

**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. 16405  
ORDER NO. R-20232**

**APPLICATION OF CHEVRON U.S.A INC. FOR A NON-STANDARD SPACING  
AND PRORATION UNIT 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 October 4, 2018, at Santa Fe, New Mexico, before Examiner Michael A. McMillan.

NOW, on this 19<sup>th</sup> 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 this case and the subject matter.

(2) Chevron U.S.A. Inc. (the "Applicant") seeks approval of a 640-acre non-standard gas spacing unit for oil and gas production from the Wolfcamp formation, Purple Sage; Wolfcamp (Gas) Pool (Pool code 98220), comprising the E/2 of Section 3, and the E/2 of Section 10, all in Township 23 South, Range 28 East, NMPM, Eddy County, New Mexico. Applicant further seeks an order pooling all uncommitted interests in the Unit for the Wolfcamp formation.

(3) The Unit will be dedicated to the following "proposed wells". The completed interval of the proposed wells will be orthodox:

**CB Hays Federal Com Well No. 1H, API No. 30-015-Pending**

SHL: 518 feet from the North line and 1380 feet from the East line,  
(Unit B) of Section 15, Township 23 South, Range 28 East, NMPM.  
BHL: 330 feet from the North line and 2178 feet from the East line  
(Unit B) of Section 3, Township 23 South, Range 28 East, NMPM;

**CB Hays Federal Com Well No. 2H, API No. 30-015-Pending**

SHL: 519 feet from the North line and 1330 feet from the East line,  
(Unit A) of Section 15, Township 23 South, Range 28 East, NMPM.  
BHL: 100 feet from the North line and 1254 feet from the East line  
(Unit O) of Section 3, Township 23 South, Range 28 East,  
NMPM;  
and

**CB Hays Federal Com Well No. 3H, API No. 30-015-Pending**

SHL: 520 feet from the North line and 1280 feet from the East line,  
(Unit A) of Section 15, Township 23 South, Range 28 East, NMPM.  
BHL: 100 feet from the North line and 330 feet from the East line  
(Unit A) of Section 3, Township 23 South, Range 28 East, NMPM;

(4) The proposed wells will be drilled horizontally and completed in the Wolfcamp formation [Purple Sage; Wolfcamp Gas Pool]. Said pool is subject to Special Rules promulgated in Order No. R-14262 issued in Case No. 15535 which allow 330-foot setbacks within a standard 320-acre, deep gas spacing unit. The proposed Unit will comprise four adjacent quarter sections in two separate sections, oriented north to south.

(5) Applicant appeared through counsel and presented the following land and technical evidence:

- (a) The Wolfcamp formation in this area is suitable for development by horizontal drilling;
- (b) The proposed orientation of the horizontal well or wells from south to north is appropriate for the Unit;
- (c) All quarter sections to be included in the Unit are expected to be substantially productive in the Wolfcamp formation, so that the Unit as requested will not impair correlative rights;
- (d) Applicant requested that the non-standard gas spacing unit portion of the Application be dismissed;
- (e) Applicant is seeking the proposed wells for economic efficiency to drill the wells back to back;
- (f) The building block for the Unit will consist of two 320-acre gas spacing units based on 19.15.15.10 (B) NMAC and 19.15.16.15 (B).3 NMAC, comprised of the E/2 of Section 3, and E/2 of Section 10, all in Township 23 South, Range 28 East;
- (g) Applicant requested that in place of the standard 120 days between wells it be granted 365 days between wells. Further, Applicant agreed that it will provide to the Engineering Bureau a signed

statement and a Sundry notice to the Bureau that each spacing unit is capable of producing hydrocarbons;

- (h) Applicant stated it needs the one year between wells because of economic efficiencies with cost efficiencies of batch drilling and completion, and applicant's historical record that it could take as long as six months to drill without the well being completed;
  - (i) 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.
  - (j) Those potentially affected parties whose whereabouts could not be ascertained were noticed by publication as provided in Rule 19.15.4.12.B NMAC.
- (6) No other party appeared or otherwise opposed this application.

