

**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. 14987
ORDER NO. R- 13718**

**APPLICATION OF ENCANA OIL & GAS (USA) INC. FOR
APPROVAL OF A UNIT AGREEMENT AND EXCEPTIONS TO THE
WELL LOCATION REQUIREMENTS SET FORTH IN THE SPECIAL
RULES FOR THE COUNSELORS-GALLUP-DAKOTA AND BASIN-
MANCOS GAS POOLS, SANDOVAL COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on May 16, 2013, at Santa Fe, New Mexico, before Examiner David K. Brooks.

NOW, on this 28th day of June, 2013, the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

FINDS THAT:

- (1) Due notice has been given, and the Division has jurisdiction of the subject matter of this case.
- (2) Encana Oil & Gas (USA) Inc. ("Applicant") seeks:
 - (a) Approval of the Unit Agreement for the Gallo Canyon Federal Exploratory Unit ("the Unit"), comprising 5,760 acres; more or less, in Sandoval County, New Mexico, more specifically described below;
 - (b) A blanket exception for horizontal wells to be drilled in the Unit ("unit wells") from otherwise applicable well location requirements; provided that no well shall be located less than 330 feet from any outer boundary of the Unit Area.

(3) The Unit Area consists of the following lands in Sandoval County, New Mexico:

Township 32 North, Range 6 West, NMPM

Sections 22 through 27 All

Sections 34 through 36 All

(4) The Unitized Interval extends from 100 feet below the stratigraphic equivalent of the top of the Mancos Shale to the stratigraphic equivalent of the base of the Greenhorn Limestone formation, as shown on the Type Log of the Gallo Canyon Well No. 1 (API No. 30-043-20684), attached as Exhibit C to the proposed Unit Agreement (admitted in evidence as Exhibit 2 at the hearing of this case).

(5) The Unit Area is located partly within the Counselors-Gallup-Dakota Oil Pool (Pool Code 13379), and partially within the Basin-Mancos Gas Pool (Pool Code 97232). Special Rules and Regulations for the Counselors-Gallup-Dakota Oil Pool adopted by Order No. R-7034 issued on July 28, 1982, and made permanent by Order No. R-7034-B issued on January 16, 1986 ("Counselors Gallup rules"), provide for 160-acre units with wells to be located no closer than 660 feet to a unit outer boundary, and no closer than 1320 feet to another well producing from the same formation. Special Rules for the Basin-Mancos Gas Pool adopted by Order No. R-12984 issued on September 3, 2008 ("Basin Mancos rules") provide for 320-acre units with wells to be located no closer than 660 feet to a unit boundary.

(6) Order No. R-7034 provides that any well located within one mile of the outer boundaries of the Counselors-Gallup-Dakota Oil Pool is governed by the Counselors Gallup rules. However, Order No. R-12984 provides that any well located within two miles of the outer boundary of any of certain named pools, including the Counselors-Gallup-Dakota Oil Pool, is governed by the rules applicable to the included pool. All of the Unit Area is inside, or within two miles of the outer boundaries of, the Counselors-Gallup-Dakota Oil Pool. However, some portions of the Unit Area are located more than one mile from the outer boundaries of the Counselors-Gallup-Dakota Oil Pool.

(7) Applicant appeared at the hearing through counsel and presented evidence as follows:

(a) The Unit includes federal and state lands. The Unit Agreement was prepared on the form prescribed for a federal exploratory unit, but has been modified in two significant respects:

- (i) It applies only to horizontal wells; and
- (ii) the entire unit area is established as a single Mancos participating area.

(b) The Unit Agreement has received preliminary approval of the United States Bureau of Land Management (BLM) and the New Mexico State Land Office (SLO).

(c) All interests in the Unit Area are committed to the Unit except the working interest in the NW/4 of Section 24, an undivided 12.5% of the working interest in Section 27, and a 7.5% overriding royalty interest in Section 27.

(d) In addition to approval of the Unit Agreement, applicant is requesting a blanket exception to applicable well location provisions of the Counselors Gallup Rules or the Basin Mancos Rules, whichever rules are applicable. Applicant requests instead that unit wells may be located anywhere in the unit; provided that no well shall be located closer than 330 feet to an outer boundary of the Unit Area.

(e) Applicant has given notice of this application and the hearing to all operators and working interest owners in all offsetting Mancos spacing units surrounding the Unit Area and to the Jicarilla Apache Nation, which owns unleased interests in certain offsetting units. None of the noticed parties has protested.

