

**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 TO CONSIDER:**

CASES NO. 16099, 16100, and 16101

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

CASES NO. 16102, 16103, and 16104

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

CASES NO. 16169, 16170, 16171, 16172, 16173, and 16174

**APPLICATION OF PRIDE ENERGY COMPANY FOR COMPULSORY
POOLING, NON-STANDARD SPACING AND PRORATION UNIT, AND
UNORTHODOX LOCATION, LEA COUNTY, NEW MEXICO.**

ORDER NO. R-20223

ORDER OF THE DIVISION

BY THE DIVISION:

These cases came on for hearing at 9:00 a.m. on June 12, 2018, at Santa Fe, New Mexico, before Examiner William V. Jones.

NOW, on this 8th day of November 2018, 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 the subject matter.

(2) Devon Energy Production Company, L.P. ("Devon") Cases No. 16099, 16100, 16101, 16102, 16103, and 16104 were consolidated and combined for hearing with Pride Energy Company ("Pride") Cases No. 16169, 16170, 16171, 16172, 16173, and 16174. A single order is being issued for the consolidated cases.

(3) These 12 cases involve competing proposals for development of the Bone Spring and Wolfcamp formations in overlapping lands in Township 25 South, Range 32 East, NMPM, Lea County, New Mexico. Both applicants intend to drill horizontally. Pride proposes one mile wells from North to South, while Devon proposes two mile wells from South to North.

(4) Devon and Pride each propose to drill three Bone Spring wells in the Second Bone Spring Sand and three wells in the Upper Wolfcamp formation. Each well would be dedicated to a separately proposed horizontal spacing unit. All 12 proposed horizontal oil spacing units are comprised of 40-acre, quarter-quarter sections or equivalents. Devon asked at the hearing that the request for downhole commingling be dismissed.

(5) Devon seeks to develop the Bone Spring formation and the Wolfcamp formation by forming, for each formation, three, 320-acre horizontal oil spacing units (the "Units") comprising respectively, the W/2 W/2, the E/2 W/2, and the W/2 E/2 of Sections 16 and 21 for oil and gas production from the respective formation and compulsory pooling of all uncommitted interests within the Units.

(6) Pride seeks to develop the Bone Spring formation and the Wolfcamp formation by forming, for each formation, three, 160-acre horizontal oil spacing units (the "Units") comprising respectively, the W/2 W/2, the E/2 W/2, and the W/2 E/2 of Section 16 for oil and gas production from the respective formation and compulsory pooling of all uncommitted interests within the Units.

(7) The lands in question cover all of Sections 16 and 21 excluding the E/2 E/2. Of these lands, Pride owns 100% of the working interest in the N/2 of Section 16, Devon owns 100% of the working interest in Section 21, and Devon owns 100% of the working interest in the S/2 of Section 16. Pride's land witness stated that Devon's ownership is to discrete depths in the S/2 of Section 16.

(8) The only working interests being pooled are those interests held by Devon or Pride.

(9) All proposed wells to be completed in the Bone Spring formation will be within the Mesa Verde; Bone Spring Pool (Pool Code 96229) and subject to Division Rule 19.15.15.9(A) NMAC which provides for standard 40-acre units each comprising a governmental quarter-quarter section.

(10) All proposed wells to be completed in the Upper Wolfcamp formation are considered as Wildcat and are therefore subject to Division Rule 19.15.15.9(A) NMAC

which provides for standard 40-acre units each comprising a governmental quarter-quarter section.

Devon Cases

(11) In Case No. 16099, Devon proposes a 320-acre "Unit" for production of oil and gas from the Bone Spring formation comprised of the W/2 W/2 of Section 16 and the W/2 W/2 of Section 21 to be dedicated to the following "Proposed Well" to be completed at a standard location within the Unit:

Marwari 28 16 State Federal Com Well No. 232H, API No. 30-025-45203

SHL: 175 feet from the North line and 410 feet from the West line,
(Unit D) of Section 28, Township 25 South, Range 32 East, NMPM.
BHL: 330 feet from the North line and 330 feet from the West line
(Unit D) of Section 16, Township 25 South, Range 32 East, NMPM.

