

**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. 12845
CASE NO. 12846
ORDER NO. R-11781**

**APPLICATION OF ENERQUEST RESOURCES, L.L.C. FOR STATUTORY
UNITIZATION, LEA COUNTY, NEW MEXICO.**

**APPLICATION OF ENERQUEST RESOURCES, L.L.C. FOR APPROVAL OF A
WATERFLOOD PROJECT AND QUALIFICATION OF THE PROJECT AREA
FOR THE RECOVERED OIL TAX RATE PURSUANT TO THE ENHANCED
OIL RECOVERY ACT, LEA COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

These cases came on for hearing at 8:15 a.m. on May 16, 2002, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 7th day of June, 2002, the Division Director, having considered the record and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of these cases and the subject matter.

(2) In Case No. 12845, EnerQuest Resources, L.L.C. ("EnerQuest"), seeks to statutorily unitize 920 acres, more or less, located in portions of Sections 29 through 32, Township 18 South, Range 39 East, NMPM, Lea County, New Mexico, for the purpose of instituting a waterflood project within the East Hobbs-San Andres Pool.

(3) In Case No. 12846, EnerQuest seeks approval to institute a waterflood project within the area proposed to be statutorily unitized by the injection of water into the San Andres formation, East Hobbs-San Andres Pool, through nineteen (19) initial injection wells located within Sections 29 through 32.

(4) The applications for statutory unitization and for a waterflood project were filed by EnerQuest on February 26, 2002.

(5) On April 12, 2002, prior to the hearing, a Motion to Dismiss Cases No. 12845 and 12846 was filed by Hugh B. Key, II, Julie Ann Hopkins Trust, Mark Collver Hopkins Trust, Anne Key Davis, Kite Royalty Co., L.L.C., and White Star Royalty, L.L.C., collectively referred to as "The Key Family Group," being working interest owners within the proposed unit, on the basis that EnerQuest failed to make a good faith effort to secure voluntary participation in unit operations prior to filing an application for statutory unitization.

(6) On April 17, 2002, EnerQuest filed a response to The Key Family Group's Motion to Dismiss.

(7) On April 29, 2002, prior to the hearing, a Motion to Dismiss Cases No. 12845 and 12846 was filed by Lynx Operating Company, a working interest owner within the proposed unit, on the basis that EnerQuest failed to make a good faith effort to secure voluntary participation in unit operations prior to filing an application for statutory unitization.

(8) On May 10, 2002, EnerQuest filed a response to Lynx Operating Company's Motion to Dismiss.

(9) Cases No. 12845 and 12846 were called and consolidated at the hearing held on May 16, 2002, in order to allow the parties to present arguments on the pending motions.

(10) EnerQuest, The Key Family Group, Lynx Operating Company, and various other interest owners appeared at the hearing in person and through counsel.

(11) The Statutory Unitization Act (NMSA 1978 Sections 70-7-1, et seq, as amended) provides (in Section 70-7-6.A(5)) that before the Division can grant an application for statutory unitization, the Division must find, *inter alia*, "that the operator has made a good faith effort to secure voluntary unitization within the pool or portion thereof directly affected."

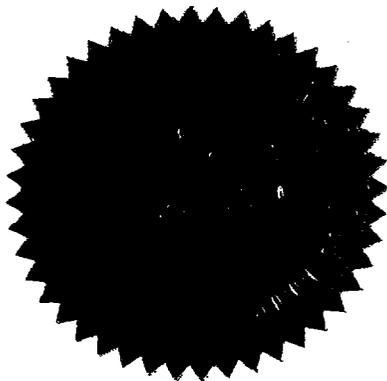
(12) Based on the undisputed facts, as represented to the Division in the presentations of the parties, the Division concluded that EnerQuest had not made such a good faith effort.

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the Division's ruling on May 16, 2002, the application of EnerQuest Resources, L.L.C. in Case No. 12845 for statutory unitization of 920 acres located in portions of Sections 29 through 32, Township 18 South, Range 39 East, NMPM, Lea County, New Mexico, and the application of EnerQuest Resources, L.L.C. in Case No. 12846 to institute a waterflood project within the area proposed to be unitized in the East Hobbs-San Andres Pool, are hereby dismissed.

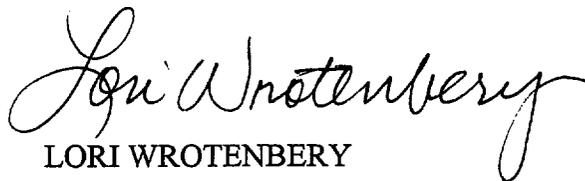
(2) Jurisdiction is hereby retained for the entry of such further orders as the Division may deem necessary.

