

EXHIBITS
9/15/16

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

APPLICATION OF ENCANNA 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. 15539

AFFIDAVIT OF MONA BINION

COUNTY OF DENVER)
) ss.
STATE OF COLORADO)

MONA BINION, of lawful age and being duly sworn, states as follows:

1. My name is Mona Binion and I am authorized to make this affidavit on behalf of Encana Oil & Gas (USA) Inc. ("Encana"). This affidavit is based on my personal knowledge.
2. I reside in Denver, Colorado. I am a Land Negotiator for Encana with over 8 years of experience in the San Juan Basin. I received my BA from University of Southwestern Louisiana in 1974. I have previously been qualified as an expert witness in petroleum land matters in front of the Oil Conservation Division, and I have testified before the Division multiple times. I am familiar with the status of the lands in Section 10, Township 23 North, Range 8 West, NMPM, San Juan County, New Mexico.
3. Encana owns one hundred percent of the working interest in a single federal lease (NMNM 118132) that covers all of Section 10, Township 23 North, Range 8 West, NMPM, San Juan County, New Mexico.
4. Encana's drilling plan includes drilling diagonal horizontal wells across Section 10.
5. Encana previously applied for certain relief related to Section 10, which was granted in part and denied in part. Encana requests that the public record from Case No. 15416 be incorporated into the record for the present case.
6. Attachment A is Division Order R-14195 which was entered on July 28, 2016, in Case No. 15416. Order R-14915 found that:
 - a. A single federal lease covers all of Section 10 and is already held by production. *Id.* at ¶ (7)(a).

BEFORE THE OIL CONSERVATION DIVISION
Santa Fe, New Mexico
Exhibit No. 1
Submitted by:
ENCANA OIL & GAS (USA) INC.
Hearing Date: September 15, 2016

- 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. 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).
 - e. 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).
 - f. 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).
 - g. 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).
 - h. 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).
7. 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.
8. **Attachment B** is an affidavit and letter from my attorney at Holland & Hart LLP providing notice of this application and hearing 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.
9. Approval of this application is in the best interest of conservation, the prevention of waste and the protection of correlative rights.

FURTHER AFFIANT SAYETH NAUGHT.

Mona Binion
MONA BINION

SUBSCRIBED AND SWORN TO before me this 8th day of ~~August~~ ^{September}, 2016.

Melissa M. Chavez
Notary Public

My Commission Expires:

2/4/2017

MELISSA M CHAVEZ
NOTARY PUBLIC
STATE OF COLORADO
NOTARY ID # 20064050110
MY COMMISSION EXPIRES FEBRUARY 04, 2017

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

**IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:**

**CASE NO. 15416
ORDER NO. R-14195**

**APPLICATION OF ENCANA OIL AND 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 ALLOWABLE OF 330 FOOT
SETBACKS FROM THE EXTERIOR OF THE PROPOSED PROJECT AREA,
SAN JUAN COUNTY, NEW MEXICO**

ORDER OF THE DIVISION

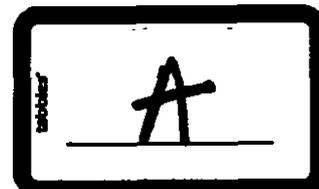
BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on February 18, 2016, at Santa Fe New Mexico, before Examiner William V. Jones.

NOW, on this 28th day of July, 2016, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner,

FINDS THAT:

- (1) Due public notice has been given, and the Division has jurisdiction of this case and its subject matter.
- (2) Encana Oil and Gas (USA), Inc. ("Applicant" or "Encana") seeks approval of a 640-acre non-standard project area for oil production from the Mancos formation [Nageezi-Gallup Pool and Basin-Mancos Gas Pool] comprised of all of Section 10, Township 23 North, Range 8 West, NMPM, in San Juan County, New Mexico.
- (3) The E/2 of Section 10 is located within the Basin-Mancos Gas Pool (97232) created by Division Order No. R-12984, which requires 320-acre spacing units and 660-foot setbacks from the outer boundary of the spacing unit.



(4) The W/2 of Section 10 is in the Nageezi-Gallup Pool (47540) which pool is "unlisted" under Division Order No. R-12984 and subject to Statewide Rule 19.15.15.9(A) NMAC, which rule provides for 40-acre spacing and proration units and 330-foot setbacks from the outer boundary of the spacing unit.

