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William F. Carr

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February 26, 2002

HAND-DELIVERED

Lori Wrotenberg, Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
2040 South Pacheco Street
Santa Fe, New Mexico 87505

Case 12845

Re: Application of EnerQuest Resources, LLC. for statutory
unitization, Lea County, New Mexico.

Application of EnerQuest Resources, LLC for approval of a
waterflood project and qualification of the project for the
Recovered Oil Tax Rate pursuant to the Enhanced Oil Recovery
Act, Lea County, New Mexico.

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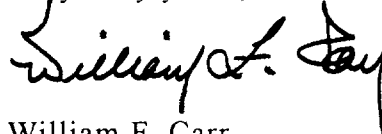
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Dear Ms. Wrotenberg:

Enclosed in triplicate is the application of EnerQuest Resources, LLC for statutory unitization of the East Hobbs (San Andres) Unit. Also enclosed are two copies of Oil Conservation Division Form C-108 which is EnerQuest Resources, LLC's application for a waterflood project in the East Hobbs (San Andres) Unit and its application for certification of this project for the Recovered Tax Rate pursuant to the Enhanced Oil Recovery Act. Drafts of legal advertisements for each application are also enclosed and have been submitted to the Division by E-mail.

EnerQuest Resources, LLC requests that these applications be placed on the Division Examiner Hearing docket set for March 21 2002.

Very truly yours,



William F. Carr

Enclosures

cc: Mr. Robert Floyd
Mr. Craig Clark

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

**IN THE MATTER OF THE APPLICATION OF
ENERQUEST RESOURCES, LLC FOR STATUTORY
UNITIZATION OF THE EAST HOBBS (SAN ANDRES)
UNIT AREA, LEA COUNTY, NEW MEXICO.**

CASE NO. 12845

APPLICATION

EnerQuest Resources, LLC ("EnerQuest"), pursuant to the provisions of the New Mexico Statutory Unitization Act (Sections 70-7-1 through 70-7-21, NMSA 1978 Comp.) hereby applies to the Oil Conservation Division for an order unitizing East Hobbs (San Andres) Unit Area, Lea County, New Mexico, and in support of its application states:

1. EnerQuest Resources, LLC is a Texas corporation authorized to transact business in the State of New Mexico and is engaged in the business of, among other things, producing and selling oil and gas.

2. EnerQuest seeks an order pursuant to the Statutory Unitization Act providing for unitized management, operation and further development of the proposed East Hobbs (San Andres) Unit Area which consists of 920 acres, more or less, of State and Fee lands located in Lea County, New Mexico, and is more particularly described as follows:

TOWNSHIP 18 SOUTH, RANGE 39 EAST, NMPM

Section 29: SW/4, SW/4 NW/4
Section 30: S/2, S/2 N/2
Section 31; N/2 N/2
Section 32: N/2 NW/4

APPLICATION

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A map of the proposed Unit Area is attached to this application as Exhibit A.

3. The vertical limits of the formation to be included within the proposed Unit Area extends from the top of the a point 50 feet above the top of the San Andres formation to a point 50 feet below the base of the P-5 marker in the San Andres formation; said San Andres interval occurring between 4451 feet and 4637 feet in the EnerQuest Resources LLC, as recorded on the density-neutron log dated June 26, 1997 for the Carrie O. Davis Well No. 5 located 1310 feet from the South line and 330 feet from the West line of Section 29, Township 18 South, Range 39 East, NMPM, Lea County, New Mexico.

4. The portions of the reservoirs involved in this application have been defined by development.

5. The type of operations to be conducted in this Unit initially include secondary recovery by means of waterflooding. At a later date, carbon dioxide flooding or other methods of secondary recovery may be conducted in the proposed unit.

6. Attached to this application as Exhibit "B" and incorporated herein is a copy of the proposed plan of unitization which EnerQuest considers fair, reasonable and equitable.

7. Attached to this application as Exhibit "C" and incorporated herein is a copy of the proposed operating plan covering the manner in which the unit will be supervised and managed and costs allocated and paid.

8. EnerQuest further states:

- a. Unitized management, operating and further development of the portion of the San Andres formation, East Hobbs-San Andres Pool, which is the subject of this application, is reasonably necessary in order to effectively carry on secondary recovery operations and to substantially increase the ultimate recovery of oil from the unitized portion of the pool.
- b. Unitized methods of operation applied to this portion of the East Hobbs-San Andres Pool are feasible, will prevent waste and will result with reasonable probability in the increased recovery of substantially more oil from the pool than would otherwise be recovered.
- c. The estimated additional costs, if any, of conducting such operations will not exceed the estimated value of additional oil recovered plus reasonable profit.
- d. Unitization and adoption of unitized methods of operation will benefit the working interest owners and the royalty owners of the oil and gas rights within this portion of the pool.
- e. EnerQuest Resources, LLC, as operator, has made a good faith effort to secure voluntary unitization within the portion of the East Hobbs-San Andres Pool affected by this application.
- f. The participation formula contained in the unitization agreement allocates the produced and saved unitized hydrocarbons to the

separately owned tracts in the Unit Area on a fair, reasonable and equitable basis.

9. EnerQuest requests that any order issued in this case include a non-consent penalty for risk to be charged against carried working interests within the unit area upon such terms and conditions to be determined by the Division as just and reasonable.

10. Statutory unitization of the East Hobbs (San Andres) Unit Area, East Hobbs-San Andres Pool, is in the best interest of conservation, the prevention of waste and the protection of correlative rights.

WHEREFORE, EnerQuest Resources, LLC respectfully requests that this application be set for hearing before a duly appointed Examiner of the Oil Conservation Division on March 21, 2002, and, that after notice and hearing as required by law and the rules of the Division, the Division enter its order granting this application statutorily unitizing the East Hobbs (San Andres) Unit Area, Lea County, New Mexico.

Respectfully submitted,

HOLLAND & HART LLP

By: 

William F. Carr

Post Office Box 2208

Santa Fe, New Mexico 87504-2208

ATTORNEYS FOR ENERQUEST
RESOURCES, LLC.

CASE _____: Application of EnerQuest Resources, LLC. for statutory unitization, Lea County, New Mexico. Applicant in the above-styled cause, seeks an order unitizing, for the purpose of establishing an enhanced recovery project, all mineral interest in the San Andres formation, East Hobbs-San Andres Pool, underlying 920 acres, more or less, of State and Fee lands in the following acreage:

TOWNSHIP 18 SOUTH, RANGE 39 EAST, NMPM

Section 29: SW/4, SW/4 NW/4

Section 30: S/2, S/2 N/2

Section 31: N/2 N/2

Section 32: N/2 NW/4

Said unit to be designated the East Hobbs (San Andres)Unit.

Among the matters to be considered at the hearing will be the necessity of unit operations; the designation of a unit operator; the designation of horizontal and vertical limits of the unit area; the determination of the fair, reasonable, and equitable allocation of production and costs of production, including capital investment, to each of the various tracts in the unit area; the determination of credits and charges to be made among the various owners in the unit area for their investment in wells and equipment and such other matters as may be necessary and appropriate for carrying on efficient unit operations; including but not limited to, unit voting procedures, selection, removal or substitution of unit operator, and time of commencement and termination of unit operations. Applicant also requests that any such order issued in this case include a non-consent penalty for risk to be charged against carried working interests within the unit area upon such terms and conditions to be determined by the Division as just and reasonable.

Said unit area is located approximately 2 miles northeast of Hobbs, New Mexico.

