

New Mexico Energy, Minerals and Natural Resources Department

Bill Richardson
Governor

Joanna Prukop
Cabinet Secretary
Reese Fullerton
Deputy Cabinet Secretary

Mark Fesmire
Division Director
Oil Conservation Division



May 11, 2009

Energen Resources Corporation
Attn: Mr. David M. Poage
2010 Afton Place
Farmington, NM 87401

Administrative Order NSL-6031 *
Administrative Order SD-200903

AT
Re: San Juan 32-5 Unit Well No. 112S
API No. 30-039-30616
Unit G, Section 24-32N-6W
Rio Arriba County

RCVD MAY 18 '09

OIL CONS. DIV.
DIST. 3

Dear Mr. Poage:

Reference is made to the following:

(a) your applications (**administrative non-standard location [NSL] application reference No. pKAA09-10759889 and administrative simultaneous dedication [SD] application reference No. pKAA09-1241864**) submitted to the New Mexico Oil Conservation Division (the Division) in Santa Fe, New Mexico on April 17, 2009, and

(b) the Division's records pertinent to these requests.

Non-Standard Location

Energen Resources Corporation (Energen) has requested to drill the above-referenced well as a horizontal gas well in the Fruitland Coal formation, at a location that will be unorthodox under Division Rule 16.14.B(2). The proposed surface location, point of penetration and terminus of the well are as follows:

Surface Location: 2378 feet from the North line and 1573 feet from the East line
(Unit G) of Section 24, Township 32N, Range 5W, NMPM
Rio Arriba County, New Mexico

Point of Penetration: 1600 feet from the North line and 1100 feet from the East line

** note change*
page 2
Oil Conservation Division * 1220 South St. Francis Drive
* Santa Fe, New Mexico 87505

* Phone: (505) 476-3440 * Fax (505) 476-3462 * <http://www.emnrd.state.nm.us>



of irregular Section 19, Township 32N, Range 5W.

Terminus 760 feet from the North line and 760 feet from the East line
of irregular Section 18, Township 32N, Range 5W.

An existing non-standard spacing unit comprising all of irregular Sections 18 and 19 will be dedicated to the proposed well to form a unit and project area in the Basin-Fruitland Coal Gas Pool (71629). This non-standard unit was previously approved by Order No. R-2319-A issued in Case No. 12728 on October 31, 2001.

Spacing in this pool is governed by the Special Rules and Regulations for the Basin-Fruitland Coal Gas Pool, as amended by Order No. R-8768-F, effective July 17, 2003, which provide generally for 320-acre units with wells to be located at least 660 feet from any unit boundary. This location is unorthodox because a portion of the producing interval will be less than 660 feet from the western boundary of the project area, and therefore outside the producing area. In addition, due to the narrowness of the east-west dimension of the producing area of this irregular unit, you have requested that the applicable setback from the eastern and western boundaries for the lateral portion of the wellbore be reduced from 660 feet to 500 feet.

Your application has been duly filed under the provisions of Division Rules 15.13 and 4.12.A(2).

It is our understanding that you are seeking this location for engineering reasons, in order to reduce the horizontal distance that must be drilled directionally from the available surface location to the point of penetration.

It is also understood that you have given due notice of this application to all operators or owners who are "affected persons," as defined in Rule 4.12.A(2), in all adjoining units towards which the proposed location encroaches.

Pursuant to the authority conferred by Division Rule 15.13.B, the above-described unorthodox location and reduced setbacks are hereby approved.

Simultaneous Dedication

In addition, Energen has requested simultaneous dedication of this Unit to the proposed San Juan 32-5 Unit Well No. 112S (the proposed well) and to the existing San Juan 32-5 Unit Well No. 112 (API No. 30-039-26720), located 410 feet from the South line and 1320 feet from the East line of irregular Section 19, Township 32 North, Range 5 West, NMPM, in Rio Arriba County (the existing well).

Well density in this pool is governed by Order No. R-8768-F, effective July 17, 2003, which, as applied to this unit, allows two wells to be completed in the unit, but requires that the wells be in different quarter sections. Because the proposed well will be completed within both quarter sections of this unit, division approval for simultaneous dedication is required.

It is our understanding that you are seeking simultaneous dedication of this unit to the proposed well and the existing well for economic reasons because drilling the proposed well, which is necessary to produce reserves from the northern portion of the spacing unit, is not

May 11, 2009

Page 3

economically justified unless production from the existing well is allowed to continue. It is also understood that you have given due notice of this application to all operators or owners who are "affected persons," as defined in Rule 4.12.A(2), in all adjoining units.

Your application on behalf of EOG has been duly filed under the provisions of Division Rules 15.11.C and 4.12.A(2).

Conclusion

The above approvals are subject to your being in compliance with all other applicable Division rules, including, but not limited to Division Rule 5.9.

Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

Sincerely,



 Mark E. Fesmire, P.E.
Director

MEF/db

cc: New Mexico Oil Conservation Division - Aztec
United States Bureau of Land Management - Farmington