

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. 13178
ORDER NO. R-11762-A

APPLICATION OF SAN JUAN RESOURCES PROPERTIES LLC TO RE-
INSTATE DIVISION ORDER R-11762 (COMPULSORY POOLING), SAN JUAN
COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on November 7, 2003, at Santa Fe, New Mexico, before Examiner William V. Jones.

NOW, on this 8th day of December, 2003, 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) Division Order No. R-11762 issued April 17, 2002, pooled all uncommitted interests, whatever they may be, in the oil and gas from the surface to the base of the Dakota formation underlying the S/2 of Section 19, Township 30 North, Range 11 West, NMPM, San Juan County, New Mexico, forming a standard 327.7-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 Blanco-Mesaverde (Prorated Gas) Pool and Basin-Dakota (Prorated Gas) Pool.

(a) The Unit was dedicated to San Juan Resources, Inc.'s Kaempf Well No. 1E, to be drilled at a standard gas well location 1490 feet from the South line and 1133 feet from the East line (Unit I) of Section 19.

(b) San Juan Resources, Inc. was designated the operator of the proposed well and of the Unit.

(c) The operator was authorized to withhold the following costs and charges from production:

(i) 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

(ii) as a charge for the risk involved in drilling the well, 150% of the above costs.

(3) San Juan Resources Properties LLC, as the Applicant in this Case No. 13178, seeks an order to:

(a) re-instate Division Order No. R-11762, San Juan County, New Mexico;

(b) name San Juan Resources of Colorado, Inc. as operator of the Unit; and

(b) impose the 200% risk charge in accordance with Commission Order No. R-1 1992, which became effective August 15, 2003.

(4) The Applicant did not give reasons for the expiration of the previous Division Order.

(5) No other party made appearance or otherwise opposed this application.

(6) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford to the owner of each interest in this proposed Unit the opportunity to recover or receive without necessary expense its just and fair share of hydrocarbons, this application should be approved by pooling all uncommitted interests, whatever they may be, in the oil and gas within the proposed Unit.

IT IS THEREFORE ORDERED THAT ;

(1) Pursuant to the application of San Juan Resources Properties LLC ("Applicant"), Division Order No. R-11762 is re-instated and amended. All ordering paragraphs of Division Order No. R-11762 are no longer in effect and are hereby superceded by this Order No. R-11762-A.

(2) All uncommitted interests, whatever they may be, in the oil and gas from the surface to the base of the Dakota formation underlying the S/2 of Section 19, Township 30 North, Range 11 West, NMPM, San Juan County, New Mexico, are hereby pooled, as follows:

The S/2, forming a standard **327.7-acre** gas spacing and proration unit ("Unit") for all formations or pools spaced on 320 acres within this vertical extent which presently include but are not necessarily limited to the **Blanco-Mesaverde (Prorated Gas) Pool** and **Basin-Dakota (Prorated Gas) Pool**.

The Unit shall be dedicated to Applicant's **Kaempf Well No. 1E**, to be drilled at a standard gas well location 1490 feet from the South line and 1133 feet from the East line (Unit I) of Section 19.

(3) The operator of the Unit shall commence drilling the proposed well on or before April 30, 2003, and shall thereafter continue drilling the well with due diligence to test the Dakota formation.

(4) In the event the operator does not commence drilling the proposed well on or before April 30, 2003, Ordering Paragraph (2) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause.

(5) Should the proposed well not be drilled and completed within 120 days after commencement thereof, Ordering Paragraph (2) shall be of no further effect, and the Unit created by this Order shall terminate unless the operator appears before the Division Director and obtains an extension of time to complete the well for good cause demonstrated by satisfactory evidence.

(6) Upon final plugging and abandonment of the subject well, the pooled Unit created by this Order shall terminate, unless this order has been amended to authorize further operations.

(7) San Juan Resources of Colorado, Inc. is hereby designated the operator of the proposed well and of the Unit.

(8) After pooling, uncommitted working interest owners are referred to as non-consenting working interest owners. ("Uncommitted working interest owners" are owners of working interests in the Unit, including **unleased** mineral interests, who are not parties to an operating agreement governing the Unit.) After the effective date of this order, the operator shall furnish the Division and each known non-consenting working interest owner in the Unit an itemized schedule of estimated well costs of the proposed well.

(9) 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 as hereinafter provided, 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.

(10) The operator shall furnish the Division and each known non-consenting working interest owner an itemized schedule of actual well costs within 90 days following completion of the proposed 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 deemed to be the reasonable well costs. 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.

(11) Within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid its share of estimated 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 paid, estimated well costs exceed reasonable well costs.

(12) 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% of the above costs.

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

(14) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$4906 per month while drilling and \$670 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 each non-consenting working interest.

(15) Except as provided in Ordering Paragraphs (10) and (12) above, all proceeds from production from the well that are not disbursed for any reason shall be placed in escrow in San Juan 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.

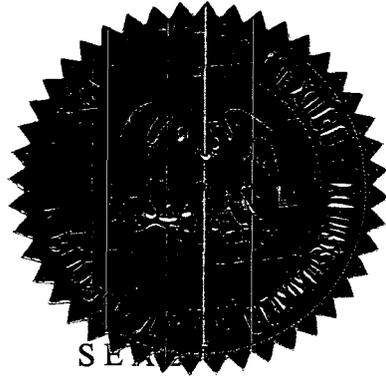
(16) Any **unleased** mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working interests' share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

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

(18) The operator of the 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.

(19) 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

Lori Wrottenbery

LORI WROTENBERY
Director