

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

**IN THE MATTER OF APPLICATION FOR  
AN OVERLAPPING SPACING UNIT IN THE  
BONE SPRING FORMATION AND  
COMPULSORY POOLING SUBMITTED BY  
CHEVRON U.S.A. INC.**

**CASE NO. 21499  
ORDER NO. R-21671**

**ORDER**

The Director of the New Mexico Oil Conservation Division (“OCD”), having heard this matter through a Hearing Examiner on November 19, 2020, and after considering the testimony, evidence, and recommendation of the Hearing Examiner, issues the following Order.

**FINDINGS OF FACT**

1. Chevron U.S.A. Inc. (“Chevron”) submitted an application (“Application”) to compulsory pool the uncommitted oil and gas interests within the spacing unit (“Unit”) located in the Bone Spring formation underlying the E/2 of Sections 26 and 35, Township 23 South, Range 28 East, NMPM, Eddy County, New Mexico.
2. Chevron requested to compulsory pool all uncommitted interests in the third Bone Spring interval from a depth of 9,227 feet to the base of the Bone Spring formation at a depth of 9,541 feet as encountered in the Pardue Farms Gas Com No. 001 (API#: 30-015-22452) in Section 26, Township 23 South, Range 28 East, NMPM, Eddy County, New Mexico.
3. Chevron seeks to dedicate the Unit to the CB TANO 26 35 FEE 11 No. 301H well.
4. Chevron’s Application overlaps two existing 160-acre Bone Spring horizontal spacing units approved under orders R-13750 and R-13773.
5. OCD issued order R-13750 on September 18, 2013 to Mewbourne Oil Company (“Mewbourne”), which established a 160-acre spacing unit in the Bone Spring formation underlying the E/2 of the E/2 (Units A, H, I, and P) of Section 35, Township 23 South, Range 28 East, NMPM, Eddy County, New Mexico.
6. OCD issued order R-13773 on November 21, 2013 to Mewbourne, which established a 160-acre spacing unit in the Bone Spring formation underlying the W/2 of the E/2 of Section 35, Township 23 South, Range 28 East, NMPM, Eddy County, New Mexico.
7. Order R-13750 is currently dedicated to the Layla 35 PA No. 001H well (API#: 30-

- 015-40967) completed in the Second Bone Spring interval of the Bone Spring formation
8. Order R-13773 is currently dedicated to the Layla 35 OB No. 001H well (API#: 30-015-40968) completed in the Second Bone Spring interval of the Bone Spring formation
  9. Chevron identified the owners of uncommitted interests in oil and gas minerals in the Unit, and all “affected persons” in the existing horizontal spacing units, which includes the vertical extent of the Bone Springs formation and provided evidence that notice was given.
  10. There are no ownership depth severances in the Bone Spring formation underlying the Unit.
  11. The Application was heard by the Hearing Examiner on the date specified above, during which Chevron presented evidence through affidavits in support of the Application. No other party presented evidence at the hearing.
  12. Mewbourne entered an appearance in this matter, but did not object.

#### **CONCLUSIONS OF LAW**

13. OCD has jurisdiction to issue this Order pursuant to NMSA 1978, Section 70-2-17.
14. Chevron is the owner of an oil and gas working interest within the Unit.
15. Chevron satisfied the notice requirements for the Application and the hearing as required by 19.15.4.12 NMAC.
16. OCD satisfied the notice requirements for the hearing as required by 19.15.4.9 NMAC.
17. The Unit contains separately owned uncommitted interests in oil and gas minerals.
18. Some of the owners of the uncommitted interests have not agreed to commit their interests to the Unit.
19. The pooling of uncommitted interests in the Unit will prevent waste and protect correlative rights, including the drilling of unnecessary wells.
20. This Order affords to the owner of an uncommitted interest the opportunity to produce his just and equitable share of the oil or gas in the pool.

21. Order R-13750 and R-13773 established a spacing and proration unit in the Bone Spring formation [South Culebra Bluff-Bone Spring Pool (Pool Code 15011)] for the lands as described in paragraph five (5) and six (6) of this order:

Pursuant to the application of Mewbourne Oil Company, all uncommitted interests, whatever they may be, in the oil and gas in the Bone Spring formation underlying the Unit, are hereby pooled.