(12) In Case No. 16100, Devon proposes a 320-acre "Unit" for production of oil and gas from the Bone Spring formation comprised of the E/2 W/2 of Section 16 and the E/2 W/2 of Section 21 to be dedicated to the following "Proposed Well" to be completed at a standard location within the Unit:

Marwari 28 16 State Federal Com Well No. 234H, API No. 30-025-45204

SHL: 230 feet from the South line and 1480 feet from the West line,
(Unit N) of Section 21, Township 25 South, Range 32 East, NMPM.
BHL: 330 feet from the North line and 1650 feet from the West line
(Unit C) of Section 16, Township 25 South, Range 32 East, NMPM.

(13) In Case No. 16101, Devon proposes a 320-acre "Unit" for production of oil and gas from the Bone Spring formation comprised of the W/2 E/2 of Section 16 and the W/2 E/2 of Section 21 to be dedicated to the following "Proposed Well" to be completed at a standard location within the Unit:

Marwari 28 16 State Federal Com Well No. 236H, API No. 30-025-45205

SHL: 175 feet from the North line and 1950 feet from the East line,
(Unit B) of Section 28, Township 25 South, Range 32 East, NMPM.
BHL: 330 feet from the North line and 1980 feet from the East line
(Unit B) of Section 16, Township 25 South, Range 32 East, NMPM.

(14) In Case No. 16102, Devon proposes a 320-acre "Unit" for production of oil and gas from the Upper Wolfcamp formation comprised of the W/2 W/2 of Section 16 and the W/2 W/2 of Section 21 to be dedicated to the following "Proposed Well" to be completed at a standard location within the Unit:

Marwari 28 16 State Federal Com Well No. 712H, API No. 30-025-Pending

SHL: 175 feet from the North line and 380 feet from the West line,
(Unit D) of Section 28, Township 25 South, Range 32 East, NMPM.
BHL: 330 feet from the North line and 380 feet from the West line
(Unit D) of Section 16, Township 25 South, Range 32 East, NMPM.

(15) In Case No. 16103, Devon proposes a 320-acre "Unit" for production of oil and gas from the Upper Wolfcamp formation comprised of the E/2 W/2 of Section 16 and the E/2 W/2 of Section 21 to be dedicated to the following "Proposed Well" to be completed at a standard location within the Unit:

Marwari 28 16 State Federal Com Well No. 714H, API No. 30-025-Pending

SHL: 230 feet from the South line and 1510 feet from the West line,
(Unit N) of Section 21, Township 25 South, Range 32 East, NMPM.
BHL: 330 feet from the North line and 2300 feet from the West line
(Unit C) of Section 16, Township 25 South, Range 32 East, NMPM.

(16) In Case No. 16104, Devon proposes a 320-acre "Unit" for production of oil and gas from the Upper Wolfcamp formation comprised of the W/2 E/2 of Section 16 and the W/2 E/2 of Section 21 to be dedicated to the following "Proposed Well" to be completed at a standard location within the Unit:

Marwari 28 16 State Federal Com Well No. 716H, API No. 30-025-Pending

SHL: 175 feet from the North line and 1920 feet from the East line,
(Unit B) of Section 28, Township 25 South, Range 32 East, NMPM.
BHL: 330 feet from the North line and 1660 feet from the East line
(Unit B) of Section 16, Township 25 South, Range 32 East, NMPM.

Pride Cases

(17) In Case No. 16169, Pride proposes a 160-acre "Unit" for oil and gas production from the Bone Spring formation comprised of the W/2 W/2 of Section 16 to be dedicated to the following "Proposed Well" to be completed at a standard location within the Unit:

Paduca 16 State Well No. 501H, API No. 30-025-44451

SHL: 200 feet from the North line and 700 feet from the West line,
(Unit D) of Section 16, Township 25 South, Range 32 East, NMPM.
BHL: 330 feet from the South line and 350 feet from the West line
(Unit M) of Section 16, Township 25 South, Range 32 East, NMPM.

(18) In Case No. 16170, Pride proposes a 160-acre "Unit" for production of oil and gas from the Bone Spring formation comprised of the W/2 E/2 of Section 16 to be

dedicated to the following "Proposed Well" to be completed at a standard location within the Unit:

Paduca 16 State Well No. 502H, API No. 30-025-44452

SHL: 200 feet from the North line and 2200 feet from the East line,
(Unit B) of Section 16, Township 25 South, Range 32 East, NMPM.
BHL: 330 feet from the South line and 1680 feet from the East line
(Unit O) of Section 16, Township 25 South, Range 32 East, NMPM.

