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August 15, 2006

**HAND DELIVERED**

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

Re: MEMGEM WALTERS "34" Well No. 1  
API#30-045-33768  
Unit I, S/2 of Section 34, T32N, R13W  
Application of San Juan Resources, Inc.  
For compulsory pooling,  
San Juan County, New Mexico

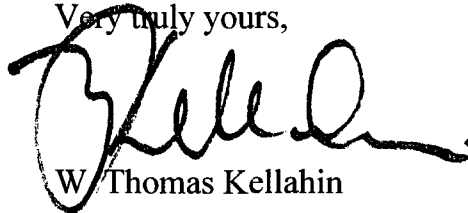
*Case 13784*

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Dear Mr. Fesmire:

On behalf of San Juan Resources, Inc. find enclosed our referenced application which we request be set for hearing on the Examiner's docket now scheduled for September 28, 2006. Also enclosed is our proposed advertisement of this case for the NMOCD docket.

Very truly yours,



W. Thomas Kellahin

CASE 13784: Application of San Juan Resources, Inc. for compulsory pooling, San Juan County, New Mexico. Applicant seeks an order pooling all mineral interests from the surface to the base of the Dakota formation underlying a 325.21-acre non standard spacing unit consisting of the S/2 of Section 34, T32N, R13W, NMPM, San Juan County, New Mexico, forming a non-standard 325.21-acre gas spacing and proration unit for any production from the surface to the base Dakota formation, including but not limited to the Basin-Dakota Gas Pool and Blanco-Mesaverde Gas Pool. This unit is to be dedicated its Memgem Walters "34" Well No. 1 (API#30-045-33768) to be drilled at a standard location in Unit of this section for downhole commingled production from the Blanco-Mesaverde Gas Pool and the Basin-Dakota Gas Pool. Also to be considered will be the costs of drilling and completion this well and the allocation of the costs thereof as well as actual operating costs and charges for supervision, designation of San Juan Resources, Inc. as the operator of the well and a 200% charge for risk involved in this well. This unit is located approximately 1 mile North from La Plata, New Mexico. **IN THE ABSENCE OF OBJECTION, THIS APPLICATION WILL BE TAKEN UNDER ADVISEMENT.**

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

**IN THE MATTER OF THE APPLICATION  
OF SAN JUAN RESOURCES, INC.  
FOR COMPULSORY POOLING,  
SAN JUAN COUNTY, NEW MEXICO.**

**CASE NO.** 13784

**APPLICATION**

San Juan Resources, Inc. ("San Juan") by its attorneys, Kellahin & Kellahin, and in accordance with Section 70-2-17.C NMSA (1978) compulsory pooling, San Juan County, New Mexico seeks an order pooling all mineral interests from the surface to the base of the Dakota formation underlying a the S/2 of Section 34, T32N, R13W, NMPM, San Juan County, New Mexico, forming a non-standard 325.21-acre gas spacing and proration unit for any production from the surface to the base Dakota formation, including but not limited to the Basin-Dakota Gas Pool and Blanco-Mesaverde Gas Pool. This unit is to be dedicated its MEMGEM Walters "34" Well No. 1 (API#30-045-33768) to be drilled at a standard location in Unit I of this section for downhole commingled production from the Blanco-Mesaverde Gas Pool and the Basin-Dakota Gas Pool. Also to be considered will be the costs of drilling and completion this well and the allocation of the costs thereof as well as actual operating costs and charges for supervision, designation of San Juan Resources of Colorado, Inc. as the operator of the well and a 200% charge for risk involved in this well.

In support of its application, San Juan Resources, Inc. states:

1. San Juan has a 60% percent working interest ownership in the oil and gas minerals from the surface to the base of the Dakota formation underlying the S/2 of Section 34, T32N, R13N, NMPM, San Juan County, New Mexico.
2. This gas spacing unit is located within the boundaries of the Blanco-Mesaverde Gas Pool and the Basin-Dakota Gas Pool

3. On June 28, 2006 and again on July 31, 2006, San Juan proposed to the other working interest or mineral owners that this well be drilled and completed in the Mesaverde and Dakota formations to be dedicated to a non-standard 325.21-acre gas spacing and proration unit consisting of the S/2 of Section 34.

4. Despite its reasonable efforts, application has been unable to obtain a written voluntary agreement from certain uncommitted working interest and/or mineral interest owners as shown on Exhibit "A"

5. 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, San Juan needs an order of the Division pooling the interest identified above in order to protect correlative rights and prevent waste.

6. Applicant, in the absence of timely objection, will present its evidence by affidavit as provided by Division Rule 1207.A (1) and request the 200% risk charge in accordance with Commission Order R-11992, effective August 15, 2003.

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 September 28, 2006.

WHEREFORE, San Juan Resources, Inc., as applicant, requests that this application be set for hearing on September 28, 2006 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) San Juan Resources, Inc. be named operator;
- (2) Provisions for applicant and all working interest owners to participate in the costs of drilling, completing, equipping and operating the well;
- (3) 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%;

(4) 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;

(5) For such other and further relief as may be proper.

RESPECTFULLY SUBMITTED:

A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', is written over the typed name and address.

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**Exhibit "A"**

**Chateau Oil & Gas, Inc.  
10440 N. Central Expy-Suite 1475  
Dallas TX 75231-2224**

**Chevron MidContinent LP  
11111 S. Wilcrest  
Houston, TX 77099  
Attn: Rob Munmaker**