

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

CASE NO. 11745

RE: ORDER OF THE NEW MEXICO OIL CONSERVATION COMMISSION GRANTING THE APPLICATION OF BURLINGTON RESOURCES OIL & GAS COMPANY TO AMEND DIVISION RULES 104.B AND 104.C TO ESTABLISH 640-ACRE SPACING, INCLUDING WELL LOCATION REQUIREMENTS FOR GAS PRODUCTION BELOW THE BASE OF THE DAKOTA FORMATION IN SAN JUAN, SANDOVAL AND MCKINLEY COUNTIES, NEW MEXICO.

APPLICATION FOR REHEARING

Pursuant to 19 NMAC § 15.1222, movants Timothy B. Johnson, Trustee for Ralph A. Bard, Jr. Trust U/A/D February 12, 1983 et al. (all movants are identified on Exhibit A hereto along with their working interest ownership in Burlington's proposed 640 acre spacing unit located in Section 9-T31N, R10W, San Juan County, New Mexico, and are hereinafter collectively referred to as "Movants"), by their undersigned attorneys, respectfully request a rehearing of the referenced New Mexico Oil Conservation Commission ("Commission") Order and would show as grounds the following:

1. The Movants are the owners of working interests in, inter alia, formations below the base of the Dakota formation located in Section 9-T31N, R10W, San Juan County, New Mexico under United States Oil and Gas Lease SF 078389 and SF 078389-A and are thus directly affected by Commission Order No. R-10815 entered on June 5, 1997 in this proceeding.

2. Since as long ago as November 20, 1996, Burlington Resources Oil & Gas Co. ("Burlington") has been targeting Section 9-T31N, R10W, San Juan County, New Mexico for a test of the Deep Pennsylvanian formation. See November 20, 1996

letter from James Strickler of Burlington to Mr. Watson LaForce, Jr., attached hereto as Exhibit B. Movants are the owners of over 85% of the working interest in that formation in the E/2 and SW/4 of Section 9.

3. Coincidentally, Burlington and the Movants have been engaged in nearly constant controversy and litigation since at least the 1970's concerning this acreage. This most recent litigation between these parties, styled W. Watson LaForce et al. v. Meridian Oil Inc., et al., San Juan No. CV-92-645-3, commenced in late 1992 and continues to date.

4. By various communications with the Movants beginning in November, 1996, Burlington sought to purchase or farmout the Movants' deep gas working interest rights in Section 9-T31N-R10W, San Juan County. However, given the extremely unfavorable terms offered by Burlington, the Movants refused such offers. When these attempts failed, Burlington tendered a proposed AFE and Joint Operating Agreement for their proposed \$2,316,973 Deep Pennsylvanian Test well located in Section 9-T31N-R10W, San Juan County, the Scott No. 24 on similarly highly unfavorable terms. (e.g. a 400% nonconsent penalty, when the New Mexico Compulsory Pooling Statute Section 70-2-17 (C) NMSA 1978 limits such penalty to not more than 200%.)

5. At no time did Burlington's communications advise the Movants of its plans to make an application to the Commission for the purpose of changing the spacing rules from 160 to 640-acres for wildcat gas wells below the base of the Dakota formation in San Juan County, New Mexico.

6. It was not until May 16, 1997 that one of the Movants, Mr. Watson LaForce, Jr., by happenstance learned of Burlington's Application and of the Commission proceedings in Case No. 11745. Since that time the Movants have

053

undertaken an independent investigation and learned the following facts concerning Burlington's efforts to change the deep gas wildcat spacing:

A. On February 27, 1997, Burlington ostensibly issued notice to "All interested parties entitled to notice" of its application to amend Division Rules 104.B(2)(a) and 104.C(3)(a) and to adopt New Rules 104.B(2)(b) and 104.C(3)(b) for the establishment of 640-acre spacing, including well location requirements, for gas production below the base of the Dakota formation in San Juan, Rio Arriba, Sandoval and McKinley Counties, New Mexico.

B. Burlington did not send a copy of its Notice of Hearing or Application to any of the Movants. However, working interest owners in the same acreage in which the Applicants hold working interests did receive actual notice from Burlington. This is evidenced by the "Deep Gas - 640 Spacing Owner List" attached to Burlington's Application which lists the parties to whom Burlington provided notice, attached to Burlington's Application. The Movants reside outside the State of New Mexico, a fact known to Burlington, and thus could not and would not receive actual notice by publication.

C. On March 19, 1997, the Commission held a public hearing concerning Burlington's application. At this hearing, representatives from Burlington informed the Commission that they had notified almost 200 operators in the San Juan Basin and sent additional notices "at random" to affected working interest owners. See Hearing Transcript Attached hereto as Exhibit "B" at 10-11.

D. On June 5, 1997, the Commission entered its Order No. R-10815 finding, inter alia, that Division Rule 104 should be modified on a permanent basis to provide for 640-acre gas spacing units for deep gas formations of the San Juan Basin.

POINT ONE: BURLINGTON'S "RANDOM NOTICE" TO AFFECTED WORKING INTEREST OWNERS OF ITS APPLICATION AND THE HEARING IS INADEQUATE

7. It is unclear why and upon what grounds Burlington based its decision to send notices to "random" affected working interest owners.¹ Nothing in the New Mexico statutes nor in the New Mexico Oil Conservation Division ("NMOCD") rules provide for, or even make reference to, such random notice procedures. In addition to

¹ The definition of "random" is purposeless or haphazard. Webster's New World Dictionary 3d. Ed (1990)

publication, NMOCD Rule 1207 provides for additional notice in specific proceedings, none of which exactly fits a requested modification of well spacing requirements. NMOCD Rule 1207(11), however, the applicable "catch-all" provision, provides as follows:

(11) In cases of applications not listed above, the outcome of which may affect a property interest of other individuals or entities:

(a) Actual notice shall be given to such individuals or entities by certified mail (return receipt requested).

