

BEFORE THE OIL CONSERVATION DIVISION

NEW MEXICO DEPARTMENT OF ENERGY AND MINERALS

**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," LEA COUNTY, NEW MEXICO.**

Case No. 12171

MOTION FOR CONTINUANCE

Energen Resources Corporation, ("Energen"), through its counsel, moves the Division enter its order continuing the hearing in this case pending the Division's consideration of the consolidated applications in Case No. 12086¹ and until the parties have resolved certain issues affecting the second expansion of the West Lovington Strawn Unit ("WLSU").

For the past several months, the Unit Working Interest Owners have worked diligently to reach agreement on the second expansion of the WLSU. Many significant issues, such as the areal extent of the expansion and the allocation of hydrocarbon pore volume, have, for the most part, been resolved. However, final resolution has foundered on disagreement that has

¹ NMOCDCase No. 12086; Application of Yates Petroleum Corporation and Hanley Petroleum, Inc. For Allowable Reduction And The Escrow Of Production Proceeds, Lea County, New Mexico; Application of Energen Resources Corporation For Allowable Reduction And Escrow Of Production Proceeds, West Lovington Strawn Pool, Lea County, New Mexico (Consolidated).

arisen among the owners of the majority of the working interest and a significant royalty owner over some remaining issues involving a new unit participation formula and the terms for the reimbursement of well costs on payout. As a consequence, it appears interest owner ratification of the terms for the second expansion will be unlikely. Until the parties are made to resolve these few remaining issues and ratification can be assured, the hearing on the expansion application should be temporarily delayed.

The path to this point in the history of the proceedings on the West Lovington Strawn Unit has been long and difficult:

On August 29, 1995, by Order No. R-10449, the Division approved the West Lovington Strawn Unit, ("WLSU"), and following ratification, unitization of the Strawn formation became effective on October 1 of that same year. The drilling of additional Strawn formation wells on the perimeter of the WLSU by Hanley Petroleum Corporation and Gillespie-Crow, Inc., the Unit Operator, precipitated the first expansion of the Unit (Case No. 11724) which the Division approved on August 27, 1997 by Order No. R-10864, over the protests of both Hanley Petroleum and Yates Petroleum. In the interim, Hanley and Yates proposed a significantly larger

expansion of the WLSU in Case No. 11954. The Division denied the Hanley/Yates application. Hanley and Yates subsequently applied for hearing de novo on the denial of their application along with the approval of the first expansion under the Gillespie-Crow application.

In the meantime, in February of 1998, subsequent to the first expansion of the WLSU, Gillespie-Crow, Inc. drilled and completed its Snyder C No. 4 well in the Strawn formation underlying the E/2 NE/4 of Section 6, T-16-S, R-36-E, immediately cornering the Unit on its eastern flank. The lands dedicated to the Snyder C No. 4 well were not included in the unit expansion proposed by Hanley and Yates in Case No. 11954. Accordingly, Energen's predecessor, Enserch Exploration, requested Gillespie to initiate a second expansion proceeding to include the Snyder C No. 4 in the WLSU. When the Unit Operator failed to respond to the request, Enserch filed its own application for unit expansion in Case No. 11997. Snyder Ranches, Inc., the royalty owner under the lands dedicated to the Snyder C No. 4 well, resisted the inclusion of the well in the WLSU and sought the dismissal of the Enserch application. Hanley and Yates opposed the Enserch application as well. The several administrative cases pending simultaneously before both the Division and Commission became engulfed

in considerable procedural wrangling and saw little movement as a result. All the while, just outside the Unit boundary, the Gillespie Snyder EC Com No. 1 well² continues to produce its maximum rate and the Snyder C. No. 4 has been produced at the full allowable for the pool.

In an effort to break the ongoing impasse, on October 8, 1998, Hanley and Yates filed their application in Case No. 12086 which sought to have the Division reduce the allowable for the West Lovington Strawn oil pool to the bare minimum necessary to preserve leases and to escrow production proceeds. Hanley and Yates cited to the precedent in Santa Fe Exploration Co. v. Oil Conservation Comm'n.³ for authority for the Commission to act in this fashion. Although the matter was advertised for hearing, the case was continued a number of times at the request of the applicants. More than once, Energen objected to the continuances. In order to prevent further unilateral continuances of the allowable reduction case, Energen filed a virtually identical application with the Commission, on March 4, 1999.

Since it acquired its interests in the WLSU last October, Energen has pushed hard for action on the expansion of the unit. Due in no small part to

² W/2 NE/4 Sec. 6 T-16-S, R-36-E

³ 114 N.M. 103, 835 P.2d 819 (1992)

Energen's efforts, in December of last year, the Unit working interest owners agreed to create the WLSU Technical Committee to resolve a multitude of geologic and engineering issues related to the expansion of the unit. In January, the Technical Committee reached agreement on the boundaries for a significantly larger unit (including the Snyder C No. 4 and the Snyder EC Com) and on an allocation of hydrocarbon pore volume across the tracts constituting the expanded unit area. However, the principals for the WLSU Technical Committee became sidetracked by several integral and non-integral issues, including a new unit participation formula and whether the terms of the Unit Agreement should be amended to provide that wells on the expansion acreage should be brought in at greater than 100% payout. Disagreement on these issues continues. Moreover, the application to expand the unit filed by the Unit Operator in this case did not comport with the agreement reached by the WLSU Technical Committee.

This confluence of the continuing disagreements, delays, and a number of possible lease expirations have served to thwart finalization of the expansion. Indeed, the problems precipitated by this conspiracy of delaying events have recently been compounded further: Because the unit expansion has not proceeded in a more timely manner, Energen is being required to

drill its Beadle No. 1 well on a tract (Tract 21) in the proposed expansion area⁴ in order to save a lease which would have otherwise been extended.⁵ Earlier, the Technical Committee had agreed on a new unit participation formula that included a wellbore factor. At the time agreement on the participation formula was reached, there was no well on Tract 21. The fact that this previously undrilled tract will now have a well on it is upsetting the application of the participation formula and has made it more difficult for the parties to agree.

It is abundantly clear that the parties must try to resolve these outstanding issues before the unit expansion case may be properly presented to the Division. To do so, it is equally clear, as Hanley and Yates have stated in their earlier application, that it has become necessary have the Division act to reduce the pool allowable and escrow production proceeds in order to break the impasse as well as to protect correlative rights.

The March 4, 1999 Energen allowable reduction application referenced above was consolidated with the Yates Petroleum application in

⁴ W/2 SW/4 Sec. 35, T-16-S, R-35-E, NMPM

⁵ Energen's leases expire on May 21st. The recent discovery of unrecorded top-leases prevented Energen from obtaining lease extensions. As a consequence, Energen was obliged to pursue an expedited compulsory pooling proceeding in NMOCD Case No. 12174.

Case No. 12086 and was recently remanded back to the Division. These consolidated applications are now set for hearing on June 10, 1999. Until the Division has acted on the consolidated applications in Case No. 12086 and the parties have been made to come to agreement, this case should be temporarily continued.

Respectfully submitted,

MILLER, STRATVERT & TORGERSON, P.A.



J. Scott Hall
Attorneys for Energen Resources
Corporation

CERTIFICATE OF SERVICE

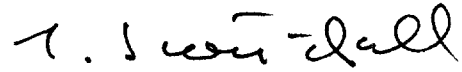
I hereby certify that on the 17th day of May, 1999, a copy of the foregoing pleading was delivered by first class mail, postage prepaid to:

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A handwritten signature in black ink, appearing to read "J. Scott Hall", written in a cursive style.

J. Scott Hall

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