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* Board Certified Specialist: Natural Resources - Oil & Gas Law
** Board Certified Specialist: Real Estate Law

March 15, 2007

HAND-DELIVERED

Ms. Florene Davidson
New Mexico Oil Conservation Division
1220 South St. Francis
Santa Fe, New Mexico 87504

Re: NMOCD Case No. 13957; In the Matter of the Application of Energen Resources Corporation to Amend the Cost Recovery Provisions of Compulsory Pooling Order No. R-1960, Rio Arriba County, New Mexico

Dear Florene:

Enclosed in hard copy and on disk is a proposed advertisement for the referenced Application which was filed with the Division on March 9, 2007. Thank you for your assistance.

Very truly yours,

MILLER STRATVERT P.A.



J. Scott Hall

JSH/glb
Enclosures

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Ms. Florene Davidson
New Mexico Oil Conservation Division
1220 South St. Francis
Santa Fe, New Mexico 87504

2007 MAR 12 AM 6

Re: NMOCD Case No. 13957; Application of Energen Resources Corporation to Amend the Cost Recovery Provisions of Compulsory Pooling Order No. R-1960, Rio Arriba County, New Mexico

Dear Florene:

Please find enclosed an original and two copies of an Application filed on behalf of Energen Resources Corporation. We request that this matter be set for hearing on the June 21, 2007 examiner hearing docket. We will follow-up with a proposed advertisement on Monday.

Thank you for your assistance.

Very truly yours,

MILLER STRATVERT P.A.

By: *Ginny Bell*
Ginny Bell
Legal Assistant to J. Scott Hall

/glb
Enclosure

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

2007 MAR 12 AM 6 38

IN THE MATTER OF THE APPLICATION OF ENERGEN RESOURCES
CORPORATION TO AMEND THE COST RECOVERY PROVISIONS
OF COMPULSORY POOLING ORDER NO. R-1960,
RIO ARriba COUNTY, NEW MEXICO

CASE NO. 13957

APPLICATION

ENERGEN RESOURCES CORPORATION, by its undersigned attorneys, Miller, Stratvert, P.A., (J. Scott Hall) hereby makes application pursuant to NMSA 1978 Section 70-2-17 (1995) for an order amending the cost recovery provisions of Order No. R-1960 pooling all interests in the Pictured Cliffs formation, (Tapacito-Pictured Cliffs Gas Pool) underlying the SW/4 of Section 2, Township 25 North, Range 3 West, NMPM, Rio Arriba County, New Mexico, forming a standard 160-acre spacing and proration unit. In support thereof, Applicant would show the Division:

1. On May 5, 1961, pursuant to a hearing held on April 19, 1961, the Division issued Order No. R-1960 pooling certain uncommitted interests in the SW/4 of Section 2 preparatory to the drilling by Southern Union Production Company, ("Supron"), of its Martinez No. 1 well at a standard location in the N/2 SW/4 of said Section 2 to a depth sufficient to test the Pictured Cliffs formation.

2. The evidence at the hearing established that the Applicant in that case owned or controlled 100 percent of the available working interest in the N/2 SW/4 of Section 2 and that Applicant sought to pool the remaining interests, including unleased mineral interests, whose owners did not agree to participate in the drilling of the well. The quantum of non-participating interests constituted a relatively small percentage of the

interests in the unit. The Commission accordingly granted Supron's request to pool those interests.

3. Subsequent to the hearing and the issuance of Order No. R-1960, Supron drilled and successfully completed the Martinez No. 1 well in the Pictured Cliffs formation. Supron continued to operate the Martinez No. 1 well, until approximately July 23, 1982 when Union Texas Petroleum Company acquired the property and became operator of the well. On approximately June 23, 1990, Meridian Oil, Inc. acquired the well and became operator, and was succeeded by Burlington Resources Oil and Gas Company on July 11, 1996. Taurus Exploration USA, Inc. subsequently acquired the well and became operator on August 1, 1997. On October 1, 1998, through a change of name, Taurus became Energen Resources Corporation. Applicant is the current operator of the well.