(f) The intent of this Unit is to produce hydrocarbons from the sand intervals within the Gallup portion of the Mancos formation. These intervals are essentially continuous across the Unit Area.

(8) JMJ Land & Minerals Company appeared at the hearing through counsel and cross examined Applicant's witnesses, but did not offer any other evidence or oppose the application.

The Division concludes:

(9) The proposed Unit Agreement should be approved.

(10) Since the Unit Agreement provides that the entire Unit Area shall comprise a single participating area in the Mancos Formation, the Unit Area shall constitute a single project area for horizontal wells. Accordingly, internal setback requirements within the Unit Area will not apply to unit wells. However, correlative rights could be impaired if a unit well were drilled into, or closer than a reasonable setback distance to, an uncommitted or partially committed tract. Accordingly, no unit well should be drilled into an uncommitted or partially committed tract without the prior written consent of the owners of the uncommitted or partially committed interest or appropriate compulsory pooling, and no unit well should be drilled closer than 330 feet from the outer boundary of such a tract except pursuant to a non-standard location order of the Division.

(11) Since the operators and owners of all spacing units offsetting the Unit Area have been notified of the Applicant's request for a blanket exception to the 660-foot setback requirements provided in the Counselors Gallup Rules and in the Basin Mancos Rules, and no such party has objected, Applicant's request for a reduction of the setback requirement for unit wells from the outer boundary of the Unit Area to 330 feet should be granted. However, unit wells should also be located no closer than 330 feet to any boundary of an uncommitted or partially committed tract.

IT IS THEREFORE ORDERED THAT:

(1) The application of Encana Oil and Gas (USA) Inc. (OGRID 282327) for approval of the Unit Agreement for the Gallo Canyon Federal Exploratory Unit is hereby granted.

(2) The Unit Area consists of the following lands in Sandoval County, New Mexico:

Township 32 North, Range 6 West, NMPM
Sections 22 through 27 All
Sections 34 through 36 All

(3) The Unitized Interval extends from 100 feet below the stratigraphic equivalent of the top of the Mancos Shale to the stratigraphic equivalent of the base of the Greenhorn Limestone formation, as shown on the Type Log of the Gallo Canyon Well No. 1 (API No. 30-043-20684), attached as Exhibit C to the proposed Unit Agreement (admitted in evidence as Exhibit 2 at the hearing of this case).

(4) Pursuant to said application, all horizontal wells drilled within the Gallo Canyon Federal Exploratory Unit ("unit wells") shall be exempt from otherwise applicable well location requirements of the Special Rules and Regulations for the Counselors-Gallup-Dakota Oil Pool promulgated by Order No. R-7034, or the Special Rules for the Basin-Mancos Gas Pool promulgated by Order No. R-12984.

(5) The entire Gallo Canyon Federal Exploratory Unit shall constitute a single project area for horizontal wells pursuant to 19.15.16.7.L(2) NMAC, and accordingly unit wells may be drilled anywhere within the Unit Area subject to the following:

(a) No portion of the completed interval of any unit well shall be located closer than 330 feet to any outer boundary of the Unit Area or to any boundary of an uncommitted or partially committed tract within the Unit Area, unless otherwise ordered by the Division pursuant to 19.15.15.13 NMAC.

(b) No portion of the completed interval of any unit well shall be located within any uncommitted or partially committed tract within the Unit Area without the prior written consent of all owners of uncommitted interests in such

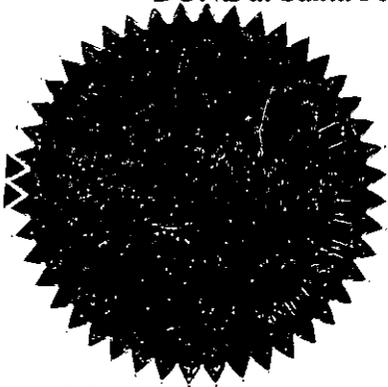
tract, unless a standard or approved non-standard spacing unit is dedicated to such well and compulsory pooled by order of the Division.

(6) This order shall not be considered as waiving or relinquishing, in any manner, any right, duty or obligation that is now, or may hereafter be, vested in the Division to supervise or control operations of the Unit Area and production of oil or gas therefrom.

(7) This order shall become effective upon final approval of the proposed Unit Agreement by the United States Bureau of Land Management and the New Mexico State Land Office.

(8) 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.



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

JAMI BAILEY
Director