

STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

CASE 10,004, CASE 9980, CASE 9981

EXAMINER HEARING

IN THE MATTER OF:

Application of Mesa Operating Limited Partnership
for Compulsory Pooling, San Juan County, New
Mexico

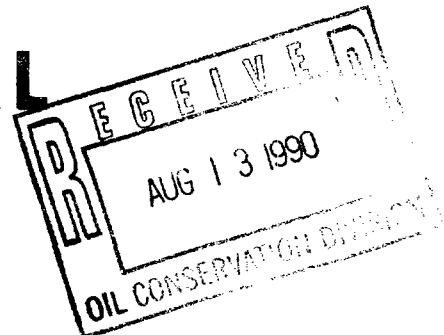
TRANSCRIPT OF PROCEEDINGS

BEFORE: MICHAEL E. STOGNER, EXAMINER

STATE LAND OFFICE BUILDING

SANTA FE, NEW MEXICO

July 11, 1990

ORIGINAL

A P P E A R A N C E S

FOR THE APPLICANT:

MILLER, STRATVERT, TORGERSON & SCHLENKER, P.A.
Attorneys at Law
By: J. SCOTT HALL
125 Lincoln Avenue
Suite 303
Santa Fe, New Mexico 87501

FOR AMOCO PRODUCTION COMPANY:

CAMPBELL & BLACK, P.A.
Attorneys at Law
By: WILLIAM F. CARR
Suite 1 - 110 N. Guadalupe
P.O. Box 2208
Santa Fe, New Mexico 87504-2208

ALSO PRESENT:

JAMES MORROW
Chief Engineer
Oil Conservation Division
State Land Office Building
Santa Fe, New Mexico 87504

* * *

I N D E X

Page Number

Appearances

2

Exhibits

4

MARK W. SEALE

Direct Examination by Mr. Hall

6

Examination by Examiner Stogner

9

STEWART SAMPSON

Direct Examination by Mr. Hall

11

THOMAS L. HAHN

Direct Examination by Mr. Hall

13

Examination by Examiner Stogner

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Certificate of Reporter

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* * *

E X H I B I T S

APPLICANT'S EXHIBITS:

| | |
|-----------|----|
| Exhibit 1 | 6 |
| Exhibit 2 | 7 |
| Exhibit 3 | 8 |
| Exhibit 4 | 11 |
| Exhibit 5 | 11 |
| Exhibit 6 | 12 |
| Exhibit 7 | 14 |
| Exhibit 8 | 16 |

* * *

1 WHEREUPON, the following proceedings were had
2 at 12:20 p.m.:

3 EXAMINER STOGNER: Call next case, Numbers
4 10,004, 9980 and 9981, which are all the Application of
5 Mesa Operating Limited Partnership for compulsory
6 pooling, San Juan County, New Mexico.

7 I'll call for appearances.

8 MR. HALL: Mr. Examiner, Scott Hall from the
9 Miller, Stratvert, Torgerson and Schlenker law firm,
10 with three witnesses.

11 MR. CARR: May it please the Examiner, my
12 name is William F. Carr with the law firm Campbell and
13 Black, P.A., of Santa Fe. I represent Amoco Production
14 Company. I do not intend to call a witness.

15 EXAMINER STOGNER: Mr. Hall, is your
16 witnesses the same ones that have presented in the
17 previous case?

18 MR. HALL: Yes, Mr. Examiner. We would ask
19 that all three witnesses' credentials be stipulated to
20 on the basis of previous testimony today.

21 EXAMINER STOGNER: Thank you, Mr. Hall. Let
22 the record so show, and also let the record show that
23 these witnesses have been previously sworn.

24 Mr. Hall?

25 MR. HALL: First call Mark Seale.

1 MARK W. SEALE,

2 the witness herein, after having been first duly sworn
3 upon his oath, was examined and testified as follows:

4 DIRECT EXAMINATION

5 BY MR. HALL:

6 Q. Mr. Seale, if you would, briefly state what
7 it is Mesa is seeking, each of the three Applications,
8 and then summarize the exhibits you've prepared for the
9 hearings today.

10 A. In each of these cases we are seeking an
11 order pooling all mineral owners in the Basin Fruitland
12 coal gas pool underlying the spacing units for each of
13 these wells.

14 Q. All right.

15 A. Exhibit 1 is a plat in each of these cases
16 depicting the drill-site section for each of these
17 wells. The 320-acre spacing unit is identified, and
18 I'll take each of these cases one by one and describe
19 the wells.

20 Case 10,004, Mesa's proposed well is named
21 the FC State Com. Number 8. It is located 2040 feet
22 from the south line, 1220 feet from the west line of
23 Section 32, Township 29 North, Range 8 West.

24 Case Number 9980, the proposed well is named
25 the FC State Com. Number 10. It is located 1620 feet

1 from the north line, 790 feet from the east line of
2 Section 29 North, Range 8 West.

