



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

Lance Oil & Gas Company, Inc.

P. O. Box 70

Kirtland, New Mexico 87417

December 21, 2004

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

Attention: Paul Lehrman
plehrman@westernngas.com

Administrative Order NSL-5145 (SD-Coal) (NSP-Pictured Cliffs)

Dear Mr. Lehrman:

Reference is made to the following: (a) your application dated November 22, 2004 (*administrative application reference No. pSEM0-432947244*); and (b) the records of the New Mexico Oil Conservation Division ("Division") in Santa Fe and Aztec: all concerning Lance Oil & Gas Company, Inc.'s ("Lance") request for: (i) an unorthodox gas well location in both the West Kutz-Pictured Cliffs Pool (79680) and Basin-Fruitland Coal (Gas) Pool (71629) for Lance's proposed F-RPC "19" Well No. 3 to be drilled at an unorthodox gas well location 2045 feet from the South line and 700 feet from the West line of Irregular Section 19, Township 29 North, Range 13 West, NMPM, San Juan County, New Mexico; and (ii) a non-standard 91.16-acre gas spacing unit in the West Kutz-Pictured Cliffs Pool comprising Lots 3, 4, 17, 18, 19, and 20 (SW/4 equivalent) of Irregular Section 19.

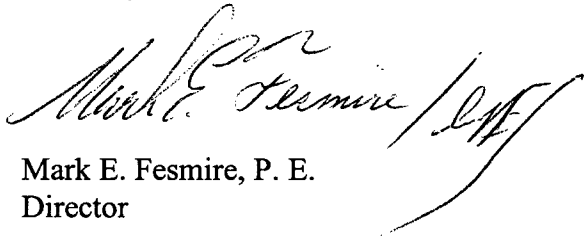
This application has been duly filed under the provisions of: (i) Rule 7 (b) of the "*Special Rules and Regulations for the Basin-Fruitland Coal Gas Pool*," as promulgated by Division Order No. R-8768, as amended; (ii) Division Rule 104.F; (iii) Division Rule 104.D (2); (iv) Division Rule 1207.A (2); and (v) 1207.A (3).

Gas production from the Basin-Fruitland Coal (Gas) Pool is to be included within an existing standard 248.92-acre lay-down gas spacing unit comprising Lots 3, 4, 14, 15, 16, 17, 18, 19, 20, 21, 22, and 23 (S/2 equivalent) of Irregular Section 19, which is currently dedicated to Lance's proposed F-RPC "19" Well No. 4 located at a standard coal gas well location 746 feet from the South line and 665 feet from the East line (Lot 23/Unit P) of Irregular Section 19.

By the authority granted me under the provisions of Division Rule 104.F (2) and in accordance with Rule 8 of the special Basin-Fruitland Coal (Gas) Pool rules, the above-described unorthodox Fruitland coal infill gas well location/Pictured Cliffs gas well location for Lance's above-described F-RPC "19" Well No. 3 is hereby approved. FURTHER, by the authority granted me under the provisions of Division Rule 104.D (2) (b), the above-described 91.16-acre non-standard Pictured Cliffs gas spacing unit is also approved.

Jurisdiction of this cause is retained for the entry of such further orders as the Division deems necessary.

Sincerely,

A handwritten signature in cursive script, appearing to read "Mark E. Fesmire", followed by a large, stylized flourish or "X" mark.

Mark E. Fesmire, P. E.
Director

MEF/ms

cc: New Mexico Oil Conservation Division - Aztec
U. S. Bureau of Land Management – Farmington