

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

APPLICATION OF ENCANA OIL AND GAS (USA), INC. FOR APPROVAL OF THE HUTTON CANYON 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 AND RIO ARRIBA COUNTIES, NEW MEXICO.

**CASE NO. 15210
Order No. R-13929**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on October 2, 2014, at Santa Fe, New Mexico, before Examiner Scott Dawson and legal counsel Gabriel Wade.

NOW, on this 10th day of November, 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 and Gas (USA), Inc. ("Applicant") seeks:
 - a. Approval of the Hutton Canyon Unit ("the Unit") pursuant to 19.15.20.14 NMAC comprising 2,563 acres, more or less, of Federal land in San Juan and Rio Arriba Counties, 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 Area.
3. The Unit area is composed of the following acreage located in Rio Arriba and San Juan Counties, New Mexico:

TOWNSHIP 23 NORTH, RANGE 7 WEST, NMPM

Section 18: All

TOWNSHIP 23 NORTH, RANGE 8 WEST, NMPM

Section 11: All

Section 13: All

Section 14: All

4. The Unitized Interval includes all formations from 100 feet below the stratigraphic equivalent of the top of the Mancos formation (base of the Mesa Verde Group) to the stratigraphic equivalent of the base of the Greenhorn Limestone (top of the Graneros Shale) as shown in the Jeffers Federal 2 #23 (API No. 30-045-24439) and the Dome Federal 13 #41 (API No. 30-045-24245) wells in Sections 2 and 13, respectively, Township 23 North, Range 8 West, NMPM.

5. The Federal Exploratory 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 Area is currently subject to the Lybrook Gallup Oil Pool (42289) and the Special Rules and Regulations for the Basin Mancos Gas Pool (97232) adopted under Order No. R-12984. The Lybrook Gallup Oil Pool is subject to Statewide Rule 19.15.15.9 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 for the Basin Mancos Gas Pool require 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 an expert in petroleum land matters and petroleum geology who provided testimony and evidence that:

- a. The Unit is comprised of three separate leases of Federal land.
- b. All interests in the Unit are expected to be committed to the Unit.
- c. The Federal Exploratory Unit Agreement was prepared on the form prescribed by the Bureau of Land Management (BLM), but has been modified in two significant respects:
 - i. It applies only to horizontal oil wells in the unitized interval; and
 - ii. The entire Federal Exploratory Unit is established as a single Participating Area.
- d. The Federal Exploratory Unit Agreement will be executed by the BLM.
- e. Applicant has discussed the Federal Exploratory Unit and the Federal Exploratory Unit development plans with the BLM. Following these discussions,

the BLM issued a letter providing preliminary approval of the Federal Exploratory Unit. *See Encana Oil and Gas (USA) Inc. - Ex. 3.*

f. Applicant has provided notice of this application and hearing by certified mail to all working interest owners within the Unit and all offsetting interest owners in spacing units surrounding the Unit Area.

g. The Unit Area is located within both the Basin Mancos Gas Pool and the Lybrook 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 oil pool.

h. 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.

i. 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.

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

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

l. 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.

8. Since the Federal Exploratory Unit Agreement provides that the entire Unit shall comprise a single Participating Area, the Unit Area constitutes a single Project Area for horizontal oil wells under OCD Rule 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 oil wells within the Unit Area.

10. A new oil pool for horizontal oil wells in the Unitized Interval underlying the Unit should be created to resolve administrative and reporting issues.

11. 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.

12. No party appeared in opposition to the application.

13. 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.

14. This application will prevent waste and protect correlative rights and should be granted.

IT IS THEREFORE ORDERED THAT:

(1) The unitization of the Hutton Canyon Federal Exploratory Unit consisting of 2,563 acres, more or less, of Federal land in San Juan and Rio Arriba Counties, New Mexico, is hereby approved pursuant to 19.15.20.14 NMAC.

(2) The Unit Area consists of the following lands in Rio Arriba and San Juan Counties, New Mexico:

TOWNSHIP 23 NORTH, RANGE 7 WEST, NMPM

Section 18: All

TOWNSHIP 23 NORTH, RANGE 8 WEST, NMPM

Section 11: All

Section 13: All

Section 14: All

(3) The Unitized Interval includes all formations from 100 feet below the stratigraphic equivalent of the top of the Mancos formation (base of the Mesa Verde Group) to the stratigraphic equivalent of the base of the Greenhorn Limestone (top of the

Graneros Shale) as shown in the Jeffers Federal 2 #23 (API No. 30-045-24439) and the Dome Federal 13 #41 (API No. 30-045-24245) wells in Sections 2 and 13, respectively, Township 23 North, Range 8 West, NMPM.

(4) A new oil pool for horizontal oil wells in the Unitized Interval within the Unit Area is hereby created and named the Hutton Canyon Unit Hz Oil Pool.

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

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

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

(8) 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.

(9) All interests in the Unit will be committed to the Unit.

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

(11) The Unit Area 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 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.

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

(13) Applicant will 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 Area.

(14) If a new pool for horizontal oil well development is formed that encompasses this Hutton Canyon Unit Hz Oil Pool for horizontal oil well development, the Hutton Canyon 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.

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

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

(17) This Order is binding on all current and future operators of the Project Area and associated Federal Exploratory Unitization Agreement.

(18) 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

JAMI BAILEY
Director