

**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. 20186
ORDER NO. R-20410**

**APPLICATION OF OXY USA INC. FOR COMPULSORY POOLING, EDDY
COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on January 10, 2019, at Santa Fe, New Mexico, before Examiner William V. Jones. The case was again heard on January 24, 2019 and at that date taken under advisement.

NOW, on this 28th day of February 2019, 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 the subject matter.

(2) The Applicant, OXY USA Inc., seeks to compulsory pool all uncommitted oil and gas interests within two deep, gas spacing units ("the Units") described as follows:

320 acres (more or less) within the North Loving; Strawn Gas Pool (Pool code 80710) and all other pools hereafter defined within the Strawn formation in the N/2 of Section 4, Township 23 South, Range 28 East, NMPM, Eddy County, New Mexico.

320 acres (more or less) within the North Loving; Morrow Gas Pool (Pool code 80695) and all other pools hereafter defined within the Morrow formation in the N/2 of Section 4, Township 23 South, Range 28 East, NMPM, Eddy County, New Mexico.

(3) The Units will be dedicated to the following well:

Loving Federal Com Well No. 1, API No. 30-015-24333

SHL/BHL: 1980 feet from the North line and 2235 feet from the West line, (Unit F) of Section 4, Township 23 South, Range 28 East, NMPM.

(4) Well completions with the North Loving; Strawn Gas Pool and the North Loving; Morrow Gas Pool are governed by Division Rule 19.15.15.10(B) NMAC, which specifies 320-acre deep gas spacing units, each comprising a governmental half section. Up to two gas wells are allowed, each well must be located in separate quarter sections and no closer than 660 feet from the boundary of the quarter section.

(5) No other party appeared or otherwise opposed this application.

(6) Applicant appeared at the hearing through counsel and presented evidence to the effect that:

(a) The subject well is currently completed in the Atoka Gas Sands as a N/2 gas spacing unit. The proposal is to deepen or recomple the well in the Morrow gas sands and optionally recomplete in the Strawn gas sands.

(b) Notice by certified mail was provided to all uncommitted interest owners in the proposed Unit whose interests were evidenced by a conveyance instrument, either of record or known to Applicant when the Application was filed, and to heirs known to Applicant of deceased persons who appear as owners in such instruments.

(c) Notice to affected parties was posted in a newspaper of general circulation in the county as provided in Rule 19.15.4.12.B NMAC.

The Division finds and concludes that

(7) OXY USA Inc. (OGRID 16696) should be designated the operator of the Well and of the Units.

(8) Two or more separately owned tracts are embraced within the Units, and/or there are royalty interests and/or undivided interests in oil and gas minerals in one or more tracts included in the Units that are separately owned.

(9) Applicant is owner of an oil and gas working interest within the Units. Applicant has the right to drill and proposes to drill or recomplete the Well to a common source of supply within the Units at the described depths and location(s). Applicant should be allowed 120 days to recomplete the Well after commencing recompletion operations.

(10) There are interest owners in the Units that have not agreed to pool their interests.

(11) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford to the owner of each interest in the Units the opportunity to recover or receive without unnecessary expense a just and fair share of hydrocarbons, this application should be approved by pooling all uncommitted interests, whatever they may be, in the oil and gas in the target formations within the Units.

(12) To ensure protection of correlative rights, any pooled working interest owner whose address is known, and who has elected to participate under the terms of this order should be notified before the Division grants any extension of the time provided herein for commencing drilling or recompletions. Any such owner may file an application, with notice to the operator, requesting that the extension be denied.

(13) Infill wells within the Units should be subject to Division Rules 19.15.13.9 NMAC through 19.15.13.10 NMAC, and to the terms and conditions of this order.

(14) Any pooled working interest owner who does not pay its share of estimated well recompletion costs should have withheld from production from such well its share of reasonable well costs plus an additional 200% thereof as a reasonable charge for the risk involved in drilling the Well.

(15) Reasonable charges for supervision (combined fixed rates) should be fixed at \$7000 per month, per well, while drilling (or recompleting) and \$700 per month, per well, while producing, provided that these rates should be adjusted annually pursuant to the COPAS form titled "*Accounting Procedure-Joint Operations*."

IT IS THEREFORE ORDERED THAT

(1) All uncommitted interests, whatever they may be, in the oil and gas within the following described deep gas spacing units ("the Units") are hereby pooled:

320 acres (more or less) within the North Loving; Strawn Gas Pool (Pool code 80710) and all other pools hereafter defined within the Strawn formation in the N/2 of Section 4, Township 23 South, Range 28 East, NMPM, Eddy County, New Mexico.

320 acres (more or less) within the North Loving; Morrow Gas Pool (Pool code 80695) and all other pools hereafter defined within the Morrow formation in the N/2 of Section 4, Township 23 South, Range 28 East, NMPM, Eddy County, New Mexico.

(2) The Units shall be dedicated to the following well(s):

Loving Federal Com Well No. 1, API No. 30-015-24333

SHL/BHL: 1980 feet from the North line and 2235 feet from the West line, (Unit F) of Section 4, Township 23 South, Range 28 East, NMPM.

(3) The Well shall be deepened or recompleted in the Morrow Gas Sands and optionally recompleted in the Strawn Gas Sands.

(4) OXY USA Inc. (OGRID 16696) is hereby designated the operator of the Well and of the Units.

(5) The operator of the Units shall commence recompletion of the Well on or before February 29, 2020 and shall thereafter continue drilling or recompletion of the Well with due diligence to test at least one of the target formations at or about the proposed depths.

