

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

APPLICATION OF ENCANA OIL & GAS (USA) INC. FOR APPROVAL OF THE NAGEEZI 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 COUNTY, NEW MEXICO.

CASE NO. 15153

APPLICATION

Encana Oil & Gas (USA) Inc. ("Encana"), through its undersigned attorneys, files this application for an order (1) approving its Nageezi Unit; (2) creating a new pool for horizontal wells within that unit area; and (3) allowing for 330 foot setbacks from the exterior of the proposed Unit. In support of this application, Encana states:

1. The proposed Unit Area for the Nageezi Unit consists of 9,135 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, 3, 4, S/2N2, S/2
Section 4: Lots 1, 2, 3, 4, S/2N/2, S/2
Section 5: Lots 1, 2, S/2NE/4, SE/4
Section 9: All
Section 10: All
Section 11: NW/4

TOWNSHIP 24 NORTH, RANGE 9 WEST, NMPM

Section 21: S/2
Section 22: S/2
Section 23: S/2
Section 26: All
Section 27: All
Section 28: All
Section 33: All
Section 34: All
Section 35: All

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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. Encana anticipates preliminary approval of the Unit Agreement from the Bureau of Land Management, the Federal Indian Minerals Office and the New Mexico State Land Office.

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. 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.

8. 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.

9. 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 requests that the Division create a new pool for horizontal development within the Nageezi Unit that covers the unitized interval and allows for 330 foot setbacks.

10. Notice of this Application has been provided to the affected parties in the spacing units offsetting the proposed Unit Area and the affected parties within the unitized area.

11. Encana has also caused notice of this Application to be published in a local newspaper of general circulation in San Juan County, New Mexico.

12. Approval of this Application and the creation of a new pool for horizontal development in the unitized area 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 29, 2014, and that after notice and hearing this Application be approved.

Respectfully submitted,

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ATTORNEYS FOR ENCANA OIL & GAS USA, INC.

Case No. 15153

Application Of Encana Oil & Gas (Usa) Inc. For Approval Of The Nageezi 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 County, New Mexico. Applicant seeks approval for its Nageezi Unit consisting of 9,135 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 21-23, 26-28, and 33-35 of Township 24 North, Range 9 West, N.M.P.M., San Juan County, New Mexico. 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). In addition, Applicant seeks an order creating a new pool which would extend from the top of the Mancos Shale (base of Mesa Verde Group) to the stratigraphic equivalent of the base of the Greenhorn Limestone Formation within the proposed Unit Area that will allow for 330 foot setbacks from the exterior of the proposed Unit. The subject acreage is located approximately 1 mile southwest of Nageezi, New Mexico.