

**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:**

**CASE NO. 15955
ORDER NO. R-14605**

APPLICATION OF OXY USA, INC. FOR APPROVAL OF A 720-ACRE NON-STANDARD PROJECT AREA AND NON-STANDARD SPACING UNIT COMPRISED OF ACREAGE SUBJECT TO A PROPOSED COMMUNITIZATION AGREEMENT, EDDY COUNTY, NEW MEXICO

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on January 25, 2018, at Santa Fe New Mexico, before Examiner William V. Jones.

NOW, on this 12th day of March, 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 this case and its subject matter.

(2) OXY USA, Inc. ("Applicant, or OXY") seeks approval of a 720-acre (more or less) non-standard project area and non-standard spacing unit (the "Unit") for oil production from the Bone Spring formation, Pierce Crossing; Bone Spring, East (Pool Code 96473), comprised of the W/2 of Section 25, the W/2 of Section 36, and the S/2 SW/4 of Section 24, in Township 24 South, Range 29 East, NMPM, Eddy County, New Mexico.

(3) This Unit is to be dedicated to the following three Subject Wells, all drilled in parallel from south to north:

Corral Canyon 36 25 Federal Com Well No. 21H (API No. 30-015-44631)

W/2 W/2 of Sections 25 and 36 and the SW/4 SW/4 of Section 24

SHL: 381 feet from the North line and 1493 feet from the West line,
(Lot 3 or Unit C) of Section 1, Township 25 South, Range 29 East, NMPM.

BHL: 1144 feet from the South line and 524 feet from the West line
(Unit M) of Section 24, Township 24 South, Range 29 East, NMPM.

Corral Canyon 36 25 Federal Com Well No. 22H (API No. 30-015-44632)

E/2 W/2 of Sections 25 and 36 and the SE/4 SW/4 of Section 24

SHL: 381 feet from the North line and 1528 feet from the West line,
(Lot 3 or Unit C) of Section 1, Township 25 South, Range 29 East, NMPM.

BHL: 1144 feet from the South line and 1404 feet from the West line
(Unit N) of Section 24, Township 24 South, Range 29 East, NMPM.

Corral Canyon 36 25 Federal Com Well No. 23H (API No. 30-015-44633)

E/2 W/2 of Sections 25 and 36 and the SE/4 SW/4 of Section 24

SHL: 381 feet from the North line and 1563 feet from the West line,
(Lot 3 or Unit C) of Section 1, Township 25 South, Range 29 East, NMPM.

BHL: 1143 feet from the South line and 2268 feet from the West line
(Unit N) of Section 24, Township 24 South, Range 29 East, NMPM.

(4) The Pierce Crossing; Bone Spring, East Pool has Special Rules allowing a limiting gas to oil ratio of 5000 SCF of gas to 1 barrel of oil. The pool follows other Division rules as specified in Rule 19.15.15.9(A) NMAC which allows 40-acre spacing and proration units and allows wells to be drilled and completed no closer than 330 feet from the spacing unit boundary.

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

- (a) The Unit area consists of four separately owned tracts comprised of portions of three Bureau of Land Management ("BLM") leases and one State Land Office ("SLO") lease. OXY and affiliates currently hold all the leases and own 100 percent of the working interest within the proposed Unit. There are numerous overriding royalty interest owners.
- (b) A communitization agreement ("CA"), dated March 1, 2018, is pending before the BLM and the SLO.
- (c) The Corral Canyon 36 25 Federal Com Well No. 22H is proposed to be drilled within 84 feet of the centerline to prevent waste of oil and gas.
- (d) Applicant has determined that a well density of six wells per section is optimum in the Bone Spring formation; therefore, one well must be drilled near the center of the proposed Unit.
- (e) Applicant intends to drill all three Subject Wells and then complete all three wells in one operation, thereby recovering additional oil from the proposed Unit.

- (f) The Unit area would not result in stranded acreage since the acreage to the north of the proposed Unit has been already drilled and developed.
 - (g) All quarter-quarter sections to be included in the Unit area are expected to be productive in the Bone Spring formation and all will be developed by the three Subject Wells.
 - (h) All Subject Wells will be completed at standard locations within the Unit.
 - (i) Applicant provided notice of this application to affected parties in the quarter-quarter sections surrounding the Unit area by certified mail and by publication before hearing in a newspaper of general circulation in Eddy County, New Mexico.
- (6) No other party appeared at the hearing, or otherwise opposed the granting of this application.

The Division concludes that:

- (7) Applicant has permitted the Subject Wells at the locations detailed above and intends to drill the three wells to develop all quarter-quarter sections within this proposed Unit. One of the Subject Wells is proposed to be located within 84 feet from the center of the Unit which distance is much less than the required 330-foot setback; therefore, this center well will most likely drain oil reserves from (and develop) all 18 quarter-quarter sections in the Unit.
- (8) All working interest owners within the Unit have agreed to form this voluntary project area and share equally in production from the Unit area.
- (9) Applicant has provided notice of its intentions to all owners and affected parties. Applicant has a proposed CA pending before the State Land Office and the Bureau of Land Management.
- (10) Pending approval of the CA by both the SLO and the BLM, applicant's proposal to create a 720-acre non-standard project area and non-standard oil spacing unit in the Bone Spring formation should be approved to prevent waste and protect correlative rights.
- (11) All other Division rules should still apply to wells drilled within this Unit.
- (12) The oil and gas allowable for the Unit should be based on the applicable unit allowable for the pool multiplied by the 18 quarter-quarter sections comprising the Unit.

IT IS THEREFORE ORDERED THAT:

(1) The application OXY USA, Inc. ("OXY") to create a 720-acre (more or less) non-standard project area and spacing unit (the "Unit") for oil production from the Bone Spring formation, Pierce Crossing; Bone Spring, East (Pool Code 96473), comprised of the W/2 of Section 25, the W/2 of Section 36, and the S/2 SW/4 of Section 24, in Township 24 South, Range 29 East, NMPM, Eddy County, New Mexico, is hereby approved.

(2) The effective date of the creation of the Unit shall be the latest date of (i) approval of this Order or (ii) the approval of the CA by both the BLM and the SLO. OXY shall provide the Division proof of such approval of the CA.

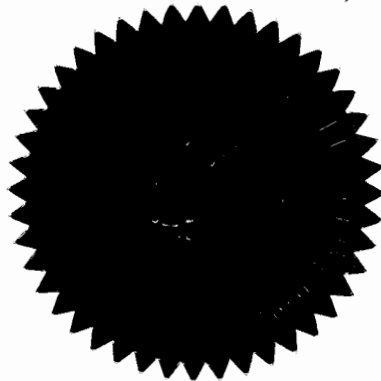
(3) The Unit shall be dedicated to the three Subject Wells detailed in finding paragraph No. 3. The operator of the Subject Wells shall file forms C-102 reflecting the correct acreage dedication of each of the three subject wells.

(4) Creation of this Unit is dependent on the drilling and completion of the Corral Canyon 36 25 Federal Com Well No. 22H (API No. 30-015-44632) as proposed near the center line of the Unit.

(5) The oil and gas allowable for the Unit shall be based on the applicable unit allowable for the pool multiplied by the 18 quarter-quarter governmental sections comprising the Unit.

(6) 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

HEATHER RILEY
Director