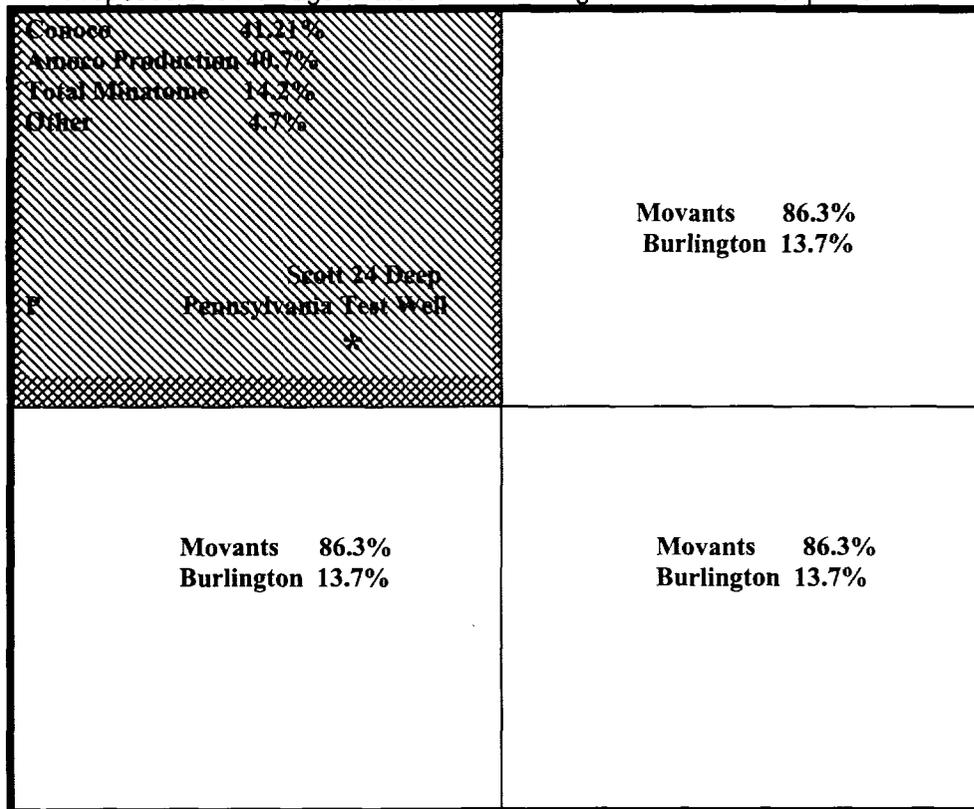
8. It is undisputed that the outcome of the Commission hearing, which resulted in an increase in well spacing, has resulted in a substantial and immediate adverse effect on the property interests of the Movants. Further, it is clear that Burlington knew that this change in wildcat spacing rules would adversely impact the Applicants well before its application was even filed. However, none of the Movants listed on Exhibit A hereto were among those "randomly" selected to receive notice of the spacing change application by Burlington. Burlington's motives seem clear. If it cannot buy out or farmout out the Movant's working interest rights in Section 9-T31N, R10W, San Juan County on its own unreasonable terms, it chose to confiscate this acreage by utilizing compulsory pooling. Obtaining an order from the Commission increasing wildcat well spacing requirements from 160 acres to 640 acres is the first requisite step in this scheme. The approval of Burlington's Application by the Commission was unquestionably aided by Burlington's failure to give notice to certain working interest owners affected thereby, such as the Movants, who would have certainly opposed the Application had they had notice.

9. The best evidence of Burlington's true motive in requesting the change in spacing rules is the Application filed by Burlington on June 17, 1997 seeking

080

compulsory pooling for its proposed Scott Well No. 24. This well is to be located in the NW/4 of Section 9-T31N, R10W, San Juan County, New Mexico. Burlington's Application seeks to have the entirety of Section 9 dedicated to the well. As indicated below, the Movants own the majority of the working interest rights in the E/2 and SW/4 of Section 9. To the best of Movant's information and belief, and without taking into account farmout agreements entered into by Burlington with working interest owners in the NW/4, the working interest ownership in Section 9 is as follows:

Working Interest Ownership in Section 9-T31N-R10W, San Juan County, New Mexico
Proposed 640 Acreage dedication for Burlington's Scott 24 Deep Test Well



Under the Commission's new spacing order, Order R-10815, the Movant's working interest in the three quarter sections of Section 9-T31N, R10W could be compulsorily pooled with the NE/4 section to form a 640 acre spacing unit. Indeed, this is exactly what Burlington seeks to accomplish in its Application for compulsory pooling for its

proposed Scott Well No. 24. This results in the Applicants being forced to pay over 64.4% of a high risk test well, estimated to cost \$2,316,973 for completion of the Scott 24, to which Burlington itself assigns only a 10% chance of success, while Burlington gets away with paying only slightly over 10.3%. Thus, if Burlington's Application for compulsory pooling is granted, the Movants will be forced to either bear the majority of Burlington's high-risk exploration program, or go non-consent and forfeit their ownership through the imposition of the statutory risk penalty.