22. Uncommitted interest in the lands described by paragraph five (5) and six (6) of this order are currently pooled under orders R-13750 and R-13773.
23. 19.15.16.15 NMAC allows a horizontal well that will have a completed interval partially in an existing well's spacing unit, and in the same pool or formation, may be drilled only with the approval of, or, in the absence of approval, after notice to, all operators and working interest owners of record or known to the applicant in the existing and new well's spacing units. 19.15.16.15(B)(9)(b)(i) NMAC. Notice has been provided to all operators and interest owners in the existing and new well's spacing units and no party has objected.

### **ORDER**

24. Chevron's Application is hereby **Approved**.
25. The uncommitted interests in the third Bone Spring interval from a depth of 9,227 feet to the base of the Bone Spring formation at a depth of 9,541 feet as encountered in the Pardue Farms Gas Com No. 001 (API#: 30-015-22452) in Section 26, Township 23 South, Range 28 East, NMPM, Eddy County, New Mexico are pooled as set forth in Exhibit A.
26. The Unit shall be dedicated to the Well(s) set forth in Exhibit A.
27. Operator is designated as operator of the Unit and the Well(s).
28. If the location of a well will be unorthodox under the spacing rules in effect at the time of completion, Operator shall obtain the OCD's approval for a non-standard location in accordance with 19.15.16.15(C) NMAC.
29. The Operator shall commence drilling the Well(s) within one year after the date of this Order, and complete each Well no later than one (1) year after the commencement of drilling the Well.
30. This Order shall terminate automatically if Operator fails to comply with Paragraph 29 unless Operator obtains an extension by amending this Order for good cause shown.

31. The infill well requirements in 19.15.13.9 NMAC through 19.15.13.12 NMAC shall be applicable.
32. Operator shall submit each owner of an uncommitted working interest in the pool ("Pooled Working Interest") an itemized schedule of estimated costs to drill, complete, and equip the well ("Estimated Well Costs").
33. No later than thirty (30) days after Operator submits the Estimated Well Costs, the owner of a Pooled Working Interest shall elect whether to pay its share of the Estimated Well Costs or its share of the actual costs to drill, complete and equip the well ("Actual Well Costs") out of production from the well. An owner of a Pooled Working Interest who elects to pay its share of the Estimated Well Costs shall render payment to Operator no later than thirty (30) days after the expiration of the election period, and shall be liable for operating costs, but not risk charges, for the well. An owner of a Pooled Working Interest who fails to pay its share of the Estimated Well Costs or who elects to pay its share of the Actual Well Costs out of production from the well shall be considered to be a "Non-Consenting Pooled Working Interest."
34. No later than one hundred eighty (180) days after Operator submits a Form C-105 for a well, Operator shall submit to each owner of a Pooled Working Interest an itemized schedule of the Actual Well Costs. The Actual Well Costs shall be considered to be the Reasonable Well Costs unless an owner of a Pooled Working Interest files a written objection no later than forty-five (45) days after receipt of the schedule. If an owner of a Pooled Working Interest files a timely written objection, OCD shall determine the Reasonable Well Costs after public notice and hearing.
35. No later than sixty (60) days after the expiration of the period to file a written objection to the Actual Well Costs or OCD's order determining the Reasonable Well Costs, whichever is later, each owner of a Pooled Working Interest who paid its share of the Estimated Well Costs shall pay to Operator its share of the Reasonable Well Costs that exceed the Estimated Well Costs, or Operator shall pay to each owner of a Pooled Working Interest who paid its share of the Estimated Well Costs its share of the Estimated Well Costs that exceed the Reasonable Well Costs.
36. The reasonable charges for supervision to drill and produce a well ("Supervision Charges") shall not exceed the rates specified in Exhibit A, provided however that the rates shall be adjusted annually pursuant to the COPAS form entitled "Accounting Procedure-Joint Operations."
37. No later than within ninety (90) days after Operator submits a Form C-105 for a well, Operator shall submit to each owner of a Pooled Working Interest an itemized schedule of the reasonable charges for operating and maintaining the well ("Operating Charges"), provided however that Operating Charges shall not include the Reasonable Well Costs or Supervision Charges. The Operating Charges shall be considered final

unless an owner of a Pooled Working Interest files a written objection no later than forty-five (45) days after receipt of the schedule. If an owner of a Pooled Working Interest files a timely written objection, OCD shall determine the Operating Charges after public notice and hearing.

