

**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. 15798
ORDER NO. R-14500**

**APPLICATION OF OXY USA, INC. FOR APPROVAL OF THE MESA VERDE
UNIT, CONTRACTION OF THE COTTON DRAW; BONE SPRING, EAST POOL,
AND EXPANSION OF THE MESAVERDE; BONE SPRING POOL, LEA AND
EDDY COUNTIES, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case come on for hearing at 8:15 a.m. on August 17, 2017, before Examiner Michael A. McMillan.

NOW, on this 13th day of November, 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) OXY USA, Inc. ("Applicant" or "OXY") seeks:
 - (a) Approval of the Mesa Verde Unit (the "Unit"), a Federal Resource Development Unit, comprising 3461.80 acres, more or less, of Federal and State lands in Lea and Eddy Counties, New Mexico; and
 - (b) Contraction of the Cotton Draw; Bone Spring, East Oil Pool to exclude the portion thereof formerly within the unit boundary; and
 - (c) Expansion of the Mesa Verde; Bone Spring Pool within the unit boundary;

(3) The Unit, a Federal Resource Development Unit, comprises the following-described acreage:

TOWNSHIP 24 SOUTH, RANGE 32 EAST, NMPM, LEA COUNTY

Section 7: E/2 NE/4, SE/4
Section 8: All
Section 9: W/2
Section 16: W/2
Section 17: All
Section 18: All

TOWNSHIP 24 SOUTH, RANGE 31 EAST, NMPM, EDDY COUNTY

Section 13: All

(4) The Unitized Interval includes all oil and gas from the stratigraphic equivalent of the top of the Bone Spring formation encountered at a measured depth of 8,445 feet down to the stratigraphic equivalent of the top of the Wolfcamp formation at a measured depth of 11,830 feet as encountered in the Devon SFS Operating, Inc. Heavy Metal 14 Federal Well No. 1 (API No. 30-015-29603) located in Unit J, Section 14, Township 24 South, Range 31 East, NMPM, Eddy County, New Mexico.

(5) The Unit will be developed and operated as a single Participating Area and therefore constitute a single Project Area in accordance with Division Rule 19.15.16.7(L)(2) NMAC.

(6) The Unit currently encompasses a portion of the Cotton Draw; Bone Spring, East (Oil) Pool (Pool Code 96556) which is governed by special pool rules as established by Division Order No. R-10641, which provide for 40-acre oil spacing units with wells to be located no closer than 330 feet from a unit outer boundary.

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

- (a) the Unit is comprised of seven different tracts. Six Bureau of Land Management ("BLM") tracts, and one New Mexico State Land Office ("NMSLO") tract;
- (b) the Unit will be developed to produce oil from the Bone Spring formation;
- (c) Applicant intends to orient wells in a south to north direction;
- (d) Applicant stated that the initial obligation well will be on a location approved by the Authorized Officer in the SE/4 of Section 17, Township 24 South, Range 32 East, NMPM, Lea County (API

- pending) and will be drilled to a depth sufficient to test the Bone Spring formation;
- (e) Applicant does not have a voluntary agreement with all working interest owners;
 - (f) Applicant is in the process of reaching agreement with the uncommitted interest owners;
 - (g) Applicant stated that the Unitized interval is within the vertical boundary of the Bone Spring formation;
 - (h) the Unit Agreement has been given written preliminary approval by the BLM and NMSLO;
 - (i) Applicant has provided notice of this application and hearing and a copy of the Unit Agreement to all operators within the Cotton Draw; Bone Spring, East Oil Pool and Mesa Verde; Bone Spring Oil Pool;
 - (j) Applicant has provided notice of this application and hearing and a copy of the Unit Agreement to all working interest owners, and mineral owners within the Unit.
 - (k) Applicant provided notice to owners of acreage in the W/2 and W/2 NE/4 of Section 7 and the E/2 of Sections 9 and 16, T24S-R32E NMPM, Lea County, that are excluded from the unit.
 - (l) Applicant has caused notice of this application to be published in the Hobbs News-Sun and the Carlsbad Current-Argus, both considered to be local newspapers of general circulation in Lea and Eddy Counties;
 - (m) all overriding royalty interest owners who do not sign and provide joinder in the Unit Agreement will be paid on a lease basis and spacing unit for each individual well, and will not be paid on a unit basis.
 - (n) no faults, pinch-outs, or other geologic impediments exist to prevent the Unitized Interval from being developed by horizontal oil wells;
 - (o) the available well control in the area demonstrates that the Unitized Interval identified in the type log is laterally contiguous across the entire Unit;
 - (p) these lands were chosen and are being proposed as the Unit Area to facilitate the most efficient, uniform, and common development;

