

**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. 15946  
ORDER NO. R-14686**

**APPLICATION OF ROBERT L. BAYLESS, PRODUCER LLC FOR APPROVAL  
OF THE LA JARA MANCOS UNIT, CREATION OF A NEW POOL FOR  
HORIZONTAL DEVELOPMENT WITHIN THE UNIT AREA, AND FOR  
ALLOWANCE OF 660-FOOT SETBACKS FROM THE EXTERIOR OF THE  
PROPOSED UNIT, RIO ARRIBA COUNTY, NEW MEXICO**

**ORDER OF THE DIVISION**

**BY THE DIVISION:**

This case came on for hearing at 8:15 a.m. on January 25, 2018, at Santa Fe, New Mexico, before Examiner William V. Jones and again on February 8, 2018 before Examiner Phillip R. Goetze.

NOW, on this 21<sup>st</sup> day of May 2018, the Division Director, having considered the testimony, the record and the recommendations of the Examiners,

**FINDS THAT**

- (1) Due public notice has been given, and the Division has jurisdiction of this case and of the subject matter.
- (2) Robert L. Bayless, Producer LLC ("Bayless" or "Applicant") seeks,
  - a. Approval of the La Jara Mancos Unit (the "Unit"), a federal/fee exploratory unit, comprising 10,878.58 acres (more or less) of federal and fee lands in Rio Arriba County, New Mexico; and
  - b. Allowing for 660-foot setbacks from the exterior of the proposed Unit with no internal setback for horizontal gas wells.

(3) The Unit comprises the following-described lands, all in Rio Arriba County, New Mexico:

**Township 29 North, Range 4 West, N.M.P.M.**

Sections 1 and 2:	All
Sections 11 through 14:	All
Sections 20 through 29:	All
Section 32:	All

(4) In addition to specifying the Unit Area, the Unit Agreement defines the Unitized Interval and limits the unit to horizontal wells completed within that Unitized Interval. The specific language in the agreement is repeated as follows.

- a. The "Unitized Land" includes all oil and gas in the Mancos Shale formation, including genetically related rocks below the stratigraphic equivalent of the top of the Mancos Shale formation (which is the base of the Point Lookout Sandstone of the Mesaverde Group) at a measured depth of 6,824 feet down to the stratigraphic equivalent of the base of the Mancos Shale formation (which is the top of the Dakota Sandstone) at a measured depth of 8,586 feet as encountered in the San Juan 29-4 Unit Well No. 24 in the NE/4 of Section 8, Township 29 North, Range 4 West, N.M.P.M. (API 30-039-22844).
- b. The Unit is limited in applicability to wells containing a lateral or laterals drilled, completed, or recompleted so that the horizontal component of the completion interval extends at least one thousand (1,000) feet in the objective formation ("Horizontal Wells"). All pre-existing and future vertical wells within the Unit boundary drilled and completed in the Mancos Group are excluded from the Unit agreement.

(5) The Unit currently encompasses a portion of the Basin Mancos Gas Pool (Pool Code 97232). Rule "C" of the Special Rules for the Basin Mancos Gas Pool as established by Order No. R-12984 requires wells to be located no closer than 660 feet to the outer boundary of a spacing unit.

(6) The Jicarilla ("Nation") Oil and Gas Administration ("JOGA") entered an appearance and was represented *pro se* at the hearing by Mr. Guillermo DeHerrera, the director of JOGA. Mr. DeHerrera presented testimony and expressed concerns as to the effect that horizontal Mancos formation gas wells drilled within the Unit would have on the Nation's offsetting mineral interests as they are located to the east. The Nation was interested in the planned number of wells to be drilled, the preferred drilling direction, and how far away the wells would influence gas reserves.

(7) Southland Royalty Company as an interest owner in the Unit entered an appearance and was represented at the hearing by counsel but did not oppose the application. No other party entered an appearance or otherwise opposed this application.

(8) Applicant appeared at hearing through counsel and presented the following testimony.

