

**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 TO CONSIDER:**

**CASE NO. 15919
ORDER NO. R-14736**

APPLICATION OF SOUTHLAND ROYALTY COMPANY, LLC FOR DESIGNATION OF A NON-STANDARD SPACING AND PRORATION UNIT AND PROJECT AREA, AND FOR EXCEPTION TO THE WELL LOCATION PROVISIONS OF THE SPECIAL RULES AND REGULATIONS FOR THE BASIN-MANCOS GAS POOL AND THE BASIN-DAKOTA POOL, RIO ARRIBA COUNTY, NEW MEXICO

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on December 21, 2017, at Santa Fe New Mexico, before Examiner Scott A. Dawson.

NOW, on this 8th day of June 2018, 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) Southland Royalty Company LLC ("Applicant, or Southland") seeks approval of two 800-acre (more or less), non-standard gas spacing units and project areas, one in the Basin Mancos Gas Pool (Pool code 97232) and the other in the Basin Dakota (Prorated Gas) Pool (Pool code 71599), each comprising the S/2 of Section 25, the S/2 of Section 26, and the SE/4 of Section 27, in Township 32 North, Range 5 West, NMPM, Rio Arriba County, New Mexico, ("the Communitized Area" or "CA").

(3) Applicant also seeks a blanket location exception to the well setback provisions for both pools so that any well's location will be considered orthodox so long if it is at least 330 feet from any outer boundary of the CA.

(4) The Basin Mancos Gas Pool is governed by special pool rules established by Division Order No. R-12984, which provide for 320-acre gas spacing units and wells located no closer than 660 feet from unit boundaries.

(5) The Basin Dakota (Prorated Gas) Pool [except for Indian Lands] is governed by special pool rules established by Division Order R-10987-B(2) which

provide for 320-acre gas spacing units and wells located no closer than 660 feet from unit boundaries.

(6) No other party appeared at the hearing, or otherwise opposed the granting of this application.

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

- (a) Applicant has a fully executed communitization agreement, CA NMNM 137811, dated December 8, 2017, with the Bureau of Land Management ("BLM"), extending from the top of the Mancos formation to the base of the Dakota formation and including both pools. The acreage within the CA consists of the S/2 of Section 25, the S/2 of Section 26 and the SE/4 of Section 27, all in Township 32 North, Range 5 West, NMPM, Rio Arriba County.
 - (b) The CA was originally part of the Carracas Canyon Unit. That unit has been contracted to exclude formations below the base of the Pictured Cliffs, thereby contacting out of the Unit the Mancos and Dakota formations.
 - (c) There are surface use restrictions resulting from these lands being within the Carson National Forest and from the existence of archeological sites.
 - (d) Applicant has 100% working interest in the CA in both formations and is the sole working interest owner in the adjoining NE/4 and SW/4 of Section 27. There are no unleased mineral interests.
 - (e) Applicant will drill wells within the CA from a common surface pad. Applicant may drill up to 16 wells from the pad, and future wells from the pad may be drilled to extend outside the CA.
 - (f) The Mancos and Dakota wells within the CA will be completed separately and then surface commingled.
 - (g) Two Mancos formation wells will be initially drilled. Dakota formation wells are planned.
 - (h) Applicant's geologist stated that the Mancos and Dakota formations are continuous throughout the CA.
 - (i) Reducing the applicable setback distance to 330 feet from the CA outer boundaries will allow production of incremental oil and gas reserves that would not be otherwise be recovered.
- (8) Applicant intends initially to drill the following two wells in parallel from west to east across the proposed CA, both in Township 32 North and Range 5 West, NMPM, Rio Arriba County, New Mexico. These wells will be landed in the Mancos "A" and the Mancos "B" intervals respectively and both within the Basin Mancos Pool.

Carracas 27A Well No. 101H (API No. 30-039-Pending)

Surface Location: 1933 FSL, 1077 FEL, (Unit I), Section 27.
Penetration Point: 1650 FSL, 200 FEL, (Unit I), Section 27.
Final Perforation (Terminus) 1650 FSL, 350 FEL, (Unit I), Section 25.

Carracas 27A Well No. 102H (API No. 30-039-Pending)

Surface Location: 1938 FSL, 1086 FEL, (Unit I), Section 27.
Penetration Point: 990 FSL, 200 FEL, (Unit P), Section 27.
Final Perforation (Terminus) 990 FSL, 350 FEL, (Unit P), Section 25.

(9) Subsequent to the Hearing, the Applicant stated that no notification is required for the SW/4 of Section 27, since the Applicant is the only working interest owner, and all royalty interest owners have been noticed.

The Division concludes that:

(10) All working interest owners within the Unit have agreed to form these voluntary spacing units and project areas and share equally in production.

(11) The proposed 800-acre, non-standard gas spacing units should be approved to encompass the lands within the approved CA. The proposed unit within the Basin Mancos Gas Pool and the proposed unit within the Basin Dakota (Prorated Gas) Pool should be approved to prevent waste and protect correlative rights.

(12) Surface commingling will be needed to prevent surface disturbance and prevent waste from oil and gas produced from wells drilled in this CA. Division records for administrative surface commingle applications between these two pools indicate that the gas BTU values and the API gravities are similar. The operator should submit administrative applications to surface commingle to the Division prior to surface commingling between the two pools.

IT IS THEREFORE ORDERED THAT

(1) The application of Southland Royalty Company LLC ("Southland") to create 800-acre (more or less), non-standard gas spacing units for oil and gas production from the Mancos formation, Basin Mancos Pool (Pool Code 97232), and the Basin Dakota (Prorated Gas) Pool (Pool Code 71599), respectively, both units being comprised of the S/2 of Section 25, the S/2 of Section 26, and the SE/4 of Section 27, all in Township 32 North, Range 5 West, NMPM, Rio Arriba County, New Mexico, is hereby approved.

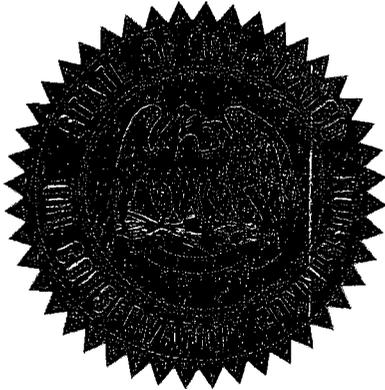
(2) The application of Southland for an exception to the well location restrictions provided in special pool rules for the Basin Mancos Gas Pool and the Basin Dakota (Prorated Gas) Pool is hereby approved. Wells completed within either of these spacing units may be completed up to 330 feet from the boundaries of the non-standard spacing units hereby established.

(3) This order shall not be considered a precedent for establishing non-standard spacing units for horizontal wells in communitized areas under amended horizontal well

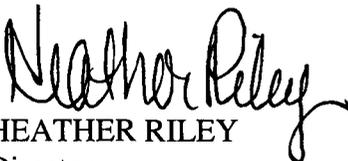
spacing and setback rules promulgated by the Oil Conservation Commission in Order No. R-14689 on May 22, 2018 and anticipated to become effective on July 15, 2018.

(4) Jurisdiction of this case is hereby 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


HEATHER RILEY
Director

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