

**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 TO CONSIDER:**

**CASE NO. 15953
ORDER NO. R-14670**

**APPLICATION OF CHISHOLM ENERGY OPERATING, LLC FOR APPROVAL
OF A 892.20-ACRE NON-STANDARD PROJECT AREA AND NON-STANDARD
SPACING UNIT IN THE WOLFCAMP FORMATION COMPRISED OF
ACREAGE SUBJECT TO A PROPOSED COMMUNITIZATION AGREEMENT,
AND FOR APPROVAL OF A 892.20-ACRE NON-STANDARD PROJECT AREA
AND NON-STANDARD SPACING UNIT IN THE BONE SPRING FORMATION
COMPRISED OF ACREAGE SUBJECT TO A PROPOSED
COMMUNITIZATION AGREEMENT, EDDY COUNTY, NEW MEXICO**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on January 25, 2018, at Santa Fe New Mexico, before Examiner William V. Jones.

NOW, on this 4th day of May, 2018, 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) Chisholm Energy Operating, LLC ("Applicant, or Chisholm") seeks approval of a 892.20-acre (more or less) non-standard project area and non-standard spacing unit for oil production from the Bone Spring formation, Welch; Bone Spring (Pool Code 64010), comprised of Section 29 and irregular Section 32, Township 26 South, Range 26 East, NMPM, Eddy County, New Mexico ("Subject Lands"). The Subject Lands would be initially dedicated to the following Bone Spring formation wells, all drilled in parallel from north to south:

Cottonwood 29 32 Federal Com 2BS Well No. 1H (API No. 30-015-43702)

SHL: Unit D of Section 29 and BHL: Unit M of Section 32

Cottonwood 29 32 Federal Com 2BS Well No. 2H (API No. 30-015-43704)

SHL: Unit C of Section 29 and BHL: Unit N of Section 32
Cottonwood 29 32 Federal Com 2BS Well No. 8H (API No. 30-015-Pending)
SHL: Unit B of Section 29 and BHL: Unit O of Section 32
Cottonwood 29 32 Federal Com 2BS Well No. 10H (API No. 30-015-Pending)
SHL: Unit B of Section 29 and BHL: Unit O of Section 32
Cottonwood 29 32 Federal Com 2BS Well No. 7H (API No. 30-015-Pending)
SHL: Unit A of Section 29 and BHL: Unit P of Section 32

(3) Chisholm also seeks approval of an 892.20-acre (more or less) non-standard project area and non-standard spacing unit for gas production from the Wolfcamp formation, Purple Sage; Wolfcamp Gas Pool (Pool Code 98220), comprised of the same Subject Lands. The Subject Lands would be initially dedicated to the following Wolfcamp formation wells, all drilled in parallel from north to south:

Cottonwood 29 32 Federal Com WCA Well No. 6H (API No. 30-015-Pending)
SHL: Unit D of Section 29 and BHL: Unit M of Section 32
Cottonwood 29 32 Federal Com WCA Well No. 9H (API No. 30-015-Pending)
SHL: Unit C of Section 29 and BHL: Unit N of Section 32
Cottonwood 29 32 Federal Com WCA Well No. 5H (API No. 30-015-Pending)
SHL: Unit B of Section 29 and BHL: Unit O of Section 32
Cottonwood 29 32 Federal Com WCA Well No. 3H (API No. 30-015-43703)
SHL: Unit A of Section 29 and BHL: Unit P of Section 32
Cottonwood 29 32 Federal Com WCA Well No. 4H (API No. 30-015-43705)
SHL: Unit A of Section 29 and BHL: Unit P of Section 32

(4) The Welch; Bone Spring Pool is governed by statewide rules for oil wells as stated in Division rules as specified in Part A of Rule 19.15.15.9 NMAC which allows 40-acre spacing and proration units and allows wells to be drilled and completed no closer than 330 feet from the spacing unit boundary.

(5) The Purple Sage; Wolfcamp Gas Pool is governed by Special Rules promulgated in Division Order No. R-14262 which allows wells to be drilled and completed no closer than 330 feet from the outer boundary of a standard 320-acre gas spacing unit.

