

**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. 15386
ORDER NO. R-14102**

APPLICATION OF WPX ENERGY PRODUCTION, LLC FOR A NON-STANDARD SPACING AND PRORATION UNIT IN THE BASIN-MANCOS GAS POOL, CREATION OF A NON-STANDARD SPACING UNIT FOR COMPULSORY POOLING, APPROVAL OF AN UNORTHODOX WELL LOCATION, AND APPROVAL OF DOWNHOLE COMMINGLING, RIO ARRIBA AND SAN JUAN COUNTIES, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on November 12, 2015, at Santa Fe, New Mexico, before Examiner William V. Jones.

NOW, on this 21st day of December, 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 this case and of the subject matter.

(2) Cases No. 15385 and 15386 pertain to the same subject matter and were consolidated at the hearing for purposes of testimony. Separate orders are being issued for each case.

(3) WPX Energy Production, LLC (the "Applicant") seeks approval:

- a. Of a 120-acre non-standard gas spacing unit in the Basin-Mancos Gas Pool (Pool Code 97232) consisting of the S/2 SW/4 and SW/4 SE/4 of Section 12, Township 23 North, Range 8 West, NMPM, San Juan County, New Mexico.
- b. Of a non-standard gas well location within this non-standard spacing unit.

- c. Of a 120.66-acre, more or less, non-standard oil spacing and proration unit (the "Unit") and project area for horizontal drilling within the Lybrook-Gallup Oil Pool (Pool Code 42289) consisting of the SE/4 SE/4 of Section 12, Township 23 North, Range 8 West, NMPM, San Juan County and the S/2 SW/4 of Section 7, Township 23 North, Range 7 West, NMPM, Rio Arriba County, New Mexico.
- d. Of compulsory pooling of all uncommitted interests within the 120.66-acre non-standard Gallup oil Unit.
- e. Of downhole commingling of oil and gas production from the two spacing units.

(4) Applicant's application requested that the 240.66-acre producing interval within this well become one non-standard spacing unit and that resulting unit be compulsory pooled. After discussion at the hearing, Applicant agreed that since only the Lybrook-Gallup Oil Pool completion had non-consenting owners, that the request could properly be modified as is listed above in Paragraph No. 3 to achieve the same result. The proposed well will be completed along the horizontal length in two pools, one gas pool and one oil pool; therefore, two separate completions will exist in the same well, completions which should be maintained separately and not be combined into one non-standard spacing unit. The modified application follows Division rules and business practice and is the correct form to use in this case.

(5) The bottomhole location for the proposed well presented in the exhibits at hearing differs from the Bureau of Land Management's final approved bottomhole location, but remains in the same quarter-quarter section that was advertised. The proposed well presented at hearing was the Chaco 2307 07N Well No. 410H. Subsequent to the hearing, Applicant requested the well name be changed to the MC 8 Com Well No. 410H. The Bureau of Land Management ("BLM") and Aztec district office of the Division have approved this name change.

(6) Both non-standard spacing units will be dedicated to Applicant's MC 8 Com Well No. 410H (the "proposed well"; API No. 30-039-31340), a horizontal well to be drilled from a surface location 956 feet from the South line and 2223 feet from the West line (Unit N) of Section 7, Township 23 North, Range 7 West, NMPM, Rio Arriba County, to a bottomhole location 1138 feet from the South line and 270 feet from the West line (Unit M) of Section 12, Township 23 North, Range 8 West, NMPM, San Juan County, New Mexico.

(7) The downhole completed interval will be standard within the Lybrook-Gallup Oil Pool but will be non-standard within the Basin Mancos Gas Pool.

(8) The proposed Gallup formation oil completion is within the Lybrook-Gallup Oil Pool and is subject to Division Rule 19.15.15.9(A) NMAC, which provides for 330-foot setbacks from the unit boundaries and standard 40-acre spacing and proration

units each comprising a governmental quarter-quarter section. The proposed Unit consists of three (3) adjacent quarter-quarter sections oriented from east to west.

(9) The proposed Mancos formation gas completion is within the Basin-Mancos Gas Pool which is governed by Special Rules established by Division Order No. R-12984 requiring 320-acre gas spacing units and, in Rule 2C., 660 feet setbacks from the boundary of the gas spacing unit.

(10) Applicant appeared through counsel and presented the following land and geologic evidence:

- (a) The Gallup and Mancos formations in this area are suitable for development by horizontal drilling;
 - (b) The proposed orientation of the horizontal well from east to west is appropriate for the Unit;
 - (c) All quarter-quarter sections to be included in the Gallup oil Unit are expected to be productive in the Gallup formation, so that the Unit as requested will not impair correlative rights;
 - (d) For the non-standard unit within the Basin-Mancos Gas Pool, notice was provided to those affected parties being excluded from the unit.
 - (e) For the non-standard location of the proposed well within the Basin-Mancos Gas Pool, notice was provided to affected parties to the north, northwest, and west of the non-standard unit.
 - (f) For the non-standard unit within the Lybrook-Gallup Oil Pool, notice was provided to surrounding affected parties.
 - (g) For the compulsory pooling of the non-standard unit within the Lybrook-Gallup Oil Pool, notice was provided to owners within the Unit.
 - (h) For downhole commingling of this diversely owned well between the oil completion in the Lybrook-Gallup Oil Pool and the gas completion in the Basin-Mancos Gas Pool, notice was provided to all interest owners;
 - (i) All parties subject to pooling were located, negotiations are proceeding, but all parties have not yet agreed to join in this well.
 - (j) The only uncommitted party owns an interest in the Gallup oil completion within this well. All owners of the Mancos gas completion have agreed to join.
- (11) No one entered an appearance or otherwise opposed this application.

