

**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. 12728
ORDER NO. R-2319-A**

**APPLICATION OF ENERGEN RESOURCES CORPORATION FOR A NON-
STANDARD GAS SPACING UNIT AND AN UNORTHODOX COAL GAS WELL
LOCATION, RIO ARriba COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on September 20, 2001, at Santa Fe, New Mexico before Examiner Michael E. Stogner.

NOW, on this 31st day of October, 2001, the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of this case and its subject matter.

(2) The applicant, Energen Resources Corporation ("Energen"), seeks to establish a non-standard 355.25-acre gas spacing unit in the Basin-Fruitland Coal (Gas) Pool comprising all of irregular Sections 18 and 19, Township 32 North, Range 5 West, NMPM, Rio Arriba County, New Mexico. Further, Energen proposes to dedicate this non-standard unit to its San Juan "32-5" Unit Well No. 112 (**API No. 30-039-26729**) to be drilled at an unorthodox coal gas well location 410 feet from the South line and 1320 feet from the East line, or 150 feet from the West line, (Lot 4/Unit P) of irregular Section 19.

(3) The Basin-Fruitland Coal (Gas) Pool is an "unprorated gas pool" not subject to Part H of the Division's statewide rules and regulations entitled "*Gas Proration and Allocation*" (Rules 601 through 605). However, the Basin-Fruitland Coal (Gas) Pool is subject to the "*Special Rules and Regulations for the Basin-Fruitland Coal (Gas) Pool*," established by Division Order No. R-8768, as amended by Orders No. R-8768-A and R-8768-B, which rules provide for:

- (i) 320-acre spacing units (Rule 4);
- (ii) wells to be located in the NE/4 or SW/4 of a single governmental section and no closer than 660 feet to the outer boundary of the spacing unit nor closer than 10 feet to any interior quarter or quarter-quarter section line or subdivision inner boundary (Rule 7).

(4) Energen originally sought administrative approval of its proposed non-standard spacing unit and unorthodox coal gas well location by application dated July 31, 2001. That application was received by the Division on August 2, 2001.

(5) Subparts D and E to Rule 6 of the Special Rules and Regulations for the Basin Fruitland Coal Gas Pool require the applicant to present written consent in the form of waivers from "all offset operators or owners of undrilled tracts and from all operators owning interests in the half section in which the non-standard unit is situated and which acreage is not included in said non-standard unit," or alternatively provide proof of notification to such parties of the applicant's intent to form such a non-standard unit. Furthermore, using the notification procedures set forth in Division Rule 1207.F and Rule 104, Energen provided timely notice of its administrative application to all "affected persons" as defined in Rule 1207.A (2), including the owners of unleased mineral interests located in all adjoining and cornering sections in proximity to the proposed unorthodox coal gas well location as well as to the operators or owners of all drilled and undrilled tracts offsetting the proposed non-standard spacing unit.

(6) Rule 104.F of the Division's general rules authorizing applications for unorthodox well locations provides that the Division may grant exceptions to the well location requirements provided notice is issued to "affected persons" as defined in Rule 1207.A.

(7) Rule 1207.A (2) of the Division's procedural rules sets forth the notification requirements for applications for unorthodox well locations. In the context of this application, subpart A of this rule defines "affected persons" as persons owning interests in the "adjoining spacing units," including, specifically, Division-designated operators, lessees of record in the absence of an operator, and mineral interest owners of record in the absence of lessees or an operator. Rule 1207.A (2) (a) 2 and 3 also includes all working interest owners in the adjoining spacing unit where the operator of the proposed unorthodox well is also the operator of that adjoining unit.

(8) Rule 1207.A (2) (b) directs that notice of the proposed unorthodox well location go to "affected persons" in the adjoining spacing units towards which the unorthodox location encroaches. Rule 8 authorizes the Division director to grant exceptions to the well location requirements of Rule 7 where necessitated by, among other things, topographical conditions. Rule 8 of the special pool rules further specifies that "all operators or owners of undrilled tracts offsetting the proposed location" are to be notified of the application.

