

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

APPLICATION OF ENCANA OIL & GAS (USA) INC. FOR APPROVAL OF A 640-ACRE NON-STANDARD PROJECT AREA COMPRISED OF ACREAGE SUBJECT TO A SINGLE FEDERAL LEASE; FOR APPROVAL TO DOWNHOLE COMMINGLE PRODUCTION FROM THE TWO POOLS UNDERLYING THIS ACREAGE; AND FOR ALLOWANCE OF 330 FOOT SETBACKS FROM THE EXTERIOR OF THE PROPOSED PROJECT AREA, SAN JUAN COUNTY, NEW MEXICO.

CASE NO. 154/16

APPLICATION

Encana Oil & Gas (USA) Inc. ("Encana") through its undersigned attorneys, files this application with the Oil Conservation Division for an order (1) approving a 640-acre non-standard project area in the Mancos formation comprised of acreage subject to a single federal lease covering all of Section 10, Township 23 North, Range 8 West, NMPM, San Juan County, New Mexico; (2) approving the commingling of production from the two pools underlying this acreage, and (3) allowing for 330 foot setbacks from the exterior of the proposed project area. 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. This single federal lease is already held by production.
3. Encana desires to drill diagonal horizontal wells in the proposed project area that will be oriented from the southeast to the northwest in the Mancos formation to more efficiently produce the underlying oil reserves.

4. 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 a "frozen" 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.

5. To minimize surface disturbance, allow for the most efficient horizontal well development pattern, and to effectively drain the reserves in the Mancos formation, Section 10 should be approved as a single project area, an allowance should be made for wells to be located anywhere within the proposed project area so long as the completed interval remains 330 feet from the outer boundary of Section 10, and the downhole commingling of production from the two pools in Section 10 should be approved.

6. Division Rule 19.15.16.7.L currently recognizes as "project areas" state exploratory units and participating areas in federal units, thus recognizing a "project area" can include acreage that will not be drained by a single well so long as the area is under a common development plan.

7. Since Section 10 is comprised of a single federal lease already held by production and is owned by a single working interest owner, approval of this area of common ownership as a non-standard project area is consistent with the concept of a "project area" expressed in the Division Rules.

8. Combining as a single project area the 320-acre spacing unit in the E/2 of Section 10 with the contiguous 40-acre spacing units in the W/2 of Section 10 will

avoid overlapping project areas and allow diagonal horizontal wells to develop the Mancos formation in this Section.

9. Attached to this application is a completed C-107-A to address the downhole commingling issues.

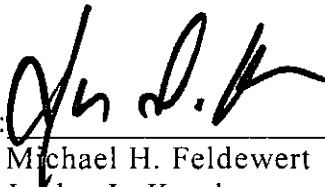
10. Encana will provide notice of this application to the affected persons in the spacing units that adjoin the proposed 640-acre project area and to the affected persons within the proposed project area.

11. 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 December 3, 2015, and that after notice and hearing as required by law, the Division enter an order granting this Application.

Respectfully submitted,

HOLLAND & HART, LLP

By: 

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

CASE 15416

Application Of Encana Oil & Gas (USA) Inc. For Approval Of A 640-Acre Non-Standard Project Area Comprised Of Acreage Subject To A Single Federal Lease; For Approval To Downhole Commingle Production From The Two Pools Underlying This Acreage; And For Allowance Of 330 Foot Setbacks From The Exterior Of The Proposed Project Area, San Juan County, New Mexico. Applicant seeks approval of a 640-acre non-standard project area in the Mancos formation comprised of acreage subject to a single federal lease covering all of Section 10, Township 23 North, Range 8 West. This acreage is within the Basin Mancos Gas Pool and the Nageezi Gallup Pool. Applicant also seeks approval to downhole commingle production from these two pools underlying this acreage and to allow wells to be located anywhere within the proposed project area so long as the completed interval is no closer than 330 feet from the outer boundary of Section 10. The subject area is located approximately 1 mile south of Highway 550 and four miles east of Nageezi, New Mexico.