10. Under NMOCD Rule 1207(11), and under principles of due process guaranteed by Article II, Section 18 of the New Mexico Constitution and the fourteenth amendment of the United States Constitution, Burlington was required to provide actual notice of its Application to the Movants. Order No. R-10815 is void as to the Movants. Uhden v. New Mexico Oil Conservation Comm'n, 112 N.M. 528, 917 P.2d 721 (1991).

POINT TWO: THE COMMISSION'S ORDER R-10815 IS ARBITRARY AND CAPRICIOUS IN THAT THE CHANGE IN SPACING IS NOT SUPPORTED BY SUBSTANTIAL EVIDENCE

11. Since December 1, 1950, Division Rule 104 has provided for 160 acre wildcat gas well spacing for San Juan, Rio Arriba and Sandoval Counties, New Mexico.

12. Burlington's Application to change this long-established spacing rule should have been based upon and supported by sound technical, geologic, geophysical and reservoir engineering data relevant to the San Juan Basin indicating that 160 acres is not the proper spacing for formations below the Dakota. Burlington's case provided no such evidence.

13. A spacing unit is the "area that can be efficiently and economically drained and developed by one well . . ." Section 70-2-17(B), NMSA 1978. Burlington presented no geological or geophysical evidence to the Commission establishing that for the San

Juan Basin Pennsylvanian formation 640 acres is such a spacing unit. Not a single well has been successfully completed and produced in that formation in order to provide drainage knowledge. Rather, Burlington's geologic and engineering drainage data was based upon three "analogy fields," the Barker Dome, Ute Dome and Alkali Gulch, that are not located within the San Juan Basin. These "analogy" fields are located on the Four Corners platform across the hog-back fault system from the San Juan Basin and involve fundamentally distinguishable geologic and engineering factors. Transcript attached hereto as Exhibit "C" at pp. 102-104. Indeed, comparison of the analogy fields' geology to that of the San Juan Basin was generously described by Amoco's engineer as a "very, very long stretch." Id. at p. 100.

14. The probable reason that Burlington did not reveal their 3-D seismic data of the San Juan Basin to make their case before the Commission is simply that this data will not support 640 acre spacing. A representative from Amoco, the only party at the hearing voicing some opposition to Burlington's Application, testified that interpretation of Amoco's "3-D" seismic data shot in the San Juan Basin was significantly different than its seismic data in Burlington's "analogous fields," and that, in her opinion, a Deep Pennsylvania well could be economically developed on 160 acre spacing.

Examination by Mr. Carr of Pamela W. Staley, Petroleum Engineer with Amoco Production Company:

Q. When you look at the deep formations, do you see large blanket deposits, or do you agree with Mr. Lane that basically you don't have large blanket sands in the area?

A. Well, Amoco, has actually -- We have shot 3-D seismic out here in the deep Basin, as well as we are the major owner in Ute Dome, on part of the Ute Dome, and so we've shot similar seismic over there.

088

These data sets look very different. They don't show blanket accumulations in the deep Basin. We're looking at more algal mounds in one area, and those show to be on much smaller spacing. You know, the 3-D seismic really makes the development of these much more feasible than it ever was before. We can actually see them now. We couldn't see them on 2-D.

* * *

Q. Can these algal mounds be economically developed in your opinion?

A. Very much so. In some of the analogies in other areas, not necessarily in the Paradox Basin but other algal mound features can be very, very high in production, up to 40 to 90 Bcf per well. So they can be very profitable on 160 [acres] or even less, but they're very small features at times.

Q. Have you seen more than one algal mound in 640-acre spacing units?

A. Yes, we've seen several more than that at times.

Q. When you look at the deep gas formations in the area of the analogous pools in, say, the Ute Dome area, how do they look when you compare them to the formation as you move across the Basin, based on the data that you have?

A. Based on the seismic we see, looking at those zones, they look distinctly different. We're seeing blanket-type accumulations up in the Ute Dome area. They're flat entities. We see-When we come into the deep Basin on the seismic that we have proprietary shot, we see very discrete algal mound almost pinnacles that we can see.

So the seismic looks very different, and this is one of the few looks, I'll admit that we've got out of the Basin, but it does give a good example, I think, of where there's a significant difference between the data that the Applicant is trying to stretch into the Basin.

See Transcript attached hereto as Exhibit "C" at pp. 102-103. Ms. Staley further testified that Amoco was prepared to commit funds to drill a Deep Pennsylvanian well on 160 acre spacing. Id. at 114.

15. Burlington's true motivation in seeking 640 acre spacing is driven by economic factors, not science. As described above, Burlington wants permanent

Basin-wide 640 acre spacing so that working interest owners in adjoining tracts, such as the Movants in Section 9, T31N, R10W, will be forced through compulsory pooling to bear the risks, and costs of Burlington's Deep Pennsylvanian exploration program. As Mr. James R. J. Strickler, Senior Staff Landman for Burlington, testified: "And so that's why we're here, is to seek permanent 640-acre spacing, to spread the risk." Transcript at p. 76.

16. Burlington's self-interested desire to spread out the risk and costs of its San Juan Basin deep gas exploration program, without more, does not constitute adequate grounds for the Commission to change a Basin wide spacing rule that has been in place since 1950s. As discussed above, Burlington did not come forth with technical evidence justifying this rule change. As such, the Commission's Order No. R-10815 is arbitrary, capricious, not supported by substantial evidence and without substantial justification.

