

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

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

**APPLICATION OF DEVON ENERGY
PRODUCTION COMPANY, L.P. FOR A
NON-STANDARD OIL SPACING AND
PRORATION UNIT AND COMPULSORY
POOLING, EDDY COUNTY, NEW MEXICO.**

CASE NO. 14968

**APPLICATION OF DEVON ENERGY
PRODUCTION COMPANY, L.P. FOR A
NON-STANDARD OIL SPACING AND
PRORATION UNIT AND COMPULSORY
POOLING, EDDY COUNTY, NEW MEXICO.**

CASE NO. 14969

ORDER NO. R-13767

ORDER OF THE DIVISION

BY THE DIVISION:

These cases came on for hearing at 8:15 a.m. on March 21, 2013 at Santa Fe, New Mexico, before Examiner Richard I. Ezeanyim.

NOW, on this 12th day of November, 2013, 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 these cases and of their subject matter.

(2) The cases were consolidated at the hearing for the purpose of testimony; however, due to the nature of these cases, one order should be issued for both cases.

(3) In Case No. 14968, Devon Energy Production Company, L.P. ("Devon" "Applicant" or "Operator"), seeks an order approving a 240-acre non-standard oil spacing and proration unit (project area) in the Delaware formation,

the Harroun Ranch-Delaware Pool (**Pool Code 30212**), comprised of the W/2 SW/4 of Section 30 and the W/2 W/2 of Section 31, Township 23 South, Range 29 East, NMPM, Eddy County, New Mexico. Applicant further seeks an order pooling all uncommitted interests in the Delaware formation underlying the non-standard oil spacing and proration unit (the "Unit").

(4) The proposed Unit is to be dedicated to Devon's Harroun Trust 31-30 Fed. Com. Well No. 2H (**API No. Pending**), to be horizontally drilled from a surface location 330 feet from the South line and 1305 feet from the West line (Unit M) of Section 31, and then in a northerly direction in the Delaware formation to a terminus, or bottomhole location 2310 feet from the South line and 660 feet from the West line (Unit L) of Section 30. The producing interval of the proposed well in the Delaware formation will be orthodox.

(5) In Case No. 14969, Applicant seeks an order approving a 240-acre non-standard oil spacing and proration unit (project area) in the Delaware formation, the Harroun Ranch-Delaware Pool, comprised of the E/2 SW/4 of Section 30 and the E/2 W/2 of Section 31, Township 23 South, Range 29 East, NMPM, Eddy County, New Mexico. Applicant further seeks an order pooling all uncommitted interests in the Delaware formation underlying the non-standard oil spacing and proration unit (the "Unit").

(6) The proposed Unit is to be dedicated to Devon's Harroun Trust 31 Well No. 3H (**API No. 30-015-40825**), to be horizontally drilled from a surface location 330 feet from the South line and 1355 feet from the West line (Unit N) of Section 31, and then in a northerly direction in the Delaware formation to a terminus, or bottomhole location 2310 feet from the South line and 1980 feet from the West line (Unit K) of Section 30. The producing interval of the proposed well in the Delaware formation will be orthodox.

(7) Khody Land and Minerals Company ("Khody") appeared at the hearing through counsel, and objected to the non-standard units but did not present any witnesses.

Devon appeared at the hearing through counsel and presented the following testimony:

(8) Although most horizontal wells in Eddy County to date have had 160-acre (one mile long) well units, Devon and other operators are now successfully drilling numerous wells with 1-1/2 mile or 2 mile long laterals.

{9} Devon is proposing 1-1/2 mile laterals for its two proposed wells, because it believes the wells are technically feasible, and will improve recovery over and above that obtained with a one mile lateral.

(10) Devon owns interests in all acreage in the two Units comprised of the S/2 of Section 30, and all of Section 31. Khody owns interests only in the W/2 of Section 31. It owns no interest in the SW/4 of Section 30.

(11) The thickest part of the reservoir in the well units is located in the SW/4 of Section 30, in which Khody owns no interest. Thus, Khody's correlative rights are not impaired by approval of the 240-acre non-standard units.

(12) The North-South orientation of the wells is based on drilling the wells along strike, which Devon believes makes it easier to steer the horizontal wellbore and remain in the target zone. There is no "established" orientation (standup or laydown) for Delaware horizontal wells in this area.

(13) Khody proposed at the hearing that, if the pooling applications are to be granted, that election in the two wells be **sequenced**. Devon has no objection to the sequencing of elections in the two wells.