(19) In Case No. 16171, Pride proposes a 160-acre "Unit" for production of oil and gas from the Bone Spring formation comprised of the E/2 W/2 of Section 16 to be dedicated to the following "Proposed Well" to be completed at a standard location within the Unit:

Paduca 16 State Well No. 503H, API No. 30-025-44491

SHL: 200 feet from the North line and 2069 feet from the West line,
(Unit C) of Section 16, Township 25 South, Range 32 East, NMPM.
BHL: 330 feet from the South line and 2314 feet from the West line
(Unit N) of Section 16, Township 25 South, Range 32 East, NMPM.

(20) In Case No. 16172, Pride proposes a 160-acre "Unit" for production of oil and gas from the Upper Wolfcamp formation comprised of the W/2 W/2 of Section 16 to be dedicated to the following "Proposed Well" to be completed at a standard location within the Unit:

Paduca 16 State Well No. 701H, API No. 30-025-44453

SHL: 200 feet from the North line and 725 feet from the West line,
(Unit D) of Section 16, Township 25 South, Range 32 East, NMPM.
BHL: 330 feet from the South line and 350 feet from the West line
(Unit M) of Section 16, Township 25 South, Range 32 East, NMPM.

(21) In Case No. 16173, Pride proposes a 160-acre "Unit" for production of oil and gas from the Upper Wolfcamp formation comprised of the W/2 E/2 of Section 16 to be dedicated to the following "Proposed Well" to be completed at a standard location within the Unit:

Paduca 16 State Well No. 702H, API No. 30-025-44454

SHL: 200 feet from the North line and 2175 feet from the East line,
(Unit B) of Section 16, Township 25 South, Range 32 East, NMPM.
BHL: 330 feet from the South line and 1680 feet from the East line
(Unit O) of Section 16, Township 25 South, Range 32 East, NMPM.

(22) In Case No. 16174, Pride proposes a 160-acre "Unit" for production of oil and gas from the Upper Wolfcamp formation comprised of the W/2 E/2 of Section 16 to be dedicated to the following "Proposed Well" to be completed at a standard location within the Unit:

Paduca 16 State Well No. 703H, API No. 30-025-44492

SHL: 200 feet from the North line and 2094 feet from the West line,
(Unit C) of Section 16, Township 25 South, Range 32 East, NMPM.
BHL: 330 feet from the South line and 2314 feet from the West line
(Unit N) of Section 16, Township 25 South, Range 32 East, NMPM.

- (23) No other party appeared or otherwise opposed these applications.
- (24) Devon appeared through counsel and presented testimony and exhibits from a Landman, a Geologist, and an Engineer as follows:
- a. Devon is operator of the Cotton Draw Unit located in main to the east of these lands, but also including Unit letters N and O of Section 16. Section 16 is all State Trust lands. The south half of Section 16 is one State Land Office lease. The proposed Communitization Agreements are pending the outcome of the Division hearing.
 - b. The Cotton Draw Unit contains a large Participating Area for production from the Delaware formation. Devon currently operates approximately 89, 2nd Bone Spring wells in the Cotton Draw Unit or in this area. The Delaware Basin of Texas and New Mexico and the Oklahoma "STACK" plays are currently the primary focus areas for Devon.
 - c. All proposed wells in these six (6) cases are in existing or wildcat pools that are governed by statewide rules for oil wells. The take points for all proposed wells are within any required 330-foot setback distance and can be adjusted to take advantage of the proposed 100-foot heel and toe distances. Devon no longer asks for downhole commingling since it appears the horizontal Bone Spring wells will not cross pool boundaries.
 - d. Devon asks for an overhead supervision rate per well of \$11,000 per month while drilling and \$1100 per month while producing. This larger than normal drilling rate is likely needed due to the remote command center which optimally controls the well during steering and during completion.
 - e. Devon's proposed longer laterals as compared to Pride's proposed wells would be more efficient, producing from lands within the otherwise required setbacks, would require less surface disturbance and less producing and surface facilities. Devon proposes to use three pads for the surface locations of the total of six (6) proposed wells. Devon has water and gas take-away lines already in place in this general area.
 - f. The target in the Bone Spring formation is the lower portion of the 2nd Bone Spring Sand interval at approximately 10,600 feet. The preference for drilling direction is South to North primarily due to the preponderance of existing wells already drilled in a North/South direction.

