

**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. 15584
ORDER NO. R-14260**

**APPLICATION OF EOG RESOURCES, INC. FOR APPROVAL OF A 472-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 November 17, 2016, at Santa Fe, New Mexico, before Examiner Michael A. McMillan.

NOW, on this 29th day of December, 2016, 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) EOG Resources Inc. ("Applicant, or EOG") seeks approval of a 472.08-acre, more or less, non-standard project area for oil production from the Upper Wolfcamp formation, WC-025 G-09 S26327G; Upper Wolfcamp Pool (98097), comprised of the W/2 of Section 25, and Lot 3, Lot 4, and the N/2 NW/4 (NW/4 /equivalent) of Irregular Section 36, Township 26 South, Range 33 East, NMPM, Lea County, New Mexico.

(3) This project area is to be dedicated to the applicant's subject and proposed horizontal oil wells oriented from South to North 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 Upper Wolfcamp 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 proposed non-standard project area consists of the W/2 of Section 25 and Lot 3, Lot 4, and the N/2 NW/4 (NW/4 equivalent) of Irregular Section 36.
- (b) The project area consists of one Bureau of Land Management (BLM) lease and one New Mexico State Land Office (NMSLO) lease.
- (c) Applicant is the sole lessee of both the BLM and NMSLO lease. No other working interest owners or overriding royalty owners exist in the proposed non-standard project area. Further, the Applicant will be the sole lessee in the proposed communitization agreement.
- (d) Applicant has drilled and hydraulically fractured four wells in the proposed non-standard project area. The four wells are the Endurance 36 State Com Well No. 701H (API 30-025-42984), Endurance 36 State Com Well No. 704H (API 30-025-43015), Endurance 36 State Com Well No. 705H (API 30-025-43227), and the Endurance 36 State Com Well No. 706H (API 30-025-43228), collectively "four wells."
- (e) Wells No. 701H and 704H penetrate the six quarter-quarter sections located in the west portion of the project area. Wells No. 705H and 706H penetrate the six quarter-quarter sections located in the east portion of the project area. All the quarter-quarter sections in the proposed non-standard project area have been penetrated by one or more wells and hydraulically fractured.
- (f) Applicant's witness testified that all four wells have been completed, but have not produced. The four wells will be produced after the Division approves the proposed non-standard project area.
- (g) Applicant stated that the non-standard project area will be effective after it is approved by the Division.
- (h) Applicant is requesting the non-standard project area to enable it to limit surface disturbance consistently with BLM and NMSLO requirements and procedures.
- (i) NMSLO has signed the State/Federal communitization agreement.
- (j) BLM has given preliminary approval of the State/Federal communitization agreement.

- (k) Notice was provided for the non-standard project area to lessees or operators of surrounding affected tracts.
 - (l) All quarter-quarter sections to be included in the proposed non-standard project area are expected to be productive in the Upper Wolfcamp, and the working interest is uniform throughout the project area; so establishment of the project area as requested will not impair correlative rights.
- (6) No other party appeared at the hearing, or otherwise opposed the granting of this application.

The Division concludes that:

- (7) The non-standard project area should be approved for the following reasons:
 - (a) All quarter-quarter sections in the non-standard project area have already been drilled, perforated, and hydraulically fractured – per testimony and per Division records.
 - (b) All owners of interests in the non-standard project area have voluntarily consented to the development of this area as proposed;
 - (c) 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.
 - (d) 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.
 - (e) The non-standard project area will enable Applicant to combine surface facilities thereby lessening surface disturbance.
 - (f) The Applicant is the sole-working interest owner and lessee, and there are no overriding royalty interests.
 - (g) Applicant has approval from the NMSLO and preliminary approval by the BLM.
 - (h) Although the proposed non-standard project area does not comport with the definition of a “project area” in either subparagraphs (1) or (2) of 19.15.16.7.L NMAC, the Division has authority to grant an exception pursuant to 19.15.2.9 NMAC.

(8) Applicant's proposal to create a non-standard 472.08-acre, more or less, non-standard project area for development of oil reserves from the Upper Wolfcamp formation should be approved in order to protect correlative rights and prevent waste.

(9) The four existing as well as any future horizontal wells within the Upper Wolfcamp formation and corresponding pool should be dedicated to the non-standard project area. The project area should be considered as one dedicated acreage block with 100 percent voluntary commitment of owners of mineral interests. If there are any interests in the project area that are not voluntarily committed to the proposed communitization agreement, this Order should have no effect upon the rights or liabilities of persons owning such interests.

(10) All other Division rules should still apply to wells drilled within this project area. Applicant should provide for each completed well in the non-standard project area complete and accurate data for oil, gas, and water production and report these monthly production numbers on form C-115.

(11) The Application to create the non-standard project area, and the notice thereof, did not address or advertise special treatment of oil and gas allowables within the project area. The operator of these wells should be subject to the rules governing oil and gas allowables for this pool including Rule 19.15.16.14 B.(3) NMAC.

(12) Accordingly, the East and West halves of this project area, each of which constitutes a separate "project area" as defined by 19.15.16.7.L NMAC, should be treated separately for proration purposes. The oil and gas allowable for the west half of this project area should be based on the applicable unit allowable for the pool multiplied by the six quarter-quarter sections composing the west half and already developed by two wells. Similarly, the oil and gas allowable for the east half of this project area should be based on the applicable unit allowable for the pool multiplied by six.

IT IS THEREFORE ORDERED THAT:

(1) The application of EOG Resources, Inc. to establish a 472.08-acre, more or less, non-standard project area for production of oil from the Upper Wolfcamp formation, WC-025 G-09 S26327G; Upper Wolfcamp Pool (98097), comprised of the W/2 of Section 25, and Lot 2, Lot 3, and the N/2 NW/4 (NW/4 equivalent) of Irregular Section 36, 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 wells now or subsequently drilled to targets within the Upper Wolfcamp formation oriented from South to North or North to South, within the defined area, and shall be initially dedicated to the following subject wells:

- (a) Endurance 36 State Com Well No. 701H (API 30-025-42984)
- (b) Endurance 36 State Com Well No. 704H (API 30-025-43015)

- (c) Endurance 36 State Com Well No. 705H (API 30-025-43227)
- (d) Endurance 36 State Com Well No. 706H (API 30-025-43228)

(3) Applicant shall provide for each completed well in the non-standard project area complete and accurate data for oil, gas, and water production.

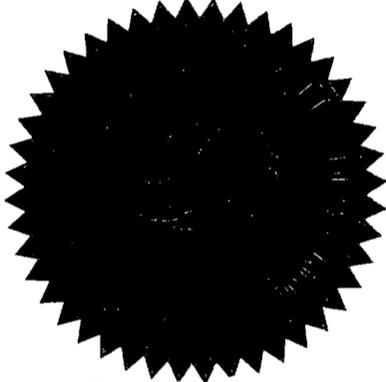
(4) The oil and gas allowables for the west half and for the east half of this project area shall be separately based on the applicable unit allowable for the pool multiplied by the six quarter-quarter sections or equivalents comprising that west half or east half.

(5) Approval of this non-standard project area is conditioned upon approval of a voluntary communitization agreement for these lands by the Bureau of Land Management and by the New Mexico Commissioner of State Lands.

(6) If there are any interests in the project area that are not voluntarily committed to the proposed communitization agreement, this Order shall have no effect upon the rights or liabilities of persons owning such interests.

(7) 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