

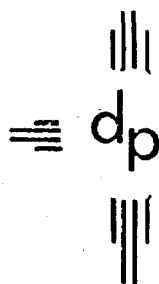
CASE 5507: DUGAN PRODUCTION CORPORATION
FOR COMPULSORY POOLING, SAN JUAN COUNTY,
NEW MEXICO.

CASE NO.

5507

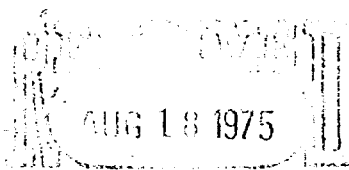
APPLICATION,
TRANSCRIPTS,
SMALL EXHIBITS,

ETC.



dugan production corp.

August 14, 1975



OIL CONSERVATION COMM.
Santa Fe

Joe D. Ramey
Oil Conservation Commission
Box 2088
Santa Fe, New Mexico 87501

Re: Case No. 5507
Order No. R-5047

Dear Mr. Ramey:

We are requesting cancellation of Compulsory Pooling Order Case No. 5507, Order No. R-5047. Mrs. Lansdale, the owner of the lease when the compulsory pooling hearing was held, sold her lease to Southern Union Supply Company.

We do not plan to drill the Hard-Deal #2 at the present time and when we do drill the well, Southern Union Supply will join us.

Sincerely,

Thomas A. Dugan (dw)
Thomas A. Dugan

dw

cc: Oil Conservation Commission
1000 Rio Brazos Road
Aztec, NM 87410

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONSIDERING:

CASE NO. 5507
Order No. R-5047

APPLICATION OF DUGAN PRODUCTION
CORPORATION FOR COMPULSORY POOLING,
SAN JUAN COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on June 10, 1975,
at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 17th day of June, 1975, the Commission, a
quorum being present, having considered the testimony, the
record, and the recommendations of the Examiner, and being
fully advised in the premises,

FINDS:

(1) That due public notice having been given as required
by law, the Commission has jurisdiction of this cause and the
subject matter thereof.

(2) That the applicant, Dugan Production Corporation,
seeks an order pooling all mineral interests in the Pictured
Cliffs formation underlying the NE/4 of Section 18, Township
26 North, Range 12 West, NMPM, San Juan County, New Mexico.

(3) That the applicant has the right to drill and proposes
to drill a well at a standard location for said unit.

(4) That there are interest owners in the proposed pro-
duction unit who have not agreed to pool their interests.

(5) That to avoid the drilling of unnecessary wells, to
protect correlative rights, and to afford to the owner of each
interest in said unit the opportunity to recover or receive
without unnecessary expense his just and fair share of the gas
in said pool, the subject application should be approved by
pooling all mineral interests, whatever they may be, within
said unit.

(6) That the applicant should be designated the operator
of the subject well and unit.

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Case No. 5507
Order No. R-5047

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

(8) That any non-consenting working interest owner that does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 175 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(9) That any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but that actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(10) That following determination of reasonable well costs, any non-consenting working interest owner that has paid his 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.

(11) That \$1000.00 per month should be fixed as a reasonable charge for supervision (combined fixed rates) while drilling, and that \$125.00 per month should be fixed as a reasonable charge for supervision (combined fixed rates) after completion of the well; that the operator should be authorized to withhold from production the proportionate share of such supervision charge attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(12) That all proceeds from production from the subject well which 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.

(13) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before December 15, 1975, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Pictured Cliffs formation underlying the NE/4 of Section 18, Township 26 North, Range 12 West, NMPM, San Juan County, New Mexico, are hereby pooled to form a standard 160-acre gas spacing

and proration unit to be dedicated to a well to be drilled at a standard location for said unit.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the 15th day of December, 1975, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Pictured Cliffs formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 15th day of December, 1975, Order (1) of this order shall be null and void and of no effect whatsoever;

PROVIDED FURTHER, that should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Commission and show cause why Order (1) of this order should not be rescinded.

(2) That Dugan Production Corporation is hereby designated the operator of the subject well and unit.

