

**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. 15154
Order No. R-13857**

**APPLICATION OF ENCANA OIL & GAS (USA) INC. FOR APPROVAL OF
THE PINON 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 May 29, 2014, at Santa Fe, New Mexico, before Examiner Scott Dawson and legal counsel Gabriel Wade.

NOW, on this 3rd day of July, 2014, 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:

(a) Approval of the Unit Agreement for the Pinon Federal/State/Allotted Indian Exploratory Unit ("the Unit"), comprising 8,005 acres, more or less, in San Juan County, New Mexico, more specifically described below;

TOWNSHIP 24 NORTH, RANGE 10 WEST, NMPM

Section 4:	W/2
Section 5:	All
Section 6:	All
Section 7:	All
Section 8:	All

Section 9: All
Section 10: All
Section 15: All
Section 16: All
Section 17: All
Section 18: All
Section 21: All
Section 22: N/2
Section 28: N/2

(b) Creation of a new pool for horizontal oil wells in the Unitized Interval within the Unit; and

(c) Allowance of 330-foot setbacks for horizontal oil wells in the Unitized Interval from the exterior boundary of the Unit.

(3) The Unitized Interval includes all formations from 100 feet below the stratigraphic equivalent of the top of the Mancos Shale (base of Mesa Verde Group) to 100 feet below the stratigraphic equivalent of the base of the Greenhorn Limestone Formation (top of the Graneros Shale) as shown in the Type Log of the Rodeo Rosie Well No. 1 (API No. 30-045-25398), attached as Exhibit C to the proposed Unit Agreement (Admitted into evidence as Exhibit 6 at the hearing of this case).

(4) The Unit Area will be developed and operated as a single Participating Area.

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

(6) The Unit Area is currently subject to the Special Rules and Regulations for the Basin Mancos Gas Pool, adopted in 2008 under Division Order No. R-12984, and the Special Rules for the Bisti Lower Gallup Oil Pool, adopted in 1958 under Division Order No. R-1069-B and as amended by Division Orders R-1069-C through R-1069-G.

(7) Rule C of the Special Rules for the Basin Mancos Gas Pool requires wells to be located no closer than 660 feet from the outer boundary of a spacing unit or, in this case, the outer boundary of the Unit Area. Rule 2 of the Special Rules for the Bisti Lower Gallup Oil Pool requires wells to be located in the North half or South half of a governmental quarter section and Rule 3 of the Special Rules for the Bisti Lower Gallup Oil Pool requires wells to be no closer than 330 feet to any quarter-quarter section line.

(8) Applicant appeared at the hearing through counsel and presented an expert in petroleum land matters, petroleum geology, and reservoir engineering who provided testimony and evidence that:

(a) The Unit includes federal, state, and allotted Indian minerals. The Unit Agreement was prepared on the form prescribed for an undivided Federal Exploratory unit, but has been modified in two significant respects:

(i) It applies only to horizontal oil wells completed in the Unitized Interval; and

(ii) the entire Unit Area is established as a single Participating Area.

(b) The Unit Agreement has received preliminary approval of the United States Bureau of Land Management (BLM) and the New Mexico State Land Office (NMSLO). The Authorized Officer of the Bureau of Indian Affairs (BIA) has provided the BLM with verbal approval of the Unit Agreement.

(c) All interests in the Unit Area are expected to be committed to the Unit.

(d) The Unitized Interval identified in the type log is laterally contiguous across the entire Unit Area. No faults, pinchouts or other geologic impediments exist to prevent the Unitized Interval from being developed by horizontal oil wells.

(e) The Unit Area covers the Basin Mancos Gas Pool and the Bisti Lower 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 Area will produce from a common source of supply and is essentially one pool.

(f) 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 three pools into one pool.

(g) A new pool for horizontal oil well development in the Unitized Interval within the Unit Area will resolve administrative and reporting issues identified by the State Land Office and the Oil Conservation Division.

(h) The statewide default setback requirement of 330 feet applied from the exterior boundary of the Unit Area is necessary to effectively and efficiently drain oil reserves within the Unit and will not impair correlative rights. A setback requirement greater than 330 feet would result in waste and would impede the efficient and effective development of the Unit Area.

(i) Applicant, therefore, requests the creation of a new pool for horizontal oil wells within the Unit Area subject to the following:

(i) This new oil pool should apply to existing and future horizontal oil wells in the Unitized Interval underlying the Unit Area.

(ii) This new oil pool should be subject to the Division's statewide rules for oil wells.

(iii) Horizontal oil wells in the Unitized Interval may be located anywhere within the Unit Area, so long as no portion of the completed interval is closer than 330 feet to the outer boundary of the Unit Area.

(j) Applicant has given notice of this application and the hearing to all operators and working interest owners in all offsetting spacing units surrounding the Unit Area, and published notice in *The Daily Times*, a daily newspaper of general circulation published in Farmington, San Juan County, New Mexico.

(9) Pro NM Energy, Inc. was the only party to intervene in this matter and was represented by counsel at hearing. Pro NM did not contest formation of the Unit Area and did not present any evidence, exhibits, or testimony in opposition to Applicant's case. Pro NM cross-examined Applicant's witnesses and presented a closing statement requesting that the Division deny Applicant's request for uniform 330-foot setbacks from the exterior boundary of the Unit Area and instead require 660-foot setbacks. Pro NM Energy, Inc., presented no testimony or evidence in support of its closing argument that the statewide default rule providing for 330-foot setbacks in oil pools would not protect correlative rights.

