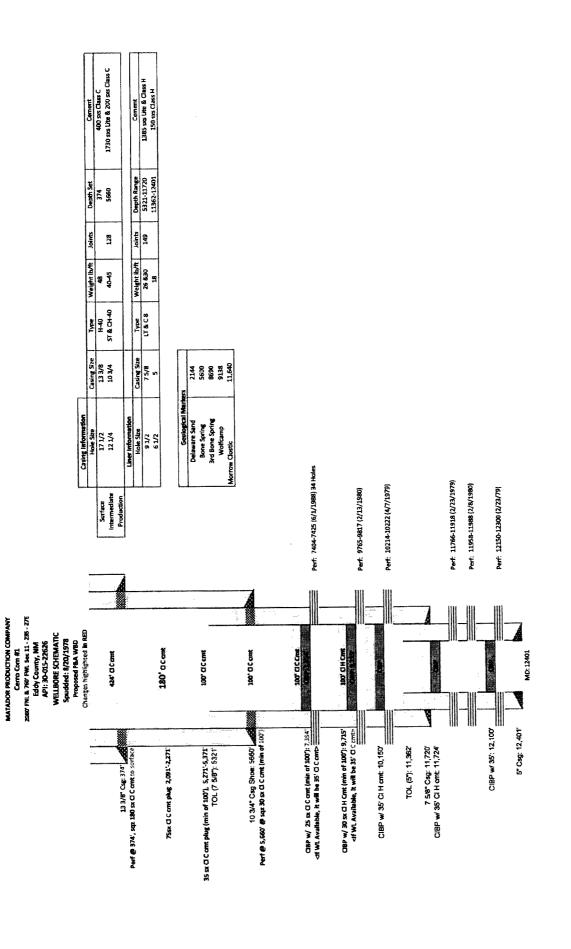
Submit 1 Copy To Appropriate District State of New Mexico Form C-103 Revised July 18, 2013 Energy, Minerals and Natural Resources District 1 - (575) 393-6161 WELL API NO. 1625 N. French Dr., Hobbs, NM 88240 District II - (575) 748-1283 30-015-22626 OIL CONSERVATION DIVISION 811 S First St., Artesia, NM 88210 5. Indicate Type of Lease District III - (505) 334-6178 1220 South St. Francis Dr. STATE \ FEE X 1000 Rio Brazos Rd, Aztec, NM 87410 Santa Fe, NM 87505 <u>District IV</u> - (505) 476-3460 6. State Oil & Gas Lease No. 1220 S. St. Francis Dr., Santa Fe, NM 87505 SUNDRY NOTICES AND REPORTS ON WELLS 7. Lease Name or Unit Agreement Name (DO NOT USE THIS FORM FOR PROPOSALS TO DRILL OR TO DEEPEN OR PLUG BACK TO A DIFFERENT RESERVOIR. USE "APPLICATION FOR PERMIT" (FORM ONLE FEONSERVATION Cerro Com 319921 PROPOSALS.) Well Number ARTESIA DISTRICT #1 1. Type of Well: Oil Well Gas Well Other 2. Name of Operator 9. OGRID Number Matador Production Company NOV 08 2017 3. Address of Operator 10. Pool name or Wildcat 5400 LBJ Freeway Suite 1500 Dallas, TX 75240 Cass Draw Wolfcamp, Wildcat Bone Spring RECEIVED 4. Well Location 2080 Unit Letter feet from the line and feet from the line 11 Township <sup>23S</sup> 27E Eddy Section Range **NMPM** County 11. Elevation (Show whether DR, RKB, RT, GR, etc.) 12. Check Appropriate Box to Indicate Nature of Notice, Report or Other Data SUBSEQUENT REPORT OF: NOTICE OF INTENTION TO: PERFORM REMEDIAL WORK PLUG AND ABANDON х REMEDIAL WORK ALTERING CASING COMMENCE DRILLING OPNS. P AND A **TEMPORARILY ABANDON CHANGE PLANS** MULTIPLE COMPL  $\Box$ CASING/CEMENT JOB **PULL OR ALTER CASING** DOWNHOLE COMMINGLE **CLOSED-LOOP SYSTEM** OTHER: OTHER: 13. Describe proposed or completed operations. (Clearly state all pertinent details, and give pertinent dates, including estimated date of starting any proposed work). SEE RULE 19.15.7.14 NMAC. For Multiple Completions: Attach wellbore diagram of proposed completion or recompletion. Note and policy of the policy of th 2) Hot oil/water the well. POOH w/ rods & ND wellhead, install & test BOPs. POOH w/ tbg string 3) TIH w/ tbg & set CIBP @ 9,715', TOOH. TIH & spot 100' Cl H cmt on top of CIBP (min of 30 sx). WOC. Tag. TOOH. 4) TIH w/ tbg & set CIBP @ 7,354', TOOH. TIH & spot 100' Cl C cmt on top of CIBP (min of 25 sx). WOC. Tag. TOOH. 5)RIH w/ WL & perf @ 5,660'. RIH w/ tbg & squeeze @ 5,710' w/ 100' Cl C cmt (min of 30 sx). WOC. Tag. 6) PUH to 5,371' and spot 100' Cl C cmt (min of 35 sx). WOC. Tag. 7) PUH to 2,271' and spot 180' Cl C cmt (min of 75 sx). WOC. Tag. POOH w/ tbg. 8)RIH w/ WL & perf @ 374'. RIH w/ tbg & squeeze @ 424' Cl C cmt to surface (min of 180 sx). 9) Cut off wellhead 3' below GL, verify cement in annulus, set plugged well surface marker & GPS dry hole marker. Spud Date: 8/20/1978 Rig Release Date: I hereby certify that the information above is true and complete to the best of my knowledge and belief. TITLE Engineer 11/7/2017 **SIGNATURE** DATE Villarreal 972-371-5471 Chris cvillarreal@matadorresources.com PHONE: Type or print name E-mail address:

