

CASE 6936: DUGAN PRODUCTION CORPORATION *tw*
FOR COMPULSORY POOLING, SAN JUAN COUNTY,
NEW MEXICO

CASE NO.

6936

APPLICATION,
TRANSCRIPTS,
SMALL EXHIBITS,
ETC.



STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

BRUCE KING
GOVERNOR
LARRY KEHOE
SECRETARY

September 15, 1980

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87501
(505) 827-2434

Dugan Production Company
P. O. Box 208
Farmington, New Mexico 87401

Attention: Mr. Tommy Roberts

Gentlemen:

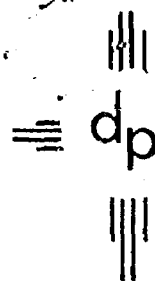
The time for commencing drilling of the required well in Order No. R-6397 is extended from October 1, 1980, to November 1, 1980.

It is my understanding that this extension is necessitated by drilling rig shortages.

Very truly yours,

JOE D. RAMEY,
Director

JDR/dr



dugan production corp.

September 11, 1980

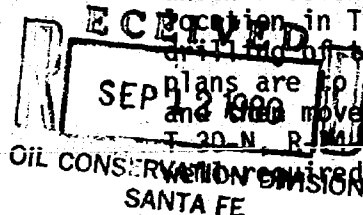
Joe D. Ramey, Director
State of New Mexico
Energy and Minerals Department
Oil Conservation Division
P.O. Box 2088
State Land Office Building
Santa Fe, New Mexico 87501

Re: Case #6936
Order #R-6397
Horace Smith #1-R Well

Dear Mr. Ramey:

Pursuant to the terms and provisions of Oil Conservation Division Order #R-6397, Dugan Production Corporation is obligated to commence the drilling of a well at a standard location within a force-pooled 320 acre gas proration unit on or before October 1, 1980. However, due to rig availability problems and other drilling commitments, Dugan Production Corporation will be unable to comply with this drilling deadline.

Specifically, Dugan is committed to commence the drilling of a Dakota test well under the terms of a farmout agreement on or before October 1, 1980. Dugan Production has already received two extensions of the drilling deadline for the farmout test well. The rig which will be used to drill the farmout test well is presently drilling a Dakota well in T-24-N, R-5-W, Rio Arriba County. We anticipate the rig will be tied up on this well for another seven days, at which time the rig will be moved to a location in T-24-N, R-10-W, San Juan County, to commence the drilling of the farmout test well, mentioned above. Our present plans are to complete the drilling of the well in T-24-N, R-10-W, and then move the rig to a location in the S/2 of Section 26, T-20-N, R-10-W, San Juan County, to commence the drilling of the well required by Division Order #R-6397.



Joe D. Ramey
September 11, 1980
Page Two

Therefore, based upon the circumstances outlined above, Dugan Production Corporation is requesting a thirty day extension, from October 1, 1980, in which to commence the drilling of the well required by Division Order #R-6397. An extension of thirty days will allow sufficient time to satisfy current drilling obligations. In addition, such an extension resolves the problem of rig availability.

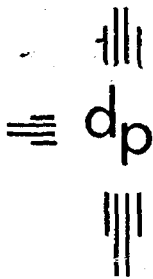
Please consider this request at your earliest convenience and advise of your ruling. Please advise should you require any additional information.

Sincerely,

Tommy Roberts

Tommy Roberts
General Counsel

TR:nw



dugan production corp.

July 28, 1980



New Mexico Oil Conservation Division
P.O. Box 2088
Santa Fe, NM 87501

Attn: Joe D. Ramey, Director

Re: Horace Smith #1-R Well
1640' FSL - 1120' FEL
Sec. 26, T-30-N, R-14-W, NMPM
San Juan County, New Mexico

RLL

Case 6936

Gentlemen:

In accordance with Order #R-6397 entered by the New Mexico Oil Conservation Division effective July 22, 1980, enclosed please find one copy of our AFE for the drilling and completion of the above referenced well.

Feel free to contact me should you have any questions regarding this matter.

Sincerely,

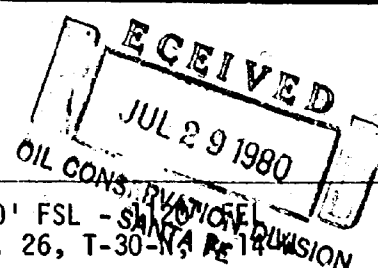
Tommy Roberts

Tommy Roberts
Landman

TR:nw

Enclosure

DUGAN PRODUCTION CORP.

WELL COST: Final ☐ Estimate ☒

WELL NAME: Horace Smith #1-R

LOCATION: 1640' FSL - SAKON
Sec. 26, T-30-N4-R14 DIVISION

PROPOSAL: Drill and Complete Dakota replacement well

| | | | | | | |
|----------------------|-------------------------------------|------------------------------|------|--------------------|--------------------|-----------|
| TANGIBLE | Surface casing | 300 | ft | 8-5/8 | inch @ \$ 9.00 /ft | \$ 2700 |
| | Production casing | 6100 | ft | 4-1/2 | inch @ \$ 4.85 /ft | 29585 |
| | | | ft | | inch @ \$ /ft | |
| | Tubing | 6100 | ft | 1-1/2 | inch @ \$ 2.25 /ft | 13725 |
| | | | ft | | inch @ \$ /ft | |
| | Permanent packer & tubing equipment | | | | | 200 |
| | Wellhead equipment | | | | | 9000 |
| | Additional valves & fittings | | | | | 2000 |
| | Surface & production equipment | | | | | 18000 |
| | | | | | | |
| TOTAL TANGIBLES | | | | | | \$ 75210 |
| INTANGIBLE | Location | Survey | | | | 100 |
| | | Archeologist | | | | 100 |
| | | Road & location construction | | | | 3000 |
| | | Water and gas lines | | | | |
| | Drilling | Footage | 6100 | ft @ \$ 11.00/ft | | 67100 |
| | | Day work | | hrs @ \$ /hr | | |
| | | Day work | 12 | hrs @ \$ 175.00/hr | | 2100 |
| | | Drill stem test & cores | | | | ---- |
| | | Mud logging | | | | ---- |
| | | Open hole logging | | | | 8000 |
| | | Rental tools | | | | 1000 |
| | | Casing float equipment | | | | 1500 |
| | | Trucking | | | | 1000 |
| | | Mud | | | | 6500 |
| | | Water | | | | 6500 |
| | | | | | | |
| | Cementing | Surface casing | | | | 2000 |
| | | Production casing | | | | 12000 |
| | Completion | Completion rig | | | | 6000 |
| | | Perforating | | | | 3500 |
| | | Acidizing | | | | 1500 |
| | | Fracturing | | | | 36000 |
| | | Tank rental | | | | 1500 |
| | | Trucking | | | | 2000 |
| | | Water | | | | 2500 |
| | | Rental tools | | | | 2000 |
| | | Clean up location | | | | 2000 |
| | Supervision | Administrative | | | | 2000 |
| | | Legal | | | | |
| | | Field | | | | 6000 |
| TOTAL INTANGIBLES | | | | | | \$ 175900 |
| Plus 5 % Contingency | | | | | | 8795 |
| TOTAL WELL COST | | | | | | \$ 259905 |

| | | | |
|-------------|---------------------|--------------------|--|
| Date | 7/28/80 | Partner's Approval | |
| Prepared By | Thomas A. Dugan | Date | |
| Approved By | <i>Jim L. Dugan</i> | By | |



BRUCE KING
GOVERNOR
LARRY KEHOE
SECRETARY

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87501
(505) 827-2434

Mr. Tommy Roberts, Attorney
Dugan Production Corporation
P. O. Box 208
Farmington, New Mexico 87401

Re: CASE NO. 6936
ORDER NO. R-6397

Applicant:

Dugan Production Corporation

Dear Sir:

Enclosed herewith are two copies of the above-referenced
Division order recently entered in the subject case.

Yours very truly,


JOE D. RAMEY
Director

JDR/fd

Copy of order also sent to:

Hobbs OCD x
Artesia OCD x
Aztec OCD x

Other _____

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

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

CASE NO. 6936
Order No. R-6397

APPLICATION OF DUGAN PRODUCTION
CORPORATION FOR COMPULSORY POOLING,
SAN JUAN COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on June 25, 1980,
at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 22nd day of July, 1980, the Division
Director, having considered the testimony, the record, and the
recommendations of the Examiner, and being fully advised in the
premises,

FINDS:

(1) That due public notice having been given as required
by law, the Division has jurisdiction of this cause and the
subject matter thereof.

(2) That the applicant, Dugan Production Corporation,
seeks an order pooling all mineral interests in the Dakota
formation underlying the S/2 of Section 26, Township 30 North,
Range 14 West, NMPM, Basin-Dakota Pool, San Juan County, New
Mexico.

(3) That the applicant has the right to drill and pro-
poses to drill a well at a standard location thereon.

(4) That there are interest owners in the proposed pro-
ration unit who have not agreed to pool their interests.

(5) That to avoid the drilling of unnecessary wells, to
protect correlative rights, and to afford to the owner of each
interest in said unit the opportunity to recover or receive
without unnecessary expense his just and fair share of the gas
in said pool, the subject application should be approved by
pooling all mineral interests, whatever they may be, within
said unit.

Case No. 6936
Order No. R-6397

(6) That the applicant should be designated the operator of the subject well and unit.

(7) That any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(8) That any non-consenting working interest owner who does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(9) That any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but that actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(10) That following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(11) That \$3500.00 per month while drilling and \$350.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(12) That all proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(13) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before October 1, 1980, the order pooling said unit should become null and void and of no effect whatsoever.

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Case No. 6936
Order No. R-6397

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Dakota formation underlying the S/2 of Section 26, Township 30 North, Range 14 West, NMPM, Basin-Dakota Pool, San Juan County, New Mexico, are hereby pooled to form a standard 320-acre gas spacing and proration unit to be dedicated to a well to be drilled at a standard location thereon.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the 1st day of October, 1980, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Dakota formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 1st day of October, 1980, Order (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

PROVIDED FURTHER, that should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Order (1) of this order should not be rescinded.

(2) That Dugan Production Corporation is hereby designated the operator of the subject well and unit.

(3) That after the effective date of this order and within 90 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(4) That within 30 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and that any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(5) That the operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; that if

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Case No. 6936
Order No. R-6397

no objection to the actual well costs is received by the Division and the Division has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, that if there is an objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(6) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

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

- (A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.
- (B) As a charge for the risk involved in the drilling of the well, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(8) That the operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(9) That \$3500.00 per month while drilling and \$350.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate

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Case No. 6936
Order No. R-6397

share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

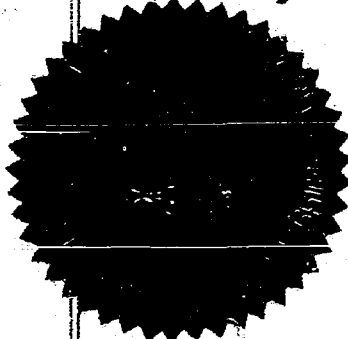
(10) That any unsevered mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(11) That any well costs or charges which 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.

(12) That all proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in San Juan County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

(13) That jurisdiction of this cause 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.



S E A L

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


JOE D. RAMEY
Director

fd/

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
25 June 1980

EXAMINER HEARING

IN THE MATTER OF:

Application of Dugan Production Corpora-) CASE
tion for compulsory pooling, San Juan) 6936
County, New Mexico.)

BEFORE: Richard L. Stamets

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation Division: Ernest L. Padilla, Esq.
Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant: Tommy Roberts, Esq.
General Counsel
Dugan Production Corporation
Farmington, New Mexico

SALLY W. BOYD, C.S.R.
Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

I N D E X

THOMAS A. DUGAN

Direct Examination by Mr. Roberts

3

E X H I B I T S

Applicant Exhibit One, Plat

4

Applicant Exhibit Two, Letter

4

Applicant Exhibit Three, Letter

5

Applicant Exhibit Four, Cost Estimate

5

Applicant Exhibit Five, Log

6

Applicant Exhibit Six, Decline Curve

6

Applicant Exhibit Seven, Map

7

Applicant Exhibit Eight, Document

7

SALLY W. BOYD, C.S.R.

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Santa Fe, New Mexico 87501
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SALLY W. BOYD, C.S.R.
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Santa Fe, New Mexico 87501
Phone (505) 455-7409

1 MR. STAMETS: We'll call next Case 6936.

2 MR. PADILLA: Application of Dugan Pro-
3 duction Corporation for compulsory pooling, San Juan County,
4 New Mexico.

5 MR. STAMETS: We'll call for appearances
6 in this case.

7 MR. ROBERTS: Tommy Roberts, General
8 Counsel for Dugan Production Corporation, and I have one wit-
9 ness.

10 MR. STAMETS: Okay, is this the same
11 witness that was qualified and sworn in the last case?

12 MR. ROBERTS: Yes.

13 MR. STAMETS: Okay, he is considered
14 qualified and sworn in this case.

15
16 THOMAS A. DUGAN
17 being called as a witness and having been duly sworn previously
18 upon his oath, testified as follows, to-wit:

19
20 DIRECT EXAMINATION

21 BY MR. ROBERTS:

22 Q Mr. Dugan, are you familiar with the
23 application in this matter?

24 A Yes, I am. Dugan Production Corporation
25 is seeking to force pool the rights as pertain to the Dakota

1 formation in the south half of Section 26, Township 30 North,
2 Range 14 West, San Juan County, New Mexico.

3 Q Please refer to what's been marked as
4 Exhibit One and identify it and explain its contents.

5 A Okay, this is a survey plat, showing the
6 location of the proposed well, which is to be called the
7 Horace Smith 1-R Well.

8 It's located 1640 feet from the south
9 line and 1120 feet from the east line of Section 26, Township
10 30 North, Range 14 West, San Juan County, New Mexico. There
11 are four different leases involved in the proration unit.
12 The southeast quarter of -- the south half of the southeast
13 quarter is a fee lease that is leased to Dugan Production
14 Corporation.

15 The north half of the southeast quarter
16 is a Federal lease that is leased to Dugan Production Corpora-
17 tion.

18 The north half of the southwest quarter
19 is a different Federal lease that Dugan Production Corpora-
20 tion has under lease.

21 And the south half of the southwest quart-
22 er is a Federal lease that Amoco has under lease.

23 Q Please refer to Exhibit Number Two and
24 identify that exhibit, please.

25 A Okay. This is a letter written by Dugan

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

SALLY W. BOYD, C.S.R.

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Santa Fe, New Mexico 87501
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1 Production Corporation to Amoco Production Company in Denver,
2 and addressed to B. F. Crockow (sic), and in the letter we
3 are asking if Amoco would join Dugan Production Corporation
4 in the drilling of the Horace Smith 1-R Well, and if they
5 chose not to join, we asked that they farm out their 80 acres.

6 Q Please refer to what's been marked as
7 Exhibit Number Three and identify that exhibit.

8 A This is a reply from Amoco Production
9 Company from R. J. -- I guess A. M. Romey.

10 Q I think that's Roney.

11 A Roney, excuse me. In the letter they
12 say -- I'll read to you paragraph number two: After careful
13 examination -- after carefully examining our alternatives,
14 we regret to inform you that neither of these proposals is
15 acceptable to us at this time. We therefor elect to be
16 force pooled in the subject well.

