

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

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

**CASE NO. 13437
ORDER NO. R-12339**

**APPLICATION OF LANCE OIL AND GAS COMPANY, INC. FOR
COMPULSORY POOLING, SAN JUAN COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came for hearing at 8:15 a.m. on April 7, 2005, at Santa Fe, New Mexico, before Examiner William V. Jones.

NOW, on this 26th day of April, 2005, the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

FINDS THAT:

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

(2) The applicant, Lance Oil and Gas Company, Inc. ("applicant" or "Lance"), seeks an order pooling all uncommitted mineral interests from the surface to the base of the Pictured Cliffs formation underlying the NW/4 of Section 17, Township 29 North, Range 14 West, NMPM, San Juan County, New Mexico, in the following manner:

the NW/4 forming a standard 160-acre gas spacing unit for all formations or pools spaced on 160 acres within this vertical extent, which presently include, but are not necessarily limited to the Undesignated Twin Mounds-Fruitland Sand-Pictured Cliffs Gas Pool (86620).

(3) The above-described unit ("the Unit") is to be dedicated to the applicant's WF FRPC 17 Well No. 2 (API No. 30-045-32140), to be located at an unorthodox gas well location 1,975 feet from the North line and 575 feet from the West line of Section 17.

(4) The well location was approved on March 3rd, 2004, by the Division under administrative order number NSL-5008. The unorthodox well location (encroaching on the NE/4 of Section 18) was reported as necessary to "protect wetlands".

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

(6) Applicant is an owner of an oil and gas working interest within the Unit. Applicant has the right to drill and proposes to drill its WF FRPC 17 Well No. 2 to a common source of supply at a well location within the NW/4 of Section 17 to a projected well depth of 1,100 feet.

(7) James Thomas Robbins entered an appearance and appeared at the hearing in opposition to this case. No other interest owners entered an appearance in this case.

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

(a) The well was first permitted to-be-drilled by Richardson Operating Company; then the property rights were transferred to Lance Oil and Gas Company, Inc.

(b) Approximately 40 to 50 interest owners exist in this proposed 160-acre spacing unit.

(c) There are approximately 10 unleased mineral interest owners and the total uncommitted acreage is just over 25 acres in this proposed 160-acre unit. Mr. Robbins owns 0.47 acres of land within the unit, located approximately 1,000 feet from the proposed well.

(d) All unleased mineral interest owners were provided with an offer to sell, to lease, or to join in the proposed well. They were also advised of the existence of New Mexico statutes regarding compulsory pooling.

(e) Lance has obtained approval from the surface owner of the proposed well site.

(f) Mr. Robbins did not want to sell, lease, join in the proposed well, or be compulsory pooled. In January of 2005, Mr. Robbins solicited help from US Congressman Tom Udall. The honorable Tom Udall asked legal help and advice in this matter from attorney James M. Colosky of Williams, Turner & Holmes, P.C., of Grand Junction Colorado. Mr. Colosky, in reply, advised, that "I see nothing incorrect, untoward, or harmful to your constituent's interest in the manner in which Lance identified the options available to Mr. Robbins." Mr. Robbins then sent Lance a counter offer, which Lance rejected.

(9) Mr. Robbins represented himself at the hearing. He was sworn in as a witness and testified that he still did not desire to enter into a business relationship with Lance or be compulsory pooled. He stated that he had two offers from other drilling companies with the status of those offers depending on the outcome of this hearing.

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

(11) Applicant should be designated the operator of the proposed well and of the Unit.

(12) Any pooled working interest owner who does not pay its share of estimated well costs should have withheld from production its share of reasonable well costs plus an additional 200% thereof as a reasonable charge for the risk involved in drilling the well.

(13) Reasonable charges for supervision (combined fixed rates) should be fixed at \$3,500 per month while drilling and \$481 per month while producing, provided that these rates should be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations*."

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Lance Oil and Gas Company, Inc. ("applicant"), all uncommitted mineral interests, whatever they may be, in the oil and gas from the surface to the base of the Pictured Cliffs formation underlying the NW/4 of Section 17, Township 29 North, Range 14 West, NMPM, San Juan County, New Mexico, are hereby pooled as follows:

the NW/4 forming a standard 160-acre gas spacing unit for all formations or pools spaced on 160 acres within this vertical extent, which presently include, but are not necessarily limited to the Undesignated Twin Mounds-Fruitland Sand-Pictured Cliffs Gas Pool (86620).

The above-described unit ("the Unit") is to be dedicated to the applicant's WF FRPC 17 Well No. 2 (API No. 30-045-32140), to be drilled at an unorthodox gas well location 1,975 feet from the North line and 575 feet from the West line of Section 17.

(2) The operator of the Unit shall commence drilling operations on the proposed well on or before August 1, 2005 and shall thereafter continue drilling the well with due diligence to test the Pictured Cliffs formation.

(3) In the event the operator does not commence drilling operations on the proposed well on or before August 1, 2005, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause.

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

(5) Upon final plugging and abandonment of the WF FRPC 17 Well No. 2, the pooled unit created by this Order shall terminate, unless this order has been amended to authorize further operations.

(6) Lance Oil and Gas Company, Inc. is hereby designated the operator of the proposed well and of the Unit.

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

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

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

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

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

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

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

(13) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$3,500 per month while drilling and \$481 per month while producing, provided that these rates shall be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations*." The operator is authorized to withhold from production the proportionate share of both the supervision charges and the actual expenditures required for operating the well, not in excess of what are reasonable, attributable to pooled working interest owners.

(14) Except as provided in Ordering Paragraphs (11) and (13) above, all proceeds from production from the well that are not disbursed for any reason shall be placed in escrow in San Juan County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership. The operator shall notify the Division of the name and address of the escrow agent within 30 days from the date of first deposit with the escrow agent.

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

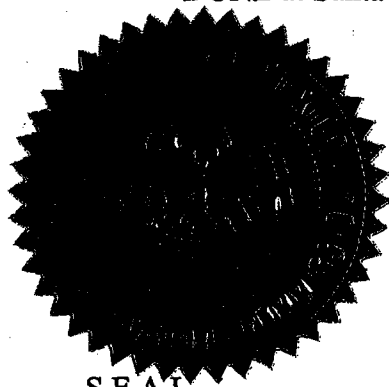
(16) Should all the parties to this compulsory pooling order reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

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

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

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



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STATE OF NEW MEXICO
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A handwritten signature in cursive script, reading "Mark E. Fesmire".

MARK E. FESMIRE, P.E.
Director