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TRANSMITTED VIA OVERNIGHT MAIL

Mr. David Catanach
New Mexico Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, NM 87505

Mr. William Tambekou
Bureau of Land Management
6251 College Blvd., Suite A
Farmington, NM 87402

Mr. Aubrey Dunn
Oil, Gas & Minerals Division
New Mexico State Land Office
PO Box 1148
Santa Fe, NM 87504

Allottee Interest Owners
c/o Federal Indian Minerals Office
6251 College Blvd., Suite B
Farmington, NM 87402

**Re: Update to 1st Amendment - Chaco Trunk #1 and Chaco Trunk #2 Phase 1 Gathering System
Off-Lease Measurement and/or Sale and Transportation (PLC-406)
San Juan and Sandoval Counties, New Mexico**

Dear Mr. Catanach, Mr. Tambekou, and Mr. Dunn,

It has come to Encana Oil & Gas (USA) Inc.'s (Encana) attention that the cover letter included in the November 1, 2016 application to tie-in additional wells to the Chaco Trunk #1 and Chaco Trunk #2 Phase 1 Gathering System (CTGS) had an error in the amount of wells Encana wishes to add to the system. It is Encana's intent to include forty-three (43) wells to the CTGS, not forty-one wells. Please note all attachments to the original application did reflect the intended forty-three (43) wells to be additional wells to tie into the CTGS. We apologize for any inconvenience. Please accept this corrected letter as the intended cover letter for the CTGS application to tie additional wells into the gathering system.

Encana requests approval to commingle natural gas for the leases and wells listed on Attachment No. 1 which reflects the forty-eight (48) wells currently approved for Pool and Lease Commingling under PLC-406; as well as the forty-three (43) additional wells Encana requests approval to tie into the CTGS. Moreover, Encana requests approval to claim beneficial use at the gas lift injection meter on the well pad, which is depicted for each well pad, on the gas lift schematics presented in Attachment No. 6. Note that several of the well names have changed for a handful of wells that were previously approved for connection to the CTGS. This is due to the formation of Federal Units, whether currently approved or in the stages of forming. Encana will be the operator of the Federal Units.

Encana is the operator of all eighty-nine (89) wells proposed for interconnection to the CTGS. The addition of the forty-three (43) wells requires surface commingling of gas, and in some cases off-lease measurement and sale of produced natural gas, as well as off-lease transportation and sale of oil and condensate. There will not be any commingling of oil or condensate in the pipeline. As previously stated in the initial application, the CTGS will tie-in into Enterprise Products Partners (Enterprise) pipeline in Section 25, Township 23 North, Range 7 West, which will be the point of custody transfer and sales point, herein referred to as the Central Delivery Point (CDP) as well as the Point of Royalty Measurement (PRM). A schematic of the Enterprise interconnection was provided in the initial application. Should you require another copy please contact the undersigned. Also, please note that it is Encana's intention that the CTGS will only service natural gas producing from the Mancos formation and furthermore, will only service Encana operated wells.

Encana Oil & Gas (USA) Inc., acting by and through its authorized agent,
Encana Services Company Ltd.

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As you are most likely aware, in order to optimally develop horizontal wells, Encana has proceeded with permitting various well pads in the section adjacent to the Project Area (PA) and/or developed acreage. Therefore, in some instances, the well pad surface hole location (SHL) is located off-lease. In these instances, Off-Lease Measurement of natural gas will occur at the well head by a well allocation meter and again at the pipeline tie-in to CTGS CDP. Furthermore, Encana intends to install a gas lift compressor on each well as depicted and described in Attachment No 5. Please note, Encana intends to submit to the Bureau of Land Management (BLM) a sundry to formally request approval to install gas lifts on these wells, which, once approved, will be forwarded on to the New Mexico Oil Conservation Division (NMOCD) for their approval. Again, there will not be any commingling of oil or condensate with naturally produced gas in the pipeline.