The Division concludes as follows:

(12) In order to enable Applicant to drill a horizontal well that will efficiently produce oil and gas reserves, prevent waste and protect correlative rights, the following of Applicant's requests should be approved:

- a. A 120-acre non-standard gas spacing unit in the Basin Mancos Gas Pool (Pool Code 97232) consisting of the S/2 SW/4 and SW/4 SE/4 of Section 12, Township 23 North, Range 8 West, NMPM, San Juan County, New Mexico.
- b. A non-standard horizontal gas well location for the proposed MC 8 Com Well No. 410H (API No. 30-039-31340) within the Mancos gas spacing unit.
- c. A 120.66-acre, more or less, non-standard oil spacing unit and project area for horizontal drilling within the Lybrook-Gallup Oil Pool (Pool Code 42289) consisting of the SE/4 SE/4 of Section 12, Township 23 North, Range 8 West, NMPM, San Juan County and the S/2 SW/4 of Section 7, Township 23 North, Range 7 West, NMPM, Rio Arriba County, New Mexico.
- d. The downhole commingling of the proposed MC 8 Com Well No. 410H (API No. 30-039-31340) between the oil completion in the Lybrook-Gallup Oil Pool and the gas completion in the Basin Mancos Gas Pool. Allocation of production and sales of oil and gas between the Basin-Mancos Gas Pool spacing unit and the Lybrook-Gallup Oil Pool spacing and proration unit should be based on acreage contribution of each spacing unit to the total summed acreage of both spacing units completed in this well.

(13) Two or more separately owned tracts are embraced within the Unit, and/or there are royalty interests and/or undivided interests in oil and gas minerals in one or more tracts included in the Unit that are separately owned.

(14) Applicant is owner of an oil and gas working interest within the Unit. Applicant has the right to drill and proposes to drill the proposed well to a common source of supply within the Unit at the proposed location.

(15) There are interest owners in the Unit that have not agreed to pool their interests.

(16) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford to the owner of each interest in the Unit the opportunity to recover or receive without unnecessary expense a just and fair share of hydrocarbons, this application should be approved by pooling all uncommitted interests, whatever they may be, in the oil and gas within the Unit.

(17) WPX Energy Production, LLC should be designated the operator of the proposed well and the Unit.

(18) Any pooled working interest owner who does not pay its share of estimated well costs should have withheld from production its share of reasonable well costs plus an additional 200% thereof as a reasonable charge for the risk involved in drilling the proposed well.

(19) Reasonable charges for supervision (combined fixed rates) should be fixed at \$7000 per month while drilling and \$700 per month while producing, provided that these rates should be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations*."

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of WPX Energy Production, LLC, the following are approved:

- a. A 120-acre non-standard gas spacing unit in the Basin-Mancos Gas Pool (Pool Code 97232) consisting of the S/2 SW/4 and SW/4 SE/4 of Section 12, Township 23 North, Range 8 West, NMPM, San Juan County, New Mexico.
- b. A non-standard horizontal gas well location for the proposed MC 8 Com Well No. 410H (API No. 30-039-31340) within the Mancos gas spacing unit.
- c. A 120.66-acre, more or less, non-standard oil spacing unit (the "Unit") and project area for horizontal drilling within the Lybrook-Gallup Oil Pool (Pool Code 42289) consisting of the SE/4 SE/4 of Section 12, Township 23 North, Range 8 West, NMPM, San Juan County and the S/2 SW/4 of Section 7, Township 23 North, Range 7 West, NMPM, Rio Arriba County, New Mexico.
- d. The downhole commingling of the proposed MC 8 Com Well No. 410H (API No. 30-039-31340) between the oil completion in the Lybrook-Gallup Oil Pool and the gas completion in the Basin-Mancos Gas Pool. Allocation of production and sales of oil and gas between the Basin-Mancos Gas Pool spacing unit and the Lybrook-Gallup Oil Pool spacing and proration unit shall be based on acreage contribution of each spacing unit to the total summed acreage of both spacing units completed in this well.

(2) All uncommitted interests, whatever they may be, in the oil and gas in the Gallup formation underlying the 120.66-acre non-standard Lybrook-Gallup Oil Unit, are hereby pooled.

(3) The Unit shall be dedicated to Applicant's MC 8 Com Well No. 410H (the "proposed well"; API No. 30-039-31340), a horizontal well to be drilled from a surface location 956 feet from the South line and 2223 feet from the West line (Unit N) of Section 7, Township 23 North, Range 7 West to a bottomhole location 1138 feet from the South line and 270 feet from the West line (Unit M) of Section 12, Township 23 North, Range 8

West, NMPM. The completed interval within the Lybrook-Gallup Oil Pool shall be standard for oil production.

