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# KELLAHIN & KELLAHIN

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January 12, 2004

Via Facsimile (505) 476-16

Mr. Michael E. Stogner Oil Conservation Division 1220 South Saint Francisco Prove Santa Fe, New Mexico **5**, 205

Re: Administrative Approaction of Burlington Resources Oil & Gas Company LP for approval of mon-standard gas proration and spacing unit for its San Juan 29-7 Unit Well No 188, NW/4 equivalent of Irregular Section 6 T29N, R7W Blance Fictured Cliffs Gas Pool, San Juan County, New Mexico

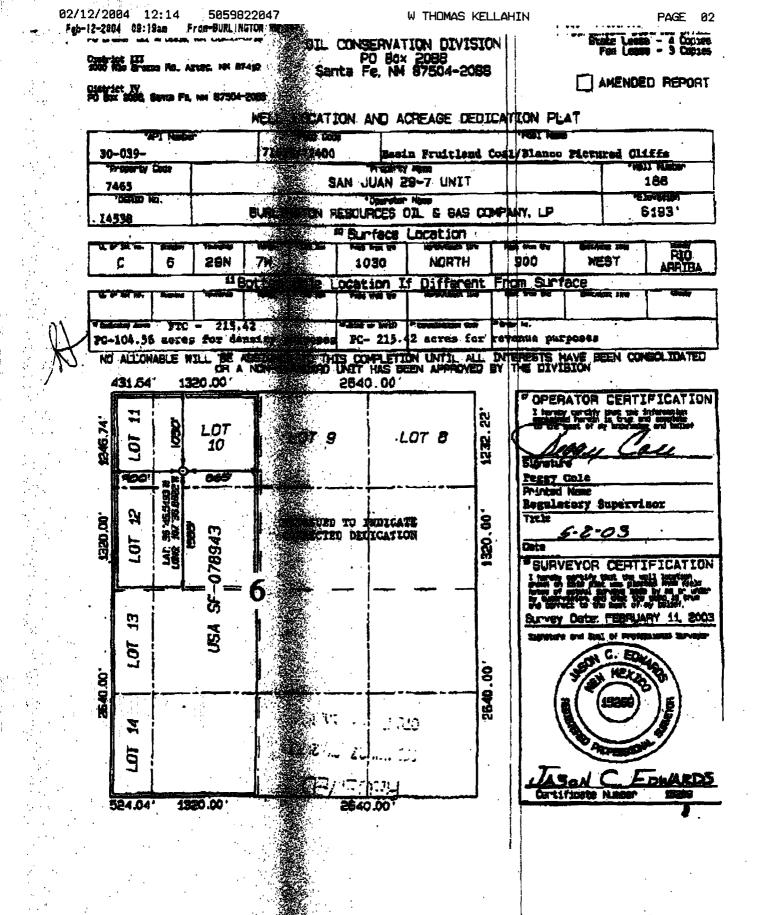
Dear Mr. Stogner:

On behalf of Burlington Resources Oil & Gas Company LP, please consider this letter as Burlington revised application submitted in accordance with the option described in the letter dated January 13, 2004. As supporting documentation, I request that you incorporate by referenced the discussion memorandum dated February 2, 1004. Finally in accordance with you E-mail to me dated February 9, 2004. I enclosed a revised C-102 that I have obtained by Burlington. The initials are those of Mr. Steve Hayden of the OCD-Aztec.

Please call me if the bave any questions.

Thomas Kellahin

CC: Burlington Resources Oil & Gas Company LP



## Burlington NSP San Juan 29-7 Unit Well No. 188

WTK-draft 2/03/04

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## ISSUE FOR DISCUSSION WITH OCD-SANTA FE

### **Background:**

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FEB - 5 2004 Oil Conservation Division