- g. The geologic risk of drilling and production is relatively low and the porosity, water saturation, and thickness is consistent throughout the length of the proposed horizontal well units.
- h. A comparison of one-mile laterals to 1.5-mile laterals in the 2nd Bone Spring Sand indicates that the estimated ultimate recovery increases at a rate directly proportional to the lateral length and maybe at a higher rate. The recent, two-mile lateral wells have come in at very high initial rates.
- i. One of the three proposed well pads was moved down into Section 28 after concerns raised by the on-site inspection of the Bureau of Land Management. The surface locations were moved from the north to the south due in part, to all the vertical Delaware formation well sites located in the north. Devon intends to drill additional wells from these same three surface drilling pads in a southerly direction to further increase the efficiency of surface and facility use.
- j. Devon originally estimated approximately \$4.9 million to drill each Bone Spring formation well. Devon subsequent to the hearing submitted updated AFE's indicating the Bone Spring formation wells will cost approximately \$7 million each. The estimated cost to drill and complete each of the Wolfcamp formation wells is close to \$10.8 million.
- k. The estimated cost difference is large between the Bone Spring and Wolfcamp wells. The cost to drill Bone Spring wells by Devon is low due to experience in drilling so many wells in this area. The Wolfcamp formation wells will be high due to the need to set another casing in the third Bone Spring Sand. The required completions will also result in a disparity on overall costs between wells in these two formations.
- l. The target in the Wolfcamp formation is the Wolfcamp "A" interval at approximately 12,100 feet. Devon has recently completed two, two-mile wells in the Wolfcamp formation located approximately four (4) miles west of the target area in these cases.
- m. The footage of the proposed surface and bottom hole location of Well No. 712H changed since the application and form C-102 was prepared. The surface locations of Wells No. 714H and 716H changed from the locations stated in the proposal letters. Devon's witness corrected those locations on the record in the transcript. None of those three proposed wells to be drilled to the Upper Wolfcamp formation has been permitted for drilling as of the date of the Examiner's review of these cases.
- n. Devon owns 75 percent of the working interests in all six (6) of its proposed wells.

- o. V-F Petroleum Inc. is the only overriding royalty interest owner in the State Lease covering the S/2 of Section 16. Devon obtained its interest in the S/2 of Section 16 by lease assignment from V-F Petroleum Inc. V-F has indicated support for Devon as the operator in preference to Pride in these proposed wells.
- p. The interests owned by Pride are the only working interests that Devon seeks to pool in these applications.
- q. Devon has made a good faith effort to obtain joinder of all interests in these wells.
- r. Notice by certified mail was provided to all uncommitted interest owners in the proposed Unit whose interests were evidenced by a conveyance instrument, either of record or known to Applicant when the Applications were filed, and to heirs known to Applicant of deceased persons who appear as owners in such instruments.
- s. Those potentially affected parties, such as overriding royalty owners, whose whereabouts could not be ascertained were noticed by publication as provided in Rule 19.15.4.12.B NMAC.

(25) Pride appeared through counsel and presented testimony from a Landman and Engineer as follows:

- a. Pride intends to drill three (3) 2nd Bone Spring formation wells and three (3) Wolfcamp formation wells from North to South.
- b. The Pride wells would be wholly on State Trust lands in Section 16. Pride has operated five (5) producing vertical wells on this acreage for the past 15 years.
- c. The AFE's presented by Pride are covered by large area contracts and therefore accurately estimate costs.
- d. Pride has an existing disposal well, a tank battery, existing lines for gas, and contracts for oil and gas sales.
- e. Pride has noticed V-F Petroleum Inc. as the only [per Devon's testimony] overriding royalty interest owner in the S/2 of Section 16. There are no overriding royalty owners in the N/2 of Section 16.
- f. The Federal acreage in the proposed Devon wells will delay permitting and drilling. Pride already has approved drilling permits for all six (6) of its proposed wells.

- g. The advantage Devon claims for completion of wells in the lands in the setback area adjoining boundaries of Sections 16 and 21 would be less than stated due to the new Horizontal rules allowing 100-foot toe and heel distances and due to drainage into the ends of one-mile long wells.
- h. Devon's proposed two-mile wells will not effectively complete or develop the oil and gas reserves and will therefore cause waste and harm correlative rights.
- i. Devon's proposed two-mile wells will be hampered during completion by the length and size of tubulars. The fracture completion will be compromised in the stages furthest in measured depth from the surface.
- j. Notice by certified mail was provided to all uncommitted interest owners in the proposed Unit whose interests were evidenced by a conveyance instrument, either of record or known to Applicant when the Application was filed, and to heirs known to Applicant of deceased persons who appear as owners in such instruments.