CONCLUSION

For the foregoing reasons, the Movants respectfully request that the Commission set Case No. 11745 for rehearing at which time (a) Burlington must be required to produce all of the geological and geophysical data on which it bases its drilling locations, (b) Movants will be permitted to participate and to supplement the record which already negates an increase in size of the subject spacing unit and (c) the Commission should deny the application in its entirety.

Respectfully submitted,

GALLEGOS LAW FIRM, P.C.

By  _____

J.E. GALLEGOS

JASON E. DOUGHTY

460 St. Michael's Drive, Bldg. 300

Santa Fe, New Mexico 87505

(505) 983-6686

Attorneys for Movants

000

HOPE G. SIMPSON C/O SIMPSON ESTATES INC. 30 N. LASALLE, STE 1232 CHICAGO, IL 60602-2504	0.651006%
NANCY H. GERSON (FKA NANCY H. HASKENS) 1555 ASTOR ST. CHICAGO, IL 60610	0.456838%
MINNIE A. FITTING ROBERT P. FITTING P.O. BOX 2588 SIERRA VISTA, AZ 85636-2588	0.934458%
CATHERINE H. RUML P.O. BOX 297 SOUTH STRAFFORD, VT 05070-0297	0.456838%
KATHERINE I. WHITE C/O JOHN BEATY BAETY HAYNES & ASSOCIATES INC. 2 WISCONSIN CIR., STE 400 CHEVY CHASE, MD 20815-7006	1.522308%
ELIZABETH B. FARRINGTON 12 MURRAY HILL SQUARE MURRAY HILL, NJ 07974	0.164464%
MARY S. ZICK (FKA NANCY S. ZICK) 418 W. LYON FARIN GREENWICH, CT 06831	0.685295%
WALTER B. FARNHAM P.O. BOX 494 NORWOOD, CO 81423-0494	0.102790%
ROY E. BARD, JR. 508 S PARKWOOD AVE PARK RIDGE, IL 60068	0.164464%
ROBERT T. ISHAM 335 HOT SPRINGS RD. SANTA BARBARA, CA 93108	1.205033%
MARY F LOVE 4005 PINOLE VALLEY RD. PINOLE, CA 94564	0.102790%
JAMES C. BARD 7454 N. DESERT TREE DR. TUCSON, AZ 85704	0.164464%
WILLIAM P. SUTTER THREE FIRST NATL PLAZA ROOM 4300 CHICAGO, IL 60602	0.685295%

EXHIBIT "A" CONT.

GEORGE S. ISHAM TRUST 1070 N. ELM TREE RD LAKE FOREST, IL 60045	1.205003%
ALBERT L. HOPKINS JR P O BOX 67 DANBURY, NH 03230-0067	0.456838%
KAY B. GUNDLACH (FKA KAY B. TOWLE) FEARINGTON POST 247 PITTSBORO, NC 27312	0.164464%
VIRGINIE W. ISHAM P O BOX 307 LAKE FORREST, IL 60045	0.602501%
ELEANOR ISHAM DUNNE 728 ROSEMARY RD. LAKE FOREST, IL 60045	1.525335%
JOHN M SIMPSON & WILLIAM SIMPSON TR U/W JAMES SIMPSON J. C/O TRUST CO OF NEW YORK ATTN: BARRY WALDORF 114 WEST 47TH STREET NEW YORK, NY 10036	3.906037%
MICHAEL SIMPSON TRUST C/O U S TRUST CO OF NEW YORK ATTN: BARRY WALDORF 114 WEST 47TH STREET NEW YORK, NY 10036	2.996042%
PATRICIA SIMPSON TRUST C/O U S TRUST CO OF NEW YORK ATTN: BARRY WALDORF 114 WEST 47TH STREET NEW YORK, NY 10036	2.996042%
JAMES F CURTIS PATRICK J HERBERT III SUCCESSOR TRUSTEE U/A/D 2-9-79 FBO JAMES F CURTIS C/O SIMPSON ESTATES 30 N LASALLE STE 1232 CHICAGO, IL 60602-504	0.651006%
GWENDOLYN S. CHABRIER PATRICK J. HERBERT III SUCCESSOR TRUSTEE U/A/D 2-9-79 FBO GWENDOLYN S. CHABRIER C/O SIMPSON ESTATES 30 N LA SALLE ST #1232 CHICAGO, IL 60602-2503	0.651006%

EXHIBIT "A" CONT.

WILLIAM SIMPSON TRUST PATRICK J HERBERT III SUCCESSOR TRUSTEE OF THE WM SIMPSON TRUST DTD 12-17-79 30 N LASALLE STE 1232 CHICAGO, IL 60602-2504	1.953018%
HENRY P ISHAM JR DECD FIRST NATL BANK CHICAGO AGENT VW & RT ISHAM TRUSTEES UWO HENRY P ISHAM JR DECD 1400 ONE DALLAS CENTER DALLAS, TX 75201	0.602501%
CORTLANDT T. HILL TRUST 1ST TRUST NA & GAYLORD W GLARNER TRSTEE UA DTD 9/16/74 C/O COLORADO NATIONAL BANK PO BOX 17532 (CNDT 2332) DENVER, CO 80217	0.411162%
MARTHA M LATTNER TRUST JAMES E PALMER SUCCESSOR TRUSTEE U/T/A DTD 2/21/63 FBO MARTHA M LATTNER SETTLOR PO BOX 29352 SAN FRANCISCO, CA 94129-0352	1.027904%
ROBERT D. FITTING # 406 N. BIG SPRINGS #200 MIDLAND, TX 79701	0.934459%
W. WATSON LAFORCE JR PO BOX 353 MIDLAND, TX 79701	1.111146%
J. ROBERT JONES 1205 W PECAN MIDLAND, TX 79705	1.868917%
ROBERT B. FARNHAM ST MARYS POINT 16757 S. 25TH ST LAKELAND, MN 55043	0.102790%
CHARLES WELLS FARNHAM JR ST MARYS POINT 16825 S. 25TH ST LAKELAND, MN 55043	0.102790%
LOUIS W. HILL JR PO BOX 64704 ST. PAUL, MN 55164	2.466971%

089

EXHIBIT "A" CONT.

