

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

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

**APPLICATION OF MYCO INDUSTRIES, INC.
FOR COMPULSORY POOLING, CHAVES
COUNTY, NEW MEXICO.**

Case No. 13,853

**APPLICATION OF MYCO INDUSTRIES, INC.
FOR COMPULSORY POOLING, CHAVES
COUNTY, NEW MEXICO.**

Case No. 13,856

**RESPONSE OF MYCO INDUSTRIES, INC.
IN OPPOSITION TO
MOTION FOR CONTINUANCE**

Myco Industries, Inc. ("Myco") submits this response in opposition to the Motions for Continuance filed in these cases by EOG Resources, Inc. ("EOG"). In support of its response, Myco states:

1. In these cases Myco seeks orders pooling all mineral interests in the Wolfcamp formation underlying the S/2 of Section 34 (Case No. 13,853) and N/2 of Section 34 (Case No. 13,856), in Township 15 South, Range 24 East, NMPM, to form 320-acre gas spacing units.

2. The hearings on these cases are set for January 4, 2007. EOG has requested continuances, claiming that (i) EOG and its attorneys have had an insufficient amount of time to prepare for hearing, and (ii) there have been insufficient negotiations between the parties. Neither reason, alone nor combined, is sufficient to grant continuances.

3. First, these are routine pooling cases. Based on the pre-hearing statements filed by EOG, there are no challenges to well location, risk charge, or operatorship. Therefore, the only issue is whether Myco has satisfied its obligation to negotiate with EOG in good faith. Only landmen will testify at hearing, and the cases will not be lengthy or difficult to prepare.

4. Second, the parties have been in discussions for nearly **eight months**. Attached as Exhibit A is Myco's original proposal to EOG, dated May 4, 2006 (covering all of Section 34). Also attached, as Exhibit B, is a summary of Myco's contacts with all working interest owners regarding these two wells. There have been several dozen communications between Myco and EOG.¹ Please note that on December 5, 2006, Myco informed EOG that compulsory

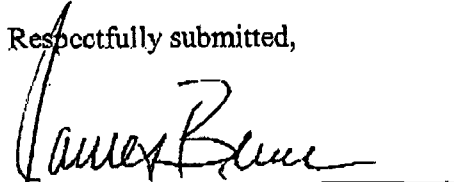
¹ On Exhibit B, "Lanning" refers to Rick Lanning, EOG's landman.

pooling proceedings were being initiated on these two wells. Thus, EOG has not been caught by surprise by these cases.

While EOG has made a proposal to Myco (which Myco is considering), Myco is not under an obligation to accept an offer which does not satisfy its requirements. Due to the substantial negotiations which have occurred, two more weeks are not needed.

WHEREFORE, Myco requests that the Division deny EOG's Motions for Continuance.

Respectfully submitted,



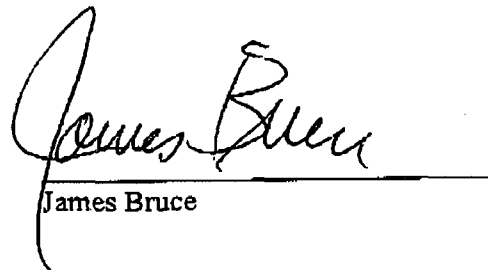
James Bruce
Post Office Box 1056
Santa Fe, New Mexico 87504
(505) 982-2043

Attorney for Myco Industries, Inc.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing pleading was served upon the following counsel of record via facsimile transmission this 21st day of December, 2006:

J. Scott Hall
Miller Stratvert P.A.
P.O. Box 1986
Santa Fe, New Mexico 87504
Fax: (505) 989-9857



James Bruce

Dec 29 06 09:00a

Hannah Palomin

505.748.9764

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MYCO INDUSTRIES, INC.
OIL PRODUCERS
POST OFFICE BOX 840
ARTESIA, NEW MEXICO 88211-0840
Phone (505) 748-1471

May 4, 2006

VIA FEDERAL EXPRESS

EOG Resources, Inc.
4000 N. Big Springs, Suite 500
Midland, TX 79705

Re: **JOA & Well Proposal/Starr 34 Fee #1**
T15S, R24E, N.M.P.M., Sec. 34, Chaves County, NM

Ladies and Gentlemen:

A search of the records indicates that EOG owns 248.33333 acres under Section 34, Township 15 South, Range 24 East, N.M.P.M. in Chaves County, New Mexico.

