

KELLAHIN & KELLAHIN
Attorney at Law

W. THOMAS KELLAHIN
706 GONZALES ROAD
SANTA FE, NEW MEXICO 87501

TELEPHONE 505-982-4285
FACSIMILE 505-982-2047
TKELLAHIN@COMCAST.NET

September 18, 2007

HAND DELIVERED

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

Case 14019

RECEIVED
2007 SEP 18 PM 4 24

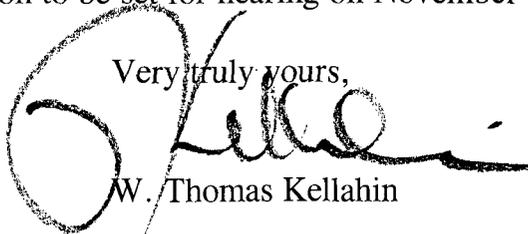
Re: Application of Pro NM Energy, Inc. for Compulsory Pooling
San Juan County, New Mexico
Gracia Federal 18-I Well No. 1
(API #30-045-32857) Unit I of Section 18
Dedication E/2 for Basin Fruitland Coal-Gas

Gracia Federal 18-I Well No. 1S
(API #30-045-33868) Unit B of Section 18, T26N R11W
Dedication of E/2 Section 18 for Basin Fruitland Coal-Gas

Dear Mr. Fesmire:

On behalf of Pro NM Energy, Inc., enclosed for filing is our referenced application to be set for hearing on November 1, 2007.

Very truly yours,



W. Thomas Kellahin

cc: Pro NM Energy Inc.
Attn: Gene Gallegos

CASE 14019: Application of Pro NM Energy Inc. for compulsory pooling, San Juan County, New Mexico. Applicant seeks an order pooling all mineral interests from the surface to the base of the Fruitland formation underlying the following described acreage in Section 18, T26N, R11W, NMPM, in the following manner: the E/2 to form a standard 320-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre gas spacing within that vertical extent, including the Basin Fruitland Coal Gas Pool, to be dedicated to its Gracia Federal 18-I Well No. 1 (API#30-045-32857) drilled in Unit I and Gracia Federal 18-I Well No 1S (API#30-045-33468) drilled in Unit B both in this section. Also to be considered will be the costs of drilling and completing these wells and the allocation of the costs thereof as well as actual operating costs and charges for supervision, designation of the applicant as the operator of these wells and a 200% charge for risk involved in these wells. These units are located approximately 3 miles northwest of the Huerfano Chapter House, New Mexico. IN THE ABSENCE OF OBJECTION, THIS CASE WILL BE TAKEN UNDER ADVISEMENT.

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

**IN THE MATTER OF THE APPLICATION
OF PRO NM ENERGY, INC.
FOR COMPULSORY POOLING
SAN JUAN COUNTY, NEW MEXICO.**

CASE NO. 14019

**RECEIVED
2007 SEP 18 PM 4:25**

APPLICATION

Comes now PRO NM ENERGY, INC. ("PRONM") by its attorneys, Kellahin & Kellahin, and in accordance with Section 70-2-17(c) NMSA (1978), applies to the New Mexico Oil Conservation Division for an order pooling all mineral interests from the surface to the base of the of the Fruitland formation underlying the following described acreage in Section 18, T26N, R11W, NMPM, in the following manner: the E/2 to form a standard 320-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre gas spacing within that vertical extent, including the Basin Fruitland Coal Gas Pool, to be dedicated to its Gracia Federal 18-I Well No. 1 (API#30-045-32857) drilled in Unit I and Gracia Federal 18-I Well No 1S (API#30-045-33468) drilled in Unit B both in this section. Also to be considered will be the costs of drilling and completing these wells and the allocation of the costs thereof as well as actual operating costs and charges for supervision, designation of the applicant as the operator of these wells and a 200% charge for risk involved in these wells.

