

State of New Mexico
Energy, Minerals and Natural Resources Department

Susana Martinez
Governor

David Martin
Cabinet Secretary

Brett F. Woods, Ph.D.
Deputy Cabinet Secretary

Jami Bailey, Division Director
Oil Conservation Division



December 12, 2014

Encana Oil and Gas (USA) Inc.
c/o Holland & Hart LLP, Attorneys
Attn: Ms. Jordan Kessler

ADMINISTRATIVE NON-STANDARD LOCATION, NON-STANDARD PRORATION
UNIT, AND DOWN-HOLE COMMINGING ORDER

Administrative Order NSL-7208
Administrative Application Reference No. pMAM1432830864

Administrative Order NSP-2014
Administrative Application Reference No. pMAM1432831789

Administrative Order DHC-4725
Administrative Application Reference No. pMAM1432831983

Encana Oil and Gas (USA) Inc.
OGRID 282327
Lybrook J31-2307 Well No. 1H
API No. 30-043-21214

Non-Standard Location

Proposed Location:

	<u>Footages</u>	<u>Unit</u>	<u>Sec.</u>	<u>Twsp</u>	<u>Range</u>	<u>County</u>
Surface	2215 FSL & 2531FEL	J	31	23N	7W	Sandoval
Penetration Point	2121 FSL & 2313 FWL	K	31	23N	7W	Sandoval
Terminus	2117 FSL & 330 FWL	M	36	23N	8W	San Juan

Proposed Project Area:

<u>Description</u>	<u>Acres</u>	<u>Pool</u>	<u>Pool Code</u>
N/2 SW/4 of Section 31	80.65	Alamito-Gallup (O)	1039
N/2 SE /4 of Section 36	80	Alamito-Gallup (O)	1039
N/2 SW /4 of Section 36	80	Basin Mancos	97232

Reference is made to your application received on November 21, 2014.

You have requested to drill this horizontal well at an unorthodox oil well location described above in the referenced pool or formation. This location is governed, as to the portion of the wellbore in the Alamito-Gallup Pool, by statewide Rule 19.15.15.9.A NMAC, which provides for 40-acre units, with wells located at least 330 feet from a unit outer boundary, and, as to the portion of the wellbore in the Basin Mancos Gas Pool, by the Special Rules for the Basin Mancos Gas Pool, which provide for 320-acre units with wells located at least 660 feet from a unit outer boundary. Rule 19.15.16.14.B(2) NMAC concerning directional wells in designated project areas is also applicable, making setback requirements apply to the distance from the outer boundary of the designated project area. This surface location is outside the project area, and is permitted by Rule 19.15.16.15.B (4) NMAC which allows for surface locations outside project area. This location is unorthodox because portions of the proposed completed interval located in the Basin Mancos Gas Pool are less than 660 feet from an outer boundary of the project area.

Your application has been duly filed under the provisions of Division Rules 19.15.15.13 NMAC and 19.15.4.12.A(2) NMAC.

It is our understanding that you are seeking this location in order to efficiently produce the hydrocarbons within the project area.

It is also understood that you have given due notice of this application to all operators or owners who are "affected persons," as defined in Division Rule 19.15.4.12.A(2) NMAC in all adjoining units towards which the proposed location encroaches.

Pursuant to the authority conferred by Division Rule 19.15.15.13 (B) NMAC, the above-described unorthodox location is hereby approved.

Non-Standard Proration Unit

You have also requested approval of one or more non-standard proration to be included in your proposed project area, as follows:

Units Comprising this Project Area

<u>Unit</u>	<u>Acres</u>	<u>Pool</u>	<u>Code</u>
N/2 SW/4 of Section 31	80.65	Alamito-Gallup (O)	1039
N/2 SE /4 of Section 36	80	Alamito-Gallup (O)	1039
N/2 SW /4 of Section 36	80	Basin Mancos	97232

A standard proration unit in the Basin Mancos Gas pool consists of 320-acres comprising a half-section. Your proposed non-standard proration unit consists of one or more contiguous quarter-quarter sections located entirely within the same half section.

Your application has been duly filed under the provisions of Division Rules 19.15.15.13 NMAC and 19.15.4.12.A(3) NMAC.

The applicant is seeking this non-standard proration unit in the Basin Mancos, because the project area consists of two pools with different spacing units, as described above. Next,

according to Hearing Order R-12984 issued on September 3, 2008, the Alamito-Gallup Pool is not listed and frozen; therefore acreage outside of this pool in the project area is dedicated to the Basin Mancos. Lastly, the non-standard proration unit in the Basin Mancos provides for a fair and equitable method to allocate production between the two pools.

It is understood that you have given due notice of this application to all operators or owners to whom notice is required by Division Rule 19.15.4.12.A(3) NMAC.

Pursuant to the authority conferred by Division Rule 19.15.15.11(B), the above-described non-standard proration unit is hereby approved.

Down-Hole Commingling

You have also requested permission to down-hole commingle production from the above-referenced pools within this wellbore.

It appearing that the subject well qualifies for approval for such exception pursuant to the provisions of Division Rule 19.15.12.11(A) NMAC, and that reservoir damage or waste will not result from such downhole commingling, and correlative rights will not be violated thereby, you are hereby authorized to commingle the production as described.

Assignment of allowable and allocation of production from the well shall be as follows:

Alamito-Gallup Pool	Pct Oil: 66.8%	Pct Gas: 66.8%
Basin Mancos Gas Pool	Pct Oil: 33.2%	Pct Gas: 33.2%

It is our understanding that the above allocation percentages are based on the acreage dedicated to the different pools in the project area.

It is also understood that you have given due notice of this application, as defined in Division Rule 19.15.4.12A.(6) NMAC, to all owners of interest when ownership is not common for the commingled zones within the spacing unit.

The operator shall notify the Division's Aztec district office upon implementation of commingling operations.

Pursuant to Division Rule 19.15.12.11 (B) NMAC, the commingling authority granted herein may be rescinded by the Division Director if conservation is not being best served by such commingling.

General provisions

The above approvals are subject to your being in compliance with all other applicable Division rules, including, but not limited to Division Rule 19.15.5.9 NMAC.

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

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DONE at Santa Fe, New Mexico, on December 12, 2014

A handwritten signature in cursive script, appearing to read "Scott Dawson".

for Jami Bailey
Director

JB/mam

cc: New Mexico Oil Conservation Division – Aztec
Bureau of Land Management - Farmington
New Mexico State Land Office – Oil, Gas, and Minerals