(26) The negotiations between these two working interest owners have broken down, resulting in competing compulsory pooling applications. To protect correlative rights and prevent waste, the lands in question within Sections 16 and 21 should be operated by one party and the same arguments and conclusions as to which party should operate apply to each of these competing well proposals.

(27) The Division's task is to determine which development plan, Pride's or Devon's, will most efficiently develop the subject acreage, prevent waste and protect correlative rights.

(28) The Division, in Orders No. R-14518 and R-14847, relying on Oil Conservation Commission Order No. R-10731-B, evaluated the following factors that should be considered in evaluating competing development plans in a compulsory pooling case:

- a. *A comparison of geologic evidence presented by each party as it relates to the proposed well location and the potential of each proposed prospect to efficiently recover the oil and gas reserves underlying the property.*
- b. *A comparison of the risk associated with the parties' respective proposal [sic] for the exploration and development of the property.*
- c. *A review of the negotiations between the competing parties prior to the applications to force pool to determine if there was a "good faith" effort.*
- d. *A comparison of the ability of each party to prudently operate the property and, thereby, prevent waste.*

- e. *A comparison of the differences in well cost estimates (AFE's) and other operational costs presented by each party for their respective proposal [Findings Paragraph (23)(j)].*
- f. *An evaluation of the mineral interest ownership held by each party at the time the application was heard.*
- g. *A comparison of the ability of the applicants to timely locate well sites and to operate on the surface (the "surface factor").*

Considering these factors and the testimony provided, the Division observes the following:

(29) Pride did not provide testimony from a geologist but did not dispute the geologic testimony presented by Devon. Both Pride and Devon propose to drill in essentially the same target rocks. The primary difference is the different lateral lengths and the implication of these lengths.

(30) A simple comparison of the number of two-mile wells with the number of one-mile wells in the Bone Spring formation implies there is more risk with drilling and completing wells at the longer distances. This risk could easily be manifest during drilling, during the casing and cementing, and in the completion stages. Devon did a competent job of showing how it is planning for this increased risk. Pride made good arguments that the one-mile well length would be less risky and result in a better completion, resulting in less waste of oil and gas.

(31) Devon has much local experience with horizontally drilled Bone Spring wells. Devon showed that it possesses exceptional applied skill in reservoir and completion engineering. Devon has run history-matched reservoir simulations on Bone Spring wells to be drilled at various well densities and has then drilled Bone Spring wells at various well densities. In their testimony, Devon witnesses were convincing in showing that the proposed well density in these Sections may be optimal. Devon is constantly evaluating previously drilled wells to optimize completions, artificial lift, and plan for infrastructure and disposal well needs.

(32) Devon has less experience in drilling the Wolfcamp formation wells than in drilling Bone Spring formation wells. However, Devon has engineered the proposed two-mile long Wolfcamp formation wells with higher rated well-heads and casing with a focus on optimizing the completion.

(33) Both parties seem to have prepared for surface well locations and have permission to locate drilling rigs and facilities on the surface to drill, complete, and produce horizontal wells.

(34) The ability to handle the higher rates of water produced from horizontal wells will be a cost factor for both operators. Pride operates an upper Delaware formation

Salt Water Disposal well in Section 16 that has reported at a maximum rate of approximately 100 barrels of water per day and has reported on form C-115 a constant 500 psi pressure each month for many years. The Division records do not show that Devon operates any disposal wells in this township; However, Mesquite SWD Inc. does operate nearby disposal wells.

(35) The increased time to obtain federal permits to drill may be offset or negated by the need to develop (permit and drill) or hookup large capacity water disposal.

(36) Both parties seem to have made a good faith effort to obtain joinder although each disagree on the extent of efforts made.

(37) The Pride method of estimating costs to drill and complete indicated the latest costs would go into the estimate. Devon explained differences in estimated drilling and completion costs between the Bone Spring and Wolfcamp formation wells and has submitted updated cost estimates. The supervision rates proposed by Pride were more in line with what the Examiner is used to seeing, but Devon partially explained its proposed higher drilling supervision rates.

(38) The identification and communication with overriding royalty owners was a point of extensive questioning to both Devon and Pride. Both indicated those owners were identified and noticed either by mailer or by newspaper.

