

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

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

CASE NO. 13751
ORDER NO. R-12637

APPLICATION OF ENERGEN RESOURCES CORPORATION FOR POOL
EXTENSION AND THE PROMULGATION OF SPECIAL POOL RULES FOR
THE NORTH BURTNER-DEVONIAN POOL, LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on July 20, 2006, at Santa Fe, New Mexico, before Examiner Richard I. Ezeanyim.

NOW, on this 19th day of September, 2006, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of this case and its subject matter.

(2) By Order No. R-12449 issued in case No. 13585 on October 27, 2005, the Division created the North Burtner-Devonian Pool (**Pool Code 97455**) consisting of the following described area for the production of oil from the Devonian formation.

TOWNSHIP 15 SOUTH, RANGE 33 EAST, NMPM
Section 3: NE/4

(3) The applicant, Energen Resources Corporation ("Energen" or "Applicant"), now seeks the extension of the current horizontal limits of the North Burtner-Devonian Pool to include the NW/4 of Section 3, Township 15 South, Range 33 East.

(4) The Applicant also seeks the promulgation of special pool rules and regulations which provide for oil spacing units in the Siluro-Devonian formation comprised of 80-acre units with wells to be located no closer than 330 feet from the outer boundary of the quarter section on which the well is located.

(5) Energen provided land, geological, and engineering testimony that demonstrates that:

- (a) all of the N/2 of Section 3, Township 15 South, Range 33 East, NMPM, Lea County, New Mexico, are State of New Mexico leases owned by Energen;
- (b) four wells drilled in the area penetrate the Siluro-Devonian Pool, and two of these wells namely: Saunders Deep State Well No. 1 (**API # 30-025-36859**), and Texas Deep State Well No. 1 produce from the Siluro-Devonian pool;
- (c) there are other Devonian fields in the area that were developed on 80-acre spacing units; so there is precedent for 80-acre spacing units in the Siluro-Devonian oil pool with 330-foot setback requirements on the well locations;
- (d) the mineral interest owners in the Saunders Deep State Well No. 1 and Texas Deep State Well No. 1 would not be diminished by changing the spacing unit from the Statewide 40 acres to 80 acres in the Siluro-Devonian Oil Pool;
- (e) the Saunders Deep State Well No.1 in the NE/4 (Unit A) is in good communication with the Texas Deep State Well No. 1 in the NW/4 (Unit E) of Section 3;
- (f) a chromatographic analysis of the hydrocarbons from the Saunders Deep State Well No.1 and Texas Deep State Well No. 1 showed no significant variation in composition, therefore the hydrocarbons are being produced from the same continuous reservoir; and
- (g) a simulation model which was run on both the 80-acre and 40-acre units indicated that: (i) it will be more economical to develop the 80 acres with one well than drilling two wells on each of the 40 acres by saving both the development and operating costs, and (ii) twice as much oil will be recovered from the 80 acres as compared to the 40 acres.

(6) The Applicant provided notice of this application to all the interest owners in accordance with Division Rules 1207 and 1210.A (4). No affected party appeared at the hearing in opposition to this application.

(7) The horizontal limits of the North Burtner-Devonian Pool should be extended to include the NW/4 of Section 3, Township 15 South, Range 33 East, NMPM, Lea County, New Mexico.

(8) In order to prevent waste and protect correlative rights, temporary special pool rules should be established for the North Burtner-Devonian Pool to provide for 80-acre well spacing and proration units, with wells to be located no closer than 330 feet to any outer boundary of the spacing and proration unit.

(9) This case should be reopened at an examiner hearing in October 2007, to allow the operators in the pool the opportunity to appear and show cause why the temporary special pool rules for this pool should not be rescinded.

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Energen Resources Corporation, the horizontal limits of the North Burtner-Devonian Pool (**Pool Code 97455**) are hereby extended to include the NW/4 of Section 3. The horizontal limits of the North Burtner-Devonian Pool shall now be comprised of the following described acreage:

TOWNSHIP 15 SOUTH, RANGE 33 EAST, NMPM
Section 3: NE/4 and NW/4

(2) The temporary special rules for the North Burtner-Devonian Pool are hereby promulgated as follows:

**TEMPORARY SPECIAL RULES AND REGULATIONS
FOR THE
NORTH BURTNER-DEVONIAN POOL**

RULE 1: Each well completed or recompleted in the North Burtner-Devonian Pool or in the Siluro-Devonian formation within one mile thereof, and not nearer to or within the limits of another designated Siluro-Devonian oil pool, shall be spaced, drilled, operated and produced in accordance with the Special Rules hereinafter set forth.

