

**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. 15338  
ORDER NO. R-14080**

**APPLICATION OF WPX ENERGY PRODUCTION, LLC FOR APPROVAL OF  
THE NORTH ESCAVADA UNIT; CREATION OF A NEW POOL FOR  
HORIZONTAL DEVELOPMENT WITHIN THE UNIT AREA; AND FOR  
ALLOWANCE OF 330 FOOT SETBACKS FROM THE EXTERIOR OF THE  
UNIT, SANDOVAL COUNTY, NEW MEXICO.**

**ORDER OF THE DIVISION**

**BY THE DIVISION:**

This case came on for hearing at 8:15 a.m. on June 25, 2015, at Santa Fe, New Mexico, before Examiner Michael McMillan.

NOW, on this 17<sup>th</sup> day of November, 2015, 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) WPX Energy Production, LLC ("Applicant" or "WPX") seeks:
  - (a) Approval of the North Escavada Unit ("the Unit") comprising 4480 acres, more or less, of Federal and Allotted Indian lands in Sandoval County, New Mexico;
  - (b) Creation of a new pool for horizontal oil wells in the Unitized Interval within the Unit; and
  - (c) A provision that allows the completed interval of horizontal oil wells in the Unit to be located no closer than 330 feet to the outer boundary of the Unit.

(3) At the hearing, the Applicant requested that the following-described acreage, which was originally included in the Unit, be removed from the proposed Unit:

**TOWNSHIP 22 NORTH, RANGE 7 WEST, NMPM**

Section 11: E/2  
Section 12: All  
Section 13: N/2  
Section 14: NE/4

(4) As now proposed, The Unit comprises the following-described 3040 acres, located in Sandoval County, New Mexico:

**TOWNSHIP 22 NORTH, RANGE 7 WEST, NMPM**

Section 3: S/2  
Section 4: S/2  
Section 5: SE/4  
Section 8: NE/4  
Section 9: All  
Section 10: All  
Section 11: W/2  
Section 14: NW/4  
Section 15: N/2

(5) The Unitized Interval includes all formations from the stratigraphic equivalent of the top of the Mancos formation at a measured depth of 3,715 feet down to the stratigraphic equivalent of the top of the Graneros shale formation at a measured depth of 5,575 feet, as encountered in the log run on the Sandoval 22-7 Well No. 1-23 (API No. 30-043-05150), located in Section 23, Township 22 North, Range 7 West, NMPM, Sandoval County, New Mexico.

(6) The Unit will be developed and operated as a single Participating Area and will therefore constitute a single Project Area in accordance with Division Rule 19.15.16.7.L NMAC.

(7) The Unit currently comprises portions of the Alamito-Gallup Pool (Code 1039). The Alamito-Gallup Pool is subject to Division Rule 19.15.15.9 NMAC which requires standard 40-acre spacing and proration units with wells to be located no closer than 330 feet to the outer boundary of a spacing unit.

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

- (a) The Unit is comprised of two Federal tracts and seventeen separate Allotted Indian tracts;

- (b) All working interests in the Unit are expected to be committed to the Unit;
- (c) The Unit Agreement was prepared on the form prescribed by the Bureau of Land Management ("BLM"), but has been modified in two significant respects:
  - 1. It applies only to horizontal oil wells in the Unitized Interval; and
  - 2. The entire Unit is established as a single Participating Area.
- (d) The Unit Agreement will be executed by the BLM and by the Federal Indian Minerals Office ("FIMO") on behalf of the interest owners in the Allotted Indian lands contained within the Unit;
- (e) Applicant has discussed the Unit and the Unit development plans with the BLM and the FIMO. Following these discussions, the BLM issued a letter preliminarily granting approval of the Unit Agreement. A copy of this letter was provided to the FIMO. The Unit will be effective upon final approval by the BLM and the FIMO;
- (f) Records at the FIMO indicate there are approximately 1000 interest owners in the Allotted Indian lands within the Unit. Applicant has provided notice of this application and hearing by certified mail to these interest owners with addresses of record;
- (g) Applicant has published notice of this application and hearing in the Albuquerque Journal, a newspaper of general circulation in the State of New Mexico, in order to provide notice to those interest owners in the Allotted Indian lands within the Unit for which no address could be found following diligent efforts;
- (h) In addition to the newspaper notice referenced above, Applicant has provided notice of this application and hearing by certified mail to all operators, lessees and working interest owners in the offsetting Rusty- Gallup Pool, Alamito-Gallup Pool, Undesignated Rusty-Gallup Pool, and Undesignated Alamito-Gallup Pool spacing units surrounding the Unit;
- (i) The Unit is located within a portion of the Alamito-Gallup Pool, Undesignated Rusty-Gallup Pool, and Undesignated Alamito-Gallup Pool. An analysis of the existing pools demonstrates that the technical and reservoir characteristics of the hydrocarbons in each of the existing pools are identical in all respects. The pressure

gradients for these pools are generally the same, the fluids are compatible, and the oil API gravity is consistent. Consequently, the Mancos (Gallup) formation within the Unit appears to be a single common source of supply;

