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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:

ORIGINAL

CASE NO. 14130

APPLICATION OF ENERGEN RESOURCES  
CORPORATION FOR COMPULSORY POOLING AND  
UNORTHODOX WELL LOCATION, RIO ARRIBA  
AND SAN JUAN COUNTIES, NEW MEXICO

REPORTER'S TRANSCRIPT OF PROCEEDINGS  
EXAMINER HEARING

BEFORE: DAVID K. BROOKS, Legal Examiner  
TERRY G. WARNELL, Technical Examiner

May 29, 2008

Santa Fe, New Mexico

This matter came for hearing before the New Mexico Oil  
Conservation Division, DAVID K. BROOKS, Legal Examiner, and  
TERRY G. WARNELL, Technical Examiner, on May 29, 2008, at the  
New Mexico Energy, Minerals and Natural Resources Department,  
1220 South St. Francis Drive, Room 102, Santa Fe, New Mexico.

REPORTED BY: JOYCE D. CALVERT, P-03  
Paul Baca Court Reporters  
500 Fourth Street, NW, Suite 105  
Albuquerque, New Mexico 87102

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A P P E A R A N C E S

FOR THE APPLICANT,

J. Scott Hall, Esq.  
MONTGOMERY & ANDREWS LAW FIRM  
325 Paseo De Peralta  
Santa Fe, New Mexico 87501

PAGE

APPLICANT EXHIBITS 1 - 2; A - E

7

1 MR. BROOKS: In the absence of any hardships, we will  
2 at this time call Case No. 14130, Application of Energen  
3 Resources Corporation for Compulsory Pooling and Unorthodox  
4 Well Location, Rio Arriba and San Juan Counties, New Mexico.

5 MR. HALL: Mr. Examiner, Scott Hall, Montgomery and  
6 Andrews Law Firm, Santa Fe, on behalf of the applicant, Energen  
7 Resources Corporation. I'll be presenting this case by  
8 affidavit this morning.

9 MR. BROOKS: Okay.

10 MR. HALL: Mr. Examiner, Energen Resources seeks to  
11 compulsory pool unjoined interests located in the west half of  
12 Section 22, Township 32 North, Range 6 West for the drilling of  
13 Energen's 32-5 Unit Well No. 115. The well will be a  
14 horizontal drill from an unorthodox surface location and will  
15 also penetrate the Fruitland Coal Formation at an unorthodox  
16 location. The reason being is that almost the entirety of the  
17 west half of the section is under water under the Navajo  
18 Reservoir.

19 The well will be drilled from a location in the  
20 southeast quarter of a section from a pre-existing well pad  
21 there. If you will look to Exhibit 1, Exhibit 1 is the  
22 affidavit of David Poage. Mr. Poage is the San Juan Basin  
23 District landman for Energen in their Farmington office. His  
24 affidavit sets forth the locations for the well.

25 The penetration point into the Fruitland Coal, as I

1 said, is unorthodox at a point 50 feet from the south line and  
2 2630 from the west line of Section 22. It will be at a  
3 standard bottom hole location 660 feet from the west side.  
4 Mr. Poage recites his efforts to retain the joiner of parties  
5 in the northwest quarter of Section 22. There is one unjoined  
6 interest only. It is Palmetto Partners, Limited Partnership,  
7 from New York.

8 If you will look at the compilation of letters that  
9 consist of Exhibit A, they are letters from Mr. Poage to  
10 Palmetto Partners at their New York address. They are dated  
11 September 10th, 2007. That's followed by an identical letter  
12 dated September 25, 2007. We don't have the letter for that,  
13 but this same letter was mailed again, and we have the  
14 certified receipt card for that. And it's indicated by the  
15 different certificate number on it, otherwise, it is the same  
16 letter.

17 There's also a letter dated March 17th and one dated  
18 March 11th. The April 11th and March 17th letters both  
19 included AFEs. Mr. Poage also recounts a number of attempts to  
20 obtain Palmetto Partners' participation by telephone  
21 conversations. He talked with them, as he indicates, on  
22 March 5th, 6th, 13th, 14th, 17th, 21st, 24th, and again on  
23 April 3rd, 2008. He was unsuccessful in obtaining their  
24 joiner. They are fairly certain that they had the correct  
25 address for Palmetto Partners. It was derived from instruments

1 of record in San Juan County.

2 Exhibit B is the C-102 plat indicating the surface  
3 and bottom hole locations in the penetration point for the well  
4 into the Fruitland Coal Formation. Exhibit B-1 is a breakout  
5 of the ownership for the west half on a 160-acre basis for the  
6 northwest quarter and the southwest quarter. And, as I said,  
7 the only non-participating interest shown on there is the  
8 Palmetto Partners, Limited Partnership, for a 16th in the  
9 northwest quarter only.