(10) Pro NM Energy, Inc. owns mineral interests directly offsetting the proposed Unit Area within the Bisti Lower Gallup pool and which are subject to 80-acre spacing and 330-foot setback requirements.

(11) Applicant presented evidence supporting formation of the Unit Area, creation of a new pool for horizontal oil wells within the Unit Area, and that provision of 330-foot setbacks is required to efficiently and effectively develop oil reserves within the Unit Area. Applicant also presented evidence that waste would result without provision of 330-foot setbacks from the exterior boundary of the Unit Area.

(12) The proposed Unit Agreement should be approved.

(13) A new oil pool for horizontal oil wells in the Unitized Interval underlying the Unit Area should be created.

(14) Allowing horizontal oil wells to be located anywhere within the Unit Area, so long as no portion of the completed interval is closer than 330 feet to the outer

boundary of the Unit Area, will not impair correlative rights, will assist in preventing waste, and will allow for the most efficient and effective development of the Unit Area.

(15) Applicant will not oppose operators in offsetting proration units locating horizontal oil wells in the Unitized Interval at 330-foot setbacks to the exterior boundary of the Unit Area.

(16) This application should be granted.

IT IS THEREFORE ORDERED THAT:

(1) The application of Encana Oil and Gas (USA) Inc. (OGRID 282327) for approval of the Unit Agreement for the Pinon Federal/State/Allotted Indian Exploratory Unit is hereby granted.

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

TOWNSHIP 24 NORTH, RANGE 10 WEST, NMPM

Section 4:	W/2
Section 5:	All
Section 6:	All
Section 7:	All
Section 8:	All
Section 9:	All
Section 10:	All
Section 15:	All
Section 16:	All
Section 17:	All
Section 18:	All
Section 21:	All
Section 22:	N/2
Section 28:	N/2

(3) The Unit Area shall be a single Project Area because it is being developed and operated as a single participating area in accordance with 19.15.16.7.L(2) NMAC.

(4) Encana Oil and Gas (USA) is hereby designated the operator of the Unit and Project Area.

(5) A new oil pool for horizontal oil wells in the Unitized Interval within the Unit Area is hereby created and named the Pinon Unit Oil Pool for horizontal oil well development. (Pinon Unit Hz Oil Pool)

(6) This oil pool shall be limited to the areal extent of the Pinon Federal/State/Allotted Indian Exploratory Unit as specifically described in Finding Paragraph (2)(a) of this Order, and shall not be extended beyond this horizontal limit.

(7) This Unitized Interval for this oil pool within the Pinon Federal/State/Allotted Indian Exploratory Unit shall extend vertically from 100 feet below the stratigraphic equivalent of the top of the Mancos Shale (base of Mesa Verde Group) to 100 feet below the stratigraphic equivalent of the base of the Greenhorn Limestone Formation (top of the Graneros Shale) as shown on the Type Log of the Rodeo Rosie Well No. 1 (API No. 30-045-25398) to correspond with the Unitized Interval of the Pinon Federal/State/Allotted Indian Exploratory Unit as specifically described in Finding Paragraph (3) of this Order.

(8) This new oil pool shall apply to existing and future horizontal oil wells in the Unitized Interval within the Unit Area.

(9) This new oil pool shall be subject to the Division's statewide rules for oil wells.

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

(11) By creating a new oil pool and developing the Unit Area as a single project area correlative rights will not be impaired and waste will be prevented.

(12) All existing and future vertical wells in the Mancos formation within the Unit Area shall remain dedicated and subject to the existing Basin Mancos Gas Pool and the Bisti Lower Gallup Oil Pool, respectively.

(13) To afford to the owner(s) of each property in the pool the opportunity to produce their just and equitable share of the oil in the pool, to prevent reduced recovery which might result from the drilling of too few wells, and to otherwise prevent waste and protect correlative rights, the new horizontal oil pool shall be developed on 320-acre oil spacing units.

(14) Applicant shall not oppose operators in offsetting proration units locating offsetting horizontal oil or vertical oil wells in the Unitized Interval at 330-foot setbacks to the exterior boundary of the Unit Area.

(15) The operator of the Unit and Project Area shall, upon creation of the new oil pool by the Division, be required to file the necessary forms with the Division to dedicate those wells to the new pool.

(16) If a new pool for horizontal oil well development is formed that encompasses this Pinon Unit Hz Oil Pool for horizontal oil well development, the Pinon

Unit Hz Oil Pool will be incorporated into that new pool and the operator of the Unit and Project Area shall be required to file the necessary forms with the Division to dedicate those wells to the new pool.

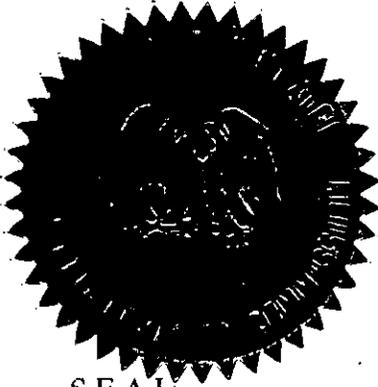
(17) All data regarding well interference concerning setbacks and internal well spacing shall be made available to the Division as soon as available.

(18) This Order is binding on all current and future operators of the Project Area and its associated Unitization Agreement and horizontal oil pool.

(19) This order is contingent upon final approval of the proposed Unit Agreement by the BLM, NMSLO, and the BIA.

(20) 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.



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in cursive script, appearing to read "Jami Bailey".

JAMI BAILEY
Director