17 We are returning your AFE unsigned for
18 this reason.

19 They also go on to tell us what to do in
20 case we plug the well and so I would say -- they also give
21 some instructions of what to do in case the -- when the well
22 is completed.

23 So I would say that they weren't too en-
24 thused about the prospect.

25 Q Please refer to Exhibit Number Four and

1 explain its significance.

2 A. Okay, this is Dugan Production Corporation's
3 cost estimate that was sent along with Exhibit Number Two,
4 our letter to Amoco. It indicates that the Horace Smith 1-R
5 Well would cost a total of \$259,905. \$75,210 of this would
6 be tangible costs.

7 Q. Based upon your experience in drilling of
8 this type of well to this depth, is it your opinion that this
9 is a reasonable estimate of the cost for drilling such a
10 well?

11 A. Yes, I'd say it was reasonable and pro-
12 bably considerably less than a typical Amoco cost estimate
13 for a well -- similar well.

14 Q. Please refer to Exhibit Number Five and
15 identify that exhibit.

16 A. This is an induction electric log of the
17 Horace Smith No. 1 Well, which is located in the same quarter
18 section as our proposed Horace Smith 1-R well, and it shows
19 the Dakota horizon along with the heading on the log.

20 Q. And what is the significance of this?

21 A. Well, it shows that there are some Dakota
22 sands, that they aren't the greatest in the world, but it
23 will probably be a well of some small IP.

24 Q. Would you please refer to Exhibit Number
25 Six and identify that exhibit?

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
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1 A Okay. This is a decline curve on the
2 Horace Smith No. 1 Well. It would indicate that this well
3 was first produced in 1965 and produced through 1972. It
4 produced an average of 1500 Mcf a month. In 1972 the well
5 got a hole in the casing. The operator at that time chose
6 to plug the well rather than repair the hole in the casing.

7 The Horace Smith No. 1 Well was finally
8 abandoned in October of 1977.

9 Q Please refer to Exhibit Number Seven and
10 identify that exhibit.

11 A This is a map showing other Dakota wells
12 in the area of the Horace Smith 1-R Well. It shows that
13 the well is on the west side of the Basin Dakota Pool.
14 It's an edge well. And that -- this also shows the pro-
15 duction, cumulative production and last year's production
16 from the wells in this -- in Township 30 North, 14 West.

17 Q Okay, and what conclusions can you draw
18 from the information illustrated in this exhibit?

19 A Well, here again, that shows that the
20 Horace Smith 1-R is an adge well in the Basin Dakota Pool
21 and that there aren't really any outstanding wells in this
22 immediate vicinity.

23 Q Please refer to Exhibit Number Eight
24 and identify that exhibit.

25 A This is page three of Exhibit C of the

1 standard COPAS operating agreement and it is -- shows what
2 we propose as the overhead rate.

3 Q Okay, what are those charges for super-
4 vision overhead?

5 A We propose \$3500 per month while drilling
6 and \$350 per month while producing.

7 Q Mr. Dugan, do you propose to be the
8 operator of this well?

9 A Yes.

10 Q Have you had an opportunity to evaluate
11 the risk factor involved in drilling this well?

12 A Well, the -- it's quite obvious that
13 you'll make a small Dakota well, so the only risk involved
14 is get your money back, and I'd say that risk is quite high.

15 Q And what risk do you seek to obtain?

16 A I would propose that we receive our
17 money back plus 200 percent.

18 Q To what factors have you evaluated in
19 seeking -- arriving at that recovery factor?

20 A Well, because of the low expected pro-
21 ductivity of the well and high interest rates. I think the
22 estimated payout of the well will be about eight years.
23 So you'd need to get an equitable return on your money,
24 you'd need at least 300 percent factor. A 300 percent total
25 factor, or your money back plus 200 percent in addition.

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B

Santa Fe, New Mexico 87501

Phone (505) 455-7409

1 Q Mr. Dugan, were Exhibits One through
2 Eight either prepared by you or at your direction and under
3 your supervision?

4 A Yes.

5 MR. ROBERTS: Move for admission of
6 Exhibits One through Eight.

7 Q In your professional opinion will the
8 force pooling of the mineral interests underlying the south
9 half of Section 26, Township 30 North, Range 14 West, ap-
10 plicable to the Dakota formation, result in the recovery
11 of additional hydrocarbons, prevention of waste and pro-
12 tection of correlative rights?

13 A Yes.

14 MR. ROBERTS: I have no other questions.

15 MR. STAMETS: Any questions of this
16 witness? He may be excused.

17 Anything further in this case?

18 The case will be taken under advisement.
19
20
21
22
23
24
25

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing Transcript of Hearing before the Oil Conservation Division was reported by me; that the said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 6936.
heard by me on 6-25 1980.
Richard P. Hunt Examiner
Oil Conservation Division

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
25 June 1980

EXAMINER HEARING

IN THE MATTER OF:

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County, New Mexico.)

BEFORE: Richard L. Stamets

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation Division: Ernest L. Padilla, Esq.
Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant: Tommy Roberts, Esq.
General Counsel
Dugan Production Corporation
Farmington, New Mexico

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I N D E X

THOMAS A. DUGAN

Direct Examination by Mr. Roberts

3

E X H I B I T S

Applicant Exhibit One, Plat

4

Applicant Exhibit Two, Letter

4

Applicant Exhibit Three, Letter

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Applicant Exhibit Four, Cost Estimate

5

Applicant Exhibit Five, Log

6

Applicant Exhibit Six, Decline Curve

6

Applicant Exhibit Seven, Map

7

Applicant Exhibit Eight, Document

7

SALLY W. BOYD, C.S.R.

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Phone (505) 455-7409

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MR. STAMETS: We'll call next Case 6936.

MR. PADILLA: Application of Dugan Production Corporation for compulsory pooling, San Juan County, New Mexico.

MR. STAMETS: We'll call for appearances in this case.

MR. ROBERTS: Tommy Roberts, General Counsel for Dugan Production Corporation, and I have one witness.

MR. STAMETS: Okay, is this the same witness that was qualified and sworn in the last case?

MR. ROBERTS: Yes.

MR. STAMETS: Okay, he is considered qualified and sworn in this case.

THOMAS A. DUGAN
being called as a witness and having been duly sworn previously upon his oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. ROBERTS:

Q Mr. Dugan, are you familiar with the application in this matter?

A Yes, I am. Dugan Production Corporation is seeking to force pool the rights as pertain to the Dakota

1 formation in the south half of Section 26, Township 30 North,
2 Range 14 West, San Juan County, New Mexico.

3 Q Please refer to what's been marked as
4 Exhibit One and identify it and explain its contents.

5 A Okay, this is a survey plat, showing the
6 location of the proposed well, which is to be called the
7 Horace Smith 1-R Well.

8 It's located 1640 feet from the south
9 line and 1120 feet from the east line of Section 26, Township
10 30 North, Range 14 West, San Juan County, New Mexico. There
11 are four different leases involved in the proration unit.
12 The southeast quarter of -- the south half of the southeast
13 quarter is a fee lease that is leased to Dugan Production
14 Corporation.

15 The north half of the southeast quarter
16 is a Federal lease that is leased to Dugan Production Corpor-
17 ation.

18 The north half of the southwest quarter
19 is a different Federal lease that Dugan Production Corpora-
20 tion has under lease.

21 And the south half of the southwest quart-
22 er is a Federal lease that Amoco has under lease.

23 Q Please refer to Exhibit Number Two and
24 identify that exhibit, please.

25 A Okay. This is a letter written by Dugan

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1 Production Corporation to Amoco Production Company in Denver,
2 and addressed to B. F. Crockow (sic), and in the letter we
3 are asking if Amoco would join Dugan Production Corporation
4 in the drilling of the Horace Smith 1-R Well, and if they
5 chose not to join, we asked that they farm out their 80 acres.

6 Q Please refer to what's been marked as
7 Exhibit Number Three and identify that exhibit.

8 A This is a reply from Amoco Production
9 Company from R. J. -- I guess A. M. Roney.

10 Q I think that's Roney.

11 A Roney, excuse me. In the letter they
12 say -- I'll read to you paragraph number two: After careful
13 examination -- after carefully examining our alternatives,
14 we regret to inform you that neither of these proposals is
15 acceptable to us at this time. We therefor elect to be
16 force pooled in the subject well.

17 We are returning your AFE unsigned for
18 this reason.

19 They also go on to tell us what to do in
20 case we plug the well and so I would say -- they also give
21 some instructions of what to do in case the -- when the well
22 is completed.

23 So I would say that they weren't too en-
24 thused about the prospect.

25 Q Please refer to Exhibit Number Four and

1 explain its significance.

2 A Okay, this is Dugan Production Corporation's
3 cost estimate that was sent along with Exhibit Number Two,
4 our letter to Amoco. It indicates that the Horace Smith 1-R
5 Well would cost a total of \$259,905. \$75,210 of this would
6 be tangible costs.

7 Q Based upon your experience in drilling of
8 this type of well to this depth, is it your opinion that this
9 is a reasonable estimate of the cost for drilling such a
10 well?

11 A Yes, I'd say it was reasonable and pro-
12 bably considerably less than a typical Amoco cost estimate
13 for a well -- similar well.

14 Q Please refer to Exhibit Number Five and
15 identify that exhibit.

16 A This is an induction electric log of the
17 Horace Smith No. 1 Well, which is located in the same quarter
18 section as our proposed Horace Smith 1-R well, and it shows
19 the Dakota horizon along with the heading on the log.

20 Q And what is the significance of this?

21 A Well, it shows that there are some Dakota
22 sands, that they aren't the greatest in the world, but it
23 will probably be a well of some small IP.

24 Q Would you please refer to Exhibit Number
25 Six and identify that exhibit?

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1 A Okay. This is a decline curve on the
2 Horace Smith No. 1 Well. It would indicate that this well
3 was first produced in 1965 and produced through 1972. It
4 produced an average of 1500 Mcf a month. In 1972 the well
5 got a hole in the casing. The operator at that time chose
6 to plug the well rather than repair the hole in the casing.

7 The Horace Smith No. 1 Well was finally
8 abandoned in October of 1977.

9 Q Please refer to Exhibit Number Seven and
10 identify that exhibit.

11 A This is a map showing other Dakota wells
12 in the area of the Horace Smith 1-R Well. It shows that
13 the well is on the west side of the Basin Dakota Pool.
14 It's an edge well. And that -- this also shows the pro-
15 duction, cumulative production and last year's production
16 from the wells in this -- in Township 30 North, 14 West.

17 Q Okay, and what conclusions can you draw
18 from the information illustrated in this exhibit?

19 A Well, here again, that shows that the
20 Horace Smith 1-R is an edge well in the Basin Dakota Pool
21 and that there aren't really any outstanding wells in this
22 immediate vicinity.

23 Q Please refer to Exhibit Number Eight
24 and identify that exhibit.

25 A This is page three of Exhibit C of the

1 standard COPAS operating agreement and it is -- shows what
2 we propose as the overhead rate.

3 Q Okay, what are those charges for super-
4 vision overhead?

5 A We propose \$3500 per month while drilling
6 and \$350 per month while producing.

7 Q Mr. Dugan, do you propose to be the
8 operator of this well?

9 A Yes.

10 Q Have you had an opportunity to evaluate
11 the risk factor involved in drilling this well?

12 A Well, the -- it's quite obvious that
13 you'll make a small Dakota well, so the only risk involved
14 is get your money back, and I'd say that risk is quite high.

15 Q And what risk do you seek to obtain?

16 A I would propose that we receive our
17 money back plus 200 percent.

18 Q To what factors have you evaluated in
19 seeking -- arriving at that recovery factor?

20 A Well, because of the low expected pro-
21 ductivity of the well and high interest rates. I think the
22 estimated payout of the well will be about eight years.
23 So you'd need to get an equitable return on your money,
24 you'd need at least 300 percent factor. A 300 percent total
25 factor, or your money back plus 200 percent in addition.

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1 Q Mr. Dugan, were Exhibits One through
2 Eight either prepared by you or at your direction and under
3 your supervision?
4 A Yes.
5 MR. ROBERTS: Move for admission of
6 Exhibits One through Eight.
7 Q In your professional opinion will the
8 force pooling of the mineral interests underlying the south
9 half of Section 26, Township 30 North, Range 14 West, ap-
10 plicable to the Dakota formation, result in the recovery
11 of additional hydrocarbons, prevention of waste and pro-
12 tection of correlative rights?
13 A Yes.
14 MR. ROBERTS: I have no other questions.
15 MR. STAMETS: Any questions of this
16 witness? He may be excused.
17 Anything further in this case?
18 The case will be taken under advisement.
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C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that
the foregoing Transcript of Hearing before the Oil Conserva-
tion Division was reported by me; that the said transcript
is a full, true, and correct record of the hearing, prepared
by me to the best of my ability.

SALLY W. BOYD, C.S.R.
Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. _____
heard by me on _____ 19____.
_____, Examiner
Oil Conservation Division

All distances must be from the outer boundaries of the Section.

