

**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. 15416

APPLICANT'S PRE-HEARING STATEMENT

This pre-hearing statement is submitted by Encana Oil & Gas (USA) Inc. ("Encana"), as required by Division rules.

APPEARANCES

APPLICANT

Encana Oil & Gas (USA) Inc.

ATTORNEY

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STATEMENT OF THE CASE

Encana seeks 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.

Encana (OGRID No. 282327) owns all of the working interest in a single federal lease (NMNM 118132) covering all of Section 10. This lease is already held by production. Encana desires to develop the Mancos formation underlying this acreage with diagonal horizontal wells to more efficiently produce the underlying oil reserves.

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), a “frozen” pool under R-12984 subject to the Division’s Statewide Rules for oil wells providing for 40-acre spacing units and 330 foot setbacks from the outer boundary of the spacing units.

To minimize surface disturbance, allow for the most efficient horizontal well development pattern, and to effectively drain the reserves in the Mancos formation, Encana seeks approval of Section 10 as a single project area with an allowance 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. In addition, downhole commingling of production from the two pools in Section 10 should be approved.

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. 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. In addition, 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.

APPLICANT'S PROPOSED EVIDENCE

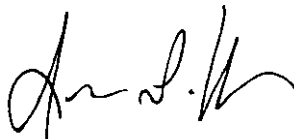
| WITNESS Name and Expertise | ESTIMATED TIME | EXHIBITS |
|---|---------------------------|--------------------|
| Mona Binion, Petroleum Land Negotiator, Encana | Approx. 10 minutes | Approx. 3 Exhibits |
| Erik P. Graven, Petroleum Geologist, Encana | Approx. 10 minutes | Approx. 3 Exhibits |

PROCEDURAL MATTERS

None at this time.

Respectfully submitted,

HOLLAND & HART, LLP



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