RALPH A BARD JR, TRUSTEE (FKA RALPH A. BARD, JR. TRUST) U/A/D FEBRUARY 12, 1983 SUITE 2320 135 S. LA SALLE ST. CHICAGO, IL 60603-4108	1.233484%
RALPH AUSTIN BARD JR. (FKA RALPH A. BARD, JR. TRUST) TRUSTEE U/A/D 7-25-49 135 S. LA SALLE STREET SUITE 2320 CHICAGO, IL 60603-4108	8.061201%
GUY R. BRAINARD JR. TRUSTEE, OF THE GUY R. BRAINARD JR TRUST DATED 9/9/82 RR 6 BOX 281 BROKEN ARROW, OK 74014	0.251294%
RALPH U. FITTING JR, TRUST PO BOX 782 MIDLAND, TX 79702	3.737834%
SABINE ROYALTY TRUST C/O PACIFIC ENTERPRISES ABC CORPORATION ATTN: SARA WILLIAMS 3131 TURTLE CREEK BLVD. DALLAS, TX 75219	0.626723%
JUDITH SHAW TRUST U/A/D 4-14-66 THOMASVILLE RT. BOX 60-B BIRCH TREE, MO 65438	1.021342%
NANCY C. BARD LISA BARD FIELD SHARON BARD WAILES & TRAVIS BARD IND & COLLECTIVELY AS CO TRUSTEES U/C/O DTD 10-7-86 609 RICHARDS LAKE RD. FT COLLINS, CO 80524	0.164464%
ELIZABETH T. ISHAM TRUST ROBERT T. ISHAM & G.S. ISHAM & FIRST NATL BANK OF CHICAGO TRUST 8150 N. CENTRAL EXPY, STE 1211 DALLAS, TX 75206-1831	0.822323%
ROGER D. SHAW JR, TRUST U/A/D 8-27-62 THOMASVILLE RT. BOX 60-B BIRCH TREE, MO 65438	1.268039%
WILLIAM W. SHAW TRUST U/A/D 12-28-63 THOMASVILLE RT BOX 60-B BIRCH TREE, MO 65438	1.268039%

EXHIBIT "A" CONT.

DIANE DERRY 736 HINMAN AVE #1W EVANSTON, IL 60202	0.139272%
JOAN DERRY P.O. BOX 866 TESUQUE, NM 87574	0.139272%
ANTHONY BARD BOARD BANK OF AMERICA ILLINOIS ATTN: DEAN KELLY PO BOX 2081 CHICAGO, IL 60690	0.414787%
DOROTHY M. DERRY 2648 E WORKMAN AVE., STE 211 W. COVINA, CA 91791	0.139272%
KEYES BABER PROPERTIES C/O TX COMMERCE BANK MIDLAND ACCT #50-1532-00 PO BOX 209829 HOUSTON, TX 77216	2.225319%
GEORGE A. RANNEY 17370 WEST CASEY ROAD LIBERTYVILLE, IL 60048	0.520756%
FREDERICK F. WEBSTER JR (FKA WEBSTER PROPERTIES PARTN) 945 WOODLAND DRIVE GLENVIEW, IL 60025	0.308371%
F F WEBSTER IV TRUST ESTATE (FKA WEBSTER PROPERTIES PARTN) C/O COLORADO NATL BANK P.O. BOX 17532 DENVER, CO 80217	0.308371%
JOHN I. SHAW JR TRUST U/A/D 1-2-57 THOMASVILLE RT BOX 60-B BIRCH TREE, MO 65438	1.083016%
SUSANNE SHAW TRUST U/A/D 9/11/53 THOMASVILLE RT BOX 60-B BIRCH TREE, MO 65438	1.083016%
ARCH W. SHAW II TRUST U/A/D 2/1/71 THOMASVILLE RT BOX 60-B BIRCH TREE, MO 65438	1.083016%
BRUCE P. SHAW TRUST U/A/D 6/8/72 THOMASVILLE RT BOX 60-B BIRCH TREE, MO 65438	1.083016%

EXHIBIT "A" CONT.

