

**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. 15692
ORDER NO. R-14411**

**AMENDED APPLICATION OF CHEVRON U.S.A., INC. FOR A NON-
STANDARD SPACING AND PRORATION UNIT, COMPULSORY POOLING
AND APPROVAL OF AN UNORTHODOX LOCATION, LEA COUNTY, NEW
MEXICO**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on May 25, 2017, at Santa Fe, New Mexico, before Examiner, Scott A. Dawson.

NOW, on this 25th day of July, 2017, 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) Chevron U.S.A., Inc. (the "Applicant") seeks approval of a 320-acre non-standard oil spacing and proration unit and project area (the "Unit") for oil and gas production from the WC-025 G-06 S263319P; Bone Spring Pool (Pool code 97955) comprising the E/2 E/2 of Section 13, and the E/2 E/2 of Section 24, both in Township 26 South, Range 32 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 SD WE 24 Federal P24 Well No. 6H (the "proposed well" API No. 30-025-43673), a horizontal well to be drilled from a surface location 200 feet from the South line and 1210 feet from the East line (Unit P) of Section 24, Township 26 South, Range 32 East, to a bottom-hole location 180 feet from the North line and 1265 feet from the East line (Unit A) of Section 13, Township 26 South, Range 32 East, NMPM, Lea County, New Mexico. The location of the completed interval

will be non-standard for an oil well within the Unit. In addition to the proposed non-standard unit, Applicant seeks authorization for the proposed non-standard location.

(4) The Unit will also be dedicated to Applicant's SD WE 24 Federal P24 Well No. 7H (the "second proposed well"; API No. 30-025-43675), a horizontal well to be drilled from a surface location 200 feet from the South line and 1185 feet from the East line (Unit P) of Section 24, Township 26 South, Range 32 East, to a bottom-hole location 180 feet from the North line and 440 feet from the East line (Unit A) of Section 13, Township 26 South, Range 32 East, NMPM, Lea County, New Mexico. This well will be completed at a standard location.

(5) The proposed wells are within the WC-025 G-06 S263319P; Bone Spring Pool (Pool code 97955) and are subject to statewide Rule 19.15.15.9(A) NMAC, which provides for 330-foot setbacks from the unit boundaries and standard 40-acre units each comprising a governmental quarter-quarter section. The proposed Unit and project area consists of eight adjacent quarter-quarter sections oriented from north to south.

(6) Applicant appeared through counsel and presented the following land and geologic evidence:

- (a) The Bone Spring formation in this area is suitable for development by horizontal drilling.
- (b) The proposed orientation of the horizontal wells south to north 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) All pooled interests are located in the NE/4 SE/4 of Section 24 and all uncommitted owners were located.
- (e) Both wells have been proposed to interest subject to compulsory pooling.
- (f) Notice of the application and hearing in this case was provided to lessees or operators of surrounding tracts as affected parties of the proposed non-standard spacing unit and non-standard location.
- (g) 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 whose identity and whereabouts could be ascertained by exercise of reasonable diligence, and

- (h) All affected parties were successfully contacted and provided with notice by certified mail.
- (i) A non-standard location was requested for the 6H well to enable the applicant to drill up to six horizontal wells in the Sections 13 and 24.

(7) No other party entered an appearance or otherwise opposed this application.

The Division concludes as follows:

(8) The proposed non-standard unit should be approved to enable Applicant to drill horizontal wells that will efficiently produce the reserves underlying the Unit, thereby preventing waste and protecting correlative rights.

(9) The proposed non-standard location for the 6H well should be approved to prevent waste and to protect 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 wells to a common source of supply within the Unit at the proposed locations.

(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 in the Bone Spring formation within the Unit.

(14) Chevron U.S.A., Inc. should be designated the operator of the proposed wells and the Unit.

(15) Any pooled working interest owner who does not pay its share of estimated well costs of either well 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 proposed wells.

(16) Reasonable charges for supervision (combined fixed rates) should be fixed at \$7000 per well per month while drilling and \$700 per well per month while producing.

provided that these rates should be adjusted annually pursuant to the Overhead section of the COPAS form titled "*Accounting Procedure-Joint Operations.*"

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Chevron U.S.A., Inc., a 320-acre non-standard oil spacing and proration unit and project area (the "Unit") is hereby established for oil and gas production from the WC-025 G-06 S263319P; Bone Spring Pool (Pool code 97955), comprising the E/2 E/2 of Section 13 and the E/2 E/2 of Section 24, both in Township 26 South, Range 32 East, NMPM, Lea County, New Mexico.

