

**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:**

BEFORE THE
OIL CONSERVATION DIVISION
Case No. 12796 Exhibit No. 1
Submitted By:
San Juan Resources
Hearing Date: February 21, 2002

CASE NO. 12796

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

AFFIDAVITS OF JERRY MCHUGH, JR.

**STATE OF COLORADO)
) ss.
COUNTY OF DENVER)**

Before me, the undersigned authority, personally appeared Jerry McHugh, Jr., who being duly sworn, stated:

A. My qualifications as a experts are as follows:

- (1) Since 1990, I have been President and owner of San Juan Resources, Inc.
- (2) I have over twenty years experience of the San Juan Basin of New Mexico
- (3) I have negotiate with Mr. Frank King concerned he interest
- (4) I have review this case with by my consulting Petroleum Engineer

I are over the age of majority and am competent to make this Affidavit.

I have been responsible for and involved in preparing the necessary documents for submittal to the New Mexico Oil Conservation Division for this case.

I am personally knowledgeable and familiar with the facts and circumstances of this case and the following factual statements.

This affidavit has been prepared in accordance with New Mexico Oil Conservation Division Rule 1207.A(1)(b).

C. My expert opinions are based on the following facts and events:

CHRONOLOGICAL SUMMARY OF SIGNIFICANT EVENTS

1. San Juan Resources, Inc. has a working interest ownership in the oil and gas minerals underlying the (Lots 3, 4, 5, N/2SE/4, SW/4SE/4, E/2SW/4) equivalent S/2 of Irregular Section 19, T30N, R11W, NMPM, San Juan County, New Mexico.

2. San Juan Resources, Inc. proposes to drill and complete its Kaempf Well No. 1E at a standard gas well location for downhole commingled production from the Basin Dakota Gas Pool and the Blanco Mesa Verde Gas Pool.

3. Based upon an oil & gas title opinion, San Juan Resources believes that the following individual is an owner of an unleased mineral interest in the subject spacing unit in the following percentages:

NAME	PERCENTAGE
Frank A. King 4580 Belfort Place Dallas, Texas 75205	5.63. % (Mesaverde only)

4. On August 24, 2001, San Juan Resources, Inc. submitted a written well proposal and AFE to the above named party. In August, telephone conversations up to sending out the JOA and he seemed interested in joining the well. He wanted clarifications of MV/BD costs. Send AFE on 9/13/01. He then said I was not interest in joining the well and wanted him to send his a lease. Sent on 11/2/21. On 1/11/02 called him and left message and given him one more changes before proceeding with pooling.

e and has had the following additional. contacts:

5. Despite its good faith efforts, San Juan Resources, Inc. has been unable to obtain a voluntary agreement with the foregoing party.

6. 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 Resources

Inc. needs an order of the Division pooling the identified and described mineral interests involved in order to protect correlative rights and prevent waste.

7. In accordance with Division Rule 1207.A(1)(b) attached are the following statements and exhibits in support of this case:

- (i) No opposition for hearing is expected because have reached settlement with Mr. King
- (ii) map: (a) outlining the spacing unit(s) to be pooled which is the S/2 of Section 19, T30N, R11W and (b) showing the well location, and (c) percentage of ownership interest.
- (iii) a list of the names and last known addresses of all parties to be pooled with the nature and percent of their interest; I attest that a diligent search has been conducted of all public records in the county where the well is to be located and of phone directories, including the following computer searches and we have located all interest owners.

Frank King 5.673 % (Meseverde)

- (iv) the pooled unit is for gas from the Blanco Mesaverde Gas Pool and the Basin Dakota Gas Pool:

S/2 Equivalent of Section 19, T30N, R11W

- (v) the well is to be downhole commingled based upon a AFE cost allocation of \$653,450 with \$292,628 allocated to Mesaverde and the \$360,822 to Dakota and a production allocation of based on production test. (See attached OCD Form 107-A)
- (vi) written evidence of attempts to reach voluntary agreement including letters and summarizes of telephone calls are attached as follows:
- (vii) geologic displays of the Mesaverde Dakota formation to be tested which forms the basis for the opinion that the maximum

150 % risk factor penalty is justified

- (viii) a copy of Ernest & Young average well costs overhead rates of \$4906 /mo drilling and \$670 /mo producing well rates which we request be authorized for this case.
- (ix) copy of the APD and Division form C-102 showing the well location and the proposed depth of the well
- (x) copy of the AFE in the amount of \$653, 450 completed well costs for this well which we conclude is fair reasonable and current for wells of this type in this area.

(8) I recommend that a compulsory pooling order be entered which provides that:

- (a) San Juan Resources, Inc. be named operator;
- (b) Provisions for applicant and all working interest owners to participate in the costs of drilling, completing, equipping and operating the well;
- (c) In the event a 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 %; and
- (d) Provision for overhead rates of \$4906 per month drilling and \$670 per month operating and a provision providing for an adjustment method of the overhead rates as provided by COPAS;

D. I have formed the following opinions based upon our respective expertise and upon the foregoing chronology of events:

(1) That the application is unopposed by one mineral owner whom San Juan Resources Inc. has located.

(2) That approval of San Juan Resources, Inc.'s application in this case is necessary in order to consolidate the interest ownership within this spacing unit for the drilling, completing and producing the subject well, will not violate correlative rights and will help prevent waste and promote the conservation of natural resources.

NMOCD Case No. 12796

Affidavit

Page 5

(3) That the New Mexico Oil Conservation Division should enter an order pooling all mineral interests from the surface to the base of the Dakota formation underlying S/2 of Section 19, T30N, R11W, NMPM, San Juan County, New Mexico, forming a standard 320-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within said vertical extent and to dedicate this pooled unit to its Kaempf Well No. 1E to be drilled and completed at a standard gas well location within said spacing unit including the costs of drilling and completing said well and the allocation of the costs thereof as well as actual operating costs and charges for supervision, designation of applicant as the operator of the well and a 150 % charge for risk involved in drilling and completing said well.

Page ____

Jerome P. McHugh, Jr.
Jerome P. McHugh, Jr.

State of Colorado)
) SS
City and County of Denver)

Notary Public

August 1 2005

