

JAMES B. FULLERTON

PETROLEUM LANDMAN

NATURAL GAS CONSULTANT

P.O. Box 2368

DENVER, COLORADO 80201

PHONE: 303-534-4502

April 10, 1990

Richard G. Clark
Manuel A. Rodriguez
9295 South Kalil Drive
Scottsdale, Arizona 85260

FEDERAL EXPRESS

Re: Operating Agreement & Authority for Expenditure
Carnes 11#1 Well
Richmond Petroleum, Inc. - Operator
Township 32 North, Range 6 West
Section 11: South $\frac{1}{2}$
San Juan & Rio Arriba Cos., New Mexico

Gentlemen:

As a follow-up to our previous telephone conversations and my correspondence to you dated February 22, 1990, I have enclosed an Operating Agreement and Authority for Expenditure covering the drilling of the Carnes 11 #1 Well to be operated by Richmond Petroleum, Inc.

As I previously discussed with you, Richmond Petroleum, Inc. and T.H. McElvain Jr. are preparing to drill the above mentioned well to test the Fruitland Formation in the SW $\frac{1}{4}$ of Section 11. By cover letter dated February 22, 1990 I sent you an Oil & Gas Lease and individual Bank Drafts to cover the 2.40 net mineral acres owned by you under a portion of the lands to be included within the drilling and spacing unit. I also advised you that a Compulsory Pooling hearing was scheduled with the New Mexico Oil Conservation Division to cover the interests of all parties who have failed to execute and Oil & Gas Lease or otherwise refuse to commit their interest to the drilling of the subject well.

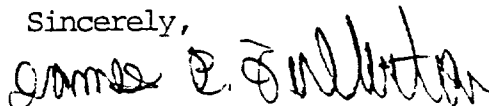
The referenced Compulsory Pooling Hearing is now scheduled for May 2, 1990. If you wish to participate for your proportionate Working Interest and pay your cost of the subject well, please execute and return one copy of the Operating Agreement and Authority for Expenditure. The estimated cost to drill and complete the well is \$326,249.00 (see attached AFE). Your Working Interest is .187027% each.

As outlined in my correspondence dated February 22, 1990, you may also choose to execute the Oil & Gas Lease to commit your interest to the subject well. If you fail to commit your interest, you will be subject to the Compulsory Pooling order issued by the New Mexico Oil Conservation Division. A copy of our application is attached for your information.

In as much as we are preparing to begin operations soon and the hearing is scheduled for May 2, 1990, your early attention to this matter would be greatly appreciated.

If you should have any questions or wish to discuss this matter in more detail, please feel free to call me at 303-534-4502.

Sincerely,

A handwritten signature in dark ink, appearing to read "James B. Fullerton". The signature is written in a cursive, somewhat stylized script.

James B. Fullerton
Richmond Petroleum, Inc.

RICHMOND PETROLEUM INC.
Authority For Expenditure (AFE) Cost Estimates

| | | | | | |
|---|---------------------------------|--|------------|----------------------------|--|
| Lease Name Carnes 32-6-11 | | Well No. #1 | | Field Basin | |
| Location 1800' FSL, 230' FWL, Sec 11, T32N, R6W | | County San Juan | | State New Mexico | |
| Formation Fruitland Coal | | Est. Total Depth 2,800 | | | |
| TUBULAR GOODS: | | PRODUCING WELL | | DRY HOLE | |
| | | Sub. | Total | | |
| Surface Casing | 240 Ft. 8-5/8 Inch 8.00 \$/Ft. | \$ 1,920 | | \$ 1,920 | |
| Int. Casing | Ft. Inch @ \$/Ft. | | | | |
| Prod. Casing | 2800 Ft. 5-1/2 Inch 6.00 \$/Ft. | 16,800 | | 16,800 | |
| | Ft. Inch @ \$/Ft. | | | | |
| | Ft. Inch @ \$/Ft. | | | | |
| Tubing | 2750 Ft. 2-3/8 Inch 2.50 \$/Ft. | 6,875 | | | |
| | Ft. Inch @ \$/Ft. | | \$ 25,595 | | |
| WELLHEAD EQUIPMENT: 2000# Independent | | 3,500 | 3,500 | | |
| OTHER EQUIPMENT: Liner Hangers and Production Packers Production Facilities (PU, Sep, Dehy, Tanks, Etc.) | | 65,000 | 65,000 | | |
| CONTRACT COSTS: | | 33,600 | | 33,600 | |
| Footage | 2800 Ft. 12.00 \$/Ft. | | | | |
| Daywork | Ft. \$/Ft. | | | | |
| Daywork | Ft. \$/Ft. | | | | |
| Daywork | Ft. \$/Ft. | | 33,600 | | |
| CEMENTING: (Cement and Pump Trucks) | | 5,000 | | 5,000 | |
| Surface | | | | | |
| Intermediate | | | | | |
| Production | | 9,000 | | 9,000 | |
| Liner | | | | | |
| Liner | | | | | |
| Sq. Job | | | 14,000 | | |
| FORMATION TREATMENT: | | 70,000 | | 70,000 | |
| Acidizing | | | | | |
| Fracturing Eqpmnt | 30 # XL | | | | |
| Fluid | Gal. Oil | | | | |
| | 73000 Gal. Water | | | | |
| Sand | 312000 Lbs. | | | | |
| Tank Rental | 6 Tanks | 2,000 | 72,000 | 2,000 | |
| SPECIAL SERVICES: (Surveys and Tests) | | 7,000 | | 7,000 | |
| Perforating | | 2,000 | | 2,000 | |
| Mud Logging | | | | | |
| Electric & Radioactive Logging | | | | | |
| Drill Stem Tests | | | | | |
| Cores | | | 9,000 | | |
| MATERIALS: | | 8,000 | | 8,000 | |
| Drilling Mud and Chemicals | | | | | |
| Drilling Gas or Air | | | | | |
| Water | | 10,000 | | 10,000 | |
| Bits | | 2,000 | | 2,000 | |
| Fuel | | 2,000 | | 2,000 | |
| Cement Equipment (shoes, collars, etc.) | | 1,000 | | 1,000 | |
| Bridge Plugs and Retainers | | | | | |
| Miscellaneous (welding, hauling, rental of tongs, etc.) | | 8,000 | 31,000 | 8,000 | |
| ACCESS AND LOCATION: Roads, Location, Legal(Title, Land) | | 30,000 | 30,000 | 30,000 | |
| Total Direct Cost Plus 15 % Contingency ESTIMATED TOTAL COST | | | 283,695 | 208,320 | |
| | | | 42,554 | 31,248 | |
| | | \$ | \$ 326,249 | \$ 239,568 | |
| WORKING INTEREST: Others | | ESTIMATED COSTS ONLY - Each participating owner to pay proportionate share of actual cost subject to operating agreement. | | | |

