

**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. 15772
ORDER NO. R-14183-A**

**APPLICATION OF MATADOR PRODUCTION COMPANY AND MRC
PERMIAN COMPANY TO REQUIRE LANEXCO, INC. TO PLUG AND
ABANDON THE CERRO COM WELL NO. 1, OR IN THE ALTERNATIVE, TO
REMOVE LANEXCO, INC. AS OPERATOR OF RECORD OF THE CERRO COM
WELL NO. 1, EDDY COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on August 3, 2017, at Santa Fe, New Mexico, before Examiner Phillip R. Goetze.

NOW, on this 10th day of October, 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) Matador Production Company and MRC Permian Company (collectively referred to as the "Applicant" or "Matador") seeks an order either (i) requiring Lanexco Inc. (the "Operator" or "Lanexco") to properly plug and abandon the Cerro Com Well No. 1 or (ii) removing Lanexco as operator of record of the well and designating Matador as operator, thereof.

(3) The Cerro Com Well No. 1 (the "Subject Well"; API No. 30-015-22626) is a gas well with a surface location of 2080 feet from the North line and 760 feet from the West line (Unit E) of Section 11, Township 23 South, Range 27 East, NMPM, in Eddy County, New Mexico.

(4) Matador appeared at the hearing through legal counsel and presented the following testimony:

- (a) The Operator is registered under OGRID No. 13046 and is the operator of record for 51 wells in New Mexico, including the Subject Well.
- (b) The Subject Well is a vertical gas well with an initial completion in the Morrow formation (in 1978) that was abandoned followed by shallower completions in the Wolfcamp formation in 1979 and in the Bone Spring formation in 1988.
- (c) The Subject Well has two sets of open perforations: from 7404 feet to 7425 feet and from 9765 feet to 9817 feet. The perforations of the deeper zones have been properly isolated and abandoned as shallower zones were perforated.
- (d) Applicant provided a summary of production history for the Subject Well noting that the last reported production was November 2011. Included in this summary were affidavits from mineral interest owners documenting the failure to offer any compensation for production in the period following November 2011.
- (e) Applicant submitted a photographic record of a recent field inspection of the wellhead and related production equipment for the Subject Well. This record established the Subject Well as being shut in with the production equipment either in poor condition or inoperable.
- (f) Applicant summarized the compliance effort by the Division involving Lanexco that includes the Subject Well:
 - (i) The Division issued a second letter of violation to the Operator on January 26, 2016, citing failure to file monthly production reports as required under Rule 19.15.7.24 NMAC. The letter revoked the authority to transport from or inject into all wells operated by Lanexco.
 - (ii) Subsequently, the Division's Compliance and Enforcement Bureau made application to obtain a compliance order to require Lanexco to fulfill numerous outstanding obligations under Division rules. The application was assigned Case No. 15446 and was heard before Division Examiners on May 12, 2016, and June 9, 2016.
 - (iii) The Bureau entered into a Settlement Agreement (under Case No. 15446) with Lanexco on June 9, 2016. Under the terms of the agreement, the Operator was required to complete the reporting of monthly production, provide adequate financial

assurance, and to either return inactive wells to beneficial use or properly plug and abandon them if unproductive.

