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January 13, 2006

Case 13627

2006 JUN 13 PM 2 07

W. Thomas Kellahin, Inc.
Kellahin & Kellahin
Attorney at Law
117 North Guadalupe
Santa Fe, NM 87501

[Handwritten initials] 1/13/06

Re: Pre-Hearing Statement in Re: Application of Lance Oil & Gas Company Inc.
For Compulsory Pooling, San Juan County, New Mexico

Dear Mr. Kellahin:

Pursuant to Rule 1208 of the New Mexico Oil Conservation Division, this letter shall serve to inform you that Mr. Marion Lee Wells, Box 407, Kirtland, New Mexico will appear through counsel at the hearing of the Division on the above captioned matter on January 19, 2006. We understand that he meeting is scheduled at 1220 South Saint Francis Drive, Santa Fe, NM, 87505. Please provide the time of the meeting,

Mr. Wells contests the proposed risk charge (Pursuant to Order-R-11992 of the Division) for the following reasons.

The Oil & Gas Lease submitted to Mr. Wells requires clarification and modification in the following areas:

- Section 1. The Primary Lease Term contains too many reasons for extension beyond 5 years, and does not provide adequate definition for when royalties are to be paid. The consideration for executing the lease is not adequate and below generally accepted payments for like leases.
- Section 3. Clarification is required as to what the prevailing rate for royalties is when the gas is processed by and sold to Lance Oil, versus sold on the open market. Further, Mr. Wells would appreciate language mandating the payment of royalties in the event the Oil & Gas Lease is assigned or transferred.
- Section 4. The language defining liability of Lance Oil after work is completed needs to be clarified. The liability of Lance Oil or its successors in interest for rehabilitation and damages requires clarification.

- Section 12. The term “this Lease shall not terminate or expire during the life of such plan or agreement” seems to extend the Primary Lease Term ad infinitum, and requires further detail and explanation.

It is our desire to reach an accord of Mr. Well’s concerns prior to the Hearing on January 19th. In order to minimize costs to all parties we stand ready to meet with you during the interim time prior to the meeting to derive a mutually satisfactory lease document.

Thank you for your courtesy in this regard.

Sincerely,

A handwritten signature in black ink, appearing to read "Bill Sutherland". The signature is fluid and cursive, with a prominent initial "B" and a long, sweeping underline.

William Sutherland
Attorney

Cc: Mr. Marion Wells
The New Mexico Oil Conservation Division