



September 13, 2005

**HAND-DELIVERED**

Mark E. Fesmire, P.E.  
Director  
Oil Conservation Division  
New Mexico Energy, Minerals and  
Natural Resources Department  
1220 South Saint Francis Drive  
Santa Fe, New Mexico 87505

*Case 13574*

2005 SEP 13 PM 2 15

Re: Application of Lance Oil & Gas Company, Inc. for compulsory pooling and optional infill coalbed gas well provisions, San Juan County, New Mexico.

Dear Mr. Fesmire:

Enclosed is the application of Lance Oil & Gas Company, Inc. in the above-referenced case as well as a copy of a legal advertisement. Lance requests that this matter be placed on the docket for the October 6, 2005 Examiner hearings.

Very truly yours,

*Ocean Munds-Dry*  
Ocean Munds-Dry

Enclosures

cc: Ms. Anne Jones  
Lance Oil & Gas Company, Inc.

**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.  
FOR COMPULSORY POOLING INCLUDING  
OPTIONAL INFILL WELL PROVISIONS,  
SAN JUAN COUNTY, NEW MEXICO.**

2005 SEP 13 PM 5:15

CASE NO. 13374

**APPLICATION**

LANCE OIL & GAS COMPANY, INC. ("Lance"), through its undersigned attorneys, hereby makes application pursuant to the provisions of NMSA 1978, Section 70-2-17, for an order pooling all uncommitted mineral interests in all formations from the surface to the base of the Pictured Cliffs formation and the Basin Fruitland Coal Gas Pool in Section 17, Township 29 North, Range 13 West, N.M.P.M., San Juan County County, New Mexico, in the N/2 to form a standard 320-acre spacing and proration unit for any production from the Basin Fruitland Coal Gas Pool; and in the NE/4 to form a standard 160-acre spacing and proration unit for any production from the Pictured Cliffs formation, including but not limited to the West Kutz-Pictured Cliffs Pool. Lance also seeks to include provisions for subsequent operation and procedures for an optional "infill" coalbed-gas well.

In support of this application Lance states:

1. Lance is a working interest owner in the N/2 of Section 17 and has a right to drill thereon.
2. Lance proposes to dedicate the above-referenced spacing or proration unit to its FRCP "17" Well No. 1 (API No. 30-045-31768), to be drilled at a standard location 1914 feet from the North line and 1449 from the East line in the SW/4 NE/4 (Unit G) of Section 17 for downhole commingled production from the Basin Fruitland Coal Gas Pool and the West Kutz Pictured Cliffs Pool.
3. Lance has sought and been unable to obtain a voluntary agreement for the development of these lands from the interest owners identified on Exhibit A to this application.
4. Said pooling of interests will avoid the drilling of unnecessary wells, will prevent waste and will protect correlative rights.

5. In order to permit Lance the opportunity to obtain its just and fair share of the oil and gas underlying the subject lands, all mineral interests should be pooled, and Lance should be designated the operator of the well.

6. Lance also seeks to include provisions for subsequent operations and procedures for an optional "infill" coalbed gas well. See Exhibit B.

WHEREFORE, Lance requests that this application be set for hearing before an Examiner of the Oil Conservation Division on October 6, 2005, and, after notice and hearing as required by law, the Division enter its order:

- A. pooling all mineral interests in the subject spacing and proration unit;
- B. designating Lance operator of the unit and the well to be drilled thereon;
- C. authorizing Lance to recover its costs of deepening, equipping and re-completing the well;
- D. authorizing subsequent operations and procedures for an optional "infill" coalbed gas well;
- E. approving the actual operating charges and costs of supervision while drilling and after completion, together with a provision to adjust the rates pursuant to the COPAS accounting procedures; and
- F. imposing the 200% risk penalty provided by Division Rule 19.15.1.35 against any working interest owner who does not voluntarily participate in the drilling of this well.

Respectfully submitted,

HOLLAND & HART, LLP

By: Ocean Munds-Dry

William F. Carr  
Ocean Munds-Dry  
P.O. Box 2208  
Santa Fe, NM 87504  
Telephone: (505) 988-4421

ATTORNEYS FOR LANCE OIL &  
GAS COMPANY, INC.