MYCO Industries, Inc. (MYCO) is sending this proposal to all of the mineral owners in Section 34 in order to gain voluntary approval from all to join in the formation of a 640 acre working interest area to be governed by a 1989 Joint Operating Agreement in support of the drilling of horizontal wells in Section 34. Your interest in this proposed 640 acre working interest area is set out on the attached Exhibit "A" and is attached as Exhibit "A" to the enclosed 1989 Joint Operating Agreement naming MYCO Industries, Inc. as the Operator.

We invite you to join as a non-operator under the Joint Operating Agreement and in the drilling of the initial well in the S/2 of Section 34. We also anticipate drilling a well in the N/2 of Section 34. For your review we are including a Joint Operating Agreement and an AFE for the initial well and the subsequent well.

Should you elect to participate, we invite you to sign, date and return one copy of each AFE and one copy of the Joint Operating Agreement to our office as soon as possible. If your decision is to not participate, we request your support in the form of either a one year, 75% NRI Term Assignment or that we enter into negotiations with respect to any other option you may see as being beneficial for all concerned.

Should you wish to discuss this matter, please feel free to contact our office at 505.748.4290.

Best regards,
MYCO INDUSTRIES, INC.


Shari Darr Hodges, CPL
Land Manager

SDH/me

EXHIBIT A

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EXHIBIT "A"
Attached to and made a part of that certain
May 4, 2006 Proposal

<u>NAME</u>	<u>NET ACRES</u>	<u>WORKING INTEREST</u>
The Allar Company	40.00000	.06250000
Twin Montana, Inc.	20.00000	.03125000
Talus, Inc.	20.00000	.03125000
EOG	248.33330	.38802083
Edge Petroleum	5.00000	.00781250
Chisos, Ltd.	2.50000	.00390625
Pure Energy Group	2.50000	.00390625
Abo Petroleum Corp.	75.41667	.11783854
MYCO Industries, Inc.	75.41667	.11783854
Yates Drilling Company	75.41667	.11783854
Yates Petroleum Corp.	<u>75.41667</u>	<u>.11783854</u>
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PULL AND RETAIN THIS COPY BEFORE AFFIXING TO THE PACKAGE.


FEDEX Express **US Airbill**

 1 From **Midland**

 Date **5.4.06** Sender's Facility **1097-8519-9**

 Sender's Name **Shari Hodges** Phone **505.748.4280**

 Company **MYCO INDUSTRIES INC**

 Address **423 W MAIN ST**

 City **ARTESIA** State **NM** ZIP **88210-2030**

2 Your Internal Billing Reference

3 To Recipient's Address

 Company **EOG Resources, Inc.**

 Recipient's Address **4000 N. Big Springs, Suite 500**

We cannot deliver to ZIP codes with ZIP codes.

 Addressee **Midland**

 City **Midland** State **TX** ZIP **79705**

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☐ FedEx 4Day

☐ FedEx 5Day

☐ FedEx International

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7 Payment Method

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☐ Bill of Sale

☐ Invoice

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☐ Other

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8 Total Package Weight

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☐ 101 lbs to 150 lbs

☐ 151 lbs to 200 lbs

☐ 201 lbs to 250 lbs

☐ 251 lbs to 300 lbs

☐ 301 lbs to 350 lbs

☐ 351 lbs to 400 lbs

☐ 401 lbs to 450 lbs

☐ 451 lbs to 500 lbs

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Signed for by D.WEBB
Ship date May 4, 2006
Delivery date May 5, 2006 10:44 AM
Status Delivered

Delivered to
Service type
Weight

Receptionist/Front Desk
Priority Pak
1.0 lbs.