- (j) The Unit will be developed to produce oil from the Mancos formation;
- (k) No faults, pinch-outs or other geologic impediments exist to prevent the Unitized Interval from being developed by horizontal oil wells;
- (l) The available well control in the area demonstrates that the Unitized Interval identified in the type log is laterally contiguous across the entire Unit;
- (m) Applicant will provide inter-well communication data within the proposed Unit to the Aztec Office of the Division no later than 18 months after entry of this order;
- (n) No horizontal wells have been drilled in the proposed Unit and pool; and
- (o) Applicant, therefore, requests the creation of a new pool for horizontal oil wells within the Unit subject to the following:
  - 1. This new oil pool will only apply to horizontal oil wells in the Unitized Interval within the Unit.
  - 2. This new oil pool should be subject to the Division's statewide rules regarding spacing and setbacks for oil wells.
  - 3. Horizontal oil wells in the Unitized Interval may be located anywhere within the Unit, provided that no portion of the completed interval is closer than 330 feet to the outer boundary of the Unit.

(9) Ms. Adrienne Wood and Ms. Adelena Wood, Indian Allottee mineral interest owners, appeared at the hearing and requested a continuance of this case. This request was denied.

The Division concludes as follows:

(10) The Applicant has provided proper and adequate notice of this application and hearing to all interest owners in the Unit.

(11) The Unit Agreement provides that the entire Unit shall comprise a single Participating Area, consequently, the Unit constitutes a single Project Area for horizontal oil wells pursuant to Division Rule 19.15.16.7.L(2) NMAC.

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

(13) Applicant intends to fully develop the Unit with a sufficient number of horizontal wells to drain the Unitized Interval within the entire Unit. To ensure full development of the Unit, the Unit Agreement contains provisions that: i) require continuous drilling until a well is drilled that is capable of producing in paying quantities, and ii) require the Unit Operator, subsequent to drilling a well capable of producing in paying quantities, to submit an annual plan of development to the Authorized Officer of the Department of the Interior for approval.

(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) 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, and will not violate correlative rights.

(16) The provisions contained within the North Escavada Unit Agreement are in compliance with Division rules and the Oil & Gas Act. Further, development and operation of the Unit Area, as proposed, complies with the Division's conservation principles.

(17) The North Escavada Unit should be approved.

(18) The Unit Operator should be required to submit a Division Form C-102 for each horizontal well drilled in the Unit that shows: 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.

(19) Applicant should be required to submit a copy of the annual North Escavada Unit Plan of Development to the Division for review.

(20) With regard to Applicant's request for the creation of a new pool for horizontal well development within the Unit, the Division further concludes that:

(a) A new oil pool for horizontal wells in the Mancos formation within the Unit should be created and designated the North Escavada Unit Mancos Pool;

(b) The vertical limits of the North Escavada Unit Mancos Pool should encompass all formations from the stratigraphic equivalent of the top of the Mancos formation as defined at a depth of 3,715 feet down to the stratigraphic equivalent of the top of the Graneros shale formation at a measured depth of 5,575 feet as encountered in the log run on the Sandoval 22-7 Well No. 1-23 (API 30-043-05150) located in Section 23, Township 22 North, Range 7 West, NMPM, Sandoval County, New Mexico;

(c) The North Escavada Unit Mancos Pool should be subject to Division Rules 19.15.15.9 NMAC, 19.15.16.14.B(3) NMAC, and 19.15.20.12.A NMAC; and

(d) The effective date of the pool creation should be the 1<sup>st</sup> day of the month following entry of this order, provided however that the creation of the North Escavada Unit Mancos Pool is contingent upon the Unit Operator obtaining final approval of the North Escavada Unit from the BLM and FIMO.

(21) Horizontal wells subsequently drilled in the North Escavada Unit should be dedicated to the North Escavada Unit Mancos Pool, provided however, if a new pool for Mancos development is formed that encompasses the North Escavada Unit, the North Escavada Unit Mancos Pool will be contracted, and the wells in the North Escavada Unit incorporated into the new Mancos pool. In that event, the operator of the North Escavada Unit should be required to file the necessary forms with the Division to dedicate those wells to the new pool.

(22) Approval of the North Escavada Unit and creation of a new pool for horizontal development within the Unit, subject to the provisions described above, will promote orderly development of the Mancos formation within the Unit and will not violate correlative rights.

