

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

**IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:**

**CASE NO. 15334
ORDER NO. R-13930-A**

APPLICATION OF ENCANA OIL & GAS (USA) INC. TO RESCIND ORDER NO. R-13929 APPROVING THE HUTTON CANYON FEDERAL EXPLORATORY UNIT AND TO AMEND ORDER NO. R-13930 TO EXPAND THE BETONIE TSOSIE WASH FEDERAL EXPLORATORY UNIT AND THE CORRESPONDING BETONIE TSOSIE WASH UNIT HZ OIL POOL, RIO ARRIBA AND SAN JUAN COUNTIES, 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 A. McMillan.

NOW, on this 7th day of March, 2016, 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 the subject matter of this case.
- (2) Encana Oil & Gas (USA) Inc. ("Applicant" or "Encana") seeks an Order:
 - a. Rescinding Division Order No. R-13929 issued in Case No. 15210 approving the Hutton Canyon Federal Exploratory Unit;
 - b. Expanding the geographic area of the Betonie Tsosie Wash Federal Exploratory Unit (the "Unit") approved under Division Order No. R-13930 in Case No. 15211 to include the acreage currently subject to the Hutton Canyon Unit as well as additional acreage; and
 - c. Expanding the corresponding Betonie Tsosie Wash Unit HZ Oil Pool created by Division Order No. R-13930 to correspond to the expanded Unit boundaries

and to continue to allow horizontal wells to be located anywhere within the Unit so long as the completed interval is no closer than 330 feet from the outer boundary of the Unit.

(3) Under Division Order No. R-13929, issued in Case No. 15210 on November 10, 2014, the Division approved the Hutton Canyon Federal Exploratory Unit in the Mancos formation consisting of 2563 acres of Federal lands in Section 18, Township 23 North, Range 7 West and Sections 11, 13, and 14 in Township 23 North, Range 8 West, NMPM, Rio Arriba and San Juan Counties, New Mexico and allowed the creation of a new oil pool for horizontal wells within the Unit Area to be designated the Hutton Canyon Unit HZ Oil Pool. Division records indicate that as of February 18, 2016, this pool has not been created and no wells are producing within the Hutton Canyon Federal Exploratory Unit Area.

(4) Under Division Order No. R-13930, issued in Case No. 15211 also on November 10, 2014, the Division approved the Betonie Tsosie Wash Federal Exploratory Unit in the Mancos formation, originally consisting of 5757 acres of Federal and Indian Allotted lands in Sections 21-23, 26-28, 33-35 of Township 23 North, Range 8 West, NMPM, San Juan County, New Mexico and allowed the creation of a new oil pool for horizontal wells within the Unit Area to be designated the Betonie Tsosie Wash Unit HZ Oil Pool. Division records indicate that as of February 18, 2016, this pool has not been created and no wells are producing within the [unexpanded] Betonie Tsosie Wash Federal Exploratory Unit Area.

(5) The Bureau of Land Management ("BLM") has not provided final approval of either of these two units; therefore, neither of these units is currently in effect.

(6) The Unit Area for the expanded Betonnie Tsosie Wash Unit now consists of 13,137 acres of Federal and Indian Allotted lands located in Rio Arriba and San Juan Counties, New Mexico described as follows:

TOWNSHIP 23 NORTH, RANGE 7 WEST, NMPM, RIO ARRIBA COUNTY

Section 18: All

TOWNSHIP 23 NORTH, RANGE 8 WEST, NMPM, SAN JUAN COUNTY

Sections 11, 13, 14, 21, 22, 23, 26, 27, 28, 33, 34, 35: All

TOWNSHIP 22 NORTH, RANGE 8 WEST, NMPM, SAN JUAN COUNTY

Sections 3, 4, 5: All
Section 6: NE/4, S/2
Sections 7, 8: All
Section 9: N/2, SE/4
Section 10: All

(7) The Unit Agreement was prepared on the BLM form but modified to apply only to horizontal wells completed after the effective date of October 1, 2014, and completed at least 1000 feet within the Unitized Interval; and all tracts within the Unit will participate in any and all Unit production on the basis of their respective tract acreage contribution – see Paragraph 11 of the Unit Agreement. *The wells subject to this Unit should be called “Unit Wells”.*

(8) The Unitized Interval includes all formations from 100 feet below the stratigraphic equivalent of the top of the Mancos Shale (base of the Mesa Verde Group) to the stratigraphic equivalent of the base of the Greenhorn Limestone as shown in the log for the AH DES PI AH-NAVAJO Well No. 1 (API 30-045-20994) in Section 12, Township 23 North, Range 9 West, NMPM, San Juan County, New Mexico.

