

**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. 16340
ORDER NO. R-20080**

**APPLICATION OF CONOCOPHILLIPS COMPANY FOR APPROVAL OF THE
ZIA HILLS BS/WC UNIT; CONTRACTION OF THE JENNINGS; UPPER BONE
SPRING SHALE POOL, THE PURPLE SAGE; WOLFCAMP GAS POOL AND
THE WC-025 G-08 S263205N; UPPER WOLFCAMP POOL; AND FOR
CREATION OF WILDCAT BONE SPRING AND WOLFCAMP OIL POOLS FOR
THE UNIT AREA, LEA AND EDDY COUNTIES, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case come on for hearing at 8:15 on August 9, 2018, before Examiner Scott A. Dawson.

NOW, on this 15th day of October, 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) ConocoPhillips Company ("Conoco" or "Applicant") seeks Approval of the Zia Hills BS/WC Unit (the "Unit"), a federal unit, comprising 13,383.35 acres, more or less, of Federal and State lands in Eddy and Lea Counties, New Mexico, described as follows:

**TOWNSHIP 26 SOUTH, RANGE 31 EAST, NMPM, EDDY
COUNTY**

Section 12:	SW/4
Section 13:	All
Section 14:	All

Section 23:	All
Section 24:	All
Section 25:	All
Section 26:	NW/4, SE/4
Section 27:	All
Section 34:	All
Section 35:	All
Section 36:	All

TOWNSHIP 26 SOUTH, RANGE 32 EAST, NMPM, LEA COUNTY

Section 7:	S/2
Section 17:	All
Section 18:	All
Section 19:	All
Section 20:	All
Section 25:	All
Section 26:	All
Section 27:	All
Section 28:	All
Section 29:	All
Section 30:	All
Section 31:	All
Section 32:	All
Section 33:	All
Section 34:	All
Section 35:	All
Section 36:	All

(3) The Unitized Interval includes all oil and gas in any formations of the unitized land below the base of the Brushy Canyon formation at a measured depth of 7,678 feet down to the stratigraphic equivalent to the top of the Cisco formation at a measured depth of 14,050 feet as encountered in the ConocoPhillips Company Stampede Federal 27 M Well No. 1 (API 30-015-42118), located 2157 feet from the South line and 1320 feet from the West Line (Unit L) of Section 27, Township 26 South, Range 31 East, NMPM, Eddy County, New Mexico and the COG Operating LLC State GR Well No. 1 (API 30-025-26785), located 1980 feet from the North Line and 1980 feet from the East line (Unit G) of Section 17, Township 26 South, Range 33 East, NMPM, Lea County, New Mexico.

(4) The Unit will be developed and operated as two Participating Areas, one for the Bone Spring and one for the Wolfcamp formations. Therefore, each Participating Area will be construed as a single Unitized Area in accordance with Division Rule 19.15.16.7(P) NMAC.

(5) The unit currently encompasses portions of the Jennings; Upper Bone Spring Shale Pool (Pool code 97838), the WC-015 G-05 S263125N; Bone Spring Pool

(Pool code 98009), and the WC-025 G-08 S263205N: Upper Wolfcamp Pool (Pool code 98065). These pools are 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. Also, the Unit encompasses a portion of the Purple Sage; Wolfcamp (Gas) Pool (Pool Code 98220), which is governed by special pool rules as established by Division Order No. R-14262 which provides for wells to be located no closer than 330 feet from a standard, deep gas 320-acre spacing unit.