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Date/Time	Activity	Location	Details
May 5, 2006 10:44 AM	Delivered		
9:23 AM	On FedEx vehicle for delivery	MIDLAND, TX	
8:55 AM	At local FedEx facility	MIDLAND, TX	
May 4, 2006 8:43 PM	At dest sort facility	LUBBOCK, TX	
7:26 PM	At local FedEx facility	LUBBOCK, TX	
5:48 PM	Left origin	ROSWELL, NM	
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	English	☐	☐

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5/5/2006

STARR PROSPECT		Prepared by: Shari Dar Hodges	
FORCE POOL HEARING		Dated: December 27, 2006	
T15S, R34E, N.M.P.M.			
Section 34: N/2 and S/2			
Exhibit	Date of Communication	Well Name	Summary of Communication
Ex. 11	May 4, 2006	Starr 34 Fee #1 and #2	a) Proposed the formation of a 640 acre working interest area to support the drilling of the initial well in the S/2 and possibly the N/2 of the Section
			b) JOA was based on an EOG JOA that the Yates group had agreed to on an EOG project.
Ex. 10	May 5, 2006	Starr 34 Fee #1 and #2	MYCO filed Application for Permit to Drill for the Starr 34 Fee #1 and #2
Conv	May 5, 2006	Starr 34 Fee #1 and #2	Left message on voice mail - proposal on its way
Conv	May 5, 2006	Starr 34 Fee #1 and #2	Left message - will be out, call on Monday
Conv	May 5, 2006	Starr 34 Fee #1 and #2	Left message on voice mail - proposal on its way
Conv	May 5, 2006	Starr 34 Fee #1 and #2	Ken Haggart - call until Monday. He is with the Echo group
Conv	May 5, 2006	Starr 34 Fee #1 and #2	Called, got a fax machine
Conv	May 30, 2006	Starr 34 Fee #1 and #2	In office - left message that we would be in Midland at building auction and would like to get together.
Conv	May 31, 2006	Starr 34 Fee #1 and #2	Called to touch base, left message
Conv	May 31, 2006	Starr 34 Fee #1 and #2	Left message

EXHIBIT

B

Exhibit	Date of Communication	Well Name	Type of Communication	Summary of Communication
Conv	July 19, 2006	Starr 34 Fee #1 and #2	Conv: Hodges to Lanning @ EOG	Called to touch base, left a message that I would be out.
Conv	August 2, 2006	Starr 34 Fee #1 and #2	Conv: Hodges to Lanning @ EOG	Voice mail said Lanning out until August 3, 2006
Conv	August 4, 2006	Starr 34 Fee #1 and #2	Conv: Hodges to Lanning @ EOG	Left a message on machine.
Conv	August 4, 2006	Starr 34 Fee #1 and #2	Conv: Lanning to Hodges	a) CEO coming in next week b) Asked if we were getting a title opinion, they had title work they would share c) They were hopeful, moving that way d) Consider us in the S/2, them in the N/2
Ex. 12	August 8, 2006	Starr 34 Fee #1	Fax: Hodges to Lanning @ EOG	Fax to Lanning that MYCO has an opportunity to use a preferred rig at the end of September.
Ex. 13	August 29, 2006	Starr 34 Fee #1	E-mail: Lanning to Hodges	EOG has a rig available that could drill in the short term. EOG wants to drill and operate the wells in Section 34.
Ex. 17	September 6, 2006	Starr 34 Fee #1 and #2	E-mail: Hodges to Lanning @ EOG	Sent early morning e-mail (5:55am) that he would receive a call today.
Conv	September 6, 2006	Starr 34 Fee #1 and #2	Conv: Hodges to Lanning @ EOG	Returning his call. Play is borderline, they probably will not participate. Might do a Term Assignment.
Ex. 18	September 7, 2006	Starr 34 Fee #1 and #2	E-mail: Hodges to Lanning @ EOG	In response to 8/29/2006 e-mail. I will be out of office 2-3 days and will call back.
Ex. 1	September 20, 2006	Starr 34 Fee #1 and #2	E-mail: Hodges to Lanning @ EOG	Informed EOG that although MYCO prefers to put together a one section WIA to spread the risk, it was considering other options per EOG's suggestion.
Ex. 2	September 26, 2006	Starr 34 Fee #1 and #2	E-mail: Lanning to Hodges	a) EOG is concerned about committing the entire section to an operator w/o a track record for drilling and

