

**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. 15337
ORDER NO. R-14067**

**APPLICATION OF ENCANA OIL AND GAS (USA) INC. FOR APPROVAL OF
THE VENADO 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 June 25, 2015, at Santa Fe, New Mexico, before Examiner Michael McMillan.

NOW, on this 29th day of October, 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) Encana Oil and Gas (USA) Inc. ("Applicant" or "Encana") seeks:

- (a) Approval of the Venado Canyon Unit (the "Unit") comprising 4,320 acres, more or less, of Federal and Fee lands in Sandoval County, New Mexico; and
- (b) Authority to drill horizontal wells within the Unit such that the completed interval is located no closer than 330 feet to the outer boundary of the Unit.

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

TOWNSHIP 22 NORTH, RANGE 6 WEST, NMPM

Section 1:	S/2
Section 10:	NE/4 and S/2

Sections 11 through 14:	All
Section 15:	SW/4 and N/2
Section 23:	W/2
Section 24:	NE/4

(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) as defined at a depth of approximately 4330 feet below surface to the stratigraphic equivalent of the base of the Greenhorn Limestone as defined at a depth of approximately 6200 feet below surface as shown on the log run on the Tesoro Petroleum Corporation Double Ought Well No. 1 (API 30-043-20089) located in Section 12, Township 22 North, Range 6 West, NMPM, Sandoval County, New Mexico.

(5) The Unit will be developed and operated as a single Participating Area and will therefore constitute a single Project Area in accordance with Division Rule 19.15.16.7.L(2) NMAC.

(6) There are currently no existing Division-designated Gallup pools within the Unit, or within two miles of the Unit. The two active horizontal wells in the Unit are currently dedicated to the Lybrook-Gallup Oil Pool (pool code 42289) which is subject to Division Rule 19.15.15.9 NMAC, which requires standard 40-acre oil spacing and proration units with wells to be located no closer than 330 feet to the outer boundary of the spacing unit.

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

- (a) The Unit is comprised of three separate Federal leases and three separate Fee leases;
- (b) All interests in the Unit are expected to be committed to the Unit;
- (c) The Unit Agreement was prepared on the form prescribed by the Bureau of Land Management ("BLM"), but has been modified in two significant respects:
 - (a) It applies only to horizontal oil wells in the Unitized Interval; and
 - (b) The entire Unit is established as a single Participating Area.
- (d) The Unit Agreement will be executed by the BLM;
- (e) Applicant has discussed the Unit and the Unit development plans with the BLM. Following these discussions, the BLM issued a letter providing preliminary approval of the Unit;

- (f) Applicant has provided notice of this application and hearing by certified mail to all working interest owners in the Unit;
- (g) The Unit will be developed to produce oil from the Mancos formation;
- (h) No faults, pinch-outs or other geologic impediments exist to prevent the Unitized Interval from being developed by horizontal oil wells;
- (i) The available well control in the area demonstrates that the Unitized Interval identified in the type log is laterally contiguous across the entire Unit;
- (j) Two horizontal wells have been drilled in the proposed Unit. The Encana Lybrook P03 2206 Wells No. 1H (API No. 30-043-21221) and 2H (API No. 30-043-21220), located at surface locations in Section 3 and bottomhole locations in Section 15, Township 22 North, Range 6 West, NMPM, were spud in November, 2014 and both commenced production in March, 2015; and
- (k) The effective date of the proposed Unit as stated in the Venado Canyon Unit Agreement is November 1, 2014 which generally corresponds to the spud date of the Lybrook P03 2206 Well No. 1H.

The Division concludes as follows:

- (8) The Applicant has provided proper and adequate notice of this application and hearing to the working interest owners in the Unit.
- (9) The Unit Agreement provides that the entire Unit shall comprise a single Participating Area, consequently, the Unit constitutes a single horizontal Project Area for horizontal oil wells pursuant to Division Rule 19.15.16.7.L(2) NMAC.
- (10) The geologic evidence presented demonstrates that the entire Unit should be productive within the Unitized Interval.
- (11) Applicant intends to fully develop the Unit with a sufficient number of horizontal wells to drain the Unitized Interval within the entire Unit. To ensure full development of the Unit, the Unit Agreement contains provisions that: i) require continuous drilling until a well is drilled that is capable of producing in paying quantities, which has already occurred; and ii) require the Unit Operator, subsequent to drilling a well capable of producing in paying quantities, to submit an annual plan of development to the Authorized Officer of the Department of the Interior and the Division for approval.
- (12) 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.

(13) 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.

(14) The provisions contained within the Venado Canyon Unit Agreement are in compliance with Division rules and the Oil and Gas Act. Further, development and operation of the Unit Area, as proposed, complies with the Division's conservation principles.

(15) The Venado Canyon Unit should be approved.