(3) That after the effective date of this order and within 30 days prior to commencing said well, the operator shall furnish the Commission and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

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

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

(6) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner that has paid his share of estimated costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated

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Case No. 5507
Order No. R-5047

well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

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

(A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(B) As a charge for the risk involved in the drilling of the well, 175 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

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

(9) That \$1000.00 per month is hereby fixed as a reasonable charge for supervision (combined fixed rates) while drilling, and that \$125.00 per month is hereby fixed as a reasonable charge for supervision (combined fixed rates) after completion of the well; that the operator is hereby authorized to withhold from production the proportionate share of such supervision charge attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(10) That any unsevered 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 the terms of this order.

(11) That any well costs or charges which 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) That all proceeds from production from the subject well which 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; that the

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Case No. 5507
Order No. R-5047

operator shall notify the Commission of the name and address of said escrow agent within 90 days from the date of this order.

(13) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION



I. R. Trujillo
I. R. TRUJILLO, Chairman

Phil R. Lucero
PHIL R. LUCERO, Member

Joe D. Ramey
JOE D. RAMEY, Member & Secretary

S E A L

dr/

BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
June 10, 1975

EXAMINER HEARING

IN THE MATTER OF:

Application of Dugan Production
Corporation for compulsory pooling,
San Juan County, New Mexico
and

CASE NO. 5506

Application of Dugan Production
Corporation for compulsory pooling,
San Juan County, New Mexico.

CASE NO. 5507

BEFORE: Daniel S. Nutter, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the New Mexico Oil
Conservation Commission:

William F. Carr, Esq.
Legal Counsel for the
Commission
State Land Office Building
Santa Fe, New Mexico

For the Applicant:

Jason Kellahin, Esq.
KELLAHIN & FOX
500 Don Gaspar
Santa Fe, New Mexico

THE NYE REPORTING SERVICE
STATE-WIDE DEPOSITION NOTARIES
225 JOHNSON STREET
SANTA FE, NEW MEXICO 87501
TEL. (505) 982-0386

I N D E X

PAGE

THOMAS A. DUGAN

Direct Examination by Mr. Kellahin
Cross Examination by Mr. Nutter

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E X H I B I T S

Applicant's Exhibits Nos. 1, 2 and 3

11

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MR. NUTTER: The hearing will come to order.
The record will show that we have now been recessed for
30 minutes and have now reconvened.

We will call the next case, No. 5506, which is
the Application of Dugan Production Corporation for com-
pulsory pooling, San Juan County, New Mexico.

MR. KELLAHIN: If the Examiner please, Jason
Kellahin, Kellahin and Fox, appearing for the Applicant.
I would like to move that Case 5506 be combined with 5507
for purposes of the record.

MR. NUTTER: We will now call Case No. 5507.
Application of Dugan Production Company for compulsory
pooling, San Juan County, New Mexico, and consolidate for
purpose of hearing Cases 5506 and 5507.

Would you please proceed?

MR. KELLAHIN: Yes, sir. We have one witness to
be sworn.

(Witness sworn.)

THOMAS A. DUGAN

called as a witness, having been first duly sworn, was
examined and testified as follows:

DIRECT EXAMINATION

BY MR. KELLAHIN:

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DUGAN-DIRECT

Q Would you state your name, please?

A Thomas A. Dugan.

Q What position do you hold with Dugan Production Corporation?

A I am the President.

Q Mr. Dugan, have you ever testified before the Oil Conservation Commission and made your qualifications a matter of record?

A Yes.

MR. KELLAHIN: Are the witness' qualifications acceptable?

MR. NUTTER: Yes, they are.

BY MR. KELLAHIN:

Q What does the Applicant propose in Case 5506 and 5507?

A Well, I have a lease that is about to expire the end of this month, and I have made attempts to purchase Mrs. Landsdale's lease and the farm-out and get her to join and just about every approach that I could think of without any success, so now I would like to get a compulsory pooling order so that I can drill two shallow Picture Cliff Wells, the first of which would be in the southeast southeast of Section 12. Excuse me. Correction. Section 18 of

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DUGAN-DIRECT

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Township 26 North, Range 12 West.