| | | | |
|---|----------------------|--|----------------------------------|
| RICHMOND PETROLEUM INC. APPROVAL | | | |
| Prepared By: <u>J.L. Adams</u> | Date: <u>3/01/90</u> | Recommended: _____ | Date: _____ |
| Approved: <u>James L. Adams</u> | Date: <u>3/01/90</u> | Title: <u>Executive Vice President</u> | Signature: <u>James L. Adams</u> |
| PARTNER APPROVAL | | | |
| Company Name: _____ | | | |
| Authorized By: _____ | | Date: _____ | |
| Title: _____ | | Signature: _____ | |



United States Department of the Interior

BUREAU OF RECLAMATION

UPPER COLORADO REGION
DURANGO PROJECTS OFFICE

P.O. BOX 640
DURANGO, COLORADO 81302-0640

IN REPLY
REFER TO:

DUR-452
LND-6.00

MAY 15 1990

Case No.

4894

Mr. Mike Stogner, Examiner
State Of New Mexico
Oil Conservation Division
P.O. Box 2088
State Land Office Bldg.
Santa Fe, NM 87504

Subject: Richmond Petroleum Well Nos. Miller 11 and Carnes 11, Navajo Unit,
Colorado River Storage Project, Colorado and New Mexico (Oil & Gas)

Dear Mr. Stogner:

As you requested, my staff has completed a field review of the Richmond Petroleum Well Nos. Miller 11 and Carnes 11. Both of these wells were staked on private property and do not physically impact lands owned by the United States. Therefore, we will have no further comments concerning these wells.

If you have any questions, please contact Steve Sacks at (303) 385-6574.

Sincerely

Max J. Stodolski

Max J. Stodolski
Projects Manager



STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

GARREY CARRUTHERS
GOVERNOR

May 25, 1990

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87504
(505) 827-5800

Mr. Owen Lopez
Hinkle, Cox, Eaton,
Coffield & Hensley
Attorneys at Law
Post Office Box 2068
Santa Fe, New Mexico

Re: CASE NO. 9894
ORDER NO. R-9178

Applicant:

Richmond Petroleum Inc.

Dear Sir:

Enclosed herewith are two copies of the above-referenced
Division order recently entered in the subject case.

Sincerely,

Florene Davidson

FLORENE DAVIDSON
OC Staff Specialist

Copy of order also sent to:

Hobbs OCD x
Artesia OCD x
Aztec OCD x

Other _____

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. 9894

Order No. R-9178

5/14/90
ms
WJ

APPLICATION OF RICHMOND PETROLEUM
INC. FOR COMPULSORY POOLING, UNORTHODOX
COAL GAS WELL LOCATION, AND A NON-STANDARD
GAS SPACING AND PRORATION UNIT, SAN JUAN
AND RIO ARriba COUNTIES, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on April 4*
and May 2, 1990, at Santa Fe, New Mexico, before Examiner
David R. Catanach.

NOW, on this _____ day of May, 1990, the Division
Director, having considered the testimony, the record, and
the recommendations of the Examiner, and being fully advised
in the premises,

FINDS THAT:

(1) Due public notice having been given as required by
law, the Division has jurisdiction of this cause and the
subject matter thereof.