Exhibit	Date of Communication	Well Name	Type of Communication	Summary of Communication
				completing these wells at a reasonable cost.
				b) If MYCO demonstrates ability in the S/2 EOG could be willing to make a deal in the N/2.
				c) Asked for our proposed completion procedure prior to making any decision.
				d) Decision hinges on outcome of other wells in the area.
Ex. 3	September 26, 2006	Starr 34 Fee #1 and #2	E-mail: Hodges to Lanning @ EOG	a) Understand why EOG wants to F/O b) Has EOG decided on terms? Would like to submit to group c) Will inquire about completion procedures. d) Would EOG meet to discuss completion, we have an open door policy. e) Communicating with the location builder, surface owner for water. Time is getting short.
Ex. 3	September 28, 2006	Starr 34 Fee #1 and #2	E-mail: Lanning to Hodges	a) EOG is willing to consider a F/O on the S/2. b) Terms: 75% NRI, 25% B.I.A.P.O. c) If initial well successful, infill well would be based on A.P.O. d) If in the initial well MYCO demonstrates that it can drill and complete the wells efficiently, EOG would consider participating in the N/2. e) If not, EOG may consider pressing for operations in the N/2 f) FYI - the other owners are EOG partners and they support g) EOG is not currently willing to share information regarding drilling and completion techniques
Conv	October 11, 2006	Starr 34 Fee #1	E-mail: Lanning to Hodges	EOG e-mailed Farmout Agreement on S/2 only.
Conv	October 11, 2006	Starr 34 Fee #1	E-mail: Hodges to Lanning @ EOG	Confirmed receipt of the F/O agreement, added note that if there is no mention of the N/2, we need to visit.
Conv	October 23, 2006	Starr 34 Fee #1 and #2	Conv: Hodges to Lanning @ EOG	a) Congrats on the Seins A 6 Fee #1H - could we have drilling information - this is not on the drilling schedule yet. b) EOG plans to drill the Hasburg in Section 35 next c) Asked about the F/O

Exhibit	Date of Communication	Well Name	Type of Communication	Summary of Communication
				d) North offset - Starr #2. They are not wanting to do anything. EOG does not want to commit.
Conv	October 30, 2006	Starr 34 Fee #1	E-mail: Hodges to Lanning @ EOG	Sent note telling Lanning that we would be sending some requested changes on the F/O.
Ex. 14	October 30, 2006	Starr 34 Fee #2	Ltr: Hodges to EOG, Allar Company, Talus, Twin Montana	Revised well proposal - including only the N/2 since most parties appear to not want a one section W.I. unit - asked that they join, grant a one year 75% Term Assignment or enter into negotiations.
Conv	October 31, 2006	Starr 34 Fee #2	Conv: Hodges to Graham @ Allar Company	Per receptionist, Mr. Graham out - told her I would call again tomorrow
Conv	October 31, 2006	Starr 34 Fee #2	Conv: Hodges to Haggart @ Talus & Twin Montana	Talked to Teresa Carson, they are in Young County, TX. Landman is out - call back. Talked to Melody Garae, they are without a landman - talk to Ken Seigman or Tom Hunnewell
Conv	October 31, 2006	Starr 34 Fee #1 and #2	Conv: Hodges to Lanning @ EOG	Left message - give me a call when he has had a chance to look things over.
Conv	November 2, 2006	Starr 34 Fee #1	E-mail: Hodges to Lanning @ EOG	Sent title requirement for the Lanning interest
Conv	November 3, 2006	Starr 34 Fee #1	E-mail: Lanning to Hodges	As to title requirement, he would waive.
Conv	November 3, 2006	Starr 34 Fee #1	E-mail: Hodges to Lanning	Waiving title requirement would be fine. Waiting on his call to visit about the Farmout Agreement.
Conv	November 5, 2006	Starr 34 Fee #1	Conv: Hodges to Lanning @ EOG	Called to visit about F/O and our 10/30/2006 letter - left message on V.M.
Conv	??	Starr 34 Fee #1 and #2	Conv: Lanning to Hodges	They would do a S/2 and wait on the N/2 - might be forcing a decision. At this point, probably won't co-operate on any of it. If we spud - he wants an evaluation, holding out on N/2