- (iv) The Division issued a letter of violation dated April 17, 2017, citing the Operator for not properly plugging and abandoning the Subject Well.
- (g) Applicant provided a summary of the leasing history for the parcel containing the Subject Well and a chronology of Applicant's effort to obtain leases for the purpose of drilling a horizontal well. Applicant contended that leases held by Lanexco that are associated with the Subject Well are no longer valid.
- (h) Applicant noted that portions of their leases within the N/2 of Section 11 will begin expiring on November 19, 2017, if the drilling of the Applicant's well is not commenced.
- (i) Applicant has proposed the Michael Collins 11-23S-27E RB Well No. 206H (the "Applicant's well"), a horizontal well with a surface location 2051 feet from the South line and 405 feet from the East line (Unit I) of Section 11, Township 23 South, Range 27 East, NMPM. The Applicant's well is proposed to test the Wolfcamp formation at a true vertical depth of approximately 9350 feet.
- (j) The proposed completed interval for the Applicant's well will be from east to west within the S/2 N/2 of Section 11. A portion of the completed interval will be located within 200 feet of the surface location of the Subject Well and closer to the open perforations in the Wolfcamp formation.
- (k) Applicant presented testimony that the Subject Well, in its current status, has the potential of impacting the hydraulic fracturing results for the Applicant's well, thereby degrading the quality of the horizontal well completion, resulting in poor production and creating waste of hydrocarbon resources.
- (l) Applicant provided a proposed plugging plan for the Subject Well and noted that plan had been submitted to Lanexco for consideration.
- (m) Applicant referenced Case No. 15527, Division Order No. R-14228, as precedence for consideration in this case. The Division there designated a new operator for an existing, inactive well held through a prior claim by a different operator.

(5) Lanexco and the Compliance and Enforcement Bureau (the "Bureau") entered appearances through legal counsel and provided testimony regarding the application. No other party appeared at the hearing or otherwise opposed the granting of the application.

(6) Under cross examination by Lanexco, a witness called by Matador stated that it had not attempted to assess the potential of leases being held by production from wells other than the Subject Well. Lanexco's attorney further noted that Matador had not provided a copy of the title opinion used to assess lease status as part of Matador's exhibits.

(7) The Bureau offered no testimony as to the requests contained in the application, but stated in the record that the Subject Well was not compliant with the Division rules regarding plugging and abandonment and financial assurance.

(8) Based on Division records, the Division approved a compulsory pooling order, Order No. R-14332, for a 320-acre gas spacing unit in the Wolfcamp formation (Purple Sage; Wolfcamp (Gas) Pool) that encompasses the N/2 of Section 11, Township 23 South, Range 27 East, NMPM. The unit is dedicated to the Applicant's Michael Collins 11-23S-27E RB Well No. 206H.

The Division Concludes as Follows:

(9) Lanexco is the Operator of record for the Subject Well and is responsible for compliance with the Oil and Gas Act and Division Rules.

(10) The Subject Well qualifies as "inactive" because the well has not been used for beneficial purposes for a period that exceeds one (1) year plus 90 days and has not been placed in approved temporary abandonment status. The inactive Subject Well is classified with a status of "temporary abandonment" as defined in Division Rule 19.15.2.7(T)(3) NMAC.

(11) As established by the evidence provided at hearing, the Operator is in violation of Division Rule 19.15.8.9 NMAC. The Operator is required to have additional financial assurance on the Subject Well, as it has been in temporary abandonment for more than four years, and the Operator has failed to provide the Division with the requisite financial assurance for the Subject Well.

(12) The Settlement Agreement between Lanexco and the Bureau is still in effect, but there is no evidence, as of the date of the final hearing, that Lanexco has addressed either the financial assurance issue or the inactive well status of the Subject Well.

(13) The Division has issued Division Order No. R-14332 that authorizes the Applicant to pool all uncommitted mineral interests in the Wolfcamp formation for the unit which is the N/2 of Section 11 and includes a portion of the spacing unit previously dedicated to the Subject Well for production from the Wolfcamp formation.

(14) Although the Division does not have jurisdiction to determine the validity of, or title to, an oil and gas lease, Lanexco's claim that leases associated with the Subject Well or other wells operated by Lanexco may be held by production is not substantiated by the evidence.

(15) Applicant has sufficiently demonstrated that the Subject Well offers a high probability for interference with the proper completion of the Applicant's well resulting in waste of resources and possible impacts on correlative rights.

(16) Approval of the change of operator to allow proper abandonment of the Subject Well will enable Applicant to drill a horizontal well that will efficiently produce the reserves underlying the unit, thereby preventing waste, and protecting correlative rights.