1220 S. St. Francis Drive Santa Fe, NM 87505

(1) Reference Map. See Exhibit "A" attached

- (2)Effective December 7, 1953, the NMOCC approved the Unit Agreement for the Development and Operation of the San Juan 29-7 Unit including the following:
  - a. Whereas the Oil Conservation Commission of the State of New Mexico is authorized by an act of the Legislature (Chapter 88, Laws 1943, New Mexico Statutes 1941 Annotated, Section 69-201 et seq.) to approve this agreement and the conservation provisions hereof; (See Exhibit "B" attached, first page)
  - b. "No wells, except such as may be necessary to afford protection against operations not under this agreement or such as may be specifically approved by the Supervisor, the Commission, and Commission shall be drilled except in accordance with a plan of development approved as herein provided. (See Exhibit "B" attached, Section 10)
  - c. "11. Participation after discovery.
    - i. Mesaverde and Shallower Formations: ...that each drilling block shall be either the East Half (E/2) or the West (W/2) of each given section, provided, however, that in any instances of irregular surveys that portion of a section shall constitute a Drilling Block even though its acreage may be irregular..." (See Exhibit "B" attached, section 11)

(3) OCD rules for Pictured Cliffs wells require 160-acre GPU.

(4) Prior OCD action on Burlington San Juan 29-7 Unit Wells:

- a. E/2 of Section 6:
  - i. Well 170 located in Unit J (SE/4 equivalent) C-102 declared this as a Blanco PC well to be dedicated to 160-acres then noted that 160-acres for density purposes for PC and 320-acres for revenue purposes for the PC.
    - 1. The SE/4 of Section 6 actually contains 154.93 acres and the E/2 contains 314.93, both within the tolerance for standard GPUs per OCD rules.
    - Thus no NSP was requested or required.
      (See Exhibit "C" attached)

# ii. Well 584: Same as Well 170 above(See Exhibit "D" attached

- b. W/2 of Section 6:
  - i. Well 583 located in Unit K (SW/4 equivalent) C-102 declared this as a Blanco PC well to be dedicated to 110.66acres for density purposes for PC and 215.22-acres for revenue purposes for the PC. (See Exhibit "E" attached)
    - 1. The SW/4 of Section 6 contains 110.66 acres and the W/2 contains 215.22, both less than the tolerance for standard GPUs per OCD rules.
    - 2. Thus an NSP was required and approved by OCD Order R-9880 and the located revised in Order R-9880-A (See Exhibit "F" attached)
    - 3. The Fruitland Coal NSPs were approved by Division Order R-9303 (See Exhibit "G" attached)

- c. Wells in Section 5:
  - i. Well 154's C-102 (NE/4-E/2) was submitted to OCD using the same format that Burlington used for the Wells 170 and 584 in Section 6. (See Exhibit "H" attached)

(5) Current OCD action on Burlington San Juan 29-7 Unit Wells:

- a. Well 188 (current Subject well) Unit C (NW/4 equivalent) See C-102. (Exhibit "I" attached)
- b. While Order R-9880 and approved the NSP for the W/2 for Fruitland/Coal and that Well 188 can to approved as an "infill" coal well, Burlington recognizing that the OCD had not yet approved the NW/4 has an NSP for the PC
- c. Burlington filed for administrative approval of the NW/4 as a NSP for the PC, on December 12, 2003. (See Exhibit "J" attached)

# d. OCD Action by Stogner ON WELL 188 (Denial January 13, 2004) See Exhibit "K" attached

- i. Stogner concluded that Burlington's request amounts to:
  - 1. Exception to Rule 104.C(3) for a W/2 of Section 6 GPU instead of the standard 160-acre dedication
  - 2. Exception for Rule 104.D (3) for simultaneously dedication of 2 wells to a GPU

- 3. Suspend portion of Order R-9880 dedicating SW/4 of Unit 583 well
- ii. Stogner suggested Burlington re-file its application.

### **BURLINGTON DILEMMA:**

Burlington knows that OCD required 160-acre GUPs for PC gas wells, but also knows that Unit Agreement requires 320-acre GUPs for PC gas wells and with the understanding that ONGuard will not accept Burlington revenue payment based upon the Unit agreement (half section), unless the OCD form C-102 matches, Burlington has filed these C-102 showing "density" and revenue" dedications.

Burlington's intention was to apply for an NSP for the # 188 well based upon the NW/4 equivalent of section 6, T29N, R7W, although filing the C-102 showing the W/2 equivalent may have confused the issue.

