

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

APPLICATION OF ENCANA OIL & GAS (USA) INC. TO CONTRACT ~~THE~~
HORIZONTAL LIMITS OF THE NAGEEZI-GALLUP POOL (47540) ~~IN THE~~
MANCOS FORMATION BY EXCLUDING THE W/2 OF SECTION 10,
TOWNSHIP 23 NORTH, RANGE 8 WEST, NMPM, SAN JUAN COUNTY, NEW
MEXICO.

CASE NO. 13539
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APPLICATION

Encana Oil & Gas (USA) Inc. ("Encana") through its undersigned attorneys, files this application with the Oil Conservation Division for an order removing the W/2 of Section 10, Township 23 North, Range 8 West, NMPM, San Juan County, New Mexico, from the horizontal limits of the Nageezi-Gallup Pool (47540). In support of its application, Encana states:

1. Encana (OGRID No. 282327) owns all of the working interest in a single federal lease (NMNM 118132) covering acreage that includes all of Section 10, Township 23 North, Range 8 West, NMPM, San Juan County, New Mexico.

2. Encana desires to drill diagonal horizontal wells across Section 10 to more efficiently and effectively produce the underlying federal oil and gas reserves.

3. Division Order R-14195, entered on July 28, 2016, in Case No. 15416, contains the following relevant findings and conclusions:

a. A single federal lease covers all of Section 10 and is already held by production.

Id. at ¶ (7)(a).

b. The E/2 of Section 10 is located within the Basin Mancos Gas Pool (97232) created by Division Order R-12984, which requires 320-acre spacing units and

660 foot setbacks from the outer boundary of the spacing unit. The W/2 of Section 10 is in the Nageezi Gallup Pool (47540) which is an unlisted pool under R-12984 and subject to the Division's Statewide Rules for oil wells, which provide for 40-acre spacing units and 330 foot setbacks from the outer boundary of the spacing units. *See* Order R-14195, ¶ (3) and ¶ (4).

- c. Section 10 “awkwardly straddle[s]” two pools, one of which is considered a gas pool and the other an oil pool with differing spacing requirements. *Id.* at ¶ (10).
- d. The Mancos formation in Section 10 is expected to be productive primarily of oil with a consistent gravity and gas heating value. *Id.* at ¶ (7)(c).
- e. Encana “needs flexibility in locating diagonally drilled horizontal Mancos wells within Section 10” to efficiently and effectively drain the underlying federal minerals. *Id.* at ¶ (8).
- f. The existence of two pools with different spacing requirements in Section 10 prevents Encana from creating an efficient project area and well pattern that meets all of the requirements in the current Division rules. *Id.* at ¶ (10).
- g. There are no proposed or active vertical or horizontal wells drilled in the Nageezi-Gallup Pool well in the W/2 of Section 10 and therefore no impediment exists to contracting this pool from the W/2 of Section 10. *Id.* at ¶ (12).
- h. Contraction of the W/2 of Section 10 from the Nageezi-Gallup Pool will result in the acreage being “automatically” placed in the Basin Mancos Gas Pool per Division Order R-12984, which allows for 320-acre spacing units. *Id.* at ¶ (13).
- i. Contraction of the W/2 of Section 10 from the Nageezi-Gallup Pool will allow Encana “to form a project area within the Basin Manos Gas Pool consisting of

two standard gas spacing units and drill wells in the direction and density as allowed by well performance.” *Id.* at ¶ (13).

4. Division Order R-14195 granted Encana the right to located wells within 330-feet from the outer boundary of Section 10. *Id.* at Ordering ¶ (3).

5. The public record garnered in Case No. 15416 and resulting in the issuance of Order R-14195 supports the removal of the W/2 of Section 10 from the Nageezi-Gallup Pool.

6. The removal of the W/2 of Section 10 from the Nageezi-Gallup Pool will allow Encana to efficiently and effectively orient its horizontal wells and remain within the requirements of the Division rules.

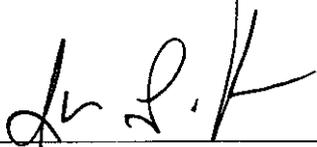
7. Pursuant to NMRA 19.15.4.12.A((4)(b), Encana will provide notice of this application to all division-designated operators in the Nageezi-Gallup Pool and to all division-designated operators of wells within one-mile of this pool completed in the same formation, unless those wells have been assigned to another pool.

8. Approval of this application is in the best interest of conservation, the prevention of waste and the protection of correlative rights.

WHEREFORE, Encana requests that this Application be set for hearing before an Examiner of the Oil Conservation Division on September 1, 2016, that the record from Case No. 15416 resulting in Order R-14195 be incorporated into this matter, and that after notice and hearing as required by law, the Division enter an order granting this Application.

Respectfully submitted,

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**ATTORNEYS FOR
ENCANA OIL & GAS (USA) INC.**

CASE 15539 **Application Of Encana Oil & Gas (USA) Inc. To Contract The Horizontal Limits Of The Nageezi-Gallup Pool (47540) In The Mancos Formation By Excluding The W/2 Of Section 10, Township 23 North, Range 8 West, NMPM, San Juan County, New Mexico.** Applicant seeks an order removing the W/2 of Section 10, Township 23 North, Range 8 West, NMPM, San Juan County, New Mexico, from the horizontal limits of the Nageezi-Gallup Pool (47540). The E/2 of Section 10 is currently within the Basin Mancos Gas Pool, which allows for 320-acre spacing, while the W/2 of Section 10 is in the Nageezi Gallup Pool which allows for 40-acre spacing. The subject area is located approximately 1 mile south of Highway 550 and four miles east of Nageezi, New Mexico.