

**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. 13360  
ORDER NO. R-11814-A**

**APPLICATION OF LANCE OIL & GAS COMPANY, INC. TO AMEND  
DIVISION ORDER R-11814 FOR COMPULSORY POOLING, SAN JUAN  
COUNTY, NEW MEXICO**

**ORDER OF THE DIVISION**

**BY THE DIVISION:**

This case came for hearing at 8:15 a.m. on November 4, 2004, at Santa Fe, New Mexico, before Examiner William V. Jones.

NOW, on this 21<sup>st</sup> day of December, 2004, 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 Oil Conservation Division ("Division") has jurisdiction of this case and of the subject matter.

(2) By Order No. R-11813 issued in Case No. 12854 on August 16, 2002, the Division, upon the application of Richardson Production Company, pooled all uncommitted mineral interests from the surface to the base of the Pictured Cliffs formation underlying the NW/4 of Section 21, Township 29 North, Range 13 West, NMPM, San Juan County, New Mexico, in the following manner:

(a) the NW/4, forming a standard 160-acre gas spacing and proration unit for all formations or pools spaced on 160 acres within this vertical extent, which presently include, but are not necessarily limited to, the West Kutz-Pictured Cliffs Gas Pool.

This unit was to be dedicated to the applicant's proposed F-RPC "21" Well No. 2 (API No. 30-045-31059) to be drilled at a standard well location within the SW/4 NW/4 (Unit E) of Section 21.

(3) Subsequently, this well was drilled and completed in the Fruitland Coal Gas formation, and not in the Pictured Cliffs formation, and is dedicated to a standard 320-acre Basin-Fruitland Coal Gas Pool gas spacing and proration unit within the W/2 of Section 21. Since this well has not been completed in the Pictured Cliffs formation within 120 days of the spud date as per ordering paragraph (4), Division Order No. R-11813 has expired.

(4) By Order No. R-11814 issued in Case No. 12855 on August 16, 2002, the Division, upon the application of Richardson Production Company, pooled all uncommitted mineral interests from the surface to the base of the Pictured Cliffs formation underlying the W/2 of Section 21, Township 29 North, Range 13 West, NMPM, San Juan County, New Mexico, in the following manner:

(a) the W/2, forming a standard 320-acre gas spacing and proration unit for all formations or pools spaced on 320 acres within this vertical extent, which presently include, but are not necessarily limited to, the Basin-Fruitland Coal Gas Pool; and

(b) the SW/4, forming a standard 160-acre gas spacing and proration unit for all formations or pools spaced on 160 acres within this vertical extent, which presently include, but are not necessarily limited to, the West Kutz-Pictured Cliffs Gas Pool.

These units were to be dedicated to the applicant's proposed F-RPC "21" Well No. 3 (API No. 30-045-31079) to be drilled at a standard well location within the SW/4 SW/4 (Unit M) of Section 21.

(5) Subsequently, this well has been drilled 1,813 feet from the North line and 752 feet from the West line (Unit M) of Section 21, and completed in the Pictured Cliffs formation and is dedicated to a standard 160-acre West Kutz-Pictured Cliffs Gas Pool gas spacing and proration unit within the SW/4 of Section 21.

(6) This well was drilled through the Fruitland Coal formation and completed in the Pictured Cliffs sands, and therefore this Division Order No. R-11814 is still in effect for both the Fruitland coals and the Pictured Cliffs sands.

(7) Lance Oil & Gas Company, Inc. ("Applicant"), as successor to Richardson Operating Company effective October 1, 2004, seeks an order amending Division compulsory pooling Order No. R-11814 by:

- (a) naming Lance Oil & Gas Company, Inc. as operator;
  - (b) providing for the F-RPC "21" Well No. 2, located in Unit E of Section 21, as the first Basin-Fruitland Coal Gas Pool well to be dedicated to a standard 320-acre gas spacing unit consisting of the W/2 of Section 21, Township 29 North, Range 13 West, NMPM, San Juan County, New Mexico;
  - (c) provision for the applicant and all working interest owners to participate in the costs of completing, equipping, and operating this well as detailed on replacement exhibit G;
  - (d) pursuant to Commission Order R-11992, effective August 15, 2003, applying a 200 percent risk charge; and
  - (e) provision for overhead rates of \$5,000 per month drilling and \$500 per month operating and a provision for an adjustment method of the overhead rates as provided by COPAS.
- (8) This case was presented by affidavit in accordance with Division Rule 1207(A)(1)(b). The applicant was represented at the hearing through legal counsel.
- (9) Lance has notified parties whose interest is to be pooled of this case and of the applicant's request for a hearing on this matter.
- (10) No interest owner or other party appeared at the hearing in opposition to the application.
- (11) Two or more separately owned tracts are embraced within the Unit, and/or there are royalty interests and/or undivided interests in oil and gas minerals in one or more tracts included in the Unit that are separately owned.
- (12) Applicant is an owner of an oil and gas working interest within the Unit. Applicant had the right to drill has drilled its F-RPC 21 Well No. 2 to a common source of supply at a standard well location within the SW/4 NW/4 of Section 21.
- (13) There are interest owners in the proposed Unit that have not agreed to pool their interests.
- (14) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford to the owner of each interest in the Unit the opportunity to recover or receive without unnecessary expense its just and fair share of hydrocarbons, this application should be approved by pooling all uncommitted mineral interests, whatever they may be, within the Unit.

(15) Lance Oil & Gas Company, Inc. should be designated as the operator of the well and of the Unit.

(16) Any pooled working interest owner who does not pay its share of actual well costs should have withheld from production its share of reasonable well costs plus an additional 200% (pursuant to rule 35.A) thereof as a reasonable charge for the risk involved in drilling and re-completing the well.

(17) Reasonable charges for supervision (combined fixed rates) should be fixed at \$5,000 per month while drilling and \$500 per month while producing, provided that these rates should be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations*." 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.

(18) The application should be approved.

**IT IS THEREFORE ORDERED THAT:**

(1) Pursuant to the application of Lance Oil & Gas Company, Inc. ("applicant"), Division Order No. R-11814 is hereby amended by substituting the F-RPC "21" Well No. 2 (API No. 30-045-31059) as the first well to be completed and produced within the vertical limits of the Basin-Fruitland Coal Gas Pool and dedicated to a standard 320-acre gas spacing unit consisting of the W/2 of Section 21, Township 29 North, Range 13 West, NMPM, San Juan County, New Mexico.

(2) Lance Oil & Gas Company, Inc., is hereby designated the operator of the F-RPC "21" Well No. 2 and of this 320-acre gas spacing unit ("Unit") within the Basin-Fruitland Coal Gas Pool.

(3) Upon final plugging and abandonment of the F-RPC "21" Well No. 2, the pooled Unit created by this Order shall terminate, unless this order has been amended to authorize further operations.

(4) Reasonable well costs shall be those total well costs, which are allocated to the completion of the Fruitland Coal gas.

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

(a) the pro-rata share of actual well costs attributable to each non-consenting working interest owner; and

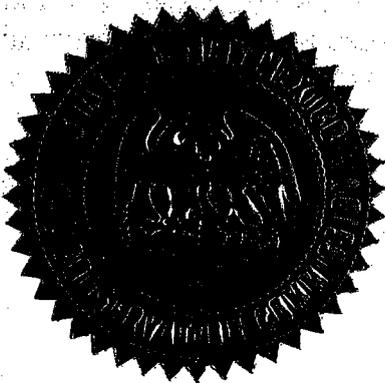
(b) as a charge for the risk involved in drilling the well, 200% of the above costs.

(6) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$5,000 per month while re-completing and \$500 per month while producing, provided that these rates shall be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations*." The operator is 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 pooled working interest owners.

(7) Division Order No. R-11814 shall remain in full force and effect except to the extent amended hereby.

(8) 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.



STATE OF NEW MEXICO  
OIL CONSERVATION DIVISION

A handwritten signature in black ink, appearing to read "Mark E. Fesmire".

MARK E. FESMIRE, P.E.  
Director

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