(39) The wells proposed by Pride have 50:50 ownership by Pride and by Devon. The wells proposed by Devon have 75% ownership by Devon and 25% by Pride. Both Devon and Pride are established operators, but Devon has the larger acreage position in this area and is operator of the Cotton Draw Unit.

(40) Devon's testimony and exhibits clearly indicated that wells drilled to increased lengths can have a production and economic advantage and thereby prevent waste and protect correlative rights. These wells if properly completed at longer lateral lengths are extremely lucrative without doubling the costs. In addition to increased production of oil and gas, wells drilled and completed at two-mile lengths have advantages over one-mile long wells including reduced surface disturbance, half the need to drill overburden rocks, half the otherwise required pumping equipment, separation, power lines, tanks, and pipeline hookups.

The Division finds that

(41) Pride's applications in Cases No. 16169, 16170, 16171, 16172, 16173, and 16174 should be denied.

(42) Devon's applications in Cases No. 16099, 16100, 16101, 16102, 16103, and 16104 should be approved as follows.

(43) The application in each of the six (6) Devon cases was filed prior to the June 26, 2018 date in which the horizontal rule amendments became effective (see Order No. R-14689). None of the six proposed wells in the Devon cases was permitted prior to June 26, 2018.

(44) The acreage dedicated to a horizontal well must consist of a "horizontal spacing unit" as defined in Subsection F of 19.15.16.7 NMAC. Pursuant to Subsection B of 19.15.16.15 NMAC effective June 26, 2018, the proposed horizontal oil wells will each be dedicated to a standard Horizontal Spacing Unit (the "Unit") with acreage described above. These six (6) Horizontal Spacing Units will each comprise eight adjacent governmental quarter-quarter sections oriented from south to north.

(45) The result of dedication of a standard horizontal spacing unit to each of Devon's proposed wells in this order is exactly the same as if the order provided for establishment of a non-standard spacing unit for each proposed well under rules in force prior to June 26, 2018, which would then each become a standard horizontal spacing unit on the effective date of new Rule 19.15.16.15 E(4) NMAC [Transitional provisions].

(46) The portion of all six (6) Devon cases asking for approval of a non-standard spacing and proration unit is no longer needed and should be dismissed.

(47) The portion of Devon Cases No. 16099, 16100, and 16101 asking for approval of downhole commingling is no longer needed and should be dismissed.

(48) In each of the six (6) Devon cases, Devon Energy Production Company, LP (OGRID 6137) should be designated as the operator of the Proposed Well and Unit.

(49) 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.

(50) Devon is owner of an oil and gas working interest within the Units. Devon has the right to drill and proposes to drill the Proposed Wells to a common source of supply within the Units at the described locations.

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

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

(53) Infill wells within the Units should be subject to Division Rules 19.15.13.9 NMAC through 19.15.13.10 NMAC, and to the terms and conditions of this order.

(54) Any pooled working interest owner who does not pay its share of estimated well costs of any well should have withheld from production from such well its share of reasonable well costs plus an additional 200% thereof as a reasonable charge for the risk involved in drilling the Proposed Wells.

(55) Devon's requested amount to be charged for supervision was not supported by testimony and exhibits from an accountant and was above the level normally approved for compulsory pooled wells. Therefore, the requested charge rate for supervision should not be granted and the approved rate should revert to a charge level commonly seen in these types of cases.

(56) Reasonable charges for supervision (combined fixed rates) should be fixed at \$7000 per month, per well, while drilling and \$700 per month, per well, while producing, provided that these rates should be adjusted annually pursuant to the overhead adjustment provision of the COPAS form titled "*Accounting Procedure-Joint Operations*."

IT IS THEREFORE ORDERED THAT

(1) The applications of Pride Energy Company in Cases No. 16169, 16170, 16171, 16172, and 16173 are denied.

(2) The applications of Devon Energy Production Company, L.P. in Cases No. 16099, 16100, 16101, and 16102 are approved under conditions as detailed below.

(3) The portion of Devon Cases No. 16099, 16100, and 16101 asking for approval of downhole commingling is dismissed.

(4) The portion of all six Devon cases asking for approval of a non-standard spacing and proration unit is dismissed.

(5) The portion of all six Devon cases asking for supervision overhead charge rates of \$11,000 per month while drilling and \$1,100 per month while producing is denied without prejudice and alternate rates are approved as detailed below.

(6) All uncommitted interests, whatever they may be, in the oil and gas in the following six (6), separately described 320-acre Horizontal Spacing Units, all located in Township 25 South, Range 32 East, NMPM, Lea County, New Mexico, are hereby pooled.

