

**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. 15845
ORDER NO. R-14459**

**APPLICATION OF CHEVRON USA INC. FOR APPROVAL OF THE CICADA
UNIT, EDDY COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case come on for hearing at 8:15 on September 28, 2017, before Examiner Scott Dawson.

NOW, on this 6th day of October, 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 Cicada Unit (the "Unit"), a federal resource development unit, comprising 5760 acres, more or less, of Federal and State lands in Eddy County, New Mexico, described as follows:

TOWNSHIP 25 SOUTH, RANGE 27 EAST, NMPM

Section 23:	All
Section 26:	All
Section 35:	All

TOWNSHIP 26 SOUTH, RANGE 27 EAST, NMPM

Section 1:	All
Section 2:	All
Section 10:	All
Section 11:	W/2

Section 12:	All
Section 14:	W/2
Section 15:	All

(3) The Unitized Interval includes all oil and gas from the stratigraphic equivalent of the top of the Wolfcamp formation encountered at a true vertical depth of 9,092 feet down to the stratigraphic equivalent of the base of the Wolfcamp formation at a true vertical depth of 11,235 feet as encountered in the Great Western Drilling Company Hay Hollow Unit Well No. 2 (API No. 30-015-21549) located in Unit F, Section 12, Township 26 South, Range 27 East, NMPM, Eddy 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 Purple Sage; Wolfcamp (Gas) (Pool Code 98220), which is governed by special pool rules as established by Division Order No. R-14262 which provide for 320-acre gas spacing units with wells to be located no closer than 330 feet from a unit outer boundary.

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

- (a) The Unit is comprised of 11 different tracts. Five Bureau of Land Management ("BLM") tracts, and six New Mexico State Land Office ("NMSLO") tracts;
- (b) The Unit will be developed to produce oil and gas from the Wolfcamp formation;
- (c) Applicant stated that the HH SO 10 P3 Well No. 7H (API 30-015-43936), which is the obligation well for the Unit has been spud;
- (d) 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;
- (e) Applicant stated that the Unitized interval fits within the vertical boundary of the Purple Sage; Wolfcamp (Gas) Pool;
- (f) The Unit agreement has been given written preliminary approval by the BLM and NMSLO;
- (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 Federal Resource Development 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. 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;
 - vii. The Oil Conservation Division ("OCD") is authorized to approve the Unit Agreement.

The Division concludes as follows:

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

(8) Within the Cicada Unit, Division rules for horizontal wells should apply only to those wells completed a lateral distance within the Wolfcamp formation of at least 100 feet in length.

(9) The Unit and offsetting acreage are within the boundaries of the Purple Sage; Wolfcamp (Gas) Pool; therefore, the 330-foot offsets at the Unit boundary would have no effect on any party in the mineral interest estate in the offsets.

(10) 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.

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

(12) The Cicada 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 Cicada 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 Cicada 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 Cicada Unit by the BLM.

(19) The plan contained within the Cicada 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 Cicada 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 USA Inc. ("Applicant" or "Chevron"), the Cicada Unit (the "Unit") consisting of 5760 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 Cicada 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 NMSLO shall be provided to the Division.

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

TOWNSHIP 25 SOUTH, RANGE 27 EAST, NMPM

Section 23:	All
Section 26:	All
Section 35:	All

TOWNSHIP 26 SOUTH, RANGE 27 EAST, NMPM

Section 1:	All
Section 2:	All
Section 10:	All
Section 11:	W/2
Section 12:	All
Section 14:	W/2
Section 15:	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 Wolfcamp formation encountered at a true vertical depth at 9,092 feet down to the stratigraphic equivalent of the base of the Wolfcamp formation at a true vertical depth of 11,235 feet as encountered in the Great Western Drilling Company Hay Hollow Unit Well No. 2 (API 30-015-21549) located in

Unit F, Section 12, Township 26 South, Range 27 East, NMPM, Eddy 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 Cicada 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 Cicada Unit shall be submitted annually to the Division for review.

(10) 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.

(11) 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.

(12) 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

David R. Catanach

DAVID R. CATANACH
Director