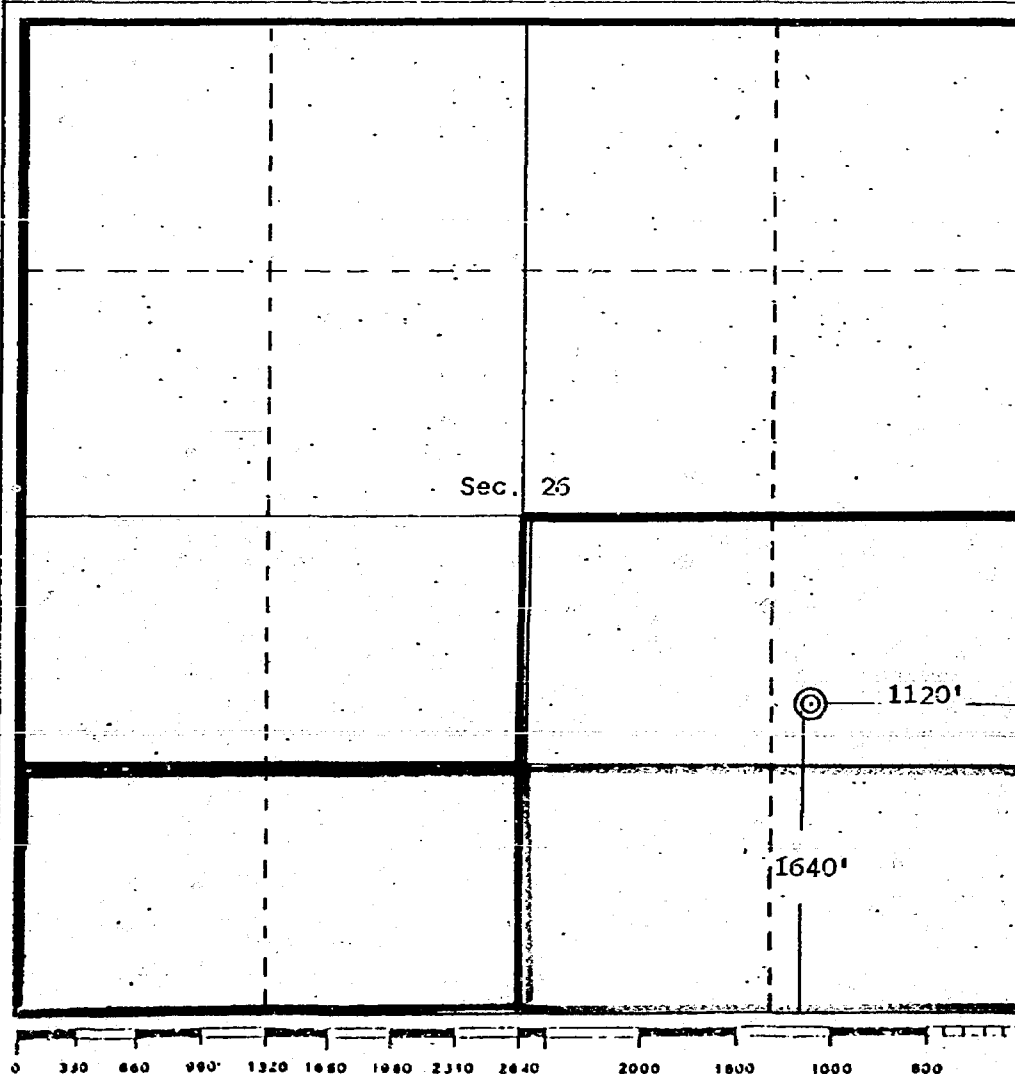
| | | | | | |
|--|-------------------------------|----------------------|-----------------------|---------------------------------|----------------|
| Operator Dugan Production Corporation | | | Lease Horace Smith | | Well No. 1R |
| Unit Letter 1 | Section 26 | Township 30 North | Range 14 West | County San Juan | |
| Actual Footage Location of Well: 1640 feet from the South line and 1120 feet from the East line | | | | | |
| Ground Level Elev. 5583 | Producing Formation Dakota | | Pool Basin | Dedicated Acreage: 320 Acres | |

1. Outline the acreage dedicated to the subject well by colored pencil or hatchure marks on the plat below.
2. If more than one lease is dedicated to the well, outline each and identify the ownership thereof (both as to working interest and royalty).
3. If more than one lease of different ownership is dedicated to the well, have the interests of all owners been consolidated by communitization, unitization, force-pooling, etc?

☐ Yes ☐ No If answer is "yes," type of consolidation _____

If answer is "no," list the owners and tract descriptions which have actually been consolidated. (Use reverse side of this form if necessary.) _____

No allowable will be assigned to the well until all interests have been consolidated (by communitization, unitization, forced-pooling, or otherwise) or until a non-standard unit, eliminating such interests, has been approved by the Commission.



CERTIFICATION

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

Name _____

Position _____

Company _____

Date _____

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 knowledge and belief.

Date Surveyed

March 13, 1980

Registered Professional Engineer
and/or Land Surveyor

Edgar L. Risenhoover

Certificate No. 5979

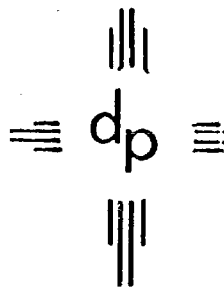
Edgar L. Risenhoover, L.S.

Amoco Production Corp.
NM 0206994Dugan Production Corp.
Winifred Lease
Fee

Dedicated Acreage

Dugan Production Corp.
Horace Smith Lease
NM 0206994Dugan Production Corp.
Jacobs Lease
NM 33050

APPLICATION FOR COMPULSORY POOLING
S2 of Sec. 26, Y30N, R14W
Dakota Formation, San Juan County, New Mexico
Case No. 6936 Exhibit No. 1



dugan production corp.

March 20, 1980

Amoco Production Company
Denver Region
Security Life Bldg.
Denver, Colorado 80202

APPLICATION FOR COMPULSORY POOLING
S2 of Sec. 26, T30N, R14W
Dakota Formation, San Juan County, NM
Case No. 6936
Exhibit No. 2

Re: Horace Smith #1-R Well
1640' FSL - 1120' FEL
Sec. 26, T-30-N, R-14-W, NMPM
San Juan County, New Mexico

ATTN: B. F. Pracko

Gentlemen:

We propose to drill and complete the above referenced well as a Dakota replacement well at the above stated location. It is our intention to dedicate the S $\frac{1}{2}$ of Sec. 26, T-30-N, R-14-W, to this well. Our records indicate you own the Dakota rights under approximately 80 acres composing the S $\frac{1}{2}$ of the SW $\frac{1}{4}$ of said section.

We would, therefore, request that you join us in the drilling of the proposed well or, in the alternative, you permit us to farm-in the 80 acre tract composing the S $\frac{1}{2}$ of the SW $\frac{1}{4}$ of said section.

Enclosed you will find two copies of our AFE for the drilling and completion of said well. If you should agree to join us in the drilling of said well, and you find our AFE acceptable, please execute one copy and return it to us.

We look forward to your early response to our proposal.

Sincerely,

Tommy Roberts
Landman

TR:nw

Enclosure



Amoco Production Company

Denver Region
Security Life Building
Denver, Colorado 80202
Western Division
303-820-4040

A. M. Roney
Division Production
Manager

April 18, 1980

Mr. Tommy Roberts
Dugan Production Corp.
709 Bloomfield Road
P. O. Box 208
Farmington, NM 87461

File: WDF-494-WF

Dear Mr. Roberts:

Horace Smith No. 1-R Well
1640' FSL 1120' FEL Section 26-T30N-R14W, NMPM
San Juan County, New Mexico

This is in reference to your letter dated March 20, 1980, requesting our approval to either join in drilling the above captioned well or permitting farm-out of the 80 acre tract composing the S/2 of the SW/4 of said section.

After carefully examining our alternatives, we regret to inform you that neither of these proposals is acceptable to us at this time. We therefore elect to be force-pooled in the the subject well. We are returning you AFE, unsigned, for this reason.

The following information will be required by Amoco on the above well in which you operate:

1. A daily drilling report by phone, telegraph, or teletype starting with construction of the road and location.
2. One set of field prints of all electric logs.
3. One set of final prints of all electric logs.
4. A copy of Sundry Notices and State Regulatory Body forms.
5. API well number.

APPLICATION FOR COMPULSORY POOLING
S2 of Sec. 26, T30N, R14W
Dakota Formation, San Juan County, New Mexico
Case No. 6936
Exhibit No. 3

Tommy Roberts
April 18, 1980
Page Two

The above is to be furnished to: R. W. Schroeder
District Superintendent
Amoco Production Company
501 Airport Drive
Farmington, NM 87401

In addition to the above information going to our District Superintendent, the following will be furnished by mail to the Western Division Engineering Manager, Amoco Production Company, Security Life Building, Denver, Colorado 80202, if and when it becomes available:

1. Electric logs, all types, including gas detector logs.

| | |
|---------------------|---|
| Folded Sepia Prints | 1 |
| Field Prints | 2 |
| Final Prints | 2 |

2. Dipmeter, DST, wireline tests, core analyses 3

3. Directional surveys, oil, gas and water analyses 2

4. Bottom hole pressure surveys, sundry notices,
and State Regulatory Body forms 1

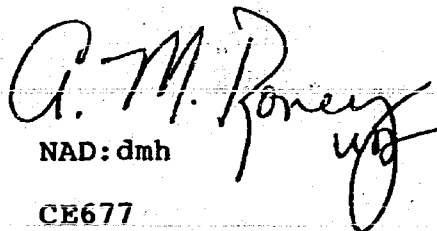
On matters concerning drilling operations on this well, including plugging and abandonment, contact one of the following in Denver, Colorado:

K. C. Williams
303 820-4040 (office)

R. J. Covlin
303 820-4040 (office)

J. L. Krupka
303 820-4040 (office)

Yours very truly,


NAD:dmh
CE677

APPLICATION FOR COMPULSORY POOLING
S2 of Sec. 26, T30N, R14W
Dakota Formation, San Juan County, New Mexico
Case No. 6936
Exhibit No. 3 Page 2

DUGAN PRODUCTION CORP.

WELL COST: Final ☐ Estimate ☒

WELL NAME: Horace Smith #1R

LOCATION: 1640' FSL - 1120' FEL
Sec 26 T30N R14W

PROPOSAL: Drill and complete Dakota replacement well

| | | | | | |
|----------|-------------------------------------|------|----------|--------------------|---------|
| TANGIBLE | Surface casing | 300 | ft 8-5/8 | inch @ \$ 9.00 /ft | \$ 2700 |
| | Production casing | 6100 | ft 4-1/2 | inch @ \$ 4.85 /ft | 29585 |
| | | | ft | inch @ \$ /ft | |
| | Tubing | 6100 | ft 1-1/2 | inch @ \$ 2.25 /ft | 13725 |
| | | | ft | inch @ \$ /ft | |
| | Permanent packer & tubing equipment | | | | 200 |
| | Wellhead equipment | | | | 9000 |
| | Additional valves & fittings | | | | 2000 |
| | Surface & production equipment | | | | 18000 |

TOTAL TANGIBLES \$ 75210

| | | | |
|------------|----------|------------------------------|------|
| INTANGIBLE | Location | Survey | 100 |
| | | Archeologist | 100 |
| | | Road & location construction | 3000 |
| | | Water and gas lines | |

| | | | | |
|----------|-------------------------|------|-------------------|-------|
| Drilling | Footage | 6100 | ft @ \$11.00 /ft | 67100 |
| | Day work | | hrs @ \$ /hr | |
| | Day work | 12 | hrs @ \$175.00/hr | 2100 |
| | Drill stem test & cores | | | -- |
| | Mud logging | | | -- |
| | Open hole logging | | | 8000 |
| | Rental tools | | | 1000 |
| | Casing float equipment | | | 1500 |
| | Trucking | | | 1000 |
| | Mud | | | 6500 |
| | Water | | | 6500 |

| | | |
|-----------|-------------------|-------|
| Cementing | Surface casing | 2000 |
| | Production casing | 12000 |

| | | |
|------------|-------------------|-------|
| Completion | Completion rig | 6000 |
| | Perforating | 3500 |
| | Acidizing | 1500 |
| | Fracturing | 36000 |
| | Tank rental | 1500 |
| | Trucking | 2000 |
| | Water | 2500 |
| | Rental tools | 2000 |
| | Clean up location | 2000 |

| | | |
|-------------|----------------|------|
| Supervision | Administrative | 2000 |
| | Legal | |
| | Field | 6000 |

APPLICATION FOR COMPULSORY POOLING
S2 of Sec. 26, T30N, R14W
Dakota Formation, San Juan County, New Mexico
Case No. 6936
Exhibit No. 4

TOTAL INTANGIBLES \$ 175900

Plus 5 % Contingency 8795

TOTAL WELL COST \$ 259905

Date 3-19-80

Partner's Approval

Prepared By Thomas A. Dugan

Date

Reviewed By

By

SCHLUMBERGER**INDUCTION ELECTRICAL LOG**

SCHLUMBERGER WELL SURVEYING CORPORATION

Houston, Texas

COUNTY SAN JUAN N.M.
FIELD or LOCATION BASIN DAKOTA
WELL HORACE SMITH #1
COMPANY TEX STAR OIL & GAS CO.

COMPANY TEX STAR OIL & GAS CORPORATION

WELL HORACE SMITH #1

FIELD BASIN DAKOTA

COUNTY SAN JUAN STATE NEW MEXICO

LOCATION 990' VSL & 990' FEL

Other Services:

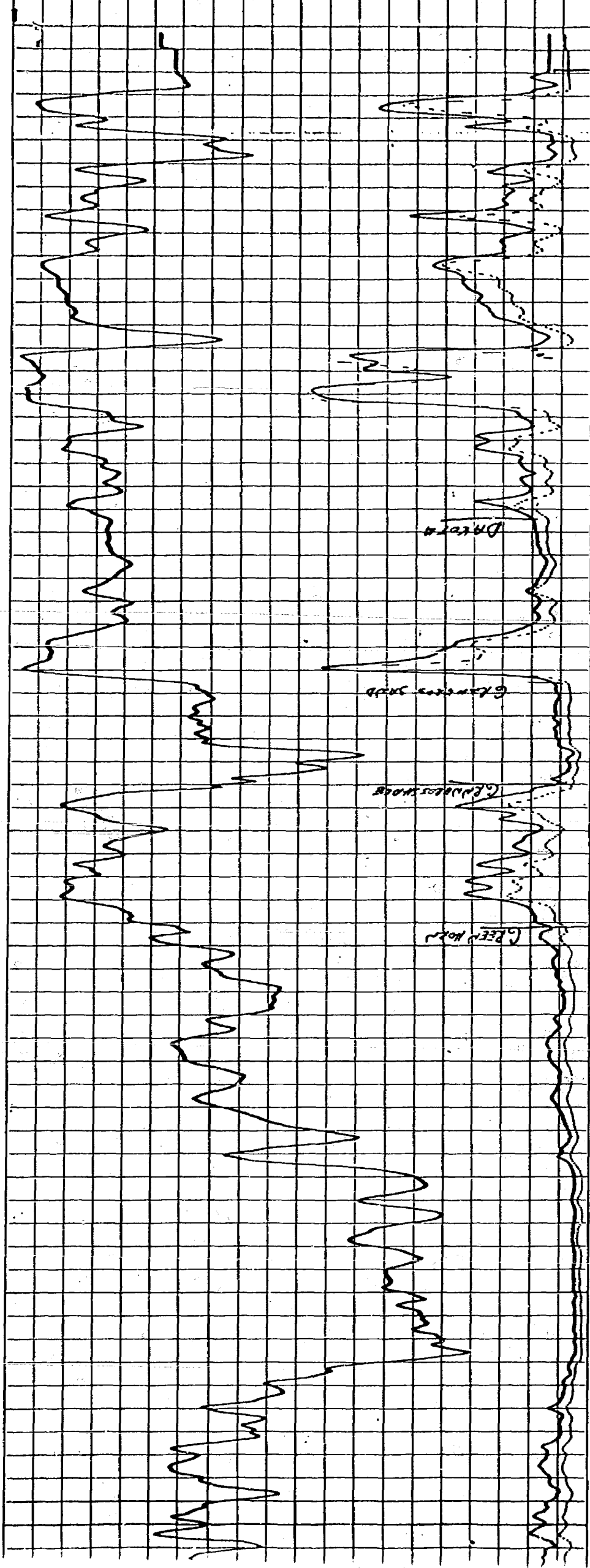
Sec. 26 Twp. 30N Rge. 14W

SGR/C

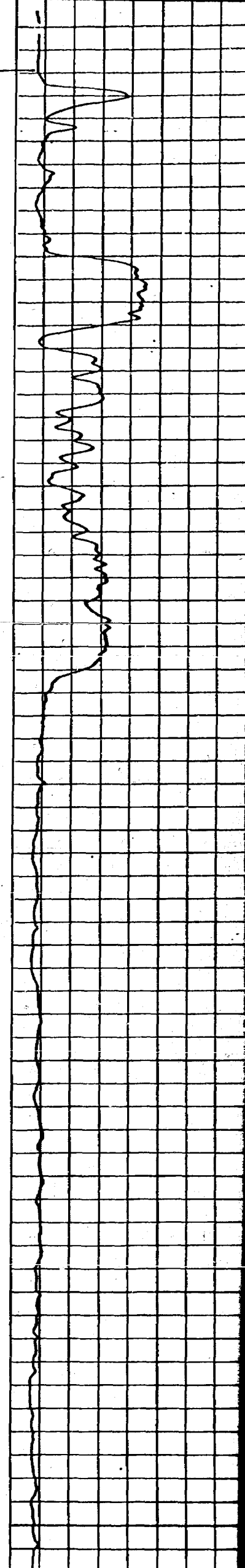
Permanent Datum: GI, Elev. 5568
Log Measured From KB, 12 Ft. Above Perm. Datum
Drilling Measured From KBElev.: K.B. 5580'
D.F. NA
G.L. 5568'

| | | | | |
|-------------------------------|----------------|-----|--------|------|
| Date | 11-18-64 | | | |
| Run No. | ONE | | | |
| Depth—Driller | 6076 | | | |
| Depth—Logger | 6082 | | | |
| Btm. Log Interval | 6081 | | | |
| Top Log Interval | 272 | | | |
| Casing—Driller | 8 5/8 @ 273 | @ | @ | @ |
| Casing—Logger | 272 | | | |
| Bit Size | 7 7/8 | | | |
| Type Fluid in Hole | FRESH GEL | | | |
| Dens. | Visc. | 9.4 | 87 | |
| pH | Fluid Loss | 8.2 | 4.0 ml | ml |
| Source of Sample | FLOW LINE | | | |
| R _m @ Meas. Temp. | 2.43 @ 67 °F | @ | °F | @ °F |
| R _{mf} @ Meas. Temp. | 1.31 @ 70 °F | @ | °F | @ °F |
| R _{mc} @ Meas. Temp. | 2.61 @ 70 °F | @ | °F | @ °F |
| Source: R _{mf} | M | | | |
| R _{mc} | M | | | |
| R _m @ BHT | 1.13 @ 145 °F | @ | °F | @ °F |
| Time Since Circ. | 2 1/2 HOURS | | | |
| Max. Rec. Temp. | 145 °F | °F | °F | °F |
| Equip. Location | 4542 FARM | | | |
| Recorded By | LEDY | | | |
| Witnessed By | MR. WIEDERKEHR | | | |