(9) Applicant is proposing that all Unit Wells be included in only one pool within the Unit Area. Without this relief, Unit Wells would be subject to differing pool rules regarding spacing and setbacks depending on the nearest applicable Gallup Oil Pool or would be subject to the rules of the Basin Mancos Gas Pool.

(10) Applicant provided notice of this application and hearing by certified mail to:

- a. Indian Allottee Mineral Interest Owners;
- b. Offsetting Interest Owners; and
- c. Working interest owners within the expanded unit area.

(11) Applicant published notice of this application and hearing with the names of parties who were not located in the Farmington Daily Times, a newspaper of general circulation in Rio Arriba and San Juan Counties. Applicant also published notice of this application and hearing in the Santa Fe “New Mexican”, a newspaper of general circulation in the State of New Mexico.

(12) Ms. Adrienne Wood and Ms. Adelena Wood, mineral interest owners, appeared at the hearing and requested a continuance for this case. Both parties had been provided notice but neither had entered a formal appearance or submitted a pre-hearing statement. The Examiner determined at the hearing that the requested continuance would not be granted.

(13) The application was unopposed.

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

- a. The Unit is comprised of 31 separate leases of Federal and Allotted Indian Lands;
- b. All interests in the Unit are expected to be committed to the Unit;

- c. The Unit Agreement will be executed by the BLM on behalf of the Federal Indian Minerals Office (FIMO) and the interest owners in the Allotted Indian lands comprising the Unit;
- d. 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.
- e. Records at the FIMO indicate there are approximately 475 interest owners in the Allotted Indian lands within the Unit.
- f. The Unit will be developed to produce oil from the Mancos formation. The Unit Area has uniform geologic and reservoir characteristics. No faults, pinch-outs or other geologic impediments exist to prevent the Unitized Interval from being developed by horizontal oil wells. The available well control in the area demonstrates that the Unitized Interval identified in the type log is laterally contiguous across the entire Unit;
- g. Four wells have been drilled in the expanded portion of the proposed unit and pool;
- h. Applicant does not oppose operators in offsetting spacing and proration units locating horizontal oil wells in the Unitized Interval provided such wells extend no closer than 330 feet to the exterior boundary of the Unit.

The Division concludes as follows:

(15) Applicant presented evidence that the proposed Unit is logically subject to exploration and development under a unit plan. Applicant has provided proper notice and the application was unopposed.

(16) Division Order No. R-13929 pertaining to the proposed Hutton Canyon Unit should be rescinded in its entirety. Division Order No. R-13930 pertaining to the Betonie Tsosie Wash Unit should also be rescinded and replaced in its entirety as per the requests of the Applicant.

(17) This will be a voluntary "all participating" Unit; therefore, the Unit should constitute a single Project Area for horizontal oil wells in order to prevent waste and protect correlative rights. Accordingly, internal setbacks requirements within the Unit would not apply.

(18) A new pool for production of oil within the vertical limits of the Mancos formation should be created and should be applied to all existing and future Unit Wells. The effective date of this Pool should be no earlier than the date of approval of this order. The pool horizontal boundaries should correspond [only] to the Unit Area and should change as the Unit Area expands or contracts.

(19) Applicant did not apply for special pool rules or present evidence as to the need for such rules; therefore, the new pool should be based on Division Rule 19.15.15.9 with 40-acre spacing and proration units and 330-foot setbacks and on Division Rule 19.15.20.12 with a top oil allowable of 80 barrels of oil per day per proration unit and a limiting Gas Oil Ratio of 2000 to 1. This pool should be subject to change pending approval of any future nomenclature orders affecting the Unit Area.

