

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

APPLICATION OF WPX ENERGY FOR APPROVAL OF A 9,238 ACRE PROJECT AREA COMPRISED OF ACREAGE SUBJECT TO A COMMUNITIZATION AGREEMENT; FOR A "REFERENCE CASE" AUTHORIZING WITHIN THE PROPOSED PROJECT AREA THE DOWNHOLE COMMINGLING OF PRODUCTION FROM THE ESCRITO-GALLUP ASSOCIATED POOL, COUNSELORS-GALLUP-DAKOTA OIL POOL AND LYBROOK-GALLUP OIL POOL; AND FOR AN EXCEPTION TO THE WELL LOCATION REQUIREMENTS WITHIN THE PROPOSED PROJECT AREA, RIO ARRIBA AND SANDOVAL COUNTIES, NEW MEXICO.

**CASE NO. 15102
ORDER NO. R-13817**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing on March 20, 2014, at Santa Fe, New Mexico, before Division Examiner Scott Dawson and legal counsel Gabriel Wade.

NOW, on this 2nd day of May, 2014, the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

FINDS AND CONCLUDES THAT:

1. Due public notice has been given, and the Division has jurisdiction of the subject matter of this case.
2. The Applicant seeks the following relief from the Division:
 - a. Approval of a 9,238-acre project area in the Mancos formation underlying the acreage subject to a communitization agreement in Rio Arriba and Sandoval Counties, New Mexico, more specifically described below;
 - b. Establishing a "reference case" authorizing within the Project Area the downhole commingling of production from the Escrito-Gallup Associated Pool (22619), the Counselors-Gallup-Dakota Oil Pool (13379), and the Lybrook-Gallup Oil Pool (42289); and

c. A blanket exception for horizontal wells to be drilled in the Project Area from otherwise applicable well location requirements; provided that no well shall be located less than 330 feet from any outer boundary of the project area.

3. The Project Area subject to a proposed communitization agreement and horizontal oil pool as formed by the Division consists of the following lands in Rio Arriba and Sandoval Counties, New Mexico (hereinafter the "Project Area"):

TOWNSHIP 23 NORTH, RANGE 6 WEST, NMPM

Section 5: Lots 1-4, S/2 N/2, S/2
Section 6: Lots 1-7, S/2 NE/4, SE/4 NW/4, E/2 SW/4, SE/4
Section 7: Lots 1-4, E/2 W/2, E/2
Section 8: All
Section 16: S/2, NW/4
Section 17: Lots 1-7, NE/4 NE4, S/2
Section 18: Lots 1-4, E/2 W/2, E/2
Section 19: All

TOWNSHIP 23 NORTH, RANGE 7 WEST, NMPM

Section 1: Lots 5-20
Section 11: Lots 1-2, S/2 NW/4, NE/4, S/2
Section 12: Lots 1-3, NW/4 SW/4, SE/4, N/2
Section 13: All
Section 14: All
Section 15: E/2, SW/4
Section 24: All

4. The communitized interval for the Project Area consists of the Mancos formation, defined as from the top of the Mancos Formation at a depth of 4,542 feet down to the stratigraphic equivalent of the top of the Greenhorn Formation at a depth of 6,289 feet as encountered in the Rincon No. 20 well in Unit Letter K, Section 11, Township 23 North, Range 7 West, NMPM (API No. 30-039-26768).

5. The Project Area is located partly within the Escrito-Gallup Associated Pool (22619), the Counselors-Gallup-Dakota Oil Pool (13379), and the Lybrook-Gallup Oil Pool (42289). The Escrito-Gallup Associated Pool is governed by the General Rules and Regulations governing all Associated Pools (adopted by Order No. R-5353 in 1977) which require that oil wells be located no closer than 790 feet from the quarter section line or 330 feet from the quarter-quarter section line. The Counselors-Gallup-Dakota Oil Pool is subject to Special Rules (adopted by Order No. R-7034 and made permanent by Order No. R-7034-B in 1986) which require that oil wells be located no closer than 660 feet from the outer boundary of the spacing unit, no closer than 330 feet from the quarter-quarter section line, and no closer than 1320 feet to another well

producing from the same formation. The Lybrook-Gallup Oil Pool is governed by the Division's statewide rules which provide that wells may be located no closer than 330 feet from the outer boundary of the spacing unit.