38. Operator may withhold the following costs and charges from the share of production due to each owner of a Pooled Working Interest who paid its share of the Estimated Well Costs: (a) the proportionate share of the Supervision Charges; and (b) the proportionate share of the Operating Charges.
39. Operator may withhold the following costs and charges from the share of production due to each owner of a Non-Consenting Pooled Working Interest: (a) the proportionate share of the Reasonable Well Costs; (b) the proportionate share of the Supervision and Operating Charges; and (c) the percentage of the Reasonable Well Costs specified as the charge for risk described in Exhibit A.
40. Operator shall distribute a proportionate share of the costs and charges withheld pursuant to paragraph 39 to each Pooled Working Interest that paid its share of the Estimated Well Costs.
41. Each year on the anniversary of this Order, and no later than ninety (90) days after each payout, Operator shall provide to each owner of a Non-Consenting Pooled Working Interest a schedule of the revenue attributable to a well and the Supervision and Operating Costs charged against that revenue.
42. Any cost or charge that is paid out of production shall be withheld only from the share due to an owner of a Pooled Working Interest. No cost or charge shall be withheld from the share due to an owner of a royalty interests. For the purpose of this Order, an unleased mineral interest shall consist of a seven-eighths ( $7/8$ ) working interest and a one-eighth ( $1/8$ ) royalty interest.
43. Except as provided above, Operator shall hold the revenue attributable to a well that is not disbursed for any reason for the account of the person(s) entitled to the revenue as provided in the Oil and Gas Proceeds Payment Act, NMSA 1978, Sections 70-10-1 *et seq.*, and relinquish such revenue as provided in the Uniform Unclaimed Property Act, NMSA 1978, Sections 7-8A-1 *et seq.*
44. The Unit shall terminate if (a) the owners of all Pooled Working Interests reach a voluntary agreement; or (b) the well(s) drilled on the Unit are plugged and abandoned in accordance with the applicable rules. Operator shall inform OCD no later than thirty (30) days after such occurrence.
45. OCD retains jurisdiction of this matter for the entry of such orders as may be deemed necessary.

STATE OF NEW MEXICO  
OIL CONSERVATION DIVISION



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ADRIENNE SANDOVAL  
DIRECTOR  
AES/jag

Date: 4/16/2021

## Exhibit A

<b>COMPULSORY POOLING APPLICATION CHECKLIST (pdf)</b>	
<b>ALL INFORMATION IN THE APPLICATION MUST BE SUPPORTED BY SIGNED AFFIDAVITS</b>	
<b>Case: 21499</b>	<b>APPLICANT'S RESPONSE</b>
<b>Date: November 19, 2020</b>	
Applicant	Chevron U.S.A. Inc.
Designated Operator & OGRID (affiliation if applicable)	Chevron U.S.A. Inc. (OGRID No. 4323)
Applicant's Counsel:	Holland & Hart LLP
Case Title:	APPLICATION OF CHEVRON U.S.A. INC. FOR AN OVERLAPPING SPACING UNIT IN THE BONE SPRING FORMATION AND COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO.
Entries of Appearance/Intervenors:	N/A
Well Family	CB Tano 26 35 Fee 11 Well
<b>Formation/Pool</b>	
Formation Name(s) or Vertical Extent:	Bone Spring
Primary Product (Oil or Gas):	Oil
Pooling this vertical extent:	Bone Spring formation
Pool Name and Pool Code:	Culebra Bluff; Bone Spring, South Pool (Pool Code 15011)
Well Location Setback Rules:	Statewide Horizontal well rules
Spacing Unit Size:	640 acres, more or less
<b>Spacing Unit</b>	
Type (Horizontal/Vertical)	Horizontal
Size (Acres)	640 acres, more or less
Building Blocks:	quarter-quarter sections
Orientation:	North/South
Description: TRS/County	E/2 of Sections 26 and 35, Township 23 South, Range 28 East, NMPM, Eddy County, New Mexico
Standard Horizontal Well Spacing Unit (Y/N), If No, describe	Yes
<b>Other Situations</b>	
Depth Severance: Y/N. If yes, description	No, Chevron seeks to pool only a portion of the Bone Spring formation from the stratigraphic equivalent of the top of the Third Bone Spring formation, at a true vertical depth of 9,227 feet, to the base of the Bone Spring formation, at a true vertical depth of 9,541 feet as encountered in the Pardue Farms Gas Com 001 well in Section 26, Township 23 South, Range 28 East, N.M.P.M., Eddy County, New Mexico (API #30-015-22452)
<p><b>BEFORE THE OIL CONSERVATION DIVISION</b>                  Santa Fe, New Mexico                  Exhibit No. A                  Submitted by: Chevron U.S.A. Inc.                  Hearing Date: November 19, 2020                  Case Nos. 21499 &amp; 21500</p>	