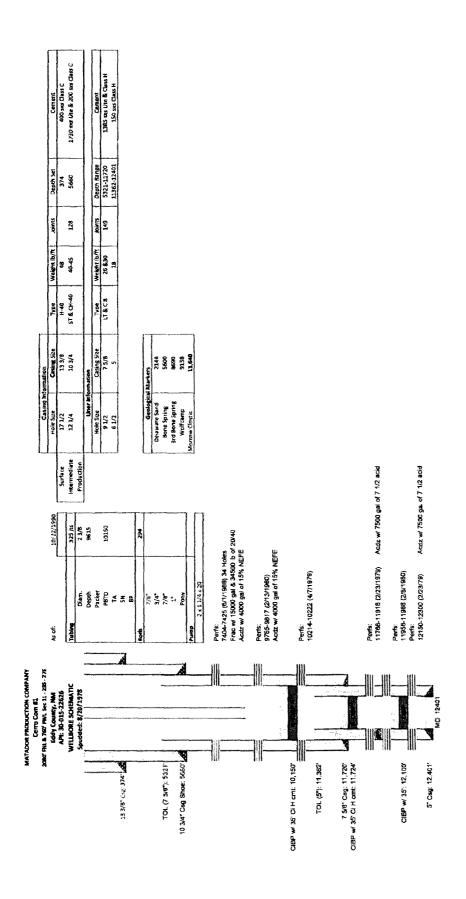
DATE 11-8-17

For State Use Only

APPROVED BY

Conditions of Approval (if any):





## CONDITIONS FOR PLUGGING AND ABANDONMENT

#### District II / Artesia N.M.

The following is a guide or checklist in preparation of a plugging program, this is not all inclusive and care must be exercised in establishing special plugging programs in unique and unusual cases, Notify NMOCD District Office II at (575)-748-1283 at least 24 hours before beginning work.