6. Applicant appeared at the hearing and presented an expert in petroleum engineering that provided testimony and evidence that:

a. The Project Area consists of a mixture of federal, fee and state lands, with federal lands comprising over 90% of the Project Area and Applicant controlling over 93% of the working interest.

b. The Project Area is subject to a proposed Communitization Agreement that was prepared on the form prescribed by the United States Bureau of Land Management (BLM) and the New Mexico State Land Office (NMSLO). This form has been modified in two significant respects:

i. It applies only to horizontal well development in the Mancos formation;

ii. It contains a lease segregation clause for the single NMSLO lease that is partially within and partially outside of the Project Area.

c. The Communitization Agreement has received preliminary approval from the BLM and the NMSLO.

d. All of the working interest owners in the Project Area have agreed to the Communitization Agreement and are in the process of finalizing a Joint Operating Agreement (JOA) to govern operations in the Project Area which names the Applicant, WPX, as the designated operator of the Project Area. Testimony stated that the JOA was to be completed within a couple of weeks of this case's hearing date.

e. There has been significant horizontal and vertical well development in the Project Area such that all of the leases within the Project Area are currently held by production and commerciality is not an issue for this area. There was testimony that the applicant currently has seven horizontal wells producing, two wells are waiting to be stimulated, and one well is being drilled. Additionally, the applicant has sixty wells in its drilling plan. Of those sixty, all have been staked. Approximately half already have permits, and all are scheduled to be drilled by December of 2015. The applicant also testified that the drilling program would be continuous until the Project Area is fully developed.

f. Approval of this application will allow the Applicant to place additional horizontal wells in an orientation that maximizes recovery of the communitized substances.

g. Continued horizontal development in the Project Area will likely result in the commingling of production from the three Gallup oil pools currently within the Project Area.

h. The three Gallup oil pools within the Project Area are laterally contiguous and there is sufficient production information from these pools to determine that the commingling of production from these pools in horizontal wellbores will not cause operational issues or waste.

i. Most of the Project Area is governed by the Lybrook-Gallup Oil Pool, which allows for oil wells to be located no closer than 330 feet to the outer boundary of a spacing unit.

j. Within the Project Area, the Lybrook-Gallup Oil Pool is currently adjacent to both the Counselors-Gallup-Dakota Oil Pool and the Escrito-Gallup Associated Pool, which have different setback requirements. Any working interest owner desiring to drill a well in the Lybrook-Gallup Oil Pool adjacent to the other two Gallup oil pools is already afforded the opportunity to locate a well 330 feet from the boundary of those adjacent oil pools.

k. The Applicant did not present reservoir data regarding setbacks and their effect on correlative rights as the Applicant has the majority of the Project Area under lease and all other interests outside the CA were noticed one mile from the borders and did not object to the proposed Project Area setbacks.

l. The Applicant testified that all data needed by the Division regarding well interference concerning setbacks and internal well spacing, would take approximately 18 months of production history matching to build reservoir models and would be made available to the Division as soon as available and subject to confidentiality.

m. The current setback requirements governing development of the Counselors-Gallup-Dakota Oil Pool and the Escrito-Gallup Associated Pool interfere with the horizontal well pattern necessary to efficiently and effectively drain the underlying reserves within the Project Area.

n. Applicant or future operators of the CA will not object to an application filed by an operator in an offsetting spacing unit to the Project Area to locate a well as close as 330 feet to the Project Area boundary.

o. Applicant has visited with the Division and the working interest owners in the Project Area about the creation of a new oil pool for horizontal well development within the Project Area. None of the working interest owners within the Project Area object to the creation of a new oil pool for horizontal well development in the area. The proposed horizontal oil pool for the Project Area will be formed by the Division through a nomenclature hearing.

p. Allowables have not been an issue to date and statewide rules are sufficient at this time.

q. Approval of this application is in the interests of conservation, the prevention of waste and the protection of correlative rights.

7. Applicant presented a landman at the hearing that provided the following evidence:

a. There are over eighty overriding royalty interest owners in the Project Area. Some of these overriding royalty interest owners cannot be located and others are simply non-responsive.

b. All overriding royalty interest owners were provided notice of this application and hearing either by mail or by publication in a local newspaper.

c. All of the working interest owners and royalty owners in the Project Area have been given notice of this application and hearing, including the BLM and the NMSLO.

d. Applicant has given notice of this application and hearing to all operators, lessees and/or mineral owners in the sections surrounding the Project Area.

8. Applicant presented at the hearing an expert in petroleum geology that provided testimony and evidence that:

a. The communitized interval is laterally contiguous across the entire Project Area.

b. No faults, pinchouts or other geologic impediments exist to prevent the communitized interval from being developed by horizontal wells.

9. No one appeared at the hearing in opposition to this Application.

10. Approving the area subject to the proposed communitization agreement as a single "project area" is a logical extension of 19.15.16.7.L.

11. Allowing horizontal wells to be located anywhere within the Project Area so long as no portion of the completed interval is closer than 330 feet to the outer boundary of the Project Area will not impair correlative rights and will assist in preventing waste.

12. The evidence presented by the Applicant indicates that the technical and reservoir characteristics of the Escrito-Gallup Associated Pool, the Counselors-Gallup-Dakota Oil Pool, and the Lybrook-Gallup Oil Pool are identical in all respects. The pressures in the three pools are below normal with pressure gradients of 0.30 pounds per square inch per foot of depth (psi/ft). The fluids from the pools are compatible with the quality of oil production from each of the pools being 40 degrees API, indicating that the three pools are essentially one pool.

13. There are no fluid-sensitivity issues, no loss of reserves due to cross-flow, and the value of the total remaining reserves from these pools will not be reduced by combining the three pools into one pool.

