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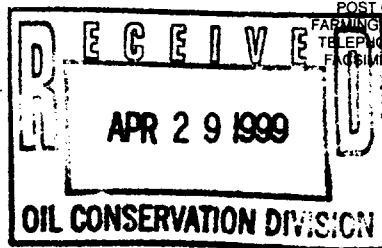
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PLEASE REPLY TO SANTA FE

April 29, 1999

**Hand Delivered**

Mr. Mark Ashley  
New Mexico Oil Conservation Division  
2040 South Pacheco Street  
Santa Fe, New Mexico 87501

Re: NMOCD Case No. 12174; Application of Energen Resources Corporation for  
Compulsory Pooling, Lea County, New Mexico

Dear Mr. Ashley:

Enclosed for your consideration is a draft order in the above matter, along with a copy of the same contained on the enclosed disk.

Also enclosed are three copies of Exhibit 6-1 reflecting nearby Wolfcamp formation production. We request Exhibit 6-1 be included as part of the record in this case.

Finally, as expressed in today's testimony, we request the issuance of an order on an expedited basis so that Energen has sufficient time to commence drilling operations before the underlying lease expires on May 21, 1999. In view of these circumstances, if there is anything I may do to facilitate the Division's processing of the order, please let me know.

Thank you for your consideration of this request.

Mr. Mark Ashley  
April 29, 1999  
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Very truly yours,

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

J. Scott Hall

JSH/rab  
Enclosures

cc: Ken Gray (w/encl.)  
Rusty Cook (w/encl.)

**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. 12174  
Order No. R-**

**APPLICATION OF ENERGEN RESOURCES CORPORATION FOR COMPULSORY  
POOLING, LEA COUNTY, NEW MEXICO.**

**ORDER OF THE DIVISION**

**BY THE DIVISION:**

This case came on for hearing at 8:15 a.m. on April 29, 1999, at Santa Fe, New Mexico, before Examiner Mark W. Ashley.

NOW, on this \_\_\_\_ day of \_\_\_\_\_, 1999, 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) The applicant, Energen Resources Corporation ("Energen"), seeks an order pooling all mineral interests underlying the following acreage in Section 35, Township 15 South, Range 35 East, NMPM, Lea County, New Mexico: (a) the W/2 SW/4 to form a standard 80-acre oil spacing and proration unit for the Undesignated West Lovington Strawn Pool; and (b) the SW/4 SW/4 to form a standard 40-acre oil spacing and proration unit for the Townsend Permo Upper Pennsylvanian Pool. Both units to be dedicated to the applicant's proposed Beadle No. 1 well to be drilled and completed at a standard oil well location in Unit M of Section 35.

(3) The applicant has the right to drill on this unit and proposes to drill and complete its Beadle No. 1 well at a standard oil well location in Unit M of Section 35.

(4) There are interest owners in the proposed proration units who have not agreed to pool their interests.

(5) At the hearing, Applicant requested the issuance of an order pooling the uncommitted interests and appointing Energen as operator of its proposed Beadle No. 1 well on an expedited basis. As grounds for its request, Applicant presented testimony establishing that certain of the leases it owns in the proposed unit will expire on May 21, 1999, unless drilling operations are commenced on or before that date.

(6) Applicant also presented evidence establishing that it had recently acquired its interests in Section 35 and that unrecorded top-leases acquired by a competitor have prevented Energen from obtaining extensions of the expiring leases, but that it had otherwise acted with diligence in prosecuting the drilling of the proposed well.

(7) Should Applicant be unable to commence drilling on or before May 21, 1999, then the expiration of Energen's leases will result in waste and violate its correlative rights. Therefore, Applicant's request for the issuance of a compulsory pooling order on an expedited basis should be approved.

(8) To avoid the drilling of unnecessary wells, to protect correlative rights, to avoid waste, and to afford the owner of each interest in the units the opportunity to recover or receive without unnecessary expense its just and fair share of the production in any pool completion resulting from this order, this application should be approved by pooling all mineral interests, whatever they may be, within the units.

(9) Energen should be designated the operator of the well and unit.

(10) Any non-consenting working interest owner should be afforded the opportunity to pay its share of estimated well costs to the operator in lieu of paying its share of reasonable well costs out of production.

