

**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:**

**APPLICATION OF XTO ENERGY INC. FOR POOL CONTRACTION, POOL
EXPANSION, A NON-STANDARD SPACING AND PRORATION UNIT, AND
COMPULSORY POOLING, SAN JUAN COUNTY, NEW MEXICO.**

**CASE NO. 15020
ORDER NO. R-13770**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing on July 12, 2013, in Santa Fe, New Mexico, before Examiner Richard I. Ezeanyim.

NOW, on this 14th day of November, 2013, 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) XTO Energy Inc. ("XTO" or "Applicant" or "Operator") seeks an order approving the following:
 - (a) The contraction of the Cha-Cha-Gallup Pool (Pool Code 11880) by deleting the S/2 NW/4 of Section 16, Township 29 North, Range 14 West, NMPM, San Juan County, New Mexico, from the Pool;
 - (b) The expansion of the Basin-Mancos Gas Pool (Pool Code **97232**) by adding the S/2 NW/4 of Section 16, Township 29 North, Range 14 West, NMPM, San Juan County, New Mexico, to the pool;
 - (c) The formation of a 480-acre non-standard spacing and proration unit (project area) in the Basin-Mancos Gas Pool comprised of the N/2 of Section 16 and the NE/4 of

Section 17, Township 29 North, Range 14 West, NMPM, San Juan County, New Mexico; and

(d) The pooling of all interests in the Mancos formation underlying the non-standard spacing and proration unit (project area).

(3) The Unit is to be dedicated to Applicant's proposed Ropco 16 Well No. 1H (API No. 30-045-35455) ("the proposed well"), a horizontal well to be drilled from a surface location 978 feet from the North line and 1005 feet from the East line (Unit A) of Section 16. The well will penetrate the Mancos formation in Unit A of Section 16 and continue horizontally to a standard terminus, or bottomhole location 1950 feet from the North line and 1925 feet from the East line (Unit G) of Section 17. The completed interval of the wellbore will be entirely within the prescribed setbacks from the outer boundary of the project area.

(4) Spacing in the Basin-Mancos Gas Pool is governed by Special Pool Rules adopted by Division Order No. R-12984 issued in Case No. 14133 on September 3, 2008. This Order provides for standard 320-acre units, each comprising any two governmental quarter sections, with wells to be located no closer than 660 feet to the outer boundary of the spacing unit, and not closer than 10 feet to any interior quarter or quarter-quarter section line or subdivision inner boundary. This Unit consists of three adjacent quarter sections.

The Applicant appeared at the hearing through counsel and presented the following testimony:

(5) The Gallup formation is within the whole Mancos vertical interval, so that any well drilled in the Cha-Cha-Gallup Pool will technically be producing from the Basin-Mancos Pool.

(6) There are no geologic differences between the productive portions of the Cha-Cha-Gallup Pool and the Basin-Mancos Pool in Section 16, Township 29 North, Range 14 West, NMPM, San Juan County, New Mexico. The geology is very homogeneous in this acreage.

(7) XTO Energy Inc. is the primary working interest in Sections 16 and 17 and the surrounding sections of Township 29 North, Range 14 West, NMPM, San Juan County, New Mexico.

(8) XTO gave notice of this application to all offsetting interest owners in the NW/4 of Section 17, Township 29 North, Range 14 West, NMPM, San Juan County, New Mexico, regarding the non-standard spacing and proration unit. It also gave notice to all interest owners regarding the pooling portion of this application. No party appeared at the hearing to oppose the granting of this application.

(9) The reservoir in the Basin-Mancos Gas Pool is very thin in this area, ranging from 6 feet to 8 feet. Because of this very thin pay interval, XTO needs to drill a long lateral to target this thin reservoir in order to maximize production and make the well economic. Additionally, XTO wants to maximize its leasehold interest in both Sections 16 and 17 of Township 29 North, Range 14 West, NMPM, San Juan County, New Mexico, by using an existing well pad and recovering more hydrocarbons. The use of the existing pad will minimize surface disturbance without disturbing farmland and/or residential areas.

(10) Each quarter section of the 480-acre non-standard spacing and proration unit (project area) will contribute equally to production.

The Division Concludes as Follows:

(11) The State Land Office (SLO) is the mineral owner in Section 16, while the NE/4 of Section 17 is Fee mineral, and XTO is the Lessee of record.

(12) The Division believes that the proposed well as designed and planned is the best way to maximize production from this thin reservoir in order to make the drilling of this well to be economical. The horizontal orientation of this well is to target the thin reservoir of the Basin-Mancos Pool in this area. It will prevent waste and protect correlative rights, and since XTO owns the majority of the working interest in the NW/4 of Section 17, no acreage will be left stranded.

(13) If this well is limited or restricted to only one (1) mile long horizontal well, approximately 1,280 feet of hydrocarbon reserves will be lost and not produced, thereby inducing waste and impairing correlative rights.