(4) The operator of the Unit shall commence drilling the proposed well on or before December 31, 2016, and shall thereafter continue drilling the proposed well with due diligence to test the Gallup formation.

(5) In the event the operator does not commence drilling the proposed well on or before December 31, 2016, Ordering Paragraphs (1) and (2) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause demonstrated by satisfactory evidence.

(6) Should the proposed well not be drilled and completed within 120 days after commencement thereof, then Ordering Paragraphs (1) and (2) shall be of no further effect, and the Unit and project area created by this order shall terminate, unless operator appears before the Division Director and obtains an extension of the time for completion of the proposed well for good cause shown by satisfactory evidence. If the proposed well is not completed in all of the standard spacing units included in the proposed project area (or Unit) then the operator shall apply to the Division for an amendment to this Order to contract the Unit so that it includes only those standard spacing units in which the well is completed.

(7) Upon final plugging and abandonment of the proposed well and any other well drilled and completed on the Unit pursuant to Division Rule 19.15.13.9 NMAC, the pooled Unit created by this Order shall terminate, unless this Order has been amended to authorize further operations.

(8) WPX Energy Production, LLC (OGRID 120782) is hereby designated the operator of the well and the Unit.

(9) After pooling, uncommitted working interest owners are referred to as pooled working interest owners. ("Pooled working interest owners" are owners of working interests in the Unit, including unleased mineral interests, who are not parties to an operating agreement governing the Unit.) After the effective date of this Order, the operator shall furnish the Division and each known pooled working interest owner in the Unit an itemized schedule of estimated costs of drilling, completing and equipping the proposed well ("well costs").

(10) Within 30 days from the date the schedule of estimated well costs is furnished, any pooled working interest owner shall have the right to pay its share of estimated well costs to the operator in lieu of paying its share of reasonable well costs out of production as hereinafter provided, and any such owner who pays its share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges. Pooled working interest owners who elect not to pay their share of estimated well costs as provided in this paragraph shall thereafter be referred to as "non-consenting working interest owners."

(11) The operator shall furnish the Division and each known pooled working interest owner (including non-consenting working interest owners) an itemized schedule of actual well costs within 90 days following completion of the proposed well. If no objection to the actual well costs is received by the Division, and the Division has not objected, within 45 days following receipt of the schedule, the actual well costs shall be deemed to be the reasonable well costs. If there is an objection to actual well costs within the 45-day period, the Division will determine reasonable well costs after public notice and hearing.

(12) Within 60 days following determination of reasonable well costs, any pooled working interest owner who has paid its share of estimated costs in advance as provided above shall pay to the operator its share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator the amount, if any, that the estimated well costs it has paid exceed its share of reasonable well costs.

(13) The operator is hereby authorized to withhold the following costs and charges from production from each well:

- a. The proportionate share of reasonable well costs attributable to each non-consenting working interest owner; and
- b. As a charge for the risk involved in drilling the well, 200% of the above costs.

(14) The operator shall distribute the costs and charges withheld from production, proportionately, to the parties who advanced the well costs.

(15) Reasonable charges for supervision (combined fixed rates) for the well are hereby fixed at \$7000 per month while drilling and \$700 per month while producing, provided that these rates shall be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations*." The operator is authorized to withhold from production the proportionate share of both the supervision charges and the actual expenditures required for operating the well, not in excess of what are reasonable, attributable to pooled working interest owners.

(16) Except as provided in Paragraphs (13) and (15) above, all proceeds from production from the proposed well that are not disbursed for any reason shall be held for the account of the person or persons entitled thereto pursuant to the Oil and Gas Proceeds Payment Act (NMSA 1978 Sections 70-10-1 through 70-10-6, as amended). If not disbursed, such proceeds shall be turned over to the appropriate authority as and when required by the Uniform Unclaimed Property Act (NMSA 1978 Sections 7-8A-1 through 7-8A-31, as amended).

(17) Any unleased mineral interests shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this Order. Any well costs or charges that are to be paid out of production

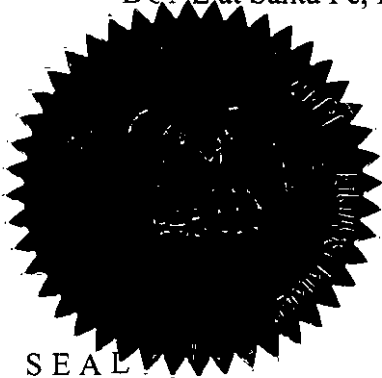
shall be withheld only from the working interests' share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(18) Should all the parties to this compulsory pooling order reach voluntary agreement subsequent to entry of this order, the compulsory pooling portion of this order shall thereafter be of no further effect.

(19) The operator of the well and the Unit shall notify the Division in writing of the subsequent voluntary agreement of all parties subject to the compulsory pooling provisions of this Order.

(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.



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

David R. Catanach

DAVID R. CATANACH
Director