(16) The Unit Operator should be required to submit a Division Form C-102 for each horizontal well drilled in the Unit that shows: i) the drilling block for that particular well (each standard-sized spacing unit penetrated by the well); and ii) the total acreage within the Unit and the Division order number approving the Unit.

(17) Applicant should submit a copy of the annual Venado Canyon Unit Plan of Development to the Division for review and approval.

(18) Wells subsequently drilled in the Venado Canyon Unit should be dedicated to the Lybrook-Gallup Pool, provided however, if a new pool for Mancos development is formed that encompasses the Venado Canyon Unit, the Lybrook-Gallup Pool will be contracted, and the wells in the Venado Canyon Unit incorporated into the new Gallup pool. In that event, the operator of the Venado Canyon Unit should be required to file the necessary forms with the Division to dedicate those wells to the new pool.

(19) The applicant's request for authority to drill horizontal wells within the Unit such that the completed interval is located no closer than 330 feet to the outer boundary of the Unit is not necessary since the wells will be classified within the Lybrook-Gallup Pool, which is currently spaced on 40 acres with 330 foot well setbacks.

(20) This application should be approved.

IT IS THEREFORE ORDERED THAT:

(1) The Venado Canyon Unit (the "Unit) consisting of 4,320 acres, more or less, of Federal and Fee lands in Sandoval County, New Mexico, is hereby approved.

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

TOWNSHIP 22 NORTH, RANGE 6 WEST, NMPM

Section 1:	S/2
Section 10:	NE/4 and S/2
Sections 11 through 14:	All
Section 15:	SW/4 and N/2

Section 23: W/2
Section 24: NE/4

(3) The Unitized Interval shall comprise all formations from 100 feet below the stratigraphic equivalent of the top of the Mancos Shale (base of the Mesa Verde Group) as defined at a depth of approximately 4330 feet below surface to the stratigraphic equivalent of the base of the Greenhorn Limestone as defined at a depth of approximately 6200 feet below surface as shown on the log run on the Tesoro Petroleum Corporation Double Ought Well No. 1 (API 30-043-20089) located in Section 12, Township 22 North, Range 6 West, NMPM, Sandoval County, New Mexico.

(4) Subsequently drilled horizontal wells within the Unitized Interval in the Venado Canyon Unit shall be dedicated to the Lybrook-Gallup Pool, provided however, if a new pool for Mancos development is formed that encompasses the Venado Canyon Unit, the Lybrook-Gallup Pool will be contracted, and the wells in the Venado Canyon Unit shall be incorporated into the new Mancos pool. In that event, the operator of the Venado Canyon Unit shall file the necessary forms with the Division to dedicate those wells to the new pool.

(5) The Unit constitutes a single Project Area for horizontal oil well development pursuant to Division Rule 19.15.16.7.L(2) NMAC. Accordingly, Unit wells may be drilled anywhere within the Unit provided that no portion of the completed interval is closer than 330 feet to the outer boundary of the Unit unless otherwise approved by the Division pursuant to Division Rule 19.15.15.13 NMAC.

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

(7) The Unit Operator shall submit a Division Form C-102 for each horizontal well drilled in the Unit that shows: i) the drilling block for that particular well (each standard-sized spacing unit penetrated by the well); and ii) the total acreage within the Unit and the Division order number approving the Unit.

(8) The plan contained within the Venado Canyon Unit Agreement for the development and operation of the Unit is hereby approved in principle as a proper conservation measure, provided however, notwithstanding any of the provisions contained in the Unit Agreement, this approval shall not be considered as waiving or relinquishing, in any manner, any right, duty or obligation which is now, or may hereafter be, vested in the Division to supervise and control operations for the Unit and production of oil and gas therefrom.

(9) 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.

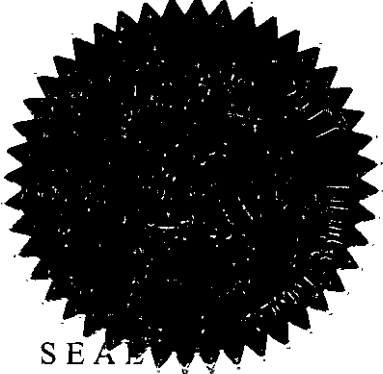
(10) All plans of development for the Venado Canyon Unit shall be submitted annually to the Division for review and approval.

(11) The Applicant shall provide to the Division a copy of the Bureau of Land Management's final approval of the Venado Canyon Unit.

(12) Division approval of the Venado Canyon Unit shall be effective on the first day of the month following entry of this order OR, the date in which final approval of the Venado Canyon Unit is obtained from the Bureau of Land Management, whichever is later.

(13) 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 black ink, reading "David R. Catanach".

DAVID R. CATANACH
Director