

**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. 15309
ORDER NO. R-14035**

**APPLICATION OF CHEVRON U. S. A. INC. FOR APPROVAL OF A 474.85-
ACRE NON-STANDARD PROJECT AREA COMPRISED OF ACREAGE
SUBJECT TO A PROPOSED COMMUNITIZATION AGREEMENT, LEA
COUNTY, NEW MEXICO**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on May 28, 2015, at Santa Fe, New Mexico, before Examiner William V. Jones.

NOW, on this 12th day of August, 2015, 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 its subject matter.

(2) Chevron U. S. A. Inc. ("Applicant") seeks approval of a 474.85-acre, more or less, non-standard project area for oil production from the Bone Spring formation, WC-025 G-06 S263319P; Bone Spring Pool (97955), comprised of the E/2 of Section 29, and the E/2 of Irregular Section 32, Township 26 South, Range 33 East, NMPM, Lea County, New Mexico.

(3) This project area is to be dedicated to the applicant's proposed horizontal oil wells oriented from North to South to be drilled and completed at orthodox locations within the project area.

(4) The project area is considered to be wildcat for oil production from the Bone Spring formation; therefore, oil well spacing and setbacks are governed by statewide Rule 19.15.15.9(A) NMAC.

(5) Applicant appeared at the hearing through counsel and presented the following testimony:

- (a) The E/2 of Section 29 consists of portions of two separate federal leases. The E/2 of Irregular Section 32 consists of a portion of one State Trust lease.
- (b) EOG Resources has signed over the federal tract consisting of the SE/4 of Section 29 to Applicant and this is being recorded at the Bureau of Land Management ("BLM"). After it is recorded, then Applicant will be the only lessee and the only working interest owner within the proposed project area.
- (c) The only overriding royalty interest ("ORRI") owners within the proposed project area are the four owners within the NE/4 of Section 29. Each of these interests are undivided as to the NE/4 of Section 29 [Confirmed by Applicant upon request after the hearing]. The four proposed horizontal wells are being spud on this tract. The ORRI owners will be paid first for production from this tract and after ratification of the Communitization Agreement ("CA") by the BLM, they will be paid based on the division order then in effect for that larger dedicated acreage.
- (d) Applicant has drilled the Salado Draw 29 26 33 Federal Com Well No. 5H (API No. 30-025-42440) from Unit letter B of Section 29 to a terminus in Lot 2 (Unit letter G) of Irregular Section 32. That well is currently dedicated to the W/2 of the E/2 of Sections 29 and 32. Applicant intends to drill Well No. 6H (API No. 30-025-42441) within that same dedicated acreage.
- (e) Applicant has drilled the Salado Draw 29 26 33 Federal Com Well No. 8H (API No. 30-025-42443) from Unit letter B of Section 29 to a terminus in Lot 1 (Unit letter H) of Irregular Section 32. That well is currently dedicated to the E/2 of the E/2 of Sections 29 and 32. Applicant intends to drill Well No. 7H (API No. 30-025-42442) within that same dedicated acreage.
- (f) Applicant intends to drill all four proposed wells, then complete them simultaneously in order to achieve optimum production from the project area. Until this happens, there will be no production in the project area.
- (g) The State Land Office has approved a Communitization Agreement ("CA") for the Bone Spring formation covering the proposed project area, effective September 1, 2015.
- (h) The BLM's Carlsbad Field Office has tentatively approved a CA for the Bone Spring formation covering the proposed project area, effective "September 1, 2015, or the date of first production from the communitized area". The BLM will only grant full approval of the CA after all four wells have been completed.

- (i) The Bone Spring formation is approximately 3000 feet thick and Applicant has several targets for horizontal drilling within this Bone Spring formation. The first four proposed wells are targeting the upper Avalon member of the Bone Spring formation.
- (j) Based on historical results, horizontal Bone Spring wells drilled in a North-South direction seem superior in production to wells drilled in an East-West direction.
- (6) Applicant is not proposing a new pool with special rules or a modification of rules for an existing pool; therefore, other owners within an existing pool are not being affected.
- (7) All four currently proposed horizontal wells will penetrate all three separately owned tracts of land and all three tracts will contribute to production from these wells.
- (8) Notice was provided to owners within the Bone Spring formation surrounding the project area and no objections were received.
- (9) Applicant is proposing a non-standard project area consisting of contiguous acreage in portions of two sections arranged substantially in the form of a rectangle.
- (10) Applicant is proposing to drill a minimum of four horizontal wells which together will penetrate or "develop" all spacing and proration units within the project area, and is proposing to do this prior to final approval of the CA from the BLM.
- (11) Formation of this project area will not cause stranded acreage and will ensure acreage is not stranded next to the state line between New Mexico and Texas.
- (12) There will be no existing production or revenue within the project area prior to approval of the project area by the New Mexico State Land Office, the Bureau of Land Management, and the Oil Conservation Division.
- (13) The formation of this project area will enable wells to be located within the project area based on drilling results instead of land considerations, will enable the fracturing of multiple wells at the same time and ensure a more efficient and less wasteful exploitation of the reservoir.
- (14) No other parties entered an appearance in this case or otherwise opposed this application.
- (15) Applicant's proposal to create a non-standard 474.85-acre, more or less, non-standard project area for development of oil reserves from the Bone Spring formation should be approved in order to protect correlative rights and prevent waste.

(16) The project area should be considered as one dedicated acreage block with 100 percent voluntary commitment of owners of mineral interests.

(17) Should it be discovered that all interest owners in the project area have not agreed to voluntarily commit their interests, then this order should no longer be in effect.

IT IS THEREFORE ORDERED THAT:

(1) The application of Chevron U. S. A. Inc. to establish a 474.85-acre, more or less, non-standard project area for production of oil from the Bone Spring formation, WC-025 G-06 S263319P; Bone Spring Pool (97955), comprised of the E/2 of Section 29, and the E/2 of Irregular Section 32, Township 26 South, Range 33 East, NMPM, Lea County, New Mexico, is hereby approved subject to the following conditions.

(2) This non-standard project area shall be in whole dedicated to any horizontal well drilled to targets within the Bone Spring formation oriented from North to South or from South to North and shall be initially dedicated to the following proposed wells:

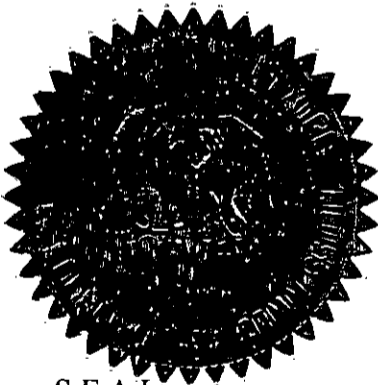
- (a) Salado Draw 29 26 33 Federal Com Well No. 5H (API No. 30-025-42440)
- (b) Salado Draw 29 26 33 Federal Com Well No. 6H (API No. 30-025-42441)
- (c) Salado Draw 29 26 33 Federal Com Well No. 7H (API No. 30-025-42442)
- (d) Salado Draw 29 26 33 Federal Com Well No. 8H (API No. 30-025-42443)

(3) Approval of this non-standard project area is conditioned upon approval of a voluntary CA or exploratory Unit for these lands by both the New Mexico State Land Office and the Bureau of Land Management.

(4) Should it be discovered that all interest owners in the project area have not agreed to voluntarily commit their interests, then this order shall no longer be in effect.

(5) Jurisdiction of this case is hereby 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