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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

July 27, 1999

**HAND DELIVERED**

Florene Davidson  
New Mexico Oil Conservation Division  
2040 South Pacheco Street  
Santa Fe, New Mexico 87505

Re: NMOCD Case No. 12171; West Lovington Strawn Unit

Dear Ms. Davidson:

Enclosed for filing is the original and one copy of the Addendum To West Lovington Strawn Unit Technical Committee Draft Order Proposed By Energen Resources Corporation.

Very truly yours,



J. Scott Hall

JSH/rm

cc: Michael Stogner NMOCD (w/enclosure)  
Rand Caroll NMOCD (w/enclosure)  
James Bruce (w/enclosure)  
W. Thomas Kellahin (w/enclosure)  
Wm. F. Carr (w/enclosure)  
Paul Cooter (w/enclosure)

99 JUL 27 PM 3:52  
OIL CONSERVATION DIV.

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

APPLICATION FOR GILLESPIE-CROW, INC.  
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.

CASE NO. 12171

99 JUN 27 PM 3:51

OIL CONSERVATION DIV.

ADDENDUM TO  
WEST LOVINGTON STRAWN UNIT  
TECHNICAL COMMITTEE DRAFT ORDER  
PROPOSED BY  
ENERGEN RESOURCES CORPORATION

Energen Resources Corporation, ("Energen"), through its counsel, Miller, Stratvert & Torgerson, P.A., J. Scott Hall, submits the attached Addendum (Exhibit A) to the draft order submitted to the Division on July 26, 1999 on behalf of the West Lovington Strawn Unit Technical Committee by the Applicant and Operator of the Unit, Gillespie Oil, Inc. Energen requests the provisions of the Addendum be incorporated into and made a part of the order proposed by the Applicant and the Technical Committee. In support, Energen states:

1. During the course of the hearing in this matter, it was made clear that the failure of the parties to resolve a dispute over the well pay-out issue would prevent ratification of the second expansion of the WLSU, thus making any further deliberations in this case a nullity. (See excerpt from May 27, 1999 transcript of hearing, Exhibit B) Consequently, immediately following the hearing, Energen initiated efforts to address the

matter and in a meeting with the Unit Operator's representatives on May 28<sup>th</sup>, an amendment to the Unit Operating Agreement was devised.

2. The Amendment to the Unit Operating Agreement resolves the dispute over the well pay-out issue by allowing 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) recoup an amount in excess of 100% of payout costs under a formula establishing a "payout multiple" according to a well's ability to produce for six consecutive months against the top allowable for the pool, up to a maximum of 200%. The amendment further made specific provisions for the recoupment of 200% of the costs of the Snyder "C" No. 4 well and 116% of the costs of the Snyder "EC" Com well in order to satisfy the demands made by Gillespie.

3. The proposed Amendment to the Unit Operating Agreement was submitted to the Division Examiner on June 22, 1999, (See Exhibit C) accompanied by the original affidavit of witness Barney Kahn, Energen's reservoir engineer. (See copy of Affidavit of Barney Kahn, with attachment, Exhibit D) The Kahn affidavit explained the operation of the amendment and established for the record that the provision is fair, reasonable and equitable. The Examiner was requested to incorporate the Kahn Affidavit into the record and copies of the filing were sent to all counsel of record. The transmittal letter copied to counsel of record, requested the parties to make known their comments or objections. No objection to the proposed Amendment has been made to date.

4. On July 26, 1999, the Applicant submitted a proposed draft order reflective of the agreements reached by the West Lovington Strawn Unit Technical Committee. Energen seeks to have the Division enter its order approving of the second expansion of


the West Lovington Strawn Unit by adopting the Technical Committee's draft version, as amended to include provisions amending the Unit Operating Agreement as set forth in the attached Addendum.

5. Incorporation of the language set forth in the Addendum is fair, reasonable and equitable, all as required by the Statutory Unitization Act. Moreover, adoption of the Addendum language in the Division's Order approving the second expansion of the WLSU will facilitate the ratification and ultimate approval of the expansion by the interest owners. Conversely, were the Division's order to issue without the Addendum provision, the likelihood the second expansion would fail to achieve ratification will be increased substantially.

WHEREFORE, Energen Resource Corporation requests that the Division enter its Order approving the second expansion of the West Lovington Strawn Unit in accordance with the terms of the Technical Committee version of the Draft Order, as amended to include the provisions set forth in the Addendum offered by Energen.

Respectfully submitted,

MILLER, STRATVERT & TORGERSON, P.A.

By 

J. Scott Hall, Esq.  
Post Office Box 1986  
Santa Fe, New Mexico 87504  
(505) 989-9614

Attorneys for Energen Resources Corp.

**CERTIFICATE OF SERVICE**

I hereby certify that a copy of the foregoing pleading was served upon the following counsel of record this 27 day of July, 1999.