(2) Division Case Nos. 9881, 9894 and 9895 were
consolidated at the time of the hearing for the purpose of
testimony.

(3) The applicant, Richmond Petroleum Inc., seeks an
order pooling all mineral interests in the Basin-Fruitland
Coal Gas Pool underlying Lots 1 through 4 and the S/2 N/2 of
Irregular Section 11, Township 32 North, Range 6 West, NMPM,
San Juan and Rio Arriba Counties, New Mexico, forming a
non-standard 232.80-acre gas spacing and proration unit for
said pool. Said unit³ to be dedicated to the applicant's
proposed Miller "11" Well No. 1 to be drilled at an
unorthodox coal gas well location 1130 feet from the North
line and 760 feet from the West line (Unit E) of said
Section 11.

(4) The applicant has the right to drill and proposes to drill its Miller "11" Well No. 1 at the unorthodox location described above.

(5) There are interest owners in the proposed proration unit who have not agreed to pool their interests.

(6) The evidence presented indicates that the proposed unorthodox gas well location is necessitated by surface obstructions and topographical features within said Section 11, including the presence of Navajo Reservoir.

(7) The evidence further indicates that the proposed non-standard gas proration unit is necessitated by a variation in the United States Public Lands Survey.

(8) No offset operator and/or interest owner appeared at the hearing in opposition to the proposed unorthodox gas well location or non-standard gas proration unit.

(9) To avoid the drilling of unnecessary wells, to protect correlative rights, to avoid waste, and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the production in any pool completion resulting from this order, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

(10) The applicant should be designated the operator of the subject well and unit.

(11) Any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(12) The applicant has proposed that a 200 percent risk penalty be assessed against those working interest owners subject to the forced-pooling provisions of this order, and in support thereof presented evidence and testimony at the hearing.

(13) Based on precedent established in previously heard compulsory pooling cases in the Basin-Fruitland Coal Gas Pool, the proposed 200 percent risk penalty is excessive and should therefore be reduced to 156 percent.

(14) Any non-consenting working interest owner who does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 156 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(15) Any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(16) Following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(17) At the time of the hearing, the applicant proposed that the reasonable monthly fixed charges for supervision while drilling and producing be \$4500.00 and \$450.00, respectively.

(18) Also based on established precedents from prior compulsory pooling cases in the Basin-Fruitland Coal Gas Pool, the above drilling and producing charges are in excess of the normal monthly fixed charges in this area for a well to a comparable depth and should therefore be adjusted to reflect a more reasonable rate.

(19) \$3500.00 per month while drilling and \$350.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(20) All proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(21) Upon the failure of the operator of said pooled unit to commence the drilling of the well to which said unit is dedicated on or before August 1, 1990, the order pooling said unit should become null and void and of no effect whatsoever.

(22) Should all the parties to this forced pooling reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(23) The operator of the well and unit shall notify the Director of the Division in writing of the subsequent

voluntary agreement of all parties subject to the forced pooling provisions of this order.

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be, in the Basin-Fruitland Coal Gas Pool underlying Lots 1 through 4 and the S/2 N/2 of Irregular Section 11, Township 32 North, Range 6 West, NMPM, San Juan and Rio Arriba Counties, New Mexico, are hereby pooled forming a non-standard 232.80-acre gas spacing and proration unit for said pool, said unit to be dedicated to the applicant's Miller "11" Well No. 1 to be drilled at an unorthodox coal gas well location 1130 feet from the North line and 760 feet from the West line (Unit E) of said Section 11.

PROVIDED HOWEVER THAT, the operator of said unit shall commence the drilling of said well on or before the 1st day of August, 1990, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Basin-Fruitland Coal Gas Pool.

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said well on or before the 1st day of August, 1990, Ordering Paragraph No. (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division Director for good cause shown.

PROVIDED FURTHER THAT, should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Ordering Paragraph No. (1) of this order should not be rescinded.

(2) Richmond Petroleum Inc. is hereby designated the operator of the subject well and unit.

(3) After the effective date of this order and within 90 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(4) Within 30 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(5) The operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the 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 said schedule, the actual well costs shall be the reasonable well costs; provided however, if there is objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(6) Within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated well costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

(7) The operator is hereby authorized to withhold the following costs and charges from production:

(A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(B) As a charge for the risk involved in the drilling of the well, 156 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(8) The operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(9) \$3500.00 per month while drilling and \$350.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are

reasonable, attributable to each non-consenting working interest.

(10) 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 the terms of this order.

(11) Any well costs or charges which are to be paid out of production shall be withheld only from the working interest's share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(12) All proceeds from production from the subject well which are not disbursed for any reason shall immediately 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 said escrow agent within 30 days from the date of first deposit with said escrow agent.

(13) Should all parties to this forced pooling order reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(14) The operator of the well and unit shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

(15) Jurisdiction of this cause 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

WILLIAM J. LEMAY
Director

S E A L