

**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. 15300
ORDER NO. R-14002**

**APPLICATION OF WPX ENERGY PRODUCTION, LLC FOR APPROVAL OF
THE WEST ALAMITO 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, SAN JUAN COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on May 14, 2015, at Santa Fe, New Mexico, before Examiner Michael McMillan.

NOW, on this 22nd day of July, 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 the subject matter of this case.
- (2) WPX Energy Production, LLC ("Applicant" or "WPX") seeks:
 - a. Approval of the West Alamito Unit ("the Unit") pursuant to 19.15.20.14 NMAC comprising 1922.40 acres, more or less, of Federal and Allotted Indian lands in San Juan County, New Mexico; and
 - b. Creation of a new pool for horizontal oil wells in the Unitized Interval within the Unit; and
 - c. Allowing 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) The Unit comprises the following described acreage located in San Juan County, New Mexico:

TOWNSHIP 22 NORTH, RANGE 8 WEST, NMPM

Section 1: All
Section 12: All
Section 13: All

(4) The Unitized Interval includes all formations from the stratigraphic equivalent of the top of the Mancos formation (base of the Mesa Verde Group) at a measured depth of 3,858 feet to the stratigraphic equivalent of the base of the Greenhorn formation at a measured depth of 5,695 feet, as encountered in the log run on the Fulton Well No. 1 in Section 31, Township 23 North, Range 7 West, in Sandoval County, New Mexico, NMPM (API No. 30-043-05164), said log section attached as Exhibit "C" to Applicant's Unit Agreement and entered as WPX Exhibit No. 6.

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

(6) The Unit currently comprises portions of the Alamito-Gallup Oil Pool (Pool code 1039) and the Basin-Mancos Gas Pool (Pool code 97232). The Alamito-Gallup Oil Pool is subject to statewide rule 19.15.15.9 NMAC which requires wells to be located no closer than 330 feet to the outer boundary of a spacing unit. Rule C of the Special Rules and Regulations for the Basin-Mancos Gas Pool, as established by Division 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 six 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 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 on behalf of the Federal Indian Minerals Office (FIMO) and the interest owners in the Allotted Indian lands comprising 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, copied to the FIMO, providing preliminary approval of the Unit.
- (f) Records at the FIMO indicate there are between 500 and 600 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, for the interest owners of record in the Allotted Indian lands 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 Basin- Mancos Gas Pool spacing units surrounding the Unit.
- (i) The Unit is located within both the Basin-Mancos Gas Pool and the Alamito-Gallup Oil 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. Therefore, any well drilled within the Unit will produce from a common source of supply and is essentially one oil pool.
- (j) 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 two pools into one pool within the Unit.
- (k) A new pool for horizontal oil well development within the Unit will resolve administrative and reporting issues.
- (l) The Unit will be developed to produce oil from the Mancos formation. As a result, Applicant seeks an exception to the Special Rules for the Basin- Mancos Gas Pool to allow horizontal oil wells to be located no closer than 330 feet to the outer boundary of the

spacing unit, which is the standard setback requirement for oil wells under the Division's statewide rules.

- (m) No faults, pinch-outs or other geologic impediments exist to prevent the Unitized Interval from being developed by horizontal oil wells.
- (n) The available well control in the area demonstrates the Unitized Interval identified in the type log is laterally contiguous across the entire Unit.
- (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 should apply to existing and future horizontal oil wells in the Unitized Interval underlying the Unit.
 - 2. This new oil pool should be subject to the Division's statewide rules for oil well setbacks.
 - 3. Horizontal oil wells in the Unitized Interval may be located anywhere within the Unit, as long as no portion of the completed interval is closer than 330 feet to the outer boundary of the Unit.
 - 4. The oil allowable will be identical for each spacing unit in the new pool as in the Alamito-Gallup Pool.

The Division concludes as follows:

(8) Since the Unit Agreement provides that the entire Unit shall comprise a single Participating Area, the Unit constitutes a single Project Area for horizontal oil wells under Rule 19.15.16.7.L(2) NMAC. Accordingly, internal setbacks requirements within the Unit do not apply to unit wells under the Division's rules.

(9) The operator should submit Form C-102 for each horizontal well, as per any other horizontal well located outside the Unit on developed acreage.

(10) Applicant presented evidence that the proposed Unit is logically subject to exploration and development under a unit plan and that an exception to the well location requirements of the Special Rules and Regulations for the Basin-Mancos Gas Pool is warranted for horizontal oil wells within the Unit.