The Division Concludes as Follows:

(14) The drilling of wells on non-standard oil spacing and proration units, each comprising 240 acres within the S/2 of Section 30 and all of Section 31 as proposed by Devon, will allow the interest owners in the N/2 of Section 30 to either drill 160-acre laydown units, or to propose standup well units extending to the North. Thus, there will be no stranded acreage. However, denial of Devon's requested 240-acre non-standard oil spacing and proration units and compulsorily pooling them, may lead to stranded acreage in the SW/4 of Section 30 and/or the W/2 of Section 31, since two wells in the SE/4 of Section 30 and the E/2 of Section 31 are currently being drilled under a voluntary agreement.

(15) Geology indicates that there is no preferred orientation (N-S stand-up or E-W lay-down) for the Delaware horizontal wells in this area.

(16) The drilling of longer horizontal wells is more economical than the drilling of shorter horizontal wells. In this particular case, the operator should be allowed to drill longer horizontal wells in order to recover more hydrocarbon reserves, thereby preventing waste and protecting correlative rights. In addition, no acreage will be stranded.

(17) The applications in Case Nos. 14968 and 14969 should be approved, allowing for **sequencing** of elections in the compulsory pooling portion of the applications, as detailed in Ordering Paragraphs (12) and (13) below.

(18) Two or more separately owned tracts are embraced within the Units and/or there are royalty interests and/or undivided interests in oil and gas minerals in one or more tracts included in the Units that are separately owned.

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

(20) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford to each interest owner the opportunity to recover or receive without unnecessary expense, its just and fair share of hydrocarbons, these applications should be approved by pooling all uncommitted interests, whatever they may be, in the oil and gas within the Units.

(21) Devon (**OGRID No. 6137**) should be designated the operator of the proposed wells and of the Units.

(22) Any pooled working interest owner who does not pay its share of estimated 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 wells.

(23) Reasonable charges for supervision (combined fixed rates) should be fixed at \$6,000 per month per well while drilling, and \$600 per month per well 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) In Case No. 14968, a non-standard 240-acre oil spacing and proration unit (project area) is hereby established in the Delaware formation, the Harroun Ranch-Delaware Pool (**Pool Code 30212**), comprised of the W/2 SW/4 of Section 30 and the W/2 W/2 of Section 31, Township 23 South, Range 29 East, NMPM, Eddy County, New Mexico.

(2) Pursuant to the application of Devon Energy Production Company, L.P., all uncommitted interests, whatever they may be in the oil and gas in the Delaware formation underlying the non-standard oil spacing and proration unit are hereby pooled.

(3) The Unit shall be dedicated to Devon's Harroun Trust 31-30 Fed. Com. Well No. 2H (**API No. Pending**), to be horizontally drilled from a surface location 330 feet from the South line and 1305 feet from the West line (Unit M) of Section 31, and then in a northerly direction in the Delaware formation to a terminus, or bottomhole location 2310 feet from the South line and 660 feet from the West line (Unit L) of Section 30. The producing interval of the proposed well in the Delaware formation will be orthodox.

(4) In Case No. 14969, a non-standard 240-acre oil spacing and proration unit (project area) is hereby established in the Delaware formation, the

Harroun Ranch-Delaware Pool, comprised of the E/2 SW/4 of Section 30, and the E/2 W/2 of Section 31, Township 23 South, Range 29 East, NMPM, Eddy County, New Mexico.

(5) Pursuant to the application of Devon Energy Production Company, L.P., all uncommitted interests, whatever they may be, in the oil and gas in the Delaware formation underlying the non-standard oil spacing and proration Unit are hereby pooled.

(6) The Unit shall be dedicated to Devon's Harroun Trust 31 Well No. 3H (**API No. 30-015-40825**), to be horizontally drilled from a surface location 330 feet from the South line and 1355 feet from the West line (Unit N) of Section 31, and then in a northerly direction in the Delaware formation to a terminus, or bottomhole location 2310 feet from the South line and 1980 feet from the West line (Unit K) of Section 30. The producing interval of the proposed well in the Delaware formation will be orthodox.

(7) Devon Energy Production Company, L.P. ("Devon") (**OGRID No. 6137**) is hereby designated the operator of the wells and of the Units.

(8) The operator of the Units shall commence drilling the first of the proposed horizontal wells on or before November 15, 2014, and shall thereafter continue drilling the wells with due diligence to test the Delaware formation.

