

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

**APPLICATION OF WPX ENERGY PRODUCTION, LLC FOR
APPROVAL OF THE SOUTH CHACO FEDERAL
EXPLORATORY UNIT; AND FOR AN EXCEPTION TO THE
WELL LOCATION REQUIREMENTS SET FORTH IN THE
SPECIAL RULES FOR THE BASIN-MANCOS GAS POOL,
SANDOVAL COUNTY, NEW MEXICO.**

**CASE NO. 15173
Order No. R-13883**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on July 24, 2014, at Santa Fe, New Mexico, before Examiner Scott Dawson and legal counsel Gabriel Wade.

NOW, on this 15th day of August, 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. WPX Energy Production ("Applicant") seeks:
 - a. Approval of the South Chaco Unit Area ("the Unit") pursuant to 19.15.20.14 NMAC comprising 1,282 acres, more or less, of allotted Indian lands in Sandoval County, New Mexico, and
 - b. 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 Area.
3. The Unit area is composed of the following acreage located in Sandoval County, New Mexico:

TOWNSHIP 22 NORTH, RANGE 7 WEST, NMPM

Section 1: N/2
Section 2: All

TOWNSHIP 23 NORTH, RANGE 7 WEST, NMPM

Section 35: S/2

4. The Unitized Interval includes all formations from the stratigraphic equivalent of the top of the Mancos Shale (base of Mesa Verde Group) at a measured depth of 4,571 feet to the base of the Greenhorn Limestone formation (top of the Graneros Shale) at a measured depth of 6,456 feet as shown in the Quinella #1 well (API No. 30-043-20077).

5. The Unit Area 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 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. Rule C of the Special Rules for the Basin-Mancos Gas Pool 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 Unit Area.

7. Applicant appeared at the hearing through counsel and presented an expert in petroleum land matters and petroleum geology who provided testimony and evidence that:

a. The Unit is comprised of eight separate leases of allotted Indian lands. Applicant is the sole working interest owner in each of these leases.

b. The Unit Agreement was prepared on the form prescribed by the Bureau of Land Management (BLM) and the Federal Indian Minerals Office for allotted Indian lands, but has been modified in two significant respects:

i. It applies only to horizontal oil wells in the unitized interval; and

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

c. The Unit Agreement will be executed by the BLM and the Federal Indian Minerals Office on behalf of the interest owners in the allotted Indian lands comprising the Unit Area.

d. Applicant has discussed the Unit and the Unit development plans with the BLM and the Federal Indian Minerals Office. Following these discussions, the BLM issued a letter, copied to the Federal Indian Minerals Office, providing preliminary approval of the Unit. *See WPX Ex. 3.*

e. Records at the Federal Indian Minerals Office indicate there are over 600 interest owners in the allotted Indian lands comprising the Unit Area. Applicant

has provided notice of this application and hearing by certified mail to these interest owners with addresses of record.

f. Applicant has published notice of this application and hearing in the Rio Rancho Observer and The Farmington Daily Times, newspapers of general circulation in Sandoval and San Juan Counties, naming the interest owners of record in the allotted Indian lands for which no address could be found following diligent efforts.

g. 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 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.

h. In addition to the newspaper notice referenced above, Applicant has provided notice of this application and hearing by certified mail to all operators and lessees in the offsetting Basin-Mancos spacing units surrounding the Unit Area.

i. No faults, pinch-outs or other geologic impediments exist to prevent the Unitized Interval from being fully developed by horizontal oil wells.

j. The available well control in the area demonstrates the Unitized Interval identified in the type log is laterally contiguous across the entire Unit area.

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

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

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

11. No party appeared in opposition to the application.

12. 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 Area should be approved.

IT IS THEREFORE ORDERED THAT:

(1) The unitization of the South Chaco Unit Area consisting of 1,282 acres, more or less, of Indian allotted lands in Sandoval County, New Mexico, is hereby approved pursuant to 19.15.20.14 NMAC.

(2) The Unit Area consists of the following lands in Sandoval County, New Mexico:

TOWNSHIP 22 NORTH, RANGE 7 WEST, NMPM

Section 1: N/2

Section 2: All

TOWNSHIP 23 NORTH, RANGE 7 WEST, NMPM

Section 35: S/2

(3) The Unitized Interval for the South Chaco Unit Area extends vertically from the stratigraphic equivalent of the top of the Mancos Shale (base of Mesa Verde Group) at a measured depth of 4,571 feet to the base of the Greenhorn Limestone formation (top of the Graneros Shale) at a measured depth of 6,456 feet as shown in the Quinella #1 well (API No. 30-043-20077) attached as Exhibit C to the proposed Unit Agreement admitted as WPX Exhibit 2.

(4) The Unit Area constitutes a single Project Area for horizontal oil well development pursuant to 19.15.16.7.L(2) NMAC and accordingly unitized horizontal oil wells may be drilled 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 unless otherwise approved by the Division pursuant to 19.15.15.13 NMAC.

(5) WPX Energy Production, LLC is designated operator of the Unit and the Project Area.

(6) Applicant will not oppose operators in offsetting spacing and proration units requesting to locate horizontal oil wells or vertical oil wells in the Unitized Interval at 330-foot setbacks to the exterior boundary of the Unit Area.

(7) If a new oil pool for horizontal oil well development is formed that encompasses this South Chaco Unit area for horizontal oil well development, the South Chaco Unit area for horizontal oil well development will be incorporated into that new oil 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 oil pool.

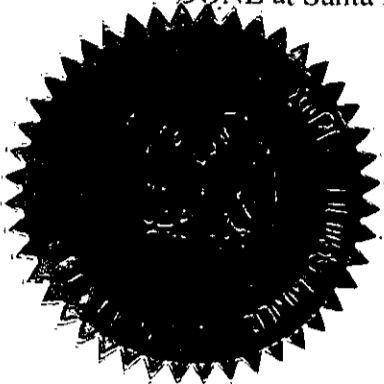
(8) All data regarding well interference concerning setbacks and internal well spacing shall be made available to the Division as soon as available.

(9) This Order shall become effective upon final approval of the proposed Unit Agreement by the BLM and the Federal Indian Minerals Office.

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

(11) 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