Q And then you will dedicate the southeast quarter to the well?

A Yes.

Q And then in the other case you propose to drill a well in the northeast quarter of the Section?

A Yes, as shown on Exhibit 1, I owned the lease in the south half of the southeast quarter and I need to combine the north half of the southeast quarter which belongs to Mrs. Landsdale with that 80 acres to form a 160-acre drilling tract.

Q Now, in both of these cases is it Mrs. Landsdale that you are asking to be pooled into these units?

A Yes.

Q She owns an 80-acre tract in each unit, is this correct?

A Yes.

Q Have you made any effort to get her to lease or join you?

A Yes.

Q With what success?

A No success.

Q Did you talk to her personally?

DUGAN-DIRECT

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A Yes.

Q Have you written to her?

A Yes.

Q And didn't get any response?

A Well, yes, she talks nice on the telephone, but no response as far as being able to consummate a deal of any kind.

Q She just refuses to make a deal with you, is this correct?

A Yes, that's correct.

Q Now, referring again to Exhibit No. 1, is there any other information shown on there that you want to discuss?

A Just the offset lease.

Q Is there production offsetting this lease?

A Well, not directly. I drilled a shallow Picture Cliff Well in the southeast of Section 17 and completed it as a well. It is a mile away.

Perhaps if we would move on to Exhibit No. 2 --

Q (Interrupting) Before we get to that, Mr. Dugan, in both of these units, you do propose to drill a Picture Cliff Well?

A Yes, shallow Picture Cliff.

DUGAN-DIRECT

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Q Now, referring to Exhibit No. 2, would you identify that exhibit?

A Okay. That is just a map of the general area showing the Picture Cliff gas wells in the area. We are quite a ways from the south edge of the West Kutz Picture Cliff Pool and the closest Picture Cliff Well is in the southeast quarter of Section 17, 26, 12 which is a mile to the east of the proposed location. So, you can see that it is pretty much of a wildcat, pretty much of a step out from any large Picture Cliff Pool

Q Were there dry holes to the south and west of the proposed location?

A Yes. Of course, most of those wells were drilled not looking at the Picture Cliffs, but these were the only Picture Cliff Wells in the general area shown on this Exhibit 2.

Q The Picture Cliff wells shown in blue, are they producing Picture Cliff wells?

A The only one that is producing is the one up in Section 36 of 27, 12. The other two are new wells just recently drilled and are not producing.

Q They have been tested in the Picture Cliffs?

A Yes, sir.

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DUGAN-DIRECT

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Q Are they productive from the Picture Cliffs?

A Yes.

Q What is the other well in the south half of Section 17?

A It is -- the dry hole there?

Q Yes, sir. Was it tested in the Picture Cliffs, or do you know?

A No, it was a Gallup well and the Picture Cliff was logged but not tested.

Q Now, referring to what has been marked as Exhibit No. 3, would you identify that exhibit?

A That is my cost estimate for the well, and we have been using slim-hole techniques to drill these wells and setting 5½ surface casing and drilling 4 and 3/4 holes through the Picture Cliff Formations, logging and setting 2 and 7/8 tubing for casing, cementing it in place and selectively perforating and stimulating the zone, so it is a rather inexpensive well for -- by today's standards.

Q Do you find that type of completion satisfactory in this area?

A Yes.

Q Have you used it elsewhere?

A Yes.

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DUGAN-DIRECT

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Q And it is much less expensive than a conventional completion?

A Yes.

Q Is \$25,945 a reasonable cost estimate in your opinion?

A Yes, sir.

Q Does this cost estimate apply to wells in both of these proposed units?

A Yes.

Q It would be exactly the same in each case?

A Yes, the estimates are the same.

Q Now, in the Application, you asked for a risk factor. What risk factor would be reasonable for these two wells?

A Well, 75 percent above my cost.

