

**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. 15022 (Re-Opened)
ORDER NO. R-13743-A**

**APPLICATION OF MATADOR PRODUCTION COMPANY TO RE-OPEN CASE
NO. 15022 TO POOL THE INTERESTS OF ADDITIONAL MINERAL INTEREST
OWNERS UNDER THE TERMS OF COMPULSORY POOLING ORDER NO. R-
13743, EDDY COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on August 04, 2016, at Santa Fe, New Mexico, before Examiner William V. Jones.

NOW, on this 16th day of August, 2016, 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 the subject matter.

(2) The Division, by Order No. R-13743, issued in Case No. 15022 on September 9, 2013, approved the compulsory pooling of all uncommitted interests within a Wolfcamp gas spacing unit (the "Unit") consisting of the N/2 of Section 15, Township 24 South, Range 28 East, NMPM, Eddy County New Mexico. The Unit is presently dedicated to the Ann Com Well No. 1 (API No. 30-015-23036; "first proposed well"), a vertical well drilled to test the Wolfcamp formation and completed on July 25, 2013 within the Culebra Bluff; Wolfcamp, South (Gas) Pool (Pool code 75750). That well was drilled, shut-in waiting for a pipeline; then operation was transferred from RSC Resources, L.P. to Matador Production Company.

(3) Matador Production Company, applicant in the re-opened case ("Applicant") has discovered additional owners whose interests were not pooled in Case No. 15022 and who did not participate in the drilling of the Ann Com Well No. 1. Matador

now intends to drill a horizontal Wolfcamp gas well, the Ann Com 15 24S 28E RB Well No. 221H (API No. 30-015-pending) (second proposed well), within this gas spacing unit and has accordingly re-opened Case No. 15022.

(4) In the re-opened case, Matador is asking the Division to pool the additionally discovered, uncommitted interests in the first proposed well, under the terms of Division Order No. R-13743, and to pool any and all uncommitted interests for the drilling of the second proposed well.

(5) Matador is further asking for authority to deduct the prorata portion of well costs, plus the 200 percent risk penalty provided by Division Rule 19.15.13.8 NMAC, of both the first proposed well and the second proposed well from proceeds accruing to the interest of each non-consenting working interest owner, including both those interests pooled by original Order No. R-13743 and the additional interests ("additional interests") pooled by this Order No. R-13743-A.

(6) The Unit is dedicated to the first proposed well, which was previously drilled, and will be dedicated to the second proposed well, which has yet to be drilled.

(7) Both wells will be located at standard locations within the Unit.

(8) Both well completions are within the Culebra Bluff; Wolfcamp, South (Gas) Pool and subject to Division Rule 19.15.15.10.B NMAC, which provides for 660-foot setbacks from the unit boundaries and standard 320-acre units each comprising a governmental half section.

(9) Applicant appeared through counsel and presented testimony and proof of notice to all interest owners subject to pooling proceedings as affected parties of the proposed compulsory pooling within the Unit. Applicant also published notice in a newspaper of general circulation in Eddy County.

(10) No other party entered an appearance or otherwise opposed this application.

The Division concludes as follows:

(11) 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.

(12) Applicant is owner of an oil and gas working interest within the Unit. Applicant's predecessor in title had the right to drill, and drilled, the first proposed well to a common source of supply within the Unit at that well's existing location; and Applicant has the right to drill, and proposes to drill, the second proposed well to a common source of supply within the Unit at that well's proposed location.

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

(14) 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 a 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.

(15) Matador Production Company should be designated the operator of the subject wells and the Unit.

(16) Any owner of an additional interest who was not duly noticed in the original Case No. 15022, and whose identity and whereabouts can be ascertained with reasonable diligence, should be given an opportunity, after issuance of this order, (a) to pay its share of well costs of the first proposed well, and thereby to be relieved of liability for the risk penalty applicable to such well, and (b) whether or not it so elects, to object to the reasonableness of well costs incurred in connection with the first proposed well, and thereby to be relieved of liability for its share of any such costs to the extent they are determined to exceed reasonable costs.

(17) Any working interest owner whose interest was pooled by Order No. R-13743 who has not heretofore paid its share of well costs for the first proposed well should remain subject to the provisions of Ordering Paragraph (11) of that order.

(18) Any pooled working interest owner, whether its interest was pooled by Order No. R-13743 or by this Order No. R-13743-A, who elects not to pay its share of estimated well costs for the second proposed well 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 second proposed well.

