

CHRONOLOGY OF EVENTS
WEST LOVINGTON STRAWN UNIT

1992	Field discovery well is drilled by Charles B. Gillespie, Jr. and Energen's predecessor in interest, P, G & E Resources Company (50% each). Hamilton Federal #1, SW/SE, (Unit O), Section 33, T-15-S, R-35-E.
1993	In 1993, Gillespie and P, G & E drilled the Speight Fee Well No.1 in the NE/4 of Section 1, Township 16 South, Range 35 East NMPM in, Lea County, New Mexico. The Speight Fee Well No.1 was successfully completed in the Strawn formation generally defined by the New Mexico Oil Conservation Division ("NMOCD") in this particular area as the West Lovington Strawn pool consisting of the geologic equivalent of those depths occurring between 11,420 feet and 11,681 feet.
November, 1994	Following the successful completion of the Speight Fee No.1 Well and a number of additional wells, in or about November of 1994, Gillespie and Dalen Resources (successor to P, G & E) initiated formal discussions with various oil and gas Leasehold working interest owners in the area for the unitization of the West Lovington Strawn Pool, for the purpose of conducting secondary recovery operations across the unit area.
August 29, 1995	Pursuant to hearing, the New Mexico Oil Conservation Division issued Order No. R-10449 in Case No. 11195 approving of the Unit and the designation of Gillespie-Crow, Inc. as Unit Operator. The Unit became effective on October 1, 1995.
September, 1995	Gillespie, Dalen and the area working interest owners executed that Unit Agreement for the Development and Operation of the West Lovington Strawn Unit, Lea County, New Mexico, ("The Unit Agreement"). Simultaneously, Gillespie and the working interest owners also executed that Unit Operating Agreement, West Lovington Strawn Unit Area, Lea County, New Mexico ("Operating Agreement"). Under the Unit Agreement and the Operating Agreement, the parties "unitized" the Strawn formation and each committed their oil and gas leasehold interests in the formation to the 1,459 acre Unit (sometimes referred to as "The Unit" or

	<p>“WLSU”).</p> <p>Under the Unit Agreement and Unit Operating Agreement, the original “Unit Area” consisted of the Strawn formation underlying the following acreage:</p> <p style="text-align: center;">TOWNSHIP 15 SOUTH RANGE 35 EAST NMPM Section 33: All Section 34: W/2</p> <p style="text-align: center;">TOWNSHIP 16 SOUTH RANGE 35 EAST NMPM Section 1: Lots 1 through 8</p> <p style="text-align: center;">TOWNSHIP 16 SOUTH RANGE 36 EAST NMPM Section 6: Lots 3 through 5</p> <p>Under Section 4 of the Unit Agreement, the Unit Operator is obligated to expand the Unit to include any additional tract or tracts “regarded as reasonably necessary or advisable for the purposes of this agreement” or as may otherwise be prudent.</p> <p>The pressure maintenance project is an essential part of unit operations. Under the Unit Agreement and Unit Operating Agreement, the Unit’s surface and subsurface facilities are utilized in the pressure maintenance operations. The cost of the pressure maintenance project, including the costs of acquiring the injection gas and the cost of compression, are billed back to each of the unit working interest owners as unit operating expenses on a monthly basis.</p> <p>Since its initiation, the pressure maintenance project has effectively maintained reservoir pressure within the West Lovington Strawn Pool. Due to the success of the pressure maintenance project, production from unit wells was increased from 100 barrels of oil per day (“BOPD”) to over 200 barrels per day from each well.</p>
October 1, 1995	West Lovington Strawn Unit (WLSU) becomes effective. Average bottom hole pressure of the West Lovington Strawn Pool on 9/18/95 was 3294 psia.
October 26, 1995	State “S” No. 1 well is completed in the Strawn formation flowing 505 BOPD + 720 MCFGPD. Original bottom hole pressure from DST taken 9/24/95 was 3286 psia.
November 21, 1995	State “S” No. 1 well bottom hole pressure is recorded at 3261 psia. Gillespie-Crow, Inc. prepares to expand the WLSU to bring the State “S” well.

December, 1995	Hanley Petroleum, Inc. announces location of its Chandler No. 1 well to test the Strawn formation in Section 28, Township 15 South, Range 35 East just 330 feet from WLSU boundary.
January 19, 1996	Hanley Petroleum, Inc. spuds its Chandler No. 1 well 330' FSL & 1650' FEL of Section 28, Township 15 South, Range 35 East, Lea County, New Mexico.
March 8, 1996	WLSU average bottom hole pressure is recorded at 3310 psia indicating that the pressure maintenance project for the Unit is working successfully.
March 14, 1996	Hanley Petroleum, Inc. completes its Chandler No. 1 well in the Strawn formation flowing 133 BOPD + 280 BWPD + 478 MCFGPD. Hanley requests the OCD to hold well logs confidential for 90 days.
March 26, 1996	Charles B. Gillespie, Jr. completes its Snyder "EC" Com No. 1 well in the Strawn formation pumping 52 BOPD + 45 MCFGPD. Well is located 1346' FNL & 1980' FEL of Section 6, Township 16 South, Range 36 East, Lea County, New Mexico.
May 9-10, 1996	Gillespie-Crow calls for a vote among the working interest owners in the WLSU and the State "S" No. 1 well for or against bringing the State "S" well and the two tracts that make up its proration unit into the WLSU at certain tract participation percentages.
June 10, 1996	Gillespie-Crow notifies working interest owners in the WLSU and in the State "S" No. 1 well of a working interest owners meeting to be held in Midland, Texas regarding the proposed expansion of the WLSU.
June 20, 1996	Gillespie-Crow, Inc. holds working interest owners meeting regarding WLSU expansion. Owners in the State "S" No. 1 well that are not in the WLSU request Gillespie-Crow to remap the West Lovington Strawn reservoir utilizing the new Charles B. Gillespie, Jr. Snyder "EC" Com No. 1 wellbore information which is located in Section 6, Township 16 South, Range 36 East. Additional pressure data from the Unit wells, the State "S" well and the Snyder "EC" Com well is also requested.
June 28, 1996	OCD releases Hanley Petroleum's Chandler No. 1 electric logs. Logs confirm that the Chandler well is completed in the WLSU unitized interval and said interval appears to be the same reservoir as the West Lovington Strawn Pool. Gillespie-Crow notifies Hanley Petroleum it intends to take a field wide bottom hole pressure buildup of the West Lovington Strawn reservoir and invites Hanley to join in buildup analysis by shutting in its Chandler No. 1 and recording a buildup on said well.

July 2, 1996	Yates Petroleum Corp. writes Gillespie-Crow requesting State "S" no. 1 well be produced at top allowable. Letter states that Yates opposes joining the WLSU but if the two tracts that make up the proration unit for the State "S" No. 1 well are brought into the Unit, the tract participation percentages for said tracts should total 4.8935587% of the expanded WLSU. The letter further states that Yates believes the Charles B. Gillespie, Jr. Snyder "EC" Com No. 1 well should not be brought into said Unit.
July 19, 1996	Gillespie-Crow shuts in all of its wells in the WLSU together with the State "S" No. 1 and the Snyder "EC" Com No.1 for bottom hole pressure survey. WLSU average bottom hole pressure is recorded at 3295 psia. At the time the WLSU wells are put back on production the State "S" No.1 well's bottom hole pressure is still being recorded. The pressure curve for the State "S" well immediately flattens at this point indicating extremely good pressure communication between the well and the WLSU wells. No usable data is recovered from the Snyder "EC" Com No.1
July 28, 1996	Gillespie-Crow increases production from State "S" No. 1 well to 300 BOPD.
July 30, 1996	Gillespie-Crow's attorney file application for reduced allowable for Strawn wells drilled around WLSU boundaries
August, 1996	Early on, it was apparent that the State "S" No. 1, as well as the Hanley Petroleum Chandler No. 1, one of the other newly drilled wells, were in competition with wells within the Unit. Accordingly, in August of 1996 the Unit Operator reduced production from the Unit wells to a maximum of 150 BOPD in an effort to better balance reservoir injection and withdrawal rates and to maintain reservoir pressure. Gillespie-Crow simultaneously filed an application to have the NMOCD enter an order to reduce the "allowable" rate of production throughout the pool as it was then defined, both inside and outside the Unit's boundaries. After hearing, the NMOCD reduced the "allowable" from 445 BOPD to 250 BOPD throughout the pool.
September 7, 1996	Gillespie-Crow increases production from the State "S" No.1 well to top allowable.
September 11, 1996	Gillespie-Crow, Inc. and Enserch Exploration Inc. calculate hydrocarbon pore volume numbers and new tract participation factors for the proposed new WLSU area using the electric log data from the WLSU wells and the new State "S" No.1, the Chandler No.1 and the Snyder "EC" Com No. 1 wells.
September 12, 1996	Gillespie-Crow notifies all working interest owners in the WLSU, the State "S" No.1 well of its proposed expansion of the WLSU to include these two new wells. Gillespie-Crow

		calls for a working interest owners meeting to be held in Midland, Texas.
September 19, 1996		Gillespie-Crow, Inc. holds working interest owners meeting, proposes new WLSU maps and new tract participation percentages. All of the working interest owners who do not have an interest in the current WLSU reject proposed maps and percentages. Gillespie-Crow asks Hanley Petroleum to trade pressure data regarding the WLSU, the State "S" well and the Chandler well.
September 25, 1996		Gillespie-Crow calls for vote from working interest owners in the WLSU, the State "S" No.1 well and the Chandler No. 1 well for or against the proposed expansion of the WLSU to include these two new wells at the tract participation percentages presented by Gillespie-Crow at the working interest owners meeting.
October 23, 1996		Gillespie-Crow notifies all working interest owners in the WLSU, the State "S" No. 1 and the Chandler No. 1 that the results of the voting regarding expansion of the WLSU to include these two new wells indicates that 98.0511047% of the cost bearing interest owners in the proposed new Unit Area voted FOR expansion. Gillespie-Crow requests that those parties who voted against expansion reconsider and voluntarily join.
November 25, 1996		Gillespie-Crow receives preliminary approval of Unit expansion from the BLM.
December 26, 1996		Gillespie-Crow receives preliminary approval of Unit expansion from the Commissioner of Public Lands.
January 24, 1997		Gillespie-Crow filed its application with the NMOCD in Case No. 11724 seeking the expansion of the WLSU pursuant to the Statutory Unitization Act (Sec. 70-7-1, <u>et seq.</u>) to include those tracts dedicated to the Hanley Petroleum Chandler No. 1 well and the Gillespie State "S" well.
February 14, 1997		Yates Petroleum, et al.'s attorney files motion to continue OCD hearing regarding the expansion of the WLSU and requests OCD to issue a subpoena requiring Gillespie-Crow to produce certain information.
February 21, 1997		Gillespie-Crow shuts in all of its wells in the WLSU and the State "S" No.1 well for bottom hole pressure survey. WLSU average bottom hole pressure survey. WLSU average bottom hole pressure is recorded at 3262 psia. The State "S" No.1 well's bottom hole pressure is recorded at 3257 psia verifying said well is in communication with the WLSU wells. Hanley Petroleum rigs up and runs wireline survey on its Chandler No.1 well at the same time the Unit wells are shut in the being surveyed.
February 26,		OCD issues Order Nos. R-9722-C and R-10448-A regarding

1997	Gillespie-Crow, Inc's application for pool creation, pool contraction and reduced allowable. Order creates the South Big Dog Strawn Pool, contracts the West Lovington Strawn Pool and reduces allowable in the West Lovington Strawn Pool to 250 BOPD.
March 7, 1997	Yates Petroleum's and Hanley Petroleum's attorney files an Application for Hearing De Novo regarding OCD's Order Nos. R-9722 C and R-10448-A.
March 15, 1997	Yates Petroleum, et al's attorney asks Gillespie-Crow's attorney for a voluntary continuance of the hearing for Unit Expansion set for March 20, 1997.
March 17, 1997	Gillespie-Crow agrees to voluntarily continue the hearing set for March 20, 1997, if Yates Petroleum, et al. agree to shut in the State "S" No.1 and the Chandler No.1 wells until an order is issued by the OCD regarding Unit Expansion. Yates Petroleum, et al. will not agree to shut wells in.
March 18, 1997	Gillespie-Crow, Inc. objects to the continuance, however the motion was granted by the OCD.
April 1, 1997	Yates, et al and Hanley file a second motion for continuance of the hearing with the OCD in order to allow adequate time to complete their study.
April 4, 1997	OCD grants the continuance and sets this hearing for May 15, 1997.
May 15, 1997	Hearing in Case No. 11,724
August 27, 1997	After the hearing, the NMOCD issued Order No. R-10864 in Case No. 11724. By Order No. R-10864, the NMOCD approved Gillespie-Crow's application to expand the WLSU to include these two additional wells, and following ratification of the order by the affected owners of royalty and working interests, the unit expansion became effective.
September 9, 1997	Yates and Hanley file their application for hearing de novo in Case No. 11,724 (Order No. R-10864.)
February, 1998	Subsequent to the NMOCD's approval of the first expansion of the WLSU, Gillespie-Crow, drilled and completed the Gillespie Snyder "C" No. 4 well at a location outside the Unit in The NE/4 NE/4 of Section 6, Township 16 South, Range 36 East NMPM. The 90.81 acre tract comprising lot 1 and lot 8 of said Section 6 (E/2 NE/4 equivalent) dedicated to the Snyder "C" No. 4 well is located adjacent to the southeastern portion of the unit. One hundred percent of the record title working interest in the lease acreage dedicated to the Snyder "C" No. 4 well is owned by Charles B. Gillespie, Jr. The well is operated by Gillespie-Crow, Inc., which is owned and controlled by Charles B. Gillespie, Jr.

