

**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. 13574
ORDER NO. R-12453**

**APPLICATION OF LANCE OIL & GAS COMPANY, INC., FOR
COMPULSORY POOLING, AND OPTIONAL INFILL WELL PROVISIONS,
SAN JUAN COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on October 6, 2005, at Santa Fe, New Mexico, before Examiner Richard I. Ezeanyim

NOW, on this 16th day of November 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 & Gas Company, Inc. ("Lance" or "Applicant"), 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 N/2 of Section 17, Township 29 North, Range 13 West, NMPM, San Juan County, New Mexico, in the following manner:

The N/2 to form a standard 320-acre gas spacing and proration unit for any production from the Basin-Fruitland Coal Gas Pool and all formations and/or pools developed on 320-acre spacing within that vertical extent.

The NE/4 to form a standard 160-acre gas spacing and proration unit for all formations and/or pools developed on 160-acre spacing within that vertical extent, which include but are not necessarily limited to the West Kutz-Pictured Cliffs Gas Pool.

The above-described units ("the Units") are to be dedicated to the Applicant's proposed FRCP 17 Well No. 1 (**API No. 30-045-31768**) to be drilled and dually completed at a standard gas well location 1914 feet from the North line and 1449 feet from the East line (Unit G) of Section 17, for down hole commingled production from the Basin Fruitland Coal Gas Pool and the West Kutz-Pictured Cliffs Gas Pool.

(3) The Applicant also seeks to include provisions for subsequent operations and procedures for an optional infill coalbed-gas well.

(4) Two or more separately owned tracts are embraced within the Units, and/or there are royalty interests and/or undivided interests in oil and gas minerals in one or more tracts included in the Units that are separately owned.

(5) Applicant is an owner of an oil and gas working interest within the Units. Applicant has the right to drill and proposes to drill its FRCP 17 Well No. 1 at a standard gas well location in Unit G of Section 17 to test the Fruitland Coal and the Pictured Cliffs formations.

(6) There are interest owners in the proposed Units that have not agreed to pool their interests.

(7) 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 Units.

(8) The Applicant should be designated the operator of the subject well and of the Units.

(9) 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% (pursuant to rule 35.A) thereof as a reasonable charge for the risk involved in drilling the well.

(10) Reasonable charges for supervision (combined fixed rates) should be fixed at \$3,500.00 per month while drilling and \$350.00 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 & Gas Company, Inc., all uncommitted mineral interests from the surface to the base of the Pictured Cliffs formation and the Fruitland Coal-Gas Pool underlying the N/2 of Section 17, Township 29 North, Range 13 West, NMPM, San Juan County, New Mexico, are hereby pooled in the following manner:

The N/2 to form a standard 320-acre gas spacing and proration unit for any production from the Basin-Fruitland Coal Gas Pool and all formations and/or pools developed on 320-acre spacing within that vertical extent.

The NE/4 to form a standard 160-acre gas spacing and proration unit for all formations and/or pools developed on 160-acre spacing within that vertical extent, which include but are not necessarily limited to the West Kutz-Pictured Cliffs Gas Pool.

The above-described units ("the Units") shall be dedicated to the Applicant's proposed FRCP 17 Well No. 1 (**API No. 30-045-31768**) to be drilled and dually completed at a standard gas well location 1914 feet from the North line and 1449 feet from the East line (Unit G) of Section 17, for down hole commingled production from the Basin Fruitland Coal Gas Pool and the West Kutz-Pictured Cliffs Gas Pool.

(2) Lance Oil & Gas Company, Inc., is hereby designated the operator of the subject well and of the Units.

(3) The operator of the Units shall commence drilling the proposed well on or before February 27, 2006 and shall thereafter continue drilling the well with due diligence to test the Fruitland Coal and the Pictured Cliffs formations.

(4) In the event the operator does not commence drilling the proposed well on or before February 27, 2006, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause.

(5) Should the subject well not be drilled and completed within 120 days after commencement thereof, Ordering Paragraph (1) shall be of no further effect, and the Units 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.

(6) Upon final plugging and abandonment of the subject well, the pooled Units created by this Order shall terminate, unless this order has been amended to authorize further operations.

(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 Units, including un-leased mineral interests, who are not parties to an operating agreement governing the Units.) After the effective date of this order, the operator shall furnish the Division and each known pooled working interest owner in the Units an itemized schedule of estimated costs of drilling, completing and equipping the subject 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 \$3,500.00 per month while drilling and \$481.00 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 Units shall notify the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

IT IS FURTHER ORDERED THAT:

(18) 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;
- (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 a voluntary agreement or a compulsory pooling order, may propose subsequent operations on either the parent or infill well by giving written notice of the proposed subsequent operations to all working interest owners and all unleased mineral owners within the Unit. Any such proposal shall specify the work to be performed, objective formation and the estimated costs of the operation;
- (c) The parties receiving such notice shall have a 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. Failure of a party receiving such notice to deliver to the proposing party a written election, plus payment for its share of the total costs within the thirty (30) day election period shall constitute an election by that party not to participate in the costs of the proposed operation and shall be a "non consenting" party;
- (d) Any non-consenting party shall be subject to a 200% risk penalty charge for the subsequent operation;

- (e) Production from the original well cannot be used to pay for the costs of the infill well, nor 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; and
- (f) If all parties elect to participate in the infill well or the subsequent operation, 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 and expense of all parties.

(19) If less than 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 non-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 (i) request the operator to perform the work required for the account of the consenting parties, or (ii) 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 complete 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 operate this well at the expense and 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; and
- (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.

(20) 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 period 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.

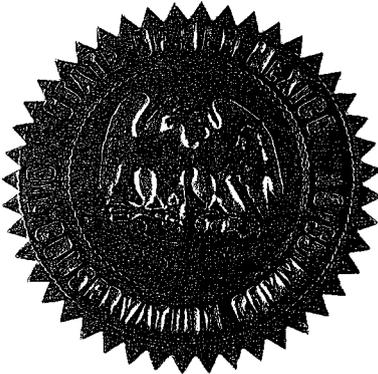
(21) Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary

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

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION



MARK E. FESMIRE, PE
Director



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