- 1. A notice of intent to plug and abandon a wellbore is required to be approved before plugging operations are conducted. A cement evaluation tool is required in order to ensure isolation of producing formations, protection of water and correlative rights. A cement bond log or other accepted cement evaluation tool is to be provided to the division for evaluation if one has not been previously run or if the well did not have cement circulated to surface during the original casing cementing job or subsequent cementing jobs.
- 2. Closed loop system is to be used for entire plugging operation. Upon completion, contents of steel pits are to be hauled to a permitted disposal location.
- 3. Trucking companies being used to haul oilfield waste fluids to a disposal commercial or private shall have an approved NMOCD C-133 permit. A copy of this permit shall be available in each truck used to haul waste products. It is the responsibility of the operator as well as the contractor, to verify that this permit is in place prior to performing work. Drivers shall be able to produce a copy upon request of an NMOCD Field inspector.
- 4. Filing a subsequent C-103 will serve as notification that the well has been plugged.
- 5. A final C-103 shall be filed (and a site inspection by NMOCD Inspector to determine if the location is satisfactorily cleaned, all equipment, electric poles and trash has been removed to Meet NMOCD standards) before bonding can be released.
- 6. If the well is not plugged within 1
- 7. If work has not begun within 1 Year of the approval of this procedure, an extension request must be file stating the reason the well has not been plugged.
- 8. Squeeze pressures are not to exceed 500 psi, unless approval is given by NMOCD.
- 9. Produced water will not be used during any part of the plugging operation.
- 10. Mud laden fluids must be placed between all cement plugs mixed at 25 sacks per 100 bbls of water.
- 11. All cement plugs will be a minimum of 100' in length or a minimum of 25 sacks of cement, whichever is greater. 50' of calculated cement excess required for inside casing plugs and 100% calculated cement excess required on outside casing plugs.
- 12. Class 'C' cement will be used above 7500 feet.
- 13. Class 'H' cement will be used below 7500 feet.
- 14. A cement plug is required to be set 50' above and 50' below, casing stubs, DV tools, attempted casing cut offs, cement tops outside casing, salt sections and anywhere the casing is perforated, these plugs require a 4 hour WOC and then will be tagged
- 15. All Casing Shoes Will Be Perforated 50' below shoe depth and Attempted to be Squeezed, cement needs to be 50' above and 50' Below Casing Shoe inside the Production Casing

- 16. When setting the top out cement plug in production, intermediate and surface casing, wellbores should remain full at least 30 minutes after plugs are set
- 17. A CIBP is to be set within 100' of production perforations, capped with 100' of cement, WOC 4 hours and tag.
- 18. A CIBP with 35' of cement may be used in lieu of the 100' plug if set with a bailer. This plug will be placed within 100' of the top perforation, (WOC 4 hrs and tag).
- 19. No more than 3000' is allowed between cement plugs in cased hole and 2000' in open hole.
- 20. Some of the Formations to be isolated with cement plugs are: These plugs to be set to isolate formation tops
  - A) Fusselman
  - B) Devonian
  - C) Morrow
  - D) Wolfcamp
  - E) Bone Springs
  - F) Delaware
  - G) Any salt sections
  - H) Abo
  - 1) Glorieta
  - J) Yates.
  - K) Potash--- (In the R-111-P Area (Potash Mine Area), a solid cement plug must be set across the salt section. Fluid used to mix the cement shall be saturated with the salts that are common to the section penetrated and in suitable proportions, not more than 3% calcium chloride (by weight of cement) will be considered the desired mixture whenever possible, WOC 4 hours and tag, this plug will be 50' below the bottom and 50' above the top of the Formation.
- 21. If cement does not exist behind casing strings at recommended formation depths, the casing can be cut and pulled with plugs set at recommended depths. If casing is not pulled, perforations will be shot and cement squeezed behind casing, WOC and tagged. These plugs will be set 50' below formation bottom to 50' above formation top inside the casing

#### **DRY HOLE MARKER REQUIRMENTS**

The operator shall mark the exact location of the plugged and abandoned well with a steel marker not less than four inches in diameter, 3' below ground level with a plate of at least ¼" welded to the top of the casing and the dry hole marker welded on the plate with the following information welded on the dry hole marker:

1. Operator name 2. Lease and Well Number 3.API Number 4. Unit Letter 5. Quarter Section (feet from the North, South, East or West) 6. Section, Township and Range 7. Plugging Date 8. County (SPECIAL CASES)------AGRICULTURE OR PRARIE CHICKEN BREEDING AREAS