Q So, you would ask for 175 percent including your well costs?

A Yes, sir.

Q Were you basing that on the factor that there is no production and this is essentially a wildcat?

A Yes, it is classified as a wildcat and it is pretty much a step-out, a long way from the known Picture Cliff Field.

Q Are there any other risks involved in drilling these wells?

A Well, I am sure there are other risks, but any sizeable ones, no.

Q There is a conventional risk in drilling anywhere?

A Right. Yes, it is a pretty small insignificant type well, really. The risk, I guess, is whether you are going to make any money or not.

Q Now, the Application also asks for the reason for recovering the actual operating costs and charges for supervision. What charges for supervision would you propose?

A I would propose \$125 a month administrative overhead charges for operation and \$1000 per month while drilling.

Q That is for each well?

A Yes.

Q You asked to be designated as the operator of each well?

A Yes.

Q Is there any time factor involved? Are you aware that the Commission normally places a limitation on the time in which a well must be commenced when a compulsory pooling order has been entered?

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DUGAN-DIRECT

Page..... 11.....

A Well, as I stated, my lease expires June 30th, so, I've got to start right away.

Q That would be for the first well?

A For the first well, yes.

Q How about the second well?

A If I am successful in the first well, I will drill the other one within a six-month period.

Q Could you drill it within 90 days?

A I could, yes.

Q But you would prefer to have a six-month period?

A I would prefer six months.

Q Were Exhibits 1, 2 and 3 prepared by you or under your supervision?

A Yes.

MR. KELLAHIN: At this time, I would like to offer Exhibits Nos. 1, 2 and 3.

MR. NUTTER: Dugan's Exhibits Nos. 1, 2 and 3 in Cases 5506 and 5507 will be admitted in evidence.

(Whereupon, Applicant's Exhibits Nos. 1, 2 and 3 were marked for identification, and were offered and admitted into evidence.)

MR. KELLAHIN: That is all we have, Mr. Examiner.

CROSS EXAMINATION

BY MR. NUTTER:

Q Mr. Dugan, on these times, now normally, I think the Commission allows approximately 90 days from the date of entry of the order in which to commence the first well, or commence the well. This would be satisfactory, because of course, you are going to start it immediately?

A Yes, I've got to.

Q Now, the time for the second well, you said that you would like six months, but you could do it in 90 days?

A Yes.

Q If we would write an order -- let's see, the first well is going to be the one in Case 5506, is that correct? That is the one in the southeast, correct?

A In the southeast, yes.

Q That is the first well?

A Yes.

Q Okay. If we put the normal 90 days in there, that will take care of that one?

A Yes.

Q If we put the six months from the date of the order for commencement of the well in Case 5507, that would allow probably five months from the date of completion.

DUGAN-CROSS

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Would that be satisfactory?

A Yes.

Q Six months from date of Order, then?

A Yes, that would be fine.

Q Now, for the record, Mr. Dugan, we see that you've got an 80-acre tract in the north half of the northeast of Section 18 and also that you have an 80-acre tract in the south half of the southeast of Section 18. Are those two tracts both part of the same lease?

A Yes.

Q And we also see that the south half of the northeast quarter and the north half of the southeast quarter are circled by or circumscribed by an orange line. Is that part of the same lease there?

A Yes.

Q It is a 160-acre lease in the center. So, the ownership of the unit in the northeast quarter will be half Dugan and half Landsdale, is that correct?

A Yes.

Q And the ownership of the unit in the southeast quarter of Section 18 will also be half Dugan and half Landsdale, is that correct?

A Yes.

DUGAN-CROSS

Q Now, what is the royalty on these leases, Mr. Dugan?

A They are both Federal leases, both 1/8.

Q Are there any overriding royalties on either of the leases?

A Yes, there is on mine.

Q But the override would be the same on the two 160's as it is applicable to both 80's in the same percentage?

A Yes.

MR. NUTTER: Are there any further questions of Mr. Dugan? He may be excused.

(Witness dismissed.)

