

State of New Mexico
Energy, Minerals and Natural Resources Department

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Deputy Cabinet Secretary

Jami Bailey, Division Director
Oil Conservation Division



April 25, 2013

Encana Oil & Gas (USA) Inc.
Dugan Production Company
c/o Holland & Hart LLP
Attn: Mr. Michael H. Feldewert

ADMINISTRATIVE NON-STANDARD PRORATION UNIT ORDER

Administrative Order NSP-1966
Administrative Application Reference No. pPRG1309133293

Encana Oil & Gas (USA) Inc.
OGRID 282327

Dugan Production Company
OGRID 6515

Subject Pool: Bisti; Lower Gallup (Pool Code 5890)

**Subject Units: W/2 NW/4, E/2 NW/4 and E/2 NE/4 of Section 31,
Township 24 North, Range 9 West, San Juan County, New Mexico**

Reference is made to your application received on March 28, 2013.

Encana Oil & Gas (USA) Inc. and Dugan Production Company (Applicants) have jointly requested an exception to Rule 2 of the Special Rules and Regulations for the Bisti-Lower Gallup Oil Pool, as adopted by Order No. R-1069-B, issued on January 17, 1958, to approve three non-standard, 80-acre oil spacing and proration units described above as the Subject Units. The said Rule provides that a standard spacing unit in the Subject Pool shall comprise 80 acres and consist of the N/2 or S/2 of a quarter section. Each of the proposed Subject Units comprises 80 acres, but is non-standard because each such unit consists of the E/2 or W/2 of a quarter section rather than the N/2 or S/2.

This application has been duly filed under the provisions of Rule 4 of the said Special Rules and Regulations for the Bisti-Lower Gallup Oil Pool.

We understand that Applicants are seeking this exception in order to configure the units within the North half of Section 31 so that these units can be combined to form project areas for two proposed horizontal wells in this half section. At present, there exists a non-standard, 80-acre spacing unit in the North half of Section 31, comprising the W/2 NE/4 of that section, which is dedicated to Dugan Production Company's April Surprise Well No. 7 (API No. 30-045-29293), located 1050 feet FNL and 1520 feet FEL (Unit B) of Section 31. This fact precludes dedication of a standard spacing unit conforming to Rule 2 of the Special Pool Rules in the NE/4 of Section 31. If only one new non-standard unit were established consisting of the E/2 NE/4, the units would not be properly configured to form a project area for one-mile horizontal wells in the North half of Section 31.

It is also understood that Applicants have given due notice of this application to all persons to whom notice is required by Rule 4 of the Special Rules and Regulations for the Bisti-Lower Gallup Oil Pool.

Pursuant to the authority conferred by said Rule, the Subject Units are hereby approved.

The Subject Unit comprising the W/2 NW/4 will be dedicated to the following well operated by Dugan Production Company:

Fabulous Feb Well No. 1 (API No. 30-045-25920), located 790 feet FNL & 1120 FWL (Unit D) of Section 31.

The Subject Units, together with the existing non-standard W/2 NE/4 unit, shall be dedicated, as a project area, to the following proposed wells, to be operated by Encana Oil & Gas (USA) Inc.:

Escrito A31-2409 Well No. 1H (API No. 30-045-39390) having a surface location 959 feet FNL and 300 feet FEL (Unit A) and a bottom hole location 500 feet FNL and 330 feet FWL (Unit D) of Section 31; and

Escrito H31-2409 Well No. 1H (API No. 30-045-39391) having a surface location 1985 feet FNL and 341 feet FEL (Unit H) and a bottom hole location 1725 feet FNL and 330 feet FWL (Unit E) of Section 31.

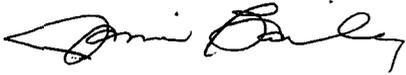
It is our understanding, with reference to the Escrito A31-2409 Well No. 1H, that although the surface location is unorthodox, the completed interval will be located within the applicable setbacks from the outer boundaries of the N/2 project area.

This approval is subject to your being in compliance with all other applicable Division rules, including, but not limited to Division Rule 5.9 [19.15.15.9 NMAC].

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Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

Sincerely,

A handwritten signature in black ink, appearing to read "Jami Bailey". The signature is written in a cursive style with a large, sweeping initial "J".

Jami Bailey
Director

JB/db

cc: New Mexico Oil Conservation Division – Aztec
United States Bureau of Land Management