

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. 13,828

APPLICATION OF ENERGEN RESOURCES)
CORPORATION FOR AN AMENDMENT TO)
ADMINISTRATIVE ORDER NSL-3572 (NSP))
AND FOR AN EXCEPTION TO RULE 4 OF THE)
SPECIAL POOL RULES FOR THE BASIN-)
FRUITLAND COAL GAS POOL FOR THE)
DESIGNATION OF A NONSTANDARD GAS)
SPACING UNIT, SAN JUAN COUNTY,)
NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: RICHARD EZEANYIM, Hearing Examiner

November 30th, 2006

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, RICHARD EZEANYIM, Hearing Examiner, on Thursday, November 30th, 2006, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

STEVEN T. BRENNER, CCR
(505) 989-9317

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I N D E X

November 30th, 2006
 Examiner Hearing
 CASE NO. 13,828

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<u>DAVID POAGE</u> (Landman)	
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A P P E A R A N C E S

FOR THE DIVISION:

DAVID K. BROOKS, JR.
Assistant General Counsel
Energy, Minerals and Natural Resources Department
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

FOR THE APPLICANT:

MILLER STRATVERT, P.A.
150 Washington
Suite 300
Santa Fe, New Mexico 87501
By: J. SCOTT HALL

* * *

1 WHEREUPON, the following proceedings were had at
2 1:22 p.m.:

3
4
5 EXAMINER EZEANYIM: Let's go back on the record
6 again.

7 At this time I call Case Number 13,828,
8 Application of Energen Resources Corporation for an
9 amendment to Administrative Order NSL-3572 (NSP) and for an
10 exception to Rule 4 of the special pool rules for the
11 Basin-Fruitland Coal Gas Pool for the designation of a
12 nonstandard gas spacing unit, San Juan County, New Mexico.

13 Call for appearances.

14 MR. HALL: Mr. Examiner, Scott Hall, Miller
15 Stratvert, PA, Santa Fe, on behalf of the Applicant,
16 Energen Resources Corporation. We have one witness this
17 afternoon.

18 EXAMINER EZEANYIM: Any other appearances?
19 May the witness stand up to be sworn, please?
20 (Thereupon, the witness was sworn.)

21 MR. HALL: At this time, Mr. Examiner, we would
22 call Dave Poage to the witness stand.

23 EXAMINER EZEANYIM: Dave -- ?

24 MR. HALL: -- Poage.

25 EXAMINER EZEANYIM: Okay. Go ahead.

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DAVID POAGE,

the witness herein, after having been first duly sworn upon
his oath, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. HALL:

Q. For the record, state your name.

A. David Poage.

Q. Mr. Poage, where do you live and by whom are you
employed?

A. I live in Farmington, New Mexico, and I'm
employed by Energen Resources Corporation.

Q. In what capacity?

A. I'm a district landman.

Q. And have you previously testified before the
Division and had your credentials as an expert petroleum
landman established as a matter of record?

A. Yes.

Q. Are you familiar with the Application that's been
filed in this case and the lands that are the subject of
the Application?

A. Yes.

Q. How long have you been working as a landman in
the San Juan Basin, would you say?

A. Oh, about 30 years.

MR. HALL: At this point, Mr. Examiner, we'd

1 offer Mr. Poage as a qualified expert petroleum landman.

2 EXAMINER EZEANYIM: Mr. Poage is so qualified.

3 Q. (By Mr. Hall) If you would, Mr. Poage, please
4 explain to the Hearing Examiner what it is Energen seeks by
5 this Application.

6 A. Well, the situation we have is, Energen operates
7 a Florance Gas Com H Number 1 well. It's a Basin-Fruitland
8 Coal completion. Presently, the State records have
9 dedicated to it a 207.84-acre spacing unit and proration
10 unit. The communitization agreement approved by the BLM
11 has a 308.56-acre communitization agreement area dedicated
12 to the well. The communitization agreement for the
13 Mesaverde well underlying the same lands --

14 EXAMINER EZEANYIM: Mr. Poage, please, could you
15 repeat what you just said? Repeat what you just said about
16 207.84-acre --

17 THE WITNESS: The spacing unit dedicated by the
18 NMOCD is 207.84 acres. The communitization agreement
19 approved by the BLM is 308.56.

