

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

**IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:**

**CASE NO. 15470
ORDER NO. R-14186**

**APPLICATION OF ENCANA OIL AND GAS (USA) INC. FOR APPROVAL OF
THE CORRALES CANYON UNIT, SANDOVAL COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on April 14, 2016, at Santa Fe, New Mexico, before Examiner Scott Dawson.

NOW, on this 28th day of June, 2016, 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) Encana Oil and Gas (USA) Inc. ("Applicant" or "Encana") seeks approval of the Corrales Canyon Unit (the "Unit") comprising 2,560 acres of Federal and State lands in Sandoval County, New Mexico:

(3) The Unit comprises the following-described acreage located in Sandoval County, New Mexico:

TOWNSHIP 22 NORTH, RANGE 6 WEST, NMPM

| | |
|---------------------|-----|
| Section 24: | S/2 |
| Sections 25 and 26: | All |
| Section 35: | E/2 |
| Section 36: | All |

(4) The Unitized Interval includes all formations from 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, as shown on the log of the Tesoro Petroleum Corporation Navajo Allotted Well No. 1 (API 30-043-20138) located in Unit P, Section 28, Township 22 North, Range 6 West, Sandoval County, New Mexico, NMPM.

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

- (a) The Unit is comprised of 4 federal tracts in which one is unleased, and 1 state tract;
- (b) The Bureau of Land Management ("BLM") requires that each tract must have 100 percent joinder to be included in the final Unit Area;
- (c) All interests in the Unit Area are expected to be committed to the Unit;
- (d) The Unit Agreement was prepared on the form prescribed by the BLM, but has been modified in two significant respects:
 - 1. It applies only to horizontal wells of at least 1000 feet lateral length in the Unitized Interval completed after the April 1, 2014 effective date;
 - 2. It is limited to the Unitized Interval of the Mancos formation;
- (e) The form of this modified federal unit agreement is identical to that form used by the Commissioner of Public Lands of the State of New Mexico ("SLO") in that the Unit Area is considered as undivided or one single participating area;
- (f) The Unit Agreement has been given written preliminary approval by both the SLO and the BLM;
- (g) The SLO conditioned its final approval of the Unit Agreement upon approval of the Unit by the Oil Conservation Division;
- (h) 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 Unit Area and to all working interest owners within the Unit;

- (i) Applicant also mailed notice and a copy of the Unit Agreement to all owners of overriding royalty interests using the best known addresses of record;
 - (j) No faults, pinch-outs or other geologic impediments exist to prevent the Unitized Interval from being developed by horizontal oil wells;
 - (k) The available well control in the area demonstrates the Unitized Interval identified in the type log is laterally contiguous across the entire Unit;
 - (l) These lands were chosen and are being proposed as the Unit Area to facilitate the most efficient and uniform common development.
 - (m) Applicant expects to reduce surface disturbances by the formation of this Unit and intends to protect the fresh water from harm due to drilling and oil field operations;
 - (n) The Unit will be developed to produce oil from the Mancos formation;
 - (o) Applicant intends to orient wells in both transverse and east to west orientations;
 - (p) The Lybrook P24 2206 Well No. 1H (API No. 30-043-21124; "subject well") is considered by the BLM as "the initial horizontal development well". The subject well's first reported production was May, 2014;
 - (q) The effective date of the proposed Unit as stated in the Corrales Canyon Unit Agreement is April 1, 2014 which is prior to the ready-to-produce date on the C-104 Request for Allowable and Authorization to Transport of the initial well within the unit.
- (6) No other party entered an appearance or otherwise opposed this application.

The Division concludes as follows:

- (7) Applicant has provided proper and adequate notice of this application and of this hearing.
- (8) The Division in Rule 19.15.16.7E. 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. The Corrales Canyon Unit Agreement contains a restriction allowing only wells containing one or more horizontal laterals completed at least 1000 feet in distance within the objective formation and also is limited to those wells completed after the April 1, 2014, effective date.

(9) Within the Corrales Canyon Unit, Division rules for horizontal wells should apply only to those wells completed a lateral distance within the Mancos formation of at least 1000 feet in length.

(10) The Unit should constitute a single Project Area for horizontal oil well development pursuant to Division Rule 19.15.16.7.L (2) NMAC; provided however, the Project Area should be limited to Unit Wells.

(11) Unit Wells should be defined as those wells allowed in the Corrales Canyon Unit Agreement.

(12) The geologic evidence presented demonstrates that the entire Unit should be productive within the Unitized Interval.

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

(14) Approval of the Unit will provide the Applicant the flexibility to locate and drill wells in the Unit 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 within the Unit.

