

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

**IN THE MATTER OF APPLICATION FOR
COMPULSORY POOLING SUBMITTED BY
SEP PERMIAN, LLC**

**CASE NO. 20819
ORDER NO. R-21098**

ORDER

The Director of the New Mexico Oil Conservation Division (“OCD”), having heard this matter through a Hearing Examiner on October 3, 2019, and after considering the testimony, evidence, and recommendation of the Hearing Examiner, issues the following Order.

FINDINGS OF FACT

1. SEP Permian, LLC (“Operator”) submitted an application (“Application”) to compulsory pool the uncommitted oil and gas interests within the spacing unit (“Unit”) described in Exhibit A. The Unit is expected to be a standard horizontal spacing unit. 19.15.16.15(B) NMAC. Operator seeks to be designated the operator of the Unit.
2. Operator will dedicate the well(s) described in Exhibit A (“Well(s)”) to the Unit.
3. Operator proposes the supervision and risk charges for the Well(s) described in Exhibit A.
4. Operator identified the owners of uncommitted interests in oil and gas minerals in the Unit and provided evidence that notice was given.
5. The Application was heard by the Hearing Examiner on the date specified above, during which Operator presented evidence through affidavits in support of the Application. No other party presented evidence at the hearing.

CONCLUSIONS OF LAW

6. OCD has jurisdiction to issue this Order pursuant to NMSA 1978, Section 70-2-17.
7. Operator is the owner of an oil and gas working interest within the Unit.
8. Operator satisfied the notice requirements for the Application and the hearing as required by 19.15.4.12 NMAC.
9. OCD satisfied the notice requirements for the hearing as required by 19.15.4.9 NMAC.
10. Operator has the right to drill the Well(s) to a common source of supply at the described depth(s) and location(s) in the Unit.
11. The Unit contains separately owned uncommitted interests in oil and gas minerals.
12. Some of the owners of the uncommitted interests have not agreed to commit their interests to the Unit.
13. The pooling of uncommitted interests in the Unit will prevent waste and protect correlative rights, including the drilling of unnecessary wells.
14. This Order affords to the owner of an uncommitted interest the opportunity to produce his just and equitable share of the oil or gas in the pool.

ORDER

15. The uncommitted interests in the Unit are pooled as set forth in Exhibit A.
16. The Unit shall be dedicated to the Well(s) set forth in Exhibit A.
17. Operator is designated as operator of the Unit and the Well(s).
18. If the Surface Location or Bottom Hole Location of a well is changed from the location described in Exhibit A, Operator shall submit an amended Exhibit A, which the Division shall append to this Order.
19. If the location of a well will be unorthodox under the spacing rules in effect at the time of completion, Operator shall obtain the OCD's approval for a non-standard location before commencing production of the well.
20. The Operator shall commence drilling the initial well within one (1) year after the date of this Order; and (b) for an infill well, no later than thirty (30) days after completion of the well.

