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October 12, 2004

HAND DELIVERED

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

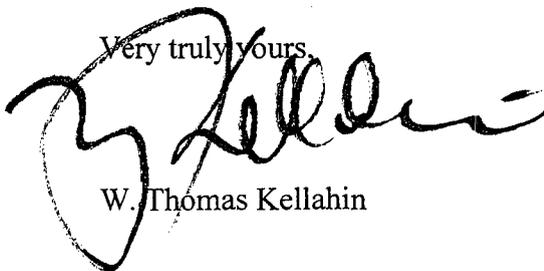
Re: Application of Lance Oil & Gas Company, Inc.
Company to amend Division Order R-11814
for compulsory pooling for infill coal gas well
San Juan County, New Mexico
RPC 21 Well No 2. (Unit E-Section 21 T29N, R13W)

2004 OCT 12 PM 2 16
Case 13360

Dear Mr. Fesmire:

On behalf of Lance Oil & Gas Company, Inc., please find enclosed our referenced application which we request be set for hearing on the Examiner's docket now scheduled for November 4, 2004. Also enclosed is our proposed advertisement of this case for the NMOCD docket.

Very truly yours,



W. Thomas Kellahin

cc: Lance Operating Company, Inc.
Attn: Ann Jones

CASE 13360: Application of Lance Oil & Gas Company, Inc. to amend Division Order R-11814 for compulsory pooling, San Juan County, New Mexico. Applicant seeks to amend this compulsory pooling order to substitute its F-RPC "21" Well No. 2 (API 30-045-31059) that was drilled as a Basin Fruitland coal/gas well at an standard well location in Unit E of Section 21, T29N, R13W, NMPM and to pool all uncommitted mineral interest owners within the vertical limits of the Basin Fruitland Coal Gas Pool for a standard 320-acre gas spacing unit consisting of the W/2 of this section. Also to be considered will be the costs of the drilling and completing this well and the allocation of the costs thereof as well as actual operating costs and charges for supervision, designation of Lance Oil & Gas Company, Inc. as the operator of this well and, pursuant to Commission Order R-11992, a risk charge of 200% for the risk involved in this well. This unit is located within the City of Farmington, New Mexico.

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

**IN THE MATTER OF THE APPLICATION
OF LANCE OIL & GAS COMPANY, INC.
TO AMEND DIVISION ORDER R-11813
FOR COMPULSORY POOLING
SAN JUAN COUNTY, NEW MEXICO.**

CASE NO. *13360*

APPLICATION

Lance Oil & Gas Company, Inc. ("Lance") by its attorneys, Kellahin & Kellahin, and in accordance with Section 70-2-17.C NMSA (1978). Applicant seeks to amend Division Order R-11814, for compulsory pooling, to substitute the F-RPC "21" Well No. 2 that was drilled as a Pictured Cliffs well and to pool all uncommitted mineral interest owners within the vertical limits of the Pictured Cliffs formation to form a standard 160-acre gas spacing unit consisting of the SW/4 of Section 21, T29N, R13W, NMPM. Also to be considered will be the costs of the drilling and completing this well and the allocation of the costs thereof as well as actual operating costs and charges for supervision, designation of Richardson Operating Company as the operator of this well and, pursuant to Commission Order R-11992, a risk charge of 200% for the risk involved in this well.

In support of its application Lance states:

- (1) Effective October 1, 2004, Lance became the successor operator to Richardson Operating Company.
- (2) Richardson was a working interest owners in the oil and gas minerals underlying the W/2 of Section 21, T19N, R13W, NMPM, San Juan County, New Mexico that contains two existing wells:
 - a. The F-RPC "21" Well No. 3 (API# 30-045-31079) approved for downhole commingled production is located in the Unit E of this section and that approved the compulsory pooling of the SW/4 for Pictured Cliffs production and the W/2 for production from Basin Fruitland Coal Gas Pool and is subject to Division Order R-11814, dated August 16, 2002, Case 11855 but was only completed in the Pictured Cliffs formation;

- b. The F-RPC "21" Well No. 2 (API # 30-045-31059) located in the NW/4 that was originally to be drilled to the Pictured Cliffs formation and was subject to a compulsory pooling order for that formation, Division Order R-11813, dated August 16, 2002, Case 11813, but was completed in and only produces from the Basin Fruitland Coal Gas Pool.
 - (3) On August 4, 2004, Richardson, as the operator, sent to all unleased mineral interest owners and working interest owners a written well proposal, including an AFE, for the addition of the F-RPC "21" Well No. 2 as the coalbed gas well to be dedicated to the W/2 of Section 21.
 - (4) Despite reasonable efforts, neither Richardson or Lane was unable to conclude a voluntary agreement with those parties listed on Exhibit "A"
 - (5) Pursuant to Commission Order R-11992, effective August 15, 2003, Lance requests that the 200% risk charge be applied.
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- (6) Pursuant to Section 70-2-17.C NMSA (1978) and in order to obtain its just and equitable share of potential production underlying this spacing unit, Lance needs an order of the Division pooling the identified and described mineral interests involved in order to protect correlative rights and prevent waste.
 - (7) In accordance with the Division's notice requirements, a copy of this application has been sent to the parties whose interest is to be pooled as listed on Exhibit "A" notifying each of this case and of the applicant's request for a hearing of this matter before the Division on the next available Examiner's docket now scheduled for November 4, 2004.

WHEREFORE, Lance, as successor to Richardson, requests that this application be set for hearing on November 4, 2004 before the Division's duly appointed examiner, and that after notice and hearing as required by law, the Division enter its order pooling the mineral interest described in the appropriate spacing unit for this well at a standard well location upon terms and conditions which include:

- (1) Lance Oil & Gas Company, Inc. be named operator;
 - (2) Amending Order R-11813 to provide for the F-RPC "21" Well No. 2 as a coal-gas well including provision for subsequent operations;
 - (3) Provisions for applicant and all working interest owners to participate in the costs of re-entering, completing, equipping and operating this well;
 - (4) In the event a mineral interest or working interest owner fails to elect to participate, then provision be made to recover out of production, the costs of the drilling, completing, equipping and operating the well, including a risk factor penalty of 200%;
 - (5) Provision for overhead rates per month drilling and per month operating and a provision providing for an adjustment method of the overhead rates as provided by COPAS;
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- (6) For such other and further relief as may be proper.

RESPECTFULLY SUBMITTED:



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