20 EXAMINER EZEANYIM: For the same well?

21 THE WITNESS: That's the conflict.

22 EXAMINER EZEANYIM: For the same well?

23 THE WITNESS: For this exact same well, yes.

24 EXAMINER EZEANYIM: Okay.

25 THE WITNESS: The Mesaverde communitization

1 agreement on the same spacing unit is also 308.56, and that
2 well was drilled in 1953.

3 EXAMINER EZEANYIM: Okay.

4 Q. (By Mr. Hall) What is the well name?

5 A. The Florance Gas Com H Number 1.

6 Q. And when was this well drilled?

7 A. It was drilled in 1993, originally operated by SG
8 Interests.

9 Q. And was that well drilled at a nonstandard
10 location?

11 A. Yes, it was.

12 Q. Let's look at Exhibit 1, Mr. Poage, if you would
13 identify that. What does that show us?

14 A. This is a plat that shows the 308.56-acre spacing
15 unit and the composition there is. There's two federal oil
16 and gas leases involved. One of them covers 104.16 acres,
17 which is the southwest quarter of Section 30. The other
18 covers the western portion of Section 31. It's a federal
19 lease, SF-076337. Energen owns 100-percent interest in
20 that lease, and in the lease covered in the southwest
21 quarter Energen owns 90-percent interest, and Conoco owns
22 the other 10-percent in the Fruitland Coal formation.

23 Q. So is this a graphic depiction of the unit
24 configuration you're seeking the Division's approval for?

25 A. Yes, and it also has located on it the actual

1 well site.

2 Q. Mr. Poage, turn to Exhibit Number 2. Can you
3 identify that for the Hearing Examiner?

4 A. This is an Application on behalf of SG for a
5 nonstandard location necessitated by variation in the legal
6 subdivision. The location doesn't meet the minimum setback
7 requirements for Fruitland Coal wells, because it's only
8 410 feet from the western edge, and that was due to
9 topography and steep cliffs within the area.

10 Q. Now was this administrative application filed in
11 March of 1993?

12 A. Yes, it was.

13 Q. Let's look at the third page of that exhibit, the
14 C-102 plat that was submitted as part of the application --

15 EXAMINER EZEANYIM: Let me understand. This NSL
16 has been approved, right?

17 MR. HALL: I'm sorry?

18 EXAMINER EZEANYIM: The NSL has been approved?

19 MR. HALL: Yes.

20 THE WITNESS: That's correct. Two years after
21 this was applied for.

22 EXAMINER EZEANYIM: Okay.

23 THE WITNESS: We'll show that later in one of the
24 exhibits, that the NSL actually received approval in 1995.

25 Q. (By Mr. Hall) Now let's look at the C-102 plat

1 that was submitted as part of that March, 1993,
2 application. It's the third page in on Exhibit Number 3.

3 A. Right, this shows the 207.84-acre dedication,
4 although it does say in the dedicated acreage it's 308.56,
5 which is incorrect for the acreage shown on the plat in
6 Section 30.

7 Q. So this reflects the current unit designation
8 approved by the Division; is that right?

9 A. That's correct.

10 Q. And does this plat show that the 308.56-acre unit
11 is contained wholly within Section 30?

12 A. That's what it shows.

13 Q. Turn to Exhibit 3, Mr. Poage. What is that?

14 A. This is a letter from the Division advising that
15 the Application that we just looked at was insufficient,
16 and notes that there's a discrepancy in the acreage, that
17 the Application calls for 207.84 acres, but the C-102 shows
18 308.56, and it was asking for an explanation of that
19 discrepancy.

20 EXAMINER EZEANYIM: Which letter are you talking
21 about?

22 MR. HALL: It's Exhibit Number 3.

23 EXAMINER EZEANYIM: Okay.

24 MR. HALL: Letter dated March 17, 1993.

25 EXAMINER EZEANYIM: Okay, go ahead.

1 Q. (By Mr. Hall) Mr. Poage, in your review of the
2 Division's well files did you see any direct response to
3 this letter?

