

STATE OF NEW MEXICO

**ENERGY, MINERALS AND NATURAL
RESOURCES DEPARTMENT**

OIL CONSERVATION

CASE #: 14304

EXHIBIT 2

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

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 14188
ORDER NO. R-13057

APPLICATION OF BURLINGTON RESOURCES OIL & GAS COMPANY LP
FOR COMPULSORY POOLING, SAN JUAN COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This case came for hearing at 8:15 a.m. on October 30, 2008, at Santa Fe, New Mexico, before Examiner Terry Warnell.

NOW, on this 20th day of November, 2008, the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of this case and of the subject matter.

(2) The applicant, Burlington Resources Oil & Gas Company LP ("applicant" or "Burlington"), seeks an order pooling all uncommitted interests from the surface to the base of the Dakota formation underlying the E/2 of Section 15, Township 31 North, Range 10 West, NMPM, San Juan County, New Mexico, in the following manner:

the E/2 forming a standard 318.86-acre gas spacing and proration unit for all Mesaverde formation pools spaced on 320 acres within this vertical extent, which presently include, but are not necessarily limited to the Blanco-Mesaverde Prorated Gas Pool (72319).

(3) The above-described unit ("the Unit") is to be dedicated to the applicant's Kelly A Well No. 3E, to be located at a standard gas well location for production from the Dakota and Mesaverde formations in Unit P of Section 15.

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(4) Two or more separately owned tracts are embraced within the above-described Unit, and/or there are royalty interests and/or undivided interests in oil and gas minerals in one or more tracts included in the Unit that are separately owned.

(5) Applicant is an owner of an oil and gas working interest within the Unit. Applicant has the right to drill and proposes to drill its Kelly A Well No. 3E to a common source of supply at a well location within the E/2 of Section 15 to a projected well depth of 7,625 feet.

(6) There are interest owners in the proposed Unit that have not agreed to pool their interests. However, all interest owners are locatable, and there are no title disputes.

(7) Counsel entered an appearance on behalf of Hope S. Kelly who is the recent trustee of the Lawrence B. Kelly Living Trust.

(8) Applicant appeared at the hearing and presented exhibits and testimony from an expert landman as follows.

(a) This spacing unit currently has two producing Mesaverde wells. The well proposed in this case will be the 3rd well in this Blanco-Mesaverde Prorated Gas Pool spacing and proration unit and will be drilled off an existing surface pad.

(b) The well proposed in this case will also be the first Dakota well in this E/2 of Section 15, Basin-Dakota Prorated Gas Pool spacing and proration unit.

(c) The Blanco-Mesaverde and the Basin-Dakota pools are pre-approved for downhole commingling within Division Rule 303C.

(d) Compulsory pooling is necessary in order to drill, complete, and produce the proposed well in the Mesaverde formation.

(e) The applicant has intentions to downhole commingle these formations (Blanco Mesaverde and Basin Dakota) within this wellbore and will apply for Division's downhole commingling approval.

(9) Burlington Resources Oil & Gas Company LP should be designated the operator of the proposed well and of the Unit.

(10) Applicant has split the AFE costs into a 40/60 split, with 40 percent of the costs allocated to the Mesaverde and 60 percent of the costs allocated to the Dakota. This proposed allocation will be fair and reasonable to the owners in both formations.

(11) Any pooled working interest owner who does not pay its share of estimated well costs should have withheld from production its share of reasonable well

costs plus an additional 200% thereof as a reasonable charge for the risk involved in drilling the well.

(12) Reasonable charges for supervision (combined fixed rates) should be fixed at \$6,500 per month while drilling and \$650 per month while producing, provided that these rates should be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations.*"

(13) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford to the owner of each interest in the Unit the opportunity to recover or receive without unnecessary expense its just and fair share of hydrocarbons, this application should be approved by pooling all uncommitted interests, whatever they may be, in the oil and gas within the Unit.

