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February 9, 2005

HAND DELIVERED

Mr. Mark E. Fesmire, Director
Oil Conservation Division
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

Case 13441

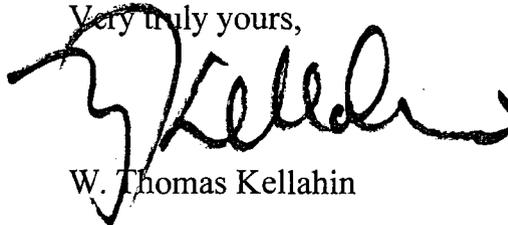
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Re: Ropco "7" Well No. 4 (API#30-045-32788)
(optional infill well) Unit O (E/2)
Section 7, T29N, R14W
Application of Lance Oil & Gas Company, Inc. to
amend Division Order R-11788 (compulsory pooling)
to include subsequent operations and an optional
infill coal-gas well provisions, San Juan County, New Mexico

Dear Mr. Fesmire:

On behalf of Lance Oil & Gas Company, Inc., find enclosed our referenced application which we request be set for hearing on the Examiner's docket now scheduled for March 3, 2005. Also enclosed is our proposed advertisement of this case for the NMOCD docket.

Very truly yours,



W. Thomas Kellahin

cc: Lance Oil & Gas Company, Inc.
Attn: Anne Jones

CASE 13441: Application of Lance Oil & Gas Company, Inc. to amend Division Order R-11788 to include subsequent operations and optional infill gas well provisions for compulsory pooling, San Juan County, New Mexico. Applicant seeks to amend this compulsory pooling order to provide for subsequent operations and the inclusion of its Ropco "7" Well No. 4, (API#30-045-32788) to be located in Unit O, as a well subject to this compulsory pooling order that pooled all mineral interest in the Basin Fruitland Coal Gas Pool underlying the E/2 of Section 7, T29North Range 14 West, NMPM, San Juan County, New Mexico, that formed a standard 320-acre gas spacing and proration unit for any production from the Basin Fruitland Coal Gas Pool and formed a standard 160-acre gas spacing and proration unit for any production from the Pictured Cliffs formation, including but not limited to the Twin Mounds Fruitland Sand Pictured Cliffs Gas Pool. These units are to be currently dedicated its Ropco "7" Well No. 1 that was drilled at a standard location in Unit G of this section for downhole commingled production from the Basin Fruitland Coal Gas Pool and the Twin Mounds Fruitland Sand Pictured Cliffs Gas Pool. The applicant also seeks to include provisions for subsequent operations and procedures for an optional "infill" coalbed-gas well. Also to be considered will be the costs of drilling and completion this well and the allocation of the costs thereof as well as actual operating costs and charges for supervision, designation of Lance Oil & Gas Company, Inc. as the operator of the well and a 200% charge for risk involved in this well. This unit is located approximately 1/2 miles Southeast from Kirtland, New Mexico.

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

**IN THE MATTER OF THE APPLICATION
OF LANCE OIL & GAS COMPANY, INC.
TO AMEND DIVISION ORDER R-11788
TO INCLUDE SUBSEQUENT OPERATIONS
AND OPTIONAL INFILL GAS WELL
PROVISIONS FOR COMPULSORY POOLING,
SAN JUAN COUNTY, NEW MEXICO.**

CASE NO. *13441*

APPLICATION

Lance Oil & Gas Company, Inc. ("Lance") by its attorneys, Kellahin & Kellahin, and in accordance with Section 70-2-17.C NMSA (1978) seeks an order amending Division Order R-11788 to include subsequent operations and optional infill gas well provisions for compulsory pooling, San Juan County, New Mexico. Applicant seeks to amend this compulsory pooling order to provide for subsequent operations and the inclusion of its Ropco "7" Well No. 4, (API#30-045-32788) to be located in Unit O, as a well subject to this compulsory pooling order that pooled all mineral interest in the Basin Fruitland Coal Gas Pool underlying the E/2 of Section 7, T29North Range 14 West, NMPM, San Juan County, New Mexico, that formed a standard 320-acre gas spacing and proration unit for any production from the Basin Fruitland Coal Gas Pool and formed a standard 160-acre gas spacing and proration unit for any production from the Pictured Cliffs formation, including but not limited to the Twin Mounds Fruitland Sand Pictured Cliffs Gas Pool. These units are to be currently dedicated its Ropco "7" Well No. 1 that was drilled at a standard location in Unit G of this section for downhole commingled production from the Basin Fruitland Coal Gas Pool and the Twin Mounds Fruitland Sand Pictured Cliffs Gas Pool. The applicant also seeks to include provisions for subsequent operations and procedures for an optional "infill" coalbed-gas well. Also to be considered will be the costs of drilling and completion this well and the allocation of the costs thereof as well as actual operating costs and charges for supervision, designation of Lance Oil & Gas Company, Inc. as the operator of the well and a 200% charge for risk involved in this well.

