

**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. 14277
ORDER NO. R-13121**

**APPLICATION OF RSC RESOURCES LIMITED PARTNERSHIP 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 on March 5, 2009 at 8:15 a.m. at Santa Fe, New Mexico before Examiners Terry Warnell and David K. Brooks and again on March 19, 2009, before Examiners Richard Ezeanyim and David K. Brooks.

NOW, on this 11th day of May, 2009, the Division Director, having considered the testimony, the record, and the recommendations of the Examiners,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of this case and of the subject matter.

(2) In this case, RSC Resources Limited Partnership ("Applicant" or "RSC"):

(a) seeks an order creating a 162.74-acre non-standard oil spacing and proration unit ("the Unit") for oil production from the Wolfcamp formation within the Dog Canyon-Wolfcamp Pool (Pool Code 17970), consisting of Lot 3, the NE/4 SW/4 and N/2 SE/4 (N/2 S/2 equivalent) of Section 30, Township 16 South, Range 28 East, NMPM, Eddy County, New Mexico; and

(b) seeks to pool all uncommitted mineral interests in the non-standard spacing and proration unit for purposes of horizontally drilling the Lucky Wolf "30" Fed. Com. Well No. 2 (API No. 30-015-37039), the proposed well, including but not limited to, the Dog Canyon-Wolfcamp Pool (17970).

(3) The Unit is to be dedicated to Applicant's proposed Lucky Wolf "30" Fed. Com. Well No. 2 which will be drilled horizontally to test the Wolfcamp formation. The surface location will be 2310 feet from the South line and 100 feet from the West line of Section 30. The well will penetrate the Wolfcamp formation at a point 2295 feet from the South line and 330 feet from the West line and have a terminus approximately 1980 feet from the South line and 330 feet from the East line, of Section 30.

(4) The applicant presented testimony and evidence that:

(a) The N/2 S/2 of Section 30 is comprised of federal lands and applicant has filed for an APD with the Bureau of Land Management.

(b) Notice was provided to owners of all uncommitted interests for purposes of the compulsory pooling of the proposed Unit. All parties (100%) were located, and RSC made a good faith effort to obtain the voluntary joinder of the interest owners.

(c) With regard to the non-standard spacing and proration unit, notice was provided to all offsetting operators or, if operated by RSC, to all diversely owned working interests.

(d) COG has also applied for an APD to drill a horizontal well in Units I and J of Section 30.

(e) Three Span Oil & Gas Inc. ("Three Span") operates the Crow Flats Federal Com. Well No. 1 ("the Crow Flats well") located in the NE/4 SW/4 of Section 30 (Unit K) but only owns wellbore interest limited to the Crow Flats well from the top of the San Andres to the base of the Morrow Formation.

(f) The Dog Canyon-Wolfcamp Pool is spaced on 40-acre oil spacing and proration units. Oil and gas will be produced in the horizontal wellbore from all adjacent 40-acre tracts within the 162.74-acre non-standard Unit.

(5) Both COG Operating, LLC and Three Span entered appearances in this case through counsel.

(a) COG will support RSC's application and will withdraw its APD that is approved for an 80-acre horizontal well (Units I and K) in the N/2 SE/4 of Section 30.

(b) Three Span had no objections to this matter being taken under advisement but objects to the drilling of the proposed well in Case No. 14308.

(6) In order to prevent waste and protect correlative rights, applicant's proposal to form a non-standard 162.74-acre oil spacing unit for oil production from the

Wolfcamp formation within the Dog Canyon-Wolfcamp Pool (Pool Code 17970) consisting of the N/2 S/2 of Section 30 should be approved.

(7) However, the Unit should expressly exclude the Crow Flats well because Three Span's wellbore interest does not entitle it to participate in the proposed well.

(8) Applicant has the right to drill within this Unit and proposes to drill vertically and horizontally to the Wolfcamp formation and complete a horizontal well designed to produce oil from the Wolfcamp formation within the Unit.

(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) There are interest owners in the proposed Unit who have not agreed to pool their interests. However, there are no unlocated owners, and no evidence of a title dispute concerning any of the 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, applicant's proposal should be approved to pool all uncommitted interests, whatever they may be, within the Unit.

(12) Applicant should be designated the operator of the subject well and of the Unit.

(13) 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 additional 200% thereof as a reasonable charge for the risk involved in drilling the well.

(14) Reasonable charges for supervision (combined fixed rates) should be fixed at \$5,000 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 Limited Partnership, a non-standard 162.74-acre oil spacing unit ("the Unit") for production from the Wolfcamp formation within the Dog Canyon-Wolfcamp Pool (Pool Code 17970), consisting of the N/2 S/2 of Section 30, Township 16 South, Range 28 East, NMPM, Eddy County, New Mexico is hereby approved. All uncommitted mineral interests are hereby pooled within this non-standard Unit provided that the wellbore of the Crow Flats Federal Com. Well

No. 1 and the wellbore interest of Three Span are expressly excluded from the Unit. The Unit shall be dedicated to the Lucky Wolf "30" Fed. Com. Well No. 2 (API No. 30-015-37039) (the "proposed well") from the Wolfcamp formation.

(2) RSC Resources Limited Partnership (OGRID No. 245801) is hereby designated the operator of the proposed well and of the pooled Unit.

(3) The above-described Unit shall be dedicated to applicant's proposed Lucky Wolf "30" Fed. Com. Well No. 2 to be drilled horizontally, as described in the Finding Paragraph (3).

(4) The operator of the Unit shall commence drilling the proposed well on or before May 7, 2010 and shall thereafter continue drilling the horizontal well with due diligence to test the oil productivity of the Wolfcamp formation.

(5) In the event the operator does not commence drilling the proposed well on or before May 7, 2010, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause.

(6) 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 Unit 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.

(7) Upon final plugging and abandonment of the Lucky Wolf "30" Fed. Com. Well No. 2 (API No. 30-015-37039), and any other well drilled on the Unit pursuant to Division Rule 10.15.13, the pooled Unit created by this Order shall terminate, unless this order has been amended to authorize further operations.

(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 Unit, including unleased mineral interests, who are not parties to an operating agreement governing the Unit.)

(9) 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 estimated 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 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.

(12) 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.

(13) 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 who has not paid its share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished; 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) are hereby fixed at \$5,000 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.

(16) Except as provided in Paragraphs (13) and (15) above, all proceeds from production from the well that are not disbursed for any reason shall be placed in escrow in Eddy County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership. The operator shall notify the Division of the name and address of the escrow agent within 30 days from the date of first deposit with the escrow agent.

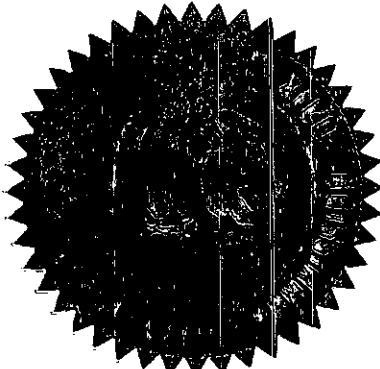
(17) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working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

(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 the Unit shall notify the Division in writing of the subsequent voluntary agreement of all parties subject to the forced 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.



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STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in dark ink, appearing to read "Mark E. Fesmire".

MARK E. FESMIRE, P.E.
Director