

**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. 15349
ORDER NO. R-14092**

**APPLICATION OF WPX ENERGY PRODUCTION, LLC FOR APPROVAL OF A
640-ACRE NON-STANDARD PROJECT AREA COMPRISED OF ACREAGE
SUBJECT TO A PROPOSED FEDERAL COMMUNITIZATION AGREEMENT,
FOR CREATION OF A NEW POOL WITHIN THE UNIT AREA, AND FOR
ALLOWANCE OF 330 FOOT SETBACKS FROM THE EXTERIOR OF THE
PROPOSED PROJECT AREA, RIO ARriba COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on July 23, 2015, at Santa Fe, New Mexico, before Examiner Phillip R. Goetze.

NOW, on this 8th 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 its subject matter.
- (2) WPX Energy Production, LLC ("Applicant" or "WPX") seeks:
 - (a) Approval of a project area (the "Project Area") over lands covered by a federal communitization agreement;
 - (b) Creation of a new pool for horizontal wells within the Project Area;
and
 - (c) Authority to drill horizontal wells within the Project Area such that the completed interval is located no closer than 330 feet to the outer boundary of the Project Area.

(3) The Federal Communitization Agreement No. NMNM 134944 ("Agreement") consists of 640 acres of only federal lands located in Rio Arriba County, New Mexico, described below:

TOWNSHIP 24 NORTH, RANGE 7 WEST, NMPM

Section 35:

All

(4) The Agreement contains the following stipulations:

- (a) The Agreement depth is limited to the Mancos formation underlying the lands described in the Agreement.
- (b) All pre-existing and future vertical wells within the Agreement boundary drilled and completed in the Mancos formation are excluded from the Agreement.
- (c) The communitized lands in the Agreement shall be developed and operated as an entirety, with allocation based on acreage contribution of each leasehold (tract) to the entire area.
- (d) A two (2) year term to initiate production in paying quantities.
- (e) Production and sales shall be in conformity with allocation, allotments, and quotas made or fixed by any duly authorized person or regulatory body under applicable federal or state statutes. This agreement shall be subject to all applicable federal and state laws or executive orders, rules and regulations.

(5) The "Unitized Interval" for the Project Area includes all formations from the stratigraphic equivalent of the top of the Mancos formation (base of the Mesaverde Group) at a measured depth of 4457 feet to the stratigraphic equivalent of the base of the Greenhorn formation, as defined at a measured depth of 6155 feet both shown on the log run dated June 1, 1982, on the Dunn Well No. 10 (API 30-039-22934) located 660 feet from the North line and 660 feet from the East line (Unit A), Section 3, Township 23 North, Range 7 West, NMPM, Rio Arriba County, New Mexico.

(6) Existing wells drilled to the Gallup or Mancos formations within the Project Area are subject to the following pools:

- (a) The Basin; Mancos Gas Pool (Pool Code 97232), with Special Rules adopted in 2008 under Division Order No. R-12984, providing for 320-acre gas spacing units and wells located no closer than 660 feet from unit boundaries; and

(b) The Lybrook; Gallup Oil Pool (Pool Code 42289) is subject to Division Rule 19.15.15.9 NMAC which limits the location of wells to no less than 330 feet from the boundary of the quarter-quarter section.

(7) There are six existing vertical wells in the Project Area with production from the Lybrook; Gallup Oil Pool. The operator of these wells is Elm Ridge Exploration Company, LLC.

(8) No other party entered an appearance or otherwise opposed this application.