	<p>Geologic and engineering well control data derived subsequent to the completion of the Snyder "C" No. 4 well confirmed that the Strawn formation underlying the well is in communication with the Strawn formation wells in the Unit. In addition, the reservoir pressure data established that the Snyder "C" No. 4 well is benefiting directly from the Unit's pressure maintenance operations.</p>
February, 1998	<p>Hanley Petroleum, Inc. and Yates Petroleum Corporation, working interest owners in the acreage included in the first unit expansion filed their own application with the NMOCD in Case No. 11954 to expand the West Lovington Strawn Unit to include additional acreage and to amend the production allocation formula under the Unit Agreement.</p> <p>The 90.81 acres comprising the tract dedicated to the Snyder "C" No. 4 well were not included in the acreage covered by the Hanley/Yates application. However, the Snyder "C" No. 4 tract is contiguous to the acreage included in the Hanley/Yates application.</p>
April 28, 1998	<p>Gillespie-Crow, as Unit Operator, convenes a meeting of all Unit participants in the Midland, Texas. In spite of the earlier requests to initiate steps under the Unit Agreement to expand the Unit to include the Snyder "C" No. 4 well, Gillespie-Crow failed to include that item on the agenda for the meeting.</p> <p>Gillespie advises EEX of Gillespie's plans to raise bottom hole pressure in the unit by increasing volumes of injected gas.</p>
April 30, 1998	<p>EEX requests Gillespie-Crow to make application for the immediate expansion of the West Lovington Strawn Unit to include the acreage dedicated to the Snyder C No. 4 well. EEX asked to be advised of Gillespie's plans by May 7, 1998.</p> <p>(See correspondence dated April 30, 1998; Exhibit A, attached.) Gillespie failed to respond to the demand and proceeded instead to produce the well up to the full 250 BOPD allowable then in effect for the West Lovington Strawn oil pool.</p>
May 7, 1998	<p>Gillespie fails to respond to EEX's April 30, 1998 inquiry.</p>
May 15, 1998	<p>Following Gillespie's lack of response to the demand to expand the unit to include the Snyder "C" No. 4 well, EEX Corporation Energen's predecessor-in-interest filed its own</p>

	application with the New Mexico Oil Conservation Commission in Case No. 11987 to expand the West Lovington Strawn Unit to include Gillespie's new well. The matter is to be heard by the NMOCC on June 17, 1998 (See Exhibit B.)
May 31, 1998	Gillespie-Crow, Inc. requests a two month continuance of Case No. 11,724 (De Novo), No. 11,954 and No. 11,987 consolidated for hearing before the NMOCC. (Exhibit C.)
June 3, 1998	Energen's predecessor, EEX, through counsel, asks the NMOCC to avoid a continuance of the consolidated unit expansion cases. (Exhibit D.)
June 4, 1998	Energen's predecessor, EEX, "strongly opposes" the continuance of the consolidated cases. (Exhibit E.)
June 8, 1998	The consolidated cases are continued to an undetermined date. (Exhibit F.)
October 1, 1998	Energen acquires the interests of EEX Corporation in the area of the West Lovington Strawn Unit.
October 8, 1998	Yates and Hanley file their Application for Allowable Reduction.
November 2, 1998	Another Unit Working Interest Owners meeting was convened in Midland. Again, Gillespie-Crow failed to address the issue of expanding the Unit to include the Snyder "C" No. 4 well. However, at that meeting, Gillespie-Crow did agree to shut-in the Strawn Wells in the Unit as well as the Snyder "C" No. 4 in order to conduct a reservoir pressure build-up test. The data derived from the shut-in pressure test established conclusively that the Snyder "C" No. 4 well is in communication with the Strawn formation underlying the Unit and that the Snyder "C" No. 4 is benefiting directly from unit pressure maintenance operations. The interest owners agree that the technical committee will draft a new HPV map and allocation formula.
December 7, 1998	First meeting of the WLSU Technical Committee.
December 10, 1998	Energen sent Gillespie-Crow another written request for the Unit Operator to initiate expansion of the West Lovington Strawn Unit to include the Snyder "C" No. 4 well. (See correspondence dated December 10, 1998; Exhibit G.)
December 11, 1998	Gillespie responds to Energen's December 10, 1998 request to expand the unit. Gillespie urges deference to the WLSU Technical Committee's work (Exhibit H.)
January 8, 1999	WLSU Technical Committee meeting. The three technical representatives for the principals agree on a new SoφH map. Various factors for a new allocation formula are discussed. At the meeting, Gillespie commits to pursue expansion of the unit immediately rather than waiting for the Snyder "C" No. 4 to reach payout. Gillespie, as operator, also commits to

	expedite the Technical Committee's deliberations.
January 15, 1999	Gillespie's commitment to take immediate steps to expand the unit is memorialized in writing by Energen's landman. (Exhibit I.)
January 19, 1999	WLSU technical committee meeting, Midland, TX. A final version of a SoφH map is agreed on. The Gillespie representative distributes pay out schedules for the Snyder EC Com and the Snyder C No. 4 wells, indicating likely pay out in six months and four months, respectively.
February 4, 1999	Energen realizes the second expansion of the West Lovington Strawn Unit will not be accomplished in time to preserve its lease acreage in the W/2 SW/4 of Section 35, which expires on May 21, 1999. Energen orders a title take-off from an independent landman. Energen tries to obtain a lease extension.
February 11, 1999	WLSU technical committee meets in Midland. The new map and tract allocations are discussed. It is agreed that the allocations to Tracts 14 and 15 owned by Hanley should be approximately three percent, combined. The group agrees to use 80:20 HPV and well count as the only factors in an amended participation formula. The Gillespie representative first raises the issue of compensating Gillespie for the Snyder C No. 4 in excess of 100 percent pay-out. The group tentatively agrees to bring the Snyder C No. 4 well into the unit at a 150 percent pay out.
February 12, 1999	Gillespie informs Energen that it rejects the 150 percent pay out for the Snyder C No. 4 well, demanding instead a 200 percent pay-out for both the Snyder C No. 4 and 117 percent for the EC Com No. 1 well.
March 4, 1999	Energen files its Application for Allowable Reduction for the West Lovington Strawn Pool, requesting it be consolidated with the Yates application in Case No. 12086 and that the matters be set for hearing on the March 25, 1999 Commission docket.
March 5, 1999	WLSU Technical Committee meeting in Midland, TX. Gillespie proposes amending the Unit Operating Agreement to provide for a 200 percent pay out per well brought into the unit. The pending expiration of the lease under Tract 15 was discussed. It was agreed that the unit would attempt to nominate the lease at the next state sale and some effort would be made to compensate Hanley for the loss of the lease. Gillespie repeats the demand for 200 percent pay out for the Snyder C No. 4 well. It is indicated that Gillespie would not agree to a 80:20 HPV/well bore participation formula unless the 200 percent pay out is accepted.
March 15, 1999	Energen's landman advises that its expiring lease in the W/2 SW/4 of Section 35 is subject to an unrecorded top lease.

March 16, 1999	Energen makes plans to drill its Beadle No. 1 well to the Strawn formation in the W/2 SW/4 of Section 35 in order to preserve its expiring lease acreage. Energen seeks the voluntary participation of an outstanding working interest owner in that drilling unit.
March 29, 1999	Energen files its Application for Compulsory Pooling for its Beadle No. 1, in Case No. 12174.
March 30, 1999	The unit operator's attorney sends to the attorneys for Hanley/Yates and Energen the first draft of the proposed Amended Unit Participation Formula. While the proposed language purports to increase the allocation to Tract 14 at approximately 3 percent, the unit operator's spreadsheet for unit tract participation shows Tracts 14 and 15 with a combined participation of 4.36 percent, contrary to the agreement of the WLSU Technical Committee.
April 5, 1999	The March 30, 1999 correspondence from the Unit Operator's counsel is received. This is the first time the parties are made aware of the proposal to increase Tracts 14 and 15 to 4.4 percent.
April 6, 1999	Pursuant to a drilling opinion rendered for it, Energen is advised that its well location for the Beadle No. 1 is in within the extra-territorial zoning limits for the City of Lovington and Lea County. Separate permitting hearings with those local governments are initiated.
April 7, 1999	Gillespie Oil, Inc. files its application for approval of the second unit expansion in Case No. 12,171. The application proposes an expanded participation area along with an amendment to the unit's participation formula with an April 1, 1999 effective date. The proposed formula purports to allocate a three percent interest to Tract 14. In addition, the proposed revision to Unit Agreement Exhibit C reflects tract participation allocations to Tract 14 of three percent and Tract 15 of 1.3604302 percent, again contrary to the agreement of the WLSU Technical Committee. (The application is not sent to the other working interest owners until April 12 th .)
April 8, 1999	Correspondence from the NMOCD indicating that the Energen and Yates Allowable Reduction Applications will be consolidated under Case No. 12086 and set for hearing before a Division examiner. (Exhibit J.)
April 13, 1999	WLSU working interest owners meeting is convened in Midland, TX. The agenda for the meeting includes: introduction; operational review; unit expansion and related issues; proposals include: (1) expanded unit to include Snyder EC and C #4 wells; (2) expanded unit acreage to include tracts as shown in Exhibit; (3) AFE for 200 percent reimbursement of well costs; (4) unit participation formula (80:20 HPV/well

	<p>factor), with an effective date of 4/1/99; (5) Tract 14 participation; (6) amendment to gas balancing agreement; (7) other matters.</p> <p>Energen states objection to the allocation of pore volume to Tracts 14 and 15 as proposed in the Application by Gillespie to the NMOCD. The discussion makes clear that the participants in the WLSU technical committee had agreed that Tract 14 would be brought in at 1.6 percent and Tract 15 at 1.3 percent, with a combined participation approximately of 2.98 percent.</p> <p>The unit operator circulates ballots seeking approval of the unit expansion, an amended unit participation formula, and for the approval of an AFE for the Snyder C No. 4 well at 200 percent pay out. Although the ballots were requested to be returned within 2 weeks, the unit operator did not publicize the results of the ballot poll.</p>
April 26, 1999	Gillespie requests a four-week continuance of Case No. 12,171 (unit expansion). (Exhibit K.)
April 29, 1999	NMOCD hearing on Energen's Application for Compulsory Pooling (Beadle No. 1 well).
May 5, 1999	Letter from Unit Operator's attorney regarding resolution of several outstanding issues preparatory to the second unit expansion hearing. Among these issues are the tract participations and amended formula, the inclusion of Tract 15 with its expiring lease, State Land Office and BLM approvals and the 200 percent pay out issue.
May 5, 1999	NMOCD issues Order No. R-11178 in Case No. 12,174 pooling uncommitted interests in the drilling unit for the Beadle No. 1 well.
May 6, 1999	Correspondence from Energen's counsel responding to the May 6, 1999 correspondence from the Unit Operator's counsel. Energen repeats its objection to the 4.4 percent combined allocation to Tracts 14 and 15.
May 6, 1999	Meeting among counsel for Energen, Yates/Hanley, Gillespie Oil, Inc. and Snyder Ranches, Inc. The outstanding issues continue to remain unresolved and it is made clear the ratification for the expanded unit in the amended participation formula will not be forthcoming as a result.
May 17, 1999	Energen files its Motion for Continuance in Case No. 12,171 pending the Division's consideration of the consolidated applications in Case No. 12,086. The Motion is denied and the matter set for hearing on May 27, 1999.
May 19, 1999	Energen commences drilling the Beadle No. 1.
May 27, 1999	NMOCD hearing on the 2 nd Expansion of the WLSU (Case No.