APPLICATION FOR COMPULSORY POOLING
S2 of Sec. 26, T30N, R14W
Dakota Formation, San Juan County, New Mexico
Case No 6936
Exhibit No. 5

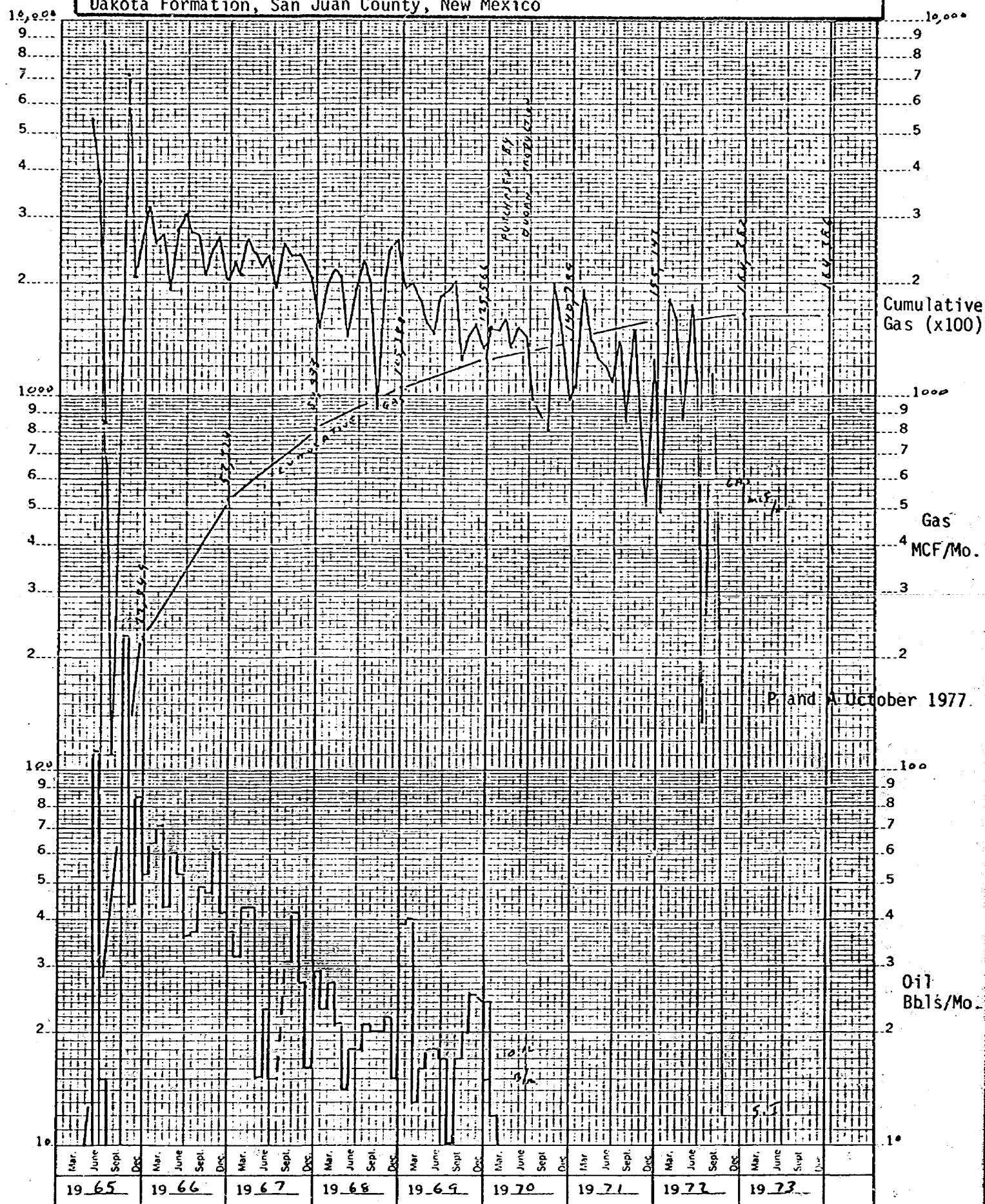


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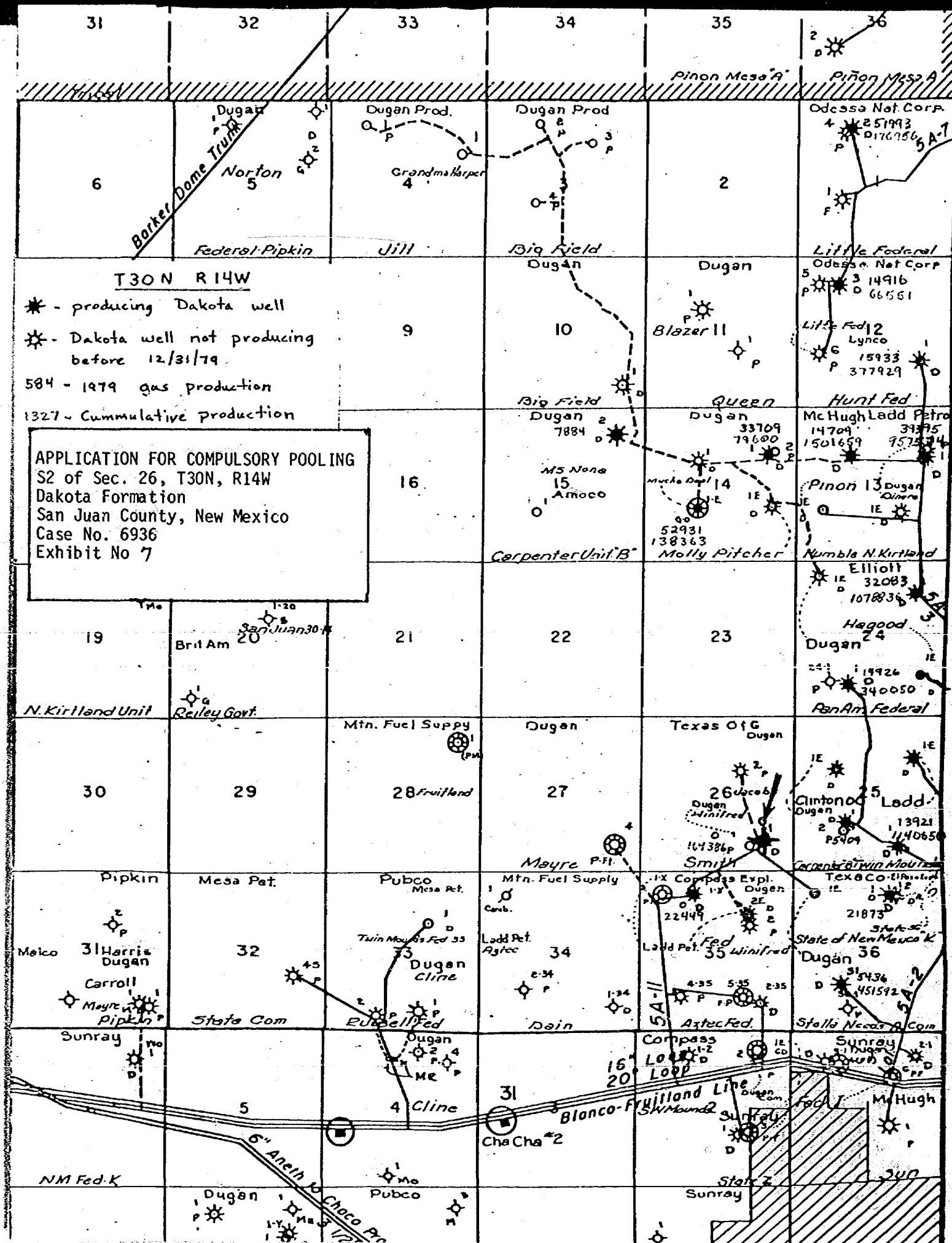


APPLICATION FOR COMPULSORY POOLING
 S2 of Sec. 26, T30N, R14W
 Dakota Formation, San Juan County, New Mexico

Case No. 6936
 Exhibit No. 6



Dugan Production Corp. Horace Smith Well No.1, Basin Dakota, San Juan County, NM



10. Taxes

All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties.

11. Insurance

Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the event Joint Operations are conducted in a state in which Operator may act as self-insurer for Workmen's Compensation and/or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self-insurance program and in that event, Operator shall include a charge at Operator's cost not to exceed manual rates.

12. Other Expenditures

Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III, and which is incurred by the Operator in the necessary and proper conduct of the Joint Operations.

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

i. As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge drilling and producing operations on either:

- () Fixed Rate Basis, Paragraph 1A, or
- () Percentage Basis, Paragraph 1B.

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 2A, Section II. The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in the Overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.

ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property shall () shall not () be covered by the Overhead rates.

A. Overhead - Fixed Rate Basis

(1) Operator shall charge the Joint Account at the following rates per well per month:

Drilling Well Rate \$ 3,500.00
Producing Well Rate \$ 350.00

(2) Application of Overhead - Fixed Rate Basis shall be as follows:

(a) Drilling Well Rate

- [1] Charges for onshore drilling wells shall begin on the date the well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
- [2] Charges for offshore drilling wells shall begin on the date when drilling or completion equipment arrives on location and terminate on the date the drilling or completion equipment moves off location or rig is released, whichever occurs first, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
- [3] Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig, commence through date of rig release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive days.

(b) Producing Well Rates

- [1] An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.
- [2] Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.
- [3] An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.
- [4] A one-well charge may be made for the month in which plugging and abandonment operations are completed on any well.
- [5] All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

(3) The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas Fields Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

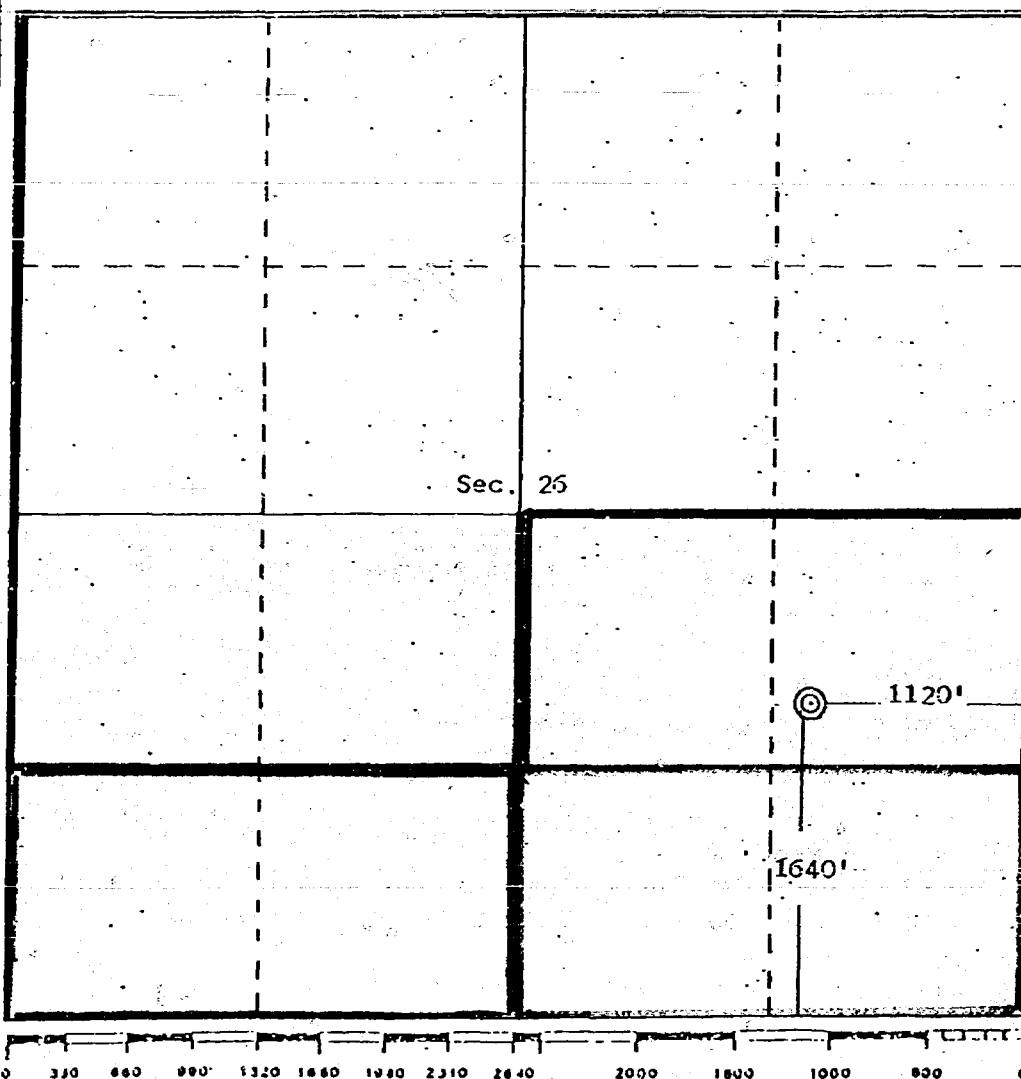
| | | | | | |
|---|--------------------------------------|-----------------------------|------------------------------|---------------------------|--|
| Operator Dugan Production Corporation | | | Lease Horace Smith | | Well No. 1R |
| Unit Letter 1 | Section 26 | Township 30 North | Range 14 West | County San Juan | |
| Actual Footage Location of Well: | | | | | |
| 1640 | feet from the | South | line and | 1120 | feet from the |
| | | | | | East |
| Ground Level Elev. 5583 | Producing Formation Dakota | | Pool Basin | | Dedicated Acreage: 320 Acres |

1. Outline the acreage dedicated to the subject well by colored pencil or hachure marks on the plat below.
2. If more than one lease is dedicated to the well, outline each and identify the ownership thereof (both as to working interest and royalty).
3. If more than one lease of different ownership is dedicated to the well, have the interests of all owners been consolidated by communitization, unitization, force-pooling, etc?