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

- (a) The Unit is comprised of 22 different tracts. Eighteen Bureau of Land Management ("BLM") tracts, and four New Mexico State Land Office ("NMSLO") tracts;
- (b) The Unit will be developed to produce oil and gas from the Bone Spring and Wolfcamp formations;
- (c) the Unit will consist of two participating areas, one for the Bone Spring and one for the Wolfcamp;
- (d) the Unit will apply to horizontal wells and future vertical wells. Existing vertical wells will be excluded;
- (e) Applicant is the 100 percent working interest owner of the lands within the Unit;
- (f) Presently within the Unit are two Bone Spring Pools; the Jennings; Upper Bone Spring Shale Pool (Pool code 97838), and the WC-015 G-05 S263125N; Bone Spring Pool (Pool code 98009). The Wolfcamp pools are the Purple Sage; Wolfcamp (Gas) Pool (Pool code 98220) and WC-025 G-08 S263205N: Upper Wolfcamp Pool (Pool code 98065);
- (g) the Jennings; Upper Bone Spring Shale Pool (Pool code 97838) will be contracted and the WC-015 G-05 S263125N; Bone Spring Pool (Pool code 98009) will be expanded so there is only one Bone Spring pool;
- (h) the WC-015 G-05 S263125N; Bone Spring (Pool code 98009) will be renamed the Zia Hills; Bone Spring Pool (Pool code 98009);
- (i) The Purple Sage Wolfcamp (Gas) Pool and the WC-025 G-08 S263205N; Upper Wolfcamp Pool (Pool code 98065) will be contracted, and a new Pool WC-025 G-09 S263225A; Zia Hills;

Wolfcamp Pool (Pool code 98081) will be created for the proposed Unit Area;

- (j) Applicant is expecting oil production from the two new created pools. Applicant stated that it saw no evidence of a gas reservoir within the Wolfcamp formation;
- (k) Applicant notified all designated operators of wells of the contracted pools within one mile of the proposed Unit boundary, as well as overriding royalty interest owners;
- (l) The Unit agreement has been given written preliminary approval by the BLM and NMSLO;
- (m) Per the Unit Agreement, within six (6) months after the effective date of the unit, Applicant shall commence drilling of two (2) one-mile horizontal Wolfcamp wells and one (1) one-mile horizontal Bone Spring well which can be produced in paying quantities;
- (n) The three (3) wells shall be drilled with not more than six-months time elapsing between the completion of the first well and commencement of drilling operations for the second well and not more than six-months time elapsing between the completion of the second well and the commencement of drilling operations for the third well, regardless of whether a discovery has been made in any well under Paragraph 9a of the Unit Agreement;
- (o) 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;
- (p) No faults, pinch-outs, or other geologic impediments exist to prevent the Unitized Interval from being developed by horizontal oil wells;
- (q) The available well control in the area demonstrates the Unitized Interval identified in the type log is laterally contiguous across the entire Unit;
- (r) These lands were chosen and are being proposed as the Unit Area to facilitate the most efficient, uniform, and common development; and
- (s) Out of abundance of caution, Applicant provided notice to those potentially affected parties whose whereabouts could not be ascertained by publication as provided in Rule 19.15.4.12.B NMAC.

- (t) 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. 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 Wolfcamp formation;
 - iv. The effective date of the proposed Unit is December 1, 2016 which predates the spud date of the obligation well, and is prior to any production from Unit wells;
 - v. The entire Unit is treated as undivided with each tract participating as per its acreage contribution;
 - vi. Within six months effective date, Applicant must drill two one-mile Wolfcamp horizontal wells, and the Bone Spring has been tested with one one-mile horizontal well;
 - vii. The Oil Conservation Division ("OCD") is authorized to approve the Unit Agreement.

(7) Chevron USA, Incorporated made an entry of appearance, and appeared at the hearing, but otherwise did not oppose the granting of this application. No other party appeared at the hearing, or otherwise opposed the granting of this application.

The Division concludes as follows:

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

(9) The Unit and the corresponding pools should be dedicated to the Zia Hills; Bone Spring Pool (Pool code 98009) and Zia Hills; Wolfcamp Pool (Pool code 98081). Both of these pools are 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.

