

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: 14395
ORDER NO. R-12984-A

APPLICATION OF XTO ENERGY, INC. TO
TERMINATE THE SOUTH BLANCO-
TOCITO OIL POOL, INCLUDING ITS
SPECIAL RULES AND REGULATIONS, AND
TO EXPAND THE BASIN-MANCOS GAS
POOL, AND FOR AN EXCEPTION TO RULE
19.15.12.9 NMAC TO PERMIT DOWNHOLE
COMMINGLING OF PRODUCTION FOR
TOCITO FORMATION, NOW MANCOS,
WITH DAKOTA PRODUCTION, RIO
ARRIBA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on December 3 and December 17, 2009, at Santa Fe, New Mexico, before Examiner David K. Brooks.

NOW, on this 12th day of January, 2010, the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

FINDS THAT:

(1) Due notice has been given, and the Division has jurisdiction of the subject matter of this case.

(2) In this Application, as modified on the record at the hearing, XTO Energy, Inc. [OGRID 5380] ("Applicant") seeks an order (1) contracting the South Blanco-Tocito Oil Pool (Pool Code 6460) in order to limit the horizontal boundaries of that pool to only the portion of its present horizontal extent that is within the horizontal boundaries of the Rincon Unit; (2) expanding the horizontal boundaries of the Basin-Mancos Gas Pool (Pool Code 97232) to include all of the area contracted out of the South Blanco-Tocito

Oil Pool; and (3) pre-approving downhole commingling of production from the Mancos and the Dakota formations within the area to be transferred from the South Blanco-Tocito Oil Pool to the Basin-Mancos Gas Pool ("the subject area").

(3) At the hearing, Applicant appeared through counsel and presented land, geologic and engineering evidence as follows:

(a) The existing Special Rules and Regulations for the South Blanco-Tocito Oil Pool (the Tocito rules), as established by Order No. R-1191, issued on June 10, 1958, provide for 80 acre units, with one well allowed per quarter-quarter section, to be located within 100 feet of the center of the quarter-quarter section.

(b) The Tocito rules do not provide a practical basis for development of the reserves remaining in that pool, which consist mostly of natural gas, because the restrictive well location provisions conflict with United States Bureau of Land Management (BLM) surface use requirements.

(c) In addition, drilling stand-alone wells to the Tocito/Mancos in this area is uneconomic. The most economically practical way to produce the remaining reserves in this formation in this area is to complete wells in both the Mancos and Dakota formations and downhole commingle production from these two formations. However, the restrictive well-location provisions of the Tocito rules prevent the placement of wells at locations that will optimize production and reservoir drainage in both formations.

(d) The proration provisions of the Tocito rules were designed to facilitate waterflooding. No one is currently conducting waterflooding operations within the South Blanco-Tocito Oil Pool, and the area is not now prospective for development by that method.

(e) There is no necessity to grandfather existing units for producing wells in the subject area because the wells that are currently dedicated to 80-acre Tocito units can be rededicated to standard 320-acre Mancos units without effecting any change in rights to production. Ownership interests are identical between the 80-acre and 320-acre units in each case.

(f) The fluids in the Mancos and Dakota formations in this area are highly compatible, and indeed have substantially similar constituents.

(g) The bottomhole pressure in the Dakota does not exceed the fracture parting pressure of the Mancos formation. In fact, the bottomhole pressure is lower in the Dakota than in the Mancos.

(h) Commingling oil and gas from the Mancos with gas from the Dakota will not reduce the total value of remaining reserves.

(i) The pressure differential between these two formations is not sufficient to cause substantial cross flow in the wellbores if production is commingled.

(j) Applicant proposes to allocate the commingled production stream between the Mancos and Dakota formations based on the relative production from the two formations in surrounding wells, a procedure that the Division has accepted in similar situations.

(4) Chevron USA, Inc. ("Chevron") appeared at the hearing through counsel, but did not present any evidence. Chevron represented that it does not oppose the application so long as any resulting order does not affect the portion of the South Blanco-Tocito Oil Pool that is within the horizontal boundaries of the Rincon Unit.

(5) The Division appeared at the hearing through counsel and presented testimony in support of the Application.

(6) The Division's witness testified, *inter alia*, that downhole commingling is already authorized between the Mancos and Dakota formations within existing Gallup pools adjacent to the subject area.

The Division Director concludes that:

(7) Contracting the horizontal limits of the South Blanco-Tocito Oil Pool to include therein only the area within the Rincon Unit and revoking the Tocito rules as applied to the subject area outside the Rincon Unit will facilitate development of the remaining reserves in the Tocito/Mancos formation within the subject area.

(8) Authorizing downhole commingling of production from the Mancos and Dakota formations within the subject area will also facilitate development of the remaining reserves in the Tocito/Mancos formation within the subject area.

(9) The evidence in this case provides sufficient data to establish that the requirements of Rule 12.11.A (1), (2), (3), (4) and (7) will be satisfied for downhole commingling of production from the Basin-Mancos Gas Pool and the Basin-Dakota Gas Pool within the subject area.

(10) Removing the subject area outside the Rincon Unit from the South Blanco-Tocito Oil Pool and pre-approving downhole commingling of production within

the subject area between the Mancos and Dakota formations will prevent waste and will not impair correlative rights or endanger public health or the environment. Accordingly, this Application, as modified at the hearing in order not to affect the Rincon Unit, should be granted.

IT IS THEREFORE ORDERED THAT:

(1) The South Blanco-Tocito Oil Pool (Pool Code 6460) is hereby contracted to limit its horizontal boundaries to the following area only (being the portion of the pool, as it heretofore existed, that is included within the boundaries of the Rincon Unit):

Township 26 North, Range 6 West:
Section 6: All

Township 27 North, Range 6 West
Section 32: SE/4, N/2 SW/4

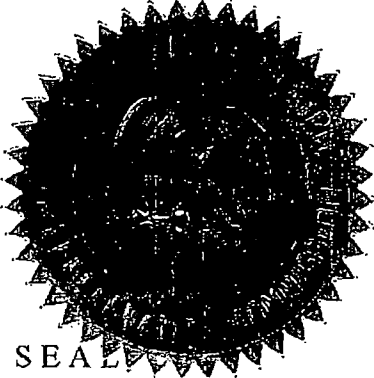
(2) The Basin-Mancos Gas Pool (Pool Code 97232) established by Order No. R-12984 is hereby expanded to include all of the area ("the subject area") heretofore constituting the South Blanco-Tocito Oil Pool, save and except the area specifically described in Ordering Paragraph (1) above.

(3) The Special Rules and Regulations for the South Blanco-Tocito Oil Pool, as promulgated by Order No. R-1191, issued in Case No. 1420 on June 10, 1958, shall henceforth apply only within the boundaries of the pool as defined in Ordering Paragraph (1) above, and not to any wells heretofore or hereafter drilled outside those boundaries.

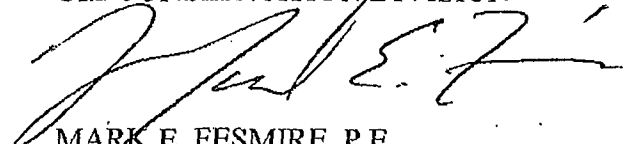
(4) Downhole commingling of production from the Basin-Mancos Gas Pool and the Basin-Dakota Gas Pool is hereby "pre-approved" (in accordance with Rule 19.15.12.11.C(2) NMAC, for wells located within the subject area.

(5) 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


MARK E. FESMIRE, P.E.
Director