21. Operator shall comply with the infill well requirements in 19.15.13.9 NMAC through 19.15.13.12 NMAC.
22. This Order shall terminate automatically if Operator fails to comply with Paragraphs 20 or 21.
23. Operator shall submit to OCD and each owner of a working interest in the pool ("Pooled Working Interest") an itemized schedule of estimated costs to drill, complete, and equip the well ("Estimated Well Costs") no later than: (a) for an initial well, no later than thirty (30) days after the date of this Order; (b) for an infill well proposed by Operator, no later than (30) days after the later of the initial notice period pursuant to 19.15.13.10(B) NMAC or the extension granted by the OCD Director pursuant 19.15.13.10(D) NMAC; or (c) for an infill well proposed by an owner of a Pooled Working Interest, no later than thirty (30) days after expiration of the last action required by 19.15.13.11 NMAC.
24. No later than thirty (30) days after Operator submits the Estimated Well Costs, the owner of a Pooled Working Interest shall elect whether to pay its share of the Estimated Well Costs or its share of the actual costs to drill, complete and equip the well ("Actual Well Costs") out of production from the well. An owner of a Pooled Working Interest who elects to pay its share of the Estimated Well Costs shall render payment to Operator no later than thirty (30) days after the expiration of the election period, and shall be liable for operating costs, but not risk charges, for the well. An owner of a Pooled Working Interest who fails to pay its share of the Estimated Well Costs or who elects to pay its share of the Actual Well Costs out of production from the well shall be considered to be a "Non-Consenting Pooled Working Interest."
25. No later than within one hundred eighty (180) days after Operator submits a Form C-105 for a well, Operator shall submit to OCD and each owner of a Pooled Working Interest an itemized schedule of the Actual Well Costs. The Actual Well Costs shall be considered to be the Reasonable Well Costs unless OCD or an owner of a Pooled Working Interest files a written objection no later than forty-five (45) days after receipt of the schedule. If OCD or an owner of a Pooled Working Interest files a timely written objection, OCD shall determine the Reasonable Well Costs after public notice and hearing.
26. No later than sixty (60) days after the later of the expiration of the period to file a written objection to the Actual Well Costs or OCD's order determining the Reasonable Well Costs, each owner of a Pooled Working Interest who paid its share of the Estimated Well Costs shall pay to Operator its share of the Reasonable Well Costs that exceed the Estimated Well Costs, or Operator shall pay to each owner of a Pooled Working Interest who paid its share of the Estimated Well Costs its share of the Estimated Well Costs that exceed the Reasonable Well Costs.

27. The reasonable charges for supervision to drill and produce a well ("Supervision Charges") shall not exceed the rates specified in Exhibit A, provided however that the rates shall be adjusted annually pursuant to the COPAS form entitled "Accounting Procedure-Joint Operations."
28. No later than within ninety (90) days after Operator submits a Form C-105 for a well, Operator shall submit to OCD and each owner of a Pooled Working Interest an itemized schedule of the reasonable charges for operating and maintaining the well ("Operating Charges"), provided however that Operating Charges shall not include the Reasonable Well Costs or Supervision Charges. The Operating Charges shall be considered final unless OCD or an owner of a Pooled Working Interest files a written objection no later than forty-five (45) days after receipt of the schedule. If OCD or an owner of a Pooled Working Interest files a timely written objection, OCD shall determine the Operating Charges after public notice and hearing.
29. Operator may withhold the following costs and charges from the share of production due to each owner of a Pooled Working Interest who paid its share of the Estimated Well Costs: (a) the proportionate share of the Supervision Charges; and (b) the proportionate share of the Operating Charges.
30. Operator may withhold the following costs and charges from the share of production due to each owner of a Non-Consenting Pooled Working Interest: (a) the proportionate share of the Reasonable Well Costs; (b) the proportionate share of the Supervision and Operating Charges; and (c) the percentage of the Reasonable Well Costs specified as the charge for risk described in Exhibit A.
31. Each year on the anniversary of this Order, and no later than ninety (90) days after each payout, Operator shall provide to OCD and each owner of a Non-Consenting Pooled Working Interest a schedule of the revenue attributable to a well and the Supervision and Operating Costs charged against that revenue.
32. Any cost or charge that is paid out of production shall be withheld only from the share due to an owner of a Pooled Working Interest. No cost or charge shall be withheld from the share due to an owner of a royalty interests. For the purpose of this Order, an unleased mineral interest shall consist of a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest.
33. Except as provided above, Operator shall hold the revenue attributable to a well that is not disbursed for any reason for the account of the person(s) entitled to the revenue as provided in the Oil and Gas Proceeds Payment Act, NMSA 1978, Sections 70-10-1 *et seq.*, and relinquish such revenue as provided in the Uniform Unclaimed Property Act, NMSA 1978, Sections 7-8A-1 *et seq.*

34. The Unit shall terminate if (a) the owners of all Pooled Working Interests reach a voluntary agreement; or (b) the well(s) drilled on the Unit are plugged and abandoned in accordance with the applicable rules. Operator shall inform OCD no later than thirty (30) days after such occurrence.
35. OCD retains jurisdiction of this matter for the entry of such orders as may be deemed necessary.