In support of its application, Pro NM Energy, Inc. ("PRONM") states:

1. PRONM has the right to drill and develop the oil and gas minerals from the surface to the base of the Fruitland formation underlying the E/2 of Section 18, T26N, R11W, NMPM, San Juan County, New Mexico.
2. PRONM has proposed that the E/2 of this section be dedicated as a standard 320-acre gas spacing unit for production from the Fruitland coal-gas formation from its proposed Gracia Federal 18I Well No. 1 that was drilled located in Unit I of Section 18 as shown on Forms C-102 attached as Exhibit "A"
2. In addition, PRONM has proposed that the E/2 of this section be to dedicated as a standard 320-acre gas spacing unit for production from the Fruitland coal-gas formation to be obtained from its "infill well" the proposed Gracia Federal 18I Well No. 1S that was drilled located in Unit B of Section 18 as shown on Form C-102 attached as Exhibit "B"

3. The working interest owners in the E/2 of this section are as follows:

PRONM = 18.75%; Dugan Production Corp = 25%; Chevron USA, Inc. = 25%; XTO Energy Inc = 6.25%; Sherman Dugan = 5%; Jim Jacobs = 5%; F.L. Crane = 5%; Tommy Robert = 5% and Dorothy Winer = 5%

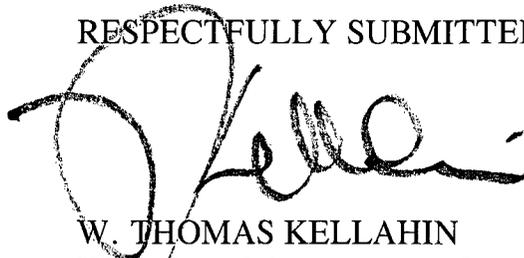
4. With the exception of Chevron USA Inc., all the working interest owners has signed PRO NM's joint operating agreement with XTO Energy Inc. participating and with the other electing to "go non-consent."
5. By letter dated July 19, 2004, PRONM proposed these wells to Chevron and since then has been attempting to obtain the voluntary agreement of Chevron. Despite its efforts, PRONM has not been able to obtain a written voluntary agreement from Chevron USA, Inc. and has been notified by Chevron to file a compulsory pooling application.
4. 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, the applicant needs an order of the Division pooling the identified and described mineral interests on Chevron USA Inc. in order to protect correlative rights and prevent waste.
5. Pursuant to Commission Order R-11992, effective August 15, 2003, PRONM requests that a 200% risk charge be applied.
6. In accordance with the Division's notice requirements, a copy of this application has been sent to the party whose interest are to be pooled and whose current addresses are known as listed on Exhibit "C" of the applicant's request for a hearing of this matter before the Division on the next available Examiner's docket now scheduled for November 1, 2007.

WHEREFORE, PRONM, as applicant, requests that this application be set for hearing on November 1, 2007 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 the drilling of this well location upon terms and conditions which include:

- (1) Pro NM Energy, 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) In the event a 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 charge of 200%;
- (4) 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;
- (5) For such other and further relief as may be proper.

RESPECTFULLY SUBMITTED:

A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', written over a circular stamp or mark.

W. THOMAS KELLAHIN
KELLAHIN & KELLAHIN
706 Gonzales Road
Santa Fe, New Mexico 87501
(505) 982-4285

A.M. 88240

State of New Mexico
Energy, Minerals & Natural Resources Department

Form C-102

Revised June 10, 2003

ue, Artesia, N.M. 88210

Submit to Appropriate District Office

State Lease - 4 Copies

Fee Lease - 3 Copies

o Brazos Rd., Aztec, N.M. 87410

OIL CONSERVATION DIVISION
1220 South St. Francis Dr.
Santa Fe, NM 87505

AMENDED REPORT

DISTRICT IV
1220 South St. Francis Dr., Santa Fe, NM 87505

WELL LOCATION AND ACREAGE DEDICATION PLAT

¹ API Number		² Pool Code 77310/71629		³ Pool Name So. Gallegos Fr PC / Basin Fruitland Coal	
⁴ Property Code		⁵ Property Name GRACIA FEDERAL 181			⁶ Well Number
⁷ GRID No. 018118		⁸ Operator Name PRO NM ENERGY, INC.			⁹ Elevation 6103'