(11) Any non-consenting working interest owner who does not pay its share of estimated well costs should have withheld from production its share of reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(12) Any non-consenting working interest owner should be afforded the opportunity to object to the actual well costs but actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(13) Following determination of reasonable well costs, any non-consenting working interest owner who has paid its share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(14) Reasonable charges for supervision (combined fixed rates) should be fixed at \$6,000.00 per month while drilling and \$600.00 per month while producing. The operator

should be authorized to withhold from production the proportionate share of both the supervision charges and the actual expenditures required for operating the well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(15) All proceeds from production from the well that are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(16) If the operator of the pooled unit fails to commence drilling the well to which the unit is dedicated on or before \_\_\_\_\_, 1999, or if all the parties to this forced pooling reach voluntary agreement subsequent to entry of this order, this order should become of no effect.

(17) The operator of the well and unit should notify the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling Provisions of this order.

**IT IS THEREFORE ORDERED THAT:**

(1) All mineral interests, whatever they may be, in the Strawn and Wolfcamp formations are hereby pooled as follows:

- (A) As to the Strawn formation, the W/2 SW/4 of Section 35, Township 15 South, Range 35 East, NMPM, Lea County, New Mexico, to form a standard 80-acre oil spacing and proration unit for the Undesignated West Lovington Strawn Pool.
- (B) As to the Wolfcamp formation, the W/2 SW/4 of Section 35, Township 15 South, Range 35 East, NMPM, Lea County, New Mexico, to form a standard 40-acre oil spacing and proration unit for the Townsend Permo Upper Pennsylvanian Pool.

Both units are to be dedicated to applicant's proposed Beadle No. 1 well to be drilled and completed at a standard oil well location in Unit M of Section 35.

PROVIDED HOWEVER THAT, the operator of the unit shall commence drilling the well on or before \_\_\_\_\_, 1999, and shall thereafter continue drilling the well with due diligence to a depth sufficient to test the Strawn formation.

PROVIDED FURTHER THAT, in the event the operator does not commence drilling the well on or before \_\_\_\_\_, 1999, Ordering Paragraph (1) shall be of no effect unless the operator obtains a time extension from the Division Director for good cause shown.

PROVIDED FURTHER THAT, should the well not be drilled to completion or abandoned within 120 days after commencement thereof, the operator shall appear before the Division Director and show cause why Ordering Paragraph (1) should not be rescinded.

(2) Energen is hereby designated the operator of the well and unit.

(3) After the effective date of this order and within 90 days prior to commencing the well, the operator shall furnish the Division and each known working interest owner in the unit an itemized schedule of estimated well costs.

(4) Within 30 days from the date the schedule of estimated well costs is furnished, any non-consenting working interest owner shall have the right to pay its share of estimated well costs to the operator in lieu of paying its share of reasonable well costs out of production, and any such owner who pays its share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(5) The operator shall furnish the Director and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well. If no objection to the actual well costs is received by the Division and the Division has not objected within 45 days following receipt of the schedule, the actual well costs shall be the reasonable well costs; provided, however, that if there is an objection to actual well costs within the 45-day period the Division will determine reasonable well costs after public notice and hearing.

(6) Within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid its share of estimated well costs in advance as provided above shall pay to the operator its share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator its share of the amount that estimated well costs exceed well costs.

(7) The operator is hereby authorized to withhold the following costs and charges from production:

- (a) the proportionate share of reasonable well costs attributable to each non-consenting working interest owner who has not paid its share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished; and
- (b) as a charge for the risk involved in drilling the well, 200 percent of the above costs.

(8) The operator shall distribute the costs and charges withheld from production to the parties who advanced the well costs.

(9) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$6,000.00 per month while drilling and \$600.00 per month while producing. The operator is hereby authorized to withhold from production the proportionate share of both the supervision charges and the actual expenditures required for operating the well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(10) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order.

(11) Any well costs or charges that are to be paid out of production shall be withheld only from the working interests' share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(12) All proceeds from production from the well that are not disbursed for any reason shall immediately be placed in escrow in Lea County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership. The operator shall notify the Division of the name and address of the escrow agent within 30 days from the date of first deposit with the escrow agent.

(13) Should all the parties to this forced pooling order reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(14) The operator of this well and unit shall notify the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

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

DONE at Santa Fe, New Mexico, on this day and year hereinabove designated.

STATE OF NEW MEXICO  
OIL CONSERVATION DIVISION

LORI WROTENBERY  
Director

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