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



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION



LORI WROTENBERY
Director

DOCKET: EXAMINER HEARING - THURSDAY – MAY 16, 2002

8:15 A.M. - 1220 South St. Francis

Santa Fe, New Mexico

Docket Nos. 16-02 and 17-02 are tentatively set for May 30, 2002 and June 13, 2002. Applications for hearing must be filed at least 23 days in advance of hearing date. The following cases will be heard by an Examiner:

CASE 12863: Application of Matador E & P Company for compulsory pooling, Lea County, New Mexico. Applicant seeks an order pooling all uncommitted royalty and overriding royalty interest owners with respect to any production underlying the N/2 NE/4 of Section 4, Township 20 South, Range 37 East, to form a standard 80-acre spacing and proration unit for any and all formations and/or pools developed on 80-acre spacing within said vertical extent, which presently may include but is not necessarily limited to the Monument-Tubb Pool. Applicant further requested that the pooling of this unit be made as of the date of first production from its proposed Cooper 4 Well No. 2 drilled and completed at a standard well location in Unit A of said Section 4 and the designation of Matador Operating Company as the operator. Said unit is located approximately 10 miles southwest of Hobbs, New Mexico.

CASE 12864: Application of Manzano Oil Corporation for an unorthodox well location, Lea County, New Mexico. Applicant seeks authorization to recomplete its Rum Point State Well No. 1 (API No. 30-025-35499) in the Wolfcamp formation, Undesignated King-Wolfcamp Pool, at an unorthodox well location 163 feet from the North Line and 1155 feet from the East line of Section 2, Township 14 South, Range 37 East. A standard 41.43-acre standard oil spacing unit comprised of the NE/4 NE/4 equivalent of Section 2 is to be dedicated to said well. Said well is located approximately 9 miles east of McDonald, New Mexico.

CASE 12865: Application of David H. Arrington Oil & Gas, Inc. for compulsory pooling, Lea County, New Mexico. Applicant seeks an order pooling all mineral interests from the surface to the base of the Mississippian formation in the W/2 of Section 34, Township 14 South, Range 35 East, for all formations developed on 320-acre spacing. Applicant proposes to dedicate this pooled unit to its proposed Chocolate Foam Wing Well No. 1, to be drilled at a standard gas well location in the NW/4 SW/4 of said Section 34. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well. Said area is located approximately 6 miles northwest of Lovington, New Mexico.

CASE 12866: Application of C. W. Trainer for approval of a salt water disposal well, Lea County, New Mexico. Applicant seeks approval to utilize its State GA Well No. 6 (API No. 30-025-03687) located 660 feet from the North line and 990 feet from the West line (Unit D) of Section 16, Township 15 South, Range 36 East, to dispose of produced water into the San Andres and Glorieta formations from a depth of 4749 feet to 6230 feet. This well is located approximately 3 miles northeast of Lea County, New Mexico.

CASE 12847: Continued from April 18, 2002, Examiner Hearing.

Application of V-F Petroleum Inc. for compulsory pooling, Eddy County, New Mexico. Applicant seeks an order pooling all mineral interests in the following described spacing and proration units in Section 22, Township 20 South, Range 30 East, as follows: the N/2 for all formations and/or pools developed on 320-acre spacing which includes but is not necessarily limited to the Undesignated Golden Lane-Strawn Gas Pool; the NW/4 for all formations and/or pools developed on 160-acre spacing; and the NW/4 NW/4 or the SW/4 NW/4 for all formations and/or pools developed on 40-acre spacing which includes but is not necessarily limited to the Undesignated Dos Hermanos Yates-Seven Rivers Pool and the Undesignated P.C.A. (Yates) Pool. Said units are to be dedicated to its Hale Federal Com Well No. 3 to be directionally drilled from an unorthodox surface location 1450 feet from the South line and 660 feet from the West line to a previously approved unorthodox bottom hole location in the Morrow formation 950 feet from the North line and 760 feet from the West line of

said Section 22 to a depth sufficient to test all formations from the surface to the base of the Morrow formation.

Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, provisions governing subsequent operations on the pooled units, designation of applicant as operator of the well and a charge for risk involved in drilling the well. Said area is located approximately 17 miles South of Loco Hills, New Mexico.

CASE 12790: Continued from May 2, 2002, Examiner Hearing.