4. The unnumbered decretal portions of Order No. R-1960 contained the following provisions authorizing the operator to recover the costs of development and operation:

"PROVIDED FURTHER, That the proportionate share of the costs of development of the pooled unit, including a reasonable charge for supervision, shall be paid out of production by each non-consenting working interest owner and shall be 110 per cent of the same proportion to the total costs of drilling and completing the well that his acreage bears to the total acreage in the pooled unit."

5. In its compulsory pooling orders, the Division is required by statute to include provisions allowing the operator to be reimbursed for operating expenses and a reasonable charge for supervision:

"Such pooling order of the division shall make definite provision as to any owner, or owners who elects not to pay his proportionate share in advance for the prorata reimbursement solely out of production to the parties advancing the costs of the development and operation, which shall be limited to the actual expenditures required for such purpose not in excess of what are reasonable, but which shall include a reasonable charge for supervision..." NMSA 1978 Section 70-2-17(C).

6. It has been the practice of the Division to retain jurisdiction over its compulsory pooling orders to, among other things, resolve disputes over development and operating costs: *"In the event of any dispute relative to such costs, the division shall determine the proper costs after due notice to the interested parties and a hearing thereon."* *Id.*

7. One of the owner's whose interests were pooled under Order No. R-1960 has disputed the operator's entitlement to reimbursement for reasonable operating costs, as wells as supervision costs, and the method for reimbursing such costs.

8. The relevant terms of the 1961 compulsory pooling order does not reflect the cost recovery provisions found in contemporary pooling orders, which typically provide as follows:

() *Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$5000 per month while drilling and \$500 per month while producing, provided that these rates shall be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "Accounting Procedure-Joint Operations." The operator is authorized to withhold from production the proportionate share of both the supervision charges and the actual expenditures required for operating the well, not in excess of what are reasonable, attributable to each non-consenting working interest.*

9. Applicant proposes the amendment of the cost recovery provisions under the original version of Order No. R-1961 to reflect the current custom and practice of the industry and the Division which allows well operators to recover the costs of operations and supervision and which may be periodically adjustable.

10. Applicant seeks an order amending Order No. R-1961 retroactively by substituting the unnumbered decretal portions of the Order set forth in Paragraph 4, above, with contemporary compulsory pooling cost recovery provisions in substantially the same form as reflected in Paragraph 8, above.

11. The amendment of Order No. R-1961 to provide for the revision of the well cost provisions will promote the efficient and orderly operation of the subject well, will

protect the rights of the pooled interest owners, will serve to prevent waste and is otherwise in the interests of conservation.

WHEREFORE Applicant requests that this Application be set for hearing before a duly appointed examiner of the Oil Conservation Division on June 21, 2007 and that after notice and hearing as required by law, the Division enter its Order amending Order No. R-1961 to include new provisions reflecting the current custom and practice of the industry and the Division allowing for the prorata reimbursement of the operator's costs of operations and supervision, and making such other provisions as may be proper.

MILLER STRATVERT P.A.

By: _____



J. Scott Hall
Attorneys for
Energen Resources Corporation
Post Office Box 1986
Santa Fe, New Mexico 87504-1986
(505) 989-9614

Case No. 13957 : **Application of Energen Resources Corporation to Amend the Cost Recovery Provisions of Order No. R-1960, Rio Arriba County, New Mexico.** Applicant seeks an order amending the cost recovery provisions of Order No. R-1960 pooling all interests in the Pictured Cliffs formation, (Tapacito-Pictured Cliffs Gas Pool) underlying the SW/4 of Section 2, Township 25 North, Range 3 West, forming a standard 160-acre spacing and proration unit. Applicant proposes the amendment of the cost recovery provisions under the original version of Order No. R-1960 to reflect the current custom and practice of the industry and the Division which allows well operators to recover the reasonable costs of operations and supervision. The lands that are the subject of the application are located approximately one mile west of Ojito, New Mexico.

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