4 A. No.

5 Q. Turn to Exhibit 4 now, Mr. Poage. Would you
6 explain what this shows?

7 A. This again is an application for a nonstandard
8 location for this well, again states that the need is for
9 -- because they did not meet the minimum setback
10 requirements due to steep cliffs and topography in the
11 area.

12 Q. And this subsequent application is dated March
13 29, 1993; is that right?

14 A. That's correct.

15 Q. And if you'll look at the second paragraph of the
16 first page of that application, does it refer to the
17 207.84-acre unit?

18 A. Yes, it does.

19 Q. And if we go in four pages in Exhibit Number 4,
20 the C-102 plat that was submitted with the supplemental
21 application, does this appear to be the same C-102 that was
22 included with the original application?

23 A. It's identical to the one that was contained with
24 the original application, with the exception that the
25 dedicated acreage number has been changed to 207.84 acres.

1 Q. Now were copies of the original application and
2 the resubmitted application obtained from the Division's
3 well files?

4 A. Yes.

5 Q. Look at Exhibit 5. Is that a copy of
6 Administrative Order NSL-3572 (NSP)?

7 A. Yes, it is. It's a letter dated August 28th,
8 1995, approving the Application for a nonstandard 207.84-
9 acre gas spacing unit.

10 Q. All right. Turn to Exhibit 6, please. What is
11 that?

12 A. This is a copy of the Application for permit to
13 drill for the Florance Gas Com H Number 1, and it does show
14 the dedication of 308.56 acres, and it was approved.

15 Q. And what date was it approved?

16 A. October, 1991.

17 Q. Turn to Exhibit Number 7. Would you identify
18 that, please?

19 A. This is a communitization agreement approved by
20 the Bureau of Land Management for the Florance Gas Com H
21 Number 1 Fruitland Coal well, and it shows the dedicated
22 acreage to be the southwest quarter of Section 30 and the
23 west half of Section 31, which is the 308.56-acre spacing
24 unit.

25 Q. Is that shown on page 2 of that exhibit?

1 A. Yes.

2 Q. And what is the date of that communitization
3 agreement? If you'll look at the very first paragraph,
4 page 2.

5 A. Oh, April 1st, 1993.

6 Q. Turn to Exhibit 8 now. Is this exhibit a plat of
7 the communitized area that comes from the communitization
8 agreement?

9 A. Yes, it is. It's just a copy from the com
10 agreement.

11 Q. And again, it reflects a 308.56-acre unit?

12 A. That's correct.

13 Q. And does the plat show that the unit covers lands
14 both within Sections 30 and 31?

15 A. Yes.

16 Q. On what date did Energen Resources become
17 operator of the Florance Gas Com 1 H well?

18 A. August 1st of 2004.

19 Q. To your knowledge, has production been allocated
20 to the leases and owners in the 308-acre unit since the
21 date of the communitization agreement?

22 A. From all the records we have, the production is
23 allocated pursuant to the communitization agreement for the
24 308.56-acre spacing unit.

25 Q. All right. Now for the two leases that are

1 committed to the 308-acre unit, is that 100-percent federal
2 minerals?

3 A. That is correct.

4 Q. And in both the 207-acre unit and the 308-acre
5 unit, is the working interest ownership consistent?

6 A. No, it really isn't. The 207.8-acre unit
7 consists of the west half of Section 30, does not include
8 any of Section 31. The 308.56-acre unit is the southwest
9 of 30 and the west half of 31. The northwest quarter of
10 Section 30 is owned by Amoco. The ownership of the spacing
11 unit for the 308.56 is as we depicted on our initial
12 exhibit.

13 Q. To your knowledge, BP Amoco has never
14 participated in production from the well --

15 A. That's correct.

16 Q. -- for their acreage in that northwest quarter?

17 A. That's correct.

18 Q. Mr. Poage, by redesignating a 308.56-acre unit,
19 does an additional coal gas well location become available
20 for drilling in the southwest quarter?

21 A. Yeah, once we -- this redesignation is approved,
22 then we anticipate to drill a well in the southwest quarter
23 of Section 31 as an infill to the Florance Gas Com H 1.

