

**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**

**APPLICATION OF CHEVRON USA INC FOR APPROVAL OF THE
POLVADERA UNIT, LEA COUNTY, NEW MEXICO**

**CASE NO 15677
ORDER NO R 14346**

ORDER OF THE DIVISION

BY THE DIVISION

This case came on for hearing at 8 15 a m on April 13 2017 before Examiner Michael A McMillan

NOW on this 15th day of May 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 USA Inc (Chevron or Applicant) seeks Approval of the Polvadera Unit (the Unit) a federal resource development unit comprising 1920 acres of Federal lands in Lea County New Mexico described as follows

TOWNSHIP 26 SOUTH, RANGE 32 EAST, NMPM

Sections 14 15 and 23 All

(3) The Unitized Interval includes all oil and gas from the stratigraphic equivalent of the top of the Bone Spring formation encountered at a true vertical depth of 8 800 feet down to the stratigraphic equivalent of the base of the Bone Spring formation at a true vertical depth of 11 950 feet as encountered in the Salado Draw SWD 13 Well No 1 (API No 30 025-42354) located in Unit M Section 13 Township 26 South Range 32 East, NMPM, Lea County New Mexico

(4) 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

(5) The Unit currently encompasses a portion of the Jennings Upper Bone Spring Shale Pool (Pool Code 97838) and is subject to Division 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

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

- (a) The Unit is comprised of two federal tracts
- (b) The Unit will be developed to produce oil from the Bone Spring formation
- (c) Applicant stated that Section 15 Section 23 and the E/2 E/2 of Section 14 have been developed by horizontal wells in the Proposed Unit However the remaining portion of Section 14 has not been developed
- (d) Chevron USA is the only working interest owner in the Unit Further no overriding royalty interest owners exist within the Unit
- (e) Mewbourne Oil Company operator of the E/2 E/2 NW/4 NE/4 and N/2 NW/4 of Section 22 in the Bone Spring formation waived any objection to this hearing and application
- (f) Applicant stated that the Unitized interval fits within the vertical boundary of the Jennings Bone Spring Pool
- (g) Applicant stated that surface commingling issues were a factor in the creation of the Unit,
- (h) The Unit agreement has been given written preliminary approval by the Bureau of Land Management (BLM)
- (i) Applicant stated that the Unit agreement has a five-year development plan and a contraction clause in which undeveloped acreage will revert to its original spacing unit
- (j) No faults pinch-outs or other geologic impediments exist to prevent the Unitized Interval from being developed by horizontal oil wells,

- (k) The available well control in the area demonstrates the Unitized Interval identified in the type log is laterally contiguous across the entire Unit
- (l) These lands were chosen and are being proposed as the Unit Area to facilitate the most efficient uniform and common development
- (m) The Federal Resource Development Unit Agreement has the following stipulations

i A contraction clause which states that after five years with a two year automatic extension with 90 percent of the working interest owners and federal approval the undeveloped acreage will be eliminated from the proposed Unit

ii It is limited to the Unitized Interval of the Bone Spring formation

iii The entire Unit is treated as undivided with each tract participating as per its acreage dedication

iv It applies only to horizontal wells of at least 100 feet of lateral length in the Unitized Interval and excludes pre existing and future vertical wells

v The Oil Conservation Division (OCD') is authorized to approve the Unit, even though only federal acreage is involved The Unit agreement requires OCD approval and

vi The effective date of the Unit occurs when BLM grants its final approval

The Division concludes as follows

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

(8) Within the Polvadera 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

(9) 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

(10) Subsequent to the Hearing Applicant provided evidence that the E/2 E/2 and W/2 W/2 of Section 14 E/2 E/2 of Section 15 and E/2 E/2 of Section 23 were

developed by horizontal wells. Further wells were drilled within the W/2 E/2 and E/2 W/2 of both Section 14 and Section 23 but not completed. Lastly, Applicant has wells proposed in the E/2 W/2 and W/2 of Section 15. Therefore, it is reasonable to assume that all acreage in the proposed Unit will be developed.

(11) Unit Wells should be defined as those wells allowed in the Polvadera Unit Agreement.

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

(13) 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.

(14) 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.

(15) The provisions contained within the Polvadera 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.

(16) The Polvadera Unit should be approved and should 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 Polvadera Unit is obtained by Applicant from the BLM.

(17) The Applicant should provide to the Division a written copy of the final approval of the Polvadera Unit by the BLM.

(18) The plan contained within the Polvadera Unit Agreement for the development and operation of the Unit should be approved in principle as a proper conservation measure. All plans of development for the Polvadera Unit should be submitted annually to the Division for review.

(19) 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.

(20) This application should be granted.

IT IS THEREFORE ORDERED THAT

(1) As per the application of Chevron USA Inc ('Applicant' or 'Chevron'), the Polvadera Unit (the 'Unit') consisting of 1920 acres of Federal lands located in Lea County, 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 Polvadera Unit is obtained by Applicant from the Bureau of Land Management (BLM) The final approval letter by the BLM shall be provided to the Division

(3) The Unit shall comprise the following described acreage in Lea County, New Mexico

TOWNSHIP 26 SOUTH, RANGE 32 EAST, NMPM

Sections 14 15 and 23 All

(4) Chevron USA Inc (OGRID 4323) is hereby designated the Unit operator

(5) Pursuant to the Unit Agreement the Unitized Interval shall include all oil and gas from the stratigraphic equivalent of the top of the Bone Spring formation encountered at a true vertical depth at 8 800 feet down to the stratigraphic equivalent of the base of the Bone Spring formation at a true vertical depth of 11 950 feet as encountered in the Salado Draw SWD 13 Well No 1 (API 30-025-42354) located in Unit M, Section 13, Township 26 South Range 32 East NMPM Lea County New Mexico

(6) Unit Wells shall be those wells allowed in the Unit Agreement

(7) 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

(8) The Unit shall 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 shall be limited to Unit Wells

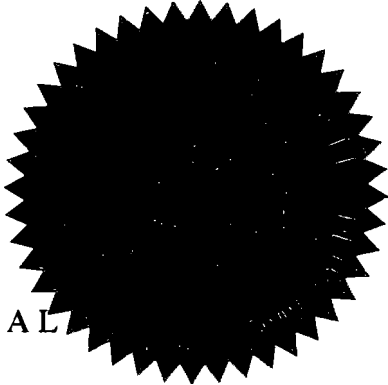
(9) The plan contained within the Polvadera Unit Agreement for the development and operation of the Unit is hereby approved in principle as a proper conservation measure All plans of development for the Polvadera Unit shall be submitted annually to the Division for review

(10) 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

(11) 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
Director