(10) The Unit should constitute a two Project Areas for horizontal oil well development pursuant to Division Rule 19.15.16.7(P) NMAC; provided however, the Project Areas should be limited to Unit Wells.

(11) Unit Wells should be defined as those wells allowed in the Zia Hills BS/WC Unit Agreement.

(12) The Zia Hills BS/WC Unit should be approved and this order will 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 Zia Hills BS/WC Unit is obtained by the Applicant from the BLM and the NMSLO.

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

(14) 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.

(15) Any submitted form C-102 for Unit wells should show: i) the drilling block for that particular well (each standard-sized spacing unit penetrated by the well) and ii) the total acreage within the Unit and 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 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.

(17) The provisions contained within the Zia Hills BS/WC 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.

(18) The Applicant should provide to the Division a written copy of the final approval of the Zia Hills BS/WC Unit by the BLM and the NMSLO.

(19) The plan contained within the Zia Hills BS/WC 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 Zia Hills BS/WC 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 ConocoPhillips Company ("Applicant" or "Conoco"), the Zia Hills BS/WC Unit (the "Unit") consisting of 13,383.35 acres, more or less, of Federal and State lands located in Eddy and Lea 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 Zia Hills BS/WC Unit is obtained by Applicant from the Bureau of Land Management ("BLM") and New Mexico State Land Office ("NMSLO"). The final approval letter by the BLM and NMSLO, shall be provided to the Division.

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

TOWNSHIP 26 SOUTH, RANGE 31 EAST, NMPM, EDDY COUNTY

Section 12:	SW/4
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Section 29:	All
Section 30:	All
Section 31:	All

Section 32:	All
Section 33:	All
Section 34:	All
Section 35:	All
Section 36:	All

(4) ConocoPhillips Company (OGRID 217817) is hereby designated the Unit operator.

(5) The Unitized Interval includes all oil and gas in any formations of the unitized land below the base of the Brushy Canyon formation at a measured depth of 7,678 feet down to the stratigraphic equivalent of the Cisco formation at a measured depth of 14,050 feet as encountered in the ConocoPhillips Company Stampede 27 M Well No. 1 (API 30-015-42118), located 2157 feet from the South line and 1320 feet from the West Line (Unit L) of Section 27, Township 26 South, Range 31 East, NMPM, Eddy County, New Mexico and the COG Operating LLC State GR Well No 1 (API 30-025-26785) located 1980 feet from the North line and 1980 feet from the East line, (Unit G) of Section 17, Township 26 South, Range 33 East, NMPM, Lea County, New Mexico are unitized under the terms of this agreement and herein are called "unitized substances."

(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 of two Participating Areas for both horizontal oil well development pursuant to Division Rule 19.15.16.7(P) NMAC for each formation and corresponding pool; provided however, the Project Area shall be limited to Unit Wells.

(9) The Zia Hills; Bone Spring Pool (Pool code 98009), and the Zia Hills; Wolfcamp Pool (Pool code 98081) **are hereby created**, subject to Division Rule 19.15.15.9(A) NMAC.

(10) The plan contained within the Zia Hills BS/WC 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 Zia Hills BS/WC Unit shall be submitted annually to the Division for review.

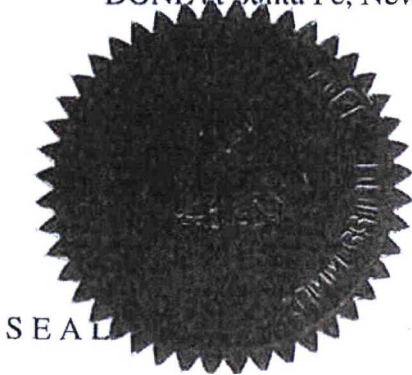
(11) Any submitted form C-102 for Unit wells shall show: i) the drilling block for that particular well (each standard-sized spacing unit penetrated by the well); and ii) the total acreage within the Unit and the Division order number approving the Unit.

(12) 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.

(13) 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
Director