	<p>12,171). At the hearing, Gillespie Oil, Inc., as Unit Operator, presents the WLSU Technical Committee's proposal for expanding the unit. The well pay-out issue is brought up. The representative witness for Gillespie indicates that Gillespie will not ratify the WLSU Technical Committee proposal. At the same hearing, the same witnesses testifying on behalf of the Unit Operator also present an alternative proposal for unit expansion, on behalf of Charles B. Gillespie, Jr., individually. The alternative proposal is not revealed to anyone before the hearing.</p>
May 28, 1999	<p>Representatives from Energen and Gillespie meet in Santa Fe to discuss a compromise on the well pay-out issue. Those representatives reach a tentative agreement to amend the terms of the Unit Operating Agreement to provide for a "Pay-out Multiple" formula (Draft V). (Exhibit L.) It is understood that the tentative agreement is subject to the ultimate approval of Charles Gillespie.</p>
June 3, 1999	<p>In connection the tentative agreement resolving all remaining outstanding issues relative to the second expansion of the WLSU, Energen provides Gillespie with the following:</p> <ol style="list-style-type: none"> 1.) A draft Side Letter Agreement; 2.) A revision to the Unit Tract Participation, in accordance with the Technical Committee's agreement; 3.) The February 12, 1999 HPV map, revised effective June 1, 1999; 4.) The "Draft V" amendment to the Unit Operating Agreement (well pay-out provision) (See Exhibit M, with attachments.)
June 10, 1999	<p>Gillespie does not respond to Energen's June 3, 1999 letter or otherwise follow-up on the tentative agreement.</p> <p>(Approximate) Energen is informed that Gillespie has staked a new well in the Unit Expansion acreage immediately off-setting the Beadle No. 1 well to the south. (Exhibit N.)</p>
June 17, 1999	<p>Gillespie does not respond to Energen's June 3, 1999 letter or otherwise follow-up on the tentative agreement.</p> <p>Gillespie's counsel is advised of plans to supplement the record in Case No. 12,171 to include the "Payout Multiple" formula amendment to the Unit Operating Agreement.</p>
June 22, 1999	<p>Energen asks Gillespie to respond to Energen's June 3, 1999 correspondence. (See Exhibit O, with attachments.)</p> <p>Gillespie responds to Energen's June 3, 1999 letter. (Exhibit P.) Through counsel's fax letter, Gillespie accepts the terms of the agreement set out in Energen's June 3rd letter. In addition, Gillespie seeks further concessions: Gillespie asks that Energen's Beadle No. 1 be treated as a "unit well" and that the other unit</p>

	<p>interest owners be allowed to participate in the well.</p> <p>Division Examiner is requested to supplement records in Case No. 12, 171 with the Affidavit of Barney Kahn incorporating "Pay-out Multiple" formula amending the Unit Operating Agreement. (Exhibit Q) By copies to all counsel, other parties of record are requested to comment or object. (No objections are made.)</p>
June 24, 1999	<p>Energen, through counsel, responds to Gillespie's June 22, 1999 counter proposal. (See Exhibit R.) Energen meets the additional concessions requested by Gillespie. Energen agrees to treat the well as a "unit well" and farm-out a term interest in the Beadle well which would entitle Gillespie to participate in the recovery of drilling and completion costs proceeds under the "Pay-out Multiple" formula, tentatively agreed to on May 28, 1999. At such time as the well is brought into the unit, the term interest would automatically terminate and Energen would revert to its original proportionate working interest ownership in that unit tract.</p>
June 25, 1999	<p>Gillespie, through counsel, seeks clarification of Energen's June 24, 1999 letter. (Exhibit S.)</p> <p>Energen's counsel immediately responds to the inquiry. (Exhibit T.)</p> <p>In order to meet the deadlines imposed by Gillespie, Energen offers all other working interests owners in the WLSU to participate in the drilling of the Beadle No.1 according to the farm-out proposed in Energen's June 24, 1999 letter. Copies of the June 3, 1999 Side Letter Agreement and an AFE are enclosed with the offer. The offer requests a same day response. (Exhibit U.) Responses both accepting and rejecting are received.</p> <p>Gillespie, through counsel, issues a letter advising of the rejection of Energen's June 24, 1999 farm-out proposal. (Exhibit V.)</p>
June 27, 1999	<p>The Beadle No. 1 well penetrates the Strawn formation.</p>

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RALPH L. NELSON
Staff Geologist

April 30, 1998

Mr. Charles Gillespie
Gillespie-Crow, Inc.
P.O. Box 2557
Midland, Texas 79702

Re: W. Lovington Strawn Unit
Lea County, New Mexico

Dear Mr. Gillespie:

Your production manager, Mark Mlandenka, recently apprised us of Gillespie-Crow's plans for placing the Gillespie Snyder "C" No. 4 well on production while raising the bottom-hole pressure for the West Lovington Strawn Unit by increasing the volumes of gas injected via the unit's pressure maintenance project. It is unclear if Gillespie-Crow has any immediate plans to address whether the Snyder well is benefiting from the pressure maintenance project on the adjoining unit. It is also unclear when Gillespie-Crow intends to expand the unit to include the acreage dedicated to the new well. These matters were not addressed at the working interest owners meeting held in Midland on April 28, 1998.

EEX has enjoyed an amicable relationship with Gillespie-Crow in the development of the Strawn pool. However, we are concerned that the simultaneous operation of these separate properties by Gillespie-Crow presents the potential for conflict and may unduly complicate the pending proceedings before the New Mexico Oil Conservation Division. EEX believes it is in our mutual interest for Gillespie-Crow to make application for the immediate expansion of the West Lovington Strawn Unit to include the Snyder "C" No. 4 well and we accordingly request you to do so.



Please advise of your intentions by May 7, 1998. If we have not received a reply by that date, we will assume that Gillespie-Crow does not intend to act on our request. As always, we are available to discuss these matters in greater detail. We look forward to hearing from you at the earliest opportunity.

Very truly yours,



Ralph L. Nelson

c: Jim Bruce
Scott Hall

MILLER, STRATVERT & TORGERSON, P.A.
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WILLIAM K. STRATVERT, COUNSEL
PAUL W. ROBINSON, COUNSEL
RALPH WM. RICHARDS, COUNSEL
ROSS B. PERKAL, COUNSEL

FILE-18 PERP. 7.11.1998

May 22, 1998

Gillespie-Crow, Inc.
c/o Charles B. Gillespie, Jr.
P.O. Box 2557
Midland, TX 79702

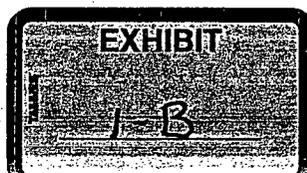
CERTIFIED MAIL
RETURN RECEIPT REQUESTED

- Re: NMOCC Case No. 11724; Application of Gillespie-Crow, Inc. for Unit Expansion, Lea County, New Mexico (De Novo);
- Re: NMOCC Case No. 11954; Application of Hanley Petroleum, Inc. and Yates Petroleum for Unit Expansion, Lea County, New Mexico (Consolidated)
- Re: NMOCC Case No. _____; Application of EEX Corporation for Unit Expansion, Statutory Unitization, and Qualification of the Expanded Unit Area for the Recovered Oil Tax Rate and Certification of a Positive Production Response Pursuant to the "New Mexico Enhanced Oil Recovery Act," Lea County, New Mexico.

Dear Mr. Gillespie:

Please be advised that EEX Corporation has filed the enclosed Application with the New Mexico Oil Conservation Commission (NMOCC) seeking approval for the expansion of the West Lovington Strawn Unit, Lea County, New Mexico as described in the enclosed Application.

This application will be set for hearing before the Oil Conservation Commission on June 18, 1998 at the NMOCC in Santa Fe. You are not required to attend this hearing, but as an owner of an interest that may be affected by this Application, you may appear and present testimony. Failure to appear at that time and become a party of record will preclude you from



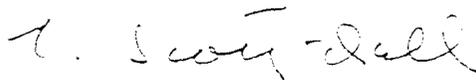
Gillespie-Crow, Inc.
c/o Charles B. Gillespie, Jr.
May 22, 1998
Page 2

challenging the matter at a later date.

Parties appearing in cases have been requested by the NMOCD (Memorandum 2-90) to file a Prehearing Statement substantially in the form prescribed by the Division. Prehearing statements should be filed by 4:00 p.m. on the Friday before a scheduled hearing.

Sincerely,

WILLIAM STRATHEM L. TIRBERSON, P.A.



J. Scott Hall

JSH:CMB
Enclosure

JAMES BRUCE
ATTORNEY AT LAW

POST OFFICE BOX 1056
SANTA FE, NEW MEXICO 87504

SUITE B
612 OLD SANTA FE TRAIL
SANTA FE, NEW MEXICO 87501

(505) 982-2043
(505) 982-2151 (FAX)

May 31, 1998

Via Fax and U.S. Mail

Lori Wrottenbery
Oil Conservation Commission
2040 South Pacheco Street
Santa Fe, New Mexico 87505

Re: Case 11724 (*de novo*); Application of Gillespie-Crow, Inc.
for unit expansion, etc.

Case 11954; Application of Hanley Petroleum Inc., et al.
for unit expansion

Case _____; Application of EEX Corporation for unit
expansion

Dear Ms. Wrottenbery:

Gillespie-Crow, Inc. requests that the above cases be continued for
two months. The reasons for this request are as follows:

1. The Gillespie Snyder C4 Well (in Lot 1 of Section 6, Township 16 South, Range 36 East) and the Hanley State 28 No. 2 Well (in the SE~~NW~~ of Section 28, Township 15 South, Range 35 East) have recently been completed, or are currently being completed, in the Strawn formation near the unit.
2. Gillespie has voluntarily turned over data on its new well to interest owners in the unit, but a full review of the well's data by all interest owners, including Gillespie, has not yet occurred.
3. EEX has subpoenaed data from the new Hanley well. However, Hanley has moved to quash the subpoena.
4. The parties have not yet resolved the review of seismic data.

EXHIBIT

1-C

Due to these factors, additional time is necessary to review all well data, and to permit further discussions among the interest owners regarding unit expansion. As a result, Gillespie-Crow, Inc. respectfully requests a continuance to the August Commission hearing. Thank you for your consideration of this request.

Very truly yours,



James Bruce

Attorney for Gillespie-Crow, Inc

- cc: Marilyn S. Hebert (via fax)
- William F. Carr (via fax)
- J. Scott Hall (via fax)
- W. Thomas Kellahin (via fax)

MILLER, STRATVERT & TORGERSON, P. A.

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LARRY A. WHITE
SALLA D. STANFORD
DEAN B. STROBE

WILLIAM H. STRATVERT, COUNSEL
PAUL W. ROBINSON, COUNSEL
RALPH WM. RICHARDS, COUNSEL
ROSS B. PERKAL, COUNSEL

June 3, 1998

Lori Wrottenbery, Chairman
New Mexico Oil Conservation Commission
2040 South Pacheco
Santa Fe, New Mexico 87504

Hand Delivered

Re: Application of Gillespie-Crow, Inc. for Unit Expansion, Lea County, New Mexico; NMOCC Case No. 11724; Application of Hanley Petroleum, Inc. and Yates Petroleum Corporation for Unit Expansion, Lea County, New Mexico; NMOCC Case No. 11954; Application of EEX Corporation for Unit Expansion, Lea County, New Mexico; NMOCC Case No. 11987 (Consolidated); West Lovington Strawn Unit

Dear Ms. Wrottenbery:

On behalf of EEX Corporation, we respectfully request expedited rulings on (1) the May 29, 1998 request for clarification submitted by Hanley Petroleum, Inc. and Yates Petroleum Corporation; (2) the May 29, 1998 Motion To Quash Subpoena Duces Tecum filed on behalf of Snyder Ranches, Inc.; and (3) the May 28, 1998 Motion To Quash Subpoena Duces Tecum filed on behalf of Hanley Petroleum, Inc.

As of today, each of the foregoing has been responded to and it is unlikely that further replies or briefing will do much to facilitate resolution of the issues involved. Moreover, expedited consideration is needed in order to preserve the June 17th hearing date. We believe it is in everyone's interest that a continuance of the hearing be avoided.



Ms. Lori Wrotenbery
June 3, 1998
Page 2

Thank you for your consideration of this request.

Very truly yours,

MILLER, STRATVERT & TORGERSON

T. Susan Hall

cc: Counsel of Record by fax
Lyn Hebert by hand-delivery
Ralph Nelson, EEX
Rick Mayer, EEX

MILLER, STRATVERT & TORGERSON, P. A.
LAW OFFICES

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WILLIAM K. STRATVERT, COUNSEL
PAUL W. ROBINSON, COUNSEL
RALPH W. RICHARDS, COUNSEL
ROSS B. PERKAL, COUNSEL

June 4, 1998

By Facsimile 827-8177

Lori Wrotenbery, Director
New Mexico Oil Conservation Division
2040 South Pacheco Street
Santa Fe, New Mexico 87504

Re: Application of Gillespie-Crow, Inc. for Unit Expansion, Lea County, New Mexico; NMOCC Case No. 11724; Application of Hanley Petroleum, Inc. and Yates Petroleum Corporation for Unit Expansion, Lea County, New Mexico; NMOCC Case No. 11954; Application of EEX Corporation for Unit Expansion, Lea County, New Mexico; NMOCC Case No. 11987 (**Consolidated**); West Lovington Strawn Unit

Dear Ms. Wrotenbery:

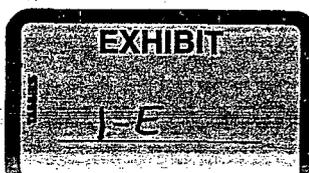
On behalf of EEX Corporation, we strongly oppose the requests for the continuance of the June 17, 1998 hearing in the above-referenced cases. In this regard, please see the attached correspondence which was sent to counsel for Hanley Petroleum, Inc. and Yates Petroleum Corporation.

Very truly yours,

MILLER, STRATVERT, TORGERSON, P.A.

