

**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 15594
ORDER NO R 14348**

**APPLICATION OF BC OPERATING, INC , CROWN OIL PARTNERS V,
CRUMP ENERGY PARTNERS, AND NADEL AND GUSSMAN PERMIAN, LLC
FOR A NON STANDARD SPACING AND PRORATION UNIT AND
COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO**

ORDER OF THE DIVISION

BY THE DIVISION

This case came on for hearing at 8 15 a m on February 2 2017 at Santa Fe New Mexico before Examiner Phillip R Goetze

NOW, on this 15th day of May 2017 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) BC Operating Inc Crown Oil Partners V Crump Energy Partners and Nadel and Gussman Permian LLC (collectively referenced as the Applicant or BC Operating) seek approval of a non standard 480-acre, more or less gas spacing and proration unit and project area (the Unit) in the Wolfcamp formation [Purple Sage Wolfcamp (Gas) Pool (Pool code 98220)] consisting of the E/2 of Section 36 and the SE/4 of Section 25 both in Township 24 South Range 28 East NMPM Eddy County New Mexico Applicant further seeks an order pooling all uncommitted interests in the Unit for the Wolfcamp formation

(3) The Unit will be dedicated to Applicant s Southern Comfort 25-36 State X Well No 2H (the proposed well API No 30-015 Pending) a horizontal well to be drilled from a surface location 2490 feet from the South line and 1300 feet from the East

line (Unit I) of Section 25 to a terminus 240 feet from the South line and 990 feet from the East line (Unit P) of Section 36 both in Township 24 South Range 28 East NMPM Eddy County New Mexico

(4) The proposed well is within the Purple Sage Wolfcamp (Gas) Pool Spacing in this pool is governed by statewide Division Rule 19 15 15 10(B), which provides for standard 320-acre units each comprising a governmental half section The proposed Unit and project area consists of one-half section and half of the adjacent half section (a governmental quarter section) Setbacks for the completed interval within the standard 320-acre units are governed under Division Order No R-14262 which provides for the completed interval to be no closer than 330 feet to the exterior boundary of the applicable spacing unit or project area The location of the completed production interval for the proposed well is orthodox

(5) Applicant appeared at the hearing through counsel and presented land and geologic evidence to the effect that

- (a) the Wolfcamp formation in this area is suitable for development by horizontal drilling
- (b) the proposed orientation of the horizontal well North to South or South to North is appropriate for the Unit
- (c) the standard unit and the non-standard unit to be included in the Unit are expected to be productive in the Wolfcamp so that formation of the Unit as requested will not impair correlative rights
- (d) the remaining portion of the 320-acre spacing unit in Section 25 (the NE/4 of Section 25 Township 24 South, Range 28 East, NMPM) is not included in the Unit since this acreage is dedicated to a voluntary unit and developed by existing East to West production in the N/2 of Section 25
- (e) notice was provided to owners within the NE/4 of Section 25 and to affected parties spacing units surrounding the Unit for the creation of the non standard Unit and
- (f) Applicant provided notice as to the compulsory pooling portion of this application to all uncommitted interest owners by certified mail return receipt requested and by publication in a local newspaper for those parties that could not be located after a diligent search

(6) Through legal counsel Murchison Oil & Gas Inc Primero Operating Inc and COG Operating LLC submitted Entries of Appearance and appeared at the

hearing No other party appeared at the hearing or otherwise opposed the granting of this application

(7) Primero Operating Inc (Primero) presented land evidence indicating that the Applicant's title research for the portion of the Unit in Section 36 was incomplete due to unrecorded instruments known to Primero However, further review of Applicant s title information at the hearing showed that the Applicant had acquired the interest of these parties identified by Primero and, therefore, did not require any additional notice in this case Primero did not object to the granting of this application

(8) Murchison Oil & Gas Inc (Murchison) appeared at the hearing through counsel and presented land testimony concerning the possible isolation from future Wolfcamp development of the SW/4 of Section 25 Township 24 South Range 28 East, NMPM Murchison did not object to the granting of this application

(9) COG Operating LLC appeared at the hearing but did not offer testimony and did not object to the granting of this application

The Division concludes as follows

(10) Approval of the proposed non standard Unit will enable Applicant to drill a horizontal well that will efficiently produce the reserves underlying the Unit, thereby preventing waste and will not impair correlative rights

(11) Applicant's exclusion of the SW/4 and NE/4 of Section 25 Township 24 South Range 28 East NMPM from the proposed non-standard Unit does not constitute stranded acreage since the SW/4 is included in another proposed well by the Applicant with a north to south orientation in the W/2 of Section 36 while the N/2 N/2 of Section 25 is included in a project area of an existing well and the S/2 N/2 of Section 25 is in a voluntary agreement

(12) 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

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

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

(15) 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 interests whatever they

may be in the oil and gas within the Unit

(16) BC Operating Inc should be designated the operator of the proposed well and the Unit

(17) 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

(18) 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) A non standard 480 acre more or less gas spacing and proration unit and project area (the Unit) in the Wolfcamp formation [Purple Sage, Wolfcamp (Gas) Pool (Pool code 98220)] consisting of the E/2 of Section 36 and the SE/4 of Section 25 both in Township 24 South Range 28 East NMPM Eddy County New Mexico is hereby approved

(2) Pursuant to the application of BC Operating Inc Crown Oil Partners V, Crump Energy Partners and Nadel and Gussman Permian LLC (the 'Applicant') all uncommitted interests whatever they may be in the oil and gas in the Wolfcamp formation underlying the Unit are hereby pooled

(3) The Unit shall be dedicated to Applicant's **Southern Comfort 25 36 State X Well No 2H** (the proposed well API No 30 015-Pending), a horizontal well to be drilled from a surface location 2490 feet from the South line and 1300 feet from the East line (Unit I) of Section 25 to a terminus 240 feet from the South line and 990 feet from the East line (Unit P) of Section 36 both in Township 24 South, Range 28 East, NMPM Eddy County New Mexico

(4) The operator of the Unit shall commence drilling the proposed well on or before May 31 2018 and shall thereafter continue drilling the proposed 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 May 31 2018 Ordering Paragraphs (1) and (2) 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 Paragraphs (1) and (2) shall be of no further

effect, and the Unit and project area created by this order shall terminate, 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. If the proposed well is not completed in all of the spacing units included in the proposed Unit within 120 days after commencement of drilling then the operator shall apply to the Division for an amendment to this Order to contract the Unit so that it includes only those spacing units in which the well is completed.

(7) 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 created by this Order shall terminate unless this Order has been amended to authorize further operations.

(8) BC Operating Inc (OGRID 160825) is hereby designated the operator of the well and 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 from the 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 \$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 7-8A-31 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 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

(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