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VIA HAND DELIVERY

Jami Bailey
Oil Conservation Division
New Mexico Department of Energy
Minerals and Natural Resources
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

Case 14929

2012 OCT 16 P. 14: 16
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Re: Application of Chevron U.S.A. Inc. for a non-standard spacing and proration unit, unorthodox well location, and compulsory pooling, Eddy County, New Mexico. – Heritage 2 15 No. 2H Well.

Dear Ms. Bailey:

Enclosed please find the Application for Non-Standard Spacing and Proration Unit, Unorthodox Well Location, and Compulsory Pooling by Chevron U.S.A. Inc., as well as a copy of the legal advertisement. Applicant requests that this matter be placed on the November 15, 2012 Examiner hearing docket.

Sincerely,

Adam G. Rankin
ATTORNEYS FOR CHEVRON U.S.A. INC.

AGR
Enclosure

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

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

**APPLICATION OF CHEVRON U.S.A. INC.
FOR A NON-STANDARD SPACING AND
PRORATION UNIT, UNORTHODOX
WELL LOCATION, AND COMPULSORY POOLING,
EDDY COUNTY, NEW MEXICO.**

CASE NO. 14929

APPLICATION

Chevron U.S.A. Inc. ("Chevron") through its undersigned attorneys, hereby makes application to the Oil Conservation Division pursuant to the provisions of N.M. Stat. Ann. § 70-2-17, for an order (1) creating a non-standard 160-acre spacing and proration unit comprised of the W/2 W/2 of Section 15, Township 23 South, Range 28 East, NMPM, Eddy County, New Mexico; (2) approving an unorthodox well location; and (3) pooling all mineral interests underlying this acreage to form a 160-acre project area in the Bone Spring formation, South Culebra Bluff-Bone Spring Pool. In support of its application, Chevron states:

1. Chevron is a working interest owner in the W/2 W/2 of Section 15 and has the right to drill thereon.
2. Chevron proposes to dedicate the above-referenced spacing and proration unit as the project area for its proposed Heritage 2 15 No. 2H well, to be horizontally drilled from a surface location 330 feet from the South line and 330 feet from the West

line (Unit M) to a bottom hole location 330 feet from the North line and 330 feet from the West line (Unit D) of Section 15.

3. The proposed well is subject to the South Culebra Bluff-Bone Spring Pool rules under Order No. R-6139. The special pool rules require all well locations to be within 150 feet of the center of a quarter-quarter section or lot. *See* Rule 4. These rules were made permanent by Order No. R-6139-A on December 17, 1980.

4. The completed interval for the proposed well will be outside the set-back required under Order No. R-6139-A and, therefore, will be unorthodox, encroaching on the proration and spacing units to the west, northwest, and north.

5. Chevron seeks to pool the interests of BNSF Railway Corporation ("BNSF") with this application. Chevron first contacted BNSF by letter on May 8, 2012, and has attempted communications to reach voluntary agreement since that time.

6. Chevron has sought and been unable to obtain voluntary agreement from BNSF for the development of these lands.

7. The pooling of BNSF's interests will avoid the drilling of unnecessary wells, will prevent waste and will protect correlative rights.

8. In order to permit Chevron to obtain its just and fair share of the oil and gas underlying the subject lands, all mineral interests in this non-standard spacing unit should be pooled and Chevron U.S.A. Inc. should be designated the operator of this proposed horizontal well and spacing unit.

WHEREFORE, Chevron U.S.A. Inc. requests that this application be set for hearing before an Examiner of the Oil Conservation Division on November 15, 2012, and, after notice and hearing as required by law, the Division enter its order:

- A. Creating a non-standard spacing and proration unit in the Bone Spring formation comprised of the W/2 W/2 of Section 15, Township 23 South, Range 28 East, NMPM, Eddy County, New Mexico;
- B. Approving an unorthodox well location;
- C. Pooling all mineral interests in the non-standard spacing and proration unit;
- D. Designating Chevron U.S.A. Inc. operator of this non-standard spacing unit and the horizontal well to be drilled thereon;
- E. Authorizing Chevron U.S.A. Inc. to recover its costs of drilling, equipping and completing the well;
- F. Approving the actual operating charges and costs of supervision while drilling and after completion, together with a provision adjusting the rates pursuant to the COPAS accounting procedures; and
- G. Imposing a 200% penalty for the risk assumed by Chevron U.S.A. Inc. in drilling and completing the well against any working interest owner who does not voluntarily participate in the drilling of the well.

Respectfully submitted,

HOLLAND & HART, LLP

By: 

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ATTORNEYS FOR CHEVRON U.S.A. INC.

CASE _____: **Application of Chevron U.S.A. Inc. for a non-standard spacing and proration unit, unorthodox well location, and compulsory pooling, Eddy County, New Mexico.** Applicant in the above-styled cause seeks an order (1) creating a non-standard 160-acre spacing and proration unit comprised of the W/2 W/2 of Section 15, Township 23 South, Range 28 East, NMPM, Eddy County, New Mexico; (2) approving an unorthodox well location; and (3) pooling all mineral interests underlying this acreage to form a 160-acre project area in the Bone Spring formation, South Culebra Bluff-Bone Spring pool. Said non-standard unit is to be dedicated to applicant's proposed Heritage 2 15 No. 2H well, to be horizontally drilled from a surface location 330 feet from the South line and 330 feet from the West line (Unit M) to a bottom hole location 330 feet from the North line and 330 feet from the West line (Unit D) of Section 15. The completed interval for this well will be outside the offset required by the applicable special pool rule, encroaching on the proration and spacing units to the west, northwest, and north. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of Chevron U.S.A. Inc. as operator of the well and a 200% charge for risk involved in drilling said well. Said area is located approximately 2 miles northeast of Loving, New Mexico.