In these areas, a below ground marker is required with all pertinent information mentioned above on a plate, set 3' below ground level, a picture of the plate will be supplied to NMOCD for record, the exact location of the marker (longitude and latitude by GPS) will be provided to NMOCD (We typically require a current survey to verify the GPS)

## NM OIL CONSERVATION

ARTESIA DISTRICT

NOV 08 2017

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

RECEIVED

IN THE MATTER OF THE HEARING CALLED BY THE OIL CONSERVATION DIVISION FOR THE PURPOSE OF CONSIDERING:

CASE NO. 15772 ORDER NO. R-14183-A

APPLICATION OF MATADOR PRODUCTION COMPANY AND MRC PERMIAN COMPANY TO REQUIRE LANEXCO, INC. TO PLUG AND ABANDON THE CERRO COM WELL NO. 1, OR IN THE ALTERNATIVE, TO REMOVE LANEXCO, INC. AS OPERATOR OF RECORD OF THE CERRO COM WELL NO. 1, EDDY COUNTY, NEW MEXICO.

#### **ORDER OF THE DIVISION**

#### BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on August 3, 2017, at Santa Fe, New Mexico, before Examiner Phillip R. Goetze.

NOW, on this 10<sup>th</sup> day of October, 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) Matador Production Company and MRC Permian Company (collectively referred to as the "Applicant" or "Matador") seeks an order either (i) requiring Lanexco Inc. (the "Operator" or "Lanexco") to properly plug and abandon the Cerro Com Well No. 1 or (ii) removing Lanexco as operator of record of the well and designating Matador as operator, thereof.
- (3) The Cerro Com Well No. I (the "Subject Well"; API No. 30-015-22626) is a gas well with a surface location of 2080 feet from the North line and 760 feet from the West line (Unit E) of Section 11, Township 23 South, Range 27 East, NMPM, in Eddy County, New Mexico.
- (4) Matador appeared at the hearing through legal counsel and presented the following testimony:

- (a) The Operator is registered under OGRID No. 13046 and is the operator of record for 51 wells in New Mexico, including the Subject Well.
- (b) The Subject Well is a vertical gas well with an initial completion in the Morrow formation (in 1978) that was abandoned followed by shallower completions in the Wolfcamp formation in 1979 and in the Bone Spring formation in 1988.
- (c) The Subject Well has two sets of open perforations: from 7404 feet to 7425 feet and from 9765 feet to 9817 feet. The perforations of the deeper zones have been properly isolated and abandoned as shallower zones were perforated.
- (d) Applicant provided a summary of production history for the Subject Well noting that the last reported production was November 2011. Included in this summary were affidavits from mineral interest owners documenting the failure to offer any compensation for production in the period following November 2011.
- (e) Applicant submitted a photographic record of a recent field inspection of the wellhead and related production equipment for the Subject Well. This record established the Subject Well as being shut in with the production equipment either in poor condition or inoperable.
- (f) Applicant summarized the compliance effort by the Division involving Lanexco that includes the Subject Well:
  - (i) The Division issued a second letter of violation to the Operator on January 26, 2016, citing failure to file monthly production reports as required under Rule 19.15.7.24 NMAC. The letter revoked the authority to transport from or inject into all wells operated by Lanexco.
  - (ii) Subsequently, the Division's Compliance and Enforcement Bureau made application to obtain a compliance order to require Lanexco to fulfill numerous outstanding obligations under Division rules. The application was assigned Case No. 15446 and was heard before Division Examiners on May 12, 2016, and June 9, 2016.
  - (iii) The Bureau entered into a Settlement Agreement (under Case No. 15446) with Lanexco on June 9, 2016. Under the terms of the agreement, the Operator was required to complete the reporting of monthly production, provide adequate financial