Burlington filed NMOCD form C-102 showing a W/2 equivalent dedication for the Pictured Cliffs formation, which was intended to show the revenue distribution (not density purposes) for this formation in accordance with the Unit Agreement. At the request of the Aztec NMOCD field office Burlington did not indicate the NW/4 equivalent would be used for density purposes on the C-102 form. Burlington would have historically filed a C-102 showing both a revenue and density dedication.

Burlington agrees with Mr. Stogner's recommendation that for density purposes the NW/4 equivalent (lots 10,11,12 and the SE/4NW/4) of section 6 (containing 104.56 acres) should be designated a NSP.

#### **ISSUES:**

How can Burlington comply with OCD and still pay based upon 320-acre dedication required by Unit Agreement?

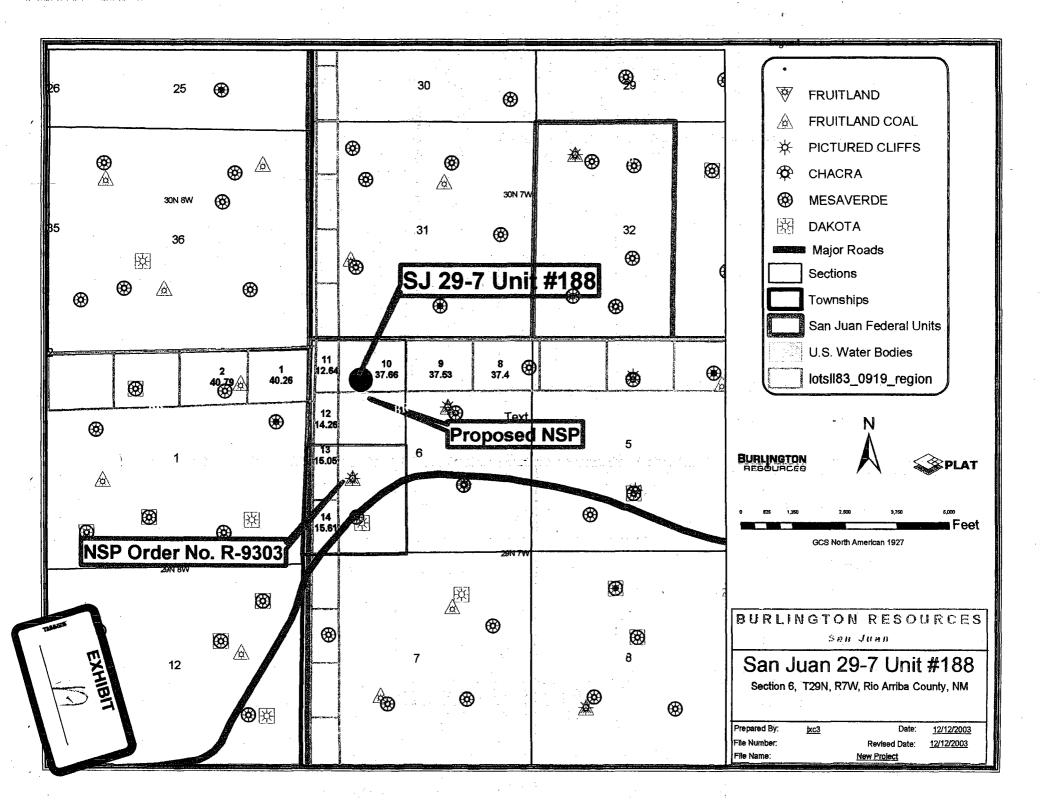
How can Burlington dedicate a GPU for revenue distribution in compliance with the Unit Agreement and acceptable to ONGuard that is different from the density dedication required by the OCD?