If applicable, Off-Lease Measurement, Transportation and Sale of produced oil and condensate will occur at the surface location for the affected well where Encana will install the necessary number of 400-barrel oil storage tanks and water tanks. Generally, produced water will be measured using tank gauges and produced oil will be measured using a strapping table measurement by the associated vendors. Run tickets will be filled out onsite for each load of oil, which will show the tank gauge readings, oil gravity, temperature and BS&W content. Each valve on the tanks will have seals. Records will be kept that will show when seals are installed and removed. The tank seal information is also recorded on the run tickets, which will accompany the transportation of the oil.

In summary, Encana is requesting administrative approval to interconnect an additional forty-one (41) wells to the CTGS, which would include a total of ninety-one (91) wells tying into the CTGS.

Enclosed please find the following:

A. Administrative Application Checklist for Pool/Lease Commingling dated November 1, 2016.

B. State of New Mexico Oil Conservation Division Form C-107-B, Application for Pool/Lease Commingling dated November 1, 2016. Attached to and made part of the Application for Pool/Lease Commingling please find the following:

Attachment No. 1: Presents the following information:

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|--|--|
| 1) Wells | 5) Projected gas rate for leases |
| 2) Leases | 6) Projected gas percentage in the CTGS for the wells |
| 3) Pool information | 7) Projected initial gas heating value through ~1 st 6 months |
| 4) Projected gas rate for individual wells | 8) Projected gas heating value after ~1 st 6 months |

A projected decline rate for each well is also addressed in Attachment No. 1 in the Explanation Legend. Note that several of the well names have changed for a handful of wells that were previously approved for connection to the CTGS. This is due to the formation of Federal Units, whether currently approved or in the stages of forming, that Encana will operate.

Attachment No. 2a: Presents a map of the CTGS pipeline, depicting thirty-one (31) well pads (which represent all 89 wells) that will tie into the CTGS which will then tie into CTGS's CDP in Section 25, Township 23 North, Range 7 West. The CTGS pipeline is approximately 61,055.46-feet in length (11.6 miles), stretching across Bureau of Land Management (BLM) and State of New Mexico surface. Encana applied for the Chaco Trunk #1 (BLM serial number 130202, SLO R-34133) and Chaco Trunk #2 Phase 1 (BLM serial number 130918, SLO R-34037) Right-of-Ways with the BLM and State Land Office (SLO).

Each well will be equipped with a continuous recording gas allocation meter (or some form of approved alternative measurement) operated and maintained by Encana. Prior to converting any gas measurement from a conventional allocation meter to an alternative measurement method, Encana will seek formal approvals. The allocation procedures, including examples of how the allocation method would be applied for each well are presented on **Attachment No. 5.**

Moreover, Condensate and oil will be separated, stored and sold at the well head SHL, which in some instances, may be off-lease. Depending on their availability Encana will enlist the services of High Tech Tools, LLC (mailing address: PO Box 1244 Aztec, NM 87410; phone number: 505-334-2266) or Three Rivers Trucking, Inc. (mailing address: PO Box 2728, Farmington, NM 87499; phone number: 505-632-5300) to transport produced water to Basin Disposal Inc. (address: 300 Legion Road, Aztec, NM 87410; phone number: 505-334-3013). Produced water will be generally measured using tank gauges.

Encana will enlist Western Refining, to transport and purchase crude oil from the SHL to the Gallup Refinery (location: I-40, Exit 39, Jamestown, NM 87347; Route 3, Box 7, Gallup, NM 87301; phone number: 505-722-3833). Western Refining will provide a strapping table measurement for each oil tank at the facility which will be used to determine the exact volume in each tank. Run tickets will be filled out for each load of oil, onsite, which will show the tank gauge readings, oil gravity, temperature and BS&W content. Each valve on the tanks will have seals. Records will be kept and logged into an internal database that will show when seals are installed and removed. The tank seal information is also recorded on the tickets, which will accompany the transportation of the oil.

Attachment No. 2b: Presents the well dedication acreage for the forty-three (43) wells Encana is proposing to interconnect to the CTGS as depicted on either the NMOCD Form C-102s, or a plat depicting intended wellbore PAs.