☐ Yes ☐ No If answer is "yes," type of consolidation _____

If answer is "no," list the owners and tract descriptions which have actually been consolidated. (Use reverse side of this form if necessary.) _____

No allowable will be assigned to the well until all interests have been consolidated (by communitization, unitization, forced-pooling, or otherwise) or until a non-standard unit, eliminating such interests, has been approved by the Commission.



CERTIFICATION

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

Name _____

Position _____

Company _____

Date _____

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 knowledge and belief.

Date Surveyed

March 13, 1980

Registered Professional Engineer and/or Land Surveyor

Edgar L. Risenhoover

Certificate No. 5979

Edgar L. Risenhoover, L.S.

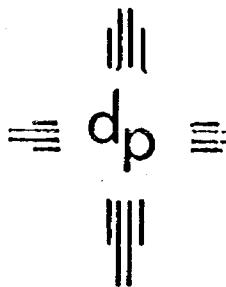
Amoco Production Corp.
NM 0206994

Dugan Production Corp.
Winifred Lease
Fee

Dugan Production Corp.
Horace Smith Lease
NM 0206994

Dugan Production Corp.
Jacobs Lease
NM 33050

APPLICATION FOR COMPULSORY POOLING
S2 of Sec. 26, T30N, R14W
Dakota Formation, San Juan County, New Mexico
Case No. 6936 Exhibit No. /



dugan production corp.

March 20, 1980

Amoco Production Company
Denver Region
Security Life Bldg.
Denver, Colorado 80202

APPLICATION FOR COMPULSORY POOLING
S2 of Sec. 26, T30N, R14W
Dakota Formation, San Juan County, New Mexico
Case No. 6936
Exhibit No. 2

Re: Horace Smith #1-R Well
1640' FSL - 1120' FEL
Sec. 26, T-30-N, R-14-W, NMPM
San Juan County, New Mexico

ATTN: B. F. Pracko

Gentlemen:

We propose to drill and complete the above referenced well as a Dakota replacement well at the above stated location. It is our intention to dedicate the S $\frac{1}{2}$ of Sec. 26, T-30-N, R-14-W, to this well. Our records indicate you own the Dakota rights under approximately 80 acres composing the S $\frac{1}{2}$ of the SW $\frac{1}{4}$ of said section.

We would, therefore, request that you join us in the drilling of the proposed well or, in the alternative, you permit us to farm-in the 80 acre tract composing the S $\frac{1}{2}$ of the SW $\frac{1}{4}$ of said section.

Enclosed you will find two copies of our AFE for the drilling and completion of said well. If you should agree to join us in the drilling of said well, and you find our AFE acceptable, please execute one copy and return it to us.

We look forward to your early response to our proposal.

Sincerely,

Tommy Roberts
Landman

TR:nw

Enclosure



A. M. Roney
Division Production
Manager

Amoco Production Company

Denver Region
Security Life Building
Denver, Colorado 80202
Western Division
303-820-4040

April 18, 1980

Mr. Tommy Roberts
Dugan Production Corp.
709 Bloomfield Road
P. O. Box 208
Farmington, NM 87461

File: WDF-494-WF

Dear Mr. Roberts:

Horace Smith No. 1-R Well
1640' FSL 1120' FEL Section 26-T30N-R14W, NMPM
San Juan County, New Mexico

This is in reference to your letter dated March 20, 1980, requesting our approval to either join in drilling the above captioned well or permitting farm-out of the 80 acre tract composing the S/2 of the SW/4 of said section.

After carefully examining our alternatives, we regret to inform you that neither of these proposals is acceptable to us at this time. We therefore elect to be force-pooled in the the subject well. We are returning you AFE, unsigned, for this reason.

The following information will be required by Amoco on the above well in which you operate:

1. A daily drilling report by phone, telegraph, or teletype starting with construction of the road and location.
2. One set of field prints of all electric logs.
3. One set of final prints of all electric logs.
4. A copy of Sundry Notices and State Regulatory Body forms.
5. API well number.

APPLICATION FOR COMPULSORY POOLING
S2 of Sec. 26, T30N, R14W
Dakota Formation, San Juan County, New Mexico
Case No. 6936
Exhibit No. 3

Tommy Roberts
April 18, 1980
Page Two

The above is to be furnished to: R. N. Schroeder
District Superintendent
Amoco Production Company
501 Airport Drive
Farmington, NM 87401

In addition to the above information going to our District Superintendent, the following will be furnished by mail to the Western Division Engineering Manager, Amoco Production Company, Security Life Building, Denver, Colorado 80202, if and when it becomes available:

1. Electric logs, all types, including gas detector logs.

| | |
|---------------------|---|
| Folded Sepia Prints | 1 |
| Field Prints | 2 |
| Final Prints | 2 |
2. Dipmeter, DST, wireline tests, core analyses 3
3. Directional surveys, oil, gas and water analyses 2
4. Bottom hole pressure surveys, sundry notices, and State Regulatory Body forms 1

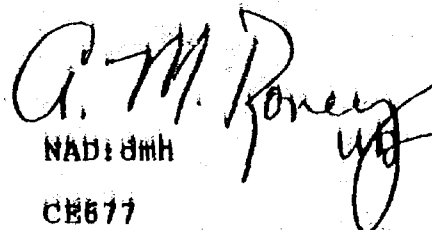
On matters concerning drilling operations on this well, including plugging and abandonment, contact one of the following in Denver, Colorado:

K. C. Williams
303 820-4040 (office)

R. J. Covlin
303 820-4040 (office)

J. L. Krupka
303 820-4040 (office)

Yours very truly,


NAB:dmh
CE677

APPLICATION FOR COMPULSORY POOLING
S2 of Sec. 26, T30N, R14W
Dakota Formation, San Juan County, New Mexico
Case No. 8936
Exhibit No. 3 Page 2

WELL COST: Final Estimate y

LOCATION: 1640' FSL - 1120' FEL
Sec 26 T30N R14W

[illegible]

APPLICATION FOR COMPULSORY POOLING
S2 of Sec. 26, T30N, R14W
Dakota Formation, San Juan County, New Mexico
Case No. 6936
Exhibit No. 4

| | |
|----------------------|----------|
| TOTAL INTANGIBLES | \$175900 |
| Plus 5 % Contingency | 8795 |
| TOTAL WELL COST | \$259905 |

By

SCHLUMBERGER**INDUCTION ELECTRICAL LOG**

SCHLUMBERGER WELL SURVEYING CORPORATION

Houston, Texas

| | | |
|--|---|---------------------------------|
| COUNTY <u>SAN JUAN</u> N.M. FIELD or LOCATION <u>BASIN DAKOTA</u> WELL <u>HORACE SMITH #1</u> COMPANY <u>TEX STAR OIL & GAS CO.</u> | COMPANY <u>TEX STAR OIL & GAS CORPORATION</u> | |
| | WELL <u>HORACE SMITH #1</u> <i>5770</i> <i>5580</i> <i>-190</i> | |
| | FIELD <u>BASIN DAKOTA</u> | |
| | COUNTY <u>SAN JUAN</u> STATE <u>NEW MEXICO</u> | |
| | LOCATION <u>990'VSL & 990'FEL</u> | |
| Sec. <u>26</u> Twp. <u>30N</u> Rge. <u>14W</u> | | Other Services: <u>SGR/C</u> |
| Permanent Datum: <u>GI</u> , Elev. <u>5568</u> | | Elev.: K.B. <u>5580'</u> |
| Log Measured From <u>KB</u> , <u>12</u> Ft. Above Perm. Datum | | D.F. <u>NA</u> |
| Drilling Measured From <u>KB</u> | | G.L. <u>5568'</u> |
| Date | <u>11-18-64</u> | |
| Run No. | <u>ONE</u> | |
| Depth—Driller | <u>6076</u> | |
| Depth—Logger | <u>6082</u> | |
| Btm. Log Interval | <u>6081</u> | |
| Top Log Interval | <u>272</u> | |
| Casing—Driller | <u>8 5/8 @ 273</u> | @ @ @ |
| Casing—Logger | <u>272</u> | |
| Bit Size | <u>7 7/8</u> | <u>Log File</u> |
| Type Fluid in Hole | <u>FRESH GEL</u> | |
| Dens. | <u>9.4</u> | <u>87</u> |
| pH | <u>8.2</u> | <u>4.0 ml</u> |
| Fluid Loss | <u>4.0 ml</u> | <u>ml</u> |
| Source of Sample | <u>FLOW LINE</u> | |
| R _m @ Meas. Temp. | <u>2.43 @ 67 °F</u> | @ °F @ °F @ °F |
| R _{ml} @ Meas. Temp. | <u>1.31 @ 70 °F</u> | @ °F @ °F @ °F |
| R _{mc} @ Meas. Temp. | <u>2.61 @ 70 °F</u> | @ °F @ °F @ °F |
| Source: R _{ml} R _{mc} | <u>M M</u> | |
| R _m @ BHT | <u>1.13 @ 145 °F</u> | @ °F @ °F @ °F |
| Time Since Circ. | <u>2 1/2 HOURS</u> | |
| Max. Rec. Temp. | <u>145 °F</u> | °F °F °F |
| Equip. Location | <u>4542 FARM</u> | |
| Recorded By | <u>LEDY</u> | |
| Witnessed By | <u>MR. WIEDERKEHR</u> | |

APPLICATION FOR COMPULSORY POOLING

S2 of Sec. 26, T30N, R14W

Dakota Formation, San Juan County, New Mexico

Case No 6936

Exhibit No. 5

5500

5600

5700

5800

5900

6000

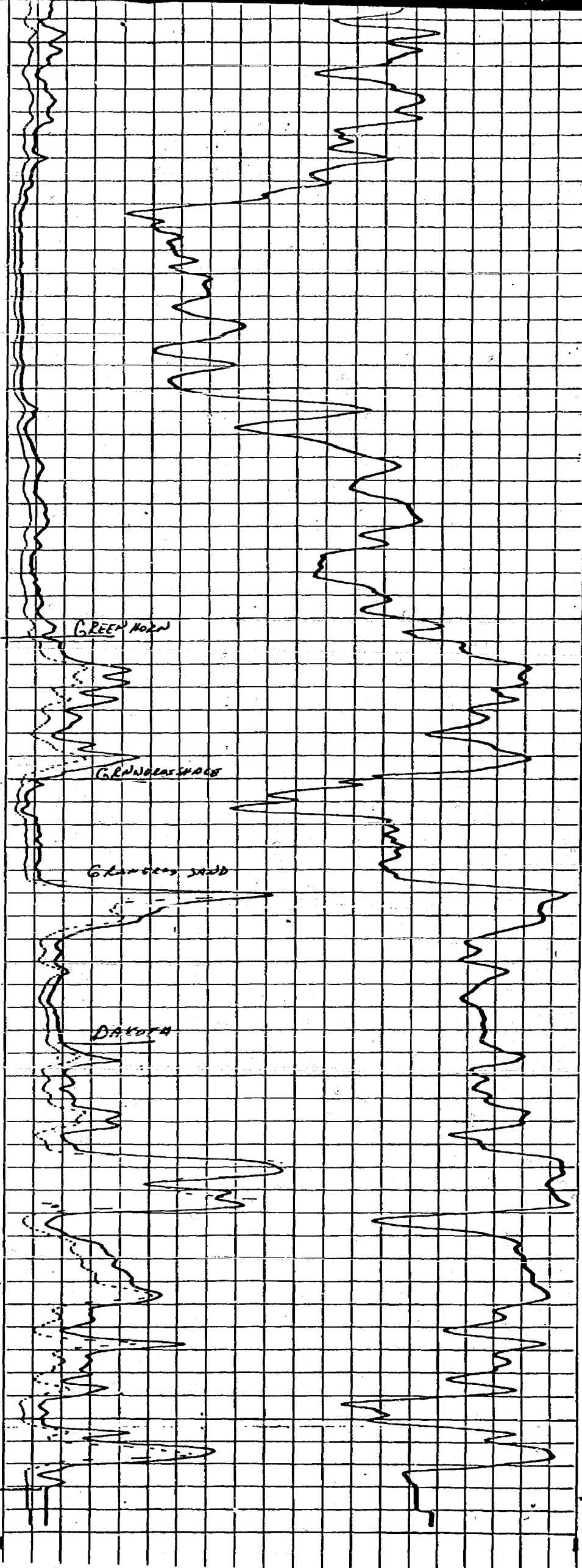
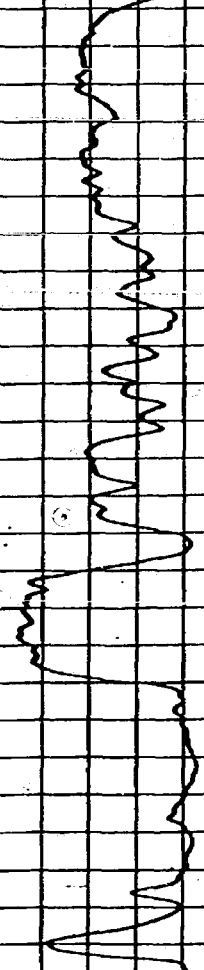
6100