24 Q. And that location would not be available to you
25 if the 207-acre unit --

1 A. That's correct.

2 Q. -- continues to be recognized?

3 A. That's correct.

4 Q. Are you familiar with the special pool rules and
5 regulations for the Basin-Fruitland Coal Gas Pool?

6 A. Yes.

7 Q. And does Rule 4 under those rules require that
8 each standard gas spacing unit be comprised of a 320-acre
9 unit within a single governmental section?

10 A. Yes.

11 Q. And does Rule 6 of the special rules for that
12 pool authorize the Division to grant exceptions to Rule 4
13 where a nonstandard unit conforms to a previously
14 established Mesaverde unit or Basin Dakota formation unit?

15 A. Yes.

16 Q. Turn to Exhibit 9, Mr. Poage. Would you identify
17 that, please?

18 A. This is a communitization agreement dated October
19 29th, 1953. It's for the Mesaverde formation well, and its
20 spacing unit is the 308.56-acre spacing unit that we're
21 asking to be redesignated for the Fruitland Coal.

22 Q. And is the well on that Mesaverde unit, is that
23 the Heath Gas Com C Well Number 1?

24 A. Yes, it is.

25 Q. Turn to Exhibit 11 -- Let's refer back to -- I'm

1 sorry, let's refer to Exhibit 10.

2 A. Exhibit 10 is a plat from the communitization
3 agreement for the Heath Gas Com C Number 1 well. It's a
4 Blanco-Mesaverde well. Dedicated spacing is 308.56. This
5 indicates it's in the west half of 30, but it also shows
6 the two federal leases involved, which if you refer back to
7 Exhibit 1 will show that the one lease is the southwest of
8 Section 30, and the other is the west half of Section 31.

9 Q. Now in fact, is this plat dated January 3, 1955?
10 Does it show a --

11 A. Yes.

12 Q. -- received date --

13 A. Yes.

14 Q. -- with that date?

15 A. That's the received date from the OCD.

16 Q. Now if you turn to Exhibit 11, does that appear
17 to be an amended gas well plat --

18 A. Right --

19 Q. -- for the Heath gas well.

20 A. -- it is a gas well plat. The initial plat filed
21 did not show any sections. This one breaks out the
22 information between Section 30 and Section 31.

23 Q. Now Mr. Poage, as a result of the redesignation
24 of the unit, if approved by the Division, will any interest
25 owner's participation in the well be diminished at all?

1 A. No.

2 Q. And how are the interests of the owner in the
3 northwest quarter of Section 30 affected by the
4 redesignated unit?

5 A. Well, when we redesignate the -- the unit
6 designation for the northwest quarter of 30 includes
7 northwest quarter in 30 and the west half of Section 19.
8 BP America has a Pictured Cliff well in the northwest
9 quarter of 30 and a Mesaverde well that has the spacing
10 unit of the west half, 19, and the northwest of 30. So
11 redesignated -- ours actually cleans up and leaves both of
12 those spacing units separate and distinct.

13 Q. Now, if Energen's Application is approved and you
14 gain an additional location for a coal gas well in the
15 southwest quarter of Section 31, will that result in the
16 production of additional incremental reserves that would
17 otherwise go unrecovered?

18 A. Yes.

19 Q. Now, do you see any way that the granting of this
20 Application will adversely affect the correlative rights of
21 any interest owner?

22 A. Not at all.

23 Q. And in your opinion, will granting the
24 Application be in the interests of conservation and the
25 prevention of waste?

1 A. Yes.

2 Q. Were Exhibits 1 through 11 prepared you or at
3 your direction, compiled from the records of the Oil
4 Conservation Division and the Bureau of Land Management?

5 A. Yes.

6 MR. HALL: At this point, Mr. Examiner, we would
7 move the admission of Exhibits 1 through 11 through Mr.
8 Poage.

9 Also we would move the admission of Exhibit 12,
10 our notice affidavit. We've notified the Bureau of Land
11 Management and ConocoPhillips Company, the only other
12 interest owner affected, and in accordance with Rule
13 1207.A.(3), and that concludes our presentation.

14 EXAMINER EZEANYIM: Exhibits 1 through 12 will be
15 admitted into evidence.

16 Just before you notified, you know -- you
17 notified those two people, what did they -- did they agree
18 for you to go ahead with the Application? What is the case
19 with that? Did you have them agree that you can go ahead
20 with this Application?