J. Scott Hall
J. Scott Hall, Esq.

cc by fax: William F. Carr, Esq.
W. Thos. Kellahin, Esq.
James Bruce, Esq.
Lyn Hebert, Esq.





NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION
2040 South Pacheco Street
Santa Fe, New Mexico 87505
(505) 827-7131

Via Facsimile

June 8, 1998

Mr. J. Scott Hall
Post Office Box 1986
Santa Fe, NM 87504-1986

Mr. William F. Carr
Post Office Box 2208
Santa Fe, NM 87504-2208

Mr. W. Thomas Kellahin
Post Office Box 2265
Santa Fe, NM 87504

Mr. James Bruce
Post Office Box 1056
Santa Fe, NM 87504

Re: Application of Gillespie-Crow, Inc., Case No. 11724 (*De Novo*)
Application of Hanley Petroleum, Inc. and Yates Petroleum Corp., Case No. 11954
Application of EEX Corp., Case No. 11987 - Consolidated

Gentlemen:

By letter dated May 31, 1998, Gillespie-Crow, Inc. ("Gillespie-Crow") requested that the hearing on the above-referenced consolidated case be continued from June 17, 1998, for two months. By letter dated June 4, 1998, Hanley Petroleum, Inc. and Yates Petroleum Corp. concurred in Gillespie-Crow's request for continuance. Snyder Ranches, Inc. has no objection to a continuance. EEX Corp. ("EEX") opposes the request for continuance.

The last application filed in this case, EEX's, was filed three weeks ago on May 18, 1998. The parties have several unresolved discovery issues. The consolidated case will be continued to a date to be set later.

Sincerely,

Lori Wrottenberg
Lori Wrottenberg
Director

EXHIBIT

JEF

December 10, 1998

Mr. Charles Gillespie (Fax 915-686-1491)
Gillespie - Crow, Inc.
P.O. Box 2557
Midland, Texas 79702

FAXED
12-10-98
2:50 PM

Subject: W. Lovington Strawn Unit
Lea County, New Mexico

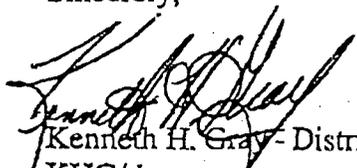
Dear Mr. Gillespie:

By letter of April 30, 1998, copy of which is attached, EEX Corporation advised you of their concerns on the Gillespie Snyder "C" Well No. 4 (Lots 1 & 8 of Section 6) being included in the referenced Unit. From the results of the recent pressure tests, there is no doubt that the Snyder "C" Well No. 4 should be included in the Subject Unit. It would seem logical that the Snyder EC Com #1 (Lots 2 & 7 of Section 6) should also be included within the Unit. As operator of the above Unit some written assurance needs to be made to Energen that Gillespie will formally propose expansion of the Unit to include the above wells as soon as possible with the effective date being the first day of the month following payout of the Snyder "C" Well No. 4. If we have not received Gillespie's written assurance by 4:00 p.m. on Friday, December 11, 1998, Energen will have no choice but to pursue any and all options available to protect its interests.

As to the question of allocation, we realize this may take some time to resolve but this in itself should not be the basis for delaying the inclusion of the Snyder "C" Well No. 4 to the Unit.

We hope to receive a response from you within the time request and look forward to continuing our relationship with you on a basis fair and equitable to all parties involved.

Sincerely,


Kenneth H. Gray - District Landman
KHG/dcw
GIL-LOV

CC: Mark Mladenka



Gillespie-Cross, Inc.
Oil & Gas
Exploration & Production
P.O. Box 2557
Midland, TX. 79702

(915) 683-5080
Fax (915) 683-1491

December 11, 1998

Via Fax and U.S. Mail

Kenneth H. Gray
Energen Resources Corporation
Building 4, Suite 100
3300 North "A" Street
Midland, Texas 79705

Re: West Lovington Strawn Unit

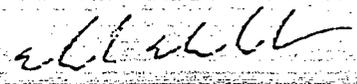
Dear Mr. Gray:

This letter is in response to your letter of December 10, 1998 to Mr. Gillespie.

Regarding paragraph two of your letter, the Snyder "C" Well No. 4 cannot be added to the unit without an agreement of the interest owners as to tract participations. Expansion is impractical, if not impossible, without that issue being resolved. The technical committee is currently working on unit expansion issues, and this process should be allowed to follow its course.

Regarding the request in paragraph one of your letter to make the effective date of expansion the first day of the month following payout of the Snyder "C" Well No. 4, is Energen willing to consider that unit expansion be made effective back to date of payout of the Hanley Chandler Well No. 1 and the State "S" Well No. 1? Mr. Gillespie is willing to consider such a proposal.

Very truly yours,



Mark Mladenka
Production Manager



January 15, 1999

FAXED
1-15-99

Mr. Mark Mladenka (Fax 915-683-1491)
Production Manager
Gillespie - Crow, Inc.
P.O. Box 2557
Midland, Texas 79702

Dear Mark:

Subject: West Lovington Strawn Unit
Lea County, New Mexico

This letter will memorialize our understanding of the commitments made by the Unit Operator, Gillespie-Crow, Inc. at the meeting of the Units' Technical committee on January 8, 1999. Gillespie-Crow committed to the following:

1. The Unit Operator will initiate immediate steps to expand the Unit to include the acreage dedicated to the Snyder "EC" Com well and the Snyder "C" No. 4 well. In this regard, the Operator will make immediate application to the New Mexico Oil Conservation Commission to have such an application heard on the next regularly scheduled docket of the NMOCC, following appropriate notice and advertisement. The Operator will also act with all due diligence to obtain approvals for the expansion from the State Land Commissioner and BLM Authorized Officer, as well as to obtain all necessary ratifications from the Unit Participants and the owners of all affected interests.
2. At the meeting, Gillespie-Crow represented that the Snyder "EC" Com has recently reached payout and that payout for the Snyder "C" No. 4 was imminent. It was agreed that the application to the NMOCC will not be delayed until the Snyder "C" No. 4 has paid out. Rather, the application will be filed immediately in order to bring the two wells into the Unit as soon as possible.

EXHIBIT

1-1

Mr. Mark Mladenka
Gillespie - Crow, Inc
January 15, 1999
Page 2

3. The representatives of the Unit Participants at the Technical Committee meeting have constructed the new hydrocarbon pore volume (HPV) map and are in agreement that the contours and values reflected on the map are acceptable. Accordingly, in the near future, the Unit Operator will convene another meeting of the Unit's Technical Committee to establish a new allocation formula, based on the new HPV map.
4. The Unit Participants will be provided with all of the Operator's historic production volume and sales information for the Snyder "EC" Com and Snyder "C" No. 4, both on a participating and non-participating basis, and that this information will be utilized to bring the wells into the Unit on an equitable basis.
5. In addition to meetings of the Unit's Technical Meeting, the Unit Operator will convene such additional meetings of the Unit Interest Owners to effect the measures referenced above. The Unit Operator will also keep all interest owners apprised of its efforts on a regular, periodic basis.

If above does not correctly capture your understanding, it is requested that you please so advise immediately.

We thank you for your cooperation and look forward to hearing from you as progress is made.

Energen Resources Corporation


Kenneth H. Gray
District Landman
KHG/dcw
GIL2-LOV

CC: Dave Cromwell (Unit Technical Committee)
Paul Sparks
Rusty Cook



NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION
2040 South Pacheco Street
Santa Fe, New Mexico 87505
(505) 827-7131

April 8, 1999

William F. Carr
Campbell, Carr, Berge & Sheridan, P.A.
Post Office Box 2208
Santa Fe, New Mexico 87504-2208

J. Scott Hall
Miller, Stratvert & Torgerson, P.A.
Post Office Box 1986
Santa Fe, New Mexico 87504-1986

Re: **Application of Yates Petroleum Corporation and Hanley Petroleum inc.
for allowable reduction, and the escrow of production proceeds,
Lea County, New Mexico.** Case No. 12086

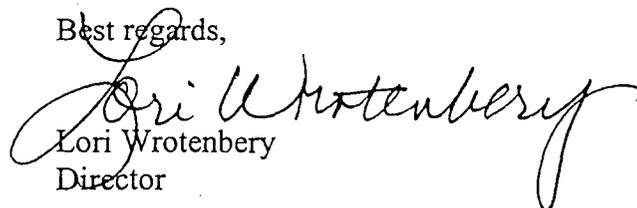
**Application of Energen Resources Corporation
for allowable reduction, West Lovington Strawn Unit,
Lea County, New Mexico.** Case No. _____

Gentlemen:

On October 8, 1998, Yates Petroleum Corporation and Hanley Petroleum, Inc. ("Hanley-Yates") filed their above-referenced application. On March 4, 1999, Energen Resources Corporation ("Energen") filed its above-referenced application. By letter dated March 4, 1999 Energen requested that its application be consolidated with the Hanley-Yates application. Energen also requested that the consolidated case be set for hearing before the Oil Conservation Commission.

The Hanley-Yates and Energen applications will be consolidated as Case No. 12086. However, the consolidated case will be set for hearing before an Oil Conservation Division hearing examiner.

Best regards,


Lori Wrottenbery
Director

cc: James Bruce
W. Thomas Kellahin



JAMES BRUCE
ATTORNEY AT LAW

POST OFFICE BOX 1056
SANTA FE, NEW MEXICO 87504

3304 CAMINO LISA
SANTA FE, NEW MEXICO 87501

(505) 982-2043
(505) 982-2151 (FAX)

April 26, 1999

Via Fax and U.S. Mail

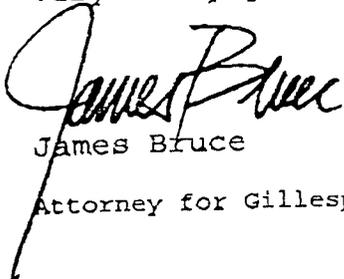
Lori Wrotenbery
Oil Conservation Division
2040 South Pacheco Street
Santa Fe, New Mexico 87505

Re: Case 12171; Application of Gillespie Oil, Inc. for unit
expansion, etc.

Dear Ms. Wrotenbery:

Please continue the above case for four weeks.

Very truly yours,


James Bruce

Attorney for Gillespie Oil, Inc.

cc: Counsel of record



DRAFT V

UNIT OPERATING AGREEMENT
WEST LOVINGTON STRAWN UNIT
LEA COUNTY, NEW MEXICO

Article 10.4. Investment Adjustments.

Paragraph 2 (revised):

All wells completed in the Strawn formation within the Unit Area shall be Unit wells. If a well becoming a Unit well by virtue of expansion of the Unit Area has not reached payout status, the owner or operator of such well shall have the option, on prior written notification to Unit Operator, to (1) receive immediate payment from the Unit sufficient to reimburse one hundred percent of the costs of drilling, completion and equipping the well ("Payout Costs" or "Payout") or (2) continue as operator of the well and recoup an amount in excess of one hundred percent of Payout Costs proportionate to the ability of the well to produce for six consecutive months as measured against the top pool allowable of 250 BOPD (the "Payout Multiple"). In no event shall the Payout Multiple exceed two hundred percent of actual Payout Costs. For the Snyder "EC" Com well [location], the Payout Multiple shall be 116 percent; For the Snyder "C" No. 4 well, [location] the Payout Multiple shall be 200 percent. The terms hereof shall be made applicable to the Beadle No. 1 well [location] and the Payout Multiple for said well determined accordingly, regardless of the actual effective date of the unit expansion.

From the effective date of unitization or expansion of the Unit Area to the time the well reaches its Payout Multiple, Unitized Substances will be apportioned and allocated to all of the Qualified Tracts in the Unit as then constituted in accordance with the terms of Section 15 A of the Unit Agreement. Provided, however, that the owner or operator of the well which has not reached its Payout Multiple shall be entitled to all of the proceeds from production attributable to such Tract(s) comprising the well's proration unit until the well has reached its Payout Multiple. At such time as the well reaches its Payout Multiple, the Unit Operator shall immediately be designated operator of such well. Each of the parties shall have the right to

EXHIBIT

audit the account for such well for any period, consistent with the terms of Article 5.2.3.

June 3, 1999

Mr. Mark Mladenka
Production Manager
Gillespie Oil, Inc.
P.O. Box 8
Midland, Texas 79702

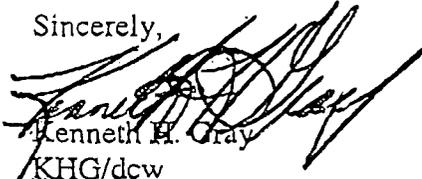
Dear Mark:

Enclosed are the following items which have also been provided to Jim Bruce by Scott Hall.

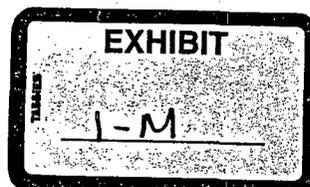
- 1). June 3, 1999 (Draft III) letter; we understand this will probably be revised by Jim Bruce, your attorney.
- 2). Technical Committee Revised Tract Participation June 1, 1999; This is item 1(a) outlined in June 3, 1999 (Draft III). This was done per your request dividing out the A, B & C tracts where applicable.
- 3). HPV map dated February 12, 1999 as revised June 1, 1999.
- 4). Draft V being item 1(e) outline in June 3, 1999 (Draft III).