14. After reviewing this application and the current reporting requirements for the Division and the NMSLO, the Division has determined a new oil pool for horizontal development in the Mancos formation within the proposed Project Area must be created for administrative purposes.

a. This new oil pool shall apply to existing and future horizontal wells in the Mancos formation underlying the Project Area.

b. All existing and future vertical wells in Mancos formation within the Project Area shall remain dedicated and subject to the existing Gallup oil pools in the Project Area.

c. The operators of existing horizontal wells within the Project Area shall, upon the creation of the new oil pool by the Division, be required to file the necessary forms with the Division to dedicate those wells to the new oil pool.

15. Accordingly, the request by the Applicant to establish a "reference case" authorizing within the Project Area or Communitized Area, the downhole commingling of production from the Escrito-Gallup Associated Pool (22619), the Counselors-Gallup-Dakota Oil Pool (13379), and the Lybrook-Gallup Oil Pool (42289) should be dismissed.

IT IS THEREFORE ORDERED THAT:

(1) A 9,238-acre Project Area for horizontal development in the Mancos formation is hereby approved comprised of the following acreage in Rio Arriba and Sandoval Counties, New Mexico:

TOWNSHIP 23 NORTH, RANGE 6 WEST, NMPM

Section 5: Lots 1-4, S/2 N/2, S/2
Section 6: Lots 1-7, S/2 NE/4, SE/4 NW/4, E/2 SW/4, SE/4
Section 7: Lots 1-4, E/2 W/2, E/2
Section 8: All
Section 16: S/2, NW/4
Section 17: Lots 1-7, NE/4 NE4, S/2
Section 18: Lots 1-4, E/2 W/2, E/2
Section 19: All

TOWNSHIP 23 NORTH, RANGE 7 WEST, NMPM

Section 1: Lots 5-20
Section 11: Lots 1-2, S/2 NW/4, NE/4, S/2
Section 12: Lots 1-3, NW/4 SW/4, SE/4, N/2
Section 13: All
Section 14: All
Section 15: E/2, SW/4
Section 24: All

(2) The communitized interval for the Project Area shall consist of the Mancos formation, defined as from the top of the Mancos Formation (base of Mesaverde Group) at a depth of 4,542 feet down to the stratigraphic equivalent of the top of the Greenhorn Formation at a depth of 6,289 feet as encountered in the Rincon No. 20 well in Section 11, Township 23 North, Range 7 West, NMPM (API No. 30-039-26768).

(3) Horizontal wells drilled in the project area shall be exempt from the state wide oil rules governing the Lybrook-Gallup Oil Pool (42289), the Special Pool rules for the Counselors- Gallup-Dakota Oil Pool (13379), and the General Rules and Regulations for all associated oil and gas pools governing the Escrito-Gallup Associated Pool (22619).

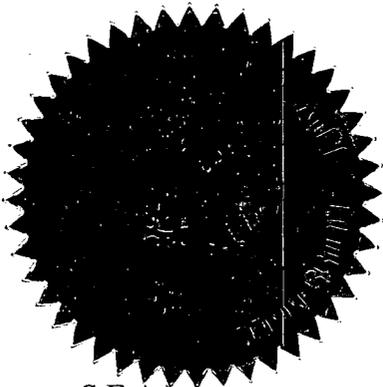
(4) Horizontal wells drilled within the Project Area may be drilled anywhere within the Project Area so long as no portion of the completed interval is closer than 330 feet to the outer boundary of the Project Area unless allowed by the Division pursuant to 19.15.15.13 NMAC.

(5) Any operator outside of the Project Area shall be allowed to file with the Division for approval to locate an oil well as close as 330 feet to the outer boundary of the Project Area without objection of the CA operator.

(6) The Division shall proceed to create a new oil pool for horizontal development within the Mancos formation for the Project Area.

- a. This new oil pool shall apply to existing and future horizontal wells in the Mancos formation within the Project Area.
 - b. All existing and future vertical wells in the Mancos formation within the Project Area shall remain dedicated and subject to the existing Gallup oil pools in the Project Area.
 - c. The proposed new horizontal oil pool for the Project Area will be formed by the Division through a nomenclature hearing.
 - d. Upon the creation of the new horizontal oil pool, the operators of existing horizontal wells within the Project Area shall file the necessary forms with the Division to dedicate those wells to the new oil pool.
- (7) The request by the Applicant to establish a "reference case" authorizing within the Project Area or Communitized Area, the downhole commingling of production from the Escrito- Gallup Associated Pool (22619), the Counselors-Gallup-Dakota Oil Pool (13379), and the Lybrook-Gallup Oil Pool (42289) is dismissed.
- (8) All data needed by the Division regarding well interference concerning setbacks and internal well spacing shall be made available to the Division as soon as available and subject to confidentiality.
- (9) This order is contingent upon final approval of the proposed Communitization Agreement by the BLM, NMSLO and the formation of the new horizontal oil pool by Division hearing and order.
- (10) This order is binding on all current and future operators of the Project Area and its associated CA and horizontal oil pool.
- (11) 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

JAMI BAILEY
Director