(9) Applicant appeared at the hearing through counsel and presented the following testimony:

(a) The Project Area is comprised of two federal tracts with 100 percent working mineral interest owned by WPX: NMSF-078534 and NMSF-080202-B;

(b) Applicant has submitted the communitization agreement to the Bureau of Land Management ("BLM") in order to develop the two tracts as a single Project Area;

(c) All interests in the Project Area are committed to the Agreement;

(d) The Agreement has been given written preliminary approval by the BLM;

(e) Applicant has provided notice of this application and hearing to the working interest owners and operators within the Mancos formation in the spacing units offsetting the proposed Project Area and to all working interest owners within the Project Area including Elm Ridge Exploration Company, LLC;

(f) No faults, pinch-outs or other geologic impediments exist to prevent the Unitized Interval from being developed by horizontal oil wells;

(g) The available well control in the area demonstrates the Unitized Interval identified in the type log is laterally contiguous across the entire Project Area;

(h) These lands were chosen and are being proposed as the Project Area to facilitate the most efficient, uniform, and common development;

(i) Applicant expects to reduce surface disturbances by the formation of this Project Area and intends to protect the fresh water from harm due to drilling and oil field operations;

(j) The Project Area will be developed to produce oil from the Mancos formation;

(k) Applicant intends to orient wells in a transverse direction to benefit from the orientation of the natural fracture system for well completions; and

(l) There are no existing horizontal wells within the described lands of the Agreement.

The Division concludes as follows:

(10) Applicant has provided proper and adequate notice of this application and of this hearing.

(11) Division Rule 19.15.16.7(E) NMAC defines a "Horizontal Well" as a directional well bore with one or more laterals that extend a minimum of 100 feet horizontally in the target zone.

(12) The lands described in the Agreement should constitute a single Project Area for horizontal oil well development pursuant to Division rule 19.15.16.7(L)(2) NMAC.

(13) The geologic evidence presented demonstrates that the entire Project Area should be productive within the Unitized Interval.

(14) The correlative rights of all interest owners in the Project Area will be protected provided that the Project Area is ultimately fully developed in the Unitized Interval.

(15) Approval of the Project Area will provide the Applicant the flexibility to locate and drill wells anywhere in the Project Area in order to maximize the recovery of oil and gas from the Unitized Interval, thereby preventing waste, and will provide the Applicant the latitude to conduct operations in an effective and efficient manner.

(16) The provisions contained within the Agreement are in compliance with Division rules, and the development and operation of the Project Area, as proposed, will comply with the Division's conservation principles.

(17) Applicant's request for the creation of a new pool for oil production to be dedicated to Project Area wells should be approved. All Project Area wells should be dedicated to the **MC6 Com; Mancos Pool**. The horizontal limits of this pool should coincide with the boundaries of the Project Area and should not extend beyond the Project Area boundaries. The vertical limits of this pool should extend from the base of the Mesaverde Group to the base of the Greenhorn formation or top of the Graneros formation. The pool creation date should coincide with the effective date of this order.

(18) The new Mancos Pool should be subject to Division Rules 19.15.15.9 NMAC, 19.15.16.14B(3) NMAC, and 19.15.20.12A NMAC; provided however, the following stipulations should apply to Project Area Wells:

(a) The Operator should submit to the Division Form C-102 for each Project Area well that shows the drilling block for that particular well (each standard-sized oil spacing unit penetrated by the well), the total acreage within the Project Area and the Division order number approving the Agreement; and

(b) As per Applicant's request, any Project Area well should be allowed anywhere within the Project Area provided that no portion of the completed interval is closer than 330 feet to the outer boundary of the Project Area unless otherwise approved by the Division pursuant to Division Rule 19.15.15.13 NMAC.

(19) Should a new pool for Mancos development be formed that encompasses the area of the Project Area then the existing pool for Project Area wells should be contracted, and the Project Area wells should be incorporated into that new Mancos pool. In that event, the operator of the Project Area should file the necessary forms with the Division to dedicate those wells to the new pool; notwithstanding, each well shall remain dedicated to the entire 640 acres.

(20) The plan for the development and operation of the Project Area should be approved in principle as a proper conservation measure. All plans of development for lands within the Agreement should be submitted annually to the Division for review.

(21) This application should be approved.

