



NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION
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May 20, 1999

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James Bruce, Attorney at Law
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Re: N.M.O.C.D. 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.

Dear Messrs. Hall and Bruce:

Reference is made to Mr. Hall's motion dated May 17, 1999 on behalf of Energen Resources Corporation to continue Case No. 12171 and to Mr. Bruce's reply by letter dated May 20, 1999 on behalf of Gillespie Oil, Inc.

Subsequent to the Division's review of this matter Case No. 12171 will remain on the Division's docket to be heard at the hearing scheduled for Thursday, May 27, 1999.

Sincerely,

Michael E. Stogner
Chief Hearing Officer/Engineer

MES/kv

cc: New Mexico Oil Conservation Division - Hobbs
Rand Carroll, Counsel - OCD, Santa Fe
Florene Davidson - OCD, Santa Fe
William F. Carr - Santa Fe
W. Thomas Kellahin - Santa Fe



LTR



Job separation sheet

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May 20, 1999

MAY 24

Via Fax and U.S. Mail

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

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

Case 12086; Application of Energen Resources Corporation
for allowable reduction, etc.

Dear Ms. Wrotenbery:

Enclosed is the response of the unit operator to Energen's motion
to continue Case 12171. The pleading also includes a request to
continue Case 12086.

Case 12171 is set for hearing on May 27th, and witnesses are
scheduled to travel on Tuesday, May 25th. Thus, the parties need
a prompt decision from the Division.

Thank you for your consideration of these matters.

Very truly yours,



James Bruce

Attorney for Gillespie Oil, Inc.

cc: Counsel of record (via fax)

BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

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.

Case No. 12171

RESPONSE OF GILLESPIE OIL, INC.
IN OPPOSITION TO ENERGEN'S MOTION FOR A CONTINUANCE

AND

MOTION OF GILLESPIE OIL, INC. TO CONTINUE CASE NO. 12086

Gillespie Oil, Inc., the operator of the West Lovington Strawn Unit (the "WLSU"), submits this response in opposition to the motion for a continuance filed by Energen Resources Corporation ("Energen"). In addition, the unit operator requests that Case No. 12086 (Energen's application for allowable reduction) be continued indefinitely.

I. BACKGROUND.

The West Lovington-Strawn Pool (the "Pool") was discovered in 1992 by Charles B. Gillespie, Jr. ("Gillespie"). The Pool is a prolific reservoir, producing over 3.85 million barrels of oil through April 1999. Wells in the pool were capable of producing at top allowable (then 445 BOPD), but Gillespie restricted production to 100 BOPD/well in early 1994 to maintain reservoir energy while the feasibility of a pressure maintenance project was investigated. The WLSU and a gas injection pressure maintenance project were approved by the Division in 1995. **Order Nos. R-10448 and R-10449.** The unit was expanded in 1997 due to additional development in the Pool. **Order No. R-10864.** Due to further development, a second

expansion has now been proposed, which is the subject of Case No. 12171.

Energen has filed a motion to continue Case No. 12171, because of an alleged inability to obtain ratification of the second unit expansion. The motion should be denied, for the reasons stated below.

II. ARGUMENT.

1. The Division Hearing Process Must Be Followed.

Energen is correct when it states that the history of the WLSU has been difficult. Energen also asserts that it is uncertain whether the second expansion has the votes necessary for final approval. However, Energen's assertions only confirm that the hearing in Case No. 12171, scheduled for May 27th, must go forward. This conclusion is based on the Statutory Unitization Act (the "Act") and the history of WLSU hearings to date:

Initial Unitization Hearing: The initial unitization hearing was, at the very least, contentious. The unit operator came to hearing with approvals from a large percentage of working and royalty interests. However, a single royalty owner disputed tract participations at the hearing. The Division ruled in the royalty owner's favor, and altered all proposed tract participations. As a result, after the order was issued the unit operator had to again seek ratifications from the interest owners in the unit. Ratification of the Division's order was not assured. However, once the Division made its

decision, sufficient ratifications were obtained, and the unit was formed.

