



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

September 19, 2006

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

Lance Oil & Gas Company, Inc.

P. O. Box 70

Kirtland, New Mexico 87417

Attention: Paul Lehrman
Senior Landman

plehrman@westerngas.com

Administrative Order NSL-5455

Dear Mr. Lehrman:

Reference is made to the following: (i) your application (*administrative application reference No. pTDS0-624352089*) dated August 14, 2006, but was not received by the New Mexico Oil Conservation Division ("Division") in Santa Fe, New Mexico until August 28, 2006; (ii) Ms. Anne Jones's, Senior Landman with Lance Oil & Gas Company, Inc. ("Lance"), e-mail correspondence with Mr. Michael E. Stogner, Staff Engineer with the Division in Santa Fe, of Wednesday, September 6, 2006; and (iii) the Division's records in Aztec and Santa Fe: all concerning Lance's request for an exception to the well location requirements provided within the "*Special Rules and Regulations for the Basin-Fruitland Coal Gas Pool*," as promulgated by Division Order No. R-8768, as amended [Rule 7 (a) (1)], for Lance's existing NW Cha Cha Unit Well No. 11 (*API No. 30-045-08142*), located 720 feet from the North line and 350 feet from the East line (Unit A) of Section 20, Township 29 North, Range 14 West, NMPM, Basin-Fruitland Coal (Gas) Pool (**71629**), San Juan County, New Mexico.

Your application has been duly filed under the provisions of: (i) Rule 7 (b) of the "*Special Rules and Regulations for the Basin-Fruitland Coal Gas Pool*;" and (ii) Division Rules 104.F and 1210.A (2) [formerly Division Rule 1207.A (2), see Division Order No. R-12327-A, issued by the New Mexico Oil Conservation Commission in Case No. 13482 on September 15, 2005].

The E/2 of Section 12 is an existing 320-acre standard stand-up gas spacing unit within the Basin-Fruitland Coal (Gas) Pool that is currently dedicated to Lance's NV Navajo "20" Well No. 4 (*API No. 30-045-28135*), located at a standard coal gas well location 2150 feet from the South line and 1100 feet from the West line (Unit L) of Section 12.

From your application and the Division's records, the above-described NW Cha Cha Unit Well No. 11 was initially drilled in September, 1960 to a total depth of 4,832 feet by Pan American Petroleum Corporation of Farmington, New Mexico and completed in the Cha Cha Gallup Oil Pool (**11880**) at a location considered to be unorthodox pursuant to the "*Special Rules and Regulations for the Cha Cha Gallup Oil Pool*," as promulgated by Division Order No. R-1800, issued in Case No. 2069 on October 3, 1960 and made effective on November 1, 1960, as amended by Division Order No. R-1800-A, dated October 23, 1961; however, since this well was drilled and completed at a standard oil well location under the statewide 40-acre oil provisions rules applicable at that time, and prior to the inception of these special pool rules, the non-standard oil well location was "grandfathered" in as approved for the Cha Cha Gallup Oil Pool at the time the special pool rules were adopted.

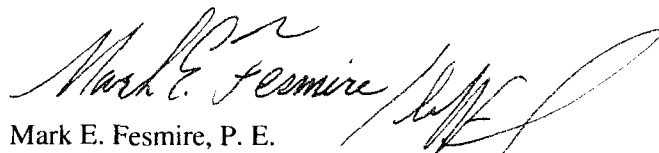
It is further understood that Lance, as the current operator of this 320-acre coal gas unit, intends to abandon the Gallup oil-producing interval in the NW Cha Cha Unit Well No. 11 at this time and to recomplete up-hole into the Basin-Fruitland Coal (Gas) Pool.

By the authority granted me under the applicable provisions of the special pool rules governing the Basin-Fruitland Coal (Gas) Pool and Division Rule 104.F (2), the above-described unorthodox infill coal gas well location for Lance's NW Cha Cha Unit Well No. 11 is hereby approved.

Further, Lance is hereby authorized to simultaneously dedicate production attributed to the Basin-Fruitland Coal (Gas) Pool from both the above-described NW Cha Cha Unit Well No. 11 and NV Navajo "20" Well No. 4.

Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

Sincerely,



Mark E. Fesmire, P. E.
Director

MEF/ms

cc: New Mexico Oil Conservation Division – Aztec
U. S. Bureau of Land Management – Farmington
Anne Jones (Anne.Jones@anadarko.com), Sr. Landman – Lance Oil & Gas Company, Inc., Kirtland