NORMAN L. HAY JR., TRUSTEE OF THE
NORMAN L. HAY JR GS TRUST
3208 ELDON LN
WACO, TX 76710

0.832603%

EDWARD L. RYERSON JR TRUST
(FKA EDWARD L. RYERSON)
CAMBRIDGE TRUST CO TRUSTEE
ATTN: DAVID STRACHAN
1336 MASSACHUSETTS AVE
CAMBRIDGE, MA 02138-3829

0.520755%

MARGARET STUART HART
NORTHERN TRUST BANK/LAKE FOREST
& MARGARET STUART HART CO-TRUSTEE
U/A ROBERT DOUGLAS STUART
PO BOX 226270
DALLAS, TX 75222

0.774329%

ROBERT DOUGLAS STUART JR
NORTHERN TRUST BANK/LAKE FOREST
& ROBERT DOUGLAS STUART JR
CO-TRUSTEE U/A ROBERT D. STUART
PO BOX 226270
DALLAS, TX 75222

0.774329%

ANNE STUART BATCHELDER, TRUST.
FIRST NATL BANK OF CHICAGO &
U/A ROBERT DOUGLAS STUART
ATTN: GAYLE COTTON
8150 N CENTRAL EXPY STE 1211
DALLAS, TX 75206

0.774329%

HARRIET STUART SPENCER
FIRST NATL BANK OF CHICAGO &
U/A ROBERT DOUGLAS STUART
ATTN: GAYLE COTTON
8150 N CENTRAL EXPY, STE 1211
DALLAS, TX 75206

0.774329%

072

**BURLINGTON
RESOURCES****SAN JUAN DIVISION**

November 20, 1996

W. Watson LaForce, Jr.
P.O. Box 353
Midland, TX 79701

**RE: BURLINGTON RESOURCES OIL & GAS COMPANY
OFFER TO PURCHASE NON-PRODUCING INTEREST
AND/OR REQUEST TO PARTICIPATE IN DEEP TEST WELL**

State and Fee Leases**T31N-R10W, NMPM****Section 3: Lots 10 thru 13, SW $\frac{1}{4}$** **Section 4: SE $\frac{1}{4}$** **Section 9: Lots 3 thru 12, N $\frac{1}{2}$ NE $\frac{1}{4}$** **Section 10: Lots 1 thru 7, NW $\frac{1}{4}$ NW $\frac{1}{4}$** **Containing 1255.18 acres****FEDERAL LEASE SF 078389-A****T31N-R10W, NMPM****Section 11: Lots 1 thru 16****Section 12: Lots 1 thru 8 and 10 thru 15****Containing 1116.96 acres****San Juan County, New Mexico**

Dear Mr. LaForce:

Sometime in the first quarter of 1997 Burlington Resources Oil & Gas Company is planning to drill a deep test well (below the currently deepest producing horizon) to evaluate the Pennsylvanian formation (approximately 14,000 feet) in a prospect that includes the referenced lands and leases that you own a working interest in. This well is very high risk (10% success probability) and very expensive (Estimated 1.2 Million dry hole cost; \$1.7 Million through completion).

This well will have a proposed 640 acre spacing unit and as a working interest owner you will have the right to participate in the well for your proportionate share of your acreage within the spacing unit. The parties will enter into a mutually acceptable AAPL Form 610-1982 Operating Agreement providing for a 400% non-consent penalty and with the preferential right to purchase provision deleted.

073

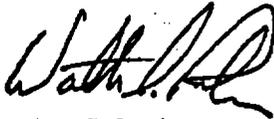
Burlington Resources
Deep Test Well and Offer to Purchase
Page 2

If you do not wish to participate in this well, Burlington Resources is offering to purchase your interest in the referenced lands below the Mesa Verde formation for \$50.00 per net acre with you retaining a 2% overriding royalty interest in all lands purchased. According to our records you own a 1.48635% or 35.2583 net acre interest in the operating rights below the base of the Mesa Verde Formation. This would make the total offer to purchase your interest \$1,762.92.

Please indicate below the option you wish to proceed with in relation to this proposed deep test well and return this letter to me in the enclosed, self-addressed, stamped envelope within 15 days of receipt.

If you have any questions, please give me a call at (970) 259-5242.

BURLINGTON RESOURCES OIL & GAS COMPANY



Walter S. Parks
Contract Landman
P.O. Box 2435
Durango, CO 81302

- I wish to participate for my proportionate share in any deep test well in which my acreage is included in a spacing unit. Please send me an AFE and Operating Agreement.
- I wish to sell my interest in the referenced leases below the base of the Mesa Verde formation to Burlington Resources for \$50.00 per net acre retaining a 2% overriding royalty interest.

AGREED TO AND ACCEPTED THIS _____ DAY OF _____, 1996.

W. Watson LaForce, Jr.

074

BURLINGTON RESOURCES

SAN JUAN DIVISION

December 2, 1996

DEC 16 1996

W. Watson LaForce, Jr.
P.O. Box 353
Midland, TX 79701

**RE: CORRECTION TO
BURLINGTON RESOURCES OIL & GAS COMPANY
OFFER TO PURCHASE NON-PRODUCING INTEREST
AND REQUEST TO PARTICIPATE IN DEEP TEST WELL
DATED NOVEMBER 20, 1996**

**FEDERAL LEASE SF 078389
T31N-R10W, NMPM
Section 3: Lots 10 thru 13, SW¼
Section 4: SE¼
Section 9: Lots 3 thru 12, N¼NE¼
Section 10: Lots 1 thru 7, NW¼NW¼
Containing 1255.18 acres**

**FEDERAL LEASE SF 078389-A
T31N-R10W, NMPM
Section 11: Lots 1 thru 16
Section 12: Lots 1 thru 8 and 10 thru 15
Containing 1116.96 acres
San Juan County, New Mexico**

2372 1/4 Ac

Dear Mr. LaForce:

In Burlington Resource's offer letter dated November 20, 1996 the lands described above in Sections 3, 4, 9 and 10, T31N-R10W, NMPM were erroneously labeled as STATE AND FEE LANDS. These lands are under FEDERAL LEASE SF 078389 as shown above.

Please accept my apology if this error has caused you any confusion.

If you have any questions, please give me a call at (970) 259-5242.