(5) Encana seeks approval to complete wells as near as 330 feet to the outer boundary of the project area, which is an exception to the rules for the Basin-Mancos Gas Pool.

(6) Encana also seeks approval of downhole commingling of all Mancos horizontal wells within the project area between the two pools.

(7) Applicant appeared at the hearing through counsel and presented the following testimony from a Landman and Geologist:

- (a) Section 10 is federal acreage and covered in whole by one federal lease. The lease is held by production (HBP). Within Section 10, the leasehold ownership, operating rights, and record title are owned by Applicant at 100 percent. There are no over-riding royalty owners. Applicant obtained the record title for this lease from QEP Energy.
- (b) Applicant seeks relief to orient wells for maximum recovery. Applicant intends to drill multiple horizontal wells within Section 10 in the Mancos formation in a general direction from southeast to northwest. That transverse direction is needed due to the belief that the maximum horizontal stress direction is in a southwest to northeast direction.
- (c) Applicant expects this portion of the Mancos formation to be productive of primarily oil. The oil gravity and gas heating value are expected to be consistent across Section 10.
- (d) Applicant identified and provided notice to all working interest owners and operators of spacing units or potential spacing units surrounding Section 10. Addresses were found for all affected parties, but two green cards were returned as undeliverable; therefore notice was published in a newspaper of general circulation within San Juan County.
- (e) The project area would consist of one stand-up Basin-Mancos Gas Pool spacing unit located in the east half of Section 10 and eight 40-acre Nageezi-Gallup Pool spacing units located in the west half of Section 10.
- (f) The preferred target for horizontal wells would be the Gallup sandstone member of the Mancos formation ("Gallup"). All acreage within Section 10 is expected to be prospective. This was shown with two cross-sections.

- (g) The prospective Gallup in Section 10 is correlative to that being produced in the Betonnie Tsosie Wash Unit located to the east.
- (h) Applicant intends to drill transverse (diagonal) wells in sufficient number to eventually penetrate (or develop) all nine of the spacing units in this Section 10, although the shorter length wells would not be economical to drill at this time.
- (i) Applicant intends to allocate production from all wells, including the first well drilled, equally to both pools. The proposed downhole commingle would consist of allocating 50 percent of all production from any well in this project area to each of the two pools included in this project area.

The Division Concludes That:

(8) Applicant adequately showed that it needs flexibility in locating diagonally drilled horizontal Mancos wells within Section 10. Applicant has also shown that the ownership in Section 10 is identical, there is a need for 330-foot setbacks, and the application was unopposed.

(9) The proposed diagonal drilling configuration would require some wells to be shorter in horizontal length than others and, as testified by Applicant's witness, those short wells would be uneconomical. The probability of developing all of the oil spacing units within the W/2 of Section 10 with horizontally drilled Mancos wells is very low.

(10) This proposed project area would awkwardly straddle portions of two pools, one of which is considered gas and the other oil, both with differing spacing sizes. The proposal to include eight 40-acre oil spacing units and one 320-acre gas spacing unit within the same one section project area may not be the optimum way to accomplish this and still remain compliant with the requirement in Division rules to only include spacing units within a project area that are "developed" by a well completion.

(11) Applicant's proposal to form a project area as described over Section 10 covering two separate pools and downhole commingling the Mancos production from this area with a 50:50 allocation between the two pools should be denied.

(12) Division records indicate that there are no proposed or active vertically or horizontally drilled Nageezi-Gallup Pool well completions within the W/2 of Section 10 and therefore no impediment to contracting the Nageezi-Gallup Pool from the W/2 of Section 10. Encana did not make application in this case for such contraction, but would be free, after consultation with the Division's geologist in the Aztec district, to make application for pool contraction.

(13) After a nomenclature hearing effecting this contraction, the Basin-Mancos Gas Pool will automatically expand per Division Rule R-12984 into the W/2 of Section 10. Applicant would then be free to form a project area within the Basin-Mancos Gas Pool consisting of two standard gas spacing units and drill wells in the direction and density as allowed by well performance.

(14) Applicant has provided notice to all affected parties surrounding Section 10 of its intention to complete horizontal wells as near as 330 feet from the section line and has received no protests. Applicant's proposal for wells within Section 10 to be located as near as 330 feet from the outside of Section 10 should be granted.