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

- a. The Subject Lands are comprised of two leases. A federal lease covers all of Section 29 and a State lease covers all irregular Section 32. Chisholm owns 100 percent of the working interests and now holds title to both leases. There are overriding royalty interests in the Subject lands.
- b. A communitization agreement ("CA"), dated October 30, 2017, has been signed by the State Land Office ("SLO") covering the Bone Spring formation for the Subject Lands.

- c. A communitization agreement ("CA"), dated March 1, 2018, has been signed by the State Land Office covering the Wolfcamp formation for the same Subject Lands.
- d. The Bureau of Land Management ("BLM") has given preliminary approval of CA's for these formations covering the Subject Lands.
- e. Chisholm intends to develop all standard 40-acre Bone Spring spacing units in the Subject Lands by drilling at a well density of five wells per section. Chisholm intends to drill in the 2nd Bone Spring Sand formation and in the 3rd Bone Spring Sand formation.
- f. Chisholm intends to develop both standard 320-acre Wolfcamp formation gas spacing units by drilling numerous wells per section. Both the Wolfcamp A and the Wolfcamp B member formations are being targeted with an intention to drill at a density of six wells and eight wells respectively per section.
- g. The Subject Lands are being consolidated to allow flexibility in spacing wells and to optimize surface facilities. Bone Spring formation wells may be located close to the center line of the Sections and Wolfcamp formation wells may be located close to the center line of the half sections. Wells in the Bone Spring and in the Wolfcamp will be staggered in a wine-rack pattern.
- h. All quarter-quarter sections to be included are expected to be productive in the Bone Spring formation and all half sections in the Subject Lands will be productive in the Wolfcamp formation.
- i. Chisholm provided notice to all owners including the overriding interests in the Subject Lands and provided notice to affected parties in surrounding units. Chisholm also published notice in a newspaper of general circulation in Eddy County, New Mexico.

(7) No other party appeared at the hearing, or otherwise opposed the granting of this application.

The Division concludes that,

(8) Applicant has permitted the proposed wells at the locations detailed above and intends to drill the wells to develop all standard spacing units within the Subject Lands. There will be wells located near the center line of the sections and near the center line of the half sections. These will likely drain portions of laterally offsetting standard spacing units.

(9) Chisholm holds the two leases and owns all the working interests in the depths of the Bone Spring and Wolfcamp formations within the Subject Lands. The

overriding royalty owners have been noticed and have not objected to the application or to sharing equally from all wells within the two sections.

(10) Applicant has signed CA's with the State Land Office and preliminary agreement to approve the CA's from the Bureau of Land Management.

Wolfcamp Project Area

(11) Applicant's proposed Wolfcamp project area meets all the requirements for a standard project area pursuant to 19.15.16.7.L(1) and 19.15.16.7.M(4) NMAC, except for the fact that Section 32 is irregular. Section 32 is an entire section comprising 252.2 acres (79% of the area of a standard spacing unit in the Purple Sage; Wolfcamp (Gas) Pool) and may be accepted as a standard spacing unit by the District Supervisor pursuant to 19.15.15.11.B(1) NMAC. The proposed Wolfcamp wells should be dedicated to a standard project area comprising three standard spacing units, to wit: The N/2 of Section 29, the S/2 of Section 29 and all of Section 32.

Wolfcamp Non-Standard Spacing Unit

(12) Since consistent Division practice, pursuant to 19.15.16.15.E NMAC, permits dedication of a project area to a horizontal well in lieu of dedicating a single, spacing unit; 19.15.16.15.B(2) NMAC pretermits applicability of setbacks between spacing units within a project area; and Applicant does not now seek compulsory pooling, no reason appears for forming a non-standard spacing unit for production from the Wolfcamp formation at this time.

Bone Spring Project Area

(13) Applicant's proposal to create an 892.20-acre non-standard project area in the Bone Spring formation should be denied.