Amended Application of Nearburg Exploration Company, L.L.C. for compulsory pooling, Lea County, New Mexico. Applicant seeks an order pooling all mineral interests in the following described spacing and proration units in Section 17, Township 20 South, Range 34 East as follows: the W/2 for all formations and/or pools developed on 320-acre spacing which includes but is not necessarily limited to the Undesignated Quail Ridge-Morrow Gas Pool, Undesignated South Quail Ridge-Atoka Gas Pool, and the Undesignated Lea Pennsylvanian Gas Pool; the NW/4 for all formations and/or pools developed on 160-acre spacing ; the W/2 NW/4 for all formations and/or pools developed on 80-acre spacing which includes but is not necessarily limited to the Undesignated Featherstone-Bone Springs Pool, and the NW/4 NW/4 for all formations and/or pools developed on 40-acre spacing which includes but is not necessarily limited to the Undesignated Southeast Teas-Delaware Pool, Undesignated Teas-Bone Springs Pool and the Undesignated Teas Yates-Seven Rivers Pool Said well is to be dedicated to its Mesquite "17" Federal Well No. 1 to be drilled at a standard location 660 feet from the North and West lines of said Section 17 to a depth sufficient to test all formations from the surface to the base of the Morrow formation. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, provisions governing subsequent operations on the pooled units, designation of Nearburg Producing Company as operator of the well and a charge for risk involved in drilling said well. Said area is located approximately 9 miles East of Halfway, New Mexico.

CASE 12820: Continued from May 2, 2002, Examiner Hearing.

Application of Nearburg Exploration Company, L.L.C. for compulsory pooling, Lea County, New Mexico. Applicant seeks an order pooling all mineral interests in the following described spacing and proration units in Section 5, Township 19 South, Range 33 East as follows: the W/2 for all formations and/or pools developed on 320-acre spacing which includes but is not necessarily limited to the Undesignated South Corbin-Morrow Gas Pool and the Buffalo-Pennsylvanian Gas Pool; the NW/4 for all formations and/or pools developed on 160-acre spacing; and the SW/4 NW/4 for all formations and/or pools developed on 40-acre spacing which includes but is not necessarily limited to the Undesignated West Tonto-Wolfcamp Pool, Undesignated Tonto-Bone Spring Pool, Undesignated Buffalo-Queen Pool and the Buffalo-Yates Pool. Said well is to be dedicated to its Gem North "5" Federal Com Well No. 1 to be drilled at a standard location 2310 feet from the North line and 660 feet from the West line of said Section 5 to a depth sufficient to test all formations from the surface to the base of the Morrow formation. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, provisions governing subsequent operations on the pooled units, designation of Nearburg Producing Company as operator of the well, imposition of a charge for risk involved in drilling said well and whether excessive royalty burdens upon certain leases should be subject to the charge for risk imposed by this order. Said area is located approximately 24 miles southeast of Loco Hills, New Mexico.

CASE 12859: Continued from May 2, 2002, Examiner Hearing.

Application of David H. Arrington Oil and Gas, Inc. for compulsory pooling, Lea County, New Mexico. Applicant seeks an order pooling all mineral interests underlying the E/2 of Section 25, Township 16 South, Range 35 East in the following manner: a) E/2 to form a standard 320-acre stand-up gas spacing and proration unit

(“the 320-acre Unit”) for any and all formations and/or pools developed on 320-acre spacing within that vertical extent, which presently include but are not necessarily limited to the Undesignated Shoe Bar-Atoka Gas Pool, Undesignated Townsend-Morrow Gas Pool, and Undesignated North Townsend-Mississippian Gas Pool; b) NE/4 to form a standard 160-acre spacing and proration unit (“the 160-acre Unit”) for any and all formations and/or pools developed on 160-acre spacing within that vertical extent; and c) E/2 NE/4 to form a standard 80-acre stand-up oil spacing and proration unit (“the 80-acre Unit”) for any and all formations and/or pools developed on 80-acre spacing within that vertical extent. Said units are to be dedicated to Applicant’s proposed Glass-Eyed Midge 25 Well No. 1 to be drilled at a standard 320-acre spacing and proration unit gas well location 803 feet from the North line and 902 feet from the East line in the NE/4 of said Section 25. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of David H. Arrington Oil and Gas, Inc. or its designee as operator of the well and a charge for risk involved in drilling said well. The proposed well location is approximately 6 miles southwest of Lovington, New Mexico.

CASE 12860: Continued from May 2, 2002, Examiner Hearing.

Application of Ocean Energy, Inc. for compulsory pooling, Lea County, New Mexico. Applicant seeks an order pooling all mineral interests from the surface to the base of the Mississippian formation underlying the W/2 of Section 25, Township 16 South, Range 35 East, to form a standard 320-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within that vertical extent, including but not limited to the Undesignated Townsend-Morrow Gas Pool. The unit is to be dedicated to applicant's Triple Hackle Dragon 25 Well No. 2, to be drilled at an orthodox location in the NE/4 SW/4 (Unit K) of Section 25. Also to be considered will be the cost of drilling and completing the well and the allocation of the cost thereof, as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, a charge for the risk involved in drilling and completing the well, and the establishment of escrow accounts for the purpose of holding and disbursing funds pending resolution of a title dispute affecting the NW/4 of Section 25. The unit is located approximately 5 miles southwest of Lovington, New Mexico.

CASE 12841: Continued from May 2, 2002, Examiner Hearing.