(19) Reasonable charges for supervision (combined fixed rates) should be fixed at \$7,000 per month, per well, while drilling and \$700 per month, per well, while producing, provided that these rates should be adjusted annually, commencing in 2017, 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 and within the Culebra Bluff; Wolfcamp, South (Gas) Pool (Pool code 75750), underlying the N/2 of Section 15, Township 24 South, Range 28 East, NMPM, Eddy County New Mexico (the "Unit"), are hereby pooled.

(2) The Unit is dedicated to the Ann Com Well No. 1 (the "first proposed well"; API No. 30-015-23036), a vertical well drilled at a standard surface location 1655 feet from the North line and 1980 feet from the East line (Unit G) of Section 15, Township 24 South, Range 28 East, NMPM.

(3) The Unit is also dedicated to Applicant's proposed Ann Com 15 24S 28E RB Well No. 221H (API No. 30-015-pending) (second proposed well); a horizontal well to be drilled and completed within the Unit at a standard surface location 933 feet from the North line and 859 feet from the West line (Unit D) and a bottomhole location 331 feet from the North line and 240 feet from the East line (Unit A) of said Section 15. The last perforation will be at a standard location 331 feet from the North line and 330 feet from the East line (Unit A).

(4) The operator of the Unit shall commence drilling the second proposed well on or before August 31, 2017 and shall thereafter continue drilling that well with due diligence to test the Wolfcamp formation.

(5) In the event the operator does not commence drilling the second proposed well on or before August 31, 2017, Ordering Paragraph (1) shall only apply to the first proposed well, unless the operator obtains a time extension from the Division Director for good cause demonstrated by satisfactory evidence.

(6) Unless the second proposed well is completed within 120 days after commencement thereof, Ordering Paragraph (3) shall be of no further effect unless operator appears before the Division Director and obtains an extension of the time for completion of the second proposed well for good cause shown by satisfactory evidence.

(7) Upon final plugging and abandonment of both the first proposed well and the second proposed well, or any other well drilled on the Unit pursuant to Division Rule 19.15.13.9 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 existing and proposed wells 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,

- (a) the operator shall furnish the Division and each identified and located pooled working interest owner in the Unit who was not duly noticed in original Case No 15022, an itemized schedule of actual costs of drilling, completing and equipping ("well costs") the first proposed well; and

(b) the operator shall furnish the Division and each identified and located pooled working interest owner in the Unit an itemized schedule of estimated well costs for the second proposed well.

(10) Within 30 days from the date the schedule of actual well costs is furnished for the first proposed well, any working interest owner whose interest was not included in Order No. R-13743 shall have the right to pay its share of actual 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 actual well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges. Pooled working interest owners to whom this paragraph applies who elect not to pay their share of actual well costs of the first proposed well as provided herein shall thereafter be referred to as "non-consenting working interest owners" as to such well, and shall be subject to all of the provisions applicable to the non-consenting working interest owners in such well as provided in Order No. R-13743. Non-consenting working interest owners whose interests were pooled by Order No. R-13743, who have not heretofore paid their share of well costs of the first proposed well, shall remain subject to the terms of such order, including Ordering Paragraph (11) thereof.

(11) Within 30 days from the date the schedule of estimated well costs is furnished for the second proposed well, any pooled working interest owner, whether its interest was pooled by Order No. R-13743 or by this order, shall have the right to pay its share of estimated well costs of such well 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 of the second proposed well as provided in this paragraph shall thereafter be referred to as non-consenting working interest owners as to such well.

(12) 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 for the second proposed well within 90 days following completion thereof.

(13) 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 required by Paragraph (9)(a) as to the first proposed well, or the schedule required by Paragraph (12) as to the second proposed well, 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.

(14) Within 60 days following determination of reasonable well costs, any pooled working interest owner who has paid its share of well costs in advance as provided above shall pay to the operator its share of the amount that reasonable well costs exceed

estimated or actual well costs and shall receive from the operator the amount, if any, that the estimated or actual well costs it has paid exceed its share of reasonable well costs.

(15) 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 in such well; and
- (b) As a charge for the risk involved in drilling the well, 200% of the above costs.

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

(17) Reasonable charges for supervision (combined fixed rates) for the well are hereby fixed at \$7,000 per month, per well, while drilling and \$700 per month, per well, while producing, provided that these rates shall be adjusted annually, commencing in 2017, 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 each well, not in excess of what are reasonable, attributable to pooled working interest owners.

(18) Except as provided in Paragraphs (15) and (17) above, all proceeds from production from either 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 7-8A-31, as amended).

(19) 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.

(20) 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.

(21) 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 compulsory pooling provisions of this order.

(22) All provisions of Division Order No. R-13743 not inconsistent herewith shall remain in full force and effect as to all parties bound thereby.

(23) 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

David R. Catanach

DAVID R. CATANACH
Director