(9) Rule 8 of the "*Special Rules and Regulations for the Basin-Fruitland Coal Gas Pool*" were initially promulgated by the Division pursuant to Order No. R-8768 (Case No. 9420) issued on November 1, 1988. Rule 8 was unchanged by the subsequent amendments to Order No. R-8768 made on July 16, 1991 (Order No. R-8768-A) and February 10, 2000 (Order No. R-8768-B).

(10) In Case No. 12119, the New Mexico Oil Conservation Commission initiated a comprehensive rulemaking proceeding for the purpose of revising the Division's well location rules under Rule 104, including procedures for making applications for unorthodox well locations under Rule 104.F. The final changes to these rules were promulgated by Order No. R-11231 issued by the Commission on August 12, 1999. Rule 104.F, as amended, incorporated by reference the notice provisions of Rule 1207.A (2), which was also amended on July 15, 1999. Rule 7 of the "*Special Rules and Regulations for the Basin-Fruitland Coal Gas Pool*" providing for the well location requirements for wells in the pool was also amended on February 10, 2000 by Order No. R-8768-B to reflect the amendments to Rule 104.

(11) The procedures for obtaining exceptions to the well location requirements and approvals for unorthodox locations under the more recent amendments to Rules 104.F and 1207.A (2) are more detailed and specific than those set forth in Rule 8 of the "*Special Rules and Regulations for the Basin-Fruitland Coal Gas Pool*," which was not amended by Order No. R-8768-B. In particular, Rule 1207.A (2) (a) contains a more comprehensive definition of "affected persons" and includes a more specific description of adjoining spacing units affected by an unorthodox well location than does Rule 8, which refers only in a general manner to tracts offsetting the proposed location. Accordingly, the definitions and notification requirements of Rules 104.F and 1207.A (2) should be given effect over the more general provisions of Rule 8 of the "*Special Pool Rules for the Basin-Fruitland Coal Pool*."

(12) The notice provided by Energen of its Application complies with the Division's rules in any event.

(13) Subsequent to the issuance of notice by Energen of its administrative application, the Division received timely written objections from John C. Candelaria, Thomas J. Candelaria and David J. Candelaria, all of Salt Lake City Utah, the owners of unleased mineral interests in Sections 12 and 13, Township 32 North, Range 6 West, NMPM, Rio Arriba County, New Mexico. These individuals did not state the basis of their objections to Energen's application. By letter dated August 27, 2001, the Division caused this matter to be set for hearing before a Division Examiner on September 20, 2001. This case and the hearing were duly advertised by the Division as required by law.

(14) At the time of the hearing on September 20, 2001, no affected party appeared in opposition to Energen's application.

(15) By Order No. R-2319, dated October 3, 1962, the Division authorized a 355.25-acre non-standard gas spacing and proration unit ("unit") for the Blanco-Mesaverde and Basin-Dakota Gas Pools comprising all of irregular Sections 18 and 19. The unit was initially dedicated to the San Juan "32-5" Unit Well No. 1-X located at a gas well location considered to be unorthodox for both pools at that time 734 feet from both the East and West lines and 1680 feet from the South line (Lot 3/Unit I) of irregular Section 19. In 1982, when the San Juan "32-5" Unit Well No. 1-X was plugged and abandoned, this 355.25-acre non-standard GPU ceased to exist. By Administrative Order NSL-4482 (NSP), dated July 6, 2000, the Division reinstated this 355.25-acre non-standard unit for an unorthodox gas well location in the Basin-Dakota Pool for Energen's San Juan "32-5" Unit Well No. 1-R (**API No. 30-039-26427**) located 455 feet from the South line and 1275 feet from the East line (Lot 4/Unit P) of irregular Section 19.

