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January 5, 2018

**VIA CERTIFIED MAIL**  
**CERTIFIED RECEIPT REQUESTED**

Case 15955

**TO: AFFECTED PARTIES**

**Re: 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.**

Ladies & Gentlemen:

This letter is to advise you that OXY USA Inc. has filed the enclosed application with the New Mexico Oil Conservation Division. This application will be set for hearing before a Division Examiner at 8:15 a.m. on January 25, 2018. The hearing will be held in Porter Hall in the Oil Conservation Division's Santa Fe Offices located at 1220 South Saint Francis Drive, Santa Fe, New Mexico 87505. You are not required to attend this hearing, but as an owner of an interest that may be affected by this application, you may appear and present testimony. Failure to appear at that time and become a party of record will preclude you from challenging the matter at a later date.

Parties appearing in cases are required by Division Rule 19.15.4.13.B to file a Pre-hearing Statement four business days in advance of a scheduled hearing. This statement must be filed at the Division's Santa Fe office at the above specified address and should include: the names of the parties and their attorneys; a concise statement of the case; the names of all witnesses the party will call to testify at the hearing; the approximate time the party will need to present its case; and identification of any procedural matters that are to be resolved prior to the hearing.

If you have any questions about this matter please contact Sarah Mitchell, at (432) 699-4318 or Sarah\_Mitchell@oxy.com.

Sincerely,

Jordan L. Kessler  
**ATTORNEY FOR OXY USA INC.**

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

**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.**

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CASE NO. 15955

**APPLICATION**

OXY USA, Inc. ("OXY") through its undersigned attorneys, files this application with the Oil Conservation Division for an order approving an approximately 720-acre non-standard project area and non-standard spacing unit in the Bone Spring formation comprised of acreage subject to a proposed Communitization Agreement covering the W/2 of Section 25, the W/2 of Section 36, and the S/2 SW/4 Section 24, Township 24 South, Range 29 East, NMPM Eddy County, New Mexico. In support of this application, OXY states:

1. OXY (OGRID No. 16696) is the only working interest owner in federal and state leases covering the W/2 of Section 25, the W/2 of Section 36, and the S/2 SW/4 Section 24, Township 24 South, Range 29 East, NMPM Eddy County, New Mexico.

2. OXY has permitted the following horizontal wells in the Pierce Crossing Bone Spring, East Pool (Pool Code 96473) underlying the subject acreage:

- The Corral Canyon 36-25 Fed Com No. 21H (API No. Pending) in the W/2 W/2 of Sections 25 and 36 and the SW/4SW/4 of irregular Section 24; and
- The Corral Canyon 36-25 Fed Com No. 22H (API No. Pending) and the Corral Canyon 36-25 Fed Com No. 23H (API No. Pending) in the E/2 W/2 of Sections 25 and 36 and the SE/4 SW/4 of irregular Section 24.

3. The Pierce Crossing Bone Spring, East Pool (Pool Code 96473) is subject to the Division's statewide rule providing for 40-acre spacing units. OXY's drilling program for the subject acreage will develop each of the 40-acre tracts comprising the proposed non-standard project area.

4. OXY seeks to minimize surface disturbance by consolidating facilities and commingling production from existing and future wells in the subject area. The New Mexico State Land Office and the BLM have informed OXY that they will approve a Communitization Agreement covering all of the subject acreage.

5. In order to dedicate the existing wells to the acreage subject to the proposed Communitization Agreement, OXY requires approval from the Division to treat the subject acreage as a single project area.

6. Division Rule 19.15.16.7.L recognizes a state exploratory unit and a participating area within a federal unit as an approved "project area" for purposes of efficient horizontal well development. However, this rule currently does not expressly recognize a communitized area as a "project area" for horizontal well development.

7. Approval a 720-acre project area comprised of the subject acreage will allow OXY to efficiently locate surface facilities and minimize surface disturbances in a manner similar to that currently allowed for state exploratory units and participating areas within federal units.

8. Approval of a 720-acre project area comprised of the subject acreage is consistent with the intent of a "project area" expressed in Rule 19.15.16.7.L(2).

9. In addition, the proposed area is a non-standard project area due to the inclusion of the S/2 SW/4 of Section 24. The target interval of the Bone Spring has already been developed in

the NW/4 and N/2 SW/4 of Section 24. OXY has included the S/2 SW/4 of Section 24 in order to fully develop the reserves and prevent stranding of acreage.

10. Pursuant to Rule 19.15.16.15.E, OXY will provide notice of this application to the affected persons in the 40-acre spacing units located in the State of New Mexico that adjoin the proposed 720-acre project area and to those 40-acre tracts excluded from the otherwise standard project area due to the inclusion of the S/2 SW/4 of Section 24. OXY will also provide notice to overriding royalty interest owners within the project area.

11. OXY also seeks approval of this acreage as a non-standard spacing unit.

12. Approval of this application is in the best interest of conservation, the prevention of waste and the protection of correlative rights.

WHEREFORE, OXY requests that this application be set for hearing before an Examiner of the Oil Conservation Division on January 25, 2018, and that after notice and hearing as required by law, the Division enter an order granting this application.

Respectfully submitted,

HOLLAND & HART LLP

By:   
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**ATTORNEYS FOR OXY USA INC.**