In support of its application, Lance Oil & Gas Company, Inc. ("Lance") states:

1. On June 20, 2002, the Division issued Order R-11788 approving the application of Richardson Production Company for the compulsory pooling of the E/2 of Section 7, T29N, R14W to be dedicated to the Ropco "7" Well No. 1 that had been drilled and completed for production from the Basin Fruitland Coal Gas Pool and the Pictured Cliffs formation.

2. Effective October 1, 2004, Lance became the successor to Richardson Operating Company ("Richardson").

3. These gas spacing units are located within the boundaries of the Basin Fruitland Coal Gas Pool and the Twin Mounds Fruitland Sand Pictured Cliffs Gas Pool.

4. By letter dated, January 10, 2005, Lance as proposed to the other working interest or mineral owners that the Ropco Well No.4 be drilled and downhole completed in the Pictured Cliffs and Fruitland coalbed formations to be dedicated to an existing standard 320 acre gas spacing and proration unit consisting of the E/2 of Section 7 for coal-gas production and to a 160-acre spacing unit consisting of the SE/4 of Section 7 for gas production from the Pictured Cliffs formation.

5. Despite its reasonable efforts, application has been unable to obtain a written voluntary agreement from certain uncommitted working interest and/or mineral interest owners as shown on **Exhibit "A"**.

6. The applicant also seeks to amend Order R-11788 include provisions for subsequent operations and procedures for an optional "infill" coalbed gas well. **See Exhibit "B" attached.**

7. Pursuant to Section 70-2-17.C NMSA (1978) and in order to obtain its just and equitable share of potential production underlying this spacing unit, Lance needs an order of the Division pooling the interest identified above in order to protect correlative rights and prevent waste.

8. Applicant, in the absence of timely objection, will present its evidence by affidavit as provided by Division Rule 1207.A(1) and request the 200% risk charge in accordance with Commission Order R-11992, effective August 15, 2003.

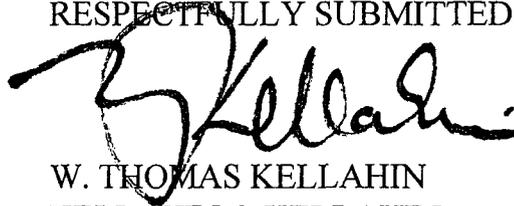
9. In accordance with the Division's notice requirements, a copy of this application has been sent to the parties whose interest is to be pooled as listed on Exhibit "A" notifying each of this case and of the applicant's request for a hearing of this matter before the Division on the next available Examiner's docket now scheduled for March 3, 2005.

WHEREFORE, Lance Oil & Gas Company, Inc, as applicant, requests that this application be set for hearing on March 3, 2005 before the Division's duly appointed examiner, and that after notice and hearing as required by law, the Division enter its order pooling the mineral interest described in the appropriate spacing unit for this well at a standard well location upon terms and conditions which include:

- (1) Lance Oil & Gas Company, Inc. be named operator;
- (2) Provisions for applicant and all working interest owners to participate in the costs of drilling, completing, equipping and operating the well;
- (3) Provisions for subsequent operations and procedures for an optional "infill" coalbed gas well.
- (4) In the event a mineral interest or working interest owner fails to elect to participate, then provision be made to recover out of production, the costs of the drilling, completing, equipping and operating the well, including a risk factor penalty of 200%;
- (5) Provision for overhead rates per month drilling and per month operating and a provision providing for an adjustment method of the overhead rates as provided by COPAS;

(6) For such other and further relief as may be proper.

RESPECTFULLY SUBMITTED:

A handwritten signature in black ink, appearing to read "W. Thomas Kellahin". The signature is written in a cursive style with a large, stylized initial "W".

W. THOMAS KELLAHIN
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**List of Unleased Mineral Owners
Nature & percent of interest
Lance Oil & Gas Company, Inc.
ROPCO 7 #4**

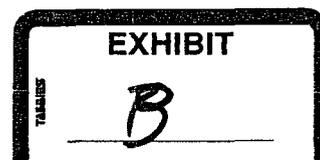
**Pictured Cliffs Formation SE/4 Section 7 – T29N-R14W, NMPM
Fruitland Coal Formation E/2 Section 7 – T29N-R14W, NMPM
San Juan County, New Mexico**