Also we like to point out to you that on your Exhibits Tracts 21 "B" & 21 "C" have been transposed. They are correct on the map but not on the Exhibits. The Beadle #1 is in Tract C with Leases from Chester A. Beadle and Estlack. A breakdown of leases and interests on Beadle #1 has been enclosed for your Landman. We look forward to getting the expansion approved and hearing from you. If anything else is needed, please advise.

Sincerely,


Kenneth H. Gray
KHG/dcw
GILS-BEA

CC: Scott Hall



June 3, 1999

DRAFT III

Mr. Mark Mladenka
Production Manager
Gillespie Oil, Inc.
P.O. Box 8
Midland, Texas 79702

Charles B. Gillespie, Jr.
P.O. Box 8
Midland, Texas 79702

Re: Side Letter Agreement
West Lovington Strawn Unit
Lea County, New Mexico

Dear Mr. Mladenka:

Pursuant to negotiations between Gillespie Oil, Inc. and Charles B. Gillespie, Jr., herein collectively called, ("Gillespie"), and Energen Resources Corporation, herein called ("Energen"), following the May 27, 1999 hearing before the New Mexico Oil Conservation Division, ("NMOCD"), in Case No. 12171, it was agreed as follows:

1. Gillespie and Energen will jointly submit an agreed draft order to the NMOCD with the following components:
 - (a) A revised Unit Agreement Tract Participation "Exhibit C" (Second Revision) reflecting tract participation percentages comporting to the WLSU Technical Committee recommendation for 1999 Expansion, New Tract Allocation and Well Factor (Decimal) as reflected on Technical Committee Revised Tract Participations dated June 1, 1999 (copy attached).
 - (b) Unit boundaries and allocation of hydrocarbon pore volume ("HPV") according to the WLSU Technical Committee's HPV map dated February 12, 1999, as revised June 1, 1999.
 - (c) Amendments to Section 13 of the Unit Agreement's Tract Participation formula as may be drafted by counsel for the parties and as Gillespie and Energen may agree, but inclusive of Tract 15 in any event.

Gillespie Oil, Inc.
June 3, 1999
Page 2

- (d) Amendments to Section 16 of the Unit Agreement addressing Outside Substances in accordance with Gillespie Oil Company Exhibit 10 (copy attached).
 - (e) Amendments to Article 10.4 to the Unit Operating Agreement (Investment Adjustments; Well Payout) in accordance with the attached copy of Draft V of the same.
 - (f) A June 1, 1999 Effective Date for the Second Expansion of the WLSU.
2. Immediately on issuance of an Order by the NMOCD approving of the Second Expansion of the WLSU incorporating the terms of Paragraphs 1(a) through (f), above, Gillespie, as Unit Operator, will act with diligence and use its best efforts to obtain the requisite ratifications and approvals of the working interest owners, royalty and other non-cost bearing interest owners and such other governmental approvals necessary to effect the Second Expansion.
 3. If, prior to the ratification and effect of the Second Expansion of the WLSU, production proceeds from the Snyder "EC" Com No. 1 well and/or the Snyder "C" No. 4 well exceed the respective 116% and 200% Payout Multiples for the wells, then Gillespie shall pay 100% of all proceeds attributable to the working interest into an interest bearing escrow account. At such time as the Second Expansion of the WLSU is ratified, escrowed production proceeds shall be distributed in accordance with the terms of the Unit Agreement and Unit Operating Agreement, as then amended.
 4. Acceptance and approval of this Side Letter Agreement is effective on the signature of the parties or their representatives to this or any counterpart. Gillespie and Energen acknowledge this Side Letter Agreement is supported by adequate consideration.

Gillespie Oil, Inc.
June 3, 1999
Page 3

Please indicate your acceptance with above by signing, dating and returning one copy of this letter. Should you need to discuss this further, please advise.

Sincerely,

Kenneth H. Gray
District Landman

CC: Scott Hall

AGREED:

Gillespie Oil, Inc.

By _____
Its _____

Dated: June __, 1999.

Charles B. Gillespie, Jr.

By _____
Charles B. Gillespie, Jr.

Dated: June __, 1999.

Technical Committee Revised Tract Participations June 1, 1999

Tract	Acres	HPVAF	Well Factor	Calculated Participation	2nd Expansion New Tr Participation %	Orig Unit 1-11 Participation
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27	40.0	1.374	0.000000	0.00025715	0.02571467%	
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0.823271758

DRAFT V

UNIT OPERATING AGREEMENT
WEST LOVINGTON STRAWN UNIT
LEA COUNTY, NEW MEXICOArticle 10.4. Investment Adjustments.

Paragraph 2 (revised):

All wells completed in the Strawn formation within the Unit Area shall be Unit wells. If a well becoming a Unit well by virtue of expansion of the Unit Area has not reached payout status, the owner or operator of such well shall have the option, on prior written notification to Unit Operator, to (1) receive immediate payment from the Unit sufficient to reimburse one hundred percent of the costs of drilling, completion and equipping the well ("Payout Costs" or "Payout") or (2) continue as operator of the well and recoup an amount in excess of one hundred percent of Payout Costs proportionate to the ability of the well to produce for six consecutive months as measured against the top pool allowable of 250 BOPD (the "Payout Multiple"). In no event shall the Payout Multiple exceed two hundred percent of actual Payout Costs. For the Snyder "EC" Com well [location], the Payout Multiple shall be 116 percent; For the Snyder "C" No. 4 well, [location] the Payout Multiple shall be 200 percent. The terms hereof shall be made applicable to the Beadle No. 1 well [location] and the Payout Multiple for said well determined accordingly, regardless of the actual effective date of the unit expansion.

From the effective date of unitization or expansion of the Unit Area to the time the well reaches its Payout Multiple, Unitized Substances will be apportioned and allocated to all of the Qualified Tracts in the Unit as then constituted in accordance with the terms of Section 15 A of the Unit Agreement. Provided, however, that the owner or operator of the well which has not reached its Payout Multiple shall be entitled to all of the proceeds from production attributable to such Tract(s) comprising the well's proration unit until the well has reached its Payout Multiple. At such time as the well reaches its Payout Multiple, the Unit Operator shall immediately be designated operator of such well. Each of the parties shall have the right to

audit the account for such well for any period, consistent with the terms of Article 5.2.3.

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
WEST LOVINGTON STRAWN UNIT
LEA COUNTY, NEW MEXICO

SECTION 16. OUTSIDE SUBSTANCES.

Paragraph 2 (New): Consistent with Article 11.1 of the Unit Operating Agreement (Basis of Charge to Working interest Owners), Unit Operator shall allocate and pay the proceeds from the production, recovery, and sale of all volumes of gas purchased or acquired and injected into the Unitized Formation for pressure maintenance operations before the effective date of the first expansion of the Unit the "Initial Injection Volumes" to the Working Interest Owners in the Unit as then constituted, and according to the Unit Participations in effect at the time the costs of acquisition of the Initial Injection Volumes were incurred (per Exhibit "D" attached to the Unit Operating Agreement in effect before November 1, 1997). At such time as 100% of the Initial Injection Volumes have been produced, recovered, and sold, proceeds from the production, recovery, and sale of subsequently acquired and injected gas volumes shall be allocated and paid to the Working Interest Owners in proportion to their Unit Participations (per Exhibit "D" to the Unit Operating Agreement in effect during the pertinent time period) at the time the costs of acquisition of subsequently injected gas volumes were incurred.

NEW MEXICO
REGISTRATION DIVISION

Gilleggi Oil EXHIBIT 10

CASE NO. _____

JUN-21-1999 11:42

MINERAL AND LEASEHOLD TAKE-OFF
COVERING LAND IN LEA COUNTY, NEW MEXICO
February 8, 1999 K. Bryan Reeves

T-16-S, R-36-E
Section 5

Lot 3. (50.75 acres) & lot 4. (50.78 acres)

Warren M. Snyder et ux (successor in title is Snyder Ranches, Inc.)	full	101.53	HBP-All depths O&GL dated 4-29-58 1 yr., 1/4 roy. The lease also originally covered lot 6, however it was later released. RE: Vol. 167, P. 23
---	------	--------	---

LEASEHOLD:

All depths

100% WI Charles B. Gillespie, Jr.
.70875 NRI (from surface to 10,708')
.703125 NRI (below 10,708')

Earnestine W. Gillespie
.04125 ORR (from surface to 10,708')
.046875 ORR (below 10,708')

Lot 5. (40.00 acres)

Warren M. Snyder et ux (successor in title is Snyder Ranches, Inc.)	full	40.00	HBP-All depths O&GL dated 7-20-56 5 yr., 5/32 roy lease also covers lots 1, 7 & 8 of Section 6, no pugh. RE: Vol. 145, P. 134
---	------	-------	---

LEASEHOLD:

All depths

100% WI Charles B. Gillespie, Jr.
.6960937 NRI (from surface to 10,719')
.7910156 NRI (below 10,719')

Earnestine W. Gillespie
.1476563 ORR (from surface to 10,719')
.0527344 ORR (below 10,719')

Lot 6. (40.00 acres)

Snyder Ranches, Inc. P.O. Box 2158	full	40.00	8-13-97 (2000) 1/5 Chesapeake Operating, Inc. P.O. Box 18496 Oklahoma City, OK 73154-1525
---------------------------------------	------	-------	--

Note: There is a notice filed in OPR Vol. 909, P. 722, stating that there are rules and regulations for oil & gas wells and pipelines within an area around the city.

DISTRICT I
P.O. Box 1080, Hobbs, NM 88241-1080

State of New Mexico
Energy, Minerals and Natural Resources Department

Form C-102
Revised February 10, 1994
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

DISTRICT II
P.O. Drawer DD, Artesia, NM 88211-0719

DISTRICT III
1000 Rio Brazos Rd., Aztec, NM 87410

OIL CONSERVATION DIVISION
P.O. Box 2088
Santa Fe, New Mexico 87504-2088

DISTRICT IV
P.O. BOX 2088, SANTA FE, N.M. 87504-2088

AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

API Number 30-025-34645	Pool Code 40875	Pool Name Lovington Strawn, West
Property Code 004684	Property Name SNYDER F	Well Number 3
GRID No. 004136	Operator Name CHARLES B. GILLESPIE, JR.	Elevation 3944

Surface Location

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
LOT 4	5	16 S	36 E		467	NORTH	820	WEST	LEA

Bottom Hole Location If Different From Surface

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County

Dedicated Acres 101.53	Joint or Infill	Consolidation Code	Order No.
---------------------------	-----------------	--------------------	-----------

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

820' - 467'	SPC NME NAD 27 Y-716182 X-791848	2	1
50.78 AC.	50.75 AC.	50.71 AC.	50.68 AC.

OPERATOR CERTIFICATION

I hereby certify the the information contained herein is true and complete to the best of my knowledge and belief.

[Signature]
Signature
Mark Mladenka
Printed Name
Production Manager
Title
June 22, 1999
Date

SURVEYOR CERTIFICATION

I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.

JUNE 15, 1999
Date Surveyed
DMCC

[Signature]
Signature
Professional Surveyor
RONALD E. EDSON
NEW MEXICO
6-17-99
69-11-0538

Certification No. JOHN WEST 676
RONALD E. EDSON 3239
12641

EXHIBIT
I-N

District I
PO Box 1980, Hobbs, NM 88241-1980

District II
811 South First, Artesia, NM 88210

District III
1000 Rio Brazos Rd., Aztec, NM 87410

District IV
2040 South Pacheco, Santa Fe, NM 87505

State of New Mexico
Energy, Minerals & Natural Resources Department

Form C-101
Revised October 18, 1994

Instructions on back
Submit to Appropriate District Office
State Lease - 6 Copies
Fee Lease - 5 Copies

OIL CONSERVATION DIVISION
2040 South Pacheco
Santa Fe, NM 87505

AMENDED REPORT

APPLICATION FOR PERMIT TO DRILL, RE-ENTER, DEEPEN, PLUGBACK, OR ADD A ZONE

Operator Name and Address Charles B. Gillespie, Jr P.O. Box 8 Midland, Texas 79702		OGRID Number 04136
		API Number 30-025-34645
Property Code 004884	Property Name Snyder "F"	Well No. 3

Surface Location

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West Line	County
4	5	16-S	38-E		467	North	520	West	Lea

Proposed Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West Line	County
Proposed Pool 1 Lovington Strawn, West					Proposed Pool 2 Shoebar Strawn, Northeast				

Work Type Code N	Well Type Code O	Cable/Rotary R	Lease Type Code P	Ground Level Elevation 3944
Multiple No	Proposed Depth 11800	Formation Atoka <i>STRAWN</i>	Contractor	Spud Date

Proposed Casing and Cement Program

Hole Size	Casing Size	Casing weight/foot	Setting Depth	Sacks of Cement	Estimated TOC
17-1/2"	13-3/8"	48	400	440	Surface
11"	8-5/8"	32	4750	900	Surface
7-7/8"	5-1/2"	17	11800	750	9500

Describe the proposed program. If this application is to DEEPEN or PLUG BACK give the data on the present productive zone and proposed new productive zone. Describe the blowout prevention program, if any. Use additional sheets if necessary.