GREEN HORN

GRANDSANDS

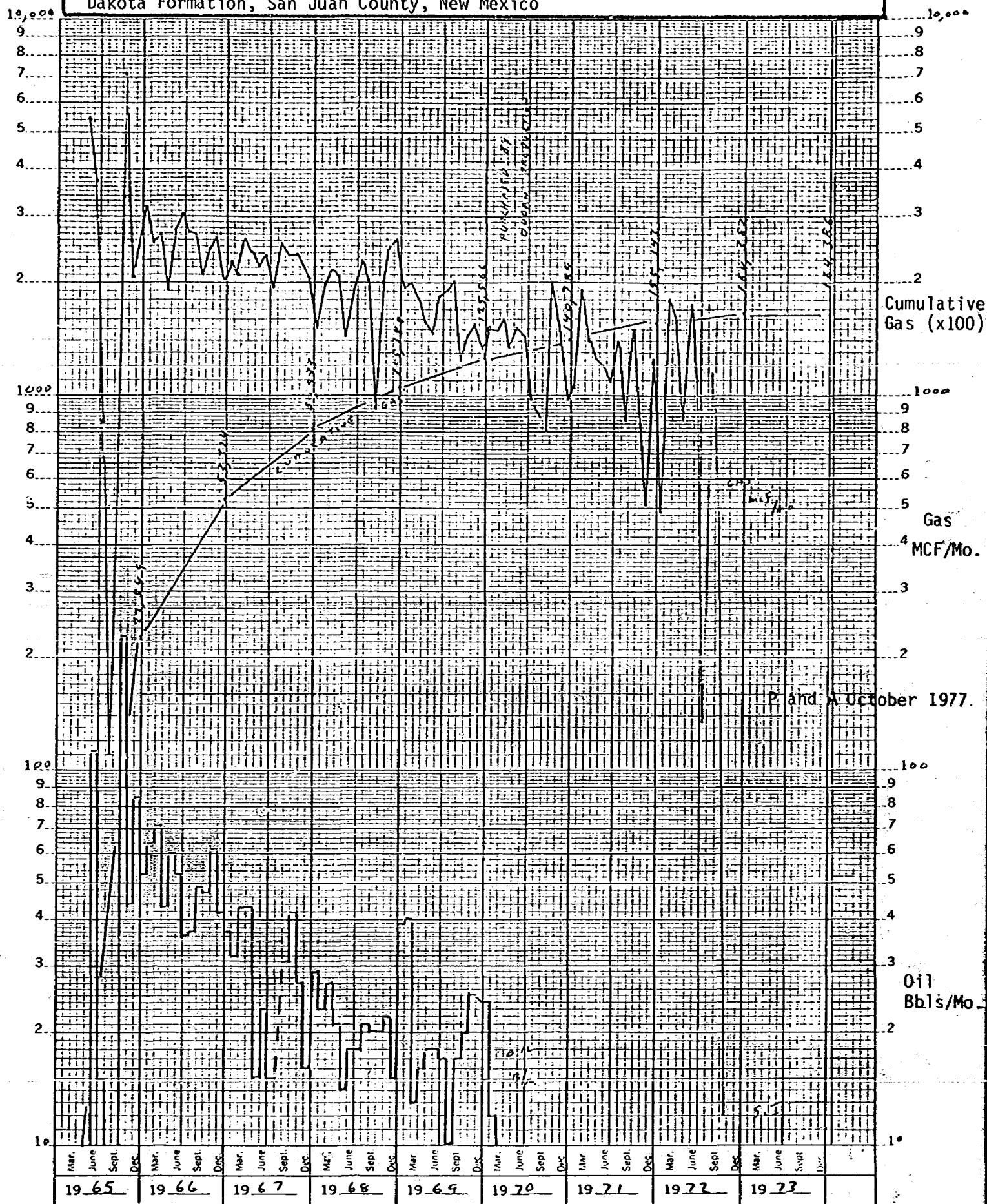
GRANDSANDS

DRYOTA

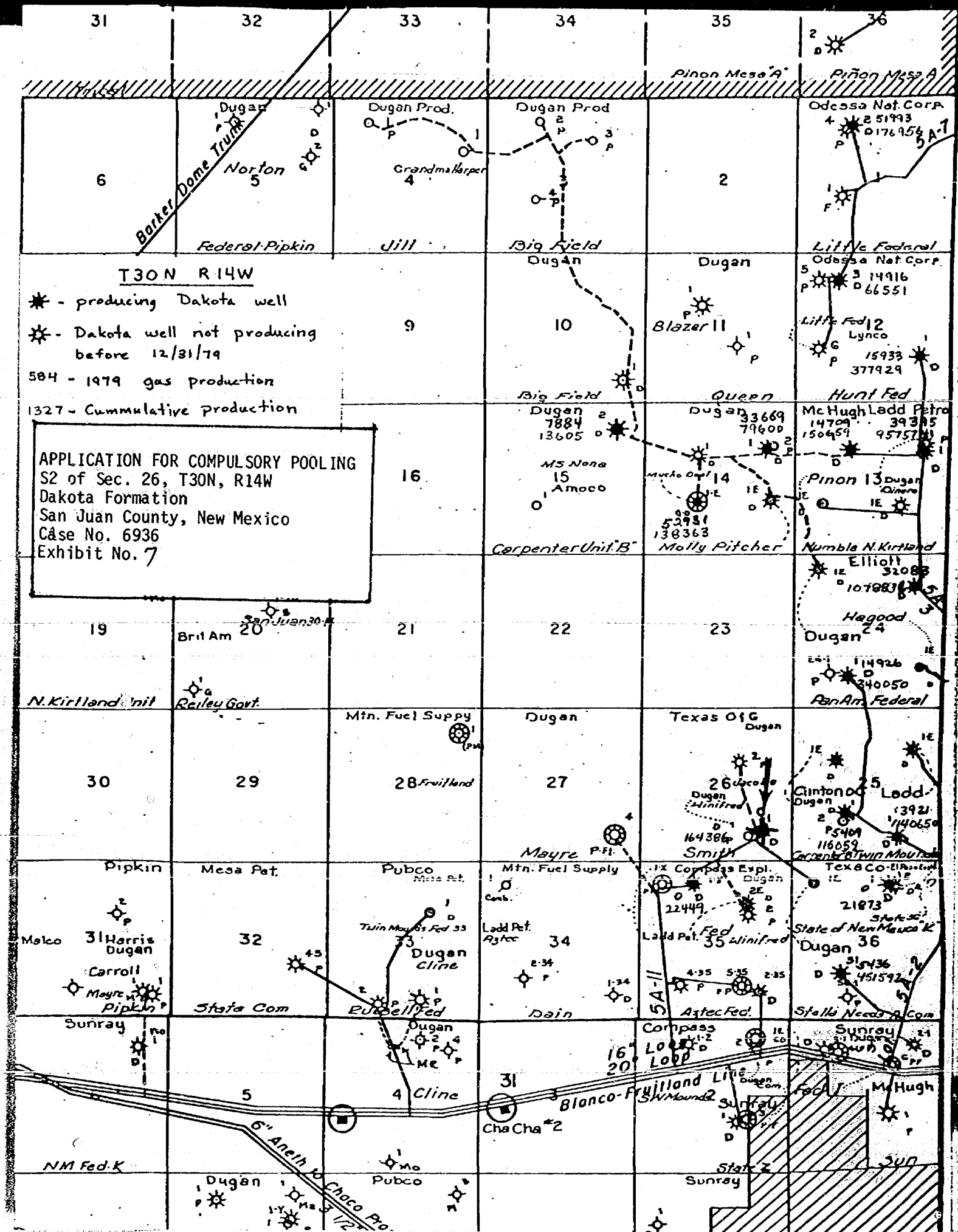


APPLICATION FOR COMPULSORY POOLING
 S2 of Sec. 26, T30N, R14W
 Dakota Formation, San Juan County, New Mexico

Case No. 6936
 Exhibit No. 6



Dugan Production Corp. Horace Smith Well No.1, Basin Dakota, San Juan County, NM



10. Taxes

All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties.

11. Insurance

Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the event Joint Operations are conducted in a state in which Operator may act as self-insurer for Workmen's Compensation and/or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self-insurance program and in that event, Operator shall include a charge at Operator's cost not to exceed manual rates.

12. Other Expenditures

Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III, and which is incurred by the Operator in the necessary and proper conduct of the Joint Operations.

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

- i. As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge drilling and producing operations on either:

- () Fixed Rate Basis, Paragraph 1A, or
() Percentage Basis, Paragraph 1B.

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 2A, Section II. The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in the Overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.

- ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property shall () shall not () be covered by the Overhead rates.

A. Overhead - Fixed Rate Basis

- (1) Operator shall charge the Joint Account at the following rates per well per month:

Drilling Well Rate \$ 3,500.00

Producing Well Rate \$ 350.00

- (2) Application of Overhead - Fixed Rate Basis shall be as follows:

(a) Drilling Well Rate

- [1] Charges for onshore drilling wells shall begin on the date the well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
[2] Charges for offshore drilling wells shall begin on the date when drilling or completion equipment arrives on location and terminate on the date the drilling or completion equipment moves off location or rig is released, whichever occurs first, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
[3] Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig, commence through date of rig release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive days.

(b) Producing Well Rates

- [1] An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.
[2] Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.
[3] An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.
[4] A one-well charge may be made for the month in which plugging and abandonment operations are completed on any well.
[5] All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

- (3) The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas Fields Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

All distances must be from the outer boundaries of the Section.

| | | | | |
|---|----------------------|------------------------------|-------------------------|---------------------------|
| Operator Dugan Production Corporation | | Lease Horace Smith | | Well No. 1R |
| Unit Letter 1 | Section 26 | Township 30 North | Range 14 West | County San Juan |

Actual Footage Location of Well:
1640 feet from the **South** line and **1120** feet from the **East** line.

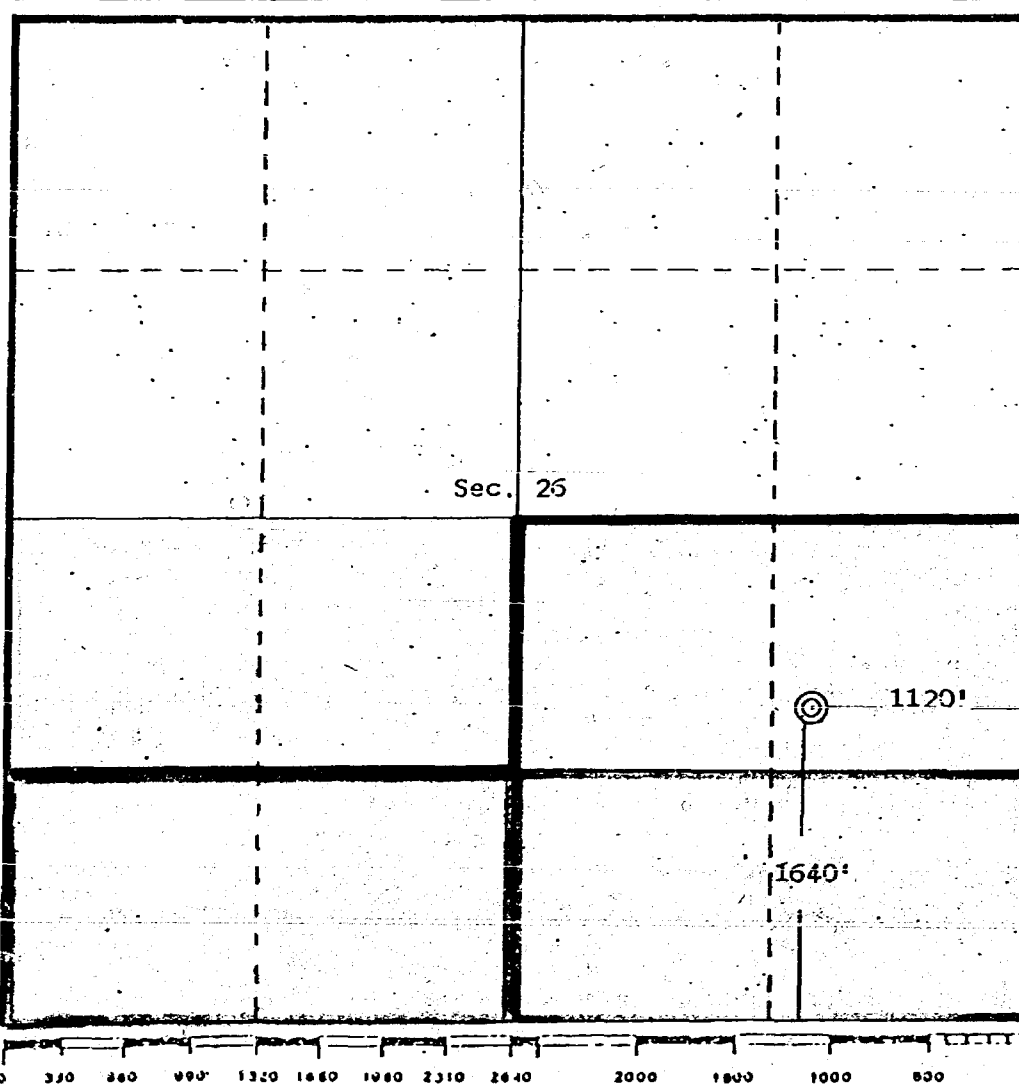
| | | | |
|-----------------------------------|--------------------------------------|----------------------|--|
| Ground Level Elev. 5583 | Producing Formation Dakota | Pool Basin | Dedicated Acreage: 320 Acres |
|-----------------------------------|--------------------------------------|----------------------|--|

1. Outline the acreage dedicated to the subject well by colored pencil or hatchure marks on the plat below.
2. If more than one lease is dedicated to the well, outline each and identify the ownership thereof (both as to working interest and royalty).
3. If more than one lease of different ownership is dedicated to the well, have the interests of all owners been consolidated by communitization, unitization, force-pooling, etc?

☐ Yes ☐ No If answer is "yes," type of consolidation _____

If answer is "no," list the owners and tract descriptions which have actually been consolidated. (Use reverse side of this form if necessary.) _____

No allowable will be assigned to the well until all interests have been consolidated (by communitization, unitization, forced-pooling, or otherwise) or until a non-standard unit, eliminating such interests, has been approved by the Commission.



CERTIFICATION

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

Name _____

Position _____

Company _____

Date _____

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 knowledge and belief.

Date Surveyed

March 13, 1980

Registered Professional Engineer and/or Land Surveyor

Edgar L. Risenhoover

Certificate No. **5979**

Edgar L. Risenhoover, L.S.

Amoco Production Corp.
NM 0206994

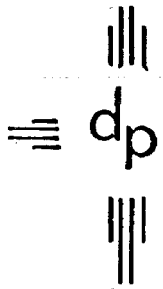
Dugan Production Corp.
Winifred Lease
Fee

Dedicated Acreage

Dugan Production Corp.
Horace Smith Lease
NM 0206994

Dugan Production Corp.
Jacobs Lease
NM 33050

APPLICATION FOR COMPULSORY POOLING
S2 of Sec. 26, T30N, R14W
Dakota Formation, San Juan County, New Mexico
Case No. 6936 Exhibit No. /



dugan production corp.

March 20, 1980

Amoco Production Company
Denver Region
Security Life Bldg.
Denver, Colorado 80202

APPLICATION FOR COMPULSORY POOLING
S2 of Sec. 26, T30N, R14W
Dakota Formation, San Juan County, New Mexico
Case No. 6936
Exhibit No. 2

Re: Horace Smith #1-R Well
1640' FSL - 1120' FEL
Sec. 26, T-30-N, R-14-W, NMPM
San Juan County, New Mexico

ATTN: B. F. Pracko

Gentlemen:

We propose to drill and complete the above referenced well as a Dakota replacement well at the above stated location. It is our intention to dedicate the S $\frac{1}{2}$ of Sec. 26, T-30-N, R-14-W, to this well. Our records indicate you own the Dakota rights under approximately 80 acres composing the S $\frac{1}{2}$ of the SW $\frac{1}{4}$ of said section.

We would, therefore, request that you join us in the drilling of the proposed well or, in the alternative, you permit us to farm-in the 80 acre tract composing the S $\frac{1}{2}$ of the SW $\frac{1}{4}$ of said section.

Enclosed you will find two copies of our AFE for the drilling and completion of said well. If you should agree to join us in the drilling of said well, and you find our AFE acceptable, please execute one copy and return it to us.

We look forward to your early response to our proposal.