Proximity Tracts: If yes, description	Yes
Proximity Defining Well: if yes, description	CB Tano 26 35 Fee 11 #301H Well will remain within 330' of the E/2 E/2 of Sections 26 and 35 to include proximity tracts in 640-acre standard spacing unit
Applicant's Ownership in Each Tract	Exhibit C-4
<b>Well(s)</b>	
Name & API (if assigned), surface and bottom hole location, footages, completion target, orientation, completion status (standard or non-standard)	
Well #1	<p><b>CB Tano 26 35 Fee 11 Well No. 301H</b>, API No. 30-015-47379  SHL:287 feet from the north line and 1130 feet from the east line, NE/4 NE/4 (Unit A) of Section 26, Township 23 South, Range 28 East, NMPPM.  BHL:50 feet from the South line and 1380 feet from the east line, SW/4 SE/4 (Unit O) of Section 35, Township 23 South, Range 28 East, NMPPM.</p> <p>Completion Target: Bone Spring  Well Orientation:North to South  Completion Location expected to be:standard</p>
Horizontal Well First and Last Take Points	Exhibit C-2
Completion Target (Formation, TVD and MD)	Exhibit C-5
<b>AFE Capex and Operating Costs</b>	
Drilling Supervision/Month \$	\$8,000
Production Supervision/Month \$	\$800
Justification for Supervision Costs	Exhibit C, C-5
Requested Risk Charge	Exhibit C
<b>Notice of Hearing</b>	
Proposed Notice of Hearing	Exhibit B
Proof of Mailed Notice of Hearing (20 days before hearing)	Exhibit E
Proof of Published Notice of Hearing (10 days before hearing)	Exhibit F
<b>Ownership Determination</b>	
Land Ownership Schematic of the Spacing Unit	Exhibit C-4
Tract List (including lease numbers and owners)	Exhibit C-4
Pooled Parties (including ownership type)	Exhibit C-4

Unlocatable Parties to be Pooled	Exhibit C, C-4
Ownership Depth Severance (including percentage above & below)	See Exhibit C regarding overlapping spacing unit
<b>Joinder</b>	
Sample Copy of Proposal Letter	Exhibit C-5
List of Interest Owners (ie Exhibit A of JOA)	Exhibit C-4
Chronology of Contact with Non-Joined Working Interests	Exhibit C-6
Overhead Rates In Proposal Letter	Exhibit C-5
Cost Estimate to Drill and Complete	Exhibit C-5
Cost Estimate to Equip Well	Exhibit C-5
Cost Estimate for Production Facilities	Exhibit C-5
<b>Geology</b>	
Summary (including special considerations)	Exhibit D, D-1, D-2
Spacing Unit Schematic	Exhibit D, D-1, D-2
Gunbarrel/Lateral Trajectory Schematic	Exhibit D-1
Well Orientation (with rationale)	Exhibit D, D-1, D-2, D-3
Target Formation	Exhibit D, D-1, D-2, D-3
HSU Cross Section	Exhibit D-1, D-3
Depth Severance Discussion	Exhibit C
<b>Forms, Figures and Tables</b>	
C-102	Exhibit C-2
Tracts	Exhibit C-4
Summary of Interests, Unit Recapitulation (Tracts)	Exhibit C-4
General Location Map (including basin)	Exhibits C-1 D-1
Well Bore Location Map	Exhibit D-1
Structure Contour Map - Subsea Depth	Exhibit D-2
Cross Section Location Map (including wells)	Exhibit D-1
Cross Section (including Landing Zone)	Exhibit D-3
<b>Additional Information</b>	
<b>CERTIFICATION: I hereby certify that the information provided in this checklist is complete and accurate.</b>	
<b>Printed Name</b> (Attorney or Party Representative):	Kaitlyn A. Luck
<b>Signed Name</b> (Attorney or Party Representative):	
<b>Date:</b>	17-Nov-20