Proposed to drill and test to the Atoka and intermediate formation. Approximately 400' of surface casing will be set and cement circulated. Approximately 4750' of intermediate casing will be set and cemented back to surface casing. Production casing will be set to total depth and cemented back to approximately 9500'. BOP program; BOP's will be installed on surface casing and tested daily.

Permit Expires 1 Year From Approval
Date Unless Drilling Underway

I hereby certify that the information given above is true and complete to the best of my knowledge and belief.

Signature: *Mark Mladenka* 6/24/99

Printed name: Mark Mladenka

Title: Production Manager (915/683/1765)

OIL CONSERVATION DIVISION

Approved By: *MARY WINK*

Title: FIELD REP. II

Approval Date: JUN 25 1999

Expiration Date:

ENERGEN
RESOURCES

TELEPHONE: 915-687-1155
FAX: 915-687-1796

June 22, 1999

Hand Delivered (6-22-99)

Mr. Mark Mladenka Fax: 915-683-1491
Production Manager
Gillespie Oil, Inc.
P.O. Box 8
Midland, Texas 79702

FAXED
6-22-99
2:45 P.M.

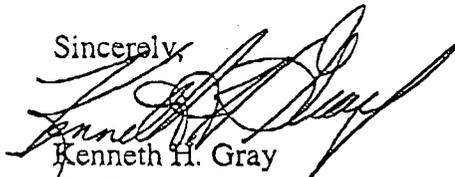
Re: West Lovington Strawn Unit

Dear Mr. Mladenka:

Gillespie Oil, Inc. has not responded to our June 3, 1999 correspondence on the above and we have received no comments or suggestions with respect to the draft of the Side Letter Agreement. As Gillespie has not asked us to change any of the terms of the side letter agreement, I have taken the liberty of having the same finalized on our letterhead for Gillespie's approval (original enclosed).

Please let us know where Gillespie stands on this matter. Should we not hear back from you by the end of business on Thursday, June 23, 1999, we will assume that Gillespie does not intend to settle these issues in accordance with our previous discussions.

Sincerely,


Kenneth H. Gray
KHG/dcw

Mla-draft



June 3, 1999

Mr. Mark Mladenka
Production Manager
Gillespie Oil, Inc.
P.O. Box 8
Midland, Texas 79702

Charles B. Gillespie, Jr.
P.O. Box 8
Midland, Texas 79702

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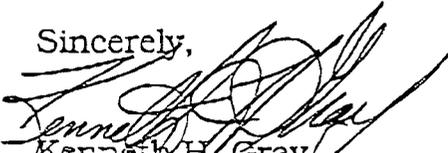
Gillespie Oil, Inc.
June 3, 1999
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Gillespie Oil, Inc.
June 3, 1999
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Sincerely,


Kenneth H. Gray
District Landman

CC: Scott Hall

AGREED:

Gillespie Oil, Inc.

By _____
Its _____

Dated: June __, 1999.

Charles B. Gillespie, Jr.

By _____
Charles B. Gillespie, Jr.

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Tr 1-11

0.823271758

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
WEST LOVINGTON STRAWN UNIT
LEA COUNTY, NEW MEXICO

SECTION 16. OUTSIDE SUBSTANCES.

Paragraph 2 (New): Consistent with Article 11.1 of the Unit Operating Agreement (Basis of Charge to Working Interest Owners), Unit Operator shall allocate and pay the proceeds from the production, recovery, and sale of all volumes of gas purchased or acquired and injected into the Unitized Formation for pressure maintenance operations before the effective date of the first expansion of the Unit the "Initial Injection Volumes" in the Working Interest Owners in the Unit as then constituted, and according to the Unit Participations in effect at the time the costs of acquisition of the Initial Injection Volumes were incurred (per Exhibit "D" attached to the Unit Operating Agreement in effect before November 1, 1997). At such time as 100% of the Initial Injection Volumes have been produced, recovered, and sold, proceeds from the production, recovery, and sale of subsequently acquired and injected gas volumes shall be allocated and paid to the Working Interest Owners in proportion to their Unit Participations (per Exhibit "D" to the Unit Operating Agreement in effect during the pertinent time period) at the time the costs of acquisition of subsequently injected gas volumes were incurred.

REVIEWED
BY CONSERVATION DIVISION

Gillette EXHIBIT 10

CASE NO. _____

JUN-22-1995 11:01 AM
MIDLAND TRACTS

DRAFT V

UNIT OPERATING AGREEMENT
WEST LOVINGTON STRAWN UNIT
LEA COUNTY, NEW MEXICO

Article 10.4. Investment Adjustments.

Paragraph 2 (revised):

All wells completed in the Strawn formation within the Unit Area shall be Unit wells. If a well becoming a Unit well by virtue of expansion of the Unit Area has not reached payout status, the owner or operator of such well shall have the option, on prior written notification to Unit Operator, to (1) receive immediate payment from the Unit sufficient to reimburse one hundred percent of the costs of drilling, completion and equipping the well ("Payout Costs" or "Payout") or (2) continue as operator of the well and recoup an amount in excess of one hundred percent of Payout Costs proportionate to the ability of the well to produce for six consecutive months as measured against the top pool allowable of 250 BOPD (the "Payout Multiple"). In no event shall the Payout Multiple exceed two hundred percent of actual Payout Costs. For the Snyder "EC" Com well [location], the Payout Multiple shall be 116 percent; For the Snyder "C" No. 4 well, [location] the Payout Multiple shall be 200 percent. The terms hereof shall be made applicable to the Beadle No. 1 well [location] and the Payout Multiple for said well determined accordingly, regardless of the actual effective date of the unit expansion.

From the effective date of unitization or expansion of the Unit Area to the time the well reaches its Payout Multiple, Unitized Substances will be apportioned and allocated to all of the Qualified Tracts in the Unit as then constituted in accordance with the terms of Section 15 A of the Unit Agreement. Provided, however, that the owner or operator of the well which has not reached its Payout Multiple shall be entitled to all of the proceeds from production attributable to such Tract(s) comprising the well's proration unit until the well has reached its Payout Multiple. At such time as the well reaches its Payout Multiple, the Unit Operator shall immediately be designated operator of such well. Each of the parties shall have the right to

audit the account for such well for any period, consistent with the terms of Article 5.2.3.

JAMES BRUCE
ATTORNEY AT LAW

POST OFFICE BOX 1056
SANTA FE, NEW MEXICO 87504

3304 CAMINO LISA
SANTA FE, NEW MEXICO 87501

(505) 982-2043
(505) 982-2151 (FAX)

June 22, 1999

Via Fax and U.S. Mail

J. Scott Hall
Miller, Stratvert & Torgerson, P.A.
P.O. Box 1986
Santa Fe, New Mexico 87504

Re: West Lovington Strawn Unit - Second Expansion

Dear Scott:

Regarding your letter to me of June 3, 1999 regarding Energen's settlement proposal: Mr Gillespie will accept the letter, with the following modifications: *

1. Energen's Beadle well will be drilled and completed as a unit well. In the event that not all working interest owners agree thereto by the time the well penetrates the Strawn, Mr. Gillespie (and other interest owners who do agree) agree to bear their proportionate share of well costs (based on unit participation), as well as share in benefits.
2. In the event other wells are drilled within the proposed unit boundaries before unit expansion is finalized, such wells will be treated the same as the Beadle well, including payout and farming out the well(s) to the unit.

Please call me if you have any questions.

Very truly yours,

Jim Bruce
James Bruce

cc: Gillespie Oil, Inc. (via fax)

1-P

BEFORE THE OIL CONSERVATION DIVISION

OIL CONSERVATION DIV.

NEW MEXICO DEPARTMENT OF ENERGY AND MINERALS

99 JUN 23 AM 8:55

IN THE MATTER OF THE HEARING CALLED BY THE
OIL CONSERVATION DIVISION FOR THE
PURPOSE OF CONSIDERING:

APPLICATION OF GILLESPIE OIL, INC. FOR
UNIT EXPANSION, STATUTORY UNITIZATION,
AND FOR THE RECOVERED OIL TAX RATE AND
CERTIFICATION OF A POSITIVE PRODUCTION
RESPONSE PURSUANT TO THE "NEW MEXICO ENHANCED
OIL RECOVERY ACT," LEA COUNTY, NEW MEXICO.

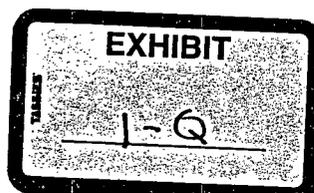
Case No. 12171

AFFIDAVIT OF BARNEY KAHN

BARNEY KAHN, being duly sworn, states:

1. I am a resident of Birmingham, Alabama. I am employed by Energen Resources Corporation as a reservoir engineer. I am familiar with the West Lovington Strawn Unit and the Application filed in this proceeding by the Unit Operator, Gillespie Oil, Inc. I am the age of majority and am otherwise competent to testify to the matters set forth herein.

2. I appeared and rendered expert witness testimony at the hearing convened in this matter before the New Mexico Oil Conservation Division's Examiner on May 27, 1999, where my qualifications as an expert witness were accepted as a matter of record. I was present throughout the entire hearing and heard the testimony of all other witnesses and parties. In addition to that presented by Energen, testimony and evidence was



presented on behalf of the Applicant and Unit Operator, Gillespie Oil, Inc. and separately on behalf of Charles B. Gillespie, Jr.

3. The evidence and testimony presented by Gillespie Oil, Inc. generally supported the expanded unit boundaries, tract allocations and amendments to the participation formula provisions of the Unit Agreement agreed to and recommended by the West Lovington Strawn Technical Committee. Energen supported the Technical Committee's recommendations. However, certain aspects of the Unit Operator's Application, testimony and evidence with respect to the participation for Tracts 14 and 15 did not correspond with the Technical Committee's recommendation. I presented testimony and exhibits on behalf of Energen which, in my opinion, more correctly reflected the agreement and recommendations of the Technical Committee members. I also testified about the efforts of Energen to facilitate and expedite the unit expansion process.

4. Testimony was presented on behalf of Gillespie Oil, Inc. with respect to the Unit Operator's proposal to allow certain wells drilled by it in the expansion area to be brought into the unit in excess of the one hundred percent payout specified under the existing provisions of the Unit Operating Agreement. Specifically, Gillespie Oil, Inc. sought payment for the Snyder "EC" Com No. 1 well and the Snyder "C" No. 4 well at 116% and 200% of payout costs, respectively.

5. Additional testimony and exhibits were presented on behalf of Charles B. Gillespie, Jr., individually, rather than in his capacity as Unit Operator. Such testimony and exhibits generally proposed an expansion of the unit with boundaries and allocations of hydrocarbon pore volume that differed substantially from the West Lovington Strawn Unit Technical Committee's recommendations. Mr. Gillespie also proposed an amendment to the existing terms of the Unit Operating Agreement that would provide for wells drilled outside the existing boundaries of the Unit to be brought into the Unit at 250 % of payout costs as of the effective date of the unit expansion.

6. According to the testimony of the same witness testifying for both Gillespie Oil, Inc. and Charles B. Gillespie, Jr., it was not certain whether Gillespie's ratification of the expansion of the unit would be prevented by the absence of a provision allowing the owner of a well being brought into the unit to recoup more than 100% of payout costs.

7. In order to resolve the well payout issue, I devised a method which would allow the owner of a well located on expansion acreage which had not reached payout to either (1) receive immediate reimbursement from the Unit for 100% of payout costs, or (2) to recoup an amount in excess of 100% of payout costs under a formula establishing a "Payout Multiple" according to the well's ability to produce for six consecutive months against the top allowable for the pool of 250 BOPD. This method was drafted in the form of an amendment to Article 10.4 of the Unit Operating Agreement. The amendment also specifies that the Payout Multiple would not exceed 200% in any event, and further

provides that the Payout Multiple for the Snyder "EC" Com well and the Snyder "C" No. 4 well would be 116% and 200%, respectively. A true and exact copy of the amendment to the Unit Operating Agreement, labeled "Draft V", is attached hereto as Exhibit "A".

8. On May 28, 1999, the day after the hearing in this matter, I and a number of other representatives for Energen met with representatives for Gillespie Oil, Inc. and Charles B. Gillespie, Jr. in Santa Fe. The proposed "Draft V" amendment to the Unit Operating Agreement (Exhibit A) was presented to and discussed with the Gillespie representatives. Another copy of the "Draft V" amendment was subsequently provided to Gillespie Oil, Inc. on June 3, 1999, along with other materials.

9. On behalf of Energen Resources Corporation, it is my opinion that the proposed amendment of Article 10.4 of the Unit Operating Agreement reflected in Exhibit A resolves the well payout issue on terms that are fair, reasonable and equitable. Energen seeks the inclusion of the proposed amendment of the Unit Operating Agreement in the terms of the order to be issued by the Division in this proceeding.

FURTHER AFFIANT SAYETH NOT



BARNEY KAHN

STATE OF ALABAMA)
) ss.
COUNTY OF JEFFERSON)

Subscribed and sworn to before me on this 21st day of June, 1999, by Barney Kahn.

