rates were created from voluntary agreement with working interest owners Further Applicant stated that eight wells have been drilled by the Applicant in the same area Applicant also stated that a combined fixed rate of \$7500 per month while drilling and \$750 while producing is reasonable
- (h) Applicant attempted to reach a voluntary agreement to include the SW/4 NW/4 and the W/2 SW/4 of Section 32 within the proposed

Unit with the owner of that acreage but was unable to do so
Consequently, the proposed Unit currently comprises only 200
acres and

- (i) Applicant provided notice of this application by publication before hearing in a newspaper of general circulation in Lea County New Mexico the county in which the property is located for the unlocatable interests

(6) ConocoPhillips Company made an appearance at the hearing but did not object to granting of this application No other party appeared at the hearing or otherwise opposed the granting of this application

The Division concludes that

- (7) The non-standard spacing and proration unit should be approved

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

(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 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

(12) Opal Resources Operating Co LLC should be designated the operator of the subject well and the Unit

(13) The combined fixed overhead rates proposed by the Applicant are excessive and should therefore be reduced Consequently the combined fixed overhead rates should be set at \$7500 per month while drilling and \$750 per month while producing

(14) 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

(15) Reasonable charges for supervision (combined fixed rates) should be fixed at \$7 500 per month while drilling and \$750 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 200 acre oil spacing and proration unit is hereby established for oil production from the Abo formation Nadine Abo East Pool (pool code 43793) consisting of the W/2 W/2 of Section 29 and the NW/4 NW/4 of Section 32 all in Township 19 South Range 39 East NMPM Lea County New Mexico

(2) Pursuant to the application of Opal Resources Operating Co LLC and Opal Resources II LLC all uncommitted interests whatever they may be in the oil and gas in the Abo formation underlying the Unit are hereby pooled

(3) The Unit shall be dedicated to the Applicant s Jade 19 39 29 State Com Well No 1H (the proposed well API No 30 025 43294) a horizontal well to be drilled from a surface location 400 feet from the North line and 400 feet from the West line (Unit D) of Section 29 Township 19 South Range 39 East to a terminus or bottom hole location 1122 feet from the North line and 400 feet from the West line (Unit D) of Section 32 The completed interval of the subject well is located at an orthodox location

(4) The operator of the Unit shall commence drilling the proposed well on or before March 31 2018 and shall thereafter continue drilling the proposed well with due diligence to test the Abo formation

(5) In the event the operator does not commence drilling the proposed well on or before March 31 2018 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

(6) 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 in all of the standard spacing units included in the proposed project area (or Unit) then the operator shall apply to the Division for an amendment to this order to contract the Unit so that it includes only those standard spacing units in which the well is completed

(7) Upon final plugging and abandonment of the subject well and any other well drilled on that Unit pursuant to Division Rule 19 15 13 9 NMAC the Unit created by this Order shall terminate unless this Order has been amended to authorize further operations

(8) Opal Resources Operating Co LLC Company (OGRID 371779) is hereby designated the operator of the well 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 an itemized schedule of estimated costs of drilling completing and equipping the subject well (well costs)

(10) Within 30 days from the date the schedule of actual well costs is furnished any pooled 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 pooled working interest owner (including non consenting working interest owners) an itemized schedule of actual well costs within 90 days following issuance of the order 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

(12) Within 60 days following determination of reasonable well costs any pooled working interest owner who has paid its share of actual costs in advance as provided above 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) The operator is hereby authorized to withhold the following costs and charges from 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

(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) for the well are hereby fixed at \$7 500 per month while drilling and \$750 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 pooled working interest owners

(16) Except as provided in Paragraphs (13) and (15) above all proceeds from production from the subject 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)

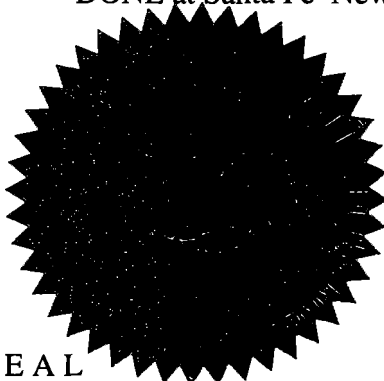
(17) Any unleased mineral interests shall be considered a seven eighths (7/8) working interest and a one eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order Any well costs or charges that are to be paid out of production shall be withheld only from the working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

(18) Should all the parties to this compulsory pooling order reach voluntary agreement subsequent to entry of this Order this Order shall thereafter be of no further effect

(19) The operator of the well and Unit shall notify the Division in writing of the subsequent voluntary agreement of parties subject to the compulsory pooling provisions of this Order

(20) 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



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

DAVID R. CATANACH
Director