- a. The Unit is comprised of 15 federal tracts, or 98.53 percent of the Unit acreage, and one patented (fee) tract comprising 1.47 percent of the Unit acreage. One of the federal leases is past the primary term, but Bayless has filed a request for suspension with the BLM.
- b. There are two unleased fee mineral owners. These two owners were notified of this hearing but have not otherwise been approached. The interest reflected as owned by Synergy Operating is now owned by NueVida Resources, LLC and the interest formerly owned by WPX is now owned by Logos Resources.
- c. The federal/fee exploratory form was used with modifications as specified in preceding findings and the BLM's Farmington Field Office inserted contraction language and language dealing with the Participating Area boundary. The language of the agreement provides that the Unit may be contracted even if the Participating Area coincides with the Unit boundaries.
- d. The Unit Agreement has been given written preliminary approval by the BLM [Exhibit No. 3]. Bayless anticipates over 85 percent participation in the Unit. The BLM will not give final approval of the Unit without at least 85 percent participation.
- e. The Unit is located geographically in the deeper, gas producing area (gas maturity window) of the Mancos formation and all wells are expected to produce gas and not oil. The wells will be drilled to a length and equivalent stratigraphic interval that was very successfully drilled recently by the BP America Production Company, Northeast Blanco Unit 602 Com Well No. 1H (API No. 30-045-35775). The two main target intervals consist of shales and sands within the Gallup member of the Mancos formation. However, other intervals are considered prospective. The wells will need to be completed with perforations and hydraulic fracturing.
- f. The intention of Bayless is to develop all acreage in the Unit as a single Participating Area which would therefore constitute a project area in accordance with 19.15.16.7.L(2) NMAC. The Participating Area covering the entire Unit is needed in part to satisfy the administrators of the Carson National Forest who would govern the surface access and disturbances within the forest lands.
- g. The initial well will be spud in the NW/4 NE/4 of Section 26 with a bottom hole location in Section 21. Per requirements by the United

States forest service, this location has been approved for up to 16 wells which wells are not allowed to be spud elsewhere. The first well was approved by the forest service under a categorical exclusion that covered the entire Unit Area.

- h. Lands within Sections 11, 12, and 13 are included in the Campo Gallup (Gas) Pool (Pool Code 73720). This pool is governed by the statewide rule for shallow vertical gas wells, 19.15.15.10 C. NMAC, which allows one gas well located in a spacing unit consisting of a governmental quarter section of 160-acres (more or less) with the well located no closer than 660 feet to an outer boundary of the unit and no closer than 10 feet to a quarter-quarter section or subdivision inner boundary.
- i. Bayless proposed in its application the creation of a new pool within the Unit boundaries for development of horizontal Mancos formation gas wells. However, under advice of the Aztec office of the Division, Bayless is no longer asking for creation of a unit wide Mancos formation gas pool. Bayless intends to apply for downhole commingling authority if any horizontal well crosses the pool boundaries. Bayless asks the Division to grant this approval authority to the Aztec district office.
- j. The wells are expected to be dry gas and not produce water. The 660-foot setback distance for all well completions from the Unit boundaries should be adequate to protect offsetting mineral owners including the Jicarilla Nation lands.
- k. The Plan of Developments submitted each year by the operator of this Unit will be a public record that can be accessed by the Jicarilla Nation or other interested parties.
- l. Applicant has provided notice of this application and hearing to all owners within the Unit and to offset operators and working interest owners in any wells dedicated to the Basin-Mancos Pool in adjacent spacing units surrounding the Unit.
- m. Applicant has caused notice of this application to be published in the Rio Grande Sun newspaper published in the city of Espanola, Rio Arriba County.

The Division concludes

- (9) Applicant has provided proper and adequate notice of this application and hearing.

(10) The geologic evidence presented demonstrates that the entire Unit should be productive within the Unitized Interval. Within the La Jara Mancos Unit, Division rules for horizontal wells should apply only to those wells completed a lateral distance within the Mancos formation of at least 1000 feet in length. Unit Wells should be defined as those wells allowed in the La Jara Mancos Unit Agreement.

(11) Bayless has indicated that the BLM is inclined to declare the entire Unit as being within a Participating Area. In the interest of expediency and at the advice of the Aztec district office of the Division, Bayless is asking that the portion of the application requesting one pool within the boundaries of the Unit to be dismissed. Depending on accounting rules governing revenue and taxes, there is a possibility that the lands covered by each pool in this Unit could be designated as individual Participating Areas [see definition of PUN]. If that happens and it becomes an issue, Bayless has adequate time to bring a nomenclature hearing before the Division to adjust the pool boundaries.

(12) In any event, each single Participating Area within this Unit should constitute a single Project Area for horizontal oil well development pursuant to Division Rule 19.15.16.7(L)(2) NMAC. Within each Project Area, wells should be granted relief from the otherwise required 660-foot setback distance.