(14) By Order No. R-13714 issued in Case No. 14980 on June 5, 2013, the Division **denied** the compulsory pooling of this 480-acre non-standard spacing and proration unit or project area, because the Unit is to be dedicated to a horizontal well, and is underlain by two different pools within the same productive interval. The Division has no authority to compulsorily pool a spacing unit underlain by two different pools within the same vertical interval.

(15) All quarter sections to be included in the Unit or project area are expected to be productive in the Mancos formation, so that formation of the Unit as requested will not impair correlative rights.

(16) The S/2 NW/4 of Section 16, Township 29 North, Range 14 West, NMPM, San Juan County, New Mexico, should be deleted from the Cha-Cha-Gallup Pool, and the Basin-Mancos Pool should be expanded to include this acreage. There are no geologic differences between the Cha-Cha-Gallup Pool and the Basin-Mancos Pool in this area. This is to ensure orderly development in this area.

(17) The development plan proposed by XTO for Sections 16 and 17 of Township 29 North, Range 14 West, will maximize production from this project area, and will prevent waste and protect correlative rights.

(18) At the hearing, the Applicant requested that overhead rates be approved at \$10,000 per month while drilling, and \$1,000 per month while producing. No evidence was presented at the hearing to justify these rates. Accordingly, the Division will approve \$7,500 while drilling, and \$750 while producing.

(19) Approval of the proposed non-standard unit will enable Applicant to drill a horizontal well that will efficiently produce the reserves underlying the Unit or project area.

(20) 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.

(21) Applicant is an 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.

(22) There are interest owners in the Unit, including owners of royalty and overriding royalty interests, who have not agreed to pool their interests.

(23) 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 its 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.

(24) XTO Energy Inc. should be designated the operator of the proposed well and of the Unit.

(25) 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 well.

(26) Reasonable charges for supervision (combined fixed rates) should be fixed at \$7,500 per month while drilling, and \$750 per month while producing, provided that these rates should be adjusted annually pursuant to Section III. I.A.3. of the COPAS form titled "Accounting Procedure-Joint Operations."

IT IS THEREFORE ORDERED THAT:

- (1) The Cha-Cha-Gallup Pool is hereby contracted by deleting the S/2 NW/4 of Section 16, Township 29 North, Range 14 West, NMPM, San Juan County, New Mexico, from the Pool.
- (2) The Basin-Mancos Gas Pool (97232) is hereby expanded by adding the S/2 NW/4 of Section 16, Township 29 North, Range 14 West, NMPM, San Juan County, New Mexico, to the pool.
- (3) A non-standard 480-acre spacing and proration unit (the Unit or project area) is hereby established in the Mancos formation, the Basin-Mancos Gas Pool (97232), consisting of the N/2 of Section 16 and the NE/4 of Section 17, in Township 29 North, Range 14 West, NMPM, in San Juan County, New Mexico.
- (4) Pursuant to the application of XTO Energy, Inc., all uncommitted interests, whatever they may be, in the oil and gas in the Basin-Mancos Gas Pool underlying the Unit, are hereby pooled.
- (5) The Unit shall be dedicated to Applicant's proposed Ropco 16 Well No. 1H (API No. 30-045-35455) ("the proposed well"), a horizontal well to be drilled from a surface location 978 feet from the North line and 1005 feet from the East line (Unit A) of Section 16. The well will penetrate the Mancos formation in Unit A of Section 16 and continue horizontally to a standard terminus, or bottomhole location 1950 feet from the North line and 1925 feet from the East line (Unit G) of Section 17. The completed interval of the wellbore will be entirely within the prescribed setbacks from the outer boundary of the project area.
- (6) The operator of the Unit shall commence drilling the proposed well on or before November 10, 2014, and shall thereafter continue drilling the well with due diligence to test the Mancos formation.
- (7) In the event the operator does not commence drilling the proposed well on or before November 10, 2014, 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.
- (8) 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 quarter-quarter sections included in the proposed unit within 120 days after commencement of drilling, then the operator shall apply to the Division for an amendment to this Order to contract the Unit so that it includes only those quarter-quarter sections in which the well is completed.

(9) Upon final plugging and abandonment of the proposed well and any other well drilled 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.

(10) XTO Energy, Inc. (**OGRID 5380**) is hereby designated the operator of the well and of the Unit.

(11) 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").

(12) 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."

(13) 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.

(14) 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.

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

- (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.

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

(17) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$7,500 per month while drilling, and \$750 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.

(18) Except as provided in Paragraphs (15) and (17) 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 70-8A7-8A-28, as amended).

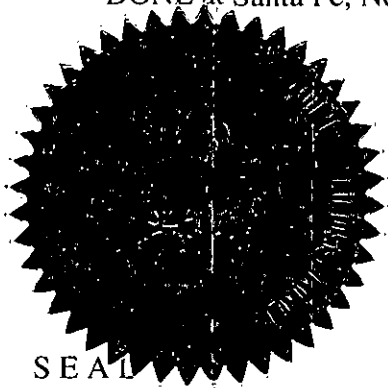
(19) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working interests' share of production and no costs or charges shall be withheld from production attributable to royalty interests or overriding royalty interests.

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

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

(22) 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

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

JAMI BAILEY
Director