

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

APPLICATION OF ENCANA OIL & GAS (USA) INC. FOR APPROVAL OF THE HUTTON CANYON UNIT AGREEMENT; FOR A "REFERENCE CASE" AUTHORIZING WITHIN THE UNIT AREA THE DOWNHOLE COMMINGLING OF PRODUCTION FROM THE BASIN MANCOS GAS POOL AND THE NAGEEZI GALLUP POOL; AND FOR AN EXCEPTION TO THE WELL LOCATION REQUIREMENTS FOR HORIZONTAL WELLS WITHIN THE UNIT AREA, SAN JUAN COUNTY, NEW MEXICO.

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CASE NO. H522

APPLICATION

Encana Oil & Gas (USA) Inc. ("Encana"), through its undersigned attorneys, files this application for an order (1) approving its Hutton Canyon Unit; (2) establishing a "reference case" authorizing within the Unit the downhole commingling of production from the Basin Mancos Gas Pool (Pool Code 97232) and the Nageezi Gallup Pool (Pool Code 47540); and (3) authorizing horizontal wells to be located anywhere within the Unit so long as the completed interval is no closer than 330 feet from the outer boundary of the Unit. In support of this application, Encana states:

1. The proposed Unit Area for the Hutton Canyon Unit consists of 2,562 acres, more or less, of Federal lands situated in:

TOWNSHIP 23 NORTH, RANGE 7 WEST, NMPM

Section 18: E/2, E/2W/2, Lots 1, 2, 3, 4

TOWNSHIP 23 NORTH, RANGE 8 WEST, NMPM

Section 11: All

Section 13: All

Section 14: All

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2. Encana is the designated operator under the Unit Agreement. The unitized interval includes all formations from 100 feet below the stratigraphic equivalent of the top of the Mancos Shale (base of Mesa Verde Group) to the stratigraphic equivalent of the base of the

Greenhorn Limestone Formation as shown in the Jeffers Federal 2 #23 well (API No. 30-045-24439) and Dome Federal 13 #41 well (API No.30-045-24245) .

3. The Unit Agreement has been approved by a sufficient percentage of the interest owners within the proposed Unit Area to provide effective control of unit operations.

4. The Bureau of Land Management has provided preliminary approval of the Unit Agreement.

5. The entire Unit Area will be developed and operated as a single Participating Area.

6. Pursuant to 19.15.20.14 NMAC, after notice and hearing, the Division may approve the combining of contiguous developed proration units into a unitized area.

7. Encana also seeks approval to downhole commingle within the Unit production from the Basin Mancos Gas Pool (Pool Code 97232) and the Nageezi Gallup Pool (Pool Code 47540).

8. In accordance with Subsection D(1) of Rule 19.15.12.11, Encana will provide notice of this application to the interest owners within the Unit and demonstrate at hearing that the conditions set forth in Subsection A of Rule 19.15.12.11 are met.

9. A portion of the Unit Area appears currently subject to the Special Rules and Regulations for the Basin Mancos Gas Pool adopted in 2008 under Division Order R-12984.

10. Rule C of the Special Rules for the Basin Mancos Gas Pool require wells to be located no closer than 660 feet to the outer boundary of a spacing unit, or in this case the outer boundary of the Unit Area.

11. In contrast, wells drilled in the Nageezi Gallup Pool may be located 330 feet from the outer boundary or the spacing unit pursuant to Statewide Rules.

12. In order to allow for the most efficient horizontal development pattern, and to effectively drain the reserves in the unitized formation underlying the Unit Area, Encana requires an exception to the applicable setback requirements to allow horizontal wells to be located anywhere within the Unit Area so long as the completed interval remains at least 330 feet from the outer boundary of the Unit Area.

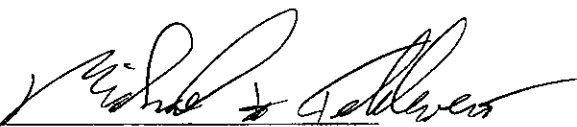
13. Notice of this Application has been provided to the affected parties in the spacing units offsetting the proposed Unit Area.

14. Approval of this Application will be in the best interests 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 May 1, 2014, and that after notice and hearing this Application be approved.

Respectfully submitted,

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ATTORNEYS FOR ENCANA OIL & GAS USA, INC.

Case No. ¹⁵¹²⁸~~41522~~

Application Of Encana Oil & Gas (USA) Inc. For Approval Of The Hutton Canyon Unit Agreement; For A "Reference Case" Authorizing Within The Unit Area The Downhole Commingling Of Production From The Basin Mancos Gas Pool And The Nageezi Gallup Pool; And For An Exception To The Well Location Requirements For Horizontal Wells Within The Unit Area, San Juan County, New Mexico.

Applicant seeks approval of its Hutton Canyon Unit consisting of 2,562 acres, more or less, of federal lands situated in all or parts of Section 18 of Township 23 North, Range 7 West and Sections 11, 13 and 14 of Township 23 North, Range 8 West, N.M.P.M., San Juan County, New Mexico. The unitized interval includes all formations from one one-hundred (100) feet below the stratigraphic equivalent of the top of the Mancos Shale (base of the Mesa Verde Group) to the stratigraphic equivalent of the base of the Greenhorn Limestone Formation. In addition, Applicant seeks an order (1) establishing a "reference case" authorizing within the Unit Area the downhole commingling of production from the Basin Mancos Gas Pool (Pool Code 97232) and the Nageezi Gallup Pool (Pool Code 47540); and (2) authorizing horizontal wells to be located anywhere within the proposed Unit Area so long as the completed interval is no closer than 330 feet from the outer boundary of the Unit Area. This area is located approximately 2 miles west of Lybrook, New Mexico.