## EXHIBIT A

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

#### FRPC 17 Well No.1

| NAME                                     | ADDRESS                    | CITY          | STATE | ZIP        |
|------------------------------------------|----------------------------|---------------|-------|------------|
| Scott Tubb                               | 3700 East Main Street      | Farmington    | NM    | 87402      |
| Garden Spot Produce                      | P.O. Box 109               | Farmington    | NM    | 87499-0109 |
| W.R. Grace                               | 2210 West Main Street      | Farmington    | NM    | 87401      |
| James J. Gifford                         | 3308 Vista Del Sur NW      | Albuquerque   | NM    | 87120      |
| Jerry A. & Patsy Ann Symmonds            | 2112 West Main Street      | Farmington    | NM    | 87401-3221 |
| D. Vince & Helen L. Ferrari              | 455 West Main Street       | Farmington    | NM    | 87401-8425 |
| Stewart & Stevenson Power                | 5840 Dahlia Street         | Commerce City | CO    | 80022-3707 |
| Four Corners Trading Company             | P.O. Box 201               | Flora Vista   | NM    | 87415      |
| Johnny D. & Erlinda Maestas              | 310 North Schwartz Avenue  | Farmington    | NM    | 87401      |
| Frankie L. Smith                         | 2333 East 10th Street      | Farmington    | NM    | 87401      |
| Donald J. Anderson                       | 1301 West Main Street      | Farmington    | NM    | 87401-3810 |
| Manju Nagin                              | 1510 West Main Street      | Farmington    | NM    | 87401-3838 |
| Rita F. Kilkeny                          | P.O. Box 2207              | Santa Fe      | NM    | 87501-2040 |
| Glen & Leslie Murray                     | 24 CR 57, 3011-D           | Farmington    | NM    | 87401-9560 |
| Four Corners Body & Paint                | 1615 West Apache           | Farmington    | NM    | 87401      |
| Abe & Irene Ashihi                       | 115 Phillips Road          | Farmington    | NM    | 87401-3853 |
| Andrew & Helen M. Lucero                 | 309 Phillips Road          | Farmington    | NM    | 87401-4705 |
| Francis B. & Mary E. Marler              | 1709 West Main Street      | Farmington    | NM    | 87401-3841 |
| Sherman K. Coates                        | 911 North Butler           | Farmington    | NM    | 87401-6859 |
| Bobby J. & Betty L. Merrit               | 750 North 17th Street      | Las Cruces    | NM    | 88005      |
| Ted & Sherry Sprinkle                    | 601 Kerney                 | Farmington    | NM    | 87401      |
| Gerald Nolan                             | 2 CR 5150                  | Bloomfield    | NM    | 87413      |
| Jim W. & Gloria R. Mihelich              | 603 West LaPlata           | Farmington    | NM    | 87401      |
| State of NM Department of Transportation | P.O. Box 1149              | Santa Fe      | NM    | 87504-1149 |
|                                          |                            |               |       |            |
| Mark & Becky Duncan                      | 418 West Broadway, Suite A | Farmington    | NM    | 87401      |
| F.R. & E.M. Dickens                      | P.O. Box 223               | Aztec         | NM    | 87410-0223 |
| Phyllis Turner                           | 106 Lakeside Lane          | Pierre        | SD    | 57501      |
| Kenneth N. & Greta L. Griner             | 219 Airport Drive          | Farmington    | NM    | 87401      |
| Victor R. & Delores L. Eicker            | 9 RD 5571                  | Farmington    | NM    | 87401      |
| High Desert Woodworks                    | 219 Airport Drive          | Farmington    | NM    | 87401      |
| Wal Mart                                 | 2001 SE 10th Street        | Bentonville   | AR    | 72716-0550 |
| Rick D. & LaDonna Mace                   | 1301 West Main Street      | Farmington    | NM    | 87401-3833 |

( ) Pursuant to Division Rule 104, an optional infill well may be drilled and produced within this 320-acre spacing unit or subsequent operations conducted for either the original well or the infill well in accordance with the following provisions:

- (a) Lance Oil & Gas Company, Inc., or its successor, shall continue to be the operator of the parent well and the infill well;
- (b) The operator or any working interest owner who consents to and has paid its share of costs of the original well, pursuant to either an voluntary agreement or a compulsory pooling order, may propose drilling of an infill well or subsequent operations of either the original well or the infill well by giving written notice of the proposed well to all working interest owners and all unleased mineral owners with the 320-acre pooled unit. Any such proposal shall specify the work to be performed, the location, proposed depth, objective formations and the estimated costs of the operation.
- (c) The parties receiving such a notice shall have thirty (30) day election period after receipt of this notice within which to notify the proposing party whether they elect to participate in the costs of the subsequent operations or the infill well. Failure of a party receiving such notice to deliver to the proposing party an written election, plus payment for this share of the total costs, within a thirty (30) day election period shall constitute an election by that party not to participate in the costs of the well or the proposal operation and shall be "a non-consenting party."
- (d) Any non-consenting party shall be subject to a 200% risk penalty charge for that well or the operations.
- (e) Production from the original well cannot be used to pay for the costs of the infill well or can production from the infill well be used to pay for the costs of the original well. The recovery of costs for subsequent operations shall be paid by the production from the well on which those operations were conducted.
- (f) If all parties elect to participate in the infill well or in subsequent operations ("a consenting party"), the operator shall, within ninety (90) days after the expiration of the thirty (30) day election period, actually commence and conduct operations with due diligence at the risk of expense of all parties.
- (g) If less that all parties elect to participate in the infill well or the subsequent operations, then all parties who elected not to participate shall be considered non-consenting working interest owners and all the provisions of this order shall apply to the drilling of the infill well or the subsequent operations with the FOLLOWING EXCEPTIONS:
  - a. The proposing party shall be solely responsible for carrying the no-consenting working interest owner's interest subject to the risk penalty charge provided for in the order. The proposing party may enter into an agreement, or

recognize an existing agreement, that provides for the sharing of the non-consenting interest by the consenting parties. The proposing party, at its election, may withdraw such proposal if there is insufficient participation and shall notify the Division and all other parties of such decision.

