

**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. 15341
ORDER NO. R-14016**

**APPLICATION OF RKI EXPLORATION AND PRODUCTION FOR
COMPULSORY POOLING AND APPROVAL OF AN 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 July 9, 2015, at Santa Fe, New Mexico, before Examiner William V. Jones.

NOW, on this 15th day of July, 2015, 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) RKI Exploration and Production (the "Applicant") seeks to compulsory pool all uncommitted interests within a standard 320-acre gas spacing unit (the "Unit") in the Wolfcamp formation comprising the E/2 of Section 17, Township 26 South, Range 30 East, NMPM, Eddy County, New Mexico.
- (3) The Unit is to be dedicated to Applicant's RDX Federal Com 17 Well No. 26H (the "proposed well"; API No. 30-015-42752), a horizontal well to be drilled from a surface location 200 feet from the South line and 1425 feet from the East line (Unit letter O) of Section 17 to a terminus 330 feet from the North line and 1980 feet from the East line (Unit letter B) of Section 17.
- (4) The completed interval of the proposed well will begin 330 feet from the South line and 1980 feet from the East line and extend to the deepest perforation located at 330 feet from the North line and 1980 feet from the East line. As such, the well will

encroach upon Wolfcamp gas spacing units or owners in the Wolfcamp formation within offsetting Section 8 and offsetting Section 20. Applicant seeks approval of this non-standard gas well location.

(5) Division records indicate this Unit is located within 1 mile of the Ross Draw; Wolfcamp Gas Pool (Pool Code 84330) and no other Wolfcamp gas pools are nearby. Spacing and setbacks within this pool are governed by statewide Rule 19.15.15.10B. NMAC, which provides for 660-foot setbacks and standard 320-acre gas units, each comprising a governmental half section.

(6) Applicant appeared at the hearing through counsel and presented land and technical evidence to the effect that:

- (a) The 320-acre Unit consists only of federal lands;
- (b) the Wolfcamp formation in this area is suitable for development by horizontal drilling;
- (c) the proposed orientation of the horizontal well South to North or North to South is appropriate for the Unit;
- (d) Notice of this hearing was provided to the uncommitted interest owner in the Unit and to all affected parties within lands offsetting the Unit that are being encroached upon by the completed interval.

(7) No other party appeared at the hearing, or otherwise opposed the granting of this application.

The Division concludes as follows:

(8) The application of RKI Exploration and Production for the compulsory pooling of a 320-acre gas spacing unit and for a non-standard well location should be approved. However, in the event that the RDX Federal Com 17 Well No. 26H is completed as an oil well in the Wolfcamp formation, the applicant should be required to re-open this case: (i) to establish a 160-acre non-standard oil spacing and proration unit ("project area"); and (ii) compulsory pool any uncommitted interests within this 160-acre non-standard oil spacing and proration unit.

(9) The requested non-standard location for this gas well should be approved to allow Applicant to drill a horizontal well that will efficiently produce the reserves underlying the Unit, thereby preventing waste and protecting correlative rights.

(10) 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.

(11) Applicant is 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.

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

(13) 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, that owner's just and fair share of hydrocarbons, this application should be approved by pooling all uncommitted interests, whatever they may be, in the oil and gas within the Unit.

(14) RKI Exploration and Production should be designated the operator of the proposed well and the Unit.

(15) 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 proposed well.

(16) Reasonable charges for supervision (combined fixed rates) should be fixed at \$7500 per month while drilling and \$750 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 RKI Exploration and Production all uncommitted oil and gas interests, whatever they may be, are hereby pooled within a standard 320-acre gas spacing unit (the "Unit") consisting of the E/2 of Section 17, Township 26 South, Range 30 East, NMPM, Eddy County, New Mexico. The Unit area shall be dedicated to gas production from the Wolfcamp formation, Undesignated Ross Draw; Wolfcamp Gas Pool (Pool Code 84330).

(2) The RDX Federal Com 17 Well No. 26H (the "proposed well"; API No. 30-015-42752), shall be drilled in and dedicated to the Unit from a surface location 200 feet from the South line and 1425 feet from the East line (Unit letter O) of Section 17, Township 26 South, Range 30 East, NMPM, Eddy County, New Mexico to a terminus 330 feet from the North line and 1980 feet from the East line (Unit letter B) of Section 17, Township 26 South, Range 30 East. The unorthodox location of the completed interval within the proposed well is hereby approved.

(3) In the event that the RDX Federal Com 17 Well No. 26H is completed as an oil well in the Wolfcamp formation, the applicant shall re-open this case: (i) to establish a 160-acre non-standard oil spacing and proration unit ("project area"); and (ii) compulsory

pool any uncommitted interests within this 160-acre non-standard oil spacing and proration unit.

(4) RKI Exploration and Production (OGRID 246289) is hereby designated the operator of the well and the Unit.

(5) The operator of the Unit shall commence drilling the proposed well on or before July 31, 2016, and shall thereafter continue drilling the proposed well with due diligence to test the Wolfcamp formation.

(6) In the event the operator does not commence drilling the proposed well on or before July 31, 2016, 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.

(7) 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, unless 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.

(8) Upon final plugging and abandonment of the proposed well and any other well drilled on the Unit pursuant to Division Rule 19.15.13.9 NMAC, the pooled Unit shall terminate, unless this Order has been amended to authorize further operations.

(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 from each well:

- (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) for the well are hereby fixed at \$7500 per month while drilling and \$750 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 70-8A7-31, as amended).

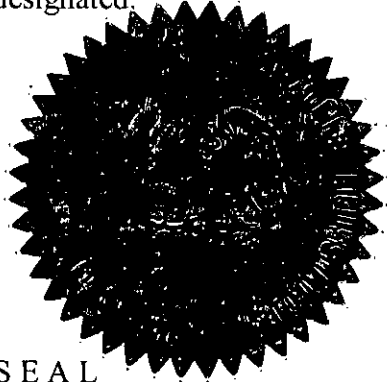
(17) Any unleased mineral interests shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this Order. Any well costs or charges that are to be paid out of production shall be withheld only from the working 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 any party subject to the compulsory 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.



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

David R. Catanach

DAVID R. CATANACH
Director