Sincerely,

Tommy Roberts
Landman

TR:nw

Enclosure



Amoco Production Company

Denver Region
Security Life Building
Denver, Colorado 80202
Western Division
303-820-4040

A. M. Roney
Division Production
Manager

April 18, 1980

Mr. Tommy Roberts
Dugan Production Corp.
709 Bloomfield Road
P. O. Box 208
Farmington, NM 87461

File: WDF-494-WF

Dear Mr. Roberts:

Horace Smith No. 1-R Well
1640' FSL 1120' FEL Section 26-T30N-R14W, NMPM
San Juan County, New Mexico

This is in reference to your letter dated March 20, 1980, requesting our approval to either join in drilling the above captioned well or permitting farm-out of the 80 acre tract composing the S/2 of the SW/4 of said section.

After carefully examining our alternatives, we regret to inform you that neither of these proposals is acceptable to us at this time. We therefore elect to be force-pooled in the the subject well. We are returning you AFE, unsigned, for this reason.

The following information will be required by Amoco on the above well in which you operate:

1. A daily drilling report by phone, telegraph, or teletype starting with construction of the road and location.
2. One set of field prints of all electric logs.
3. One set of final prints of all electric logs.
4. A copy of Sundry Notices and State Regulatory Body forms.
5. API well number.

APPLICATION FOR COMPULSORY POOLING
S2 of Sec.26, T30N, R14W
Dakota Formation, San Juan County, New Mexico
Case No. 6936
Exhibit No. 3

Tommy Roberts
April 18, 1980
Page Two

The above is to be furnished to: R. W. Schroeder
District Superintendent
Amoco Production Company
501 Airport Drive
Farmington, NM 87401

In addition to the above information going to our District Superintendent, the following will be furnished by mail to the Western Division Engineering Manager, Amoco Production Company, Security Life Building, Denver, Colorado 80202, if and when it becomes available:

1. Electric logs, all types, including gas detector logs.

| | |
|---------------------|---|
| Folded Sepia Prints | 1 |
| Field Prints | 2 |
| Final Prints | 2 |

2. Dipmeter, DST, wireline tests, core analyses 3

3. Directional surveys, oil, gas and water analyses 2

4. Bottom hole pressure surveys, sundry notices,
and State Regulatory Body forms 1

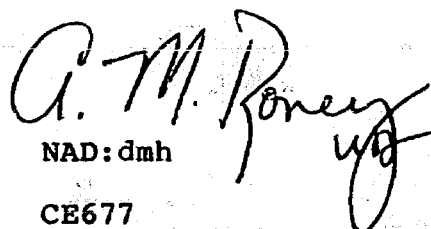
On matters concerning drilling operations on this well, including plugging and abandonment, contact one of the following in Denver, Colorado:

K. C. Williams
303 820-4040 (office)

R. J. Covlin
303 820-4040 (office)

J. L. Krupka
303 820-4040 (office)

Yours very truly,


NAD:dmh

CE677
APPLICATION FOR COMPULSORY POOLING
S2 of Sec. 26, T30N, R14W
Dakota Formation, San Juan County, New Mexico
Case No. 6936
Exhibit No. 3 Page 2

WELL COST: Final / Estimate /

LOCATION: 1640' FSL - 1120' FEL
Sec 26 T30N R14W

[illegible]

| INTANGIBLE | Location | | | |
|------------|-------------|------------------------------|-----------------------|-------|
| | | Survey | | 100 |
| | | Archeologist | | 100 |
| | | Road & location construction | | 3000 |
| | | Water and gas lines | | |
| | | | | |
| | Drilling | Footage | 6100 ft @ \$11.00 /ft | 67100 |
| | | Day work | hrs @ \$ /hr | |
| | | Day work | 12 hrs @ \$175.00/hr | 2100 |
| | | Drill stem test & cores | | -- |
| | | Mud logging | | -- |
| | | Open hole logging | | 8000 |
| | | Rental tools | | 1000 |
| | | Casing float equipment | | 1500 |
| | | Trucking | | 1000 |
| | | Mud | | 6500 |
| | | Water | | 6500 |
| | | | | |
| | | | | |
| | Cementing | Surface casing | | 2000 |
| | | Production casing | | 12000 |
| | | | | |
| | | | | |
| | Completion | Completion rig | | 6000 |
| | | Perforating | | 3500 |
| | | Acidizing | | 1500 |
| | | Fracturing | | 36000 |
| | | Tank rental | | 1500 |
| | | Trucking | | 2000 |
| | | Water | | 2500 |
| | | Rental tools | | 2000 |
| | | Clean up location | | 2000 |
| | | | | |
| | | | | |
| | Supervision | Administrative | | 2000 |
| | | Legal | | |
| | | Field | | 6000 |

APPLICATION FOR COMPULSORY POOLING
S2 of Sec. 26, T30N, R14W
Dakota Formation, San Juan County, New Mexico
Case No. 6936
Exhibit No. 4

| | |
|----------------------|-----------|
| TOTAL INTANGIBLES | \$ 175900 |
| Plus 5 % Contingency | 8795 |
| TOTAL WELL COST | \$ 259905 |

Prepared By Thomas A. Dugan

Approved By

Partner's Approval

Date

BY

SCHLUMBERGER**INDUCTION ELECTRICAL LOG**

SCHLUMBERGER WELL SURVEYING CORPORATION

Houston, Texas

COUNTY SAN JUAN N.M.
FIELD or LOCATION BASIN DAKOTA
WELL HORACE SMITH #1
COMPANY TEX STAR OIL & GAS CO.

COMPANY TEX STAR OIL & GAS CORPORATION

WELL HORACE SMITH #1

FIELD BASIN DAKOTA

COUNTY SAN JUAN STATE NEW MEXICO

LOCATION 990' VSL & 990' FEL

Other Services:

Sec. 26 Twp. 30N Rge. 14W

SGR/C

Permanent Datum: GI, Elev. 5568
Log Measured From KB, 12 Ft. Above Perm. Datum
Drilling Measured From KBElev.: K.B. 5580'
D.F. NA
G.I. 5568'

| | | | | | |
|---|----------------|-----|--------|----|----|
| Date | 11-18-64 | | | | |
| Run No. | ONE | | | | |
| Depth—Driller | 6076 | | | | |
| Depth—Logger | 6082 | | | | |
| Bitm. Log Interval | 6081 | | | | |
| Top Log Interval | 272 | | | | |
| Casing—Driller | 8 5/8 @ 273 | @ | @ | @ | @ |
| Casing—Logger | 272 | | | | |
| Bit Size | 7 7/8 | | | | |
| Type Fluid in Hole | FRESH GEL | | | | |
| Dens. | Visc. | 9.4 | 87 | | |
| pH | Fluid Loss | 8.2 | 4.0 ml | ml | ml |
| Source of Sample | FLOW LINE | | | | |
| R _m @ Meas. Temp. | 2.43 @ 67 °F | @ | °F | @ | °F |
| R _{mt} @ Meas. Temp. | 1.31 @ 70 °F | @ | °F | @ | °F |
| R _{mc} @ Meas. Temp. | 2.61 @ 70 °F | @ | °F | @ | °F |
| Source: R _{mt} R _{mc} | M M | | | | |
| R _m @ BHT | 1.13 @ 145 °F | @ | °F | @ | °F |
| Time Since Circ. | 2 1/2 HOURS | | | | |
| Max. Rec. Temp. | 145 °F | | °F | | °F |
| Equip. Location | 4542 FARM | | | | |
| Recorded By | L'EDY | | | | |
| Witnessed By | MR. WIEDERKEHR | | | | |