10 Energen owns or controls the remainder of the  
11 interest in the west half of Section 22.

12 MR. BROOKS: Is Palmetto Partnerships an unleased  
13 mineral interest ownership?

14 MR. HALL: Say again?

15 MR. BROOKS: Is that an unleased mineral ownership?

16 MR. HALL: Yes, sir.

17 MR. BROOKS: Okay.

18 MR. HALL: Exhibit C shows the true vertical depth  
19 for the well at 7561.7 feet. Also, Mr. Examiner, as I believe  
20 you know, Mr. Poage has applied for administrative approval of  
21 the unorthodox well location. We've included that same request  
22 in our hearing application, so we'll take whichever one is  
23 approved first.

24 MR. BROOKS: In fact, that was written yesterday and  
25 it's on the Director's desk for signature.

1 MR. HALL: All right. I note for purposes of notice  
2 for that application, Energen owns and controls 100 percent of  
3 each of the surrounding proration units, so no further notice  
4 was given on that.

5 Exhibit E is Energen's AFE. It reflects the dry hole  
6 costs for the well at \$1,486,370.00. Completed well costs,  
7 \$2,482,010.00. Energen is requesting overhead rates for  
8 drilling and producing of \$5,000 per month for the drilling  
9 rate and \$570 per month for the producing rate.

10 Finally, Mr. Examiner, Exhibit No. 2 is our Notice of  
11 Affidavit showing efforts to send Notice of Hearing to Palmetto  
12 Partners. The letter that we sent was returned to us.  
13 Although we believe the address is correct, it was sent to the  
14 Fifth Avenue address in New York City. Previous letters sent  
15 by Mr. Poage were received at that address.

16 We've taken the precaution of advertising the case in  
17 both the Rio Arriba County newspaper and the Farmington  
18 newspaper, since the well traverses the county boundaries. I  
19 don't have the Affidavit of Publication yet, but I'll  
20 supplement the record with those.

21 That concludes our presentation. We move the  
22 admission of Exhibits 1-A through E and Exhibit 2.

23 MR. BROOKS: Okay. You said you had an address  
24 for -- I'm sorry. What were the exhibits?

25 MR. HALL: Exhibit 1 and then Exhibits A, B, B-1, C,

1 D and E. And Exhibit 2 is the Notice of Affidavit.

2 MR. BROOKS: Okay. Exhibits 1 and 2, and Exhibits A  
3 through E will be admitted.

4 Since you have an address for Palmetto, do you  
5 anticipate that their interest will be placed in suspense or  
6 will they give us any reason that that would happen? Would  
7 they be placed on pay if this well is completed?

8 MR. HALL: I would imagine that they would send  
9 checks to the address that they have. We believe it's a good  
10 address. For some reason that one letter came back, but the  
11 others were received there.

12 MR. BROOKS: Okay. I think that's all I have. If  
13 there's nothing further, Case No. 14130 will be taken under  
14 advisement.

15 \* \* \* \* \*

16 MR. BROOKS: I'm sorry. Reopen Case No. 14130 for  
17 one more question.

18 I did not notice what you said about administrative  
19 overhead, and I see it's over here on Page 11; \$570?

20 MR. HALL: Correct.

21 MR. BROOKS: And that would be with the escalations?

22 MR. HALL: Yes.

23 MR. BROOKS: Okay. Thanks. Case No. 14130 will be  
24 taken under advisement.

25 [Hearing concluded.]  
I do hereby certify that the foregoing is  
a complete record of the proceedings in  
the Examiner hearing of Case No. \_\_\_\_\_  
heard by me on \_\_\_\_\_.

Examiner

## REPORTER'S CERTIFICATE

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I, JOYCE D. CALVERT, Provisional Court Reporter for the State of New Mexico, do hereby certify that I reported the foregoing proceedings in stenographic shorthand and that the foregoing pages are a true and correct transcript of those proceedings and was reduced to printed form under my direct supervision.

I FURTHER CERTIFY that I am neither employed by nor related to any of the parties or attorneys in this case and that I have no interest in the final disposition of this proceeding.

Signed this 29th day of May, 2008.



JOYCE D. CALVERT  
New Mexico P-03  
License Expires: 7/31/08



1 STATE OF NEW MEXICO )  
2 COUNTY OF BERNALILLO )

3

4 I, JOYCE D. CALVERT, a New Mexico Provisional  
5 Reporter, working under the direction and direct supervision of  
6 Paul Baca, New Mexico CCR License Number 112, hereby certify  
7 that I reported the attached proceedings; that pages numbered  
8 1-7 inclusive, are a true and correct transcript of my  
9 stenographic notes. On the date I reported these proceedings,  
10 I was the holder of Provisional License Number P-03.

11 Dated at Albuquerque, New Mexico, 29th day of  
12 May, 2008.

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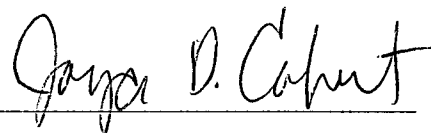
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