The Division Concludes That

(7) The application in this case was filed after the June 26, 2018 date in which the horizontal rule amendments became effective (see Order No. R-14689).

(8) 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 gas wells will be dedicated to a standard Horizontal Spacing Unit (the "Unit") and will comprise two governmental quarter sections oriented from south to north.

(9) Applicant's request to dismiss the portion of the case asking for a non-standard spacing and proration unit should be granted.

(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 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 described 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 a 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.

(14) Chevron U.S.A. Inc. (OGRID 4323) should be designated the operator of the proposed well and 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) The Applicant's request for 365 days between wells should be changed to one year between wells for record keeping purposes. Further, an engineer affiliated with the Applicant shall provide a written statement and Sundry notice to the Engineering Bureau that each spacing unit is capable of producing oil and gas. Lastly correlative rights are being protected because the Applicant will be required to provide notice to the Bureau that each spacing unit is capable of producing hydrocarbons, and as a result, no affected parties are being adversely affected.

(17) 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 well.

(18) 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) All uncommitted interests, whatever they may be, in the oil and gas in the Wolfcamp formation underlying a 640-acre standard Horizontal Gas Spacing Unit (the "Unit") in the Purple Sage; Wolfcamp (Gas) Pool (Pool code 98220), comprising the E/2 of Section 3, and the E/2 of Section 10, all in Township 23 South, Range 28 East, NMPM, Eddy County, New Mexico, are hereby pooled.

(2) The building blocks for the Unit shall consist of two 320-acre units comprised of the E/2 of Section 3, and the E/2 of Section 15, all in township 23 South, Range 28 East, NMPM, Eddy County, New Mexico.

(3) The portion of the case asking for approval of a non-standard spacing and proration unit is hereby dismissed.

(4) The Unit shall be dedicated to the following "proposed wells". The completed interval of the proposed wells will be orthodox:

**CB Hays Federal Com Well No. 1H, API No. 30-015-Pending**

SHL: 518 feet from the North line and 1380 feet from the East line,  
(Unit B) of Section 15, Township 23 South, Range 28 East, NMPM.

BHL: 100 feet from the North line and 2178 feet from the East line  
(Unit B) of Section 3, Township 23 South, Range 28 East, NMPM.

**CB Hays Federal Com Well No. 2H, API No. 30-015-Pending**

SHL: 519 feet from the North line and 2060 feet from the East line,  
(Unit A) of Section 15, Township 23 South, Range 28 East, NMPM.

BHL: 100 feet from the South line and 1254 feet from the East line  
(Unit A) of Section 3, Township 23 South, Range 28 East, NMPM.

**CB Hays Federal Com Well No. 3H, API No. 30-015-Pending**

SHL: 520 feet from the North line and 1280 feet from the East line,  
(Unit A) of Section 15, Township 23 South, Range 28 East, NMPM.

BHL: 100 feet from the North line and 330 feet from the East line  
(Unit A) of Section 3, Township 23 South, Range 28 East, NMPM.

(5) The operator of the Unit shall commence drilling the proposed wells on or before November 30, 2019, and shall thereafter continue drilling the wells with due diligence to test the Wolfcamp formation.

(6) In the event the operator does not commence drilling at least one of the proposed wells on or before November 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.

(7) Unless at least one of the proposed wells is drilled and completed within one year 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 sections included in the Unit within one year 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 sections in which at least one well is completed.

(8) The preceding paragraph shall only be permitted if the Applicant meets the requirements of Findings paragraph (16). If the requirements are not satisfactorily met, the Order shall be terminated.

(9) Upon final plugging and abandonment of the proposed wells 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.

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

(11) Chevron U.S.A. Inc. (OGRID 4323) is hereby designated the operator of the proposed well and the Unit.

(12) 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").

(13) 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 of 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 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."

(14) 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.

(15) 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.

(16) 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; and
- (b) As a charge for the risk involved in drilling the well, 200% of the above costs.

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

(18) 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.

(19) 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.

(20) 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).

(21) 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.

(22) 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.

(23) The operator of the wells 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.

(24) 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

A handwritten signature in black ink, appearing to read "Heather Riley".

HEATHER RILEY  
Director