

**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. 15310
ORDER NO. R-14033**

**APPLICATION OF COG OPERATING LLC FOR APPROVAL OF A 640-ACRE
NON-STANDARD PROJECT AREA COMPRISED OF ACREAGE SUBJECT TO
A PROPOSED STATE COMMUNITIZATION AGREEMENT, LEA COUNTY,
NEW MEXICO**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on May 28, 2015 and again on June 11, 2015, at Santa Fe New Mexico, before Examiner William V. Jones.

NOW, on this 12th day of August, 2015, 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 its subject matter.
- (2) COG Operating LLC ("Applicant") seeks approval of a 640-acre, more or less, non-standard project area for oil production from the Bone Spring formation, WC-025 G-06 S213326D; Bone Spring Pool (97929), comprised of all of Section 27, Township 21 South, Range 33 East, NMPM, Lea County, New Mexico.
- (3) This project area is to be dedicated to Applicant's proposed horizontal oil wells oriented from North to South to be drilled and completed at orthodox locations within the project area.
- (4) The project area is considered to be wildcat for oil production from the Bone Spring formation; therefore, oil well spacing and setbacks are governed by statewide Rule 19.15.15.9(A) NMAC.

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

- (a) Section 27 consists of two separate tracts each comprised of portions of State Trust leases. Lease V0-8995 is 3/16ths royalty and covers the NE/4 and N/2 NW/4 of Section 27.
- (b) Lease E0-1932 is 1/8th royalty and covers the S/2 and S/2 NW/4 of Section 27. ConocoPhillips assigned the acreage to COG, but retained an overriding royalty interest as shown in Exhibit No. 10.
- (c) Applicant has drilled and is producing the Pygmy 27 State Well No. 1H (API No. 30-025-40352) from Unit letter D of Section 27 to a terminus in Unit letter M of Section 27. That well is producing and is currently dedicated to the W/2 W/2 of Section 27 under a State Communitization Agreement ("CA").
- (d) Applicant has drilled but not completed Well No. 2H (API No. 30-025-42062) within the E/2 W/2 of Section 27 and has drilled but not completed Well No. 3H (API No. 30-025-42068) within the W/2 E/2 of Section 27.
- (e) Applicant intends to drill the Pygmy 27 State Well No. 4H (API No. 30-025-42069) within the E/2 E/2 of Section 27.
- (f) The State Land Office has indicated that if the Oil Conservation Division approves this proposed non-standard project area, it would approve a Communitization Agreement ("CA") for the Bone Spring formation covering the proposed project area.
- (g) The Bone Spring formation is approximately 2500 feet thick and Applicant has several targets for horizontal drilling within this Bone Spring formation. Well Nos. 1H and 3H are within the Second Bone Spring Sand. Well No. 2H is within the First Bone Spring Sand.
- (h) The stratigraphy of the Bone Spring formation is defined relatively well in this area with pilot holes and offset wells. This indicates that the two tracts (the two State Trust leases) within this proposed non-standard project area will contribute to production in proportion to each tract's acreage contribution.
- (i) Applicant has concluded that Bone Spring wells drilled in a North-South direction seem optimum in production as compared to wells drilled in an East-West direction.

(6) Applicant is not proposing a new pool with special rules or a modification of rules for an existing pool – so other owners within an existing pool are not being affected.

(7) All currently proposed horizontal wells will penetrate all separately owned tracts of land and each of these tracts will contribute to production from these wells. The two State leases are being held by production from Well No. 1H and by its Communitization Agreement.

(8) Notice was provided to owners within the Bone Spring formation surrounding the project area and no objections were received.

(9) Applicant is proposing a non-standard project area consisting of contiguous standard sized 40-acre oil spacing and proration units substantially in the form of a rectangle.

(10) Applicant is proposing to drill a minimum of four horizontal wells which together will penetrate or "develop" all standard sized 40-acre oil spacing and proration units within the project area and should be required to complete these wells prior to Division approval of this non-standard project area.

(11) Formation of this project area to cover one complete Section where wells are drilled and will be drilled approximately one mile in length will ensure acreage is not stranded.

(12) The formation of this project area will enable wells to be located within the project area based on drilling results instead of land considerations, will enable the fracturing of multiple wells at the same time and ensure a more efficient and less wasteful exploitation of the reservoir.

(13) No other parties entered an appearance in this case or otherwise opposed this application.

(14) Applicant's proposal to create a 640-acre non-standard project area for development of oil reserves from the Bone Spring formation should be approved in order to protect correlative rights and prevent waste.

(15) The project area should be considered as one dedicated acreage block with 100 percent voluntary commitment of owners of mineral interests:

(16) Should it be discovered that all interest owners in the project area have not agreed to voluntarily commit their interests, then this order should no longer be in effect.

(17) This 640-acre non-standard project area should not be made effective until (i) all four of the following horizontal wells, or substitute wells, are completed as capable of production collectively from all 16 of the 40-acre standard oil spacing and proration units within this project area and (ii) each of the wells are approved for transport of oil.

- (a) Pygmy 27 State Well No. 1H (API No. 30-025-40352)
- (b) Pygmy 27 State Well No. 2H (API No. 30-025-42062)

- (c) Pygmy 27 State Well No. 3H (API No. 30-025-42068)
- (d) Pygmy 27 State Well No. 4H (API No. 30-025-42069)

(18) Any wells producing within this non-standard project area prior to the effective date of this project area should, at that date, be re-dedicated on form C-102 to the 640-acre project area.

IT IS THEREFORE ORDERED THAT:

(1) The application of COG Operating LLC to establish a 640-acre non-standard project area for production of oil from the Bone Spring formation, WC-025 G-06 S213326D; Bone Spring Pool (97929), comprised of all of Section 27, Township 21 South, Range 33 East, NMPM, Lea County, New Mexico, is hereby approved subject to the following conditions.

(2) This 640-acre non-standard project area shall not be in effect until (i) all four of the following horizontal wells, or substitute wells, are completed as capable of production collectively from all 16 of the 40-acre standard oil spacing and proration units within this project area and (ii) each of the wells is approved for transport of oil.

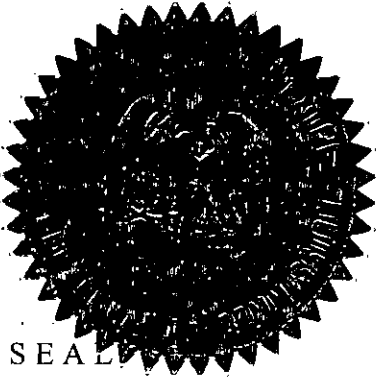
- (a) Pygmy 27 State Well No. 1H (API No. 30-025-40352)
- (b) Pygmy 27 State Well No. 2H (API No. 30-025-42062)
- (c) Pygmy 27 State Well No. 3H (API No. 30-025-42068)
- (d) Pygmy 27 State Well No. 4H (API No. 30-025-42069)

(3) Approval of this non-standard project area is conditioned upon approval of a voluntary CA or exploratory Unit for these lands by the State Land Office.

(4) Should it be discovered that all interest owners in the project area have not agreed to voluntarily commit their interests, then this order shall no longer be in effect.

(5) Jurisdiction of this case is hereby 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

David R. Catanach

DAVID R. CATANACH
Director

SEAL