BURLINGTON RESOURCES OIL AND GAS COMPANY



Walter S. Parks
Contract Landman

P.O. Box 2437 Durango, CO 81302

075

*WEST DAY END
007-3330*

STATE OF NEW MEXICO

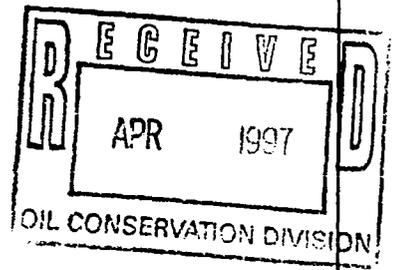
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION COMMISSION

IN THE MATTER OF THE HEARING CALLED BY)
THE OIL CONSERVATION COMMISSION FOR THE)
PURPOSE OF CONSIDERING:)

CASE NO. 11,745

APPLICATION OF BURLINGTON RESOURCES OIL)
AND GAS COMPANY TO AMEND DIVISION RULES)
104.B(2)(a) AND 104.C(3)(a) AND TO ADOPT)
NEW RULES 104 (B) (2) (b) and 104.C(3) (b))
FOR THE ESTABLISHMENT OF 640-ACRE)
SPACING, INCLUDING WELL LOCATION)
REQUIREMENTS, FOR GAS PRODUCTION BELOW)
THE BASE OF THE DAKOTA FORMATION IN SAN)
JUAN, RIO ARRIBA, SANDOVAL AND MCKINLEY)
COUNTIES, NEW MEXICO)



REPORTER'S TRANSCRIPT OF PROCEEDINGS

COMMISSION HEARING

BEFORE: WILLIAM J. LEMAY, CHAIRMAN
WILLIAM WEISS, COMMISSIONER
JAMI BAILEY, COMMISSIONER

March 19th, 1997
Santa Fe, New Mexico

This matter came on for hearing before the Oil Conservation Commission, WILLIAM J. LEMAY, Chairman, on Wednesday, March 19th, 1997, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

1 are going to be more than \$2 million apiece, that his
2 estimate of gas in place on 160 acres is too small a volume
3 to justify that magnitude of expense. He will conclude for
4 you that without a change in the baseline rule, we simply
5 cannot go forward.

6 We'll provide to your our land experts. James
7 Strickler will testify about his efforts to try to
8 consolidate on a voluntary basis a 640-acre working
9 interest drillblock. He has found it is impossible to do,
10 that without a rule change, he simply cannot get it
11 accomplished and that in order to have the opportunity to
12 explore for what might be significant gas reserves for the
13 State of New Mexico, we're requesting that you change the
14 rule.

15 As part of that change, we're going to describe
16 for you and discuss what we would like to see in terms of
17 well setbacks. We've got a number of displays to show you
18 what has happened in the Basin for well locations and
19 discuss with you the options for adding some flexibility in
20 where we put the wells within a section.

21 We have notified almost 200 operators in the San
22 Juan Basin. We have also sent additional notices at random
23 to working interest owners, and to the best of our
24 knowledge and belief there is no opposition to having the
25 Commission change the rule and allow deep gas to be

1 developed on 640-acre spacing.

2 At the conclusion of our presentation, we would
3 ask your permission to change the rule.

4 Thank you, Mr. Chairman.

5 CHAIRMAN LEMAY: Thank you, Mr. Kellahin.

6 Mr. Carr?

7 MR. CARR: Mr. Chairman, I will present one
8 witness for Amoco.

9 Our testimony will be that changes in the rules
10 are necessary because the current rules, in fact, are a
11 disincentive to developing the deep gas.

12 The dilemma we see, however, is that we feel at
13 this time there is inadequate data to adopt 640-acre
14 spacing basinwide, so therein we believe is the dilemma.

15 And we will present a proposal which we hope will
16 address not only the need for 640-acre spacing, at least on
17 a temporary basis, for portions of the pool, but will also
18 do it in a way where we can have adequate data to support
19 that development as to go forward with hearing in a spacing
20 unit.

21 CHAIRMAN LEMAY: Thank you, Mr. Carr.

22 Mr. Kellahin, you may proceed.

23 MR. KELLAHIN: Mr. Chairman, by way of response,
24 we are aware of Amoco's suggested change. We are opposed
25 to their change.

1 A. I've tried --

2 Q. And you've tried to do it on --

3 A. -- and I've failed.

4 Q. -- 640 acres, have you not?

5 A. Yes, sir.

6 MR. KELLAHIN: All right. We tender Mr.
7 Strickler as an expert petroleum landman.

8 CHAIRMAN LEMAY: His qualifications are
9 acceptable.

10 Q. (By Mr. Kellahin) Let's talk about Commissioner
11 Bailey's question with regards to the opportunity afforded
12 us by the utilization of the units within the Basin as a
13 vehicle to overcome the limitations of 160-acre spacing.

14 As one of the first questions I asked you, am I
15 correct in remembering that except for the Allison unit and
16 the Rincon unit, which are undivided, all the other units
17 in the Basin that we're aware of are divided-participation
18 units; is that not true?

19 A. That is correct.

20 Q. So what does that mean?

21 A. Well, that means that if we pick a location in
22 the 29-7 unit, for example, we will be -- the ownership of
23 that well will be on a drillblock basis.

