

**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. 16436
ORDER NO. R-20250**

**APPLICATION OF CHEVRON U.S.A. INC. FOR APPROVAL OF THE
JAVELINA UNIT AND APPROVAL OF SURFACE COMMINGLING, EDDY
COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case come on for hearing at 8:15 a.m. on October 4, 2018, before Examiner Michael A. McMillan.

NOW, on this 27th day of November 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 of the subject matter.

(2) Chevron U.S.A. Inc. ("Chevron" or "Applicant") seeks approval of the Javelina Unit (the "Unit"), a federal exploratory unit, comprising 5119.76 acres (more or less) of Federal and State lands in Eddy County, New Mexico, described as follows:

TOWNSHIP 24 SOUTH, RANGE 31 EAST, NMPM

Section 1:	All
Section 2:	All
Section 9:	All
Section 10:	All
Section 11:	All
Section 12:	All
Section 15:	All
Section 16:	All

(3) Applicant seeks approval to surface commingle production from the Bone Spring and Wolfcamp formations underlying the Unit.

(4) The Unitized Interval includes all oil and gas in any and all formations of the unitized land, from the top of the Bone Spring formation defined as the stratigraphic equivalent of the top of the Bone Spring Lime as seen at 8,400 feet beneath the surface in that certain Schlumberger Gamma Ray and Dual Laterolog/MFSL, dated November 13, 1980, in the Superior Oil Company Sotol A Federal Well No.1 (API. No. 30-015-23459), located 1980 feet from the North line and 1980 feet from the West line, (Unit F), Section 12, Township 24 South, Range 31 East, Eddy County, New Mexico to the center of the earth.

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

- (a) The Unit is comprised of 18 different tracts. Fourteen Bureau of Land Management ("BLM") tracts, and four New Mexico State Land Office ("NMSLO") tracts.
- (b) The Unit agreement has been given written preliminary approval by the BLM and the NMSLO.
- (c) Applicant does not have a voluntary agreement with all working interest owners in the Unit and is still in the process of reaching agreement with those interest owners.
- (d) Each formation and corresponding pool will be its own unique participating area (PA).
- (e) Each PA has identical ownership in the mineral estate within the Unit.
- (f) Applicant requested surface commingling of Bone Spring and Wolfcamp formations and respective pools without going through the administrative process for the Unit.
- (g) 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.
- (h) No faults, pinch-outs, or other geologic impediments exist to prevent the Unitized Interval from being developed by horizontal oil wells.

- (i) The available well control in the area demonstrates the Unitized Interval identified in the type log is laterally contiguous across the entire Unit.
- (j) These lands were chosen and are being proposed as the Unit Area to facilitate the most efficient, uniform, and common development.
- (k) The 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 determines otherwise;
 - ii. A single Two-year automatic extension with approval of 90 percent of the working interest owners along with BLM and NMSLO approval;
 - iii. The Unitized Interval is from the top of the Bone Spring Lime to the center of the earth;
 - iv. Within the Unit, the Wolfcamp formation is defined as the interval between the stratigraphic equivalent of the interval between the base on the Bone Spring formation as seen at 11,755 feet beneath the earth surface, to the stratigraphic equivalent of the top of the Cisco formation as seen at 13,255 feet beneath the surface as also shown in the Schlumberger Gamma Ray and Dual Laterolog/MSFL, dated November 13, 1980, in the Superior Oil Company Sotol A Federal Well No.1 (API. No. 30-015-23459), located 1980 feet from the North line and 1980 feet from the West line, (Unit F), Section 12, Township 24 South, Range 31 East, Eddy County, New Mexico;
 - v. The entire Unit is treated as undivided with each tract participating as per its acreage contribution;
 - vi. Within six (6) months approval of this order, the Applicant shall be required to drill a one-mile lateral in the Bone Spring or deeper formation, which can be produced in paying quantities;
 - vii. Applicant is required to drill eight horizontal wells within five years of the effective date;

viii. The Oil Conservation Division (“OCD”) is authorized to approve the Unit Agreement.

(6) Douglas McLeod, Petrogulf Corporation, and Titus Oil & Gas, LLC (McCleod) made a Notice of Intervention and a Pre-Hearing statement. McCleod appeared at hearing, and cross-examined the witnesses, and was in support of this Application. No other party appeared at hearing, or otherwise opposed granting of this application.

The Division concludes as follows:

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

(8) Each pool producing with the Unit should constitute Unitized Area for horizontal oil well development pursuant to Division Rule 19.15.16.7(P) NMAC; provided however, that area should be limited to Unit Wells.

(9) Unit Wells should be defined as those wells allowed in the Javelina Unit Agreement.

