



**MONTGOMERY
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February 17, 2009

HAND DELIVERED

Florene Davidson
New Mexico Oil Conservation Division
1220 S. St. Francis Drive
Santa Fe, NM 87505

Re: NMOCD Case No. 14287: Application of Energen Resources Corporation for Creation of the Carracas Canyon Production Area, Rio Arriba County, New Mexico

Dear Ms. Davidson:

Enclosed for filing are the original and two copies of the Application in the above-referenced matter. On behalf of Energen Resources Corporation, we request that this matter be set for hearing on the March 19, 2009 examiner hearing docket.

A proposed advertisement is also enclosed. Thank you.

Very truly yours,

J. Scott Hall

JSH:kw
Enclosures

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REPLY TO:

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Case 14287 Application of Energen Resources Corporation for Creation of the Carracas Canyon Production Area and for Exception to the Well Location Provisions of the Special Pool Rules and Regulations for the Basin-Fruitland Coal Gas Pool, Rio Arriba County, New Mexico. Applicant seeks an order creating the Carracas Canyon Production Area and providing for an exception to the well setback location provisions of the Rules and Regulations for the Basin-Fruitland Coal Gas Pool authorizing well locations within 10 feet of section, quarter-section, or interior-quarter-quarter section lines or subdivision inner boundaries in conformance with Rule 7(a)(2) of the pool rules for the pool including wells to be drilled in and adjacent to participating areas within the production area, but no closer than 660 feet from the outer boundaries of the production area. The proposed production area is comprised of the following lands located in Rio Arriba County, New Mexico: All or portions of the following sections in Township 32 North, Range 4 West: Sections 8 through 36; all or portions of the following sections in Township 32 North, Range 5 West: Sections 10 through 16, Sections 21 through 27, Sections 34 through 36; and all or portions of the following sections in Township 31 North, Range 5 West: Sections 1 and 2. The subject lands are located in the immediate vicinity of Carracas, New Mexico.

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

OIL CONSERVATION DIVISION

**IN THE MATTER OF THE APPLICATION OF ENERGEN RESOURCES
CORPORATION FOR CREATION OF THE CARRACAS CANYON PRODUCTION
AREA AND FOR EXCEPTION TO THE WELL LOCATION PROVISIONS OF THE
SPECIAL RULES AND REGULATIONS FOR THE BASIN-FRUITLAND COAL GAS
POOL, RIO ARRIBA COUNTY, NEW MEXICO**

CASE NO. 14287

APPLICATION

Energen Resources Corporation, ("Energen"), through its undersigned attorneys, Montgomery and Andrews, P. A., (J. Scott Hall), hereby makes application to the Oil Conservation Division for an order creating the Carracas Canyon Production Area and providing an exception to the well setback location provisions of the Rules and Regulations for the Basin-Fruitland Coal Gas Pool (71629) authorizing well locations within 10 feet to section, quarter-section, or interior quarter-quarter section lines or subdivision inner boundaries in conformance with Rule 7(a)(2) of the pool rules for the pool. Energen seeks the setback exception for wells to be drilled within the Carracas Canyon Production Area, but at no point closer than 660 feet to the outer boundaries of the Production Area. In support of its application, Energen states:

1. Energen owns and operates the Carracas Canyon Unit Area which includes the Fruitland Coal formation, Basin-Fruitland Coal Gas Pool, in Rio Arriba County. Energen's lease acreage comprising the original Unit Area is as follows:

Township 32 North, Range 4 West

Section	8	Lots 5, 6, 7, 8, S/2S/2
Section	9	Lots 5, 6, 7, 8, S/2S/2
Section	10	Lots 5, 6, 7, 8, S/2S/2
Section	11	Lots 5, 6, 7, 8, S/2S/2

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Township 32 North, Range 4 West (Cont.)