Exhibit	Date of Communication	Well Name	Type of Communication	Summary of Communication
Ex. 4	October 30, 2006	Starr 34 Fee #1	Ltr: Hodges to Lanning @ EOG	Farouqi Agreement change requests sent via Fed Ex
Conv	November 6, 2006	Starr 34 Fee #1 and #2	Conv: Hodges & Lanning @ EOG	Lanning informed Hodges that EOG would be spudding an offset well in 8 days and they would have a better understanding of the geology and opinion on what to do in Section 34.
Conv	November 11, 2006	Starr 34 Fee #1 and #2	Conv: Hodges to Teresa @ Talus	Ken Haggart - in a meeting, left a message with Teresa.
Conv	November 11, 2006	Starr 34 Fee #1 and #2	Conv: Hodges to Lanning @ EOG	Left a message
Conv	November 13, 2006	Starr 34 Fee #2	Conv: Hodges to Graham @ Allar Company	Left a message
Conv	November 13, 2006	Starr 34 Fee #1 and #2	Visit: Hodges to Lanning @ EOG	Shari Hodges made a trip to personally speak with Rick Lanning in his office in Midland, Texas. Lanning said that the offset well, the Hasburg was being logged that day.
Conv	November 14, 2006	Starr 34 Fee #2	Visit: Hodges and Graham @ Allar Company	Shari Hodges made a trip to meet and personally speak with Jack Graham of the Allar Company. Jack had previously told Shari that he would be speaking for all 3 Graham companies and re-iterated that in the conversation.
Ex. 5	November 15, 2006	Starr 34 Fee #1 and #2	Ltr: Hodges to Lanning @ EOG	Document meeting in Lanning's office on Nov 13, 2006 a) Discussed S/2 F/O - Hodges understanding that EOG was considering the changes requested in previous letter. Invited EOG to participate in the drilling of the well again. b) As to the N/2 - EOG wants to see the results of the Starr 34 Fee #1 before making a decision in the N/2. c) MYCO would be willing to structure a deal such that EOG

Exhibit	Date of Communication	Well Name	Type of Communication	Summary of Communication
				would have a certain number of days after seeing the results of the Starr 34 Fee #1 before having to make a decision on the Starr 34 Fee #2.
				d) informed EOG that the location and the reservoir pit for the Starr 34 Fee #1 and #2 are built and we are ready to proceed.
Conv	November 13, 2006	Starr 34 Fee #1 and #2	Conv: Hodges to Lanning @ EOG	Left a message: (Lanning out until 11/21) a) Would like an update on F/O b) As to the N/2 - would give a decision point 5 days after terminus - by that point, they would have results from their Hasburg and the Starr #1
Conv	November 16, 2006	Starr 34 Fee #2	Conv: Hodges to Graham @ Allar Company	Told him that we are working on F/O with EOG - asking them to make a decision to participate or F/O on the N/2 keyed off S/2 well - need to wrap that up. Please pass on to Allar group.
Conv	November 16, 2006	Starr 34 Fee #1 and #2	Conv: Hodges to Tower @ EOG	Message said out until 11/15 Don't want to step over Lanning but need to keep this going. The F/O in the S/2 if off o/c of the proposal in the N/2.
Conv	November 17, 2006	Starr 34 Fee #1 and #2	Conv: Hodges to Tower @ EOG	Message said out until 11/15 - left a message, asked him to call.
Conv	November 20, 2006	Starr 34 Fee #1 and #2	Conv: Tower to Hodges	Returning call
Conv	November 20, 2006	Starr 34 Fee #1 and #2	Conv: Hodges to Tower @ EOG	a) EOG would give Term Assignment on S/2 for \$832/acre b) As to N/2 - join or do the same T.A. depending on well.
Ex. 6	November 17, 2006	Starr 34 Fee #2	Ltr: Hodges to Graham @ Allar Company	Letter is an addendum to the proposal inviting them to either participate in the drilling of the well, granting MYCO a Term Assignment or enter into negotiations on other options. a) MYCO will share well information if they will make a decision