(9) In the event the operator does not commence drilling at least one of the proposed wells on or before November 15, 2014, Ordering Paragraphs (2) and (5) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause demonstrated by satisfactory evidence.

(10) Should the proposed wells not be drilled and completed within 180 days after commencement of the first proposed well, then Ordering Paragraphs (1), (2), (4), and (5) shall be of no further effect, and the Units and project areas 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 wells for good cause shown by satisfactory evidence. If either of the proposed wells is not completed in all of the quarter-quarter sections included in the proposed unit for such well 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 quarter-quarter sections in which the well is completed.

(11) Upon final plugging and abandonment of the proposed wells and any other well drilled on the Units pursuant to NMAC 15.19.13 Sections 9-11, the pooled Units created by this Order shall terminate, unless this Order has been amended to authorize further operations.

(12) After pooling, uncommitted working interest owners are referred to as pooled working interest owners. ("Pooled working interest owners" are owners of working interest in the Units, including unleased mineral interests, who are not parties to an operating agreement governing the Units.) After the effective date of this order, the operator shall furnish the Division and each known pooled working interest owner in the Units an itemized schedule of estimated costs of drilling, completing and equipping each proposed well ("well costs") along with notice stating the order of drilling regarding the two proposed wells (the first being the "Initial Well" and the second being the "Subsequent Well").

(13) Within 30 days from the date the schedule of estimated well costs and order of drilling operations are furnished, any pooled working interest owner shall have the right to pay its share of estimated well costs for the Initial Well to the operator in lieu of paying its share of reasonable well costs out of production as hereinafter provided. With respect to the Subsequent Well, a pooled working interest owner shall be provided a deferred election period in which to pay its share of estimated well costs in the Subsequent Well as follows:

(a) A pooled working interest owner who elected to participate in the Initial Well by paying its share of estimated well costs shall be provided with all drilling reports, estimated actual dry hole costs from field reports, and mudlog and other geologic data obtained from commencement of operations to the time the Initial Well reaches total depth. Upon receipt of all such data, each participating pooled working interest owner shall have five (5) business days in which to elect to pay its share of estimated well costs in the Subsequent Well.

(b) Non-consenting working interest owners in the Initial Well shall have the right to participate in the Subsequent Well by paying its share of estimated well costs to the operator within fifteen (15) days from the date operator furnishes notice of spud of the Initial Well. Such notice shall also include any revisions to the estimated well costs for the Subsequent Well.

A pooled working interest 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 **for** the well in which it elected to participate. 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" **for the well in** which they elected not to participate.

(14) Devon shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the 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

said schedule, the actual well costs shall be the reasonable well costs; provided, however, that if there is objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(15) Within 60 days following the determination of reasonable well costs, any pooled working interest owner who has paid his or its share of estimated costs in advance as provided above shall pay to Devon his or its share of the amount that reasonable well costs exceed estimated well costs or shall receive from Devon the amount, if any, that the estimated well costs that he or it has paid exceed his or its share of reasonable well costs.

(16) Devon 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 owner who is a non-consenting working interest owner as to such well; and
- (b) as a charge for the risk involved in drilling the wells, 200% of the above costs.

(17) Devon shall distribute the costs and charges withheld from production, from each well proportionately, to the parties who advanced the well costs for such well.

(18) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$6,000 per month per well while drilling, and \$600 per month per well 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*." Devon 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 is reasonable, that are attributable to the pooled working interest owners.

(19) Except as provided in Paragraphs (16) and (18) 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 70-8A7-8A-28, as amended).

(20) 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.

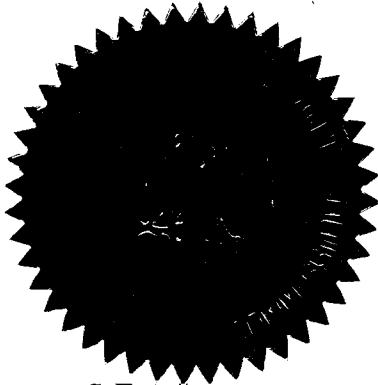
(21) Should all of the parties to this compulsory pooling order reach voluntary agreement subsequent to the entry of this order, the order shall thereafter be of no further effect.

(22) Devon shall notify the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

(23) This Order is subject to approval by the United States Bureau of Land Management (BLM).

(24) Jurisdiction over these cases 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

JAMI BAILEY
Director