21 MR. HALL: We did notify them. I received no
22 response at all. We got our receipts for the notification
23 back, but otherwise got no responses.

24 EXAMINER EZEANYIM: The receipts were signed by
25 them?

1 MR. HALL: Yes.

2 MR. BROOKS: They did not notify BP?

3 MR. HALL: We did not notify BP.

4 THE WITNESS: Did not --

5 MR. BROOKS: They own the northwest quarter --

6 MR. HALL: If you'll look at Rule 1207.A.(3) --

7 MR. BROOKS: Okay, I've got it in front of me.

8 It's now 1210.A.(3) --

9 EXAMINER EZEANYIM: 1210 --

10 MR. BROOKS: -- I think it's substantively
11 unchanged. The applicant shall notify -- It's hard to
12 apply, because you're putting together two half sections.
13 The applicant shall notify all owners of interest in the
14 mineral estate to be excluded from the proration unit in
15 the quarter quarter section for 40-acre pools or
16 formations, the one-half section for 80-acre, or the
17 quarter for 160, or the half section for 320-acre
18 formations, or section for 640, in which the nonstandard
19 unit is located and to such other persons as the Division
20 may require.

21 Well, isn't the nonstandard unit at least partly
22 located in Section 30?

23 EXAMINER EZEANYIM: Uh-huh.

24 MR. BROOKS: So it would seem to require notice
25 to the people in the -- to the owners in the half section,

1 would it not?

2 MR. HALL: That's -- We could provide notice to
3 BP Amoco, who has the northwest --

4 MR. BROOKS: Yeah.

5 MR. HALL: -- quarter.

6 MR. BROOKS: And the northwest quarter is also
7 under federal lease?

8 MR. HALL: Yes, BLM has been notified.

9 MR. BROOKS: Okay, yeah, I noticed you had
10 notified BLM. And Conoco, of course, has an interest in
11 the southwest --

12 MR. HALL: Correct. Under the communitization
13 agreement, no one is being excluded from --

14 MR. BROOKS: Yeah.

15 MR. HALL: -- the unit, per se. It's only the
16 unit designated by the OCD, but --

17 MR. BROOKS: Yeah but it's --

18 MR. HALL: -- if it's your preference --

19 MR. BROOKS: -- in half-sections, so it seems to
20 me like it requires notice to BP.

21 MR. HALL: We'll be glad to provide them with
22 notice.

23 MR. BROOKS: I'm getting a bad reputation here
24 for raising these notice issues in every case.

25 MR. HALL: We'll do that. We'd ask that the case

1 be continued till January 4th, then, to provide for that,
2 and --

3 MR. BROOKS: Okay.

4 MR. HALL: -- we may solicit a waiver of
5 objection from them in the meantime, if that would satisfy
6 the Division.

7 MR. BROOKS: I would think that would.

8 MR. HALL: We could do that.

9 EXAMINER EZEANYIM: Okay. More?

10 MR. BROOKS: That's all.

11 EXAMINER EZEANYIM: Okay, Case Number 13,829 -- I
12 mean -28, will be continued to -- You want January 4?
13 January 4, 2007?

14 MR. HALL: Yes.

15 EXAMINER EZEANYIM: So we're going to grant you
16 the continuance to January 4th, 2007, so you can complete
17 the due process.

18 MR. HALL: That's all we have, Mr. Examiner.

19 EXAMINER EZEANYIM: Thank you. That concludes
20 this case.

21 (Thereupon, these proceedings were concluded at
22 1:45 p.m.)

23 I do hereby certify that the foregoing is
24 a true and correct copy of the proceedings in
25 the Examiner's hearing of Case No. 13828
Held by me on 1/3/07
Steven T. Brenner, Examiner
Oil Conservation Division

STEVEN T. BRENNER, CCR
(505) 989-9317

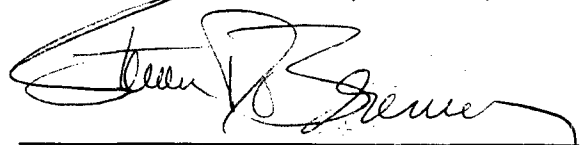
CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL December 5th, 2006.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2010