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December 10, 2013

Ms. Jami Bailey, Director
NM Oil Conservation Division
1220 S. St. Francis Drive
Santa Fe, NM 87501

Hand-Delivered

Re: NMOCD Case No. 15072: Application of Energen Resources Corporation to Amend Compulsory Pooling Order No. R-10154, San Juan County, New Mexico

Dear Ms. Bailey:

On behalf of Energen Resources Corporation, enclosed is an original and one copy of an Application in the above-referenced case. Please set this matter for hearing on the January 9, 2014 examiner docket. Also enclosed is a proposed advertisement for the case.

Very truly yours,

J. Scott Hall

JSH:lb
Enclosures

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STATE OF NEW MEXICO
DEPARTMENT OF ENERGY, MINERALS AND NATURAL RESOURCES
OIL CONSERVATION DIVISION

**IN THE MATTER OF THE APPLICATION OF
ENERGEN RESOURCES CORPORATION TO
AMEND COMPULSORY POOLING ORDER NO.
R-10154, SAN JUAN COUNTY, NEW MEXICO**

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CASE NO. 15072

APPLICATION

Energen Resources Corporation ("Energen" or "Applicant"), by its undersigned attorneys, Montgomery & Andrew, P.A. (J. Scott Hall) hereby makes application pursuant to *inter alia* NMSA 1978 § 70-2-17 (1995) for an order amending compulsory pooling Order No. R-10154 which pooled all interests in the Fruitland Coal formation, Basin-Fruitland Coal Gas Pool (71629), underlying the S/2 of Section 19, Township 30 North, Range 11 West, NMPM, San Juan County, New Mexico, forming a standard 326.26 acre \pm spacing and proration unit. Energen seeks an amendment to the Order No. R-10154 in order to consolidate additional interests. In support thereof, Applicant would show the Division:

1. Energen is the successor operator of the Flora Vista "19" Well No. 2 drilled to the Fruitland Coal formation in 1994 by Maralex Resources, Inc. as contract operator for the operator of record, SG Interests I, Ltd. The Flora Vista "19" Well No. 2 is located at a standard coal gas well location 833 feet from the south line and 1465 feet from the west line (unit N) of said Section 19.

2. Energen also operates the Flora Vista "19" Well No. 3 which it drilled as a Fruitland Coal formation infill well in 2004 at a standard location 675 feet from the south line and 1025 feet from the east line (unit P) of Section 19. The S/2 of Section 19 is dedicated to both the No. 2 and the No. 3 wells.

3. Previously, on July 19, 1994, pursuant to a hearing held on June 23, 1994, the Division issued Order No. R-10154 pooling certain uncommitted interests in the S/2 of Section 19 preparatory to the drilling of the Flora Vista "19" Well No. 2 by Maralex Resources, Inc. (Case No. 11007; *Application of Maralex Resources, Inc. for Compulsory Pooling, San Juan County, New Mexico*).

4. The evidence at the hearing established that the operator in that case owned or controlled the majority of the working interests in the S/2 of Section 19 and that the applicant sought to pool the remaining interests of those owners who had not agreed to participate in the drilling of the well. The quantum of the non-participating interests constituted a relatively large percentage of the interest in the unit. The Division accordingly granted the Maralex Application and issued Order No. R-10154 pooling the interests of Norman L. Gilbreath and Loretta E. Gilbreath, husband and wife, the owners of a number of oil and gas leasehold interests in the SE/4 of Section 19 that comprised approximately 48.60% of the working interests in the S/2 unit dedicated to the Flora Vista "19" Well No. 2.

5. Among the leases in the SE/4 purportedly owned or controlled by the Gilbreaths was that oil and gas lease dated August 4, 1972 originally issued by Frank A. King and Paula S. King (now known as Paula S. Elmore), as lessors, to Rodney P. Calvin, as lessee, and covering approximately 18.37 acres \pm located within the W/2 NW/4 SE/4 of Section 19 from the surface to the base of the Pictured Cliffs formation.