Name & Address	Acreage	% Interest PC	% Interest FC
Bobby Willis & Carrie Willis, H/W Et als PO Box 432 Kirtland, NM 87417	0.8021	0.5013	0.2507
David Vigil, Jr. #9 CR 6299 Kirtland, NM 87417	0.3400	0.2125	0.1063
Ru-Boo 1900 Chilton Court Farmington, NM 87401	1.3543	0.8464	0.43232
Mortgage Electronic Registration Systems, Inc. 601 Fifth Avenue Scottsbluff, NE 6936103541	1.1358	0.7099	0.03549
James D. & Rita Ann Spade, Sr. #13 CR 6427 Kirtland, NM 87417	0.5200	0.3250	0.1625
Antonio P. & Rose Jean Herrera #15 CR 6427 Kirtland, NM 87417	0.5000	0.3125	0.1563
Kenny Dewayne & Shana Dee Irvin 550 W. Diagonal Ste #9 St. George, UT 84770	0.5000	0.3125	0.1563
James M. & Andrea M. Sheridan PO Box 435 Kirtland, NM 87417	0.5000	0.3125	0.1563
Orland C. & Charlotte Joe, Sr. #25 CR 6427 Kirtland, NM 87417	1.0400	0.6500	0.3250
Troy L. & Margie G. Guillory #11 CR 6345 Kirtland, NM 87417	0.74	0.4625	0.2313
Jose O. Valenzuela PO Box 995 Kirtland, NM 87417	0.3696	0.2310	0.1155
Rhonda Median PO Box 995 Kirtland, NM 87417	0.3696	0.2310	0.1155
Randy J. & Dennise Manning PO Box 25 Kirtland, NM 87417	0.4500	0.2813	0.1406
Vernon J. & Jo Ann Manning PO Box 405 Kirtland, NM 87417	0.6920	0.4325	0.2163
Jeff S. & Tammie G. Manning PO Box 1353 Kirtland, NM 87417	0.500	0.3125	0.1563
Danene Sherwood 4124 US Hwy 64 Kirtland, NM 87417	0.7800	0.4875	0.2438
TOTALS	10.5934	6.6209	3.31992



() Pursuant to Division Rule 104, an optional infill well may be drilled and produced within this 320-acre spacing unit or subsequent operations conducted for either the original well or the infill well in accordance with the following provisions:

- (a) Lance Oil & Gas Company, Inc., or its successor, shall continue to be the operator of the parent well and the infill well;
- (b) The operator or any working interest owner who consents to and has paid its share of costs of the original well, pursuant to either an voluntary agreement or a compulsory pooling order, may propose drilling of an infill well or subsequent operations of either the original well or the infill well by giving written notice of the proposed well to all working interest owners and all unleased mineral owners with the 320-acre pooled unit. Any such proposal shall specify the work to be performed, the location, proposed depth, objective formations and the estimated costs of the operation.
- (c) The parties receiving such a notice shall have thirty (30) day election period after receipt of this notice within which to notify the proposing party whether they elect to participate in the costs of the subsequent operations or the infill well. Failure of a party receiving such notice to deliver to the proposing party an written election, plus payment for this share of the total costs, within a thirty (30) day election period shall constitute an election by that party not to participate in the costs of the well or the proposal operation and shall be "a non-consenting party."
- (d) Any non-consenting party shall be subject to a 200% risk penalty charge for that well or the operations.
- (e) Production from the original well cannot be used to pay for the costs of the infill well or can production from the infill well be used to pay for the costs of the original well. The recovery of costs for subsequent operations shall be paid by the production from the well on which those operations were conducted.
- (f) If all parties elect to participate in the infill well or in subsequent operations ("a consenting party"), the operator shall, within ninety (90) days after the expiration of the thirty (30) day election period, actually commence and conduct operations with due diligence at the risk of expense of all parties.
- (g) If less that all parties elect to participate in the infill well or the subsequent operations, then all parties who elected not to participate shall be considered non-consenting working interest owners and all the provisions of this order shall apply to the drilling of the infill well or the subsequent operations with the FOLLOWING EXCEPTIONS:
 - a. The proposing party shall be solely responsible for carrying the no-consenting working interest owner's interest subject to the risk penalty charge provided for in the order. The proposing party may enter into an agreement, or



recognize an existing agreement, that provides for the sharing of the non-consenting interest by the consenting parties. The proposing party, at its election, may withdraw such proposal if there is insufficient participation and shall notify the Division and all other parties of such decision.

- b. If the operator is a non-consenting working interest owner in the infill well, the consenting parties shall either: (a) request the operator to perform the work required for the account of the consenting parties, or (b) designate one of the consenting parties as operator of the infill well. If the infill well results in a producer of oil and/or gas in paying quantities, one of the consenting parties shall be designated as operator and shall complete and equip the well to produce at the sole costs and risk of the consenting parties and thereafter the operator designated by this compulsory pooling order shall operate this well at the expense and for the account of the consenting working interest owners.
- c. To be entitled to the benefits of this order, the operator, or the designated consenting party, shall within ninety (90) days after the expiration of the thirty (30) day election period, actually commence and conduct the operations with due diligence at the sole risk and expense of the consenting parties.
- d. If operations for the drilling of an infill well results in a dry hole, the consenting parties shall plug and abandon the well and restore the surface location at their sole costs, risk and expense.

() If operations for the drilling of a proposed infill well or any subsequent operation for either the original well or the infill well have not been commenced within the time provided, and if any party still desires to drill the infill well, written notice proposing same must be resubmitted in accordance with the provision hereof as if no prior proposal had been made.