IT IS THEREFORE ORDERED THAT:

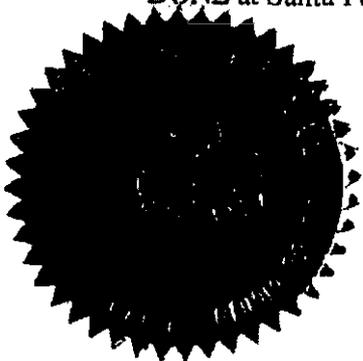
(1) The application of Encana Oil and Gas (USA), Inc. ("Encana") for approval of a 640-acre non-standard project area comprised of portions of the Nageezi-Gallup Pool and the Basin-Mancos Gas Pool and consisting of all of Section 10, Township 23 North, Range 8 West, NMPM, in San Juan County, New Mexico is hereby denied.

(2) The portion of Encana's application asking for approval of downhole commingling of production from horizontal Mancos wells to be located within Section 10, between two separate pools in a 50:50 allocation, is denied without prejudice.

(3) The portion of Encana's application to allow 330-foot setbacks for horizontal Mancos well completions within Section 10 or within any future Basin-Mancos Gas Pool project area consisting solely of Section 10 is hereby approved.

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

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

David R. Catanach

DAVID R. CATANACH
Director

HOLLAND & HART^{LLP}



Jordan L. Kessler
Associate
Phone (505) 988-4421
Fax (505) 983-6043
JKessler@hollandhart.com

August 12, 2016

VIA CERTIFIED MAIL
RETURN RECEIPT REQUESTED

TO: AFFECTED PARTIES

Re: 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.

This letter is to advise you that Encana Oil & Gas (USA) Inc. has filed the enclosed application with the New Mexico Oil Conservation Division. The Division has *Your interests are not being pooled under this application*, but as an affected party, you are entitled to notice of this application. The Division has requested that notice be provided regarding the new hearing date. This application has been set for hearing before a Division Examiner at 8:15 AM on September 1, 2016. The hearing will be held in Porter Hall in the Oil Conservation Division's Santa Fe Offices located at 1220 South Saint Francis Drive, Santa Fe, New Mexico 87505. You are not required to attend this hearing, but as an owner of an interest that may be affected by this application, you may appear and present testimony. Failure to appear at that time and become a party of record will preclude you from challenging the matter at a later date.

Parties appearing in cases who intend to present evidence are required by Division Rule 19.15.4.13.B to file a Pre-Hearing Statement with the Oil Conservation Division's Santa Fe office, four business days in advance of a scheduled hearing, but at least on the Thursday preceding the hearing. This statement must include: the names of the parties and their attorneys; a concise statement of the case; the names of all witnesses the party will call to testify at the hearing; the approximate time the party will need to present its case; and identification of any procedural matters that are to be resolved prior to the hearing.

If you have any questions about this matter please contact Mona Binion, at (720) 876-5235 or mona.binion@encana.com.

Sincerely

Jordan L. Kessler

ATTORNEY FOR
ENCANA OIL & GAS (USA) INC.

Holland & Hart LLP

Phone (505) 988-4421 Fax (505) 983-6043 www.hollandhart.com

110 North Guadalupe Suite 1 Santa Fe, New Mexico 87501 Mailing Address P.O. Box 2208 Santa Fe, NM 87504-2208

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**ENCANA OIL & GAS (USA) INC.
HORIZONTAL NAGEEZI POOL**

Dugan Production Corp.
PO Box 420
Farmington, NM 87499

Elm Ridge Exploration Company LLC
12225 Greenville Ave
Suite 950
Dallas, TX 75243-9362

Logos Operating LLC
4001 N. Butler Blvd.,
Bldg 7101
Farmington, NM 87401

WPX Energy Production LLC
3500 One Williams Center,
Suite 4400
Tulsa, OK 74172

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Dugan Production Corp.
PO Box 420
Farmington, NM 87499

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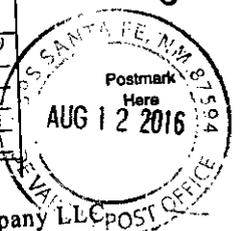
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Suite 950
Dallas, TX 75243-9362

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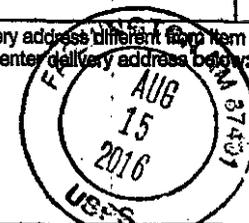
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X *Steve Bayne* Agent Addressee

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 3500 One Williams Center,
 Suite 4400
 Tulsa, OK 74172

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 Suite 4400
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X *Kim Pense* Agent Addressee

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