

**New Mexico
Oil Conservation Commission
Meeting**

November 10, 2016

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

2016 AUG -1 A 9:15

IN THE MATTER OF THE HEARING CALLED
BY THE OIL CONSERVATION DIVISION FOR
THE PURPOSE OF CONSIDERING:

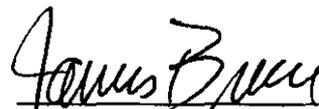
APPLICATION OF CAZA PETROLEUM, INC.
FOR A NON-STANDARD SPACING AND
PRORATION UNIT AND COMPULSORY
POOLING, LEA COUNTY, NEW MEXICO.

Case No. 15,437
Order No. R-14191

APPLICATION FOR HEARING DE NOVO

Caza Petroleum, Inc., a party of record adversely affected by the above Order, request that this matter be heard *de novo* before the Oil Conservation Commission.

Respectfully submitted,



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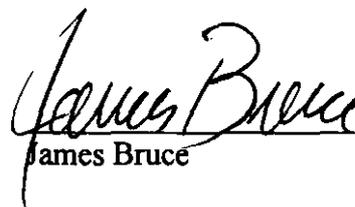
Attorney for Caza Petroleum, Inc.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing pleading was served upon the following counsel of record this 1st day of August, 2016 by U.S. Mail and e-mail:

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James Bruce

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

**IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:**

**CASE NO. 15437
ORDER NO. R-14191**

**APPLICATION OF CAZA PETROLEUM, INC. 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 March 3, 2016, at Santa Fe, New Mexico, before Examiner Scott Dawson.

NOW, on this 14th day of July, 2016, 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) Caza Petroleum, Inc. ("Caza" or "Applicant") seeks approval of a non-standard 160.16-acre oil spacing and proration unit (the "Unit") for oil production in the Lea: Bone Spring, South pool (**pool code 37580**), comprising the W/2 W/2 of Section 19, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico. Applicant further seeks an order pooling all uncommitted interests in the Unit for the Bone Spring formation.

(3) The Unit will be dedicated to Applicant's Igloo 19 State Well No. 7H (the "proposed well": **API No. 30-025-42361**), a horizontal well to be drilled from a surface location 200 feet from the South line and 750 feet from the West line (Lot 4) to a standard terminus 330 feet from the North line and 350 feet from the West line (Lot 1) of Section 19. The completed interval of the proposed well in the Bone Spring formation will be orthodox.

(4) The proposed oil well is within the Lea: Bone Spring, South pool (pool code

37580). Spacing in this pool is governed by Division Rule 19.15.15.9A NMAC, which provides for standard 40-acre units, each comprising a governmental quarter-quarter section, and 330-foot setbacks from the unit boundaries. The proposed Unit and project area consists of four (4) adjacent quarter-quarter sections.

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

(5) The Applicant's acreage position is the E/2 and the SW/4 of Section 19, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico. The Applicant has drilled a North-South one-mile horizontal well in the E/2 E/2 of Section 19, and is currently producing from the Third Bone Spring Sand.

(6) The Applicant believes that North-South or South-North one mile horizontal wells are more economical in this area than the East-West or West-East horizontal wells. As a result, the Applicant intends to drill another one-mile horizontal well to the Second Bone Spring Sand in the W/2 W/2 of Section 19, Township 20 South, Range 35 East.

(7) The Applicant does not want to drill one half-mile horizontal wells in the SW/4 of Section 19 in which it owns interest because they will be difficult to drill and they will be uneconomical. Further, the Applicant cannot drill one-mile North-South or South-North horizontal wells into Section 30, Township 20 South, Range 35 East, because there are already existing one-mile East-West or West-East horizontal wells that are operated by another operator in the Bone Spring Sands.

(8) The 160-acre NE/4 of Section 19 will be stranded should Caza be forced to drill East-West or West-East one mile horizontal wells in the S/2 of Section 19.

(9) The Bone Spring Sand is continuous across the area, and there are no faults or any other geological impediments that would prevent the drilling of horizontal wells.

(10) Notice of this application for both the formation of a 160-acre project area in the W/2 W/2 of Section 19, and the compulsory pooling of the project area was provided to all parties subject to compulsory pooling and to all affected offset operators or interest owners, but the Applicant was unable to obtain voluntary joinder from all the interest owners to participate in the drilling of the proposed well. The Applicant is therefore seeking to compulsorily pool the uncommitted interest owners in this project area.

(11) Yates Petroleum Corporation, Abo Petroleum Corporation, MYCO Industries, Inc., and Sharbro Energy, LLC, are interest owners in the SW/4 of Section 19, Township 20 South, Range 35 East. They did not appear at the hearing to support Caza's application, however, they wrote letters requesting that the Division approve Caza's application.