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

W. Thomas Kellahin, Esq.  
Kellahin & Kellahin  
Post Office Box 2265  
Santa Fe, New Mexico 87504

Rand L. Carroll  
Oil Conservation Division  
2040 South Pacheco Street  
Santa Fe, New Mexico 87505

James Bruce, Esq.  
Post Office Box 1056  
Santa Fe, New Mexico 87504-1056

Paul A. Cooter, Esq.  
Eastham, Johnson, Monnheimer & Jontz, P.C.  
Post Office Box 1276  
Albuquerque, New Mexico 87103



\_\_\_\_\_  
J. Scott Hall

## ADDENDUM

The West Lovington Strawn Unit Technical Committee draft order should be amended as follows:

On page 5, following paragraph 12(f), a new paragraph should be added as follows:

(13) Evidence presented at the hearing further showed the existence of disagreement over the procedures for operators to recoup the costs of drilling and completion of new wells located on expansion acreage being brought into the unit.

(14) Following the hearing, representatives for Energen and Gillespie met to discuss a proposed amendment to the Unit Operating Agreement to resolve the disagreement over recoupment of drilling and completion costs. Energen submitted the proposed amendment to the Division on June 22, 1999, (attached hereto as Exhibit 1), requesting that the same be made a part of the record in this case and that the Division's order provide for an amendment to Article 10.4 of the Unit Operating Agreement accordingly.

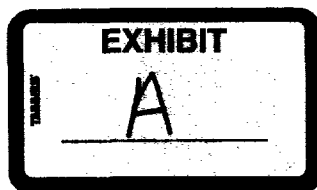
(15) No other party has objected to the amendment to Article 10.4 of the Unit Operating Agreement proposed by Energen (Exhibit 1). The provisions of the amendment are fair, reasonable and equitable and should otherwise be approved.

All subsequent paragraphs and exhibits should be renumbered accordingly.

On page 8, following paragraph 8, a new paragraph should be added as follows:

(9) The West Lovington Strawn Unit Operating Agreement, approved by Division Order No. R-10449, as amended by the amendment to Article 10.4 (attached hereto as Exhibit 1), is incorporated by reference into this order.

All subsequent paragraphs and exhibits should be renumbered accordingly.



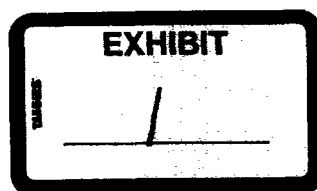
UNIT OPERATING AGREEMENT  
WEST LOVINGTON STRAWN UNIT  
LEA COUNTY, NEW MEXICO

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.



## 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. 12,171  
 )  
 APPLICATION OF GILLESPIE OIL, INC., 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 )

REPORTER'S TRANSCRIPT OF PROCEEDINGSEXAMINER HEARING

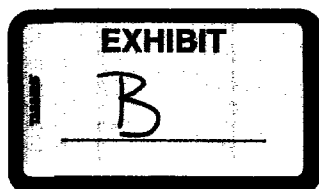
BEFORE: MICHAEL E. STOGNER, Hearing Examiner

May 27th, 1999

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, May 27th, 1999, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

\* \* \*



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



1           A.    I would like for the Commission to see both of  
2 these proposals, and I think Jim alluded to there may be  
3 pieces of both to use, let us have something go out to be  
4 ratified, and I can't say if he'll ratify even that. But I  
5 would like to think that there would be a proposal that  
6 comes up that will be ratified.

7           Q.    I would too. Let me ask you, getting back to the  
8 AFE or the approval of the 200-percent payout for bringing  
9 in the Snyder "C" 4 well, is that issue a component of the  
10 new proposal?

11          A.    In a form, yes.

12          Q.    What form is it?

13          A.    It is a multiple payout.

14          Q.    In other words, ratification of this new proposal  
15 will be contingent on all the interest owners approving  
16 multiple payout for the Snyder "C" 4 as part of the overall  
17 package; is that accurate?

18          A.    I don't know. I don't -- I haven't seen what the  
19 Commission is going to do. They may go back to the 100-  
20 percent oil-in-place number that we've always been dealing  
21 with. I don't know.

22          Q.    Well, I'm speaking on the payout issue  
23 specifically, though.

24          A.    The -- it -- I can't say how he'll vote without  
25 looking at what actually -- He'll vote for this -- his

1 proposal.

2 Q. I'm sorry, say that again?

3 A. When we present our proposal, he will ratify that  
4 one.

5 Q. All right. So -- But he will not ratify the  
6 Application proposal? Yes or no?

7 A. I would say no --

8 Q. All right.

9 A. -- as I understand his position. That's why we  
10 are going to present our own proposal.

11 You've got to realize, Scott, I tried to get the  
12 technical committee to include a multiple payout. We  
13 wouldn't even consider it. And we gave on Hanley, we gave  
14 with Energen, and wouldn't even be considered for any  
15 consideration on the "C" 4.

16 EXAMINER STOGNER: Mr. Bruce, this is somewhat  
17 unusual. Do you want to make a statement at this point?  
18 What are we doing here?

19 MR. BRUCE: Well, Mr. Examiner, just like the  
20 last couple of go-arounds, people had different things to  
21 propose, period.