First Expansion Hearing: At the first unit expansion hearing, two working interest owners disputed the unit expansion proposal. The Division did not find in favor of the objecting parties. However, if it had, the unit operator would have had to again seek ratifications from the interest owners after the hearing. Moreover, as of the date of the hearing there were insufficient ratifications by royalty owners to approve expansion. It was not until several months after the hearing that sufficient ratifications were obtained from royalty owners to confirm unit expansion.

A second unit expansion is now proposed. Once again, approval is not unanimous: There are disputes over certain expansion issues, and ratification is not assured. However, there is a procedure in place -- a unitization hearing before the Division -- to attempt to iron out the differences among the parties. This procedure was successfully used in the initial unitization hearing and in the first expansion hearing, and must be used again.

Energen wants to put the cart before the horse. The Act provides for the Division to make an independent judgment on the merits of a unitization plan. Once the Division enters its order, the unit operator has six months to obtain ratification of the expansion. **NMSA 1978 §70-7-8.C (1996)**. This process is fixed by statute, and must be followed. Energen, however, wants to prevent

any unitization hearing unless a unitization plan is pre-approved.¹ Such a procedure would preclude an interest owner from exercising his rights under the Act, and is statutorily improper.

2. Energen Has Impeded Agreement Among The Interest Owners.

One major problem is that many interest owners are uncertain of what Energen wants. The following examples are indicative:

- (a) Energen pressed for a quick hearing on unit expansion, yet now wants the hearing continued indefinitely.
- (b) Energen wants an April 1st effective date for unit expansion, but wants to change any agreements previously reached after it drills a new well.
- (c) Energen wants to severely restrict production from the Pool, **for everyone but itself.**²
- (d) Energen states, at page 5 of its motion, that the application filed by the unit operator in Case No. 12171 "did not comport with the agreement reached by the Technical Committee." However, Yates Petroleum Corporation and Hanley Petroleum, Inc., two of the working interest owners in the unit, stated at an April 1999 meeting that the application is exactly correct.

In addition, Energen refuses to compromise on issues such as reimbursement for well costs. By refusing to compromise, Energen claims that agreement cannot be reached, and the unit expansion case should be continued. Energen cannot have it both ways: It cannot use its refusal to negotiate as a reason for a continuance, and then seek to reduce the Pool's allowable in an effort to bludgeon other interest owners into submission. In short, Energen

¹At page 2 of its motion, Energen states that the expansion hearing should be delayed "until the parties are **made** to resolve [the]... issues and ratification can be assured." (Emphasis added.) In short, instead of following the Act, Energen wants to use the allowable reduction case to try to force people to agree beforehand. Such a process does not assure agreement.

²Energen wants to produce its proposed new well at the current Pool allowable.

itself is a primary obstacle to agreement among the interest owners.

3. The Allowable Reduction Case Must Be Continued.

Finally, Energen wants a hearing on the allowable reduction application even though the unit expansion hearing is continued. Energen has the procedure reversed. A process is in place to attempt to resolve the differences among the interest owners. That process is the unit expansion hearing. Until that process runs its course, including a hearing and having the unit operator seek ratification of the Division's order, a hearing on the allowable reduction application (Case No. 12086) is premature and improper.

WHEREFORE, the unit operator requests that Energen's motion for a continuance of Case No. 12171 be denied, and that Case No. 12086 be continued indefinitely.

Respectfully submitted,



James Bruce
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(505) 982-2043

Attorney for Gillespie Oil, Inc.

CERTIFICATE OF SERVICE

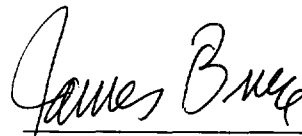
I hereby certify that a copy of the forgoing pleading was served upon the following counsel of record via facsimile transmission this 20th day of May, 1999:

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