**IT IS THEREFORE ORDERED THAT:**

(1) The North Escavada Unit (the "Unit") consisting of 3040 acres, more or less, of Federal and Allotted Indian lands in Sandoval County, New Mexico, is hereby approved.

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

**TOWNSHIP 22 NORTH, RANGE 7 WEST, NMPM**

Section 3: S/2  
Section 4: S/2  
Section 5: SE/4  
Section 8: NE/4  
Section 9: All

Section 10: All  
Section 11: W/2  
Section 14: NW/4  
Section 15: N/2

(3) WPX Energy Production, LLC ("WPX") is hereby designated the Unit Operator.

(4) Pursuant to the Unit Agreement, the Unitized Interval shall include all formations from the stratigraphic equivalent of the top of the Mancos formation at a measured depth of 3,715 feet down to the stratigraphic equivalent of the top of the Graneros shale formation at a measured depth of 5,575 feet as encountered in the log run on the Sandoval 22-7 Well No. 1-23 (API No. 30-043-05150), located in Section 23, Township 22 North, Range 7 West, NMPM, Sandoval County, New Mexico.

(5) The Unit shall constitute a single Project Area for horizontal oil well development pursuant to Division Rule 19.15.16.7.L(2) NMAC.

(6) WPX shall provide a copy of the annual North Escavada Unit Plan of Development to the Division for review.

(7) A new oil pool for horizontal wells drilled within the Unitized Interval in the North Escavada Unit is hereby created and designated the North Escavada Unit Mancos Pool.

(8) The vertical limits of the North Escavada Unit Mancos Pool shall include all formations from the stratigraphic equivalent of the top of the Mancos formation at a measured depth of 3,715 feet down to the stratigraphic equivalent of the top of the Graneros shale formation at a measured depth of 5,575 feet as encountered in the log run on the Sandoval 22-7 Well No. 1-23 (API No. 30-043-05150), located in Section 23, Township 22 North, Range 7 West, NMPM, Sandoval County, New Mexico.

(9) The horizontal boundaries of the North Escavada Unit Mancos Pool shall coincide with the boundaries of the North Escavada Unit as described in Ordering Paragraph No. (2) above, and shall not extend beyond the Unit boundaries.

(10) The Division may expand or contract the horizontal boundaries of the North Escavada Unit Mancos Pool if the boundaries of the Unit are altered.

(11) The North Escavada Unit Mancos Pool shall be subject to Division Rules No. 19.15.15.9 NMAC, 19.15.16.14.B(3) NMAC and 19.15.20.12.A NMAC, and to the following stipulations:

- (a) The Unit Operator shall be required to submit a Division Form C-102 for each horizontal well drilled in the Unit that shows the drilling block for that particular well (each standard-sized spacing unit penetrated by

the well), the total acreage within the Unit and the Division order number approving the Unit; and

- (b) Horizontal wells within the Unit can be located anywhere within the Unit, provided that no portion of the completed interval is located closer than 330 feet to the outer boundary of the Unit.

(12) The effective date of the creation of the North Escavada Unit Mancos Pool shall be the 1<sup>st</sup> day of the month following final approval of the North Escavada Unit Agreement by the BLM and the FIMO, provided however that the creation of the North Escavada Unit Mancos Pool shall be contingent upon the Unit Operator obtaining final approval of the North Escavada Unit Agreement from the BLM and the FIMO.

(13) The plan contained within the North Escavada Unit Agreement for the development and operation of the Unit is hereby approved in principle as a proper conservation measure, provided however, notwithstanding any of the provisions contained in the Unit Agreement, this approval shall not be considered as waiving or relinquishing, in any manner, any right, duty or obligation which is now, or may hereafter be vested in the Division to supervise and control operations for the Unit and production of oil and gas therefrom.

(14) 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 Area, 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.

(15) The Applicant shall provide to the Division a copy of the Bureau of Land Management's final approval of the North Escavada Unit.

(16) Division approval of the North Escavada Unit shall be effective on the first day of the month following entry of this order OR, the date in which final approval of the North Escavada Unit is obtained from the Bureau of Land Management, whichever is later.

(17) Applicant shall provide inter-well communication data within the Unit to the Aztec District Office of the Division no later than 18 months after approval of this Order.

(18) If a new pool for Mancos development is formed that encompasses the North Escavada Unit Mancos Pool, the North Escavada Unit Mancos Pool will be incorporated into that new pool and the Unit Operator shall be required to file the necessary forms with the Division to dedicate those wells to the new pool.

(19) 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

A handwritten signature in dark ink, appearing to read "David R. Catanach".

DAVID R. CATANACH  
Director