- assurance, and to either return inactive wells to beneficial use or properly plug and abandon them if unproductive.
- (iv) The Division issued a letter of violation dated April 17, 2017, citing the Operator for not properly plugging and abandoning the Subject Well.
- (g) Applicant provided a summary of the leasing history for the parcel containing the Subject Well and a chronology of Applicant's effort to obtain leases for the purpose of drilling a horizontal well. Applicant contended that leases held by Lanexco that are associated with the Subject Well are no longer valid.
- (h) Applicant noted that portions of their leases within the N/2 of Section 11 will begin expiring on November 19, 2017, if the drilling of the Applicant's well is not commenced.
- (i) Applicant has proposed the Michael Collins 11-23S-27E RB Well No. 206H (the "Applicant's well"), a horizontal well with a surface location 2051 feet from the South line and 405 feet from the East line (Unit I) of Section 11, Township 23 South, Range 27 East, NMPM. The Applicant's well is proposed to test the Wolfcamp formation at a true vertical depth of approximately 9350 feet.
- (j) The proposed completed interval for the Applicant's well will be from east to west within the S/2 N/2 of Section 11. A portion of the completed interval will be located within 200 feet of the surface location of the Subject Well and closer to the open perforations in the Wolfcamp formation.
- (k) Applicant presented testimony that the Subject Well, in its current status, has the potential of impacting the hydraulic fracturing results for the Applicant's well, thereby degrading the quality of the horizontal well completion, resulting in poor production and creating waste of hydrocarbon resources.
- (I) Applicant provided a proposed plugging plan for the Subject Well and noted that plan had been submitted to Lanexco for consideration.
- (m) Applicant referenced Case No. 15527, Division Order No. R-14228, as precedence for consideration in this case. The Division there designated a new operator for an existing, inactive well held through a prior claim by a different operator.

- (5) Lanexco and the Compliance and Enforcement Bureau (the "Bureau") entered appearances through legal counsel and provided testimony regarding the application. No other party appeared at the hearing or otherwise opposed the granting of the application.
- (6) Under cross examination by Lanexco, a witness called by Matador stated that it had not attempted to assess the potential of leases being held by production from wells other than the Subject Well. Lanexco's attorney further noted that Matador had not provided a copy of the title opinion used to assess lease status as part of Matador's exhibits.
- (7) The Bureau offered no testimony as to the requests contained in the application, but stated in the record that the Subject Well was not compliant with the Division rules regarding plugging and abandonment and financial assurance.
- (8) Based on Division records, the Division approved a compulsory pooling order, Order No. R-14332, for a 320-acre gas spacing unit in the Wolfcamp formation (Purple Sage; Wolfcamp (Gas) Pool) that encompasses the N/2 of Section 11, Township 23 South, Range 27 East, NMPM. The unit is dedicated to the Applicant's Michael Collins 11-23S-27E RB Well No. 206H.

#### The Division Concludes as Follows:

- (9) Lanexco is the Operator of record for the Subject Well and is responsible for compliance with the Oil and Gas Act and Division Rules.
- (10) The Subject Well qualifies as "inactive" because the well has not been used for beneficial purposes for a period that exceeds one (1) year plus 90 days and has not been placed in approved temporary abandonment status. The inactive Subject Well is classified with a status of "temporary abandonment" as defined in Division Rule 19.15.2.7(T)(3) NMAC.
- (11) As established by the evidence provided at hearing, the Operator is in violation of Division Rule 19.15.8.9 NMAC. The Operator is required to have additional financial assurance on the Subject Well, as it has been in temporary abandonment for more than four years, and the Operator has failed to provide the Division with the requisite financial assurance for the Subject Well.
- (12) The Settlement Agreement between Lanexco and the Bureau is still in effect, but there is no evidence, as of the date of the final hearing, that Lanexco has addressed either the financial assurance issue or the inactive well status of the Subject Well.
- (13) The Division has issued Division Order No. R-14332 that authorizes the Applicant to pool all uncommitted mineral interests in the Wolfcamp formation for the unit which is the N/2 of Section 11 and includes a portion of the spacing unit previously dedicated to the Subject Well for production from the Wolfcamp formation.