MR. NUTTER: Do you have anything further, Mr. Kellahin?

MR. KELLAHIN: That's all.

MR. NUTTER: Does anyone have anything they wish to offer in Cases 5506 and 5507?

We will take the cases under advisement, and the hearing is adjourned.

STATE OF NEW MEXICO)
COUNTY OF SANTA FE) SS.

I, RICHARD L. NYE, Court Reporter, do hereby certify that the foregoing and attached Transcript of Hearing before the New Mexico Oil Conservation Commission was reported by me, and the same is a true and correct record of the said proceedings, to the best of my knowledge, skill and ability.

COURT REPORTER

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 3506-5507 heard by me on 6/10, 1975.
[Signature], Examiner
New Mexico Oil Conservation Commission

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OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO
P. O. BOX 2088 - SANTA FE
87501

June 17, 1973

I. R. TRUJILLO
CHAIRMAN

LAND COMMISSIONER
PHIL R. LUCERO
MEMBER

STATE GEOLOGIST
A. L. PORTER, JR.
SECRETARY - DIRECTOR

Mr. Jason Kellahin
Kellahin & Fox
Attorneys at Law
Post Office Box 1769
Santa Fe, New Mexico

Re: CASE NO. 5507
ORDER NO. R-5047

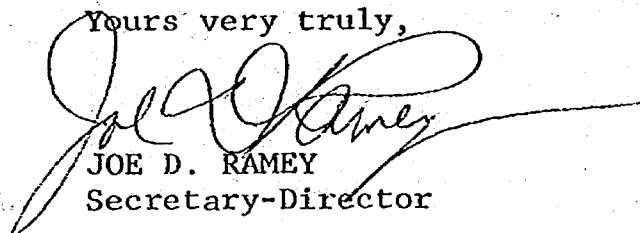
Applicant:

Dugan Production Corporation

Dear Sir:

Enclosed herewith are two copies of the above-referenced
Commission order recently entered in the subject case.

Yours very truly,


JOE D. RAMEY
Secretary-Director

JDR/fd

Copy of order also sent to:

Hobbs OCC X
Artesia OCC AP
Aztec OCC X

Other _____

BEFORE THE
OIL CONSERVATION COMMISSION OF NEW MEXICO

IN THE MATTER OF THE APPLICATION
OF DUGAN PRODUCTION CORPORATION
FOR COMPULSORY POOLING, SAN
JUAN COUNTY, NEW MEXICO

*Split this
appl into
two cases
Don*

A P P L I C A T I O N

COMES NOW, DUGAN PRODUCTION CORPORATION, as provided by Section 65-31-4, New Mexico Statutes, 1953, as amended, and applies to the Oil Conservation Commission of New Mexico for an order pooling all the mineral interest in and under the E/2 of Section 18, Township 26 North, Range 12 West, San Juan County, New Mexico, the creation of two proration units for the drilling of wells to the Picture Cliffs formation in an undesignated pool, and in support thereof would show the Commission:

1. Applicant is the owner of the right to drill and develop the following described acreage: the S/2 SE/4; and the N/2 NE/4 of Section 18, T26N, R12W, N.M.P.M., San Juan County, New Mexico.
2. Applicant has obtained voluntary agreement for pooling from all but the person named below, whose address and interest owned according to the applicant's information and belief are as follows:

Mrs. A. Lansdale
Post Office Box 68
Garden Grove, California

working interest owner for the
N/2 SE/4 and S/2 NE/4 of Section
18, T26N, R12W., N.M.P.M.

DOCKET MAILED

Date _____

3. As required by the provisions of Commission Rule 104, applicant proposes to dedicate the NE/4 to a well and the SE/4 to a well, both to be drilled at standard locations in said section.

4. Applicant proposes to drill two wells to test the Picture Cliffs formation.

5. Applicant requests that it be designated the operator of the pooled units requested above.

6. Applicant has been unable to obtain voluntary agreement for the pooling of the unpooled interest indicated in paragraph 2 above, and in order to avoid the drilling of unnecessary wells, to protect correlative rights, and to prevent waste, the Commission should pool all interest in the spacing or proration unit as a unit.