Patricia L. Quinn
Notary Public

My commission expires: 07/13/2001
6621/21016/Kahn Affidavit.doc

DRAFT V

UNIT OPERATING AGREEMENT
WEST LOVINGTON STRAWN UNIT
LEA COUNTY, NEW MEXICO

Article 10.4. Investment Adjustments.

Paragraph 2 (revised):

All wells completed in the Strawn formation within the Unit Area shall be Unit wells. If a well becoming a Unit well by virtue of expansion of the Unit Area has not reached payout status, the owner or operator of such well shall have the option, on prior written notification to Unit Operator, to (1) receive immediate payment from the Unit sufficient to reimburse one hundred percent of the costs of drilling, completion and equipping the well ("Payout Costs" or "Payout") or (2) continue as operator of the well and recoup an amount in excess of one hundred percent of Payout Costs proportionate to the ability of the well to produce for six consecutive months as measured against the top pool allowable of 250 BOPD (the "Payout Multiple"). In no event shall the Payout Multiple exceed two hundred percent of actual Payout Costs. For the Snyder "EC" Com well [location], the Payout Multiple shall be 116 percent; For the Snyder "C" No. 4 well, [location] the Payout Multiple shall be 200 percent. The terms hereof shall be made applicable to the Beadle No. 1 well [location] and the Payout Multiple for said well determined accordingly, regardless of the actual effective date of the unit expansion.

From the effective date of unitization or expansion of the Unit Area to the time the well reaches its Payout Multiple, Unitized Substances will be apportioned and allocated to all of the Qualified Tracts in the Unit as then constituted in accordance with the terms of Section 15 A of the Unit Agreement. Provided, however, that the owner or operator of the well which has not reached its Payout Multiple shall be entitled to all of the proceeds from production attributable to such Tract(s) comprising the well's proration unit until the well has reached its Payout Multiple. At such time as the well reaches its Payout Multiple, the Unit Operator shall immediately be designated operator of such well. Each of the parties shall have the right to

audit the account for such well for any period, consistent with the terms of Article 5.2.3.

MILLER, STRATVERT & TORGERSON, P. A.
LAW OFFICES

RANNE B. MILLER
ALAN C. TORGERSON
ALICE TOMLINSON LORENZ
GREGORY W. CHASE
ALAN KONRAD
LYMAN G. SANDY
STEPHEN M. WILLIAMS
STEPHAN M. VIDMAR
ROBERT C. GUTIERREZ
SETH V. BINGHAM
JAMES B. COLLINS
TIMOTHY R. BRIGGS
RUDOLPH LUCERO
DEBORAH A. SOLOVE
GARY L. GORDON
LAWRENCE R. WHITE
SHARON P. GROSS
VIRGINIA ANDERMAN
MARTE D. LIGHTSTONE
J. SCOTT HALL
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KYLE M. FINCH
H. BROOK LASKEY
KATHERINE W. HALL
FRED SCHILLER
LARA L. WHITE
PAULA G. MAYNES
DEAN B. CROSS
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WILLIAM K. STRATVERT, COUNSEL
PAUL W. ROBINSON, COUNSEL
RALPH WM. RICHARDS, COUNSEL
ROSS B. PERKAL, COUNSEL
JAMES J. WIDLAND, COUNSEL

PLEASE REPLY TO SANTA FE

June 24, 1999

BY FACSIMILE TRANSMISSION: (505) 982-2151

Mr. James Bruce
Attorney at Law
Post Office Box 1056
Santa Fe, New Mexico 87504

Re: NMOCD Case No. 12171; Application of Gillespie Oil, Inc. for Unit
Expansion, etc., West Lovington Strawn Unit, Lea County, New Mexico

Dear Jim:

In accordance with our conversation today clarifying certain points raised in your
June 22, 1999 letter, Energen proposes a final resolution of this matter as follows:

1. Energen will offer a farm-out of a term interest in Tract 21 to all unit working
interest owners proportionate to their present participation under the unit as it is now
comprised (1st expansion). Those working interest owners who elect to accept the
farm-out interest and tender their proportionate share of well costs will be entitled to
participate in the recovery of those costs under the Payout Multiple formula in the
proposed Draft V amendment to the unit operating agreement. At such time as the
Beadle well comes into the unit as a "unit well" in accordance with the terms of the
Draft V amendment, the term farm-out interests shall automatically terminate.
Energen would maintain its original working interest ownership in Tract 21 and
would participate in the second expansion of the unit as originally contemplated. The
farm-out would apply only to Energen's approximate 82% interest in Tract 21 as the



Mr. James Bruce

06/24/99

Page 2

company is unable to include the remaining working interest owned by Arrington.

2. These same provisions will apply to any other well that may be drilled on the expansion acreage by Charles B. Gillespie, Jr., Gillespie Oil, Inc. or any related entity prior to ratification of the second expansion of the unit. Provided, however, that Gillespie agrees to delay commencement of a new well anywhere in the expansion area until such time as the second expansion is approved.
3. All other terms of the June 3, 1999 Side Letter Agreement between Gillespie and Energen are agreed to and shall apply.
4. Energen must receive written acceptance of these terms from Gillespie or Gillespie's counsel before 5:00 p.m. (CDT) tomorrow. Energen will immediately offer the farm-out to the other working interest owners before noon tomorrow (CDT).

Very truly yours,



J. Scott Hall

JSH/ao

cc: Ken Gray
Paul Sparks

6621/21016/bruceltr6.doc

JAMES BRUCE
ATTORNEY AT LAW

POST OFFICE BOX 1056
SANTA FE, NEW MEXICO 87504

3304 CAMINO LISA
SANTA FE, NEW MEXICO 87501

(505) 982-2043
(505) 982-2151 (FAX)

June 25, 1999

Via Fax

J. Scott Hall
Miller, Stratvert & Torgerson, P.A.
P.O. Box 1986
Santa Fe, New Mexico 87504

Re: West Lovington Strawn Unit - Second Expansion

Dear Scott:

I have a question regarding your letter to me of June 24th: What is the intent of the second paragraph? It seems that the effect would be to make any additional well a unit well, with no payout, and no farmout necessary. Or, by "such time as the second expansion is approved," do you mean only OCD approval?

Please let me know.

Very truly yours,


James Bruce



MILLER, STRATVERT & TORGERSON, P. A.
LAW OFFICES

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RECEIVED
JUN 28 1999

LAS CRUCES

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WILLIAM K. STRATVERT, COUNSEL
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ROSS B. PERKAL, COUNSEL
JAMES J. WIDLAND, COUNSEL

PLEASE REPLY TO SANTA FE

June 25, 1999

Mr. James Bruce
Attorney at Law
Post Office Box 1056
Santa Fe, New Mexico 87504

Re: West Lovington Strawn Unit, Lea County, New Mexico

Dear Jim:

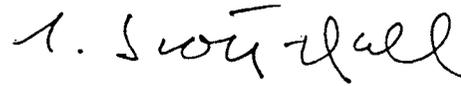
In response to your fax letter received this afternoon, I believe it is the intent of the second paragraph of my June 24th letter to have the farm-out provisions of paragraph 1 operate in a reciprocal manner. Hence, if Gillespie commences a well on the expansion acreage before the ratification process is complete, the other working interest owners will have the same opportunity to participate in the payout multiple applicable to the well, just as they would have for Energen's Beadle No. 1 well.

With respect to your second question, Energen believes it is appropriate to delay the drilling of any new wells on the expansion acreage until the unit expansion is approved by both the NMOCD and the requisite percentage of the unit participants. However, Energen recognizes that the situation may arise where it may be necessary to drill a well on the expansion acreage prior to finalization of the expansion in order to protect against drainage by a non-unit offset well. Of course, as is known by all, Energen did not have the flexibility to delay the commencement of the Beadle No. 1 well because of the May, 1999 lease expiration.



Mr. James Bruce
06/25/99
Page 2

Very truly yours,

A handwritten signature in cursive script that reads "J. Scott Hall". The signature is written in dark ink and is positioned above the printed name.

J. Scott Hall

JSH/ao

6621/21016/bruce1tr7.doc

June 25, 1999

To Working Owners (see attached list)

Re: West Lovington Strawn Unit, Lea County, New Mexico

Gentlemen:

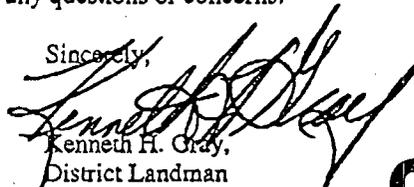
As you know, the 2nd expansion of the West Lovington Strawn Unit, ("WLSU"), is presently pending before the New Mexico Oil Conservation Division. As of June 24, 1999, pending the NMOCDD's approval of the unit expansion, Energen Resources Corporation, ("Energen"), Gillespie Oil, Inc. and Charles B. Gillespie, Jr., ("Gillespie") have tentatively agreed on terms which would allow the owners/operators of wells drilled on expansion acreage prior to the ratification of the 2nd expansion to recoup 100% of drilling and completion costs, or more, according to a "Payout Multiple" formula. The Payout Multiple formula is set forth in the enclosure herewith ("Draft V"). It is anticipated that the terms of the WLSU Unit Operating Agreement will be amended to incorporate the terms of the Draft V Payout Multiple formula.

As you know, Energen is presently drilling its Beadle No. 1 well on that acreage identified as Tract 21 (W/2 SW/4 Section 35, T-15-S, R-35-E) in the unit expansion area. As part of the terms of the tentative agreement with Gillespie, Energen is offering a farm-out of a term interest on Tract 21 in proportion to each of the working interest owners ownership in the unit as presently constituted pursuant to the 1st expansion of the unit. Under the farm-out, each working interest owner may elect to tender to Energen its proportionate share of drilling and completion costs for the Beadle No. 1. In exchange, the working interest owner will be entitled to participate in the recovery of its proportionate share of the drilling and completion costs under the Payout Multiple formula in accordance with the proposed amendment to the Unit Operating Agreement. At such time as the Beadle well is brought into the WLSU as a "unit well" in accordance with the terms of the Draft V amendment, the term farm-out interests will automatically terminate. Energen would maintain its original working interest ownership in Tract 21 and would participate in the 2nd expansion of the unit in accordance with the WLSU Technical Committee recommendations. The farm-out would be derived solely from Energen's ownership in Tract 21 of approximately 82%.

In order to meet the terms of the June 24, 1999 agreement between Gillespie and Energen, the farm-out must be offered to and accepted by you before 5:00 p.m. (CDT) today. You would also agree not to commence a new well anywhere in the expansion area until such time as the second expansion is approved. This farm-out offer is also contingent on Gillespie's acceptance of the June 3, 1999 Side Letter Agreement with Energen (copy enclosed). We regret circumstances did not allow us to provide more time for your review of this proposal.

An original AFE is enclosed for your review and approval. Please communicate your acceptance to the undersigned before 5:00 p.m. today. Because of the short time involved, your verbal communication will be accepted subject to receipt of a written confirmation and AFE in a timely manner. The operating agreement presently in existence between Energen and its partners will be provided to you upon your acceptance. Please call should you have any questions or concerns.

Sincerely,


Kenneth H. Gray,
District Landman

KHG/dcw
FARMOUT-WLS



June 3, 1999

Mr. Mark Mladenka
Production Manager
Gillespie Oil, Inc.
P.O. Box 8
Midland, Texas 79702

Charles B. Gillespie, Jr.
P.O. Box 8
Midland, Texas 79702

Re: Side Letter Agreement
West Lovington Strawn Unit
Lea County, New Mexico

Dear Mr. Mladenka:

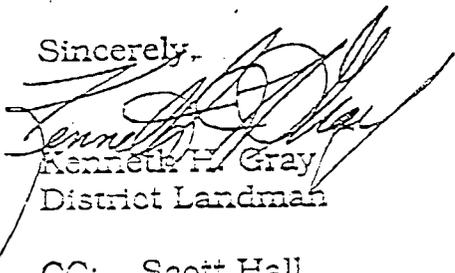
Pursuant to negotiations between Gillespie Oil, Inc. and Charles B. Gillespie, Jr., herein collectively called, ("Gillespie"), and Energen Resources Corporation, herein called ("Energen"), following the May 27, 1999 hearing before the New Mexico Oil Conservation Division, ("NMOCD"), in Case No. 12171, it was agreed as follows:

1. Gillespie and Energen will jointly submit an agreed draft order to the NMOCD with the following components:
 - (a) A revised Unit Agreement Tract Participation "Exhibit C" (Second Revision) reflecting tract participation percentages comporting to the WLSU Technical Committee recommendation for 1999 Expansion, New Tract Allocation and Well Factor (Decimal) as reflected on Technical Committee Revised Tract Participations dated June 1, 1999 (copy attached).
 - (b) Unit boundaries and allocation of hydrocarbon pore volume ("HPV") according to the WLSU Technical Committee's HPV map dated February 12, 1999, as revised June 1, 1999.
 - (c) Amendments to Section 13 of the Unit Agreement's Tract Participation formula as may be drafted by counsel for the parties and as Gillespie and Energen may agree, but inclusive of Tract 15 in any event.