IT IS THEREFORE ORDERED THAT:

(1) As per the application of WPX Energy Production, LLC ("Applicant" or "WPX"), a Project Area for purposes of horizontal drilling is hereby created within the lands encompassed by Federal Communitization Agreement No. NMNM 134944 ("Agreement") executed by the Bureau of Land Management. As within this Agreement, this Project Area shall be confined to the Mancos formation and contained within the following-described 640 acres, more or less, of federal lands in Rio Arriba County, New Mexico:

TOWNSHIP 24 NORTH, RANGE 7 WEST, NMPM

Section 35:

All

(2) WPX Energy Production, LLC (OGRID 120782) is hereby designated the operator of the Project Area.

(3) The Unitized Interval for the Project Area shall include all formations from the stratigraphic equivalent of the top of the Mancos formation (base of the Mesaverde Group) at a measured depth of 4457 feet to the stratigraphic equivalent of the base of the Greenhorn formation, as defined at a measured depth of 6155 feet both shown on the log run dated June 1, 1982, on the Dunn Well No. 10 (API 30-039-22934) located 660 feet from the North line and 660 feet from the East line (Unit A), Section 3, Township 23 North, Range 7 West, NMPM, Rio Arriba County, New Mexico.

(4) All existing and future vertical wells within the horizontal limits of this Project Area but not designated per the Agreement as Project Area wells shall remain dedicated and subject to the requirements of existing pools or statewide rules.

(5) WPX is hereby granted the relief inherent within the definition of a Project Area as per Division Rule 19.15.16.7(L)(3) NMAC including the ability to drill and complete wells anywhere within the Project Area provided that no portion of the completed interval is closer than 330 feet to the outer boundary of the Project Area unless otherwise approved by the Division pursuant to Division Rule 19.15.15.13 NMAC. Wells drilled within this Project Area shall not be located on the surface closer than 10 feet to any quarter-quarter section line.

(6) Applicant's request for the creation of a new pool for oil production to be dedicated to Project Area Wells is hereby approved. All horizontal oil wells completed in the Mancos formation within the Project Area and after the effective date shall be dedicated to the **MC6 Com; Mancos Pool**. The horizontal limits of this pool shall coincide with the boundaries of the Project Area and shall not extend beyond the Project Area boundaries. The vertical limits of this pool shall extend from the base of the Mesaverde Group to the base of the Greenhorn formation or top of the Graneros formation as detailed in Ordering Paragraph (3).

(7) The MC6 Com; Mancos Pool shall be subject to Division Rules 19.15.15.9 NMAC, 19.15.16.14(B)(3) NMAC, and 19.15.20.12(A) NMAC. The pool creation date shall be effective the first day of the month following the order date.

(8) The operator shall submit to the Division Form C-102 for each Project Well that shows the dedicated "developed" acreage for that particular well as being the 640 acres within the Project Area and the Division order number approving the Project Area.

(9) Should a new pool for Mancos development be formed that encompasses the area of the Agreement, then the existing pool for Project Area wells shall be incorporated into that new Mancos pool. In that event, the operator of the Project Area shall file the necessary forms with the Division to dedicate those wells to the new pool; notwithstanding, each well shall remain dedicated to the entire 640 acres.

(10) The plan contained within the Agreement for the development and operation of the Project Area is hereby approved in principle as a proper conservation

measure. All plans of development for the Project Area shall be submitted annually to the Division for review.

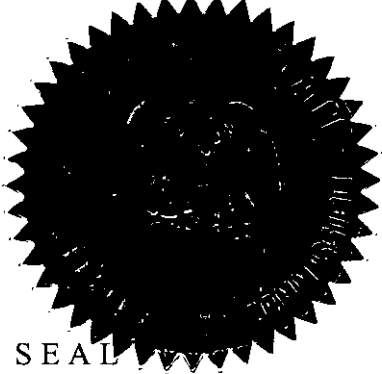
(11) The Project Area operator shall file with the Division an executed original or executed counterpart of the Agreement within 60 days of the date of this Order.

(12) This Order shall terminate upon termination of the Agreement. The last operator of the Project Area shall notify the Division immediately in writing of such termination.

(13) Applicant shall provide any inter-well communication data within the Project Area to the Aztec District office of the Division no later than 18 months after the effective date of this order.

(14) 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, reading "David R. Catanach".

DAVID R. CATANACH
Director