(7) In Case No. 16099, a 320-acre Horizontal Spacing Unit, the "Unit", for production of oil and gas from the Bone Spring formation [for all present or future Bone Spring oil pools] comprised of the W/2 W/2 of Section 16 and the W/2 W/2 of Section 21 shall be dedicated to the following "Proposed Well" to be completed at a standard location within the Unit:

Marwari 28 16 State Federal Com Well No. 232H, API No. 30-025-45203

SHL: 175 feet from the North line and 410 feet from the West line,
(Unit D) of Section 28, Township 25 South, Range 32 East, NMPM.
BHL: 330 feet from the North line and 330 feet from the West line
(Unit D) of Section 16, Township 25 South, Range 32 East, NMPM.

(8) In Case No. 16100, a 320-acre Horizontal Spacing Unit, the "Unit", for production of oil and gas from the Bone Spring formation [for all present or future Bone Spring oil pools] comprised of the E/2 W/2 of Section 16 and the E/2 W/2 of Section 21 shall be dedicated to the following "Proposed Well" to be completed at a standard location within the Unit:

Marwari 28 16 State Federal Com Well No. 234H, API No. 30-025-45204

SHL: 230 feet from the South line and 1480 feet from the West line,
(Unit N) of Section 21, Township 25 South, Range 32 East, NMPM.
BHL: 330 feet from the North line and 1650 feet from the West line
(Unit C) of Section 16, Township 25 South, Range 32 East, NMPM.

(9) In Case No. 16101, a 320-acre Horizontal Spacing Unit, the "Unit", for production of oil and gas from the Bone Spring formation [for all present or future Bone Spring oil pools] comprised of the W/2 E/2 of Section 16 and the W/2 E/2 of Section 21 shall be dedicated to the following "Proposed Well" to be completed at a standard location within the Unit:

Marwari 28 16 State Federal Com Well No. 236H, API No. 30-025-45205

SHL: 175 feet from the North line and 1950 feet from the East line,
(Unit B) of Section 28, Township 25 South, Range 32 East, NMPM.
BHL: 330 feet from the North line and 1980 feet from the East line
(Unit B) of Section 16, Township 25 South, Range 32 East, NMPM.

(10) In Case No. 16102, a 320-acre Horizontal Spacing Unit, the "Unit", for production of oil and gas from the Upper Wolfcamp formation [for all present or future Upper Wolfcamp oil pools] comprised of the W/2 W/2 of Section 16 and the W/2 W/2 of Section 21 shall be dedicated to the following "Proposed Well" to be completed at a standard location within the Unit:

Marwari 28 16 State Federal Com Well No. 712H, API No. 30-025-Pending

SHL: 175 feet from the North line and 380 feet from the West line,
(Unit D) of Section 28, Township 25 South, Range 32 East, NMPM.
BHL: 330 feet from the North line and 380 feet from the West line
(Unit D) of Section 16, Township 25 South, Range 32 East, NMPM.

(11) In Case No. 16103, a 320-acre Horizontal Spacing Unit, the "Unit", for production of oil and gas from the Upper Wolfcamp formation [for all present or future

Upper Wolfcamp oil pools] comprised of the E/2 W/2 of Section 16 and the E/2 W/2 of Section 21 shall be dedicated to the following "Proposed Well" to be completed at a standard location within the Unit:

Marwari 28 16 State Federal Com Well No. 714H, API No. 30-025-Pending

SHL: 230 feet from the South line and 1510 feet from the West line,
(Unit N) of Section 21, Township 25 South, Range 32 East, NMPM.
BHL: 330 feet from the North line and 2300 feet from the West line
(Unit C) of Section 16, Township 25 South, Range 32 East, NMPM.

(12) In Case No. 16104, a 320-acre Horizontal Spacing Unit, the "Unit", for production of oil and gas from the Upper Wolfcamp formation [for all present or future Upper Wolfcamp oil pools] comprised of the W/2 E/2 of Section 16 and the W/2 E/2 of Section 21 shall be dedicated to the following "Proposed Well" to be completed at a standard location within the Unit:

Marwari 28 16 State Federal Com Well No. 716H, API No. 30-025-Pending

SHL: 175 feet from the North line and 1920 feet from the East line,
(Unit B) of Section 28, Township 25 South, Range 32 East, NMPM.
BHL: 330 feet from the North line and 1660 feet from the East line
(Unit B) of Section 16, Township 25 South, Range 32 East, NMPM.