# **POSSIBLE OPTIONS:**

(1) Submit to OCD a revised NSP administrative application for Well 188requesting NW/4 of Section as an NSP and use a C-102 similar to that used for Well 170 (Section 6 SE/3-E/2)

(2) File OCD hearing application seeking exceptions as stated in Stogner's letter

(3)



Jan-22-04 05:46pm From-		T-773 P.014/018	F-696
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CONSERVATION DIVISION RECEIVED AUG 24 1954 GEOLOGICAL EURICE	UNIT AGREEME FOR THE DEVELOPMENT AN OF THE SAN JUAN 29-7 COUNTY OF RIO AR	D OPERATION	en en ser server EIVED
	STATE OF NEW MEX $14 \cdot 08 \cdot 001 \cdot 1$	650 AUG U. S. GEOLOG	5 1954 NCAL SURVEY NEW MEXICO

1953, by and between the parties subscribing, ratifying, or consenting hereto, and herein referred to as the "parties hereto",

WITNESSETH: Whereas the parties hereto are the owners of working, royalty or other oil and gas interests in the unit area subject to this agreement; and

Whereas the Act of February 25, 1920, 41 Stat. 437, as amended by the Act of August 8, 1946, 60 Stat. 950, 30 U. S. C. Secs. 181 et seq., authorizes Federal lessees and their representatives to unite with each other, or jointly or separately with others, in collectively adopting and operating a cooperative or unit plan of development or operation of any oil or gas pool, field, or like area, or any part thereof, for the purpose of more properly conserving the natural resources thereof whenever determined and certified by the Secretary of the Interior to be necessary or advisable in the public interest; and

Whereas the Commissioner of Public Lands of the State of New Mexico is authorized by an act of the Legislature (Chapter 85, Laws 1943, New Mexico Statutes 1941 Annotated, Sections 8-1138 to 8-1141) to consent to and approve the development or operation of lands of the State of New Mexico under this agreement; and

Whereas the Oil Conservation Commission of the State of New Mexico is authorized by an act of the Legislature (Chapter 72, Laws 1935, New Mexico Statutes 1941 Annotated, Sections 69-201 et seq.) to approve this agreement and the conservation provisions hereof; and

Whereas the parties hereto hold sufficient interests in the San Juan 29-7 Unit Area covering the land hereinafter described to give reasonably effective control of operations therein; and

Whereas it is the purpose of the parties hereto to conserve natural resources, prevent waste, and secure other benefits obtainable through development and operation of the area subject to this agreement under the terms, conditions, and limitations herein set forth;

Now, therefore, in consideration of the premises and the promises herein contained, the parties hereto commit to this agreement their respective interests in the below-defined unit area, and agree severally among themselves, as follows:

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of the oil and gas resources of the unitized area and shall (a) specify the number and location of any wells to be drilled and the proposed order and time for such drill and (b) to the extent practicable specify the operating practices regarded as necessar and advisable for proper conservation of natural resources. Separate plans may be suf mitted for separate productive zones, subject to the approval of the Supervisor, the Commissioner, and the Commission. Said plan or plans shall be modified or supplemente when necessary to meet changed conditions or to protect the interests of all parties t this agreement. Reasonable diligence shall be exercised in complying with the obligations of the approved plan of development. No wells, except such as may be necessary to afford protection against operations not under this agreement or such as may be specifically approved by the Supervisor, the Commissioner, and Commission shall be drilled except in accordance with a plan of development approved as herein provided

11. Participation after discovery.

(a) Mesaverde and Shallower Formations:

That portion of the unit area lying above the base of the Mesaverde formation is hereby divided into Drilling Blocks containing 320 acres each, more or less, which Drilling Blocks shall constitute one-half sections, by government survey, the sections being divided by a line running north and south in such manner that each Drilling Block shall be either the East Half (E/2) or the West Half (W/2) of each give section; provided, however, that in any instances of irregular surveys that portion of a section which most nearly constitutes either the East Half (E/2) or the West Half (Ishall constitute a Drilling Block even though its acreage may be irregular, and provie further that any irregular strips or small tracts shall attach to the adjacent Drillin Elock to which they most logically attach within the limitations for Drilling Blocks : herein set forth, and provided further that in the event any portion of the area subjto this agreement is not surveyed, Unit Operator shall project the survey from the nearest established government survey points for the purposes of this agreement.