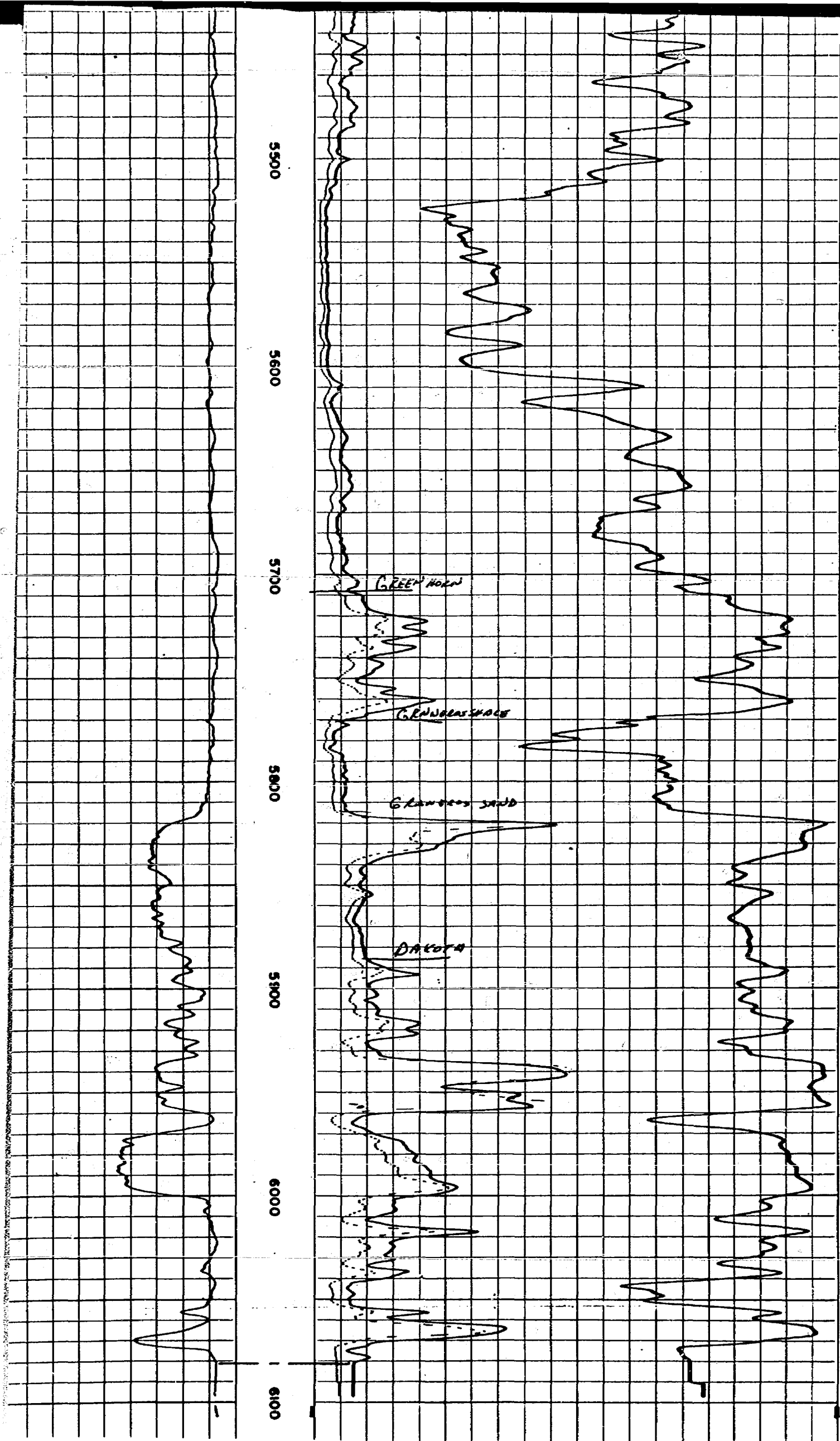
APPLICATION FOR COMPULSORY POOLING

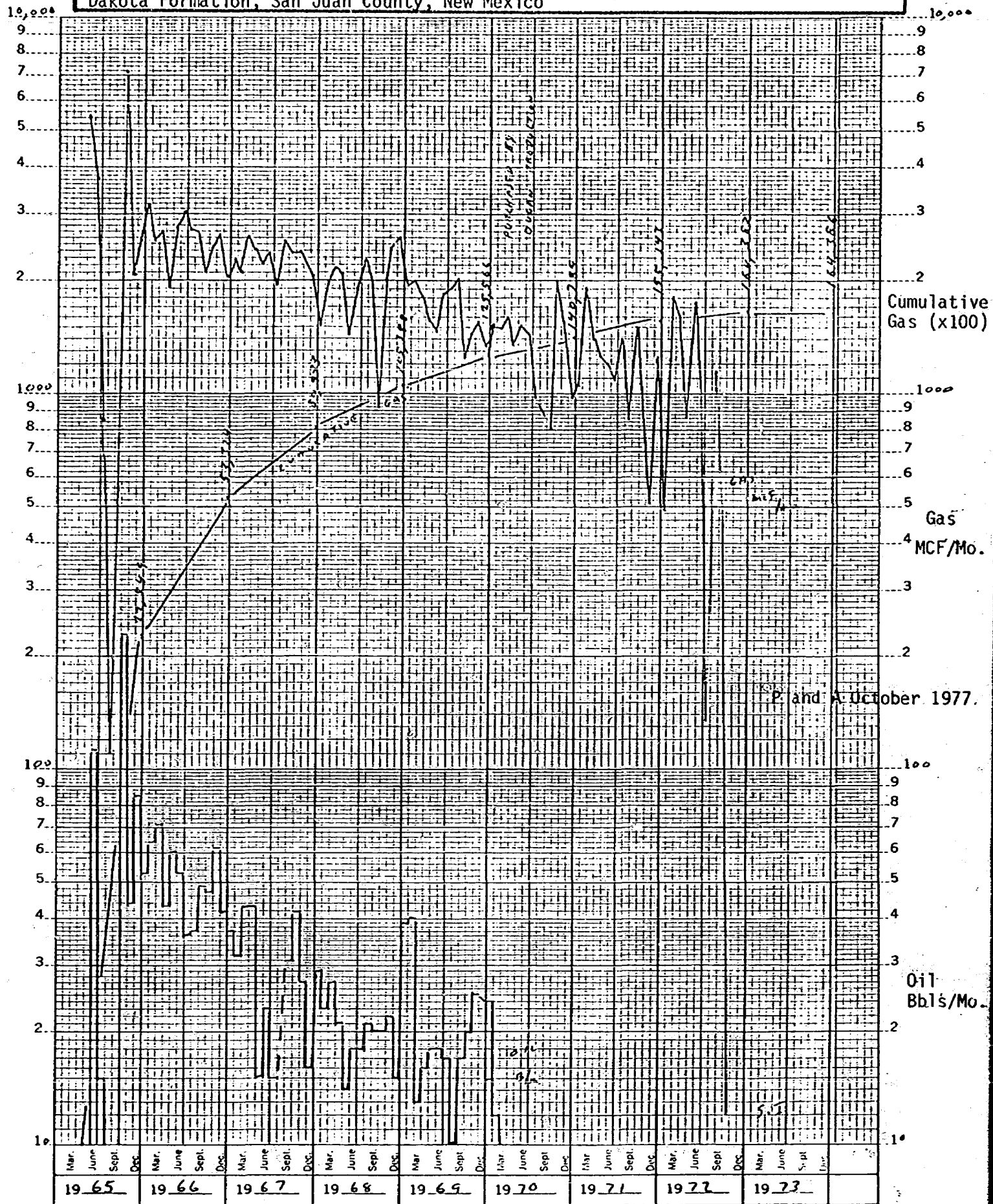
S2 of Sec. 26, T30N, R14W

Dakota Formation, San Juan County, New Mexico

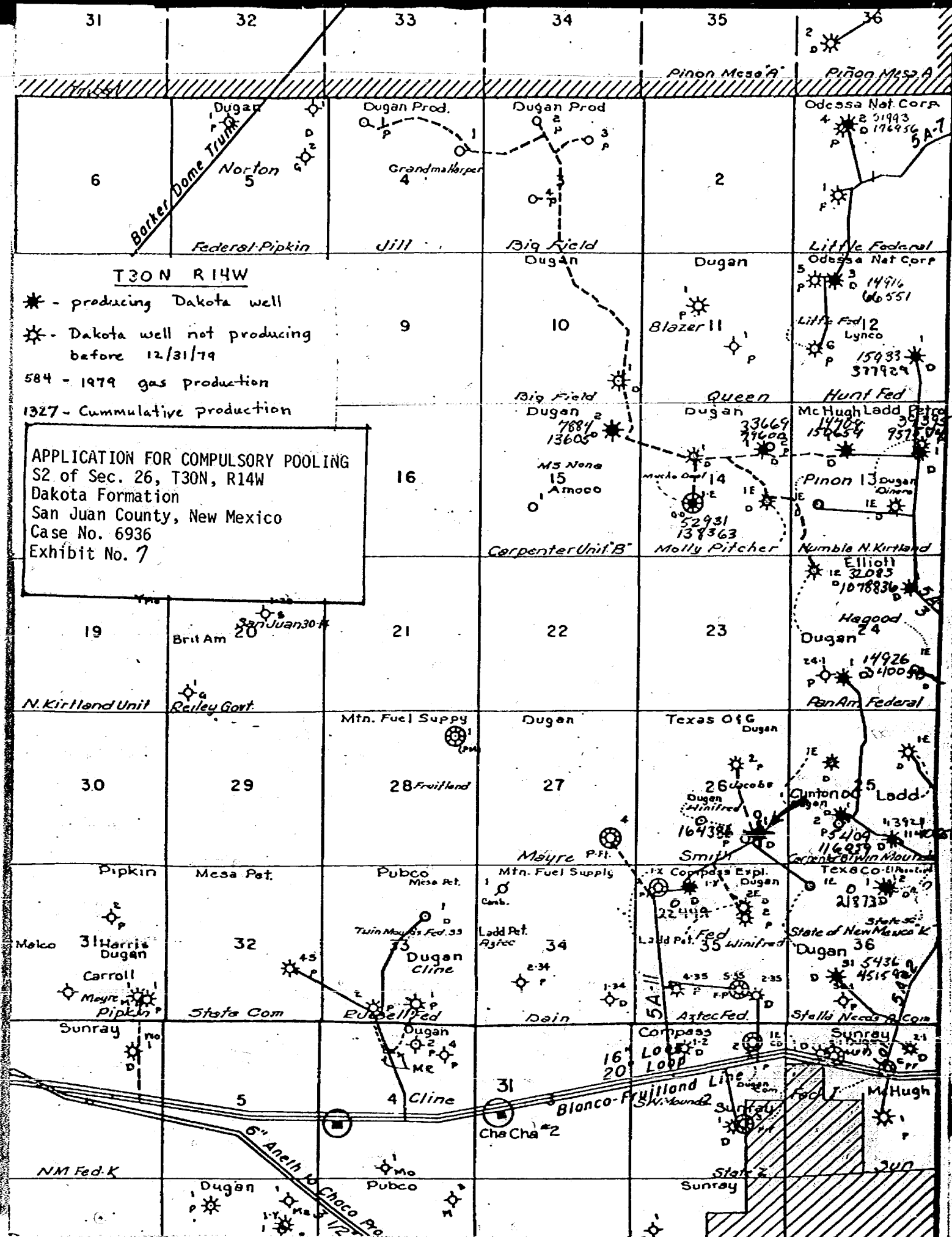
Case No 6936

Exhibit No. 5





Dugan Production Corp. Horace Smith Well No.1, Basin Dakota, San Juan County, NM



10. Taxes

All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties.

11. Insurance

Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the event Joint Operations are conducted in a state in which Operator may act as self-insurer for Workmen's Compensation and/or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self-insurance program and in that event, Operator shall include a charge at Operator's cost not to exceed manual rates.

12. Other Expenditures

Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III, and which is incurred by the Operator in the necessary and proper conduct of the Joint Operations.

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

i. As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge drilling and producing operations on either:

- () Fixed Rate Basis, Paragraph 1A, or
- () Percentage Basis, Paragraph 1B.

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 2A, Section II. The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in the Overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.

ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property shall () shall not () be covered by the Overhead rates.

A. Overhead - Fixed Rate Basis

(1) Operator shall charge the Joint Account at the following rates per well per month:

Drilling Well Rate \$ 3,500.00
Producing Well Rate \$ 350.00

(2) Application of Overhead - Fixed Rate Basis shall be as follows:

(a) Drilling Well Rate

- [1] Charges for onshore drilling wells shall begin on the date the well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
- [2] Charges for offshore drilling wells shall begin on the date when drilling or completion equipment arrives on location and terminate on the date the drilling or completion equipment moves off location or rig is released, whichever occurs first, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
- [3] Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig, commence through date of rig release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive days.

(b) Producing Well Rates

- [1] An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.
- [2] Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.
- [3] An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.
- [4] A one-well charge may be made for the month in which plugging and abandonment operations are completed on any well.
- [5] All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

(3) The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas Fields Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

CASE 6935: Application of Dugan Production Corporation for downhole commingling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Basin-Dakota and undesignated Gallup production in the wellbore of its June Joy Well No. 2 located in Unit B of Section 25, Township 24 North, Range 10 West.

CASE 6936: Application of Dugan Production Corporation for compulsory pooling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Dakota formation underlying the S/2 of Section 26, Township 30 North, Range 14 West, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

CASE 6916: (Continued from June 4, 1980, Examiner Hearing)

Application of Petro-Lewis Corporation for downhole commingling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of the Drinkard and Blinberry production in the wellbore of its State DC Well No. 1, a quadruple completion located in Unit F of Section 19, Township 21 South, Range 37 East.

CASE 6937: Application of R. N. Hillin for an unorthodox location and dual completion, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the dual completion (conventional) of his DWV Well No. 4 to produce gas from the Wolfcamp and Morrow formations thru tubing and the annulus, respectively. Applicant further seeks approval of the unorthodox location of said well in the Wolfcamp and Pennsylvanian formations at a point 800 feet from the South line and 2000 feet from the East line of Section 34, Township 19 South, Range 28 East.

CASE 6938: Application of Anadarko Production Company for an unorthodox gas well location, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of its Dalport Federal Well No. 1 660 feet from the South and West lines of Section 20, Township 13 South, Range 31 East, Southeast Chaves Queen Gas Area, the W/2 of said Section 20 to be dedicated to the well.

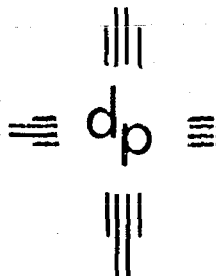
CASE 6939: Application of Anadarko Production Company for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests at a depth from 2400 feet to 5000 feet below the surface, Turkey Track Field, underlying the NE/4 SE/4 of Section 10, Township 19 South, Range 29 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

CASE 6940: Application of Adobe Oil Company for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests down through the Wolfcamp formation underlying the NW/4 SE/4 for oil and the SE/4 for gas, Section 23, Township 20 South, Range 38 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

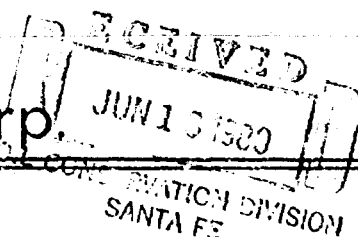
CASE 6941: Application of Ellwade Corporation for a non-standard gas proration unit, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval of a 129.52-acre non-standard gas proration unit comprising the W/2 of partial Section 33, Township 26 South, Range 30 East, Ross Draw-Wolfcamp area, to be dedicated to its Ross Draw Well No. 1 located in Unit C of said Section 33.

CASE 6942: Application of Benson-Montin-Greer Drilling Corporation for amendment of Order No. R-2565-B, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks the amendment of Rule 2 of the Special Pool Rules for the West Puerto Chiquito-Mancos Oil Pool as promulgated by Order No. R-2565-B to provide that all 320-acre spacing and proration units in said pool would comprise either the W/2 or the E/2 of a governmental section, provided however, that one injection well would have dedicated thereto the N/2 of Section 1, Township 24 North, Range 1 West, and also that the short 400-acre sections on the South side of Township 27 North, Range 1 West, would each comprise a single spacing unit.

CASE 6943: Application of Benson-Montin-Greer Drilling Corporation for a unit agreement, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks approval for the East Puerto Chiquito-Mancos Unit Area, comprising 9,769 acres, more or less, of Federal, Indian, and fee lands in Townships 26 and 27 North, Ranges 1 East and 1 West.



dugan production corp.



June 12, 1980

State of New Mexico
Energy and Minerals Department
New Mexico Oil Conservation Division
P.O. Box 2088
Santa Fe, New Mexico 87501

Attn: Joe D. Ramey, Division Director

Re: Application for Compulsory Pooling
San Juan County, New Mexico

Gentlemen:

Please consider this our formal application for an Order of the New Mexico Oil Conservation Division force-pooling all of the mineral interests in the Dakota Formation underlying the S/2 Section 26, Township 30 North, Range 14 West, N.M.P.M., San Juan County, New Mexico, to be dedicated to a well to be drilled at a standard location thereon.

More specifically, Dugan Production Corporation, as the Applicant, requests an order of the New Mexico Oil Conservation Division designating Dugan Production Corporation as the Operator of the proposed well, allowing Dugan Production Corporation to recover the costs of drilling, completing, and operating this proposed well, plus 200% for the risk factor involved in drilling said well, and establishing a reasonable charge for the supervision of this proposed well during the drilling and production stages.

As grounds for this Application, Dugan Production Corporation would state that it owns the Dakota operating rights under all of Section 26, Township 30 North, Range 14 West, N.M.P.M., San Juan County, New Mexico, with the exception of the Dakota operating rights underlying the S/2 of the SW/4 of Section 26. Said 80 acre tract is controlled by Amoco Production Company. By letter dated March 20, 1980, we requested Amoco to either join in the drilling of the proposed well or farmout the 80 acre tract. By letter dated April 18, 1980, and in response to our request for a farmout or participation in drilling, Amoco advised that it elected to be force-pooled in the subject well.

709 BLOOMFIELD RD. • P. O. BOX 208 • FARMINGTON, NEW MEXICO 87401 • PHONE: 505-325-0238

Joe D. Ramey
June 12, 1980
Page Two

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I have previously verbally requested this Application be placed on the June 25, 1980 Docket. The New Mexico Conservation Division advised this request would be honored, and further advised that written application must be filed with the New Mexico Oil Conservation Division on or before June 13, 1980.

Please advise should you require any additional information.

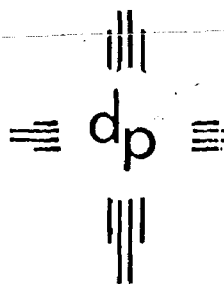
Sincerely,

Tommy Roberts

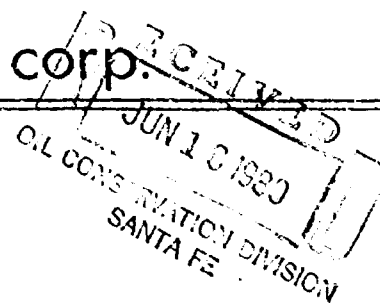
Tommy Roberts
Attorney

TR:nw

cc: Supervisor District III Office
New Mexico Oil Conservation Division
1000 Rio Brazos Road
Aztec, New Mexico 87410



dugan production corp.



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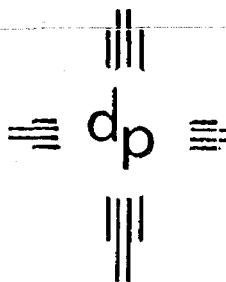
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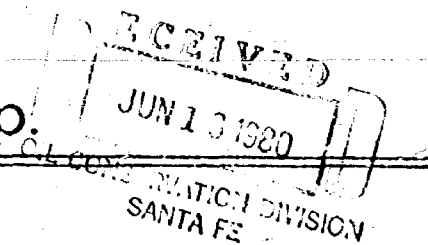
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dugan production corp.



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Tommy Roberts

Tommy Roberts
Attorney

TR:nw

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New Mexico Oil Conservation Division
1000 Rio Brazos Road
Aztec, New Mexico 87410

DRAFT

dr/

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

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

CASE NO. 6936

Order No. R- 6397

APPLICATION OF DUGAN PRODUCTION
CORPORATION FOR COMPULSORY POOLING,
SAN JUAN COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on June 25,
1980, at Santa Fe, New Mexico, before Examiner Richard L. Stamets
NOW, on this _____ day of June, 1980, the Division
Director, having considered the testimony, the record, and the
recommendations of the Examiner, and being fully advised in the
premises,

FINDS:

(1) That due public notice having been given as required by
law, the Division has jurisdiction of this cause and the subject
matter thereof.

(2) That the applicant, Dugan Production Corporation,
seeks an order pooling all mineral interests in the Dakota
formation underlying the S/2
of Section 26, Township 30 North, Range 14 West,
NMPM, Basin-Dakota Geo. Pool. San Juan County, New
Mexico.

(3) That the applicant has the right to drill and proposes to drill a well at a standard location thereon.

(4) That there are interest owners in the proposed proration unit who have not agreed to pool their interests.

(5) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the gas in said pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

(6) That the applicant should be designated the operator of the subject well and unit.

(7) That any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(8) That any non-consenting working interest owner who does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(9) That any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but that actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(10) That following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that ~~paid~~ estimated well costs exceed reasonable well costs.

(11) That \$ 350⁰⁰ per month while drilling and \$ 350⁰⁰ per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(12) That all proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(13) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before October 1, 1980, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Dakota formation underlying the S/2 of Section 26, Township 30 North, Range 14 West, NMPM, Basin Dakota Gas Pool, San Juan County, New Mexico, are hereby pooled to form a standard 320-acre gas spacing and proration unit to be dedicated to a well to be drilled at a standard location thereon.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the 1st day of October, 1980, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Dakota formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 1st day of October, 1980, Order (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

PROVIDED FURTHER, that should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Order (1) of this order should not be rescinded.

(2) That Dugan Production Corporation is hereby designated the operator of the subject well and unit.

(3) That after the effective date of this order and within 90 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(4) That within 30 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and that any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(5) That the operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; that 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 said schedule, the actual well costs shall be the reasonable well costs; provided however, that if there is an objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(6) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs in advance as provided

above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

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

(A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(B) As a charge for the risk involved in the drilling of the well, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(8) That the operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(9) That \$ 350.00 per month while drilling and \$ 350.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

-6-
Case
Order No.

(10) That any unsevered 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 the terms of this order.

(11) That any well costs or charges which are to be paid out of production shall be withheld only from the working interest's share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(12) That all proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in San Juan County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

(13) That jurisdiction of this cause 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.

Called in by Jommie Roberts
6/2/80

Hugan Production Corporation
Compulsory Pooling

Wakota formation

S/2 Section 26-T30N-R14W
San Juan County