(17) The Division finds that Case No. 15527, Division Order No. R-14228, as a suggested precedent for ordering a change in operator in this case, is not applicable. However, NMSA 1978 §70-2-11(A) states:

"The division is hereby empowered, and it is its duty, to prevent waste prohibited by this act and to protect correlative rights, as in this act provided. To that end, the division is empowered to make and enforce rules, regulations and orders, and to do whatever may be reasonably necessary to carry out the purpose of this act, whether or not indicated or specified in any section hereof." [Emphasis added]

(18) The evidence indicates that Lanexco failed to bring the Subject Well into compliance with Rule 19.15.25.8 NMAC by either plugging the well or placing the well into approved temporary abandonment status. The evidence further indicates that Lanexco failed to bring the Subject Well into compliance with Rule 19.15.8.9 NMAC (Financial Assurance). Given the lengthy period of non-compliance of Lanexco with regards to the Subject Well, the Division, in the course of its business, would normally bring a compliance action against Lanexco similar to the one Matador presented, requiring Lanexco to plug and abandon the Subject Well or place the well in approved temporary abandonment status, however, given that Lanexco has had ample opportunity to comply with Division rules, and given that the situation with Matador requires an expedient resolution of the issues surrounding the subject well and the drilling of the Michael Collins 11-23S-27E RB Well No. 206H, the application of Matador in this case should be approved.

(19) Division records indicate Matador, as of the date of this order, is in compliance with Division Rule 19.15.5.9 NMAC.

(20) The Division should approve the removal of Lanexco as operator of record for the Subject Well and designate Matador Production Company as operator for the purpose to plug and abandon the Cerro Com Well No. 1.

(21) In response to Applicant's request for compensation, the Division can only obligate financial assurance for the plugging and abandonment of a well conducted by the Division and not plugging operations completed by another operator.

IT IS THEREFORE ORDERED THAT:

(1) The Division hereby terminates the authority of Lanexco to act as Operator of record for the Cerro Com Well No. 1 (the "Subject Well"; API No. 30-015-22626) with a surface location of 2080 feet from the North line and 760 feet from the West line (Unit E) of Section 11, Township 23 South, Range 27 East, NMPM, in Eddy County, New Mexico.

(2) The application of Matador Production Company (OGRID No. 228937) to become the Operator of record for the Subject Well for the sole purpose of properly plugging and abandoning the Subject Well is hereby approved.

(3) Matador Production Company shall prepare and submit a sundry notice of intent with a plugging program to the Division's Artesia office for approval within thirty (30) days of the issuance date of this Order.

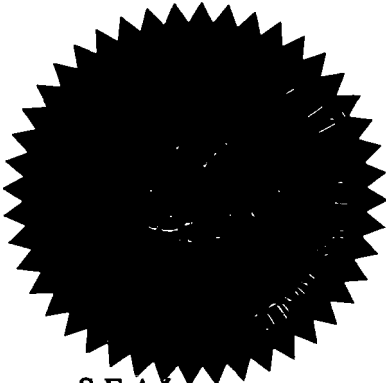
(4) As the Operator of record for the Subject Well, Matador Production Company shall be responsible for all costs associated with the plugging and abandonment of the well, including all the requirements of Division Rule 19.15.25.10 NMAC and all liabilities associated with any releases reported under Rule 19.15.29 NMAC, without compensation from the Division.

(5) The Division shall continue the implementation of the Settlement Agreement with Lanexco but shall exclude all subsequent violations and related fines associated with the Cerro Com Well No. 1 in any further compliance and enforcement activities.

(6) This Order shall become null and void if Lanexco Inc. and Matador Production Company agree to a Change of Operator, under Division Rule 19.15.9.9 NMAC, for the Subject Well. Final approval of the Change of Operator shall be subject to the approval of the Director after consultation with the Compliance and Enforcement Bureau.

(7) 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

DAVID R. CATANACH
Director