(14) Applicant did not show that one horizontal Bone Spring well can develop portions of every standard (quarter-quarter section or equivalent) oil spacing unit in the subject lands. Thus, the proposed area cannot be a "project area", as defined in 19.15.16.7.L(1) NMAC, which requires that a project area consist of spacing units "developed by *the* horizontal well [emphasis added]." Neither can it be a project area under 19.15.16.7.L(2), because a communitized unit is not one of the unit types included in that rule.

(15) A "non-standard project area" is defined", in 19.15.16.7.H NMAC, as "a project area that is not a standard project area" hence an area that is not a "project area" cannot be a "non-standard project area."

Bone Spring Spacing Unit

(16) Applicant also requests that the Subject Lands be approved as a non-standard *spacing unit* in the Bone Spring formation.

(17) The Division has statutory authority, pursuant to Section 70-2-18(C), NMSA 1978, to approve non-standard spacing units whenever such action will prevent waste or protect correlative rights.

(18) Applicant's engineering witness testified that development of the Subject Lands in accordance with its proposed "five-spot" spacing pattern would prevent waste. To implement this "five-spot spacing" in a pool spaced on 40-acre units would require that Applicant file, and the Division consider, numerous non-standard location applications. The working interest is uniform throughout the proposed non-standard unit, and no overriding royalty owner has indicated opposition. Thus, there is no indication that consolidation of the Subject Lands into a single non-standard spacing unit would impair correlative rights.

(19) Accordingly, the Division concludes that Applicant's proposed 892.2-acre non-standard spacing unit in the Welch; Bone Spring Pool will prevent waste without impairing correlative rights and should be approved.

Bone Spring Proration Units

(20) The 892.2-acre spacing unit is composed of 24 separate proration units in the Welch; Bone Spring Pool each comprising a governmental quarter-quarter section. The four undersized non-standard proration units consisting of Lots 1, 2, 3, and 4 in Section 32 should be approved and production and allowable for each allocated based on respective acreage contribution to the spacing unit.

(21) All other Division rules should still apply to wells drilled and completed within the Subject Lands.

IT IS THEREFORE ORDERED THAT

(1) The application of Chisholm Energy Operating, LLC ("Chisholm") to create an 892.20-acre (more or less) non-standard project area and non-standard gas spacing unit for oil and gas production from the Wolfcamp formation, Purple Sage; Wolfcamp Gas Pool (Pool Code 98220), comprising all of Section 29 and irregular Section 32, Township 26 South, Range 26 East (the "Subject Lands"), NMPM, Eddy County, New Mexico, is hereby denied, because the Subject Lands constitute a *standard* project area.

(2) The standard project area comprising the Subject Lands in the Wolfcamp formation, Purple Sage; Wolfcamp Gas Pool may be dedicated initially to the wells detailed in finding paragraph No. 3, as a project area allowed in 19.15.16.7.L(1) NMAC without establishing a non-standard spacing unit.

(3) The application of Chisholm to create an 892.20-acre (more or less) non-standard project area for oil and gas production from the Bone Spring formation, Welch; Bone Spring Pool (Pool Code 64010), comprised of the Subject Lands, is hereby denied.

(4) The Subject Lands within the Bone Spring formation are hereby approved as a non-standard spacing unit (the "Spacing Unit") for oil and gas production from the Welch; Bone Spring Pool and the wells detailed in finding paragraph No. 2 may be dedicated to the Spacing Unit. The operator of these wells shall file forms C-102 reflecting the correct acreage dedication of each of the wells.

(5) The Spacing Unit is composed of 24 separate oil proration units in the Welch; Bone Spring Pool each comprising a governmental quarter-quarter section.

(6) The four non-standard (undersized) proration units consisting of Lots 1, 2, 3, and 4 in Section 32, Township 26 South, Range 26 East, NMPM, Eddy County, New Mexico, are hereby approved and production and allowable from each shall be allocated from the total based on each proration unit's respective acreage contribution to the Spacing Unit.

(7) 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.



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STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in cursive script, reading "Heather Riley".

HEATHER RILEY
Director