

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

APPLICATION OF ENCANNA OIL & GAS (USA) INC. FOR APPROVAL OF THE NAGEEZI UNIT AGREEMENT; FOR A "REFERENCE CASE" AUTHORIZING WITHIN THE UNIT AREA THE DOWNHOLE COMMINGLING OF PRODUCTION FROM THE BASIN MANCOS GAS POOL, THE NAGEEZI GALLUP POOL, THE SOUTH BISTI GALLUP POOL AND THE BISTI LOWER GALLUP POOL; AND FOR AN EXCEPTION TO THE WELL LOCATION REQUIREMENTS FOR HORIZONTAL WELLS WITHIN THE UNIT AREA, SAN JUAN COUNTY, NEW MEXICO.

CASE NO. ~~41525~~ ²⁵¹²⁴ 54

APPLICATION

Encana Oil & Gas (USA) Inc. ("Encana"), through its undersigned attorneys, files this application for an order (1) approving its Nageezi Unit; (2) establishing a "reference case" authorizing within the Unit the downhole commingling of production from the Basin Mancos Gas Pool (Pool Code 97232), the Nageezi Gallup Pool (Pool Code 47540), the South Bisti Gallup Pool (Pool Code 5860), and the Bisti Lower Gallup Pool (Pool Code 5890); and (3) authorizing horizontal wells to be located anywhere within the Unit so long as the completed interval is no closer than 330 feet from the outer boundary of the Unit. In support of this application, Encana states:

1. The proposed Unit Area for the Nageezi Unit consists of 7,326 acres, more or less, of Federal, State and Indian Allotted lands situated in:

TOWNSHIP 23 NORTH, RANGE 9 WEST, NMPM

- Section 1: Lots 1, 2, 3, 4, S/2N/2, S/2
- Section 2: Lots 1, 2, 3, 4, S/2N/2, S2
- Section 3: Lots 1, 2, S/2N2, S/2
- Section 4: Lots 1, 2, 3, 4, S/2N/2, S/2
- Section 5: E/2
- Section 9: All
- Section 10: All
- Section 11: W/2

2014 APR - 1 P 4:53
RECEIVED OGD

TOWNSHIP 24 NORTH, RANGE 9 WEST, NMPM

Section 22: S/2
Section 23: S/2
Section 26: All
Section 27: All
Section 34: All
Section 35: All

2. Encana is the designated operator under the Unit Agreement. The unitized interval includes all formations from 100 feet below the stratigraphic equivalent of the top of the Mancos Shale (base of Mesa Verde Group) to the stratigraphic equivalent of the base of the Greenhorn Limestone Formation as shown in the Escrito P16-2409 01H well (API No. 30045353130000).

3. The Unit Agreement has been approved by a sufficient percentage of the interest owners within the proposed Unit Area to provide effective control of unit operations.

4. The Bureau of Land Management, the Federal Indian Minerals Office and the New Mexico State Land Office have provided preliminary approval of the Unit Agreement.

5. The entire Unit Area will be developed and operated as a single Participating Area.

6. Pursuant to 19.15.20.14 NMAC, after notice and hearing, the Division may approve the combining of contiguous developed proration units into a unitized area.

7. Encana also seeks approval to downhole commingle within the Unit production from the Basin Mancos Gas Pool (Pool Code 97232), the Nageezi Gallup Pool (Pool Code 47540), the South Bisti Gallup Pool (Pool Code 5860), and the Bisti Lower Gallup Pool (Pool Code 5890).

8. In accordance with Subsection D(1) of Rule 19.15.12.11, Encana will provide notice of this application to the interest owners within the Unit and demonstrate at hearing that the conditions set forth in Subsection A of Rule 19.15.12.11 are met.

9. The Unit Area is currently subject to the Special Rules and Regulations for the Basin Mancos Gas Pool adopted in 2008 under Division Order R-12984, the Special Rules for the Bisti Lower Gallup Oil Pool adopted in 1958 under Division Order R-1069-B and as amended by Division Orders R-1069-C through R-1069-G, and the Special Rules for the South Bisti Gallup adopted in 1985 under Division Order R-8090.

10. 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 Unit Area. Rule 2 of the Special Rules for the Bisti Lower Gallup Oil Pool require wells to be located in the North half or South half of a governmental quarter section and Rule 3 of the Special Rules for the Bisti Lower Gallup Oil Pool requires wells to be no closer than 330 feet to any quarter-quarter section line. Finally, Rule 4 of the Special Rules for the South Bisti Gallup Oil Pool requires wells to be no closer than 330 feet to any quarter-quarter section line.

11. In contrast, wells drilled in the Nageezi Gallup Pool may be located 330 feet from the outer boundary of the spacing unit pursuant to Statewide Rules.

12. In order to allow for the most efficient horizontal well development pattern, and to effectively drain the reserves in the unitized formation underlying the Unit Area, Encana requires an exception to the applicable setback requirements to allow horizontal wells to be located anywhere within the Unit Area so long as the completed interval remains at least 330 feet from the outer boundary of the Unit Area.

13. Notice of this Application has been provided to the affected parties in the spacing units offsetting the proposed Unit Area.

14. Approval of this Application will be in the best interests of conservation, the prevention of waste, and the protection of correlative rights.

WHEREFORE, Encana Oil & Gas (USA) Inc. requests that this Application be set for hearing before an Examiner of the Oil Conservation Division on May 1, 2014, and that after notice and hearing this Application be approved.

Respectfully submitted,

HOLLAND & HART, LLP

By: 

Michael H. Feldewert

Adam G. Rankin

Post Office Box 2208

Santa Fe, New Mexico 87504

Telephone: (505) 988-4421

ATTORNEYS FOR ENCANA OIL & GAS USA, INC.

Case No. ~~1525~~

15124

Application Of Encana Oil & Gas (USA) Inc. For Approval Of The Nageezi Unit Agreement; For A "Reference Case" Authorizing Within The Unit Area The Downhole Commingling Of Production From The Basin Mancos Gas Pool, The Nageezi Gallup Pool, The South Bisti Gallup Pool And The Bisti Lower Gallup Pool; And For An Exception To The Well Location Requirements For Horizontal Wells Within The Unit Area, San Juan County, New Mexico.

Applicant seeks approval its Nageezi Unit consisting of 7,326 acres, more or less, of federal, state and allotted Indian lands situated in all or parts of Sections 1-5, and 9-11 of Township 23 North, Range 9 West, and Sections 22, 23, 26, 27, 34 and 35 of Township 24 North, Range 9 West. N.M.P.M., San Juan County, New Mexico. The unitized interval includes all formations from one one-hundred (100) feet below the stratigraphic equivalent of the top of the Mancos Shale (base of the Mesa Verde Group) to the stratigraphic equivalent of the base of the Greenhorn Limestone Formation. In addition, Applicant seeks an order (1) establishing a "reference case" authorizing within the Unit Area the downhole commingling of production from the Basin Mancos Gas Pool (Pool Code 97232), the Nageezi Gallup Pool (Pool Code 47540), the South Bisti Gallup Pool (Pool Code 5860), and the Bisti Lower Gallup Oil Pool (Pool Code 5890); and (2) authorizing horizontal wells to be located anywhere within the proposed Unit Area so long as the completed interval is no closer than 330 feet from the outer boundary of the Unit Area. The subject acreage is located approximately 1 mile southwest of Nageezi, New Mexico.