- (14) Although the Division does not have jurisdiction to determine the validity of, or title to, an oil and gas lease, Lanexco's claim that leases associated with the Subject Well or other wells operated by Lanexco may be held by production is not substantiated by the evidence.
- (15) Applicant has sufficiently demonstrated that the Subject Well offers a high probability for interference with the proper completion of the Applicant's well resulting in waste of resources and possible impacts on correlative rights.
- (16) Approval of the change of operator to allow proper abandonment of the Subject Well will enable Applicant to drill a horizontal well that will efficiently produce the reserves underlying the unit, thereby preventing waste, and protecting correlative rights.
- (17) The Division finds that Case No. 15527, Division Order No. R-14228, as a suggested precedent for ordering a change in operator in this case, is not applicable. However, NMSA 1978 §70-2-11(A) states:

"The division is hereby empowered, and it is its duty, to prevent waste prohibited by this act and to protect correlative rights, as in this act provided. To that end, the division is empowered to make and enforce rules, regulations and orders, and to do whatever may be reasonably necessary to carry out the purpose of this act, whether or not indicated or specified in any section hereof." [Emphasis added]

- (18) The evidence indicates that Lanexco failed to bring the Subject Well into compliance with Rule 19.15.25.8 NMAC by either plugging the well or placing the well into approved temporary abandonment status. The evidence further indicates that Lanexco failed to bring the Subject Well into compliance with Rule 19.15.8.9 NMAC (Financial Assurance). Given the lengthy period of non-compliance of Lanexco with regards to the Subject Well, the Division, in the course of its business, would normally bring a compliance action against Lanexco similar to the one Matador presented, requiring Lanexco to plug and abandon the Subject Well or place the well in approved temporary abandonment status, however, given that Lanexco has had ample opportunity to comply with Division rules, and given that the situation with Matador requires an expedient resolution of the issues surrounding the subject well and the drilling of the Michael Collins 11-23S-27E RB Well No. 206H, the application of Matador in this case should be approved.
- (19) Division records indicate Matador, as of the date of this order, is in compliance with Division Rule 19.15.5.9 NMAC.
- (20) The Division should approve the removal of Lanexco as operator of record for the Subject Well and designate Matador Production Company as operator for the purpose to plug and abandon the Cerro Com Well No. 1.

(21) In response to Applicant's request for compensation, the Division can only obligate financial assurance for the plugging and abandonment of a well conducted by the Division and not plugging operations completed by another operator.

### IT IS THEREFORE ORDERED THAT:

- (1) The Division hereby terminates the authority of Lanexco to act as Operator of record for the Cerro Com Well No. 1 (the "Subject Well"; API No. 30-015-22626) with a surface location of 2080 feet from the North line and 760 feet from the West line (Unit E) of Section 11, Township 23 South, Range 27 East, NMPM, in Eddy County, New Mexico.
- (2) The application of Matador Production Company (OGRID No. 228937) to become the Operator of record for the Subject Well for the sole purpose of properly plugging and abandoning the Subject Well is <a href="https://hereby.approved.">hereby.approved</a>.
- (3) Matador Production Company shall prepare and submit a sundry notice of intent with a plugging program to the Division's Artesia office for approval within thirty (30) days of the issuance date of this Order.
- (4) As the Operator of record for the Subject Well, Matador Production Company shall be responsible for all costs associated with the plugging and abandonment of the well, including all the requirements of Division Rule 19.15.25.10 NMAC and all liabilities associated with any releases reported under Rule 19.15.29 NMAC, without compensation from the Division.
- (5) The Division shall continue the implementation of the Settlement Agreement with Lanexco but shall exclude all subsequent violations and related fines associated with the Cerro Com Well No. 1 in any further compliance and enforcement activities.
- (6) This Order shall become null and void if Lanexco Inc. and Matador Production Company agree to a Change of Operator, under Division Rule 19.15.9.9 NMAC, for the Subject Well. Final approval of the Change of Operator shall be subject to the approval of the Director after consultation with the Compliance and Enforcement Bureau.
- (7) Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

Case No. 15772 Order No. R-14183-A Page 7 of 7

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



STATE OF NEW MEXICO OIL CONSERVATION DIVISION

DAVID R. CATANACH

Director