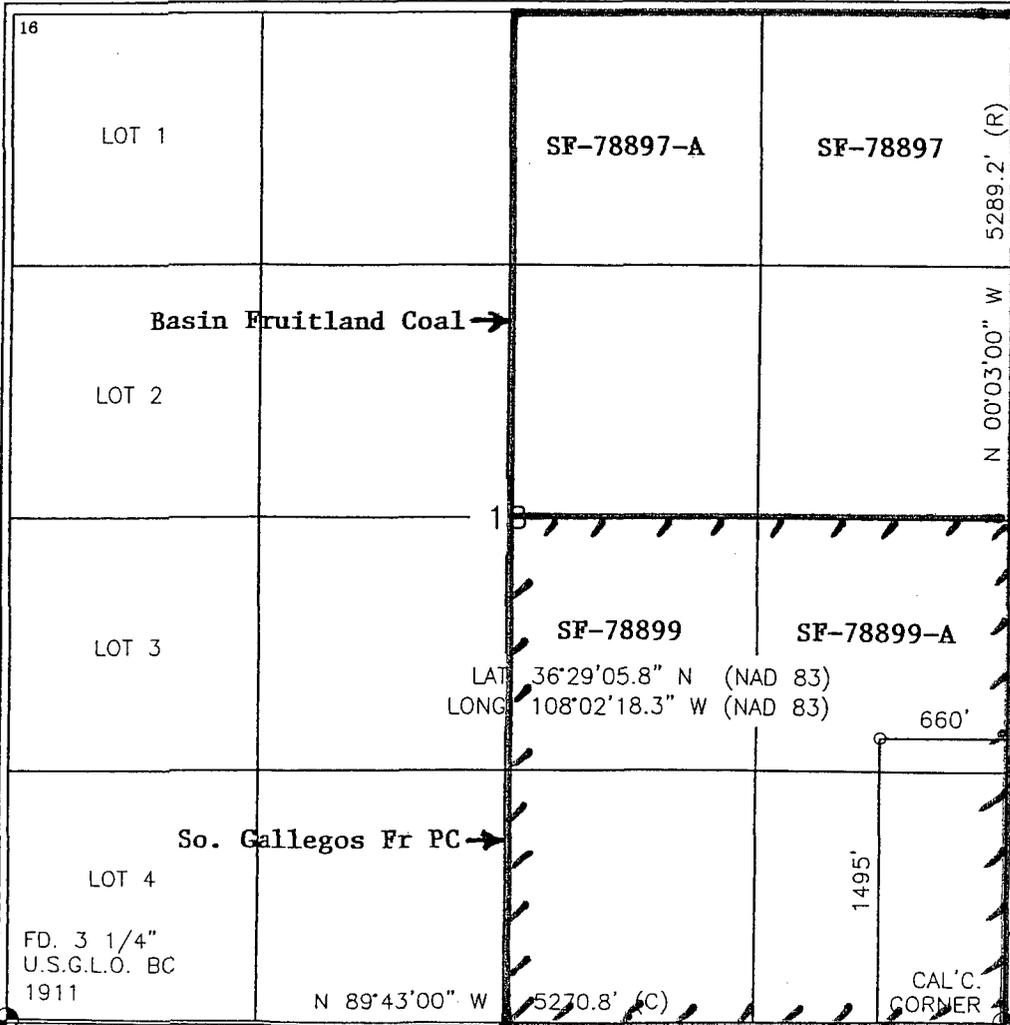
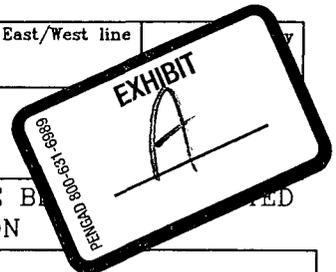
¹⁰ Surface Location

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
1	18	26-N	11-W		1495	SOUTH	660	EAST	SAN JUAN

¹¹ Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line
¹² Dedicated Acres 160 / 320			¹³ Joint or Infill N		¹⁴ Consolidation Code C		¹⁶ Order No.	