24 Q. When you mean drillblock, you default to whatever
25 the existing spacing pattern is that the state has

1 Q. Were they all initially spaced on 640 spacing?

2 A. I believe they were.

3 Q. And recently the spacing in three of those has
4 had to be reduced; is that right?

5 A. That's correct.

6 Q. And that's one of the three analogous pools
7 that's being displayed?

8 A. That's correct.

9 Q. Let's go to Exhibit Number 2. Would you identify
10 and review that?

11 A. Well, this exhibit really, I think, exemplifies
12 our concerns. We do feel it's very, very premature to
13 space such a large area on so little data. You know, I
14 think the Applicant made the point that we really don't
15 have any significant data whatsoever in the Basin proper to
16 consider.

17 I think we need to move cautiously in
18 establishing a widespread rule, and that extrapolation from
19 three pools or three fields that are actually over the hump
20 and outside the Basin, I think, is a very, very long
21 stretch into the deep Basin. While it may be the only data
22 that we have, I don't think that that tells us we need
23 different spacing; I think it tells us we need more data.

24 Q. When you talk about the analogous pools that are
25 shown on the exhibit on the easel, in fact, that exhibit is

1 basically you don't have large blanket sands in the area?

2 A. Well, Amoco, has actually -- We have shot 3-D
3 seismic out here in the deep Basin, as well as we are the
4 major owner in Ute Dome, on part of Ute Dome, and so we've
5 shot similar seismic over there.

6 These data sets look very different. They don't
7 show blanket accumulations in the deep Basin. We're
8 looking at more algal mounds in one area, and those show to
9 be on much smaller spacing. You know, the 3-D seismic
10 really makes the development of these much more feasible
11 than it ever was before. We can actually see them now. We
12 couldn't see them on 2-D.

13 And from what we see on our seismic, we don't
14 believe that closeology is going to hurt you. We think
15 that, you know, if someone snuggles up close to you, most
16 likely they will not be able to drill into these features.
17 Now, that doesn't mean every feature in the Basin is that
18 way, but we already see a situation similar to what
19 occurred in the Barker Creek area. We can already see that
20 on our seismic.

21 Q. Can these algal mounds be economically developed,
22 in your opinion?

23 A. Very much so. In some of the analogies in other
24 areas, not necessarily in the Paradox Basin but other algal
25 mound features can be very, very high in production, up to

1 40 to 90 BCF per well. So they can be very profitable on
2 160 or even less, but they're very small features at times.

3 Q. Have you seen more than one algal mound in 640-
4 acre spacing units?

5 A. Yes, we've seen several more than that at times.

6 Q. When you look at the deep gas formations in the
7 area of the analogous pools in, say, the Ute Dome area, how
8 do they look when you compare them to the formation as you
9 move across the Basin, based on the data that you have?

10 A. Based on the seismic we see, looking at those
11 zones, they look distinctly different. We're seeing
12 blanket-type accumulations up in the Ute Dome area.
13 They're very flat entities. We see -- When we come into
14 the deep Basin on the seismic that we have proprietarily
15 shot, we see very discrete algal mound almost pinnacles
16 that we can see.

17 So the seismic looks very different, and this is
18 one of the few looks, I'll admit, that we've got out of the
19 Basin, but it does give a good example, I think, of where
20 there's a significant difference between the data that the
21 Applicant is trying to stretch clear into the Basin.

22 Q. On the one hand, you're interested in Rule
23 changes to enable 640-acre development; that's correct, is
24 that not?

25 A. That's correct.

1 Q. On the other hand, you have concerns about
2 inadequate data to justify basinwide spacing?

3 A. Yes.

4 Q. Could you refer to Amoco Exhibit Number 4 and
5 explain to the Commission how Amoco believes that operators
6 could be permitted to develop these deep sands on 640-acre
7 spacing units and still assure there is sufficient on the
8 subject reservoirs to justify these larger units?

9 A. Yes. You know, what we're recommending here is
10 approval of what I would call an exploratory spacing order.
11 And, you know, we've tried to come here, and we do not want
12 to discourage what Burlington and others may want to do out
13 here, because we really do want to see this Basin drilled.

14 On the other hand, we're thinking perhaps some
15 type of an exploratory order where you could go in,
16 designate your prime candidate on 640 acres, you would be
17 able, then, to pool on that 640, and you would be able to
18 address your concerns of offset closeology, if you would
19 have it.

20 Once you had drilled that well and got some
21 reservoir information on it, you would need to bring that
22 data back to the Commission and show what you felt the
23 actual spacing should be, and that would get us to the
24 point where we would have what really looked like what we
25 had.

1 have funds or plans available in which you propose to drill
2 any of these deep gas wells in the next two years?

3 A. You know, Burlington is way ahead of us in that.
4 We're just starting to take a look at our seismic features
5 and put those ideas together. So I would say you're
6 correct. Right now, we do not have any wells specifically
7 on the block to drill.

8 But as you -- I don't know if you're privy to
9 this or not, but with Burlington we have been talking about
10 some rather specific type of locations to drill. So we're
11 kind of behind Burlington in this process.

12 Q. Do you have the funds available to participate in
13 a well drilled by Burlington on 640 acres?

14 A. For the appropriate well and the appropriate
15 project, yes, I think we could make funds available.

16 Q. You wouldn't propose to do this on 160 acres,
17 would you?

18 A. Yes.

19 Q. On 160 acres? You're prepared to commit funds on
20 160 acres to have the initial well drilled?

21 A. I think that's why we're here today.

22 Q. And your hypothesis is that we should drill the
23 wells on smaller spacing and then increase the size of the
24 spacing units if we have the data to show it later?

25 A. No.