- (q) Applicant expects to reduce surface disturbances by formation of this Unit and intends to protect fresh water from harm due to drilling and oil field operations;
- (r) the Federal Resource Development Unit Agreement presented at hearing has the following stipulations:
 - i. a contraction clause which states that after five years from the effective date, the undeveloped acreage shall be eliminated automatically from the proposed Unit, unless BLM or NMSLO determine otherwise;
 - ii. two-year automatic extension with approval of 90 percent of the working interest owners along with BLM and NMSLO approval;
 - iii. it is limited to the Unitized Interval of the Bone Spring formation;
 - iv. the entire Unit is treated as undivided with each tract participating as per its acreage contribution;
 - v. it applies only to horizontal wells and future vertical wells in the Unitized Interval and excludes pre-existing vertical wells;
 - vi. the Oil Conservation Division (“OCD”) is authorized to approve the Unit Agreement;
 - vii. the Unit Agreement will become effective upon approval by the BLM and the NMSLO or their authorized representative.

(8) No other party entered an appearance in the case or indicated any opposition to approval of the application.

The Division concludes as follows:

(9) Applicant has provided proper and adequate notice of this application and hearing.

(10) The Division in Rule 19.15.16.7E. NMAC defines a “Horizontal Well” as a directional well bore with one or more laterals that extend a minimum of 100 feet horizontally in the target zone. The Mesa Verde Unit Agreement contains a restriction allowing only wells containing one or more horizontal laterals completed at least 100 feet in distance within the objective formation and also is limited to those wells completed after the effective date of the Mesa Verde Unit.

(11) Within the Mesa Verde Unit, Division rules for horizontal wells should apply only to those wells completed a lateral distance within the Bone Spring formation of at least 100 feet in length.

(12) The acreage in Section 18, T24S-R32E NMPM, Eddy County within the Unit boundary should be contracted from the Cotton Draw; Bone Spring, East (Oil) Pool.

(13) The Mesa Verde; Bone Spring (Oil) Pool should be expanded within the Unit boundary.

(14) The Unit should constitute a single Project Area for horizontal oil well development pursuant to Division Rule 19.15.16.7(L)(2) NMAC; provided however, the Project Area should be limited to Unit Wells.

(15) Unit Wells should be defined as those wells allowed in the Mesa Verde Unit Agreement.

(16) The geologic evidence presented demonstrates that the entire Unit should be productive within the Unitized Interval.

(17) The correlative rights of all interest owners in the Unit will be protected provided that the Unit is ultimately fully developed in the Unitized Interval.

(18) Approval of the Unit will provide the Applicant the flexibility to locate and drill wells in the Unit in order to maximize the recovery of oil and gas from the Unitized Interval, thereby preventing waste, and will provide the Applicant the latitude to conduct operations in an effective and efficient manner within the Unit.

(19) The provisions contained within the Mesa Verde Unit Agreement are in compliance with Division rules, and the development and operation of the Unit Area, as proposed, comply with the Division's conservation principles.

(20) The Mesa Verde Unit should be approved and should be in effect on the first day of the month following the later of (i) the entry date of this order or (ii) the date on which final approval of the Mesa Verde Unit is obtained by the Applicant from the BLM and the NMSLO.

(21) The Applicant should provide to the Division a copy of the final approval of the Mesa Verde Unit by the BLM and NMSLO.

(22) The proposed Unit and request for authority to locate horizontal wells anywhere within the Unit no closer than 330 feet of the outer boundary of the Unit or of any uncommitted or partially committed tract should be approved.

(23) The plan contained within the Mesa Verde Unit Agreement for the development and operation of the Unit should be approved in principle as a proper conservation measure.

(24) The Unit operator should file with the Division an executed original or executed counterpart of the Unit Agreement within 60 days of the date of this order. In the event of subsequent joinder by any other party, or expansion or contraction of the Unit Area, the Unit operator should file with the Division, within 60 days thereafter, counterparts of the Unit Agreement reflecting the subscription of those interests having joined or ratified.