(20) The operator should submit Form C-102 for each horizontal well showing the dedicated acreage for such well in the same manner as for any horizontal well located outside the Unit on developed acreage as per Division Rule 19.15.16.7 L(1) NMAC.

(21) The application should be approved in order to prevent waste and protect correlative rights.

IT IS THEREFORE ORDERED THAT:

(1) The application of Encana Oil & Gas (USA) Inc. is hereby granted.

(2) Division Order No. R-13929 pertaining to the Hutton Canyon Unit is rescinded in its entirety.

(3) Division Order No. R-13930 pertaining to the Betonie Tsosie Wash Unit is rescinded and replaced in its entirety as follows.

(4) The Betonie Tsosie Wash Unit is hereby approved and shall consist of 13,137 acres of Federal and Indian Allotted lands located in Rio Arriba and San Juan Counties, New Mexico, described as follows:

TOWNSHIP 23 NORTH, RANGE 7 WEST, NMPM, RIO ARRIBA COUNTY

Section 18: All

TOWNSHIP 23 NORTH, RANGE 8 WEST, NMPM, SAN JUAN COUNTY

Sections 11, 13, 14, 21, 22, 23, 26, 27, 28, 33, 34, 35: All

TOWNSHIP 22 NORTH, RANGE 8 WEST, NMPM, SAN JUAN COUNTY

Sections 3, 4, 5: All
Section 6: NE/4, S/2
Sections 7, 8: All
Section 9: N/2, SE/4
Section 10: All

(5) 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 Unit is

obtained by Applicant from the FIMO and the BLM. The final approval letters by the BLM and the FIMO shall be provided to the Division.

(6) Encana Oil and Gas (USA) Inc. (OGRID 282327) is hereby designated the Unit operator.

(7) Pursuant to the Unit Agreement, the Unitized Interval includes all formations from 100 feet below the stratigraphic equivalent of the top of the Mancos Shale (base of the Mesa Verde Group) to the stratigraphic equivalent of the base of the Greenhorn Limestone as shown in the log for the AH DES PI AH-NAVAJO Well No. 1 (API 30-045-20994) in Section 12, Township 23 North, Range 9 West, NMPM, San Juan County, New Mexico.

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

(9) 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 to statewide rules, as applicable.

(10) The Unit shall constitute a single Project Area for horizontal oil well development; provided however, the Project Area shall be limited to Unit Wells.

(11) Applicant's request for all Unit Wells to be dedicated to one oil pool is hereby approved. All horizontal oil wells of at least 1000 feet lateral length drilled and completed in the Mancos formation within the Unit Area after the effective date shall be dedicated to a single pool as herein provided. The Pool may expand or contract without notice or hearing if the boundaries of the Unit are altered. The vertical limits of this pool shall extend from the base of the Mesaverde Group to the base of the Greenhorn formation or top of the Graneros formation.

(12) The new pool shall be subject to Division Rules 19.15.15.9, 19.15.16.14B(3), and 19.15.20.12A NMAC; provided however, the following stipulations shall apply to Unit Wells:

- a. The Unit Operator shall submit to the Division Form C-102 for each Unit Well that shows the drilling block for that particular well (each standard-sized oil spacing unit penetrated by the well's completed interval), the total acreage within the Unit and the Division order number approving the Unit; and
- b. Per Applicant's request, any Unit Well 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.

(13) Within 30 days of the effective date of this order the operator of this Unit shall rename any existing Unit Wells so those wells become the same property and shall dedicate all Unit Wells to the new pool.

(14) Should a new pool for Mancos development be formed that encompasses the Unit Area, then the pool for Unit Wells herein provided will be contracted, and the Unit Wells shall be incorporated into that new Mancos pool. In that event, the operator of the Unit shall file the necessary forms with the Division to dedicate those wells to the new pool.

(15) The plan contained within the Betonie Tsosie Wash 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 Betonie Tsosie Wash Unit shall be submitted annually to the Division for review.

(16) 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.

(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 the effective date of this order.

(18) 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

David R. Catanach

DAVID R. CATANACH
Director