

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:

Before the Oil Conservation Division
Case 14498
Hearing July 8, 2010
San Juan Resources
Exhibit No. 3

CASE NO. 14179
ORDER NO. R-13053

APPLICATION OF SAN JUAN RESOURCES, INC. FOR AN UNORTHODOX
GAS WELL LOCATION, SAN JUAN COUNTY, NEW MEXICO

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on October 2, 2008, at Santa Fe, New Mexico, before Examiners William V. Jones and David K. Brooks.

NOW, on this 18th day of November, 2008, the Division Director, having considered the testimony, the record, and the recommendations of the Examiners,

FINDS THAT:

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

(2) On July 17, 2008, the Division received an administrative application from San Juan Resources, Inc. ("San Juan Resources") seeking approval to drill its Blancett Ranch "24" Well No. 1 (API No. 30-045-33769) at an unorthodox gas well location 2435 feet from the North line and 450 feet from the East line (Unit H) of Section 24, Township 30 North, Range 12 West, NMPM, San Juan County, New Mexico, to test the Basin-Dakota (Prorated Gas) (71599) and Blanco-Mesaverde (Prorated Gas) (72319) Pools. The E/2 of Section 24 is to be dedicated to the subject well forming a standard 320-acre gas spacing and proration unit for both pools.

(3) On July 28, 2008, the Division received an objection to the application from Mr. A.D. Mammel, a working interest owner in an affected Dakota spacing and proration unit consisting of the S/2 of Section 19, which is also operated by San Juan Resources, Inc. Mr. Mammel expressed concerns that the Kaempf Well No. 1, an

existing Dakota gas well located in Unit N of Section 19, would be drained by the proposed well.

(4) The subject application was subsequently set for hearing before a Division examiner and Mr. A.D. Mammel was provided notice of the hearing by San Juan Resources.

(5) On September 29, 2008, the landowner of the proposed well-site sent a letter of support for this unorthodox surface location and stated the following: "we appreciate San Juan Resources working with us in obtaining the location away from our fields."

(6) San Juan Resources appeared at the hearing and presented testimony from a landman and engineer. Mr. A.D. Mammel did not appear at the hearing or provide further written comments or concerns. No other party appeared or otherwise opposed granting of the application in this case.

(7) The proposed well is to be downhole commingled and is located within the Basin-Dakota (Prorated Gas) and the Blanco-Mesaverde (Prorated Gas) Pools. Both of these pools are governed by special pool rules that require wells to be located no closer than 660 feet to the outer boundary of the proration unit or 10 feet to any interior quarter section, quarter-quarter section line, or subdivision inner boundary.

(8) San Juan Resources presented evidence indicating that:

(a) The proposed unorthodox location, only 450 feet from the East line, is 210 feet closer than allowed in the Special Pool Rules. This vertical well location is considered to be necessary based on topographic and landowner considerations. There is difficult topography in the SE/4 of Section 24 and there are farm fields in the NE/4 of Section 24.

(b) The Blancett Ranch "24" Well No. 1 will be the first well completed in either the Mesaverde or in the Dakota formations within the E/2 of Section 24.

(c) A deviated (S-Shaped) well was ruled out by San Juan Resources because of the estimated low production rates, increased costs, and lower economic return on investment.

(d) San Juan Resources wishes to first drill this vertical well at this location to test productive capability of both the Mesaverde and the Dakota. If justified, it will consider drilling an additional well located in the SE/4 of Section 24; either a vertical well or a deviated well from an expanded surface pad.

(e) San Juan Resources is also the operator of the Mesaverde and Dakota production in Section 19. Section 19 consists of two lay-down, 320-acre

spacing and proration units, both of which are "affected" by the proposed unorthodox location. Notice of the original application was provided to the working interest owners in these affected spacing units.

(f) The cumulative and projected gas recovery from the two target formations in Section 19, directly to the east, is much less than volumetric gas calculations indicate it should be. Therefore additional wells may be needed to produce these undeveloped reserves.

(g) The large volumetric gas-in-place numbers as well as the large undrilled acreage in the W/2 of Section 19, indicate this may be an optimum well location to recover reserves which would not otherwise be recovered. In addition, this well will help evaluate the W/2 of Section 19, where more wells may then be justified.

(h) Each of the spacing and proration units in Section 19 has two wells. The two wells in the S/2 spacing unit are only completed in the Dakota formation. The two wells in the N/2 spacing unit are completed in both Mesaverde and Dakota formations.

(i) Mr. Mammel owns approximately 8.7 percent working interest in the S/2 of Section 19 but does not own an interest in the E/2 of Section 24 or in the N/2 of Section 19 – See Applicant's Exhibit #7.

(j) The proposed well and the Kaempf Well No. 1 are almost 2700 feet apart. Volumetric and decline calculations indicate the Kaempf Well No. 1 will never drain a large area. Therefore, it can be concluded that the proposed unorthodox well location will likely not affect the remaining reserves in the Kaempf Well No. 1.

(9) Adequate notice has been provided and sufficient evidence presented to show that the unorthodox well location is necessary and will not violate correlative rights.

(10) Approval of the subject application will provide San Juan Resources the opportunity to recover additional gas reserves within the Basin-Dakota (Prorated Gas) and Blanco-Mesaverde (Prorated Gas) Pools within the E/2 of Section 24, preventing waste and protecting correlative rights.

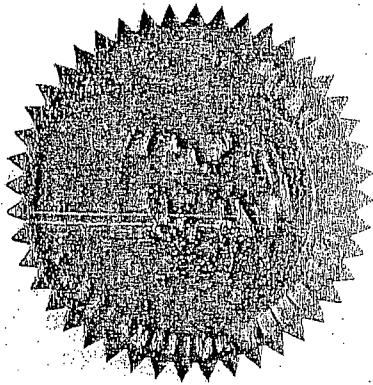
IT IS THEREFORE ORDERED THAT:

(1) The applicant, San Juan Resources, Inc., is hereby authorized to drill its Blancett Ranch "24" Well No. 1 (API No. 30-045-33769) at an unorthodox gas well location 2435 feet from the North line and 450 feet from the East line (Unit H) of Section 24, Township 30 North, Range 12 West, NMPM, San Juan County, New Mexico, to test both the Dakota and Mesaverde formations; Basin-Dakota (Prorated Gas) (71599) and Blanco-Mesaverde (Prorated Gas) (72319) Pools.

(2) The E/2 of Section 24 shall be dedicated to the subject well forming a standard 320-acre gas spacing and proration unit for both pools.

(3) Jurisdiction is hereby 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 dark ink, appearing to read "Mark E. Fesmire".

MARK E. FESMIRE, P.E.
Director