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of OXY USA, Inc. ("Applicant" or "OXY"), the Mesa Verde Unit (the "Unit") consisting of 3461.80 acres, more or less, of Federal and State lands located in Lea and Eddy Counties, New Mexico, is hereby approved.

(2) This order shall be effective on the first day of the month following the later of (i) the entry date of this order or (ii) the date on which final approval of the Mesa Verde Unit is obtained by Applicant from the Bureau of Land Management ("BLM") and New Mexico State Land Office ("NMSLO"). Copies of the final approval letters by the BLM and NMSLO shall be provided to the Division.

(3) The Unit shall comprise the following-described acreage:

TOWNSHIP 24 SOUTH, RANGE 32 EAST, NMPM, LEA COUNTY

Section 7:	E/2 NE/4, SE/4
Section 8:	All
Section 9:	W/2
Section 16:	W/2
Section 17:	All
Section 18:	All

TOWNSHIP 24 SOUTH, RANGE 31 EAST, NMPM, EDDY COUNTY

Section 13:	All
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(4) OXY USA, Inc. (OGRID 16696) is hereby designated the Unit operator.

(5) Pursuant to the Unit Agreement, the Unitized Interval includes all oil and gas from the stratigraphic equivalent of the top of the Bone Spring formation encountered at a measured depth of 8,445 feet down to the stratigraphic equivalent of the top of the Wolfcamp formation at a measured depth of 11,830 feet as encountered in the Devon SFS Operating, Inc. Heavy Metal 14 Federal Well No. 1 (API No. 30-015-29603) located in Unit J, Section 14, Township 24 South, Range 31 East, NMPM, Eddy County, New Mexico.

(6) The acreage in Section 18, T24S-R32E NMPM, Eddy County within the Unit boundary will be contracted from the Cotton Draw; Bone Spring, East (Oil) Pool.

(7) Applicant's request for the expansion of the Mesa Verde; Bone Spring (Oil) Pool within the Unit Area to be dedicated to horizontal and vertical wells in the Bone Spring formation (the "Unit wells") is hereby approved. All existing or subsequently drilled Unit wells shall be dedicated to (only) the Mesa Verde; Bone Spring (Oil) Pool (Pool Code: 98252) and will be subject to the Division's statewide rules for oil wells. The horizontal limits of this pool shall be limited to the current lands within the Unit; however, this pool shall expand with any Unit expansion, but shall contract with any Unit contraction.

(8) All existing and future wells within the horizontal limits of this Unit but not designated per the agreement as Unit Wells shall remain dedicated and subject to the requirements of existing pools or statewide rules.

(9) All overriding royalty interest owners who do not sign and provide joinder in the unit agreement will be paid on a lease basis as to the spacing unit for each individual well.

(10) The Unit shall constitute a single Project Area for horizontal and vertical oil well development pursuant to Division Rule 19.15.16.7(L)(2) NMAC; provided however, the Project Area shall be limited to Unit Wells.

(11) All future vertical wells and future horizontal oil wells of at least 100 feet lateral length drilled and completed in the Wolfcamp formation within the Unit Area after the effective date shall be dedicated to the new Wolfcamp Mesa Verde (Oil) Pool (Pool Code: 98252) or to any successor pool including the same area.

(12) As per Applicant's request any Unit Well may be drilled anywhere within the Unit provided that no portion of the completed interval of any Unit Well shall be closer than 330 feet to the outer boundary of the Unit or to any uncommitted or partially committed tract unless otherwise approved by the Division pursuant to Division Rule 19.15.15.13 NMAC.

(13) The plan contained within the Mesa Verde Unit Agreement for the development and operation of the Unit is hereby approved in principle as a proper conservation measure. All plans of development for the Mesa Verde Unit shall be submitted annually to the Division for review.

(14) The Unit operator shall file with the Division an executed original or executed counterpart of the Unit Agreement within 60 days of the date of this order. In the event of subsequent joinder by any other party, or expansion or contraction of the Unit, the Unit operator shall file with the Division, within 60 days thereafter, counterparts of the Unit Agreement reflecting the subscription of those interests having joined or ratified.

(15) 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