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. 15039
ORDER NO. R-13763

APPLICATION OF MATADOR PRODUCTION COMPANY FOR COMPULSORY POOLING AND UNORTHODOX WELL LOCATION, EDDY COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on October 17, 2013, at Santa Fe, New Mexico, before Examiner David K. Brooks.

NOW, on this 23rd day of October, 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) Matador Production Company ("Applicant"), seeks an order pooling all uncommitted interests in the Wolfcamp formation [East Black River-Wolfcamp Gas Pool (97442)] in the S/2 of Section 12, Township 24 South, Range 27 East, NMPM, in Eddy County, New Mexico, to form a standard 320-acre spacing and proration unit ("the Unit") in the East Black River-Wolfcamp Gas Pool (97442).

(3) The Unit is to be dedicated to Applicant's proposed Rustler Breaks 12-24-27 Well No. 1H (API No. not yet assigned), (the "proposed well"), a horizontal well to be drilled at a non-standard surface location 380 feet from the South line and 330 feet from the East line (Unit P) of Section 12 to a non-standard terminus 380 feet from the South line and 330 feet from the West line (Unit M) of Section 12.

(4) Spacing in the East Black River-Wolfcamp Gas Pool is governed by statewide Rule 19.15.15.10.B NMAC, which provides for 320-acre units, with wells to be

located no closer than 660 feet from the outer boundaries of the unit. The location of the proposed well is unorthodox because the proposed completed interval is less than 660 feet from the outer boundaries of the project area.

(5) Applicant offered testimony at the hearing indicating that

(a) the proposed non-standard location is necessary in order to effectively produce the hydrocarbons in the Wolfcamp formation underlying this Unit; and

(b) Applicant gave notice of this application and of the hearing to all affected persons in offsetting spacing units towards which the proposed unorthodox location would encroach.

(6) No person appeared at the hearing in opposition, or otherwise notified the Division of any objection, to the granting of this application or to the proposed non-standard location.

(7) 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.

(8) Applicant is an owner of an oil and gas working interest within the Unit. Applicant has the right to drill and proposes to drill the proposed well to a common source of supply within the Unit at the proposed location.

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

(10) 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,

(a) this application should be approved by pooling all uncommitted interests, whatever they may be, in the oil and gas within the Unit; and

(b) the non-standard location of the proposed well should be approved.

(11) Applicant should be designated the operator of the proposed well and of the Unit.

(12) 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.

(13) 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 Matador Production Company, all uncommitted interests, whatever they may be, in the oil and gas in the Wolfcamp formation [East Black River-Wolfcamp Gas Pool (97442)] in the S/2 of Section 12, Township 24 South, Range 27 East, NMPM, in Eddy County, New Mexico, are hereby pooled to form a standard 320-acre oil spacing and proration unit ("the Unit).

(2) The Unit shall be dedicated to Applicant's proposed Rustler Breaks 12-24-27 Well No. 1H (API No. not yet assigned), (the "proposed well"), a horizontal well to be drilled at a non-standard surface location 380 feet from the South line and 330 feet from the East line (Unit P) of Section 12 to a non-standard terminus 380 feet from the South line and 330 feet from the West line (Unit M) of Section 12.

(3) The unorthodox location of the proposed well is hereby approved.

(4) The operator of the Unit shall commence drilling the proposed well on or before November 1, 2014, and shall thereafter continue drilling the well with due diligence to test the Wolfcamp formation.

(5) In the event the operator does not commence drilling the proposed well on or before the date provided in the immediately preceding paragraph, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause demonstrated by satisfactory evidence.

(6) Should the proposed well not be drilled and completed within 120 days after commencement thereof, then 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 the time for completion of the proposed well for good cause shown by satisfactory evidence.

(7) Upon final plugging and abandonment of the proposed well and any other well drilled on the Unit pursuant to Division Rules 19.15.13.9 through 19.15.13.11 NMAC, the pooled unit created by this Order shall terminate, unless this order has been amended to authorize further operations.

(8) Matador Production Company (OGRID 228937) is hereby designated the operator of the proposed well and of the Unit.

(9) 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 an itemized schedule of estimated costs of drilling, completing and equipping the proposed 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; 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 $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.

(16) Except as provided in Paragraphs (13) and (15) 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 70-8A7-8A-28, as amended).

(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 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.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

JAMI BAILEY
Director

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