Upon completion of a well capable of producing unitized substances from the Mesaverde or shallower formation or as soon thereafter as required by the Supervisor or the Commissioner, the Unit Operator shall determine whether said well is capable of producing unitized substances in paying quantities and shall advise the Supervisor, the Commissioner, the Commission and the working interest owners of its conclusion in that regard, giving the data upon which its conclusion is based and identifying the Drilling Block upon which said well is located. Protests against

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said conclusion may be filed with the Director, the Commissioner and the Commission within 15 days thereafter, but unless the Director, the Commissioner or the Commission shall, within 30 days after the filing of the original statement of conclusion by Unit Operator, disapprove of such conclusion, the decision of the Unit Operator shall thereafter be binding upon the parties hereto. If any such well is determined to be capable of producing unitized substances in paying quantities, all of the land in the Drilling Block shall constitute the participating area for the formation from which th well is producing, effective as of the date of first production on or after the effect date of this unit agreement. Unit Operator shall prepare a schedule setting forth the percentage of unitized substances to be allocated, as herein provided, to each unitize tract in the participating area so established, and upon approval thereof by the Director, the Commissioner and the Commission, said schedule shall govern the allocati of production from and after the date the participating area becomes effective. A separate participating area shall be established in like manner for each separate pool or deposit of unitized substances or for any group thereof producing as a single pool or zone, and all of the provisions of this section of this agreement shall be consider as applicable separately for each such participating area. It is hereby agreed for th purposes of this agreement that all wells completed for production in the Fruitland formation shall be regarded as producing from a single zone or pool and all wells completed for production in the Pictured Cliffs formation shall be regarded as producing from a single zone or pool, and all wells completed for production in the Mesaverde group shall be regarded as producing from a single zone or pool. Additional Drilling Blocks, subject to any limitations elsewhere set out in this agreement, shall be admitted to the participating area on the first day of the month following the mont in which it has been established that a well capable of production of unitized substances in paying quantities has been drilled on any such Drilling Block, and the percentage of allocation shall be revised accordingly, in which event all of the production prior to the effective date of admission of such drilling block to the participating area shall be credited solely to the account of that particular block. For the purposes hereof, it shall be deemed that the capability of a well to produce unitized substances in paying quantities has been established when so determined by th Unit Operator and when notice of such determination shall have been delivered to the Supervisor, the Commissioner, the Commission and the working interest owners, which

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notice includes the data upon which the determination is based and identifies the Drilling Block upon which the well is located, subject to the right of any interested party to protest in writing against said determination to the Unit Operator, the Director, the Commissioner and the Commission within 15 days thereafter, however, in any event, such determination shall become effective within 30 days from the date thereof unless disapproved within said 30-day pariod by the Director, Commissioner, or Commission. In the event such determination is not upheld and changed conditions subsequently warrant, a new determination based on new showings and a new effective date may be submitted and processed in the same manner as aforesaid. No land shall be excluded from a participating area on account of depletion of the unitized substan-

In the event that any drilling block is admitted to a participating area as hereinabove provided when it lies directly north, south, east or west of any Drill Block already included in said participating area, and where there is one, but only o intervening Drilling Block on which no well has then been drilled, said intervening Drilling Block shall also be admitted to said participating area at the same time, in the same manner and subject to the same conditions as the Drilling Block which is the admitted to such participating area by reason of the completion of a well thereon capable of producing unitized substances in paying quantities. In such event, the drilling of a well on such undrilled intervening Drilling Block shall be commenced within one year from the effective date of said Drilling Block's inclusion in the participating area, unless said time be extended by the Director, Commissioner, and Commission, and shall be continued with due diligence to a depth necessary to test the horizon from which production is secured in said participating area.

If the initial well on any Drilling Block is not capable of production in paying quantities and at a later date a well is drilled on such Drilling Block which is capable of production of unitized substances in paying quantities, then that portion of the Drilling Elock considered to be capable of production in paying quantities by reasonable geologic inference shall be admitted to the participating area upon recommendation of the Unit Operator and approval of the Director, the Commissioner and the Commission. If geological inference is not applicable, the forty-acre tract by government survey, existing or projected, on which the producibl well is drilled and all other untested forty-acre tracts or lots approximating 40 ac lying within the Drilling Block shall be admitted to the participating area.

