

**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."

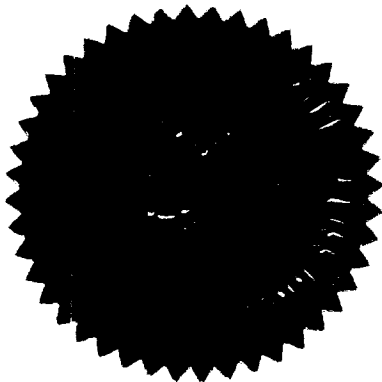
(12) Based on the undisputed facts, as represented to the Division in the presentations of the parties, the Division concluded that EnerQuest had not made such a good faith effort.

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.

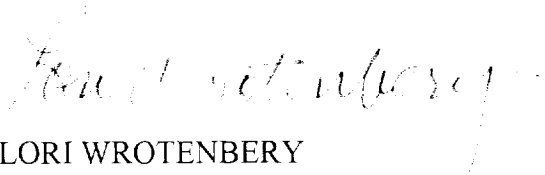
(2) Jurisdiction is hereby retained for the entry of such further orders as the Division may deem necessary.

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



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STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


LORI WROTENBERY
Director