(10) The Javelina Unit should be approved and the order 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 Javelina Unit is obtained by the Applicant from the BLM and the NMSLO.

(11) Subsequent to the Hearing, Applicant provided engineering data that showed that surface commingling using periodic well tests of the Bone Spring and Wolfcamp formations would aid in efficient development of the Unit and protect correlative rights. Further, the API gravity of the oil and the BTU of the produced gas are compatible. Therefore, it should be approved.

(12) The Unit Agreement contains language that specifies a contraction clause for undeveloped acreage; therefore, if it is enforced by either the BLM or NMSLO, the commingling application portion of the application may contain wells within the Unit and wells outside the Unit. As a result, the application should permit off-lease measurement within the Unit land described above.

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

(14) Subsequent to the Hearing, the Applicant provided the expected API gravity and BTU of the gases for the Wolfcamp and Bone Spring formations. The API gravity and BTU for both formations are similar, and should not present a problem with surface commingling.

(15) All submitted forms C-102 for Unit wells should (i) describe the Horizontal Spacing Unit size and shape for that well as per 19.15.16.15 NMAC, (ii) list the total acres within the Unit, and (iii) reference the Division order number approving the Unit.

(16) Approval of the Unit will provide the Applicant the flexibility to locate and drill wells in the Unit 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.

(17) The provisions contained within the Javelina Unit Agreement are following Division rules, and the development and operation of the Unit Area, as proposed, comply with the Division's conservation principles.

(18) The Applicant should provide to the Division a written copy of the final approval of the Javelina Unit by the BLM, and NMSLO.

(19) The plan contained within the Javelina 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 Javelina Unit should be submitted annually to the Division for review.

(20) 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.

(21) This application should be granted.

IT IS THEREFORE ORDERED THAT

(1) As per the application of Chevron U.S.A. Inc. ("Applicant" or "Chevron"), the Javelina Unit (the "Unit") consisting of 5119.76 acres (more or less) of Federal and State lands located in Eddy 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 Javelina Unit is obtained by Applicant from the Bureau of Land Management ("BLM"), and the New Mexico State Land Office ("NMSLO"). The final approval letter by the BLM and the NMSLO shall be provided to the Division.

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

TOWNSHIP 24 SOUTH, RANGE 31 EAST, NMPM

Section 1: All
Section 2: All
Section 9: All
Section 10: All
Section 11: All
Section 12: All
Section 15: All
Section 16: All

(4) Chevron U.S.A. Inc. (OGRID 4323) is hereby designated the Unit operator.

(5) Pursuant to the Unit Agreement, the Unitized Interval shall include all oil and gas in any and all formations on the unitized land, from the top of the Bone Spring formation defined as the stratigraphic equivalent of the top of the Bone Spring Lime, as seen at 8,400 feet beneath the surface in that certain Schlumberger Gamma Ray and Dual Laterolog/MSFL, dated November 13, 1980, in the Superior Oil Company Sotol A Federal Well No.1(API 30-015-23459), located 1980 feet from the North line and 1980 feet from the West Line (Unit F) of Section 12, Township 24 South, Range 31 East, NMPM, Eddy County, New Mexico to the center of the earth.

(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) Each separate participating area within the Unit shall constitute a single Unitized Area for horizontal oil well development pursuant to Division Rule 19.15.16.7(P) NMAC; provided however, that area shall be limited to Unit Wells.

(9) The plan contained within the Javelina 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 Javelina Unit shall be submitted annually to the Division for review.

(10) The vertical limits of the Wolfcamp formation shall be based on findings paragraph (k) iv.

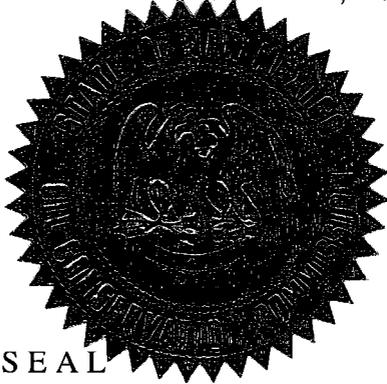
(11) Surface commingling of the Bone Spring and Wolfcamp formations and their respective pools and off-lease measurement shall be granted for wells within the Unit pools and may be measured by periodic well testing. Further, Findings Paragraph (13) shall apply to this Order.

(12) All submitted forms C-102 for Unit wells shall (i) describe the Horizontal Spacing Unit size and shape for that well as per 19.15.16.15 NMAC, (ii) list the total acres within the Unit, and (iii) reference the Division order number approving the Unit.

(13) 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.

(14) 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.



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

Heather Riley
HEATHER RILEY
Director