RULE 2: Each well shall be located on a standard unit containing 80 acres, more or less, consisting of the N/2, S/2, E/2 or W/2 of a governmental quarter section being a legal subdivision of the United States Public Lands Survey, provided however, nothing contained herein shall be construed as prohibiting the drilling of a well on each of the quarter-quarter sections in the unit.

RULE 3: The Director of the Oil Conservation Division may grant an exception to the requirements of Rule 2 without notice and hearing when an application has been duly filed for a non-standard unit comprising one or more governmental quarter-quarter sections or lots, or the unorthodox size or shape of the tract is due to a variation in the legal subdivision of the United States Public Land Surveys. All operators offsetting the proposed non-standard unit shall be notified of the application by registered or certified mail, and the application shall state that such notice has been furnished. The Director may approve the application upon receipt of written waivers from all offset operators or if no offset operator has entered an objection to the formation of the non-standard unit within 20 days after the Director has received the application.

RULE 4: Each well shall be located no closer than 330 feet to the outer boundary of a spacing and proration unit.

RULE 5: The Division Director may grant an exception to the requirements of Rule 4 without hearing when an application has been duly filed for an unorthodox location necessitated by topographical conditions or the recompletion of a well previously drilled to another horizon. All operators offsetting the proposed location shall be notified of the application by registered or certified mail, and the application shall state that such notice has been furnished. The Director may approve the application upon receipt of written waivers from all operators offsetting the proposed location or if no objection to the unorthodox location has been entered within 20 days after the Director has received the application.

RULE 6: The allowable for a standard proration unit shall be based on a depth bracket allowable of 535 barrels per day with a limiting gas oil ratio of 2000 cubic feet of gas per barrel of oil. In the event there is more than one well on an 80-acre proration unit, the operator may produce the allowable assigned to the unit from the wells on the unit in any proportion. The allowable assigned to a non-standard proration unit shall bear the same ratio to a standard allowable as the acreage in such non-standard unit bears to 80 acres.

IT IS FURTHER ORDERED THAT:

(3) The location of any well presently drilling to or completed in the North Burtner-Devonian Pool or in the Siluro-Devonian formation within one mile thereof is hereby approved. The operator of any well having an unorthodox location shall notify the Division's Hobbs District Office in writing of the name and location of the well within 20 days from the date of this order.

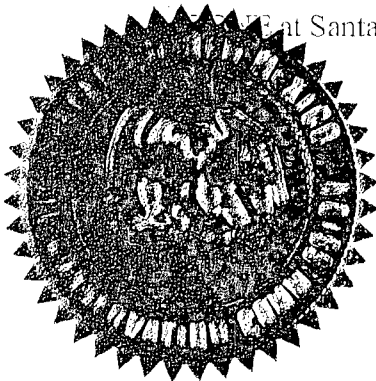
(4) Existing oil wells in the North Burtner-Devonian Pool shall have dedicated thereto 80 acres in accordance with the foregoing pool rules; or, existing oil wells may have

non-standard spacing or proration units established by the Division and dedicated thereto. Failure to file new Forms C-102 with the Division dedicating 80 acres to a well or to obtain a non-standard unit approved by the Division within 60 days from the date of this order shall subject the well to cancellation of allowable.

(5) Unless called earlier by the motion of the Division, this case shall be reopened at an examiner hearing in October 2007, at which time the operator(s) in the subject pool should be prepared to appear and show cause why the temporary special pool rules for the North Burtner-Devonian Pool should not be rescinded and the pool not be developed on statewide 40-acre spacing.

(6) Jurisdiction is hereby retained for the entry of such further orders as the Division may deem necessary.

WITNESSED at Santa Fe, New Mexico, on the day and year hereinabove designated.



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

Mark E. Fesmire
MARK E. FESMIRE, P.E.
Director