

**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. 15471
ORDER NO. R-14194**

**APPLICATION OF ENCANA OIL AND GAS (USA) INC. INC. FOR APPROVAL
OF THE PONDEROSA 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 June 9, 2016, at Santa Fe, New Mexico, before Examiner Scott Dawson.

NOW, on this 28th day of July, 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 this case and its subject matter.
- (2) Encana Oil and Gas (USA) Inc. ("Applicant" or "Encana") seeks:
 - i. Approval of the Ponderosa Unit (the "Unit") comprising 19,839.48 acres, more or less, of Federal, State, and Navajo Allotted lands in San Juan County, New Mexico;
 - ii. Creation of a new pool for horizontal wells within the Unit; and
 - iii. 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 located in San Juan County, New Mexico:

TOWNSHIP 23 NORTH, RANGE 9 WEST, NMPM, SAN JUAN COUNTY

Section 5:	W/2
Sections 6 - 8:	All

TOWNSHIP 23 NORTH, RANGE 10 WEST, NMPM, SAN JUAN COUNTY

Sections 1 - 12:	All
Section 13:	N/2
Section 14:	All
Sections 17 - 20:	All

TOWNSHIP 23 NORTH, RANGE 11 WEST, NMPM, SAN JUAN COUNTY

Section 1:	All
Sections 11 - 15:	All
Sections 22 - 23:	All
Section 24:	N/2

TOWNSHIP 24 NORTH, RANGE 9 WEST, NMPM, SAN JUAN COUNTY

Section 31:	S/2
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TOWNSHIP 24 NORTH, RANGE 11 WEST, NMPM, SAN JUAN, COUNTY

Section 36:	All
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(4) 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 on the log of the R G Federal Well No. 1 (API 30-045-25087) located in Unit Letter B, Section 8, Township 23 North, Range 10 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) Existing wells drilled to the Gallup or Mancos formations within the Unit Area are subject to the following pools:

- a. The Basin; Mancos Gas Pool (Pool Code 97232), with Special Rules adopted in 2008 under Division Order No. R-12984, which provide for 320-acre gas spacing units and wells located no closer than 660 feet from unit boundaries;

- b. The Bisti, South-Gallup Oil Pool (Pool Code 5860), with Special Rules adopted in 1985 under Division Order No. R-8090, which provide for 80-acre oil spacing and proration units with wells located no closer than 330 feet to the outer boundary of the spacing unit;
- c. The Lybrook Mancos; West Oil Pool (Pool Code 98157), subject to Division Rule 19.15.15.9 NMAC, which provides for 40-acre oil spacing and proration units with wells located no closer than 330 feet to the outer boundary of the spacing unit;

(7) Affected Allottees were present at the hearing but they did not enter an appearance. No other party entered an appearance or otherwise opposed this application.

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

(8) The Unit is comprised of 24 federal tracts, 3 state tracts and 16 Navajo Allotted tracts:

(9) The Bureau of Land Management ("BLM") requires that each tract must have 100 percent joinder to be included in the final Unit Area:

(10) As a condition of final approval of the Unit Area, the BLM requires the owners of 85 percent or more of the acreage [within all included tracts] to have approved the Unit Agreement:

(11) All interests in the Unit are expected to be committed to the Unit:

(12) Since the BLM acreage comprises 81 percent of the Unit Area, the federal form was used with the following modifications: i) It applies only to horizontal wells in the Unitized Interval; and ii) It is limited to the unitized interval of the Mancos formation, and the entire Unit is established as a single Participating Area:

(13) The form of this modified federal unit agreement is identical to that form used by the Commissioner of Public Lands for the State of New Mexico ("SLO") in that the Unit Area is considered as undivided or one single participating area:

(14) The Unit Agreement has been given written preliminary approval by both the SLO and the BLM:

(15) The SLO conditioned its final approval of the Unit Agreement upon approval of the Unit by the Oil Conservation Division:

(16) The Federal Indian Minerals Office ("FIMO") has given verbal approval of the Unit:

(17) Applicant has provided notice of this application and hearing to the working interest owners and operators within the Mancos formation in the spacing units offsetting

the proposed Unit Area and to all working interest owners and Navajo Allottee (mineral owners, not surface owners) within the Unit:

(18) Applicant also mailed notice and a copy of the Unit Agreement to all owners of overriding royalty interests using the best known addresses of record:

(19) Applicant has also caused notice of this application to be published in the Farmington Times, considered to be a local newspaper of general circulation in San Juan County:

(20) No faults, pinch-outs or other geologic impediments exist to prevent the Unitized Interval from being developed by horizontal oil wells:

(21) The available well control in the area demonstrates the Unitized Interval identified in the type log is laterally contiguous across the entire Unit:

(22) Three (3) horizontal wells have been drilled and completed in the proposed Unit Area:

(23) These lands were chosen and are being proposed as the Unit Area to facilitate the most efficient, uniform and common development:

(24) Applicant expects to reduce surface disturbances by the formation of this Unit and intends to protect the fresh water from harm due to drilling and oil field operations:

(25) The Unit will be developed to produce oil from the Mancos formation:

(26) Applicant intends to orient proposed unit wells in a transverse direction:

(27) The Good Times D06-2309 Well No. 1H (API No. 30-045-35419) is considered by the BLM as "the initial horizontal development well". That well was spud July 4, 2013 and first reported production for September of 2013:

(28) The effective date of the proposed Unit as stated in the Ponderosa Unit Agreement is July 1, 2013 which predates the spud date of the first horizontal well in the Unit Area.