(6) In the event the operator does not commence drilling or recompletion of the Well on or before the date provided in the foregoing paragraph, the compulsory pooling provision of this order shall be of no effect, unless the operator obtains a written time extension from the Division Director pursuant to a written request stating its reasons for such extension and attaching satisfactory evidence.

(7) In the event the operator does not complete the Well in at least one of the target formations within 120 days after commencement of drilling or recompletion operations pursuant to this order, then the compulsory pooling provisions of this order shall be of no effect unless operator obtains a written time extension from the Division Director pursuant to a written request stating its reasons for such extension and attaching satisfactory evidence.

(8) If at least one of the target formations is completed, the operator may commence recompletion operations in the second target formation at any subsequent time; however, after commencing such operations in the second target formation, the well must be completed within 120 days.

(9) The operator shall provide a copy of any request for extension of time to drill, recomplete, or complete any well filed with the Director pursuant to this order to each pooled working interest owner who has elected to participate in the drilling of any well that is the subject of the request. Such copy shall be sent at the same time the request is sent to the Director.

(10) Upon final plugging and abandonment of the Well and any other well (Well(s)) drilled on the Unit pursuant to Division Rule 19.15.13.9 NMAC, the pooled unit created by this order shall terminate unless this order has been amended to authorize further operations.

(11) Infill wells within the Unit shall be subject to Division Rule 19.15.13.9 NMAC and to the terms and conditions of this order.

(12) After pooling, uncommitted working interest owners are referred to as pooled working interest owners. ("Pooled working interest owners" are owners of working

interests in the Units, including unleased mineral interests, who are not parties to an operating agreement governing the Units.) After the effective date of this order, the operator shall furnish the Division and each known pooled working interest owner in the Units separate itemized schedules of estimated costs of drilling, completing and equipping each of the Well(s) ("well costs").

(13) Within 30 days from the date the schedule of estimated well costs for any well is furnished, any pooled working interest owner shall have the right to elect to pay its share of estimated well costs to the operator in lieu of paying its share of reasonable well costs out of production as hereinafter provided. Payment shall be rendered within 90 days after expiration of the 30-day election period and any such owner who pays its share of estimated well costs as provided above for any well shall remain liable for operating costs but shall not be liable for risk charges to the extent computed based on costs of such well. Pooled working interest owners who do not elect to pay their share of estimated well costs, or who do not render timely payment to the operator, as provided in this paragraph shall thereafter be referred to as "non-consenting working interest owners."

(14) The operator shall furnish the Division and each known pooled working interest owner (including non-consenting working interest owners) an itemized schedule of actual well costs of each well within 180 days following completion of the proposed well. If no objection to the actual well costs for any well is received by the Division, and the Division has not objected, within 45 days following receipt of the schedule for such well, the actual well costs shall be deemed to be the reasonable well costs. If there is an objection to actual well costs within the 45-day period, the Division will determine reasonable well costs for such well after public notice and hearing.

(15) Within 60 days following determination of reasonable well costs for any well, any pooled working interest owner who has paid its share of estimated costs of such well in advance as provided above shall pay to the operator its share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator the amount, if any, that the estimated well costs it has paid for such well exceed its share of reasonable well costs.

(16) The operator is hereby authorized to withhold the following costs and charges from each non-consenting working interest owner's share of production from each well:

- (a) the proportionate share of reasonable well costs attributable to the non-consenting working interest owner; and
- (b) as a charge for the risk involved in drilling the well, 200% of the above costs.

(17) During the cost recovery period, the operator shall furnish to the Division and to each known non-consenting pooled working interest owner, annually, and within 90

days after payout occurs, a schedule of all revenues attributable to each proposed well, and all charges for supervision and operating costs charged against such revenues. Operating costs shall include all reasonable costs incurred for the maintenance and operation of the well, except for "well costs" reported pursuant to prior ordering paragraphs, that are properly chargeable to the joint account pursuant to COPAS procedures. If no objection to the operating costs is received by the Division, and the Division has not objected, within 45 days following receipt of any schedule, the costs shall be deemed to be the reasonable operating costs. If there is an objection to the accuracy or reasonableness of operating costs reported within the 45-day period, the Division will determine reasonable operating costs after public notice and hearing.

(18) The operator shall distribute the costs and charges withheld from production, proportionately, to the parties who advanced the well costs for such well.

(19) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$7000 per month, per well, while drilling and \$700 per month, per well, while producing, provided that these rates shall be adjusted annually pursuant to the COPAS form titled "Accounting Procedure-Joint Operations." The operator is authorized to withhold from production from each well the proportionate share of both the supervision charges and the actual expenditures required for operating of such well, not more than what are reasonable, attributable to pooled working interest owners.

(20) Except as provided in the foregoing paragraphs, all proceeds from production from the Well(s) that are not disbursed for any reason shall be held for the account of the person or persons entitled thereto pursuant to the Oil and Gas Proceeds Payment Act (NMSA 1978 Sections 70-10-1 through 70-10-6, as amended). If not sooner disbursed, such proceeds shall be turned over to the appropriate authority as and when required by the Uniform Unclaimed Property Act (NMSA 1978 Sections 7-8A-1 through 70-8A-31, as amended).

(21) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for allocating costs and charges under this order. Any costs that are to be paid out of production shall be withheld only from the working interests' share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(22) Should all the parties to this compulsory pooling order reach voluntary agreement after entry of this order, this order shall thereafter be of no further effect.

(23) The operator of the Well(s) and Units shall notify the Division in writing of the subsequent voluntary agreement of any party subject to the compulsory pooling provisions of this order.

(24) 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


GABRIEL WADE
Acting Director