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

(16) The Corrales Canyon Unit should be approved and should be effective on the first day of the month following the later of (i) the entry date of this order or (ii) the date on which final approval of the Corrales Canyon Unit is obtained by Applicant from the SLO and the BLM.

(17) The Applicant should provide to the Division a written copy of the final approval of the Corrales Canyon Unit by the SLO and the BLM.

(18) Within 30 days of the effective date of this order the operator of this Unit should rename any existing Unit Wells.

(19) The plan contained within the Corrales Canyon Unit Agreement for the development and operation of the Unit should be approved in principle as a proper conservation measure. All plans of development for the Corrales Canyon Unit should be submitted annually to the Division for review.

(20) The Unit operator should file with the Division an executed original or executed counterpart of the Unit Agreement within 60 days of the date of this order. In the event of subsequent joinder by any other party, or expansion or contraction of the Unit Area, the Unit operator should file with the Division, within 60 days thereafter,

counterparts of the Unit Agreement reflecting the subscription of those interests having joined or ratified.

(21) This application should be approved.

IT IS THEREFORE ORDERED THAT:

(1) As per the application of Encana Oil and Gas (USA) Inc. ("Encana" or "Applicant"), the Corrales Canyon Unit (the "Unit") consisting of 2,560 acres of Federal and State lands in Sandoval County, New Mexico, NMPM is hereby approved.

(2) This order shall be effective on the first day of the month following the later of (i) the entry date of this order or (ii) the date on which final approval of the Corrales Canyon Unit is obtained by Applicant from the SLO and the BLM. The final approval letters by the BLM and the SLO shall be provided to the Division.

(3) The Unit shall comprise the following-described acreage in Sandoval County, New Mexico:

TOWNSHIP 22 NORTH, RANGE 6 WEST, NMPM

| | |
|---------------------|-----|
| Section 24: | S/2 |
| Sections 25 and 26: | All |
| Section 35: | E/2 |
| Section 36: | All |

(4) Encana Oil and Gas (USA) Inc. (OGRID 282327) is hereby designated the Unit operator.

(5) Pursuant to the Unit Agreement, the Unitized Interval shall include all formations from 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, as shown on the log of the Tesoro Petroleum Corporation Navajo Allotted Well No. 1 (API 30-043-20138) located in Unit P, Section 28, Township 22 North, Range 6 West, NMPM, Sandoval County, New Mexico and presented at the hearing.

(6) Unit Wells shall be those wells allowed in the Unit Agreement.

(7) All existing and future wells within the horizontal limits of this Unit but not designated per the agreement as Unit Wells shall remain dedicated and subject to the requirements of existing pools or statewide rules.

(8) The Unit shall constitute a single Project Area for horizontal oil well development pursuant to Division Rule 19.15.16.7.L (2) NMAC; provided however, the Project Area shall be limited to Unit Wells.

(9) All horizontal oil wells of at least 1000 feet lateral length drilled and completed in the Mancos formation within the Unit Area after the effective date shall be dedicated to the Lybrook-Gallup Pool (Pool code 42289) or to any successor pool including the same area.

(10) Within 30 days of the effective date of this order the operator of this Unit shall rename any existing Unit Wells.

(11) Should a new pool for Mancos development be formed that encompasses the area of the Corrales Canyon Unit, then the existing pool for Unit Wells will be contracted, and the Corrales Canyon Unit Wells shall be incorporated into that new Mancos pool. In that event, the operator of the Corrales Canyon Unit shall file the necessary forms with the Division to dedicate those wells to the new pool.

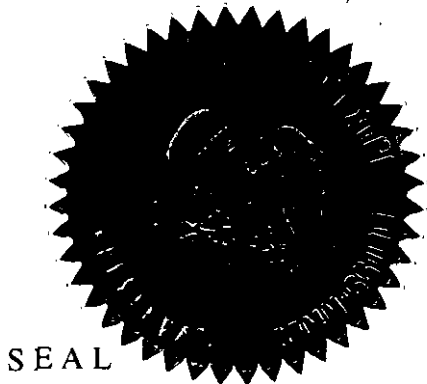
(12) The plan contained within the Corrales Canyon Unit Agreement for the development and operation of the Unit is hereby approved in principle as a proper conservation measure. All plans of development for the Corrales Canyon Unit shall be submitted annually to the Division for review.

(13) The Unit operator shall file with the Division an executed original or executed counterpart of the Unit Agreement within 60 days of the date of this order. In the event of subsequent joinder by any other party, or expansion or contraction of the Unit Area, the Unit operator shall file with the Division, within 60 days thereafter, counterparts of the Unit Agreement reflecting the subscription of those interests having joined or ratified.

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

(15) 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