- b. If the operator is a non-consenting working interest owner in the infill well, the consenting parties shall either: (a) request the operator to perform the work required for the account of the consenting parties, or (b) designate one of the consenting parties as operator of the infill well. If the infill well results in a producer of oil and/or gas in paying quantities, one of the consenting parties shall be designated as operator and shall completed and equip the well to produce at the sole costs and risk of the consenting parties and thereafter the operator designated by this compulsory pooling order shall operator this well at the expense and for the account of the consenting working interest owners.
- c. To be entitled to the benefits of this order, the operator, or the designated consenting party, shall within ninety (90) days after the expiration of the thirty (30) day election period, actually commence and conduct the operations with due diligence at the sole risk and expense of the consenting parties.
- d. If operations for the drilling of an infill well results in a dry hole, the consenting parties shall plug and abandon the well and restore the surface location at their sole costs, risk and expense.

( ) If operations for the drilling of a proposed infill well or any subsequent operation for either the original well or the infill well have not been commenced within the time provided, and if any party still desires to drill the infill well, written notice proposing same must be resubmitted in accordance with the provision hereof as if no prior proposal had been made

CASE 13574 :

**Application of Lance Oil & Gas Company, Inc. for compulsory pooling including optional infill well provisions, San Juan County, New Mexico.** Applicant in the above-styled cause seeks an order pooling all uncommitted mineral interests from the surface to the base of the Pictured Cliffs formation and the Basin Fruitland Coal-Gas Pool underlying the NE/4 and the N/2 of Section 17, Township 29 North, Range 13 West, N.M.P.M., San Juan County, New Mexico, to form a standard 320-acre spacing and proration unit for any production from the Basin Fruitland Coal Gas Pool; and the NE/4 to form a standard 160-acre spacing and proration unit for any production from the Pictured Cliffs formation, including but not limited to the West Kutz-Pictured Cliffs Pool. This unit is to be dedicated to the FRCP 17 Well No. 1, to be drilled and dually completed at a standard location 1914 feet from the North line and 1449 feet from the East line in the SW/4 NE/4 (Unit G) of said Section 17 for downhole commingled production from the Basin Fruitland Coal Gas Pool and the West Kutz-Pictured Cliffs Pool. The applicant also seeks to include provisions for subsequent operations and procedures for an optional "infill" coalbed-gas well. 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, pursuant to NMRA 19.15.1.35, the imposition of a 200% risk charge against the working interest of any party that elects not to participate in this project. Said area is located approximately .10 mile south of Farmington, New Mexico.

September 13, 2005

**CERTIFIED MAIL-RETURN RECEIPT REQUESTED**

Re: Application of Lance Oil & Gas Company, Inc. for compulsory pooling, San Juan County, New Mexico.

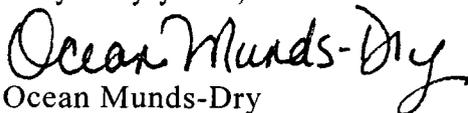
Ladies and Gentlemen:

This letter is to advise you that Lance Oil & Gas Company, Inc. has filed the enclosed application with the New Mexico Oil Conservation Division seeking an order pooling all mineral interests from the surface to the base of the Pictured Cliffs formation and the Basin Fruitland Coal Gas Pool in certain spacing and proration units in the N/2 of Section 17, Township 29 North, Range 13 West, N.M.P.M., San Juan County, New Mexico. Said pooled units are to be dedicated to Lance's FRCP 17 Well No. 1 to be drilled at a standard location 1914 feet from the North line and 1449 feet from the East line.

This application has been set for hearing before a Division Examiner on October 6, 2005. The hearing will be held in Porter Hall in the Oil Conservation Division's Santa Fe Offices located at 1220 South Saint Francis Drive, Santa Fe, New Mexico 87505. You are not required to attend this hearing, but as an owner of an interest that may be affected by this application, you may appear and present testimony. Failure to appear at that time and become a party of record will preclude you from challenging the matter at a later date.

Parties appearing in cases are required by Division Rule 1208.B to file a Pre-hearing Statement four days in advance of a scheduled hearing. This statement must be filed at the Division's Santa Fe office at the above specified address and should include: the names of the parties and their attorneys; a concise statement of the case; the names of all witnesses the party will call to testify at the hearing; the approximate time the party will need to present its case; and identification of any procedural matters that are to be resolved prior to the hearing.

Very truly yours,



Ocean Munds-Dry  
ATTORNEY FOR LANCE OIL & GAS  
COMPANY, INC.