(12) COG Operating, LLC, an interest owner in the Federal Exploratory Lea Unit appeared at the hearing through legal counsel to oppose the granting of Caza's application, but the legal counsel did not present any witnesses.

Legacy Reserves Operating LP ("Legacy"), appeared at the hearing through legal counsel and presented the following testimony in opposition to the granting of this application.

(13) Legacy is the operator of the Federal Exploratory Lea Unit which comprises 2,559.68 acres, more or less, of Federal and State lands described below:

Township 20 South Range 34 East, Lea County, New Mexico NMPM

Section 11: E2
Section 12: All
Section 13: All
Section 14: NE/4
Section 24: N/2

Township 20 South Range 35 East, Lea County, New Mexico NMPM

Section 18: W/2
Section 19: NW/4

(14) Legacy owns one hundred (100%) percent of interest in the NW/4 of Section 19 which is part of this Federal Exploratory Lea Unit.

(15) Legacy has developed a complete development plan for the exploration and drilling of approximately thirty-five (35) wells in the 2,559.68-acre, more or less, Federal Exploratory Lea Unit, some of which have been drilled, planned to be drilled, or have approved application for permit to drill (APDs). These wells have been designed to develop the First, Second, and the Third Bone Spring Sands.

(16) Legacy has already obtained an APD from the Bureau of Land Management ("BLM"), and all interest owners in the Lea Unit have approved the drilling of the Lea Unit Well No. 59H, a one and half-mile horizontal well to be drilled in the W/2 W/2 of Section 18, and the W/2 NW/4 of Section 19, Township 20 South, Range 35 East, Lea County, New Mexico, to develop the Third Bone Spring Sand.

(17) The drilling of one and half-mile horizontal wells are more economical than the drilling of one-mile horizontal wells in the area. Caza Petroleum, Inc., has no interest in the NW/4 of Section 19, Township 20 South, Range 35 East. If Caza's application is granted, it would negatively impact Legacy's development plan in the Federal Exploratory Lea Unit, thereby inducing waste and impairing correlative rights.

The Division concludes as follows:

(18) Caza Petroleum, Inc. has ownership interest in the SW/4 but no ownership interest in the NW/4 of Section 19. However, Caza requests to form a 160-acre non-standard spacing and proration unit comprising the W/2 W/2 of Section 19, and have it compulsorily pooled for the drilling of its proposed Igloo 19 State Well No. 7H (API No. 30-025-42361).

(19) Caza has not yet filed or received an approved APD from the BLM for the drilling of its proposed well. The W/2 NW/4 of Section 19 is part of the Federal Exploratory Lea Unit which is under the control of the BLM, and the BLM has designated Legacy the operator of the Lea Unit.

(20) Evidence presented at the hearing indicates that there is no preferred orientation for Bone Spring wells in Sections 19 and 30, Township 20 South, Range 35 East. The East-West or West-East wells drilled by another operator in Section 30, are very economic wells. Consequently, Caza has the option to develop the S/2 of Section 19 with East-West or West-East horizontal Bone Spring wells.

(21) Legacy has a complete horizontal well development plan for the Federal Exploratory Lea Unit for the development of the Bone Spring formation in this area. Legacy plans to drill a total of thirty-five (35) wells in the Lea Unit. Some of the wells have been drilled, planned to be drilled, or have approved APDs. Caza's proposed well in the W/2 W/2 of Section 19 would unreasonably interfere with Legacy's development plan within the Federal Exploratory Unit.

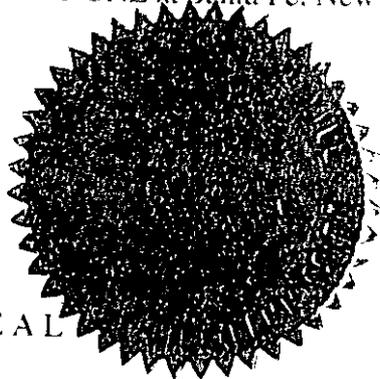
(22) The Division is obligated to prevent waste and protect correlative rights. Since there is no preferred horizontal well orientation in Sections 19 and 30, Township 20 South, Range 35 East, the application of Caza Petroleum, Inc. should be **denied** in order to prevent waste and protect correlative rights.

IT IS THEREFORE ORDERED THAT:

(1) The application of Caza Petroleum Inc., for a non-standard oil spacing and proration unit comprising of the W/2 W/2 of Section 19, Township 20 South, Range 35 East and for compulsory pooling of this non-standard location, Lea County, New Mexico, is hereby **denied**.

(2) 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 hereinafter designated.



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

David R. Catanach

DAVID R. CATANACH
Director