

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

**APPLICATIONS OF V-F PETROLEUM INC.
FOR APPROVAL OF A NON-STANDARD
SPACING AND PRORATION UNIT,
LEA COUNTY, NEW MEXICO**

**Case No. 22284
Case No. 22285
Case No. 22286
Order No. R-22679**

ORDER

This matter comes before the Director of the New Mexico Oil Conservation Division (“Division”) on Applications filed by V-F Petroleum Inc. (“V-F Petroleum” or “V-F”). After a hearing was conducted before the Division Examiners, the Director, having reviewed the record and the recommendations of the Examiners, enters the following Findings and Order.

FINDINGS

1. In Case No. 22284, V-F Petroleum filed an Application on October 5, 2021 (“Application”) for an order approving a 160-acre, more or less, non-standard spacing and proration unit (“SE Unit”) comprised of the Southeast quarter of Section 7, Township 15 South, Range 38 East, Lea County, New Mexico.
2. In Case No. 22285, V-F Petroleum filed an Application on October 5, 2021 (“Application”) for an order approving a 160-acre, more or less, non-standard spacing and proration unit (“NE Unit”) comprised of the Northeast quarter of Section 7, Township 15 South, Range 38 East, Lea County, New Mexico.
3. In Case No. 22286, V-F Petroleum filed an Application on October 5, 2021 (“Application”) for an order approving a 160-acre, more or less, non-standard spacing and proration unit (“NW Unit”) comprised of the Northwest quarter of Section 7, Township 15 South, Range 38 East, Lea County, New Mexico.
4. In each Application, V-F proposes to dedicate the Unit to a single vertical well. For Case Nos. 22285 and 22286, the wells are to be drilled at unorthodox locations and the unorthodox locations have been approved by the Division.

5. In each Application, V-F seeks approval of a 160-acre spacing and proration unit for a vertical Wolfcamp well that is currently dedicated to a 40-acre spacing and proration unit. The wells are to be drilled into the Wolfcamp formation and the Denton; Wolfcamp pool (Pool Code 17290). The statewide spacing rules and the pool rules require a spacing unit of approximately 40 acres in the form of a governmental quarter-quarter section. 19.15.15.9 (A) NMAC.

6. A hearing was held on the Applications on November 4, 2021. The three cases were consolidated at the hearing. V-F presented two witnesses: Jerry Gahr, President of V-F, and Dale Lubinski, a geologist. Both witnesses were subject to examination by the Division Examiners. No other party entered an appearance or provided evidence on the Applications.

7. V-F testified that it owns one hundred percent of the working interests within each Unit. (V-F Ex. A, A-3). Because V-F owns the working interest, it claimed that no party was required to be notified. (Tr. 5). V-F did notify the operator in the Southwest quarter of Section 7 and did provide notice by publication. (V-F Ex. A-4, A-5).

8. V-F testified that, based on its geologic study of the area, the Units are suitable for development by vertical wells and the tracts within the Units will contribute to the production of the wells. V-F believes that the wells will be drilled at geologically preferred locations to maximize recovery. V-F testified that drilling additional wells in the Units would be uneconomic. (Tr. 14).

9. The geologist for V-F testified for each Application that “the tracts comprising the Unit will contribute more or less equally to the production of the Well” (V-F Ex. B). Under questioning from the Examiners at the hearing, the geologist for V-F stated that the location of the wells is based on seismic data. (Tr. 12). He further testified that the target reservoir would only cover one-half to three-quarters of each Unit. (Tr. 13) (“it looks like it would, uh, only cover, you know, maybe 3/4 or 1/2 of each 160-acre spacing unit”). He also testified that the location of the well for the NW Unit is based on seismic data showing that the reservoir does not extend into the northwest quarter of the northwest quarter. (Tr. 16).

10. The Oil and Gas Act specifically allows the Division to establish nonstandard spacing or proration units. NMSA 1978, §70-2-18(C). The standards the Division must apply in deciding whether to approve a non-standard spacing or proration unit are the general duties of the agency to prevent waste and protect correlative rights as provided in the Act. *Rutter & Wilbanks Corp. v. Oil Conservation Commission*, 1975-NMSC-006 ¶¶ 12-14.

11. The Oil & Gas Act Rules allow administrative approval of a non-standard spacing unit if the unit consists of irregular shaped tracts or quarter-quarter sections joined by a common side. 19.15.15.11(B)(2) NMAC. The Units in these Cases do not meet these qualifications and therefore may only be approved after a hearing.

12. Analysis. In *Rutter & Wilbanks*, the New Mexico Supreme Court upheld the approval of oversized spacing units based on evidence that the proposed wells would effectively drain the units and drilling additional wells would be unnecessary and economically wasteful. 1975-NMSC-006 ¶24. V-F claims that each of the four tracts comprising each Unit will contribute to the production of the Well, and that the drilling of additional wells will be uneconomic. Little evidence was submitted which supported the claim that the wells will drain each tract. The Division must then look at the coordinates of the wells as provided by V-F and examine their location in relation to the four 40-acre tracts that comprise the Unit.

13. In Case No. 22284, the well for the SE Unit is in the NE quarter of the SE quarter of Section 7. The well is located at least 440 feet from each of the other tracts.

14. In Case No. 22285, the well for the NE Unit is in the NE quarter of the NE quarter of Section 7. The well is at an approved unorthodox location and is located at a maximum of approximately 120 feet from each of the other tracts.

15. In Case No. 22286, the well for the NW Unit is in the SE quarter of the NW quarter of Section 7. The well is located approximately 1000 feet from the NW and SW quarter-quarter sections.

16. The Division finds that the well for the NE Unit is located near enough to the other tracts in the Unit to allow effective drainage of the Unit. The Division finds that the wells for the NE and NW Units are located at greater distances from other tracts in each Unit that would not allow effective drainage from all tracts. The distances from other tracts in the NE and NW Units exceed the 330-foot setbacks that are employed to prevent drainage from adjacent properties.

17. The Division concludes that the evidence in the record for Case No. 22285 supports the approval of a non-standard spacing and proration unit that will prevent waste and protect correlative rights. The Division concludes that there is insufficient evidence in the record of Case Nos. 22284 and 22286 to support approval of a non-standard spacing and proration unit.

ORDER

The Unit in Case No. 22285 is approved as a non-standard spacing and proration unit. The Applications in Case Nos. 22284 and 22286 for non-standard spacing and proration units are denied.

**STATE OF NEW MEXICO
OIL CONSERVATION DIVISION**



DYLAN FUGE
DIRECTOR
DF/bb

Date: 5/14/2023