

**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. 15907
ORDER NO. R-14578**

**APPLICATION OF MARATHON OIL PERMIAN LLC FOR A NON-STANDARD
OIL SPACING AND PRORATION UNIT, NON-STANDARD LOCATION, 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 January 25, 2018, at Santa Fe, New Mexico, before Examiner William V. Jones.

NOW, on this 8th day of February, 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 the subject matter.

(2) Marathon Oil Permian LLC (the "Applicant") seeks approval of a 160-acre non-standard oil spacing and proration unit and project area (the "Unit") for oil and gas production from the Bone Spring formation, Red Hills; Bone Spring, North Pool (Pool code 96434), comprising the E/2 E/2 of Section 26, Township 24 South, Range 34 East, NMPM, Lea County, New Mexico. Applicant further seeks an order pooling all uncommitted interests in the Unit for the Bone Spring formation.

(3) The Unit will be dedicated to the following well "the proposed well" to be drilled and completed at a non-standard location:

Knife Fight Fee 24 34 26 TB Well No. 7H, API No. 30-025-44165

SHL: 271 feet from the North line and 1145 feet from the East line,
(Unit A) of Section 26, Township 24 South, Range 34 East, NMPM.

BHL: 150 feet from the South line and 986 feet from the East line
(Unit P) of Section 26, Township 24 South, Range 34 East, NMPM.

(4) The proposed well is within the Red Hills; Bone Spring, North Pool and 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 four adjacent quarter-quarter sections oriented north to south.

(5) Applicant appeared through counsel and presented the following land and geologic evidence:

- (a) the Bone Spring formation in this area is suitable for development by horizontal drilling;
- (b) the proposed orientation of the horizontal well or wells from north to south is appropriate for the Unit;
- (c) all quarter-quarter sections to be included in the Unit are expected to be productive in the Bone Spring formation, so that the Unit as requested will not impair correlative rights;
- (d) the well will have non-standard first and last take points but will be at a standard location along the length of the well;
- (e) the well will be drilled in the 3rd Bone Spring Sand interval very near the Wolfcamp formation.
- (f) the proposed Unit consists of four fee tracts, and the proposal is to pool working interests and unleased mineral interests;
- (g) notice was provided to affected parties surrounding the proposed Unit;
- (h) notice was provided to affected parties of tracts being encroached by the proposed non-standard locations;
- (i) 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
- (j) those potentially affected parties whose whereabouts could not be ascertained were noticed by publication as provided in Rule 19.15.4.12.B NMAC.

(6) EOG Resources, Inc. and EOG Y Resources, Inc., MRC Permian Company and MRC Permian LKE Company, Robert E. Landreth and Advance Energy Partners LLC

all entered an appearance and were represented at the hearing through counsel. No other party appeared or otherwise opposed this application.

The Division concludes as follows:

(7) The proposed non-standard unit should be approved to enable Applicant to drill a horizontal well that will efficiently produce the reserves underlying the Unit, thereby preventing waste and protecting correlative rights.

(8) The proposed non-standard locations for the proposed well, as that completed interval is shown on Applicant's exhibits for this case, should be approved.

(9) 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.

(10) 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.

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

(12) 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.

(13) Marathon Oil Permian LLC (OGRID 372098) should be designated the operator of the proposed well and the Unit.

(14) To ensure protection of correlative rights, any pooled working interest owner should be notified and have an opportunity to protest, before the Division grants any extension of the time provided herein for commencing drilling.

(15) Infill wells within the Unit should be subject to Division Rules 19.15.13.9 NMAC through 19.15.13.10 NMAC, and the infill wells should be subject to the terms and conditions of this order.

(16) 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.

(17) 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) Pursuant to the application of Marathon Oil Permian LLC, a 160-acre non-standard oil spacing and proration unit and project area (the "Unit") is hereby established for oil and gas production from the Bone Spring formation, Red Hills; Bone Spring, North Pool (Pool code 96434), comprising the E/2 E/2 of Section 26, Township 24 South, Range 34 East, NMPM, Lea County, New Mexico.

(2) 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 following well "the proposed well" to be drilled and completed at a non-standard location;

Knife Fight Fee 24 34 26 TB Well No. 7H, API No. 30-025-44165

SHL: 271 feet from the North line and 1145 feet from the East line,
(Unit A) of Section 26, Township 24 South, Range 34 East, NMPM.

BHL: 150 feet from the South line and 986 feet from the East line
(Unit P) of Section 26, Township 24 South, Range 34 East, NMPM.

(4) The non-standard location for the proposed well as the completed interval is shown on form C-102 of the exhibits for this case, are hereby approved.

(5) The operator of the Unit shall commence drilling the proposed well on or before February 28, 2019, and shall thereafter continue drilling the proposed 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 February 28, 2019, 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) The operator shall notify each pooled working interest owner before it files with the Division any request for extension of the time to commence drilling and shall certify its compliance with this requirement in its request for extension. The Division may grant an extension at its discretion after 20 days from receipt of the request if no objection is received. Otherwise, the Division shall not grant the extension without a hearing.

(8) Unless the proposed well is drilled and completed within 120 days after commencement, 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.

(9) 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.

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

(11) Marathon Oil Permian LLC (OGRID 372098) is hereby designated the operator of the proposed well and the Unit.

(12) 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").

(13) Within 30 days from the date the schedule of estimated well costs is furnished for any well, 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 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."

(14) 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.

(15) Within 60 days following determination of reasonable well costs, 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.

(16) 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.

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

(18) 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 the proportionate share of both the supervision charges and the actual expenditures required for operating such well, not more than what are reasonable, attributable to such pooled working interest owner.

(19) 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 the proposed well, and all charges for supervision and operating costs charged against such revenues. Operating costs shall include all reasonable costs actually incurred for the maintenance and operation of the well, except for "well costs" reported pursuant to Ordering Paragraph (13), 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.

(20) Except as provided above, all proceeds from production from the proposed well that is 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).

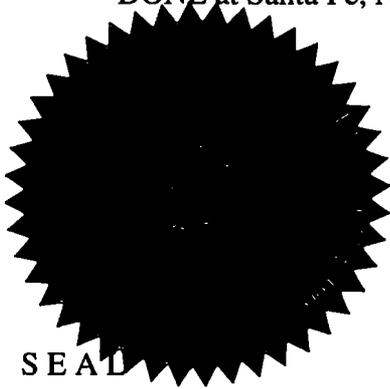
(21) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for allocating costs and charges under this Order. Any well costs or charges that are to be paid out of production shall be withheld only from the working interests' share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

(22) 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.

(23) 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.

(24) 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.



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STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

Handwritten signature of Heather Riley in cursive script.

HEATHER RILEY
Director