

**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. 15594 re-opened
ORDER NO. R-14348-A**

**APPLICATION OF MARATHON OIL PERMIAN LLC TO RE-OPEN CASE NO.
15594 FOR A NON-STANDARD OIL SPACING AND PRORATION UNIT AND
COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on November 30, 2017, at Santa Fe, New Mexico, before Examiner William V. Jones.

NOW, on this 8th day of June 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) On May 15 2017, the Division issued Order No. R-14348 approving the application of BC Operating Inc. in Case No. 15594. In that order, the Division approved the proposed 480-acre non-standard gas spacing unit and project area (the "Unit") for oil and gas production from the Wolfcamp formation, Purple Sage; Wolfcamp Gas Pool (Pool code 98220), comprising the SE/4 of Section 25 and the E/2 of Section 36, both in Township 24 South, Range 28 East, NMPM, Eddy County, New Mexico. The Unit was dedicated to the proposed Southern Comfort 25 36 State X Well No. 2H, (API No. 30-015-44328) and all uncommitted interests in the Unit were pooled.

(3) Marathon Oil Permian LLC (the "Applicant") has succeeded BC Operating Inc. as operator of the well and of the Unit and has re-opened the case to add an additional well, pool additional identified parties, and provide additional notice to affected parties of the non-standard spacing unit consisting of the SE/4 of Section 25.

(4) Applicant seeks approval in this re-opened case of a 480-acre non-standard gas spacing unit and project area (the "Unit") for oil and gas production from the Wolfcamp formation, Purple Sage; Wolfcamp Gas Pool (Pool code 98220), comprising the SE/4 of Section 25, Township 24 South, Range 28 East and the E/2 of Section 36, Township 24

South, Range 28 East, NMPM, Eddy County, New Mexico. Applicant further seeks an order pooling all uncommitted interests in the Unit for the Wolfcamp formation.

(5) The Unit will be dedicated to the following "subject wells" which have been drilled and completed at standard well locations within the Unit:

Southern Comfort 25 36 State X Well No. 2H, API No. 30-015-44328

SHL: 2404 feet from the South line and 1236 feet from the East line,
(Unit I) of Section 25, Township 24 South, Range 28 East, NMPM.
BHL: 240 feet from the South line and 330 feet from the East line
(Unit P) of Section 36, Township 24 South, Range 28 East, NMPM.

Southern Comfort 25 36 State X Well No. 1H, API No. 30-015-44332

SHL: 2490 feet from the South line and 2310 feet from the East line,
(Unit J) of Section 25, Township 24 South, Range 28 East, NMPM.
BHL: 240 feet from the South line and 2323 feet from the East line
(Unit O) of Section 36, Township 24 South, Range 28 East, NMPM.

(6) The subject wells are within the Purple Sage; Wolfcamp Gas Pool and subject to Special Rules which provide for 330-foot setbacks from the boundaries of standard 320-acre gas units consisting of governmental half sections. The proposed Unit and project area consists of one, 160-acre non-standard gas spacing unit and one standard, 320-acre gas spacing unit oriented from north to south.

(7) Applicant appeared through counsel and presented the following evidence:

- (a) the Wolfcamp formation in this area is suitable for development by horizontal drilling;
- (b) the proposed orientation of the horizontal wells from north to south is appropriate for the Unit;
- (c) all separately owned tracts and all 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) notice by certified mail was provided to owners of the mineral estate omitted from what would have been a standard, 320-acre gas spacing unit consisting of the E/2 of Section 25 or a standard, 320-acre gas spacing unit consisting of the S/2 of Section 25;
- (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; and

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

(8) The Allar Company initially opposed this application, but has since joined in the subject wells, and did not appear at the hearing. No other party appeared or otherwise opposed this application.

The Division Concludes

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

(10) A new order should be issued pooling this Unit to include interests of parties not notified, or not properly notified, of the proceeding that resulted in Order R-14348, and to provide for dedication of the Unit to an additional well drilled after the issuance of that order.

(11) 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.

(12) Applicant is owner of an oil and gas working interest within the Unit. Applicant has the right to drill and has drilled the subject wells to a common source of supply within the Unit at the described locations.

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

(14) 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.

(15) Marathon Oil Permian LLC (OGRID 372098) should be designated the operator of the subject wells and the Unit.

(16) 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.

(17) 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 subject wells.

(18) 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) Order No. R-14348 issued May 15, 2017 is hereby replaced in its entirety by this order. Pursuant to the application of Marathon Oil Permian LLC, a 480-acre non-standard gas spacing unit and project area (the "Unit") is hereby established for oil and gas production from the Wolfcamp formation, Purple Sage; Wolfcamp Gas Pool (Pool code 98220), comprising the SE/4 of Section 25 and the E/2 of Section 36, both in Township 24 South, Range 28 East, NMPM, Eddy County, New Mexico.

(2) All uncommitted interests, whatever they may be, in the oil and gas in the Wolfcamp formation underlying the Unit, are hereby pooled.

(3) The Unit shall be dedicated to Applicant's following "subject wells" which have been drilled and completed at standard well locations within the Unit.

Southern Comfort 25 36 State X Well No. 2H, API No. 30-015-44328

SHL: 2404 feet from the South line and 1236 feet from the East line,
(Unit I) of Section 25, Township 24 South, Range 28 East, NMPM.

BHL: 240 feet from the South line and 330 feet from the East line
(Unit P) of Section 36, Township 24 South, Range 28 East, NMPM.

Southern Comfort 25 36 State X Well No. 1H, API No. 30-015-44332

SHL: 2490 feet from the South line and 2310 feet from the East line,
(Unit J) of Section 25, Township 24 South, Range 28 East, NMPM.

BHL: 240 feet from the South line and 2323 feet from the East line
(Unit O) of Section 36, Township 24 South, Range 28 East, NMPM.

(4) Upon final plugging and abandonment of the subject wells 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.

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

(6) Marathon Oil Permian LLC (OGRID 372098) is hereby designated the operator of the subject wells and the Unit.

(7) 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 of the subject wells ("well costs").

(8) 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."

(9) 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 subject wells. 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.

(10) 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.

(11) 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.

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

(13) 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.

(14) 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 Subject 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.

(15) Except as provided above, all proceeds of 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).

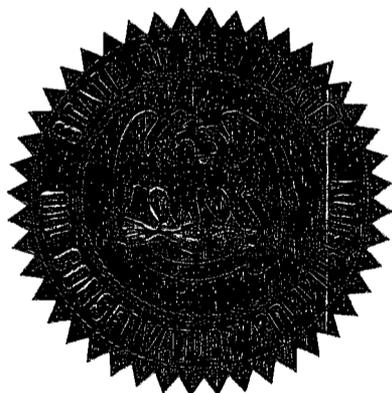
(16) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for allocating costs and charges under this Order. Any costs that are to be paid out of production shall be withheld only from the working interests' share of production,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

(17) 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.

(18) The operator of the wells 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.

(19) 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 that reads "Heather Riley".

HEATHER RILEY
DIRECTOR

SEAL