Section	12	Lots 5, 6, 7, 8, S/2S/2
Section	13	All
Section	14	All
Section	15	All
Section	16	All
Section	17	All
Section	18	All
Section	19	All
Section	20	All
Section	21	All
Section	22	All
Section	23	All
Section	24	All
Section	25	All
Section	26	All
Section	27	All
Section	28	All
Section	29	All
Section	30	All
Section	31	All
Section	32	All
Section	33	All
Section	34	All
Section	35	All
Section	36	All

Township 32 north Range 5 West

Section	10	All
	11	All
	12	All
	13	All
	14	All
	15	All
	16	E/2, E/2W/2
	21	E/2
	22	All
	23	All
	24	All
	25	All
	26	All
	27	All

34 N/2
35 N/2, SE/4
36 All

Township 31 North, Range 5 West

Section	1	Lots 3, 4, SW/4
	2	Lots 1, 2, 3, 4, N/2NE/4, N/2NW/4

2. Periodic contraction of the original Unit resulted in the establishment of three Fruitland Coal formation Participating Areas. Energen is the sole Fruitland Coal formation operator within the Participating Areas and the remaining acreage within the original unit boundaries. Energen also owns one hundred percent of the leasehold working interest within these areas under leases issued by the Bureau of Land Management and U.S. Forest Service. Energen proposes the creation of the Carracas Canyon Production Area, the outer boundary of which is coterminous with the boundaries with the original Unit Area.

3. The Carracas Canyon Production Area lands are located within the low-productivity area of the Basin-Fruitland Coal Gas Pool defined by Rule 7(C) of the Special Rules and Regulations for the Pool, promulgated by Order R-8768-F dated July 17, 2003.

4. Rule 7(a) of the pool rules for the Basin-Fruitland Coal Gas pool provides as follows:

(1) A well drilled or recompleted on a standard or non-standard spacing unit in the Basin-Fruitland Coal (Gas) Pool shall be located no closer than 660 feet from to the outer boundary of the spacing unit and no closer than 10 feet to any interior quarter-quarter section line or subdivision inner boundary.

(2) A well drilled or recompleted within a federal exploratory unit is not subject to the 660-foot setback requirement to the outer boundary of the spacing unit, provided however:

(i) the well shall not be closer than 10 feet to any section, quarter section, or interior quarter-quarter section line or subdivision inner boundary;

(ii) the well shall not be closer than 660 feet to the outer boundary of the federal exploratory unit;

(iii) if the well is located within the federal exploratory unit area but adjacent to an existing or prospective spacing unit containing a non-committed tract or partially committed tract, it shall not be closer than 660 feet to the outer boundary of its spacing unit;

(iv) if the well is located within a non-committed or partially committed spacing unit, it shall not be closer than 660 feet to the outer boundary of its spacing unit;

(v) if the well is located within a participating area but adjacent to an existing or prospective spacing unit that is not within the same participating area, it shall not be closer than 660 feet to the outer boundary of the participating area; and

(v) if the well is located within an exploratory unit area but in an existing or prospective spacing unit that is a non-participating spacing unit, it shall not be closer than 660 feet to the outer boundary of its spacing unit.

5. Energen operates a number of Basin-Fruitland Coal Gas wells drilled at standard setback locations within the Carracas Canyon Production Area. Energen seeks blanket authorization to drill additional vertical and horizontal Basin-Fruitland Coal Gas wells in complete spacing units within the interior boundaries of the Production Area in conformance with pool Rule 7(a)(2)(i) that currently permits locations as close as 10 feet to section lines, quarter-sections, or interior quarter-quarter section lines or subdivision inner-boundaries. Energen seeks to apply the exception throughout the proposed Production Area, including locations within and adjacent to the Participating Areas, without further administrative review by the Division. However, Energen does not seek exception for any locations closer than the current 660 foot minimum orthodox setback distance from the outer boundaries of the Production Area.

6. An exception to the pool rules for the Basin-Fruitland Coal Gas Pool to allow flexibility for well locations within the production unit area will increase the ultimate recovery of gas reserves and will not impair correlative rights. In addition, the exception will minimize the number of wells needed to efficiently recover reserves, and will facilitate the location of wells and facilities that will minimize surface disturbance.

7. Approval of this Application will allow the production of additional coal bed methane reserves that would otherwise go un-recovered. Approval of this Application will further be in the interests of conservation, the prevention of waste and the protection of correlative rights.

WHEREFORE, Energen Resources Corporation requests that this Application be set for hearing before one of the Division's examiners on March 19, 2009 and that after notice and hearing as required by law, the Division enter its order granting this Application and providing such further relief as the Division deems appropriate.

Respectfully Submitted,

MONTGOMERY & ANDREWS, P.A.

By:



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