Application of Ocean Energy, Inc. for compulsory pooling, Lea County, New Mexico. Applicant seeks an order pooling all mineral interests from the surface to the base of the Mississippian formation underlying the W/2 of Section 25, Township 16 South, Range 35 East, to form a standard 320-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within that vertical extent, including but not limited to the Undesignated Townsend-Morrow Gas Pool. The unit is to be dedicated to applicant's Triple Hackle Dragon 25 Well No. 1, to be drilled at an orthodox location in the SW/4 NW/4 (Unit E) of Section 25. Also to be considered will be the cost of drilling and completing the well and the allocation of the cost thereof, as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, a charge for the risk involved in drilling and completing the well, and the establishment of escrow accounts for the purpose of holding and disbursing funds pending resolution of a title dispute affecting the NW/4 of Section 25. The unit is located approximately 5 miles southwest of Lovington, New Mexico.

CASE 12816: Continued from May 2, 2002, Examiner Hearing.

Application of TMBR/Sharp Drilling Inc. for compulsory pooling, Lea County, New Mexico. Applicant seeks an order pooling all mineral interests from the surface to the base of the Mississippian formation underlying the N/2 of Section 25, Township 16 South, Range 35 East, to form a standard 320-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre gas spacing within that vertical extent, including the Townsend-Morrow Gas Pool and the Townsend-Mississippian Gas Pool. This unit is to be dedicated to its Blue Fin "25" Well No. 1 which will be located at a standard location within Unit E of this section. Also to be

considered will be the costs of drilling and completing this well and the allocation of the costs thereof as well as actual operating costs and charges for supervision, designation of TMBR/Sharp Drilling Inc. as the operator of the well and a charge for risk involved in this well. This unit is located approximately 5-1/2 miles southwest of the center of the City of Lovington, New Mexico.

CASE 12845: Continued from May 2, 2002, Examiner Hearing.

Application of EnerQuest Resources, LLC. for statutory unitization, Lea County, New Mexico. Applicant seeks an order unitizing, for the purpose of establishing an enhanced recovery project, all mineral interests 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 is 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.

CASE 12846: Continued from May 2, 2002, Examiner Hearing.

Application of EnerQuest Resources, LLC. for approval of a waterflood project and qualification of the Project Area for the Recovered Oil Tax rate pursuant to the Enhanced Oil Recovery Act, Lea County, New Mexico. Applicant seeks approval of its East Hobbs (San Andres) Unit Waterflood Project by injection of water into the San Andres formation through 19 injection wells located in the following described area:

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

The applicant requests that the Division establish procedures for the administrative approval of additional injection wells within the unit area without the necessity of further hearings and the adoption of any provisions necessary for such other matters as may be appropriate for said waterflood operations.

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

CASE 12861: Continued from May 2, 2002 Examiner Hearing.

Application of the New Mexico Oil Conservation Division for an Order Requiring Charles E. Yancura to Properly Plug One (1) Well, Imposing Civil Penalties in Event of Failure to Comply, Authorizing the Division to Plug Said Well in Default of Compliance by Charles E. Yancura, and Ordering a Forfeiture of Applicable Plugging Bond; Lea County, New Mexico. The Applicant seeks an order requiring Charles E. Yancura, the operator of One (1) inactive well in Lea County, New Mexico, to properly plug and abandon the same, imposing civil penalties in event of failure to comply, authorizing the Division to plug said well if the operator fails to do so, forfeiting Operator's plugging bond, and providing for such other relief as the Director deems appropriate. The affected well is the following:

<u>Operator</u>	<u>Well Name</u>	<u>API No.</u>	<u>Location</u>
Charles E. Yancura	State 43-35 No. 1	30-025-02810	I-35-16S-35E

CASE 12825: Continued from February 21, 2002, Examiner Hearing.

Application of the New Mexico Oil Conservation Division for an Order Requiring Leigh Operating Company to Properly Plug Two (2) Wells, Imposing Civil Penalties in Event of Failure to Comply, Authorizing the Division to Plug Said Wells in Default of Compliance by Leigh Operating Company or Its Surety, and Ordering a Forfeiture of Applicable Plugging Bonds; Lea County, New Mexico. The Applicant seeks an order requiring Leigh Operating Company, the operator of Two (2) inactive wells in Lea County, New Mexico, to properly plug and abandon the same, imposing civil penalties in event of failure to comply, authorizing the Division to plug said wells if the operator or its sureties fails to do so, forfeiting Operator's plugging bond, and providing for such other relief as the Director deems appropriate. The affected wells are the following:

<u>Operator</u>	<u>Well Name</u>	<u>API No.</u>	<u>Location</u>
Leigh Operating Co.	Caudill State No. 1	30-025-27461	K-26-15S-36E
Leigh Operating Co.	Caudill State No. 2	30-025-27637	B-26-15S-36E