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN
OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION



17 OPERATOR CERTIFICATION
I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.

Dana L. Delventhal
Signature

Dana L. Delventhal
Printed Name

Agent
Title

01/26/05
Date

18 SURVEYOR CERTIFICATION

I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.

December 2, 2004
Date of Survey

Signature and Seal of Professional Surveyor:



Certificate Number

DISTRICT I
1625 N. French Dr., Hobbs, N.M. 88240

DISTRICT II
1301 W. Grand Ave., Artesia, N.M. 88210

DISTRICT III
1000 Rio Brazos Rd., Aztec, N.M. 87410

DISTRICT IV
1220 South St. Francis Dr., Santa Fe, NM 87505

State of New Mexico
Energy, Minerals & Natural Resources Department
OIL CONSERVATION DIVISION
1220 South St. Francis Dr.
Santa Fe, NM 87505

Form C-102
Revised October 12, 2005
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

2005 MAY 15 PM 12 22

AMENDED REPORT

RECEIVED

WELL LOCATION AND ACREAGE DEDICATION PLAT

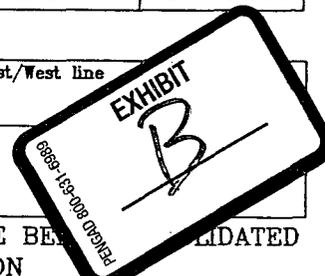
*API Number		*Pool Code 71629	*Pool Name Basin Fruitland Coal
*Property Code	*Property Name GRACIA FEDERAL 181		*Well Number 1S
*GRID No. 018118	*Operator Name PRO NEW MEXICO ENERGY		*Elevation 6100

¹⁰ Surface Location

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
B	18	26-N	11-W		730	NORTH	1495	EAST	SAN JUAN

¹¹ Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line
¹² Dedicated Acres 320			¹³ Joint or Infill Y		¹⁴ Consolidation Code C		¹⁵ Order No.	



NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN VALIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

16

FD 8" IRON PIPE IN FENCE	FD 2 1/2" BC 1965 BOR BM	N 89-49-11 W 2643.5' (C)	CALC'D COR. DBL. PROP
LOT 1	LAT. 36.49336° N. (NAD 83) LONG. 108.04123° W. (NAD 83)	730'	1495'
Basin Fruitland Coal		SF-78897-A	SF-78897
LOT 2			
		13	S 00-03-18 W 5289.1' (C)
LOT 3		SF-78899	SF-78899-A
LOT 4			
			CALC'D COR. DBL. PROP

¹⁷ OPERATOR CERTIFICATION

I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief, and that this organization either owns a working interest or unleased mineral interest in the land including the proposed bottom hole location or has a right to drill this well at this location pursuant to a contract with an owner of such a mineral or working interest, or to a voluntary pooling agreement or a compulsory pooling order heretofore entered by the division.

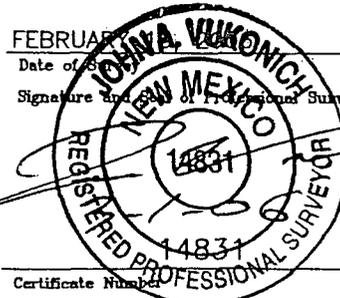
Dana J. Delventhal
Signature
5/12/06
Date

Dana L. Delventhal
Printed Name

¹⁸ SURVEYOR CERTIFICATION

I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.

FEBRUARY
Date of
Signature of Professional Surveyor



Certificate Number

Exhibit "C"

NOTICE LIST

Chevron USA, Inc.
1111 S. Wilcrest
Houston, TX 77099
Attn: Larry Angle