

**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. 14773
ORDER NO. R-13510**

**APPLICATION OF CONOCOPHILLIPS
COMPANY TO TERMINATE THE LA JARA
CANYON-GALLUP POOL AND TO EXPAND
THE BASIN-MANCOS GAS POOL AND FOR
EXCEPTIONS TO RULE 19.15.12.9 NMAC TO
PERMIT DOWNHOLE COMMINGLING
PRODUCTION INCLUDING FURTHER
EXCEPTIONS FROM RULE 19.15.12.10 AND
RULE 19.15.12.11 APPROVING
ALTERNATIVE ALLOCATION METHODS
AND NOTIFICATIONS FOR THE GALLUP
FORMATION, NOW MANCOS FORMATION
PRODUCTION WITH MESAVERDE AND
DAKOTA FORMATION PRODUCTION, 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 15, 2011, at Santa Fe, New Mexico, before Examiner Terry Warnell.

NOW, on this 31st day of January, 2012, the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

FINDS THAT:

- (1) Due notice has been given, and the Division has jurisdiction of the subject matter of this case.
- (2) The applicant, ConocoPhillips Company, ("CPC") [OGRID 217817] ("Applicant") seeks an order (1) for the termination of the La Jara Canyon-Gallup Pool

(Pool Code 96483); (2) adding the abolished pool acreage ("the subject area") in its entirety to the Basin-Mancos Gas Pool (Pool Code 97232); (3) pre-approving down-hole commingling of production from the Mancos, Mesaverde and the Dakota formations within the subject area and (4) approving alternative methods of allocation and notification.

(3) At the hearing, Applicant appeared through counsel and presented land, geologic and engineering evidence as follows:

(a) CPC is the current operator of the San Juan 30-5 Unit that contains two wells in the Gallup formation each currently spaced on 160-acre spacing units as part of the La Jara Canyon-Gallup Pool.

(b) The Rules for the La Jara Canyon-Gallup Pool are based upon the general statewide rules (19.15.15.10.C NMAC) and provide in part, that gas wells will be spaced on 160-acre units with wells no closer than 660 feet to the outer boundary of the unit.

(c) These Gallup wells are part of the larger Mancos formation which is located vertically between the base of the Mesaverde formation and the top of the Dakota formation. The Mancos formation is widely known as being marginally productive and for the most part is only economic if developed concurrently with Mesaverde and or Dakota wells.

(d) CPC desires to streamline the regulatory process by converting all existing 160-acre gas spacing units into 320-acre gas spacing units such that the remaining acreage in the La Jara Canyon-Gallup Pool can be further developed with similarly dedicated Mesaverde and or Dakota wells also on 320-acre spacing units.

(e) This change is necessary in order to drill more wells and recover production from the Mancos formation that might otherwise be wasted.

(f) Division Order R-10600, dated May 17, 1996, established the La Jara Canyon-Gallup Pool.

(g) Division Order R-12984, dated September 3, 2008, created the Basin-Mancos Gas Pool and in doing so expanded the La Jara Canyon-Gallup Pool such that the pool now comprises the following-described area:

Township 30 North, Range 5 West, NMPM

Section 25: SW/4

Section 26: S/2

Section 27: S/2

Section 34: W/2

(h) CPC is the only operator in the La Jara Canyon-Gallup Pool and currently operates two wells, and plans to drill an additional three wells. The two wells are the San Juan 30-5 Unit Well No. 91 (API No. 30-039-23168) dedicated to the SW/4 of Section 25 and the San Juan 30-5 Unit Well No. 102 (API No. 30-039-23176) dedicated to the SW/4 of Section 34.

(i) These two wells are within the San Juan 30-5 Unit but have not been designated part of any participating area. CPC owns 100% of these drill block gas spacing units.

(j) CPC also requests pre-approval for downhole commingling of production from the Mancos, Mesaverde and Dakota formations with certain exceptions to Rule 19.15.12.9 NMAC and the elimination of notice requirements for downhole commingling.

(k) CPC proposes an Alternative Allocation Method using a Spinner Method of allocation. This method is already approved for the Basin-Dakota Gas Pool and the Blanco-Mesaverde Gas Pool as per Division Rule 19.15.12.10.B and C and Rule 19.15.12.11.C NMAC.

(l) The commingling of condensate and gas from the Mancos with condensate and gas from the Mesaverde and Dakota will not reduce the total value of remaining reserves.

(4) No other party appeared at the hearing or otherwise opposed this application.

(5) The existing two Gallup "gas" wells in the La Jara Canyon-Gallup Pool will not be adversely affected by inclusion in the Basin-Mancos Gas Pool or by being downhole commingled with production from the Mesaverde and Dakota formations.

(6) Current rules that govern the La Jara Canyon-Gallup Pool preclude the drilling of more than one well per 160-acre standard unit. Consequently, drilling of additional wells in the La Jara Canyon-Gallup Pool pursuant to current well density rules will cause the operator and working interest owners to either drill too few wells or have to incur the time and expenses of seeking exceptions to certain Division rules.

(7) Approval of this application will provide greater flexibility for operators to further develop the acreage currently encompassed within the La Jara Canyon-Gallup

Pool and will allow a small resource to be developed in conjunction with the Basin-Dakota Gas Pool and Blanco-Mesaverde Gas Pool wells and should be approved.

(8) Prior to the hearing ConocoPhillips notified all the royalty and overriding royalty interest owners and all affected interests of its intentions.

(9) Applicant's request for an exception to certain requirements of Rule 19.15.12.11.C(2) NMAC is appropriate, will not violate correlative rights and should be approved.

IT IS THEREFORE ORDERED THAT:

(1) The La Jara Canyon-Gallup Pool (Pool Code 96483), which currently comprises in its entirety the following-described area, is hereby abolished:

Township 30 North, Range 5 West, NMPM

Section 25: SW/4
Section 26: S/2
Section 27: S/2
Section 34: W/2

(2) The Basin-Mancos Gas Pool (Pool Code 97232) established by Order No. R-12984 is hereby expanded to include all of the area specifically described in Ordering Paragraph (1) above.

(3) Pre-approval for downhole commingling of production from the Basin-Mancos, Basin-Dakota and Blanco-Mesaverde Gas Pools is hereby GRANTED within the following described area:

Township 30 North, Range 5 West, NMPM

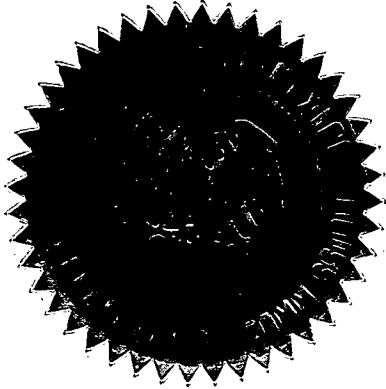
Section 25: SW/4
Section 26: S/2
Section 27: S/2
Section 34: W/2 and SE/4

(4) Henceforth, the following procedure should be used to obtain approval to downhole commingle production from these pools: the operator shall file a Form C-103 with the Aztec District Office which includes all of the information required by Rule 19.15.12.11.C(2) NMAC except that the operator shall not be required to provide notice to all interest owners within the proposed spacing unit or provide supporting data to justify (a) the marginal economic criteria, (b) pressure criteria or (c) the Spinner Method for Allocation.

(5) The Spinner Method of allocating production of oil and gas from wells downhole commingled in the Basin-Mancos, Basin-Dakota and Blanco-Mesaverde Gas Pools within the pre-approved area is hereby approved.

(6) 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