3 In Case Number 9981, Mesa's proposed well is
4 named the FC State Com. Number 9. It is located 915
5 feet from the south line, 835 feet from the west line
6 of Section 36, Township 29 North, Range 8 West.

7 Page 2 of Exhibit 1 in each case sets forth
8 the working-interest owners and their percentages which
9 have committed their interests to the wells, and those
10 parties which Mesa is seeking to pool.

11 In Case 10,004, 87-1/2 percent of the working
12 interest is committed to the well. Mesa is seeking to
13 pool Amoco Production Company with 6-1/4 percent and
14 Conoco with 6-1/4 percent.

15 In Case 9980, 75 percent of the working
16 interest is committed. Mesa is looking to pool El Paso
17 Production Company with 25 percent.

18 And in case 9981, 87-1/2 percent of the
19 working interest is committed, and Mesa is looking to
20 pool El Paso with 12-1/2 percent.

21 Exhibit Number 2 are the letters by which
22 Mesa officially proposed these wells to partners. When
23 the letters were sent to the partners, the partners
24 received Mesa's operating agreement which we proposed
25 govern operations for the drilling of each of these

1 wells, and an AFE cost estimate.

2 The AFE cost estimate is attached as Exhibit
3 3.

4 Q. Would you briefly summarize your efforts to
5 obtain the voluntary joinder of the parties you're
6 seeking to pool today?

7 A. Yes, in addition to officially proposing with
8 the letters set forth in Exhibit 2, we've had numerous
9 telephone conversations with each of the parties, and
10 as of this hearing none of the parties have officially
11 committed their interest to these wells in writing.

12 Q. In your opinion, have you made a good-faith
13 effort to obtain the voluntary joinder --

14 A. Yes, we have.

15 Q. -- in each case?

16 Mr. Seale, in your opinion will the granting
17 of these three applications be in the interest of
18 conservation, the prevention of waste and protection of
19 correlative rights?

20 A. Yes, it will.

21 Q. And were Exhibits 1, 2 and 3 prepared by you
22 or at your direction?

23 A. Yes.

24 MR. HALL: That concludes our direct of this
25 witness. We would move the admission of Exhibits 1, 2

1 and 3 in each of the three cases.

2 EXAMINER STOGNER: Are there any objections?

3 Exhibits 1, 2 and 3 will be admitted into
4 evidence at this time.

5 Mr. Hall, I believe we have a little
6 housekeeping here on Case Number 9980; is that correct?

7 MR. HALL: Yes, Mr. Examiner. It appears to
8 be an erroneous description in the advertisement. The
9 actual section is Section 16. The footage location
10 description in the ad shows in addition to Section 16 a
11 Section 36 description.

12 The well name is also the FC State Com. Well
13 Number 10, as opposed to the FC State Com. Well Number
14 11, as shown.

15 EXAMINER STOGNER: Thank you, Mr. Hall. And
16 that should be the FC State Well Number 10.

17 EXAMINATION

18 BY EXAMINER STOGNER:

19 Q. Now, has this well been drilled? Or has any
20 of these three wells been drilled?

21 A. No.

22 EXAMINER STOGNER: No, okay.

23 MR. HALL: It's an additional --

24 EXAMINER STOGNER: I noticed that. The well
25 referenced in the Case 9980 in the advertisement was

1 the FC State Well Number 11, which is in Section 36 of
2 that township, which is a correct footage for that,
3 which is definitely an advertising error on the
4 Division's part.

5 This will need to be readvertised, and the
6 quickest we can have it readvertised will be at the
7 August 8th hearing, and there will probably be no need
8 of either party to show up for any additional
9 testimony.

10 So at this point we will go ahead and hear
11 your case, take the other two under advisement,
12 assuming that those two cases -- everything is adequate
13 on those two cases -- and we'll continue this one.

14 Are there any questions of this witness?

15 MR. CARR: (Shakes head)

16 EXAMINER STOGNER: If not, you may be
17 excused.

18 Mr. Hall?

19 MR. HALL: We need to move the admission of
20 Exhibits 1, 2 and 3, if I haven't already.

21 EXAMINER STOGNER: You have, and we admitted
22 them.

23 MR. HALL: All right. At this time we call
24 Stewart Sampson.

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STEWART SAMPSON,

the witness herein, after having been first duly sworn upon his oath, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. HALL:

Q. Mr. Sampson, you prepared certain exhibits in conjunction with your testimony. Why don't you identify those and explain those to the hearing Examiner?

A. In each case, Exhibit 4 is a coal isopach for the San Juan Basin showing the location of the wells in question.

These cases were consolidated by virtue of the fact that all three wells are in the same township and therefore have essentially similar types of geologic conditions.

We expect to encounter attractive thicknesses of coal in this area. As Exhibit 4 shows, we're very near the thickest trend of coal in the Basin.

Exhibit 5 in each case is a bottomhole pressure map for the Fruitland coal formation, and once again showing the location of the wells.

We expect to encounter in the range of 1000 pounds bottomhole pressure in this area, which should also be attractive.