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Regardless of any revision of the participating area, and except as herein elsewhere specifically provided, there shall be no retroactive adjustment for production obtained prior to the effective date of any such revision of the participating area.

Whenever it is determined, in the manner provided in this agreement, that a well drilled under this agreement is not capable of production in paying quantities and inclusion of the Drilling Mock on which it is situated in a participating area is unwarranted, production from such well shall, for the purposes of settlement among royalty interest owners, be allocated to the Drilling Block on which the well is located so long as such land is not within a participating area established for the pool or deposit from which such production is obtained. Settlement for working interest benefits from such a well shall be made as provided in the unit operating agreement.

(b) From Formations below the Mesaverde:

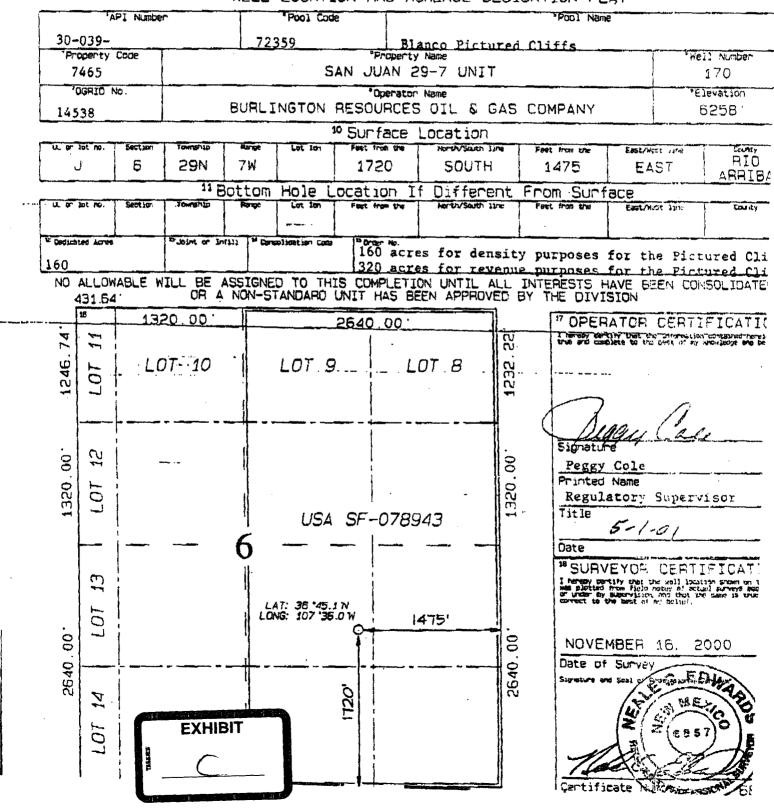
Upon completion of a well capable of producing unitized substances from formations lying below the base of the Mesaverde in paying quantities, or as soon thereafter as required by the Supervisor and Commissioner, the Unit Operator shall submit for approval by the Director, the Commissioner, and the Commission, a schedule based on subdivisions of the public-land survey or aliquot parts thereof, of all unitized land then regarded as reasonably proved to be productive of unitized substances in paying quantities; all land in said schedule on approval of the Director, the Commissioner, and the Commission to constitute a participating area, effective as of the date of first production on or after the effective date of this unit agreement. Said schedule also shall set forth the percentage of unitized substances to be allocated as herein provided to each unitized tract in the participating area so established, and shall govern the allocation of production from and after the date the participating area becomes effective.

A separate participating area shall be established in like manner for each separate pool or deposit of unitized substances or for any group thereof produced as a single pool or zone, and any two or more participating areas so established may be combined into one with the consent of the owners of all working interests in the lands within the participating areas so to be combined upon approval of the Director, the Commissioner, and the Commission. The participating area or areas so established shall be revised from time to time, subject to like approval, whenever such action appears

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Jan-22-04 05:43pm From-	. ~	,	T-773	P.004/018	F-696
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## WELL LOCATION AND ACREAGE DEDICATION PLAT



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