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PLEASE REPLY TO SANTA FE

March 4, 1999

HAND-DELIVERED

Ms. Lori Wrotenbery, Director
New Mexico Oil Conservation Director
2040 South Pacheco
Santa Fe, New Mexico 87505

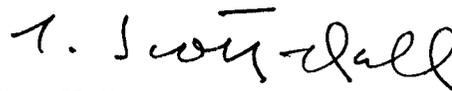
Re: Application of Energen Resources Corporation for
Allowable Reduction, West Lovington Strawn Unit,
Lea County, New Mexico

Dear Ms. Wrotenbery:

Enclosed is the original and two duplicate copies of the Application of Energen Resources Corporation in the above matter. Pursuant to Section 70-2-6 and Rule 1216 of the Division's Rules and Regulations, we request this matter be consolidated with Case No. 12086 and set for hearing before the full Commission on the March 18, 1999 hearing docket.

Thank you.

Very Truly Yours,



J. Scott Hall

Ms. Lori Wrotenbery, Director
March 4, 1999
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JSH:cw
Enclosure:

cc: James Bruce, Esq.
William F. Carr, Esq.
W. Thomas Kellahin, Esq.
Marilyn Hebert, Esq.
Mr. Rusty Cook
Mr. Ken Gray

OIL CONSERVATION DIV.

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STATE OF NEW MEXICO
DEPARTMENT OF ENERGY, MINERALS AND NATURAL RESOURCES

OIL CONSERVATION COMMISSION

APPLICATION OF ENERGEN RESOURCES
CORPORATION FOR ALLOWABLE REDUCTION
AND ESCROW OF PRODUCTION PROCEEDS,
WEST LOVINGTON STRAWN POOL, LEA COUNTY,
NEW MEXICO

CASE NO. _____

APPLICATION

Energen Resources Corporation, ("Energen"), through its counsel, makes application to the Oil Conservation Commission for immediate issuance of an order providing for:

1. Temporary reduction of the depth bracket allowable for wells in the West Lovington Strawn Pool to a level to be determined at the time of hearing which will only permit operators in the pool to avoid lease terminations for the failure of wells therein to produce in paying quantities;
2. Termination of the reduced depth bracket allowable for the Pool when the West Lovington Strawn Unit ("WLSU") is expanded to protect the correlative rights of each owner in the Pool pursuant to a ratified statutory unitization order of the Oil Conservation Commission; and
3. Requires the Operator of the West Lovington Strawn Unit, Gillespie-Crow, Inc., to escrow all payments received for production from the Unit and the Snyder "C" No. 4¹ and the Snyder "EC" Com Well No. 1² less

¹ 510' FNL and 990' FEL, (Unit A) Sec. 6, T-16-S, R-36-E, NMPM

² 1346' FNL and 1980' FEL (Lot 2), Sec. 6, T-16-S, R-36-E, NMPM

payments made for royalty and taxes thereon, from the date of the order resulting from this hearing until the Unit has been expanded pursuant to a ratified statutory unitization order of the Oil Conservation Commission to include all lands which are affected by the pressure maintenance project being conducted in the Pool.

In support its Application Energen, states:

1. On October 8, 1998, Yates Petroleum Corporation and Hanley Petroleum, Inc. filed a similar application seeking substantially the same action by the Commission in order to resolve an impasse among the Unit Operator and the various Unit participants with respect to, among other things, the expansion of the Unit and proposed revisions to the Unit's participation formula. (Case No. 12086; Application of Yates Petroleum Corporation and Hanley Petroleum, Inc. for Allowable Reduction and Escrow of Production Proceeds, Lea County, New Mexico.)

2. Since the filing of the Yates/Hanley application, the Unit Operator and Unit Participants formed the West Lovington Strawn Unit Technical Committee to address and resolve all outstanding issues with respect to the unit expansion. Following a number of meetings, the WLSU Technical Committee has reached agreement on the areal extent of an expanded Unit and a basis for tract participation in the expanded unit. However, the principals for the representatives to the WLSU Technical Committee have been unable or unwilling to follow through with the agreements reached during the Technical Committee's deliberations and pursue regulatory approval for the expanded Unit.