(2) 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 will be dedicated to Applicant's SD WE 24 Federal P24 Well No. 6H (the "proposed well" API No. 30-025-43673), a horizontal well to be drilled from a surface location 200 feet from the South line and 1210 feet from the East line (Unit P) of Section 24, Township 26 South, Range 32 East, to a bottom-hole location 180 feet from the North line and 1265 feet from the East line (Unit A) of Section 13, Township 26 South, Range 32 East, NMPM, Lea County, New Mexico. The location of the completed interval will be non-standard for an oil well within the unit.

(4) The Unit will also be dedicated to Applicant's SD WE 24 Federal P24 Well No. 7H (the "second proposed well"; API No. 30-025-43675), a horizontal well to be drilled from a surface location 200 feet from the South line and 1185 feet from the East line (Unit P) of Section 24, Township 26 South, Range 32 East, to a bottom-hole location 180 feet from the North line and 440 feet from the East line (Unit A) of Section 13, Township 26 South, Range 32 East, NMPM, Lea County, New Mexico. The location of the completed interval will be standard for an oil well within the Unit.

(5) The operator of the Unit shall commence drilling each of the proposed wells on or before May 31, 2018, and shall thereafter continue drilling the proposed wells with due diligence to test the Bone Spring formation.

(6) In the event the operator does not commence drilling the proposed wells on or before May 31, 2018, 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) Should at least one of the proposed wells 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 wells for good cause shown by satisfactory evidence. If neither of the proposed wells is not completed in one or more of the standard spacing units included in the proposed project area (or Unit), then the operator shall apply to the Division

for an amendment to this order to contract the Unit so that it includes only those standard spacing units in which at least one well is completed.

(8) The non-standard location requested by the Applicant for well No. 6H is hereby approved.

(9) Chevron U.S.A., Inc. (OGRID 4323) is hereby designated as operator of the wells and unit.

(10) 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 separate itemized schedules of estimated costs of drilling, completing and equipping each of the proposed wells ("well costs").

(11) Within 30 days from the date the schedule of estimated well costs for either well is furnished, 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 either well shall remain liable for operating costs but shall not be liable for risk charges. Pooled working interest owners who elect to pay their share of estimated well costs for either well as provided in this paragraph shall thereafter be referred to as "non-consenting working interest owners" with respect to such well.

(12) 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 each 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.

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

(14) Production from the proposed wells shall be separately metered before commingling unless the division grants an exception for surface commingling providing

for an allocation method suitable for leases with different ownership, pursuant to Rule 19.15.12.10.B(2) NMAC.

(15) The operator is hereby authorized to withhold the following costs and charges from each non-consenting working interest owner's share of production from either well:

- (a) The proportionate share of reasonable well costs of such well attributable to such owner; and
- (b) As a charge for risk involved in drilling the well, 200% of the above costs.

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

(17) Reasonable charges for supervision (combined fixed rates) for each well are hereby fixed at \$7000 per well, per month, while drilling and \$700 per well, per month, while producing, provided that these rates shall be adjusted annually pursuant to the Overhead section of the COPAS form titled "Accounting and Procedure-Joint Operations." The operator is authorized to withhold from each pooled working interest's share of production the proportionate share of both the supervision charges and the actual expenditures required for the operating of the well, not in excess of what are reasonable, attributable to such interest.

(18) Except as provided in the foregoing paragraphs, all proceeds from production from the proposed wells 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).

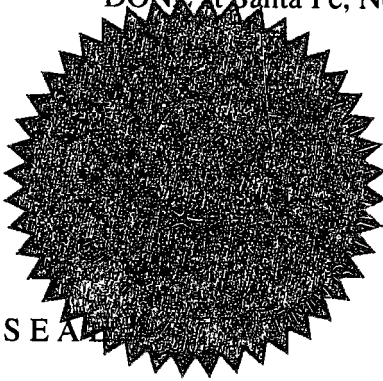
(19) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this Order. Any well costs or charges that are to be paid out of production shall be withheld only from the working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

(20) 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.

(21) The operator of the wells and the Unit shall notify the Division in writing of the subsequent voluntary agreement of all parties subject to the compulsory pooling provisions of this order.

(22) 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.



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

David R. Catanach

DAVID R. CATANACH
Director