WHEREFORE, applicant respectfully requests that the Commission set this matter for hearing before the Commission's duly appointed examiner, and that after notice and hearing as required by law, the Commission enter its order pooling all interest underlying the E/2 of Section 16, T26N, R12W, N.M.P.M. San Juan County, New Mexico, and designating applicant operator of the pooled unit, together with provisions for applicant to recover its costs out of production including a risk factor to be determined by the Commission and with provisions for the payment of operating costs and costs of supervision out of production to be allocated among the owners as their interest may appear and for further orders as may be proper in the premises.

Respectfully submitted,

DUGAN PRODUCTION CORPORATION

BY


KELLAHIN & FOX

Post Office Box 1769

Santa Fe, New Mexico 87501

ATTORNEYS FOR APPLICANT

DRAFT

dr/

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONSIDERING:

CASE NO. 5507

APPLICATION OF DUGAN PRODUCTION
CORPORATION FOR COMPULSORY POOLING,
SAN JUAN COUNTY, NEW MEXICO.

Order No. R- 5042

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on June 10, 1975
at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this day of June, 1975, the Commission,
a quorum being present, having considered the testimony, the record,
and the recommendations of the Examiner, and being fully advised
in the premises,

FINDS:

(1) That due public notice having been given as required by
law, the Commission has jurisdiction of this cause and the subject
matter thereof.

(2) That the applicant, Dugan Production Corporation,
seeks an order pooling all mineral interests in the Pictured
Cliffs formation underlying the NE/4
of Section 18, Township 26 North, Range 12 West,
NMPM, , San Juan County, New
Mexico.

(3) That the applicant has the right to drill and proposes to drill a well at a standard location for said unit.

(4) That there are interest owners in the proposed proration unit who have not agreed to pool their interests.

(5) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the gas in said pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

(6) That the applicant should be designated the operator of the subject well and unit.

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

(8) That any non-consenting working interest owner that does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 175 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(9) That any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but that actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(10) That following determination of reasonable well costs, any non-consenting working interest owner that has paid his 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.

while drilling, and that \$125.00 per month should be fixed as a reasonable charge for supervision (combined fixed rates) after completion of the well;

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(11) That \$1000.00 per month should be fixed as a reasonable charge for supervision (combined fixed rates) that the operator should be authorized to withhold from production the proportionate share of such supervision charge attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(12) That all proceeds from production from the subject well which 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.

(13) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before December 15, 1975, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Pictured Cliffs formation underlying the NE/4 of Section 18, Township 26 North, Range 12 West, NMPM, San Juan County, New Mexico, are hereby pooled to form a standard 160- acre gas spacing and proration unit to be dedicated to a well to be drilled at a standard location for said unit.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the 15th day of December, 1975, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Pictured Cliffs formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 15th day of December, 1975, Order (1) of this order shall be null and void and of no effect whatsoever;

PROVIDED FURTHER, that should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Commission and show cause why Order (1) of this order should not be rescinded.

(2) That Dugan Production Corporation is hereby designated the operator of the subject well and unit.

(3) That after the effective date of this order and ^{within} ~~at least~~ 30 days prior to commencing said well, the operator shall furnish the Commission and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

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

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

(6) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner that has paid his share of estimated costs in advance as provided

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above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

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

(A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(B) As a charge for the risk involved in the drilling of the well, 175 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

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

(9) That \$1000.00 per month is hereby fixed as a reasonable charge for supervision (combined fixed rates) that the operator is hereby authorized to withhold from production the proportionate share of such supervision charge attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

while drilling, and that \$125.00 per month is hereby fixed as a reasonable charge for supervision (combined fixed rates) after completion of the well;

(10) That any unsevered 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 the terms of this order.

(11) That any well costs or charges which 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) That all proceeds from production from the subject well which 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; that the operator shall notify the Commission of the name and address of said escrow agent within 90 days from the date of this order.

(13) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

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