Attachment No. 2c: Presents a plat depicting contemplated individual well pad pipeline connection paths for all thirty-one (31) well pads connecting to the CTGS. In line with the BLM's Instructional Memorandum dated July 3, 2013, Attachment No. 2c contemplates, as an alternative, individual well pad connections versus one (1) gathering system, namely the Chaco Trunk #1 and Chaco Trunk #2 Phase 1 Gathering System (CTGS). Also included, is a breakdown of pipeline length and pig launcher and receiver disturbance for each of the thirty-one (31) well pads and projected costs for such an undertaking. According to our calculations individual well pad pipeline connections for the thirty-one (31) well pads would total approximately 164 miles in length; and, including a 40-foot width for the pipeline right-of-way the acreage disturbance would be approximately 794 acres. Additionally, Encana estimates that a pig launcher and receiver would be required for the thirty-one (31) individual well pad pipeline connections into CTGS's pipeline which would also cause more surface disturbance. Encana estimates that pig launchers and receivers could potentially be 10-feet by 20-feet for each of the thirty-one (31) individual well pad pipeline connections. Encana estimates that such an undertaking would cost approximately \$43,840,349. Again, the breakdown included in Attachment No. 2c will provide more detail as to how Encana arrived at these conclusions. Currently, Encana's estimated costs for the CTGS is approximately \$5,100,000.

Furthermore, all production proposed for commingling derives from the same geologic formation with similar projected gas rates and gas heating values as well as projected decline rates, which are addressed in Attachment No. 1.

In line with Encana's commitment to conduct business ethically, legally, and in a manner that is fiscally, environmentally and socially responsible, it is Encana's position that one (1) gathering system greatly reduces surface disturbance and thus environmental impact; and, is more economically feasible, allowing for potential capital to be dedicated towards future development projects in the San Juan Basin.

Attachment No. 3: Presents a leasehold ownership summary for all eighty-nine (89) wells. The royalty interest is Federal, State, and Indian Allottee. The interest ownership reflected for each well is to the best of our knowledge at this time. In the event it is determined that interest ownership differs, an updated Attachment No. 3 will be sent to affected owners, the BLM, NMSLO, NMOCD, and the Federal Indian Minerals Office (FIMO). Encana is requesting that the NMOCD issued order for the CTGS include a provision that for future additions to the CTGS, only interest owners in the wells being added be notified.

Attachment No. 4: Presents a copy of the notice sent to the interest owners for the wells. All notice letters have been mailed certified, return receipt. Also included, is a copy of the legal notice published in The Daily Times,

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Farmington, New Mexico on November 1, 2016 in order to provide public notice to any and all affected interest owners.

Attachment No. 5: Presents the allocation procedures for the CTGS which includes an example of how the allocation method is applied. Encana proposes that the Point of Royalty Measurement (PRM) be at CTGS's CDP in Section 25, Township 23 North, Range 7 West. Please also note each well proposed for connection to the CTGS will be equipped with a continuous recording gas allocation meter.

Attachment No. 6: Presents well pad schematics and descriptions for ten (10) well pads that Encana is requesting to add to the CTGS. In some instances, well pads have increased due to adding additional wells as well as the well pad schematics for the new well pads being added to the CTGS. Encana requests approval to claim beneficial use at the gas lift injection meter on the well pads, which is depicted for each well pad on the well pad schematics. The well pad schematics also depict a list of proposed equipment. Encana requests the use of fuel to operate the gas lifts installed for each well.

In conclusion, Encana is requesting approval to add forty-three (43) wells to the Chaco Trunk #1 and Chaco Trunk #2 Phase 1 Gathering System (CTGS). Where applicable, Encana requests Administrative Approval for Off-Lease Measurement and Sale of natural produced gas and Administrative Approval for Off-Lease Measurement, Sale and Transportation of produced crude oil and condensate. Further, Encana requests that the NMOCD order issued CTGS also include a provision that for any future additions to the CTGS, only the interest owners in the wells being added need to be notified.

Please feel free to contact me directly at 720-876-5331 with any questions or concerns.

Encana Oil & Gas (USA) Inc.



Holly Hill
Senior Regulatory Analyst

ENCANA OIL & GAS (USA) INC.,
acting by and through its authorized agent,
Encana Services Company Ltd.

cc: United States of America, Federal Indian Minerals Office, 6251 College Blvd., Suite B, Farmington, NM 87402