**STATE OF NEW MEXICO
OIL CONSERVATION DIVISION**



**ADRIENNE SANDOVAL
DIRECTOR**

AS/jag

Date: February 12, 2020



Exhibit "A"

Applicant: SEP Permian, LLC
Operator: SEP Permian, LLC (OGRID 338479)

Spacing Unit: Horizontal Oil
Building Blocks: quarter-quarter section equivalents
Spacing Unit Size: 320 acres (more or less)
Orientation of Unit: West/East

Spacing Unit Description:
S/2 of Section 33, Township 19 South, Range 25 East, NMPM, Eddy County, New Mexico

Pooling this Vertical Extent: Yeso Formation
Depth Severance? (Yes/No): No

Pool: N. Seven Rivers; Glorieta-Yeso Pool (Pool code 97565)
Pool Spacing Unit Size: quarter-quarter sections
Governing Well Setbacks: Horizontal Oil Well Rules
Pool Rules: Latest Horizontal Rules Apply.

Proximity Tracts: Yes
Proximity Defining Well: Well No. 4H is to be drilled closer than 330 feet from the Proximity Tracts and therefore defines the Horizontal Spacing Unit.

Monthly charge for supervision: While drilling: \$N/A While producing: \$N/A
As the charge for risk, 200 percent of reasonable well costs.

Proposed Wells:

Dorami 33 Federal Com Well No. 2H, API No. 30-015-46010

SHL: 1950 feet from the South line and 850 feet from the West line,
(Unit L) of Section 34, Township 19 South, Range 25 East, NMPM.
BHL: 2312 feet from the South line and 20 feet from the West line,
(Unit L) of Section 33, Township 19 South, Range 25 East, NMPM.

Completion Target: Yeso at approx 2975 feet TVD.
Well Orientation: East to West
Completion Location expected to be: standard

Dorami 33 Federal Com Well No. 3H, API No. 30-015-46011

SHL: 1930 feet from the South line and 850 feet from the West line,
(Unit L) of Section 34, Township 19 South, Range 25 East, NMPM.
BHL: 1921 feet from the South line and 25 feet from the West line,
(Unit L) of Section 33, Township 19 South, Range 25 East, NMPM.

Completion Target: Yeso at approx 2535 feet TVD.
Well Orientation: East to West
Completion Location expected to be: standard

Dorami 33 Federal Com Well No. 4H, API No. 30-015-46012

SHL: 1910 feet from the South line and 850 feet from the West line,
(Unit L) of Section 34, Township 19 South, Range 25 East, NMPM.
BHL: 1531 feet from the South line and 25 feet from the West line,
(Unit L) of Section 33, Township 19 South, Range 25 East, NMPM.

Completion Target: Yeso at approx 2840 feet TVD.
Well Orientation: East to West
Completion Location expected to be: standard

Dorami 33 Federal Com Well No. 8H, API No. 30-015-45928

SHL: 510 feet from the South line and 650 feet from the West line,
(Unit M) of Section 34, Township 19 South, Range 25 East, NMPM.
BHL: 1140 feet from the South line and 25 feet from the West line,
(Unit M) of Section 33, Township 19 South, Range 25 East, NMPM.

Completion Target: Yeso at approx 3350 feet TVD.
Well Orientation: East to West
Completion Location expected to be: standard

Dorami 33 Federal Com Well No. 9H, API No. 30-015-45929

SHL: 490 feet from the South line and 650 feet from the West line,
(Unit M) of Section 34, Township 19 South, Range 25 East, NMPM.
BHL: 750 feet from the South line and 25 feet from the West line,
(Unit M) of Section 33, Township 19 South, Range 25 East, NMPM.

Completion Target: Yeso at approx 3005 feet TVD.
Well Orientation: East to West
Completion Location expected to be: standard

Dorami 33 Federal Com Well No. 10H, API No. 30-015-45930

SHL: 470 feet from the South line and 650 feet from the West line,
(Unit M) of Section 34, Township 19 South, Range 25 East, NMPM.
BHL: 360 feet from the South line and 20 feet from the West line,
(Unit M) of Section 33, Township 19 South, Range 25 East, NMPM.

Completion Target: Yeso at approx 2650 feet TVD.
Well Orientation: East to West
Completion Location expected to be: standard