

**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. 15375
ORDER NO. R-14084**

**APPLICATION OF WPX ENERGY PRODUCTION, LLC FOR APPROVAL OF
THE KIMBETO WASH 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
PROPOSED UNIT, SAN JUAN COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on September 17, 2015, at Santa Fe, New Mexico, before Examiner Michael McMillan, October 1, 2015, before Examiner William V. Jones, and October 15, before Examiner McMillan.

NOW, on this 30th day of November, 2015, the Division Director, having considered the testimony, the record and the recommendations of Examiner McMillan,

FINDS THAT:

- (1) Due public notice has been given, and the Division has jurisdiction of this case and its subject matter.
- (2) WPX Energy Production, LLC ("Applicant" or "WPX") seeks:
 - (a) Approval of the Kimbeto Wash Unit (the "Unit") comprising 5279.20 acres, more or less, of Federal and Indian Allotted lands in San Juan County, New Mexico;
 - (b) Creation of a new pool for horizontal development in the Mancos formation within the boundary of the Unit; and
 - (c) Authority to drill horizontal wells within the Unit such that the completed interval is located no closer than 330 feet to the outer boundary of the Unit.

(3) The Unit comprises the following-described acreage in San Juan County, New Mexico:

TOWNSHIP 23 NORTH, RANGE 9 WEST, NMPM

Sections 17-20:	All
Section 21:	W/2
Section 28:	W/2
Sections 29-30:	All
Section 31:	NE/4
Section 32:	All

(4) The Unitized Interval includes all oil and gas from the top of the Mancos formation at a measured depth of 2,873 feet down to the stratigraphic equivalent at a depth of 4,680 feet as encountered in the BCO, Inc. Federal E Well No. 1 (API 30-045-20949) located in Section 17, Township 22 North, Range 9 West, NMPM, San Juan County, New Mexico.

(5) 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) (2) NMAC.

(6) 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 or, in this case, the outer boundary of the project area.

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

- (a) The Unit is comprised of three separate Federal tracts and eighteen separate Allotted Indian tracts;
- (b) All 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:
 - (a) It applies only to horizontal oil wells in the Unitized Interval; and
 - (b) 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 FIMO. Following these discussions, the BLM issued a letter, copied to the FIMO, providing preliminary approval of the Unit;
- (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 Farmington Daily Times, a newspaper of general circulation in San Juan County, New Mexico for the interest owners of record in the Allotted Indian lands for which no address could be found following diligent efforts;
- (h) Applicant has provided notice of this application and hearing by certified mail to all operators, lessees and working interest owners in the horizontal extent of the unitized area;
- (i) The Unit will be developed to produce oil from the Mancos formation;
- (j) No faults, pinch-outs or other geologic impediments exist to prevent the Unitized Interval from being developed by horizontal oil wells;
- (k) The available well control in the area demonstrates the Unitized Interval identified in the type log is laterally contiguous across the entire Unit;
- (l) Applicant stated that only one pool covers the Unit; therefore, the request for a new pool should be dismissed.
- (m) Applicant will provide a yearly plan of development, similar to the BLM requirement, to the OCD Santa Fe Office;
- (n) Horizontal wells will be drilled in a diagonal orientation to efficiently develop oil and gas reserves;
- (o) Applicant will provide inter-well communication data within the proposed Unit to the Aztec Office of the Division;
- (p) Unit will be effective upon final approval by BLM and FIMO.

(8) Ms. Etta Arviso, Indian Allottee mineral interest owner, spoke personally and through counsel at the hearing about concerns with oil and gas operations (operations) in the Unit. Next, Ms. Arviso and counsel spoke about issues with the public outreach (outreach) presented by the Applicant. Next, Ms. Arviso spoke about problems with notification to affected parties (notification). Lastly, Ms. Arviso requested a continuance. Ms. Arviso's request for continuance was denied.

(9) Ms. Grace N. Begay, Indian Allottee mineral interest owner, spoke at the hearing about operations and the outreach.

(10) Mr. Daniel Tso, Indian Allottee mineral interest owner, spoke at the hearing about operations and the outreach.

(11) Ms. Levinson, who is not an affected party, spoke at the hearing about operations.

(12) Ms. Sobel, who is not an affected party, spoke at the hearing about notice.

The Division concludes as follows:

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

(14) 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.

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

(16) 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.

(17) 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.

(18) 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.

(19) The development and operation of the Unit Area, as proposed, comply with the Division's conservation principles.

(20) The Kimbeto Wash Unit should be approved.

(21) 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.

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

(23) The proposed Unit and the request for authority to locate horizontal oil wells within the Unit no closer than 330 feet to the outer boundary of the Unit should be approved.

IT IS THEREFORE ORDERED THAT:

(1) The Kimbeto Wash Unit (the "Unit) consisting of 5279.20 acres, more or less, of Federal and Indian Alloted lands in San Juan County, New Mexico, is hereby approved.

(2) The Unit shall comprise the following lands in San Juan County, New Mexico:

TOWNSHIP 23 NORTH, RANGE 9 WEST, NMPM

Sections 17 through 20:	All
Section 21:	W/2
Section 28:	W/2
Sections 29 and 30:	All
Section 31:	NE/4
Section 32:	All

(3) The Unitized Interval includes all oil and gas from the top of the Mancos formation at a measured depth of 2,873 feet down to the stratigraphic equivalent at a depth of 4,680 feet as encountered in the BCO, Inc. Federal E Well No. 1 (API 30-045-20949) located in Section 17, Township 22 North, Range 9 West, NMPM, San Juan County, New Mexico.

(4) Subsequently drilled horizontal wells within the Unitized Interval in the Kimbeto Wash Unit shall be dedicated to the Basin Mancos Gas Pool, provided however,

if a new pool for Mancos development is formed that encompasses the Kimbeto Wash Unit, the Basin Mancos Gas Pool will be contracted, and the wells in the Kimbeto Wash Unit shall be incorporated into the new Mancos pool. In that event, the operator of the Kimbeto Wash Unit shall file the necessary forms with the Division to dedicate those wells to the new pool.

(5) The Unit constitutes a single Project Area for horizontal oil well development pursuant to Division Rule 19.15.16.7(L)(2) NMAC. Accordingly, Unit wells may be drilled anywhere within the Unit provided that no portion of the completed interval is closer than 330 feet to the outer boundary of the Unit unless otherwise approved by the Division pursuant to Division Rule 19.15.15.13 NMAC.

(6) WPX Energy Production, LLC (OGRD 120782), is hereby designated the operator of the Unit.

(7) The Unit Operator shall 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.

(8) The plan contained within the Kimbeto Wash 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.

(9) 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.

(10) This Order is binding on all current and future operators in the Project Area and associated Unitization Agreement.

(11) All plans of development for the Kimbeto Wash Unit shall be submitted annually to the Division for review.

(12) Applicant shall provide inter-well communication information to the Aztec Office 18 months after the initial well is completed in the Unit. Further, the Division may require supplemental data as needed for inter-well communication.

(13) Division approval of the Kimbeto Wash 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 Kimbeto Wash Unit is obtained from the BLM and the Federal Indian Minerals Office, whichever is later.

(14) That portion of the application seeking creation of a new pool for Mancos production within the Kimbeto Wash Unit is dismissed.

(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.



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STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in cursive script that reads "David R. Catanach".

DAVID R. CATANACH
Director