District I
1623 N. French Drive, Hobbs, NM 88240

District II
811 S. First St., Artesia, NM 88210

District III
1000 Rio Grande Road, Aztec, NM 87410

Pools

District IV
1220 S. St. Francis Dr., Santa Fe, NM 87501

State of New Mexico
Energy, Minerals and Natural Resources Department

Oil Conservation Division
1220 South St. Francis Dr.
Santa Fe, New Mexico 87505

Form C-107A
Revised August 1, 2011

APPLICATION TYPE
Single Well
☒ Establish Pre-Approved

EXISTING WELLBORE
Yes ☐ No ☒

APPLICATION FOR DOWNHOLE COMMINGLING

Encana Oil & Gas (USA) Inc. 370 17th Street, Suite 1700, Denver, CO 80202
Operator Address

NM 118136 TBP TBP-10-23N-8W San Juan
Lease Well No. Unit Letter-Section-Township-Range County

OGRID No. 282327 Property Code TBD API No. TBD Lease Type: ☒ Federal ☐ State ☐ Fee

DATA ELEMENT	Units C, D, E, F, K, L, M & N	Unit A, B, G, H, I, J, O & P	
Pool Name	Nageezi Gallup Pool	Basin Mancos Gas Pool	NOTE: this Commingling Application is to commingle two pools in the same formation. This will consist of horizontal wells.
Pool Code	47540	97232	
Top and Bottom of Pay Section (Perforated or Open-Hole Interval)	Top of Mancos Silt formation ~4650 TVD to Base of Gallup ~5400	Top of Mancos Silt formation ~4650 TVD to Base of Gallup ~5400	
Method of Production (Flowing or Artificial Lift)			
Bottomhole Pressure (Note: Pressure data will not be required if the bottom perforation in the lower zone is within 150% of the depth of the top perforation in the upper zone)	+/- 1645 psi	+/- 1645 psi	
Oil Gravity or Gas BTU (Degree API or Gas BTU)	41 degrees API	41 degrees API	
Producing, Shut-In or New Zone	New Zone	New Zone	
Date and Oil/Gas/Water Rates of Last Production. (Note: For new zones with no production history, applicant shall be required to attach production estimates and supporting data.)	Date: Limited test data available at this time. See attached letter. Rates:		
Fixed Allocation Percentage (Note: If allocation is based upon something other than current or past production, supporting data in explanation will be required.)	Oil Gas 50 % 50 %	Oil Gas 50 % 50 %	Oil Gas % %

ADDITIONAL DATA

Are all working, royalty and overriding royalty interests identical in all commingled zones? Yes ☒ No ☐
If not, have all working, royalty and overriding royalty interest owners been notified by certified mail? Yes ☐ No ☐
Are all produced fluids from all commingled zones compatible with each other? Yes ☒ No ☐
Will commingling decrease the value of production? Yes ☐ No ☒
If this well is on, or communitized with, state or federal lands, has either the Commissioner of Public Lands
or the United States Bureau of Land Management been notified in writing of this application? Yes ☒ No ☐
NMOCD Reference Case No. applicable to this well: _____

Attachments:

- C-102 for each zone to be commingled showing its spacing unit and acreage dedication.
- Production curve for each zone for at least one year. (If not available, attach explanation.)
- For zones with no production history, estimated production rates and supporting data.
- Data to support allocation method or formula.
- Notification list of working, royalty and overriding royalty interests for uncommon interest cases.
- Any additional statements, data or documents required to support commingling.

PRE-APPROVED POOLS

If application is to establish Pre-Approved Pools, the following additional information will be required:

List of other orders approving downhole commingling within the proposed Pre-Approved Pools
List of all operators within the proposed Pre-Approved Pools
Proof that all operators within the proposed Pre-Approved Pools were provided notice of this application.
Bottomhole pressure data.

I hereby certify that the information above is true and complete to the best of my knowledge and belief.

SIGNATURE Katie Wegner TITLE Regulatory Analyst DATE November 2, 2015

TYPE OR PRINT NAME Katie Wegner TELEPHONE NO. (303)482-6819

E-MAIL ADDRESS Katie.wegner@encana.com

November 2, 2015

New Mexico Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

Re: Project Area – Section 10, T23N, R8W
C-107-A Application
San Juan County, New Mexico

Ladies and Gentlemen:

In reference to the Amended Downhole Commingling New Mexico Oil Conservation Division Form C-107-A, for Encana Oil & Gas (USA) Inc.'s (Encana) proposed wells in Section 10, T23N, R8W, please note that the Date and Oil/Gas/Water Rates of Last Production row on the C-107-A form have not been specifically populated as Downhole Commingling is based on acreage allocation for the two applicable pools, the Basin Mancos Gas Pool (E2 of Section 10 T23N R08W) and the Nageezi Gallup Pool (W2 of Sec 10 T23N R08W).

Please feel free to contact me directly at 720-876-3533 with any questions or concerns.

Encana Oil & Gas (USA) Inc.

A handwritten signature in black ink, appearing to read "Katie Wegner", with a long horizontal flourish extending to the right.

Katie Wegner
Regulatory Analyst

Enc.