

**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. 16143
ORDER NO. R-14766**

**APPLICATION OF APACHE CORPORATION FOR A NON-STANDARD
SPACING AND PRORATION UNIT, NON-STANDARD LOCATIONS, AND
COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on May 17, 2018, before Examiner Scott A. Dawson.

NOW, on this 2nd day of July 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 of the subject matter.

(2) Cases No. 16142 and 16143 were consolidated at the hearing for the purpose of testimony; however, separate orders will be issued for each case.

(3) Apache Corporation ("Applicant" or "Apache") seeks approval of a 160-acre non-standard oil spacing and proration unit and project area (the "Unit") for oil and gas production from the Bone Spring formation, Palmillo; Bone Spring, Southwest Pool (Pool code: 96413), comprising the N/2 N/2 of Section 26, Township 19 South, Range 28 East, NMPM, Eddy County, New Mexico. Applicant further seeks an order pooling all uncommitted interests in the Unit for the Bone Spring formation.

(4) The Unit will be dedicated to two horizontal wells: the Palmillo 26 State Com Well No. 315H and the Palmillo 26 State Com Well No. 316H ("the proposed wells"). The completed interval of the proposed wells will be at unorthodox locations.

(5) The Palmillo 26 State Com Well No. 315H ("315H Well"; API No. 30-015-44907), a horizontal well is to be drilled from a surface location, 820 feet from the North line and 230 feet from the East line (Unit A), to a bottom-hole location, 1284 feet from the North line and 50 feet from the West line (Unit D) of Section 26, Township 19 South, Range 28 East.

(6) The Palmillo 26 State Com Well No. 316H ("316H Well"; API No. 30-015-44908), a horizontal well is to be drilled from a surface location, 780 feet from the North line and 230 feet from the East line (Unit A), to a bottom-hole location, 380 feet from the North line and 50 feet from the West line (Unit D) of Section 26, Township 19 South, Range 28 East.

(7) The proposed oil wells will be within the Palmillo; Bone Spring, Southwest Pool (pool code 96413) and are subject to Division Rule 19.15.15.9(A) NMAC, which provides for 330-foot setbacks from the unit boundaries and standard 40-acre units each comprising a governmental quarter-quarter section. The proposed Unit and project area consists of four adjacent quarter-quarter sections oriented east to west.

(8) Applicant appeared at the hearing through counsel and presented land and geologic evidence to the effect that:

- (a) The Bone Spring formation in this area is suitable for development by horizontal drilling;
- (b) the proposed orientation of the horizontal well from East to West or West to East is appropriate for the proposed Unit;
- (c) each quarter-quarter section in the proposed unit can be expected to contribute more or less equally to production from the Bone Spring formation;
- (d) the first perforation of the 315 H will be located 1316 feet from the North line and 593 feet from the east line (Unit A), and the final perforation will be located 1284 feet from the North line and 100 feet from the West line (Unit D) of Section 26;
- (e) the first perforation of the 316 H will be located 412 feet from the North line and 589 feet from the east line (Unit A), and the final perforation will be located 380 feet from the North line and 100 feet from the West line (Unit D) of Section 26;
- (f) notice was provided to the affected parties in the SE/4 SE/4 of Section 22, the NW/4 SW/4 and W/2 NW/4 of Section 25, and the NE/4 SE/4 and E/2 NE/4 of Section 27, all in Township 19 South, Range 29 East for the non-standard locations for all wells subject to this application;

- (g) 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, and whose whereabouts could be ascertained by exercise of reasonable diligence; and
- (h) those potentially affected parties whose whereabouts could not be ascertained were noticed by publication as provided in Rule 19.15.4.12.B NMAC.

(9) V-F Petroleum, Inc. made a pre-hearing statement, but withdrew its objection prior to the Hearing. No other party appeared at the hearing, or otherwise opposed the granting of this application.

The Division concludes that:

(10) The proposed non-standard unit should be approved to enable Applicant to drill horizontal wells that will efficiently produce the reserves underlying the Unit, thereby preventing waste and protecting correlative rights.

(11) Two or more separately owned tracts are embraced within the Unit, and/or there are royalty interests and/or undivided interests in oil and gas minerals in one or more tracts included in the Unit that are separately owned.

(12) Applicant is owner of an oil and gas working interest within the Unit. Applicant has the right to drill and proposes to drill the proposed wells to a common source of supply within the Unit at the proposed location.

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

(14) Applicant stated that the first perforation for Palmillo 26 State Com Well No. 316H is to be located 412 feet from the North line and 589 feet from the East line (Unit A) of Section 26. It would be more appropriate to state that the first perforation will be orthodox for this well.

(15) Applicant stated that the non-standard location was required because Apache desires to perforate and complete up to 100 feet from the section lines (instead of 330 feet) to minimize unstimulated reservoir.

(16) Applicant properly notified the affected parties pursuant to Division Rule 19.15.4.12.A(2). Further, the reasoning for the non-standard locations are plausible. Therefore, the non-standard location portion of the application should be approved for all wells subject to this order.

(17) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford to the owner of each interest in the Unit the opportunity to recover or receive without unnecessary expense its just and fair share of hydrocarbons, this application should be approved by pooling all uncommitted interests, whatever they may be, in the oil and gas within the Unit.

(18) Apache should be designated the operator of the proposed well and the Unit.

