

**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. 12572
ORDER NO. R-11524**

**APPLICATION OF MATADOR PETROLEUM CORPORATION FOR
COMPULSORY POOLING AND AN UNORTHODOX GAS WELL LOCATION,
LEA COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on January 11, 2001, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 31st day of January, 2001, 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 its subject matter.

(2) The applicant, Matador Petroleum Corporation ("Matador"), seeks an order pooling all uncommitted mineral interests from the top of the Wolfcamp formation to the base of the McKee formation underlying the S/2 of Section 19, Township 20 South, Range 37 East, NMPM, Lea County, New Mexico, to form a standard 320-acre gas spacing and proration unit for any formations or pools spaced on 320-acres within this vertical extent. This unit is to be dedicated to the New Mexico "H" State NCT-4 Well No. 36, a plugged and abandoned well that will be re-entered and deepened to a depth sufficient to test the McKee formation at an unorthodox gas well location 2205 feet from the South line and 1981 feet from the West line (Unit K) of Section 19.

(3) The applicant has the right to develop the oil and gas reserves within the vertical interval proposed to be pooled underlying the S/2 of Section 19, and proposes to re-enter and deepen the New Mexico "H" State NCT-4 Well No. 36 to test this vertical interval.

(4) There are interest owners in the proposed unit that have not agreed to pool

their interests.

(5) 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, this application should be approved by pooling all uncommitted mineral interests, whatever they may be, within the unit.

(6) Matador should be designated the operator of the subject well and unit.

(7) Neither the well or unit is located less than one mile from the boundary of a Division-designated pool spaced on 320-acres; therefore, the subject well should be classified as a wildcat gas well subject to the provisions of Division Rule 104.C.(2)

(8) Division Rule 104.C.(2) currently requires that the initial well on a standard 320-acre unit be located no closer than 660 feet to the outer boundary of the quarter section on which the well is located and no closer than 10 feet to any quarter-quarter section line or subdivision inner boundary.

(9) Matador notified all affected offset interest owners of its application in this case. No affected offset interest owner appeared at the hearing in opposition to the proposed unorthodox gas well location.

(10) Approval of the proposed unorthodox gas well location will provide the applicant the opportunity to recover the oil and gas reserves underlying the S/2 of Section 19, will provide substantial economic savings by allowing the applicant to utilize an existing wellbore, and will otherwise prevent waste and protect correlative rights.

(11) The applicant estimates re-entry costs for a completed well to be approximately \$700,000. Hereinafter, re-entry costs are referred to as estimated well costs.

(12) After pooling, uncommitted working interest owners are referred to as non-consenting working interest owners. Any non-consenting working interest owner should be afforded the opportunity to pay its share of estimated well costs to the operator in lieu of paying its share of reasonable well costs out of production.

(13) Any non-consenting 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 percent thereof as a reasonable charge for the risk involved in drilling the well.

(14) Any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(15) Following determination of reasonable well costs, any non-consenting working interest owner who has paid its share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(16) Reasonable charges for supervision (combined fixed rates) should be fixed at \$7,000.00 per month while drilling and \$700.00 per month while producing, provided that this rate should be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedures-Joint Operations*." The operator should be 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 each non-consenting working interest.

(17) All proceeds from production from the well that are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(18) If the operator of the pooled unit fails to commence re-entry and drilling operations on or before May 1, 2001, or if all the parties to this forced pooling reach voluntary agreement subsequent to the entry of this order, this order should become of no effect.

(19) The operator of the well and unit should notify the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Matador Petroleum Corporation, all uncommitted mineral interests from the top of the Wolfcamp formation to the base of the McKee formation underlying the S/2 of Section 19, Township 20 South, Range 37 East, NMPM, Lea County, New Mexico, are hereby pooled to form a standard 320-acre gas spacing and proration unit for any formations or pools spaced on 320-acres within this vertical extent. This unit shall be dedicated to the New Mexico "H" State NCT-4 Well No. 36, a plugged and abandoned well that will be re-entered and deepened to a depth sufficient

to test the McKee formation at an unorthodox gas well location, also hereby approved, 2205 feet from the South line and 1981 feet from the West line (Unit K) of Section 19.

(2) The operator of the unit shall commence re-entry and drilling operations on the subject well on or before May 1, 2001, and shall thereafter continue drilling the well with due diligence to test the McKee formation.

(3) In the event the operator does not commence re-entry and drilling operations on the well on or before May 1, 2001, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause shown.

(4) Should the well not be drilled to completion or be abandoned within 120 days after commencement thereof, the operator shall appear before the Division Director and show cause why Ordering Paragraph (1) should not be rescinded.

(5) Matador Petroleum Corporation is hereby designated the operator of the subject well and unit.

(6) After pooling, uncommitted working interest owners are referred to as non-consenting working interest owners. After the effective date of this order, the operator shall furnish the Division and each known non-consenting working interest owner in the unit an itemized schedule of estimated well costs.

(7) Within 30 days from the date the schedule of estimated well costs is furnished, any non-consenting 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, 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.

(8) The operator shall furnish the Division and each known non-consenting working interest owner an itemized schedule of actual well costs within 90 days following completion of the 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 the reasonable well costs; provided, however, that 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.

(9) Within 60 days following determination of reasonable well costs, any non-consenting 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 its share of the amount that estimated well costs exceed reasonable well costs.

(10) 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 percent of the above costs.

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

(12) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$7,000.00 per month while drilling and \$700.00 per month while producing, provided that this rate 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 each non-consenting working interest.

(13) 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.

(14) 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.

(15) All proceeds from production from the well that are not disbursed for any reason shall be placed in escrow in Lea 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.

(16) Should all the parties to this compulsory pooling order reach voluntary agreement subsequent to entry of this order, the compulsory pooling provisions of this order shall thereafter be of no further effect.

(17) The operator of the well and unit shall notify the Division in writing of the subsequent voluntary agreement of all parties subject to the forced 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

Lori Wrotenbery
LORI WROTENBERY
Director



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

GARY E. JOHNSON

Governor

Jennifer A. Salisbury

Cabinet Secretary

Lori Wrotenbery

Director

Oil Conservation Division

April 23, 2001

Mr. Thomas Kellahin
Kellahin and Kellahin
Attorneys at Law
Post Office Box 2265
Santa Fe, New Mexico 87504-2265

Dear Mr. Kellahin:

Based upon the reasons stated in your letter of April 23, 2001, and in accordance with the provisions of Division Order No. R-11524, Matador Petroleum Corporation is hereby granted an extension of time until August 1, 2001, in which to commence drilling the well pooled by this order.

Sincerely,

Lori Wrotenbery
LORI WROTENBERY
Division Director

fd/

cc: Case No. 12572

✓OCD - Hobbs