(11) A new oil pool for horizontal oil wells in the Unitized Interval underlying the Unit should be created, and be made effective the same as the effective date of this Unit.

(12) Applicant does not oppose operators in offsetting spacing and proration units locating horizontal oil wells in the Unitized Interval no closer than 330 feet to the exterior boundary of the Unit.

(13) Navajo tribal members who have interests in individual trust allotments are affected parties pursuant to 19.15.4.12 NMAC, including Daniel Tso, Roseanne Willink, and Alvin Sandoval, and voiced concerns with the means by which the BLM and FIMO provided information to the allottees, lack of information from the Secretary of the Interior regarding leases of mineral interest to WPX, confidentiality of information regarding the allottees held by FIMO, and impacts to roads and resources from oil and gas development in the area. Rebecca Sobel, individually, and Teresa Seamster, affiliated with Dine C.A.R.E., who are not affected parties pursuant to 19.15.4.12, also expressed concerns. While OCD appreciates the allottees taking time to express these concerns, OCD lacks jurisdiction over leasing of allotted trust lands, use of roads, and the Secretary of the Interior's exercise of the federal government's trust responsibility. Approval of this application is subject to BLM and FIMO approval.

(14) 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.

(15) This application should be granted.

IT IS THEREFORE ORDERED THAT:

(1) The unitization of the West Alamito Unit consisting of 1922.40 acres, more or less, of Federal and Allotted Indian 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 22 NORTH, RANGE 8 WEST, NMPM

Section 1: All

Section 12: All

Section 13: All

(3) The Unitized Interval shall include all formations from the stratigraphic equivalent of the top of the Mancos formation (base of the Mesa Verde Group) at a measured depth of 3858 feet to the stratigraphic equivalent of the base of the Greenhorn formation at a measured depth of 5695 feet as shown on the log run on the Fulton Well No. 1 located in Section 31, Township 23 North, Range 7 West, NMPM, in Sandoval County, New Mexico, NMPM (API No. 30-043-05164), said log section attached as Exhibit "C" to Applicant's Unit Agreement and entered as WPX Exhibit No. 6.

(4) A new oil pool for horizontal oil wells in the Unitized Interval within the Unit is hereby created and designated the West Alamito Unit Mancos Hz Oil Pool.

(5) This oil pool shall be limited to the areal extent of the West Alamito Unit as specifically described in Ordering Paragraph (2) of this Order, and shall not be extended beyond the Unit boundaries.

(6) Future contraction or expansion of this Unit shall result in the expansion or contraction of this pool.

(7) This new oil pool shall apply to existing and future horizontal oil wells in the Unitized Interval within the Unit. The effective date of this pool shall be the first day of the month following the approval of BLM and FIMO.

(8) This new oil pool shall be subject to the Division's statewide rules for set-backs for oil wells.

(9) The oil allowable in the West Alamito Unit Mancos Hz Oil Pool for each spacing unit shall be identical to the Alamito-Gallup Oil Pool.

(10) Horizontal oil wells can be located anywhere within the Unit, so long as no portion of the completed interval is closer than 330 feet to the outer boundary of the Unit.

(11) All existing and future vertical wells in the Mancos formation within the Unit shall remain dedicated and subject to the requirements for the existing Alamito-Gallup Oil Pool and the Basin-Mancos Gas Pool, respectively.

(12) The Unit constitutes a single Project Area for horizontal oil well development pursuant to 19.15.16.7.L (2) NMAC and, accordingly, Unit wells may be drilled anywhere within the Unit so long as 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 19.15.15.13 NMAC.

(13) WPX Energy Production, LLC (OGRD 120782), is hereby designated the operator of the Unit and the Project Area.

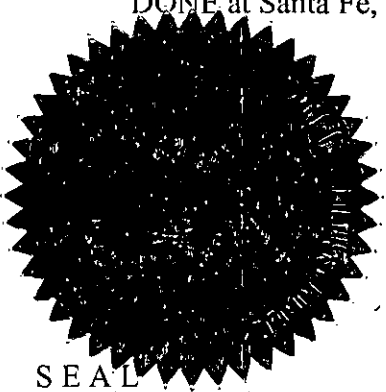
(14) Applicant shall not oppose operators in offsetting spacing and proration units requesting to locate horizontal or vertical oil wells in the Unitized Interval as close as 330 feet to the exterior boundary of the Unit.

(15) This Order shall become effective upon final approval of the proposed Unit Agreement by the BLM and the FIMO. A copy of the executed Unit Agreement shall be provided to the OCD upon final approval.

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

(17) 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