The following shall apply respectively to each of the six (6) approved Units

(13) Devon Energy Production Company, LP (OGRID 6137) is hereby designated as the operator of the Proposed Well and the Unit.

(14) The operator of the Unit shall commence drilling the Proposed Well on or before November 30, 2019 and shall thereafter continue drilling that Proposed Well with due diligence to test the target formation extending out to the proposed depths.

(15) In the event the operator does not commence drilling the Proposed Well on or before November 30, 2019, then the Unit and pooling approval granted herein shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause demonstrated by satisfactory evidence.

(16) Unless the Proposed Well is drilled to the proposed depths and completed within 120 days after commencement of such well, then the approved Unit and Pooling shall be of no further effect, and that Unit and project area created by this order shall terminate, unless operator requests in writing an extension of the time for completion of the Proposed Well for good cause shown by satisfactory evidence and the Division issues written approval.

(17) Upon final plugging and abandonment of the Proposed Well and any other well drilled on the Unit pursuant to Division Rule 19.15.13.9 NMAC, the pooled Unit shall terminate, unless this Order has been amended to authorize further operations.

(18) Infill wells within the Unit shall be subject to the terms and conditions of this order.

(19) After pooling, uncommitted working interest owners are referred to as pooled working interest owners. ("Pooled working interest owners" are owners of working interests in the Unit, including unleased mineral interests, who are not parties to an operating agreement governing the Unit.) After the effective date of this order, the operator shall furnish the Division and each known pooled working interest owner in the Unit a separate itemized schedule of estimated costs of drilling, completing and equipping the Proposed Well ("well costs").

(20) Within 30 days from its receipt of the schedule of estimated well costs for any well, any pooled working interest owner shall have the right to pay its share of estimated well costs to the operator in lieu of paying its share of reasonable well costs out of production as hereinafter provided, and any such owner who pays its share of estimated well costs as provided above for any well shall remain liable for operating costs but shall not be liable for risk charges for such well. 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."

(21) The operator shall furnish the Division and each known pooled working interest owner (including non-consenting working interest owners) an itemized schedule of actual well costs of each well within 90 days following completion of the Proposed 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 the schedule, the actual well costs shall be deemed to be the reasonable well costs. If there is an objection to actual well costs within the 45-day period, the Division will determine reasonable well costs after public notice and hearing.

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

(23) The operator is hereby authorized to withhold the following costs and charges from each non-consenting working interest owner's share of production from each well:

a. The proportionate share of reasonable well costs attributable to such interest;

b. As a charge for the risk involved in drilling the well, 200% of the above costs.

(24) The operator shall distribute the costs and charges withheld from production, proportionately, to the parties who advanced the well costs.

(25) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$7000 per month, per well, while drilling and \$700 per month, per well, while producing, provided that these rates may, at the election of the operator, be adjusted annually pursuant to the overhead adjustment provisions of the COPAS form titled "*Accounting Procedure-Joint Operations*." The operator is authorized to withhold from each pooled working interest owner's share of production from each well the proportionate share of both the supervision charges and the actual expenditures required for operating such well, not more than what are reasonable.

(26) During the cost recovery period, the operator shall furnish to the Division and to each known non-consenting pooled working interest owner, annually, and within 90 days after payout occurs, a schedule of all revenues attributable to each Proposed Well, and all charges for supervision and operating costs charged against such revenues. Operating costs shall include all reasonable costs incurred for the maintenance and operation of the well, except for "well costs" reported pursuant to requirements herein, that are properly chargeable to the joint account pursuant to COPAS procedures. If no objection to the operating costs is received by the Division, and the Division has not objected, within 45 days following receipt of any schedule, the costs shall be deemed to be the reasonable operating costs. If there is an objection to the accuracy or reasonableness of operating costs reported within the 45-day period, the Division will determine reasonable operating costs after public notice and hearing.

(27) Except as provided above, all proceeds of 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 7-8A-31, as amended).

(28) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for allocating costs and charges under this Order. Any costs that are to be paid out of production shall be withheld only from the working interests' share of production, and no costs shall be withheld from production attributable to royalty interests.

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

(30) The operator of the well and the Unit shall notify the Division in writing of the subsequent voluntary agreement of any party subject to the compulsory pooling provisions of this order.

(31) Jurisdiction of this case 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.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


HEATHER RILEY
Director

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