6. Subsequent to the hearing and the issuance of Order No. R-10154, Maralex Resources, Inc. drilled and successfully completed the Flora Vista "19" Well No. 2 in the

Fruitland Coal formation. SG Interests I, Ltd. continued to act as operator of record of the Flora Vista "19" Well No. 2 until approximately August 1, 2004 when Energen Resources Corporation acquired ownership of the property. On August 3, 2004, the Division approved the Change of Operator for the Flora Vista "19" Well No. 2 from SG Interests I, Ltd. to Energen.

7. On November 21 2004, Energen Resources Corporation spudded the Flora Vista "19" Well No. 3 infill well. The well reached total depth in the Fruitland Coal formation on December 4, 2004 and first production from the Flora Vista "19" Well No. 3 occurred on approximately January 10, 2005.

8. In 2013, Frank A. King and Paula S. Elmore (f/k/a Paula S. King), the lessors under the oil and gas lease referenced in paragraph 5, above, (the "Kings"), asserted that the lease, which had been held by production from a Pictured Cliffs formation well located in the SE/4 of Section 19, automatically terminated due to a cessation of production, as early as 1990. As a consequence, the Kings assert that their mineral interests were unleased on July 19, 1994 at the time the Division issued Order No. R-10154 and that the order was not effective to pool their interests.

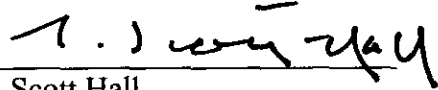
9. The Kings have initiated a proceeding in U.S. District Court seeking *inter alia* to quiet title to their interests. Therein, the Kings assert that Applicant does not currently have leases or a voluntary agreement for pooling or farmout from the Kings. Energen does not admit the correctness of the Kings' position, which is subject to the judicial determination of leasehold title.

10. In light of the Kings' assertion, and in an abundance of caution, Energen seeks an order amending Order No. R-10154 effective retroactively that will consolidate through

pooling the interests of the Kings and will allow Applicant to recover any costs of drilling, equipping and completing the Flora Vista "19" Well No. 2 and the Flora Vista "19" Well No. 3 infill well which are attributable to the Kings' interests, its costs of supervision while drilling and after completion, including overhead charges and providing for adjustments to such rates in accordance with accepted COPAS accounting procedures, and imposing a 200% risk penalty for the risks assumed by the Applicant in drilling, completing and equipping the wells, and making such other and further provisions as may be proper.

WHEREFORE Applicant requests that this Application be set for hearing before a duly appointed hearing examiner of the Oil Conservation Division on January 9, 2014 and that after notice and hearing as required by law, the Division enter its amended Order pooling any unconsolidated interests in the lands, including provisions for Applicant to recover its costs of drilling, equipping and completing the wells, its costs of supervision while drilling and after completion, including overhead charges and providing for adjustments to such rates in accordance with accepted COPAS accounting procedures, and imposing a 200% risk factor for the risk assumed by the operators in drilling, completing and equipping the wells, and making such other and further provisions as may be proper in the premises.

MONTGOMERY & ANDREWS, P.A.

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Case 150 72: *Application of Energen Resources Corporation to Amend Compulsory Pooling Order No. R-10154, San Juan County, New Mexico.* Applicant seeks an order amending Order No. R-10154 which pooled all interests in the Fruitland Coal formation, Basin-Fruitland Coal Gas Pool (71629), underlying the S/2 of Section 19, Township 30 North, Range 11 West NMPM in San Juan County, New Mexico, forming a standard 326.26 acre \pm spacing and proration unit, now dedicated to the Flora Vista "19" Well No. 2 and the Flora Vista "19" Well No. 3. Applicant seeks an amendment to the Order No. R-10154 in order to consolidate additional interests. The wells and lands are located approximately 2 miles east of Flora Vista, New Mexico.