

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

APPLICATION OF ENCANA OIL & GAS (USA) INC. FOR APPROVAL OF THE PONDEROSA 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. 15471

APPLICATION

Encana Oil & Gas (USA) Inc. ("Encana"), through its undersigned attorneys, files this application with the Oil Conservation Division for an order (1) approving its Ponderosa Unit; (2) creating a new pool for horizontal wells within the 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 Ponderosa Unit consists of 19,839 acres, more or less, of Federal, State, and Indian Allotted lands situated in:

TOWNSHIP 23 NORTH, RANGE 9 WEST, SAN JUAN COUNTY, N.M.P.M.

Section 5: Lots 3-4 S/2 NW/4, SW/4
Section 6: Lots 1-7 SE/4 NW/4, E/2 SW/4, E/2
Section 7: Lots 1-4, E/2 W/2, E/2
Section 8: All

TOWNSHIP 23 NORTH, RANGE 10 WEST, SAN JUAN COUNTY, N.M.P.M.

Section 1: Lots 1-4, S/2 N/2, S/2
Section 2: Lots 1-4, S/2 N/2, S/2
Section 3: Lots 1-4, S/2 N/2, S/2
Section 4: Lots 1-4, S/2 N/2, S/2
Section 5: Lots 1-4, S/2 N/2, S/2
Section 6: Lots 1-7, SE/4 NW/4, E/2 SW/4, E/2
Section 7: Lots 1-4 E/2 W/2, E/2
Section 8: All
Section 9: All
Section 10: All

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Section 11: All
Section 12: All
Section 13: N/2
Section 14: All
Section 17: All
Section 18: Lots 1-4, E/2 W/2, E/2
Section 19: Lots 1-4 E/2 W/2, E/2
Section 20: All

TOWNSHIP 23 NORTH, RANGE 11 WEST, SAN JUAN COUNTY, N.M.P.M.

Section 1: Lots 1-4, S/2 N/2, S/2
Section 11: All
Section 12: All
Section 13: All
Section 14: All
Section 15: All
Section 22: All
Section 23: All
Section 24: N/2

TOWNSHIP 24 NORTH, RANGE 9 WEST, SAN JUAN COUNTY, N.M.P.M.

Section 31: S/2

TOWNSHIP 24 NORTH, RANGE 11 WEST, SAN JUAN COUNTY, N.M.P.M.

Section 36: All

2. Encana is the designated operator under the Unit Agreement. The unitized interval is the stratigraphic equivalent of the interval described as the Mancos Shale Group, including the genetically related rocks from 100 feet below the stratigraphic equivalent of the top of the Mancos Shale (base of Mesa Verde Group) to the to the stratigraphic equivalent of the base of the Greenhorn Limestone (top of the Graneros Shale) as shown in the Kinbeto R G-Federal 1 well (API # 3004525087) well in Section 8, Township 23, North, Range 10 West, N.M.P.M., extending from 3,450' to 5,155' (measured depth).

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. Applicant expects to receive preliminary approval of the Unit Agreement from the Bureau of Land Management, the Federal Indian Minerals Office, and the New Mexico State Land Office. Applicant will also be in contact with the New Mexico Oil Conservation Division's District 3 Office regarding this application prior to the hearing date.

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 (Pool Code 97232) adopted in 2008 under Division Order R-12984 and the South Bisti Gallup Pool (Pool Code 5860).

8. Rule 4 of the Special Rules for South Bisti Gallup Pool requires wells to be located no closer than 330 feet to any quarter- quarter section or subdivision inner boundary of a spacing unit, or in this case the outer boundary of the Unit Area. See R-8090.

9. Rule C of the Special Rules for the Basin Mancos Gas Pool requires 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.

10. 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 Ponderosa Unit that covers the unitized interval and allows for 330 foot setbacks.

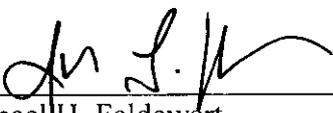
11. Notice of this Application will be provided to the affected parties in the spacing units offsetting the proposed Unit Area, as well as the working interest owners, overriding royalty interest owners, and Indian Allottees within the unitized area.

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 March 31, 2016, 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. 45471: **Application Of Encana Oil & Gas (USA) Inc. For Approval Of The Ponderosa 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 of its Ponderosa Unit consisting of 19,839 acres, more or less, of Federal, State, and Indian Allotted lands situated in all or parts of Sections 5-8 of Township 23 North, Range 9 West, N.M.P.M., all or parts of Sections 1-14 and 17-20 of Township 23 North, Range 10 West, all or parts of Sections 1, Section 11-15, and Section 22-24 of Township 23 North, Range 11 West, N.M.P.M., all or parts of Section 31, Township 24 North, Range 9 West, N.M.P.M., and all of Section 36, Township 24 North, Range 11 West, N.M.P.M., San Juan County, New Mexico. The unitized interval is the stratigraphic equivalent of the interval described as the Mancos Shale Group, **including the** genetically related rocks from 100 feet below the stratigraphic equivalent of the top of the Mancos Shale (base of Mesa Verde Group) to the to the stratigraphic equivalent of the base of the Greenhorn Limestone (top of the Graneros Shale) as shown in the Kinbeto R G-Federal 1 well (API # 3004525087) well in Section 8, Township 23, North, Range 10 West, N.M.P.M., extending from 3,450' to 5,155' (measured depth). In addition, Applicant seeks an order creating a new pool for the unitized interval underlying the proposed Unit Area that will allow for 330 foot setbacks from the exterior of the proposed Unit. The subject acreage is located approximately 10 miles west of Nageezi, New Mexico.