(16) Energen presented testimony that in the area of its proposed well location, Section 19 is approximately 1470 feet wide. Energen presented additional evidence establishing that although a standard well location of 660 feet from the side boundaries of the section would technically be possible, the nature of the topography and restrictions on well access and surface use imposed by the U. S. Bureau of Land Management ("USBLM"), the owner of the surface of Section 19 and federal surface management agency, precluded the use of the surface at a standard well location. Moreover, Energen proposes to utilize an existing rig pad that was previously constructed for Energen's San Juan "32-5" Unit Well No. 1-R.

(17) The USBLM required Energen to move the San Juan "32-5" Unit Well No. 112 to its present proposed location to minimize the cut and fill for the access road and rig pad and to reduce the visual impact of the location. Access to a rig pad at a standard location was further restricted by the USBLM due to the subsequent location of additional

archaeological artifact sites in the area identified pursuant to an archaeological survey commissioned by Energen.

(18) Energen presented additional evidence establishing that the anticipated need to utilize a rod pump installation to remove significant volumes of water from the Fruitland coal gas formation, which requires a straight hole completion, precludes the directional drilling of the well to a standard bottom hole location for the Basin-Fruitland Coal (Gas) Pool from the proposed unorthodox surface location.

(19) Energen does not seek an exception to the well location requirements under the pool rules for the Basin-Fruitland Coal (Gas) Pool due to geological conditions.

(20) The topographic conditions and the surface access and use restrictions imposed by the surface owner constitute "unusual circumstances" that justify an exception to the Division's well location requirements in this case. The non-standard spacing unit sought by Energen conforms to the previously approved non-standard proration units established for the Blanco-Mesaverde and the Basin-Dakota Pools for Sections 18 and 19 pursuant to Division Order No. R-2319 and Division Administrative Order NSL-4482 (NSP). Moreover the proposed well location conforms, generally, to the prevailing spacing pattern in the area for Basin-Fruitland coal gas wells.

(21) Should Energen be unable to drill its proposed well at the subject unorthodox location, the expected coal gas underlying the subject lands will be wasted.

(22) Approval of this application will afford Energen the opportunity to produce its just and equitable share of the gas in the affected pool, will result in the recovery of hydrocarbons that would otherwise be left in the ground and wasted, and will otherwise be in the best interests of conservation and the protection of correlative rights.

IT IS THEREFORE ORDERED THAT:

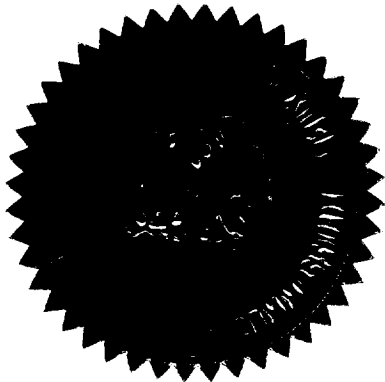
(1) The application of Energen Resources Corporation ("Energen") for an exception to Rule 7 of the "*Special Rules and Regulations for the Basin-Fruitland Coal (Gas) Pool*," established by Division Order No. R-8768, as amended, to drill its proposed San Juan "32-5" Unit Well No. 112 (**API No. 30-039-26729**) at an unorthodox coal gas well location 410 feet from the South line and 1320 feet from the East line, or 150 feet from the West line, (Lot 4/Unit P) of irregular Section 19, Township 32 North, Range 5 West, NMPM, Rio Arriba County, New Mexico, is hereby approved.

(2) Further, this well is to be dedicated to a non-standard 355.25-acre gas spacing

unit comprising all of irregular Sections 18 and 19, Township 32 North, Range 5 West, NMPM, Rio Arriba County, New Mexico, hereby approved as an exception to Rule 4 of the special rules governing the Basin-Fruitland Coal (Gas) Pool.

(3) Jurisdiction of this case is 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.



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in cursive script that reads "Lori Wrotenbery".

LORI WROTENBERY
Director