Exhibit	Date of Communication	Well Name	Type of Communication	Summary of Communication
				within 5 days from MYCO's reaching the terminus to either farmout or join or grant a term assignment.
				b) told them EOG is drilling an offset well.
Conv	November 20, 2006	Starr 34 Fee #1 and #2	Conv: Pat Tower & Hodges	Tower told Hodges that EOG would be agreeable to a \$832 an acre, 75% NRI Term Assignment to MYCO.
Ex. 7	November 30, 2006	Starr 34 Fee #1 and #2	Ltr: Hodges to Lanning @ EOG	a) Documented the conversation between Tower and Hodges. In summary, as to the S/2, EOG offered a Term Assignment, 75% NRI, \$832/acre for the drilling of the Starr #1. b) As to the N/2, EOG would be given a decision period after operations on the Starr #1 in which to decide to either participate in the drilling of a well in the N/2 or grant to MYCO a Term Assignment on same terms. c) MYCO respectfully declined.
Ex. 8	December 5, 2006	Starr 34 Fee #1 and #2	Ltr: Jim Bruce to OCD	Application for force pooling filed to be set for January 4, 2007
Ex. 15	December 5, 2006	Starr 34 Fee #1 and #2	E-mail: Lanning to Hodges	a) Understand we will force pool but hasn't received notice. b) Understand \$832/acre too much. c) Understand MYCO paid Starr family \$400/acre. EOG will grant a Term Assignment for \$400/acre, 75% NRI with a reasonable continuous development provision.
Ex. 16	December 5, 2006	Starr 34 Fee #1 and #2	E-mail: Hodges to Lanning @ EOG	a) Yes, term assignment terms are not acceptable - economics b) Yes, we began force pool - attorney Jim Bruce, 1.4.2007 c) MYCO did not pay \$400/acre
Conv	December 7, 2006	Starr 34 Fee #2	Conv: Hodges to Graham @ Allar Company	Would like to discuss terms.
Conv	December 12, 2006	Starr 34 Fee #2	Conv: Graham to Hodges	They will do some sort of F/O
Ex. 9	December 21, 2006	Starr 34 Fee #2	Ltr: Hodges to Graham	MYCO prepared for the Allar group a Farmout Agreement

Exhibit	Date of Communication	Well Name	Type of Communication	Summary of Communication
			@ Allar Company	similar to the F/O Agreement delivered by EOG to MYCO.
				Sent via Federal Express.
Conv	December 21, 2006	Starr 34 Fee #1 and #2	E-mail: Lanning to Hodges	a) Received force pool order
				b) They offered a F/O but we d'd not accept - not so.
				c) They may put it out to industry
Conv	December 27, 2006	Starr 34 Fee #1 and #2	E-mail: Lanning to Hodges	EOG would do a 90 day, \$400/acre, 75% NRI Term Assignment with no continuous drilling provision. Not acceptable
Conv	December 27, 2006	Starr 34 Fee #1 and #2	E-mail: Hodges to Lanning	Term Assignment terms not acceptable. Asked that they consider changes to the terms.

TRANSACTION REPORT

P. 01

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