

**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. 14654
ORDER NO. R-13421**

**APPLICATION OF ENERGEN RESOURCES CORPORATION FOR
EXCEPTION TO THE WELL DENSITY PROVISIONS OF THE SPECIAL
RULES AND REGULATIONS FOR THE BASIN-FRUITLAND COAL GAS
POOL TO AUTHORIZE THE RECOMPLETION OF WELLS AS HORIZONTAL
LATERAL OR SIDETRACK WELLS AND FOR SIMULTANEOUS
DEDICATION, RIO ARRIBA COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on May 26, 2011, at Santa Fe, New Mexico, before Examiner Terry Warnell.

NOW, on this 28th day of June, 2011, 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 of the subject matter.

(2) By this application Energen Resources Corporation ("Energen" or "Applicant") seeks an order authorizing the re-entry of three vertical wells for the drilling of additional horizontal wells in the Fruitland Coal formation on each of three 320-acre, more or less, spacing units in Rio Arriba County, New Mexico. There are presently two producing vertical Fruitland Coal wells in each of the subject units, Energen proposes to drill a horizontal lateral (or "sidetrack") from one of the existing wells in each unit. Basin-Fruitland Coal Gas Pool rules outside of the high productivity area provide for a density restriction of one well per 160 acres. Since the proposed horizontal laterals will, in each case penetrate both quarter sections in the unit, including the quarter section on which the other vertical well is located, Energen is, in effect, asking for a second completion within a quarter section in each of the units.

(3) Energen also seeks authorization to simultaneously dedicate each of the existing units to the proposed horizontal sidetrack lateral wells and the existing vertical wells currently producing from the Fruitland Coal formation in each of the units.

(4) Energen is the operator of the following three existing standard spacing units (the "subject units") in the Basin-Fruitland Coal Gas Pool (Pool Code 71629), located in Township 32 North, Ranges 5 and 6 West, NMPM, in Rio Arriba County, New Mexico and of the wells identified below ("the subject wells") which it proposes to complete to the bottomhole location indicated:

- | | |
|-----------|--|
| 1st Unit: | Section 32: N/2
State Blanco Well No. 100-S (API No. 30-039-27273)
720' FSL & 1180' FWL (SHL)
760' FNL & 760' FEL (BHL) |
| 2nd Unit | Section 29: W/2
Elkhorn Well No. 100 (API No. 30-039-27337)
725' FSL & 800' FWL (SHL)
760' FNL & 1880' FWL (BHL) |
| 3rd Unit | Section 25: E/2
San Juan 32-5 Well No. 105-S (API No. 30-039-27265)
1670' FNL & 1340' FEL (SHL)
600' FNL & 100' FEL (BHL) |

(5) Well density in the Basin-Fruitland Coal Gas Pool is governed by the Special Rules and Regulations for the Basin-Fruitland Coal Gas Pool, as most recently amended by Order No. R-8768-F, issued in Case No. 12888 on July 17, 2003. These rules provide for 320-acre units, with two wells allowed in each unit (subject to certain conditions), provided that the wells must be in separate quarter sections. Energen already has two wells completed in the Fruitland Coal in each of the subject units. By this application, Energen seeks to locate a third Fruitland Coal horizontal well in each of the subject units.

(6) No other party appeared at the hearing or otherwise opposed this application.

Evidence

(7) At the hearing, Energen appeared through counsel and presented land, geologic and engineering evidence in support of its application.

(8) Energen presented testimony as follows:

(a) The subject 320-acre units and surrounding units are located outside of the "high-productivity area" of the Basin Fruitland Coal.

(b) The Division has authorized the drilling of two vertical wells on each 320-acre unit and those wells are producing according to the existing special pool rules for the Basin-Fruitland Coal Gas Pool.

(c) The proposed three horizontal lateral wells to be drilled from the three existing vertical wells are shown in Exhibit number 1 admitted in evidence at the hearing.

(d) The percentage of ownership of all parties are shown in Exhibit number 4 admitted in evidence at the hearing and shows 100 percent participation of all interest owners.

(e) All of the offset operators, the BLM and the State Land Office have been notified.

(f) The drilling of laterals is necessary to fully develop the Fruitland Coal resources.

(g) The drilling of laterals from existing well pads will avoid additional surface disturbance.

(h) Each of the proposed laterals will penetrate the Fruitland Coal and then terminate within the current authorized setback allowable and cause no correlative rights issues.

Conclusions

(9) This area of the Basin-Fruitland Coal Gas Pool is in the "Low Productivity Area".

(10) The Special Pool Rules for the Basin-Fruitland Coal Gas Pool as established in Order No. R-8768-F, issued on July 17, 2003, in Rule 7, allow a well density of one well per 160 acres.

(11) All spacing and location provisions of the Special Pool Rules of the Basin-Fruitland Coal Gas Pool should remain in effect, except as exempted in this order, including the provisions that no more than two wells shall simultaneously produce in any 320-acre spacing unit.

(12) Energen presented evidence that the Fruitland Coal formation is composed of multiple discontinuous zones or stringers of coal, and introduced logs showing various such zones and stringers encountered in the subject area.

(13) The proposed drilling of horizontal laterals from the subject wells, within Township 32 North, Ranges 5 and 6 West, will not violate correlative rights or cause

waste, but will allow more efficient primary production from the reservoir. Therefore this application should be approved.

IT IS THEREFORE ORDERED THAT:

(1) The application of Energen Resources Corporation for an order authorizing increased well density in the Basin-Fruitland Coal Gas Pool (71629), as most recently amended by Order No. R-8768-F, issued in Case No. 12888 on July 17, 2003., is hereby approved for the following three existing wells located in Township 32 North, Ranges 5 and 6 West, NMPM, in Rio Arriba County, New Mexico:

1st Unit:	Section 32: N/2 State Blanco Well No. 100-S (API No. 30-039-27273) 720' FSL & 1180' FWL (SHL) 760' FNL & 760' FEL (BHL)
2nd Unit	Section 29: W/2 Elkhorn Well No. 100 (API No. 30-039-27337) 725' FSL & 800' FWL (SHL) 760' FNL & 1880' FWL (BHL)
3rd Unit	Section 25: E/2 San Juan 32-5 Well No. 105-S (API No. 30-039-27265) 1670' FNL & 1340' FEL (SHL) 600' FNL & 100' FEL (BHL)

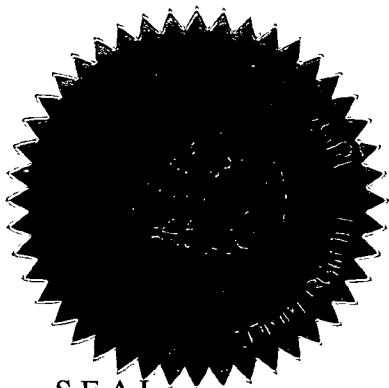
(2) Energen is authorized to drill horizontal laterals (or sidetracks) from each of the above-identified wells to approximately the bottomhole locations described in Ordering Paragraph (1) and complete these laterals in each quarter section of the subject units.

(3) Simultaneous dedication of each of the existing spacing units in which an additional horizontal sidetrack will be drilled to the existing initial wells described in Ordering Paragraph (1) and to the wells currently producing from the Fruitland Coal formation in such unit, is hereby approved.

(4) All provisions of the Special Pool Rules of the Basin-Fruitland Coal Gas Pool, as adopted in Order No. R-8768-F, issued on July 17, 2003, shall remain in effect, except as exempted in this order.

(5) Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

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



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STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in black ink, appearing to read "Jami Bailey".

JAMI BAILEY
Director