The Division concludes as follows:

(29) The Unit Agreement provides that the entire federal Unit shall comprise a single Participating Area, consequently, the Unit constitutes a single horizontal Project Area for horizontal oil wells pursuant to Division Rule 19.15.16.7.L(2) NMAC. Accordingly, Applicant's request pertaining to well locations within the Unit should be approved. 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:

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

(31) 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, which has already occurred; and ii) require the Unit Operator, subsequent to drilling a well capable of producing in paying quantities, to submit for approval an annual plan of development to the Authorized Officer of the Department of the Interior, to the SLO, and to the Division:

(32) 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:

(33) 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:

(34) The provisions contained within the Ponderosa Unit Agreement are in compliance with Division rules and the Oil and Gas Act. Further, the development and operation of the Unit Area, as proposed, comply with the Division's conservation principles:

(35) The Ponderosa Unit should be approved:

(36) The Unit operator should 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 should file with the Division, within 60 days thereafter, counterparts of the Unit Agreement reflecting the subscription of those interests having joined or ratified:

(37) The Applicant should provide to the Division a written copy of the final approval of the Ponderosa Unit by the SLO and the BLM. Applicant should submit a copy of the annual Ponderosa Unit Plan of Development to the Division for review and approval:

(38) Applicant's request for a new pool to be dedicated to Unit wells should be approved. All horizontal wells drilled and completed in the Mancos formation within the Unit Area should be dedicated to (only) one pool to be named the **Ponderosa Unit; Mancos Oil Pool**. The horizontal limits of this pool should be limited to the current lands within the Unit; however, this pool should expand with any Unit expansion, and should contract with any Unit contraction. The vertical limits of this pool should extend from the base of the Mesaverde Group to the base of the Greenhorn formation or top of the Graneros formation:

(39) Should a new pool for Mancos development be formed that encompasses the area of the Ponderosa Unit, then the existing pool for Unit wells should be contracted, and the wells in the Ponderosa Unit should be incorporated into that new Mancos pool. In that event, the operator of the Ponderosa Unit shall file the necessary forms with the Division to dedicate those wells to the new pool:

(40) There was no request from the Applicant or testimony presented at the hearing asking for oil wells within this new pool to be spaced on other than one quarter-quarter section. The new pool shall be based on Division Rule 19.15.15.9 NMAC:

(41) Applicant's request for 330 foot setbacks from the outer boundary of the Unit Area should be granted in order to prevent waste and protect correlative rights:

(42) Division approval of the Ponderosa Unit should be effective on the first day of the month following the latter of:

- a. The entry date of this order; or
- b. The date on which final approval of the Ponderosa Unit is obtained from both the State Land Office and the Bureau of Land Management:

(43) Within 30 days of the Division's effective approval date as detailed above, the operator of this Unit should be required to rename all Unit wells and dedicate all Unit wells to the new pool:

(44) Any submitted form C-102 for Unit wells should show: 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:

(45) This application should be approved.

IT IS THEREFORE ORDERED THAT:

(1) The application of Encana Oil and Gas (USA), Inc. for approval of the Ponderosa Unit (the "Unit) consisting of 19,839.48 acres, more or less, of Federal, State, and Navajo Allotted lands in San Juan County, New Mexico, is hereby granted.

(2) The Unit shall comprise the following-described acreage:

TOWNSHIP 23 NORTH, RANGE 9 WEST, NMPM, SAN JUAN COUNTY

Section 5:	W/2
Sections 6 - 8:	All

TOWNSHIP 23 NORTH, RANGE 10 WEST, NMPM, SAN JUAN COUNTY

Sections 1 -12:	All
Section 13:	N/2
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TOWNSHIP 23 NORTH, RANGE 11 WEST, NMPM, SAN JUAN COUNTY

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(3) The Unitized Interval shall include 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 on the log of the R G Federal Well No. 1 (API 30-045-25087) located in Unit Letter B, Section 8, Township 23 North, Range 10 West, NMPM, San Juan County, New Mexico.

(4) Applicant's request for the creation of a new pool within the Unit Area to be dedicated to horizontal wells in the Mancos formation (the "Unit wells") is hereby approved. All existing or subsequently drilled Unit wells shall be dedicated to (only) one pool to be named the **Ponderosa Unit; Mancos Oil Pool**. The horizontal limits of this pool shall be limited to the current lands within the Unit; however, this pool shall expand with any Unit expansion, but shall contract with any Unit contraction. 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.

(5) Should a new pool for Mancos development be formed that encompasses the area of the Ponderosa Unit, then the existing pool for Unit wells will be contracted, and the wells in the Ponderosa Unit shall be incorporated into that new Mancos pool. In that event, the operator of the Ponderosa Unit shall file the necessary forms with the Division to dedicate those wells to the new pool.

(6) Applicant's request pertaining to well locations within the Unit is hereby approved. Any 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.

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

(8) The plan contained within the Ponderosa Unit Agreement for the development and operation of the Unit is hereby approved in principle as a proper conservation measure.

(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) All plans of development for the Ponderosa Unit shall be submitted annually to the Division for review and approval.

(11) The Applicant shall provide to the Division a written copy of the final approval of the Ponderosa Unit by the State Land Office and the Bureau of Land Management.

(12) Division approval of the Ponderosa Unit shall be effective on the first day of the month following the latter of:

- a. The entry date of this order; or
- b. The date on which final approval of the Ponderosa is obtained from both the State Land Office and the Bureau of Land Management.

(13) Within 30 days of the Division's effective approval date as detailed above, the operator of this Unit shall rename all Unit wells and shall dedicate all Unit wells to the new pool.

(14) Any submitted form C-102 for Unit wells shall show: 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.

(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.



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

David R. Catanach

DAVID R. CATANACH
Director