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

(20) Reasonable charges for supervision (combined fixed rates) should be fixed at \$7,000 per month, per well, while drilling and \$700 per month, per well, while producing, provided that these rates should be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations.*"

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Apache Corporation, a 160-acre non-standard oil spacing unit and proration unit and project area (the "Unit") is hereby established for oil and gas production from the Bone Spring formation, Palmillo; Bone Spring, Southwest (Pool code 96413), comprising the N/2 N/2 of Section 26, Township 19 South, Range 28 East, NMPM, Eddy County, New Mexico.

(2) All uncommitted interests, whatever they may be, in the oil and gas in the Bone Spring formation underlying the Unit, are hereby pooled.

(3) The Unit shall be dedicated to two horizontal wells: the Palmillo 26 State Com Well No. 315H and the Palmillo 26 State Com Well No. 316H ("the proposed wells").

(4) The Palmillo 26 State Com Well No. 315H ("315H Well"; API No. 30-015-44907) shall be drilled from a surface location, 820 feet from the North line and 230 feet from the East line (Unit A), to a bottom hole location, 1284 feet from the North line and 50 feet from the West line (Unit D) of Section 26, Township 19 South, Range 28 East.

(5) The Palmillo 26 State Com Well No. 316H ("316H Well"; API No. 30-015-44908) shall be drilled from a surface location, 780 feet from the North line and 230 feet from the East line (Unit A), to a bottom hole location, 380 feet from the North line and 50 feet from the West line (Unit D) of Section 26, Township 19 South, Range 28 East.

(6) The 315H Well first perforation shall be located 1316 feet from the North line and 593 feet from the East line (Unit A), and the final perforation shall be located 1284 feet from the North line and 100 feet from the West line (Unit A) of Section 26.

(7) The 316H Well first perforation shall be located at an orthodox location, and the final perforation shall be located 380 feet from the North line and 100 feet from the West line (Unit A) of Section 26.

(8) The operator of the Unit shall commence drilling at least one of the proposed wells on or before June 30, 2019 and shall thereafter continue drilling the proposed wells with due diligence to test the Bone Spring formation.

(9) In the event the operator does not commence drilling at least one of the proposed wells on or before June 30, 2019 Ordering Paragraphs (1) and (2) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause demonstrated by satisfactory evidence.

(10) The operator shall notify each pooled working interest owner for whom it has a valid address before it files with the Division any request for extension of the time to commence drilling and shall certify its compliance with this requirement in its request for extension. The Division may grant an extension at its discretion after 20-days from receipt of the request if no objection is received. Otherwise, the Division shall not grant the extension without a hearing.

(11) Unless at least one of the proposed wells is drilled and completed within 120 days after commencement of the first such well, then Ordering Paragraphs (1) and (2) shall be of no further effect, and the unit and project area created by this order shall terminate, unless operator appears before the Division Director and obtains an extension of the time for completion of the proposed wells for good cause shown by satisfactory evidence. If neither of the proposed wells is completed in all quarter-quarter sections included in the Unit within 120 days after commencement of drilling, then the operator shall apply to the Division for an amendment to this Order to contract the Unit so that it includes only those quarter-quarter sections in which at least one well is completed.

(12) Upon final plugging and abandonment of both proposed wells and any other well drilled on the Unit pursuant to Division Rule 19.15.13.9 NMAC, the pooled unit created by this order shall terminate unless this order has been amended to authorize further operations.

(13) Apache Corporation (OGRID 873) is hereby designated the operator of the wells and of the Unit.

(14) 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 separate itemized schedules of estimated costs of drilling, completing and equipping each proposed well ("well costs").

(15) Within 30 days from the date the schedule of estimated well costs for each well is furnished, any pooled working interest owner shall have the right to pay its share of estimated well costs for such well 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 for either well as provided above shall remain liable for operating costs but shall not be liable for risk charges to the extent computed based on costs of such well. Pooled working interest owners who elect not to pay their share of estimated well costs as provided in this paragraph for either well shall thereafter be referred to as "non-consenting working interest owners" with respect to any well for which they so elect.

(16) 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 for each proposed well within 90 days following completion of such well. If no objection to the actual well costs for any well is received by the Division, and the Division has not objected, within 45 days following receipt of the schedule for such well, 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 for such well after public notice and hearing.

(17) 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 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 for such well exceed its share of reasonable well costs.

(18) 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 each such owner; and
- (b) as a charge for the risk involved in drilling the well, 200% of the above costs.

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

(20) Except as provided in the foregoing paragraphs, all proceeds from production from the 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 70-8A-31, as amended).

(21) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$7,000 per month, per well, while drilling and \$700 per month, per well, while producing, provided that these rates shall be adjusted annually pursuant to the COPAS form titled "*Accounting Procedure-Joint Operations*." The operator is authorized to withhold from production from each well the proportionate share of both the supervision charges and the actual expenditures required for operating of such well, not in excess of what are reasonable, attributable to pooled working interest owners.

(22) 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 actually incurred for the maintenance and operation of the well, except for "well costs" reported pursuant to Ordering Paragraph (13), 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.

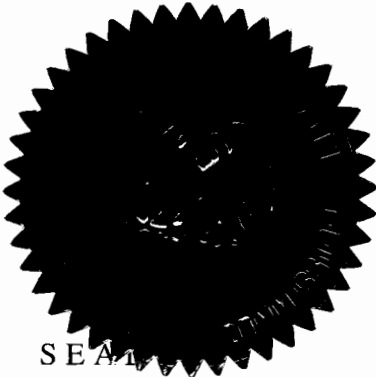
(23) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order. Any costs that are to be paid out of production shall be withheld only from the working interests' share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

(24) 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.

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

(26) 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