(13) As proposed in this application, any gas well drilled in this Unit should be completed no closer than 660 feet from the boundary of the Unit.

(14) The provisions contained within the La Jara Mancos Unit Agreement are in the best interest of conservation and the prevention of waste.

(15) Approval of the Unit will provide the Applicant the flexibility to locate and drill wells in the Unit to maximize the recovery of natural 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.

(16) The La Jara Mancos Unit should be approved and should 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 La Jara Mancos Unit is obtained by Applicant from the BLM.

(17) Robert L. Bayless, Producer LLC (OGRID 150182) should be designated the Unit operator.

(18) The Applicant should provide to the Division a written copy of the final approval of the La Jara Mancos Unit by the BLM. Applicant should submit a copy of the annual La Jara Mancos Unit Plan of Development to the Division for review.

(19) 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.

**IT IS THEREFORE ORDERED THAT**

(1) As per the application of Robert L. Bayless, Producer LLC, the La Jara Mancos Unit (the "Unit") consisting of 10,878.58 acres (more or less) of federal and fee lands in Rio Arriba County, New Mexico, is hereby approved.

(2) The portion of this application asking for creation of a Unit pool is dismissed without prejudice. The request during this hearing to allow Aztec district approval of possible downhole commingled wells was not advertised, is in the proposed new horizontal well rules, and therefore is not approved.

(3) 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 La Jara Mancos Unit is obtained by Applicant from the Bureau of Land Management ("BLM"). The final approval letter by the BLM shall be provided by the operator to the Division and included in this case file.

(4) The Unit shall comprise the following-described acreage in Rio Arriba County, New Mexico:

**Township 29 North, Range 4 West, N.M.P.M.**

Sections 1 and 2:	All
Sections 11 through 14:	All
Sections 20 through 29:	All
Section 32:	All

(5) Robert L. Bayless, Producer LLC (OGRID 150182) is hereby designated the Unit operator.

(6) Pursuant to the Unit Agreement, the Unitized Interval shall include all oil and gas in the Mancos Shale formation, including genetically related rocks below the stratigraphic equivalent of the top of the Mancos Shale formation (which is the base of the Point Lookout Sandstone of the Mesaverde Group) at a measured depth of 6,824 feet down to the stratigraphic equivalent of the base of the Mancos Shale formation (which is the top of the Dakota Sandstone) at a measured depth of 8,586 feet as encountered in the San Juan 29-4 Unit Well No. 24 in the NE/4 of Section 8, Township 29 North, Range 4 West, N.M.P.M. (API 30-039-22844).

(7) Unit Wells shall be those wells allowed in the Unit Agreement.

(8) 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.

(9) Each individual Participating Area within 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, each Project Area shall be limited to Unit Wells.

(10) Any Unit Well may be drilled anywhere within any Participating Area provided that no portion of the completed interval is closer than 660 feet to the outer boundary of the Unit unless otherwise approved by the Division pursuant to Division Rule 19.15.15.13 NMAC.

(11) Should a new pool for Mancos development be formed that encompasses the area of the La Jara Mancos Unit, then the La Jara Mancos Unit Wells shall be incorporated into that new Mancos pool. In that event, the operator of the La Jara Mancos Unit shall file the necessary forms with the Division to dedicate those wells to the new pool.

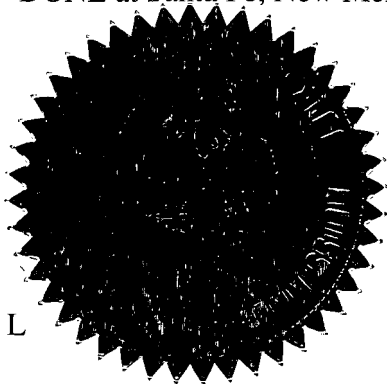
(12) The plan contained within the La Jara Mancos Unit Agreement for the development and operation of the Unit is hereby approved in principle as a proper conservation measure. All plans of development for the La Jara Mancos Unit shall be submitted annually to the Division for review.

(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) The Unit operator shall provide inter-well communication data within the Unit to the Aztec District office of the Division no later than 18 months after the effective date of this order.

(15) 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.



SEAL

STATE OF NEW MEXICO  
OIL CONSERVATION DIVISION

HEATHER RILEY  
Director