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Burlington Resources Oil & Gas Company LP ("applicant"), all uncommitted interests, whatever they may be, in the oil and gas in the Mesaverde formation underlying the E/2 of Section 15, Township 31 North, Range 10 West, NMPM, San Juan County, New Mexico, are hereby pooled as follows:

the E/2 forming a standard 320-acre gas spacing and proration unit for all formations or pools spaced on 320 acres within this vertical extent, which presently include, but are not necessarily limited to the Blanco-Mesaverde Prorated Gas Pool (72319).

The above-described unit ("the Unit") shall be dedicated to the applicant's Kelly A Well No. 3E, to be located at a standard gas well location 810 feet from the South line and 815 feet from the East line of Section 15.

(2) Burlington Resources Oil & Gas Company LP is hereby designated the operator of the proposed well and of the Unit.

(3) The operator of the Unit shall commence drilling the proposed well on or before February 28, 2009.

(4) In the event the operator does not commence drilling the proposed well on or before February 28, 2009, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause.

(5) Should the proposed well not be drilled and completed within 120 days after commencement thereof, Ordering Paragraph (1) shall be of no further effect, and the unit created by this Order shall terminate unless the operator appears before the Division Director and obtains an extension of time to complete the well for good cause demonstrated by satisfactory evidence.

(6) Upon final plugging and abandonment of the Kelly A Well No. 3E, the pooled unit created by this Order shall terminate, as well as any other well drilled pursuant to Rule 36, unless this order has been amended to authorize further operations.

(7) After pooling, uncommitted working interest owners are referred to as pooled working interest owners. ("Pooled working interest owners" are owners of working interests in the Unit, including unleased mineral interests, who are not parties to an operating agreement governing the Unit.) After the effective date of this order, the operator shall furnish the Division and each known pooled working interest owner in the Unit an itemized schedule of estimated costs of drilling, completing and equipping the proposed well ("well costs").

(8) Within 30 days from the date the schedule of estimated well costs is furnished, any pooled working interest owner shall have the right to pay its share of estimated well costs to the operator in lieu of paying its share of reasonable well costs out of production as hereinafter provided, and any such owner who pays its share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges. Pooled working interest owners who elect not to pay their share of estimated well costs as provided in this paragraph shall thereafter be referred to as "non-consenting working interest owners."

(9) The operator shall furnish the Division and each known pooled working interest owner (including non-consenting working interest owners) an itemized schedule of actual well costs within 90 days following completion of the proposed well. If no objection to the actual well costs is received by the Division, and the Division has not objected within 45 days following receipt of the schedule, the actual well costs shall be deemed to be the reasonable well costs. If there is an objection to actual well costs within the 45-day period, the Division will determine reasonable well costs after public notice and hearing.

(10) Within 60 days following determination of reasonable well costs, any pooled working interest owner who has paid its share of estimated costs in advance as provided above shall pay to the operator its share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator the amount, if any, that the estimated well costs it has paid exceed its share of reasonable well costs.

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

- (a) the proportionate share of reasonable well costs attributable to each non-consenting working interest owner; and
- (b) as a charge for the risk involved in drilling the well, 200% of the above costs.

(12) The operator shall distribute the costs and charges withheld from production, proportionately, to the parties who advanced the well costs.

(13) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$6,500 per month while drilling and \$650 per month while producing, provided that these rates shall be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "Accounting Procedure-Joint Operations." The operator is authorized to withhold from production the proportionate share of both the supervision charges and the actual expenditures required for operating the well, not in excess of what are reasonable, attributable to pooled working interest owners.

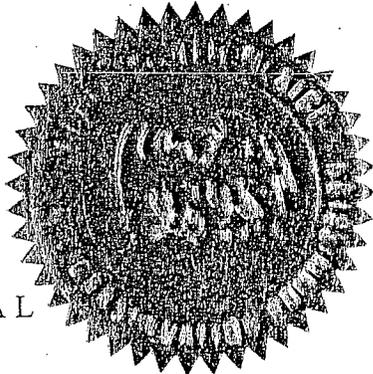
(14) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working interests' share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(15) Should all the parties to this compulsory pooling order reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(16) The operator of the well and Unit shall notify the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

(17) Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

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



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STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in black ink, appearing to read "Mark E. Fesmire".

MARK E. FESMIRE, P.E.
Director