22 EXAMINER STOGNER: Well, if you're proposing  
23 something that won't be ratified, then --

24 MR. BRUCE: No, I do not know that, Mr. Examiner.  
25 I can't say that.

**MILLER, STRATVERT & TORGERSON, P. A.**  
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JAMES J. WIDLAND, COUNSEL

PLEASE REPLY TO EL PASO

June 22, 1999

Michael Stogner  
New Mexico Oil Conservation Division  
2040 South Pacheco  
Santa Fe, New Mexico 87501

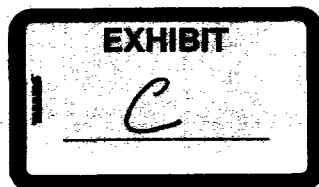
**Hand Delivered**

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

Dear Mr. Stogner:

At the June 6, 1999 hearing on the above matter, you directed the parties to provide you with drafts of proposed orders for your consideration. Toward that end, I understand Mr. Bruce is preparing a draft of an order with provisions incorporating the recommendations of the West Lovington Strawn Unit Technical Committee with respect to, among other things, the boundaries of the expanded unit, tract allocations and a revised participation formula. Such a version of a proposed order, which my client Energen Resources prospectively supports, will be submitted to you on behalf of the Applicant, Gillespie Oil, Inc. The Applicant's draft will then provide the larger framework for modification by those other parties such as Charles B. Gillespie, Jr. who may wish to propose alternative provisions for a final order in conformance with the positions taken and evidenced adduced by them at the hearing. Such alternatives could be provided to you in the form of an addendum filing which would propose modifications and/or substitutions to specific provisions of the Applicant's draft order. This way, we should be able to avoid unnecessary duplication of effort.

Energen anticipates filing an addendum which will propose an amendment to the Unit Operating Agreement for the WLSU addressing the payout status of wells drilled on expan-



Michael Stogner

June 22, 1999

Page two

sion acreage that are brought into the unit. A copy of the proposed amendment is enclosed and is accompanied by a copy of the Affidavit of Barney Kahn. The amendment is a product of post-hearing discussions between Gillespie and Energen and, consequently, there is presently no evidentiary basis in the record for the incorporation of such provisions into any order. Accordingly, in order to satisfy the requirements of Section 70-2-14 of the Oil and Gas Act in this regard, I request this proposed amendment to the Unit Operating Agreement and accompanying affidavit be incorporated into the record. The affidavit establishes a foundation for the incorporation.

By copies hereof, the amendment and affidavit are being provided to all counsel for review and comment by the parties of record. In the absence of any objection, the case could then be taken under advisement with the new material included in the record and there should be no need to convene another hearing on the matter.

Thank you for your cooperation.

Very truly yours,



J. Scott Hall

JSH/ao

Enclosure(s) – as stated

Cc: Rand Carroll, Esq. (with enclosures, by facsimile transmission)  
James Bruce, Esq. (with enclosures, by facsimile transmission)  
W. Thomas Kellahin, Esq. (with enclosures, by facsimile transmission)  
Wm. F. Carr, Esq. (with enclosures, by facsimile transmission)  
Paul Cooter, Esq. (with enclosures, by facsimile transmission)

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JAMES J. WIDLAND, COUNSEL

PLEASE REPLY TO SANTA FE

June 22, 1999

Michael Stogner  
New Mexico Oil Conservation Division  
2040 South Pacheco  
Santa Fe, New Mexico 87501

Hand Delivered


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

Dear Mr. Stogner:

Enclosed are an original and two copies of the Affidavit of Barney Kahn. On behalf of  
Energen Resources Corporation, we request this affidavit be incorporated into the record and that  
the subject matter thereof be considered by the Division in the issuance of its order in this  
proceeding.

Thank you for your cooperation.

Very truly yours,



J. Scott Hall

JSH/ao

Enclosure(s) - as stated

Cc: Rand Carroll, Esq.  
James Bruce, Esq.  
W. Thomas Kellahin, Esq.  
Wm. F. Carr, Esq.  
Paul Cooter, Esq.

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BEFORE THE OIL CONSERVATION DIVISION

NEW MEXICO DEPARTMENT OF ENERGY AND MINERALS

OIL CONSERVATION DIV.  
90 JUN 23 AM 8:55

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

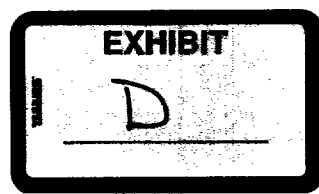
APPLICATION OF GILLESPIE OIL, INC. FOR  
UNIT EXPANSION, STATUTORY UNITIZATION,  
AND FOR THE RECOVERED OIL TAX RATE AND  
CERTIFICATION OF A POSITIVE PRODUCTION  
RESPONSE PURSUANT TO THE "NEW MEXICO ENHANCED  
OIL RECOVERY ACT."

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 21<sup>st</sup> day of June, 1999, by Barney Kahn.

Patricia L. Quinn  
Notary Public

My commission expires: 07-13-2001  
662121016 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.