

**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. 15022
ORDER NO. R-13743**

**APPLICATION OF RSC RESOURCES LIMITED PARTNERSHIP FOR
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 July 25, 2013, at Santa Fe, New Mexico, before Examiner Phillip R. Goetze.

NOW, on this 6th day of September, 2013, 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) RSC Resources, L. P. ("applicant") seeks an order pooling all uncommitted interests from the surface to the base of the Wolfcamp formation underlying the N/2 of Section 15, Township 24 South, Range 28 East, NMPM, in Eddy County, New Mexico in the following manner:

- (a) the N/2 to form a standard 320-acre gas spacing and proration unit for any and all formations or pools developed on 320-acre spacing within that vertical extent;
- (b) the NE/4 to form a standard 160-acre gas spacing and proration unit for any and all formations or pools developed on 160-acre spacing within that vertical extent; and

- (c) the SW/4 NE/4 to form a standard 40-acre oil spacing and proration unit for any and all formations or pools developed on 40-acre spacing within that vertical extent.

(3) The Units are to be dedicated to applicant's Ann Com. Well No. 1 (API No. 30-015-23036) which is to be vertically drilled at a standard gas well location 1655 feet from the North line and 1980 feet from the East line located in the SW/4 NE/4 (Unit letter G) of Section 15 to a depth sufficient to test the Wolfcamp formation. The well completion will be "standard", all portions completed will be greater than or equal to 660 feet from the outer boundary of the proposed gas spacing unit.

(4) Applicant appeared at the hearing through counsel and presented land and geologic evidence to the effect that:

- (a) There are multiple un-locatable interest owners due to the historical portioning of fee lands in the Malaga townsite;
- (b) numerous attempts including public notification by the applicant to locate interest owners have not been successful;
- (c) the well is a re-entry for completion of the Wolfcamp formation with potential for future re-drilling as a horizontal well in the Bone Spring formation; and
- (d) Guardian Operating Corporation (OGRID 278300), a wholly-owned operating entity of RSC Resources, L. P., should be designated the operator of the proposed well and of the Units.

(5) There were no other appearances in this case.

The Division concludes that:

(6) Two or more separately owned tracts are embraced within the Units, and/or there are royalty interests and/or undivided interests in oil and gas minerals in one or more tracts included in the Units that are separately owned.

(7) Applicant is an owner of an oil and gas working interest in the Units and has the right to drill the proposed well to a common source of supply within the Units.

(8) There are interest owners in these Units that have not agreed to pool their interests and there are un-locatable owners.

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

(10) 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 well.

(11) Reasonable charges for supervision (combined fixed rates) should be fixed at \$7,000 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) Pursuant to the application of RSC Resources, L. P., all uncommitted interests from the surface to the base of the Wolfcamp formation underlying the N/2 of Section 15, Township 24 South, Range 28 East, NMPM, in Eddy County, New Mexico, are hereby pooled in the following manner:

- (a) the N/2 to form a standard 320-acre gas spacing and proration unit for any and all formations or pools developed on 320-acre spacing within that vertical extent;
- (b) the NE/4 to form a standard 160-acre gas spacing and proration unit for any and all formations or pools developed on 160-acre spacing within that vertical extent; and
- (c) the SW/4 NE/4 to form a standard 40-acre oil spacing and proration unit for any and all formations or pools developed on 40-acre spacing within that vertical extent.

(2) The Units shall be dedicated to applicant's Ann Com. Well No. 1 (API No. 30-015-23036) which is to be vertically drilled at a standard gas well location 1655 feet from the North line and 1980 feet from the East line in the SW/4 NE/4 (Unit letter G) of Section 15 to a depth sufficient to test the Wolfcamp formation.

(3) The operator of the Units shall commence drilling the proposed well on or before September 30, 2014, and shall thereafter continue drilling the well with due diligence to test the Wolfcamp formation.

(4) In the event the operator does not commence drilling the proposed well on or before September 30, 2014, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause.

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(5) Should the subject well not be drilled and completed within 120 days after commencement thereof, Ordering Paragraph (1) shall be of no further effect, and the Units created by this Order shall terminate unless the operator appears before the Division Director and obtains an extension of time to complete the well for good cause demonstrated by satisfactory evidence.

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

(7) Guardian Operating Corporation (OGRID 278300) is hereby designated the operator of the proposed well and of the Units.

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

(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 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.

(10) Within 60 days following determination of reasonable well costs, any pooled working interest owner who has paid its share of estimated costs 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 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.

(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 \$7,000 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 are reasonable, attributable to pooled working interest owners.

(14) Except as provided in Paragraphs (11) and (13) above, all proceeds from 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-7-8A-28, as amended).

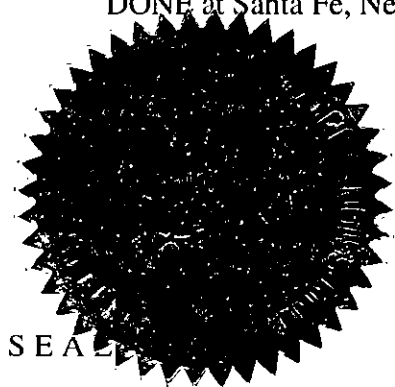
(15) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working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

(16) 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.

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

(18) 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

JAMI BAILEY
Director