Gillespie Oil, Inc.
June 3, 1999
Page 3

Please indicate your acceptance with above by signing, dating and returning one copy of this letter. Should you need to discuss this further, please advise.

Sincerely,



Kenneth H. Gray
District Landman

CC: Scott Hall

AGREED:

Gillespie Oil, Inc.

By _____
Its _____

Dated: June __, 1999.

Charles B. Gillespie, Jr.

By _____
Charles B. Gillespie, Jr.

Dated: June __, 1999.

AUTHORITY FOR EXPENDITURE
ESTIMATED WELL COSTS

ENERGEN RESOURCES CORPORATION

AFE NUMBER: PB030999		PROPERTY NUMBER: NA		DATE: 3/30/99	
WELL NAME AND NUMBER: Beadle #1			FIELD OR AREA: West Lovington Strawn		
OPERATOR: ENERGEN RESOURCES CORPORATION			LOCATION: 330' FS & WL		
COUNTY: Lea		STATE: NM			
SECTION: 33		BLOCK: T-15S, R-35-E		SURVEY:	
PROJECT DESCRIPTION AND LOCATION: Drill & Complete-Flowing Well			PROPOSED FORMATION: Strawn		PROPOSED DEPTH: 11800
<input checked="" type="checkbox"/>	SINGLE	<input checked="" type="checkbox"/>	OIL	<input type="checkbox"/>	EXPL
<input type="checkbox"/>	QUAL	<input type="checkbox"/>	GAS	<input checked="" type="checkbox"/>	DEV.
<input checked="" type="checkbox"/>	LAND	<input type="checkbox"/>	BAY	DAYS TO DRILL/COMPLETE: 45	
<input type="checkbox"/>	MARSH	<input type="checkbox"/>	GULF	DATE TO START: N/A	
			<input type="checkbox"/>		STRAT
			<input checked="" type="checkbox"/>		NEW WORKOVER
			<input type="checkbox"/>		ORIGINAL SUPPLEMENT
			<input type="checkbox"/>		DEEPEN

					DRY HOLE	COMPLETION COSTS	TOTAL	
TANGIBLES								
00 TUBULAR GOODS								
O1	Conductor Pipe	0	in.	0	Fl.	0.00 \$/Fl.	\$ -	
O2	Surface Casing	13-3/8	in.	400	Fl.	15.00 \$/Fl.	\$ 6,000	
O3	Production	5 1/2	in.	11800	Fl.	5.50 \$/Fl.	\$ 64,900	
O4	First Inter.	9 5/8	in.	5000	Fl.	10.00 \$/Fl.	\$ 50,000	
O5	Second Inter.	0	in.	0	Fl.	0.00 \$/Fl.	\$ -	
O6	Prod. Liner	0	in.	0	Fl.	0.00 \$/Fl.	\$ -	
O7	Tieback String	0	in.	0	Fl.	0.00 \$/Fl.	\$ -	
O8	Tubing	5 7/8	in.	11800	Fl.	4.50 \$/Fl.	\$ 52,200	
O9	Tubing	0	in.	0	Fl.	0.00 \$/Fl.	\$ -	
10 EQUIPMENT								
11	Wellhead & Accessories						\$ 12,000	
12	Tbg & Csg Acc., Production Packer						\$ 3,500	
13	Production Equip./Misc						\$ 5,500	
14	Tank Battery, Flowlines & Fittings						\$ 47,500	
TOTAL TANGIBLES						\$ 71,600	\$ 187,100	\$ 258,500
INTANGIBLES								
20 DRILLING COST								
21	Footage	11800	Fl.	16	\$/Fl.		\$ 188,800	
22	Daywork	3	Days	5000	\$/Day		\$ 15,000	
23	Compl. Rig	120	Hrs.	115	\$/Hr.		\$ 13,800	
24	Service Unit						\$ -	
25	Rental Tools, Services, Chokes, Etc.						\$ 3,000	
26	Rig Moving Cost						\$ -	
27	Other						\$ 1,000	
30 CEMENTING (INCL. FLOAT EQUIP., ETC.)								
31	Surface						\$ 4,000	
32	Intermediate						\$ 12,000	
33	Production						\$ -	
34	Production Liners						\$ 17,500	
35	Tieback String						\$ -	
36	Squeeze Cement (incl. Rel. & Pkr.)						\$ -	
37	Other						\$ -	
40 FORMATION TREATMENT								
41	Acidizing						\$ 15,000	
42	Fracturing Equipment & Materials						\$ -	
43	Frac Fluid & Gas						\$ -	
44	Tank Rental & Hauling						\$ 3,000	
50 SPECIAL SERVICES								
51	Perforating (set BP & Pkrs., W/L)						\$ 10,000	
52	Mud Logging/Geologist						\$ 6,500	
53	Formation Logging/Sidewall Cores						\$ 12,000	
54	DST/Sidewall Core Analysis						\$ 5,000	
55	Drilling Logs (CBL, Tracer, Inspection, W/L)						\$ -	
56	Packer & Retr. BP						\$ 3,000	
57	Whipstocking & Sidetracking						\$ -	
58	Compressors						\$ -	
60 DRILLING FLUIDS								
61	Mud & Chemicals						\$ 20,000	
62	Water & Brine						\$ 15,000	
63	Other (Gas & Air)						\$ -	
70 MATERIALS & SERVICES- OTHER								
71	Bits & Reamers						\$ 1,500	
72	Fuel						\$ -	
73	Hauling						\$ 2,000	
74	Tubular Inspection: VCI, Sandblast, Roughcoat, Etc.						\$ 2,500	
75	Testing (Manifolds, BOP, Tbg, Etc.)						\$ -	
76	Misc Csg Exp: Csg Crew, P.U./D, Protectors, Etc.						\$ 1,000	
77	Equip Rental: BOP, Racks, Mats, Trailer, Sanitary						\$ 5,000	
78	Misc Equip: Cable, Liners, Anchors, Wellbore, Labor						\$ 3,000	
80 LOCATION, ACCESS, LINERS & CLEANUP								
81	Safety/Environmental						\$ 15,000	
82	Access						\$ 3,000	
83	Clean Up						\$ 3,000	
90 SUPERVISION & LEGAL, ETC.								
91	Supervision						\$ 18,000	
92	Legal						\$ 6,000	
TOTAL INTANGIBLE						\$ 331,800	\$ 126,300	\$ 458,100
Plus 5% Contingency						\$ 20,165	\$ 15,670	\$ 35,835
TOTAL COST						\$ 423,465	\$ 329,070	\$ 752,535

Date: 3/30/99	Partner's Approval:
Prepared By: JJP	Company Name:
Approved By: <i>[Signature]</i>	Date:

Technical Committee Revised Tract Participations June 1, 1999

Tract	Acres	HPVAF	Well Factor	Calculated Participation	2nd Expansion New Tr Participation %	Orig Unit 1-11 Participation
1	320.0	892.151	4.000000	0.22419367	16.34802722%	0.198573886
2	182.4	686.251	2.000000	0.15704613	13.89486854%	0.168776208
3	200.0	325.006	1.000000	0.07513197	10.41478785%	0.126504860
4	120.0	216.406	0.000000	0.04050079	4.01700742%	0.048793213
5	182.0	689.235	1.000000	0.14329811	17.53483413%	0.212989623
6	254.5	337.000	1.000000	0.07737667	7.82958503%	0.095103287
7	40.0	163.836	0.000000	0.03066222	4.18405132%	0.050822238
8	40.0	108.409	0.500000	0.02744219	3.18656077%	0.038706062
9	40.0	55.910	0.500000	0.01761690	2.21611544%	0.026918395
10	40.0	58.765	0.500000	0.01815122	1.45407715%	0.017662177
11	40.0	25.106	0.500000	0.01185188	1.24726091%	0.015150051
12	40.0	65.906	0.500000	0.01948767	1.94876739%	
13	40.0	79.687	0.500000	0.02206681	2.20668140%	
14	80.0	23.023	0.814762	0.01596518	1.59651829%	
15	80.0	73.743	0.000000	0.01380114	1.38011413%	
16A	51.0	37.366	0.164913	0.00935244	0.93524424%	
16B	40.0	0.170	0.000000	0.00003182	0.00318158%	
17	91.0	79.698	1.000000	0.02922211	2.92221146%	
18A	80.0	36.443	0.000000	0.00682038	0.68203761%	
18B	80.0	117.490	0.000000	0.02198847	2.19884747%	
19	80.0	27.143	0.000000	0.00507986	0.50798636%	
20	80.0	15.024	0.000000	0.00281177	0.28117699%	
21A	40.0	12.012	0.000000	0.00224807	0.22480684%	
21B	20.0	20.032	0.000000	0.00374903	0.37490265%	
21C	20.0	31.013	0.000000	0.00580414	0.58041413%	
22A	51.0	53.060	0.000000	0.00993028	0.99302789%	
22B	40.0	5.795	0.000000	0.00108455	0.10845452%	
23A	51.0	7.222	0.000000	0.00135161	0.13516109%	
23B	40.0	0.250	0.000000	0.00004679	0.00467880%	
24	80.0	11.831	0.000000	0.00221419	0.22141939%	
25A	40.0	0.413	0.000000	0.00007729	0.00772937%	
25B	40.0	7.555	0.000000	0.00141393	0.14139325%	
26	80.0	10.278	0.000000	0.00192355	0.19235471%	
27	40.0	1.374	0.000000	0.00025715	0.02571467%	
	2742.9	4274.603	13.979675	1.00000000	100.00000000%	1.000000000

Tr 1-11

0.823271758

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
WEST LOVINGTON STRAWN UNIT
LEA COUNTY, NEW MEXICO

SECTION 16. OUTSIDE SUBSTANCES.

Paragraph 2 (New): Consistent with Article 11.1 of the Unit Operating Agreement (Basis of Charge to Working Interest Owners), Unit Operator shall allocate and pay the proceeds from the production, recovery, and sale of all volumes of gas purchased or acquired and injected into the Utilized Formation for pressure maintenance operations before the effective date of the first expansion of the Unit the "Initial Injection Volumes" of the Working Interest Owners in the Unit as then constituted, and according to the Unit Participations in effect at the time the costs of acquisition of the Initial Injection Volumes were incurred (per Exhibit "D" attached to the Unit Operating Agreement in effect before November 1, 1997). At such time as 100% of the Initial Injection Volumes have been produced, recovered, and sold, proceeds from the production, recovery, and sale of subsequently acquired and injected gas volumes shall be allocated and paid to the Working Interest Owners in proportion to their Unit Participations (per Exhibit "D" to the Unit Operating Agreement in effect during the pertinent time period) at the time the costs of acquisition of subsequently injected gas volumes were incurred.

RECEIVED
BY COMMUNICATIONS SECTION
Gilgipie EXHIBIT 10
CASE NO. _____

DRAFT V

UNIT OPERATING AGREEMENT
WEST LOVINGTON STRAWN UNIT
LEA COUNTY, NEW MEXICOArticle 10.4. Investment Adjustments.
Paragraph 2 (revised):

All wells completed in the Strawn formation within the Unit Area shall be Unit wells. If a well becoming a Unit well by virtue of expansion of the Unit Area has not reached payout status, the owner or operator of such well shall have the option, on prior written notification to Unit Operator, to (1) receive immediate payment from the Unit sufficient to reimburse one hundred percent of the costs of drilling, completion and equipping the well ("Payout Costs" or "Payout") or (2) continue as operator of the well and recoup an amount in excess of one hundred percent of Payout Costs proportionate to the ability of the well to produce for six consecutive months as measured against the top pool allowable of 250 BOPD (the "Payout Multiple"). In no event shall the Payout Multiple exceed two hundred percent of actual Payout Costs. For the Snyder "EC" Com well [location], the Payout Multiple shall be 116 percent; For the Snyder "C" No. 4 well, [location] the Payout Multiple shall be 200 percent. The terms hereof shall be made applicable to the Beadle No. 1 well [location] and the Payout Multiple for said well determined accordingly, regardless of the actual effective date of the unit expansion.

From the effective date of unitization or expansion of the Unit Area to the time the well reaches its Payout Multiple, Unitized Substances will be apportioned and allocated to all of the Qualified Tracts in the Unit as then constituted in accordance with the terms of Section 15 A of the Unit Agreement. Provided, however, that the owner or operator of the well which has not reached its Payout Multiple shall be entitled to all of the proceeds from production attributable to such Tract(s) comprising the well's proration unit until the well has reached its Payout Multiple. At such time as the well reaches its Payout Multiple, the Unit Operator shall immediately be designated operator of such well. Each of the parties shall have the right to

JUN 03 '99 03:16PM

audit the account for such well for any period, consistent with the terms of Article 5.2.3.

JAMES BRUCE
ATTORNEY AT LAW

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June 25, 1999

Via Fax

J. Scott Hall
Miller, Stratvert & Torgerson, P.A.
P.O. Box 1986
Santa Fe, New Mexico 87504

Re: West Lovington Strawn Unit - Second Expansion

Dear Scott:

Mr. Gillespie rejects Energen's proposal set forth in your letter of June 24th.

Please call me.

Very truly yours,


James Bruce

