

**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. 16264  
ORDER NO. R-20036**

**APPLICATION OF CHISHOLM ENERGY OPERATING, LLC FOR A NON-STANDARD OIL SPACING AND PRORATION UNIT AND COMPULSORY POOLING, LEA COUNTY, NEW MEXICO.**

**ORDER OF THE DIVISION**

**BY THE DIVISION:**

This case came on for hearing at 8:15 a.m. on July 12, 2018 at Santa Fe, New Mexico, before Examiner Michael A. McMillan.

NOW, on this 15<sup>th</sup> day of October 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) Case Nos. 16263 and 16264 were consolidated at the hearing for testimony and a single order is being issued for each case.

(3) Chisholm Energy Operating, LLC ("Chisholm Energy Operating " or "Applicant"), seeks approval of a non-standard 320-acre oil spacing and proration unit and project area ("the Unit") in the Bone Spring formation [any and all Bone Spring oil pools] underlying the W/2 E/2 of Section 24, and the W/2 E/2 of Section 25, all in Township 19 South, Range 32 East, NMPM, Lea County, New Mexico. Applicant further seeks an order pooling all uncommitted interests within the Unit in the Bone Spring formation.

(4) The Unit will be dedicated to the Diamondback 24 25 Federal Com 2BS Well No. 1H ("Proposed Well"; API No. 30-025-45006), a horizontal well to be drilled from a surface location, 125 feet from the North line and 750 feet from the East line (Unit A) of Section 24, to a terminus 330 feet from the South line and 2210 feet from the East

line (Unit O) of Section 25, all in Township 19 South, Range 32 East. The completed interval of the proposed well will be at an orthodox location.

(5) The Division has placed this well in the Lusk; Bone Spring, East Pool (Pool code 41442) which Pool is subject to Special Rules requiring 160-acre oil spacing and proration units with wells to be located no closer than 660 feet from the spacing unit boundary.

(6) Applicant appeared at the hearing through counsel and presented 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 north to south is appropriate for the Unit;
- (c) all quarter-quarter sections to be included in the Unit are expected to be productive in the Bone Spring formation, so that the Unit as requested will not impair correlative rights;
- (d) 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
- (e) Out of abundance of caution, Applicant provided notice to those potentially affected parties whose whereabouts could not be ascertained were noticed by publication as provided in Rule 19.15.4.12.B NMAC.

(7) COG Operating LLC entered an appearance and was represented by counsel at the hearing. No other party appeared in the case or otherwise opposed the granting of this application.

The Division concludes that:

(8) The proposed Unit and project area consist of eight adjacent quarter-quarter sections oriented north to south which is not consistent with the spacing in the Lusk; Bone Spring, East Pool. Applicant assumed the well was in the Tonto; Bone Spring Pool (Pool code 59475), which is subject to Division Rule 19.15.15.9(A) NMAC, which provides for 330-foot setbacks within a standard 40-acre quarter-quarter section spacing and proration unit. Applicant has provided notice in this case for its proposal to form the proposed spacing unit with requested size and orientation.

(9) The proposed non-standard unit should be approved to enable Applicant to drill a horizontal well that will efficiently produce the reserves underlying the Unit, thereby preventing waste, and will not impair correlative rights.

(10) 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.

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

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

(13) 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 in the Bone Spring formation within the Unit.

(14) Chisholm Energy Operating, LLC should be designated the operator of the proposed well and of the Unit.

(15) Infill wells within the Unit 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.

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

(17) Reasonable charges for supervision (combined fixed rates) should be fixed at \$7,500 per month, per well, while drilling and \$750 per month, per well, while producing, provided that these rates should be adjusted annually pursuant to the COPAS form titled "*Accounting Procedure-Joint Operations.*"

**IT IS THEREFORE ORDERED THAT:**

(1) A standard 320-acre, oil spacing and proration unit and project area ("the Unit") is hereby established for oil and gas production from the Bone Spring formation, Lusk; Bone Spring, East Pool (Pool Code 41442) underlying the W/2 E/2 of Section 24, and the W/2 E/2 of Section 25, all in Township 19 South, Range 32 East, NMPM, in Lea County, New Mexico.

(2) Pursuant to the application of Chisholm Energy Operating, LLC, 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 the Proposed Diamondback 24 25 Federal Com 2BS Well No. 1H (API No. 30-025-45006), a horizontal well which will be drilled from a surface location, 125 feet from the North line and 750 feet from the East line (Unit A) of Section 24, to a terminus 330 feet from the North line and 2210 feet from the West line (Unit O) of Section 25, all in Township 19 South, Range 32 East. The completed interval of the proposed well will be at an orthodox location.

(4) The operator of the Unit shall commence drilling the proposed well on or before October 31, 2019 and shall thereafter continue drilling the well with due diligence to test the Bone Spring formation.

(5) In the event the operator does not commence drilling the proposed well on or before October 31, 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.

(6) Should the proposed well not be drilled and completed within 120 days after commencement thereof, 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 well for good cause shown by satisfactory evidence.

(7) 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 created by this order shall terminate, unless this Order has been amended to authorize further operations.

(8) Chisholm Energy Operating, LLC (OGRID 372137) is hereby designated the operator of the well and the Unit.

(9) 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 an itemized schedule of estimated costs of drilling, completing and equipping the proposed well ("well costs").

(10) Within 30 days from the date the schedule of estimated well costs is furnished, 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 shall remain liable for operating costs but shall not be liable for risk charges. 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."

(11) 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 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.

(12) Within 60 days following determination of reasonable well costs, any pooled working interest owner who has paid its share of estimated costs 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.

(13) The operator is hereby authorized to withhold the following costs and charges from production attributable to each non-consenting working interest owner 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.

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

(15) Reasonable charges for supervision (combined fixed rates) for the well are hereby fixed at \$7,500 per month while drilling and \$750 per month while producing, provided that these rates shall be adjusted annually pursuant to the overhead provisions of the COPAS form titled "*Accounting Procedure-Joint Operations*." The operator is authorized to withhold from production the proportionate share of both the supervision charges and the actual expenditures required for operating the well, not more than what are reasonable, attributable to pooled working interest owners.

(16) Except as provided above, all proceeds from 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).

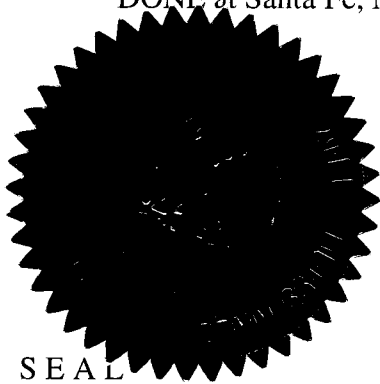
(17) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this Order. Any well costs or charges that are to be paid out of production shall be withheld only from the working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

(18) 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.

(19) 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.

(20) 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