3. In approximately February, 1998, since the time the regulatory proceedings on the expansion of the unit were first initiated, the Unit Operator, Gillespie-Crow, Inc. drilled the Snyder "C" No. 4 well on lease acreage it owns outside the present unit boundaries. Since that well was completed, Energen's predecessor in interest, EEX Corporation, filed a separate Application to expand the Unit to include the acreage dedicated to the new well.³ That case has been consolidated with the two other cases presently pending before the Commission on the WLSU, Case No. 11724⁴ and Case No. 11954.⁵

4. Among other matters, the WLSU Technical Committee agreed that the Strawn formation underlying the acreage dedicated to the Snyder "C" No. 4 well is in communication with the unitized interval in the WLSU. Moreover, the Technical Committee concluded from shut-in pressure data that the Snyder "C" No. 4 well is benefiting directly from pressure maintenance operations being conducted on the Unit. At the same time, however, Gillespie-Crow, Inc. the operator and 100% working interest owner of the Snyder "C" No. 4, has been able to avoid sharing in any of the costs of the pressure maintenance operations which would otherwise be attributable to the well.

5. In addition to benefiting directly from the Unit pressure maintenance project, Gillespie-Crow, as operator of the Snyder "C" No. 4 well, is producing and selling volumes of gas from the well that were injected into the Strawn formation by way of Unit facilities.

³ NMOCC Case No. 11987; Application of EEX Corporation for Unit Expansion, Statutory Unitization and Qualification for the Recovered Oil Tax Rate, Lea County, New Mexico.

⁴ Application of Gillespie-Crow, Inc. for Unit Expansion 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. *De Novo*.

6. The Oil Conservation Commission is required by the Oil and Gas Act to protect the correlative rights of the owner of each property in a pool. NMSA 1978, §§ 70-2-11 and 70-2-33.

7. The current status of the West Lovington Unit requires immediate action by the Commission to protect correlative rights.

8. The current status of the development of the West Lovington-Strawn Pool and the efforts of the interest owners to form and subsequently expand the West Lovington Strawn Unit have created a situation where certain interest owners in this pool, are being denied the opportunity to produce their fair share of the reserves from the Pool.

9. As long as the Unit operator can delay the proper expansion of the Unit, and produce the reserves of other owners in the Pool, the correlative rights of these other interest owners are impaired.

10. The failure of the interest owners and the Unit Operator to take action to finalize the expansion of the West Lovington Strawn Unit do not relieve the Commission of its statutory duty to protect the correlative rights of each interest owner in this pool.

11. The Commission must carry out its statutory duty to protect the correlative rights of all interest owners in a pool even when the operators refuse to cooperate with each other or the Commission. See, Santa Fe Exploration Co. v. Oil Conservation Comm'n. 114 N.M. 103, 835 P.2d 819 (1992).

12. The Commission is given by statute a broad grant of power to prevent waste and protect correlative rights which allows it "to require wells to be drilled,

⁵ Application of Hanley Petroleum, Inc. and Yates Petroleum 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.

operated and produced in such a manner as to prevent injury to neighboring leases or properties.” NMSA 1978, § 70-2-12 (B) (7).

13. The Commission is “empowered by statute to make and enforce rules, regulations and orders, and do whatever may be necessary to carry out the purpose of the Oil and Gas Act whether or not indicated or specified in any section hereof.” “NMSA 1978, § 70-2-11. See also, Santa Fe Exploration, 114 N.M. at 113, 835 P.2d at 829.

14. If the Commission does not exercise the powers conferred on it by statute and take immediate action to protect the correlative rights of interest owners in the West Lovington Strawn Pool, it will be in violation of the Oil and Gas Act.

15. Pursuant to Section 70-2-6 of the New Mexico Oil and Gas Act, Applicant requests this matter be set for hearing before the Oil Conservation Commission on March 18, 1999 and, further, that this matter be consolidated with Case No. 12086 presently pending before the Commission and advertised for the Commission’s March 18, 1999 hearing docket.

WHEREFORE, Energen Resources Corporation requests that this application be set for hearing before the full Oil Conservation Commission on March 18, 1999, and that after notice and hearing as required by law, the Commission enter its Order:

- (1) reducing the depth bracket allowable for wells in the West Lovington Strawn Pool to a level, to be determined at the time of hearing, which will only permit operators in the pool to avoid lease terminations for the failure of wells thereon to produce in paying quantities;
- (2) providing for termination of the reduce depth bracket allowable established by this order when the West Lovington Strawn Unit is

expanded, pursuant to a ratified statutory unitization order of the Oil Conservation Commission; and

- (3) requiring Gillespie-Crow, Inc. to escrow all payments received for production from the Unit and the Snyder "C" No. 4 and the Snyder "EC" Com Well No. 1, less payments made for royalty and taxes thereon, from the date of the order resulting from this hearing until the Unit has been expanded pursuant to a ratified statutory unitization order of the Oil Conservation Commission in consolidated Case No. 11724 (*de novo*).

Respectfully Submitted,

MILLER, STRATVERT & TORGERSON, P.A.

By: J. Scott Hall

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Application was mailed this 4 day of March, 1999 to the following counsel of record:

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