

**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. 15393
ORDER NO. R-14069**

**APPLICATION OF CHEVRON U. S. A. INC. FOR APPROVAL OF A 474.71-
ACRE NON-STANDARD PROJECT AREA AND TO AMEND
ADMINISTRATIVE ORDERS CTB-760 AND OLM-97 TO ADD PRODUCTION
FROM THIS PROJECT AREA TO THE AUTHORIZED SURFACE
COMMINGLING, LEA COUNTY, NEW MEXICO**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on October 15, 2015, at Santa Fe New Mexico, before Examiner Michael A. McMillan.

NOW, on this 2nd day of November, 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 474.71-acre, more or less, non-standard project area ("Project Area") for oil production from the Bone Spring formation, WC-025 G-06 S263319P; Bone Spring Pool (97955), comprised of the W/2 of Section 29 and the W/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, and 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 Division Rule 19.15.15.9(A) NMAC.

(5) Applicant is also requesting to modify Administrative Order CTB-760 and Administrative Order OLM-95 to surface commingle oil and gas production and off-lease measurement from the Bone Spring formation, WC-025 G-06 S263319P; Bone Spring Pool for all existing and future wells in Section 29 and Irregular Section 32.

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

- (a) The W/2 of Section 29 consists of a portion of one federal lease. The W/2 of Irregular Section 32 consists of a portion of one State Trust lease.
- (b) The Project Area consists of two different overlapping communitization Agreements ("CA"). One CA covers the entire W/2 of Section 29 and W/2 of Irregular Section 32 comprised of 474.71 acres. The other CA covers the W/2 W/2 of Section 29 and the NW/4 NW/4 of Irregular Section 32 comprised of 200 acres.
- (c) Applicant is the only lessee and the only working interest owner within the proposed project area.
- (d) The overriding royalty interest owners ("ORRI") in the Project Area agreed to be subject to the 474.71-acre CA. The ORRI in the entire Section 29 and Section 32 were notified of this hearing for purposes of the Project Area and surface commingling and off-lease measurement in the two entire Sections.
- (e) Applicant drilled the Mooses Tooth 29 26 33 Federal Com. Well No. 1H (API 30-025-42168) from Unit C of Section 29 to a terminus in Unit D of Irregular Section 32. Lot 4 of Section 32 was not developed by this well; as a result Administrative Order NSP-2021 was issued on March 2, 2015.
- (f) Applicant has begun drilling the Salado Draw 29 26 33 Well No. 4H (API 30-025-42639) from Unit D of Section 29 to a terminus in Lot 3 (Unit F) of Irregular Section 32. That well is currently dedicated to the E/2 W/2 of Sections 29 and 32. Applicant intends to drill the Salado Draw 29 26 33 Wells No. 1H (API 30-025-42629), 2H (API 30-025-42637), and 3H (API 30-025-42638) in order to fully develop 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 August 10, 2015.
- (h) The BLM's Carlsbad Field Office has tentatively approved a CA for the Bone Spring formation covering the proposed Project Area effective "January 1, 2016, 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, and the acreage fully developed.

- (i) The Bone Spring formation is approximately 3000 feet thick and Applicant has several targets for horizontal drilling within this Bone Spring formation. The primary targets include 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.
 - (k) Division Order No. R-14035 issued on August 12, 2015 approved a non-standard project area which included the E/2 of Section 29 and E/2 of Irregular Section 32.
 - (l) Applicant stated that oil and gas production from each of the leases shall be separately metered using allocation meters.
 - (m) Oil and gas production shall be measured and sold off-lease from the Salado Draw 29 Central Tank Battery (CTB) located in Unit P of Section 19, Township 26 South, Range 33 East, NMPM, Lea County New Mexico.
 - (n) Applicant is requesting to modify Administrative Orders CTB-760 and OLM-97 to also include surface commingling and off-lease measurement of oil and gas production from the wells in the W/2 of Section 29 and W/2 of Irregular Section 32.
 - (o) Additional wells in the Project Area may be added with a Sundry notice, Form C-103, that identifies this Order.
- (7) 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.
- (8) All four currently proposed horizontal wells will penetrate both separately owned tracts of land and all of the Units and Lots will contribute to production from these wells.
- (9) Notice was provided to owners within the Bone Spring formation surrounding the project area and no objections were received.
- (10) 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.
- (11) Applicant is proposing to drill a minimum of four horizontal wells which together will penetrate or "develop" all Units and Lots within the project area, and is proposing to do this prior to final approval of the CA from the BLM.

(12) 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.

(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 474.71-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) The surface commingling portion of the case should be approved.

(18) A "lease", according to Division Rule 19.15.12.7 (C), is an area formed by communitization either by agreement or by division order. Therefore, three leases exist in the surface commingling application. The leases include the E/2 of Section 29 and E/2 of Irregular Section 32; W/2 of Section 29 and W/2 of Irregular Section 32; the final lease is W/2 W/2 of Section 29 and NW/4 NW/4 of Irregular Section 32.

IT IS THEREFORE ORDERED THAT:

(1) The application of Chevron U. S. A. Inc. (OGRID 4323) to establish a 474.71-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 W/2 of Section 29 and the W/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. 1H (API No. 30-025-42629)
- (b) Salado Draw 29 26 33 Federal Com. Well No. 2H (API No. 30-025-42637)
- (c) Salado Draw 29 26 33 Federal Com. Well No. 3H (API No. 30-025-42638)
- (d) Salado Draw 29 26 33 Federal Com. Well No. 4H (API No. 30-025-42639)

(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.

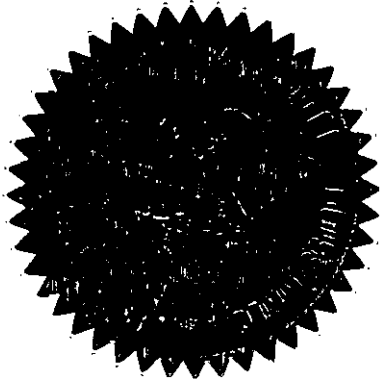
(5) The surface commingle and off-lease measurement portion of this application portion shall be approved. Oil and gas production from the three leases shall be metered separately with allocation meters. Oil and gas production within each lease shall be measured by periodic well tests. Oil and gas production shall be measured and sold off-lease from the Salado Draw 29 Central Tank Battery (CTB) located in Unit P of Section 19, Township 26 South, Range 33 East, NMPM, Lea County, New Mexico.

(6) The approval of surface commingling and off-lease measurement of additional wells within the three leases shall be added with a Sundry notice, Form C-103, that identifies this Order Number.

(7) This Order shall supersede Administrative Orders CTB-760 and OLM-97 issued on August 17, 2015.

(8) 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.



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STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in dark ink, appearing to read "David R. Catanach". The signature is fluid and cursive.

DAVID R. CATANACH
Director