1 Exhibit 6 in each case is a detailed map of
2 the area around the wells in question, showing the
3 location of that well and all offset Fruitland coal
4 completions.

5 In each case we do have sufficient offset
6 control to indicate that a 156-percent penalty or a
7 standard-type penalty would be adequate in this case --
8 in all three cases.

9 Q. Even though it appears that you'll encounter
10 the coal, does the geology still present some sort of
11 risk that the wells will not be economic?

12 A. Yes, there is some risk.

13 Q. And what is the basis of that risk?

14 A. Again, the possibility or the risk of
15 encountering sufficient permeability fracturing to
16 establish economic production.

17 Q. Do you have anything further you wish to add
18 with respect to these three exhibits?

19 A. No, sir.

20 Q. Were Exhibits 4, 5 and 6 in each of the cases
21 prepared by you or at your direction?

22 A. Yes, they were.

23 Q. We would move the admission of Exhibits 4, 5
24 and 6 in each case, and that concludes our direct of
25 this witness.

1 EXAMINER STOGNER: Exhibits 4, 5 and 6 in
2 each of the three cases will be admitted into evidence.

3 Are there any questions of this witness?

4 MR. CARR: No questions.

5 EXAMINER STOGNER: If not, you may be
6 excused.

7 Mr. Hall?

8 MR. HALL: At this time we'll call Tom Hahn.

9 THOMAS L. HAHN,
10 the witness herein, after having been first duly sworn
11 upon his oath, was examined and testified as follows:

12 DIRECT EXAMINATION

13 BY MR. HALL:

14 Q. Mr. Hahn, let's review Exhibit 3 in each of
15 the cases, which is the AFE.

16 A. All right. Exhibit 3 in Case Number 9980 is
17 a detailed AFE cost estimate for drilling and
18 completing the FC State Com. Number 10. The total cost
19 is estimated at \$398,200 for this well. This is the
20 cost to drill, case, perforate and stimulate the FC
21 State Com. 10.

22 In Case Number 9981, Exhibit Number 3, we
23 have the AFE cost estimate for drilling, casing,
24 perforating and frac'ing the FC State Com. Number 9.
25 The estimated cost for this well is \$385,500.

1 In Case Number 10,004, Exhibit Number 3 is
2 the AFE cost estimate for drilling, casing, perforating
3 and completing the FC State Com. Number 8. This cost is
4 estimated at \$372,300.

5 Q. And Mesa has drilled or participated in other
6 Fruitland wells in the area, have they not?

7 A. Yes, they have.

8 Q. And do these costs appear to be in line with
9 what's being charged in the area?

10 A. Yes, they are.

11 Q. What is Mesa's overhead in administrative
12 charges for these wells?

13 A. The drilling overhead is \$3831 per month.
14 The production overhead is \$382 per month.

15 Q. And that's for each of the three wells?

16 A. For each of the three wells.

17 Q. And are you recommending that those charges
18 be included in any Orders that result from these
19 hearings?

20 A. Yes, I am.

21 Q. Let's look at Exhibit 7 in each of the cases.
22 If you'd identify those exhibits and explain them.

23 A. I'll take each case by itself.

24 Case Number 9980, Exhibit 7 is the offset
25 production detail for those Fruitland wells shown in

1 Exhibit 6 in this case.

2 In this particular case, there are several
3 completed wells. We can look at the production and the
4 surface shut-in pressure information. It indicates
5 that operators may make commercially economic wells in
6 the area. The rates are not extremely attractive, but
7 we believe we can make an economic well if we make at
8 least 100 MCF per day.

9 In Case Number 10,004, Exhibit 7 is the
10 offset production detail for completed Fruitland wells,
11 offsetting our proposed FC State Com. Number 8. There
12 are four completed Fruitland coal wells that we're
13 showing. The production is fairly attractive: 192 MCF
14 per day on one well, 120 MCF per day on the other well.
15 And the shut-in pressures appear to be normal for this
16 area.

17 In Case Number 9981, Exhibit 7 is the
18 offsetting production detail for the FC State Com.
19 Number 9. There are five offset wells that we
20 identified. The rates, once again, in this area are
21 marginal. We need at least 100 MCF per day from our
22 well to make an economic venture.

23 Q. So the information contained in the
24 production detail exhibit for each case indicates there
25 is some risk that the wells may not be economic?

1 A. Yes, based on the information that we're
2 seeing from the offset wells, we will have to make as
3 good or better a well than the other operators in the
4 area.

5 So there is some risk associated with this,
6 in addition to the risk of inherently drilling and
7 completing a Fruitland coal well in the San Juan Basin.

8 Q. All right. Do you concur in the request for
9 a 156-percent risk penalty against the nonconsenting
10 interests?

11 A. In these three cases I do.

12 Q. Anything further you wish to add with respect
13 to the risk?

14 A. No.

15 Q. Was Exhibit 7 prepared by you or at your
16 direction?

17 A. Yes, it was.

18 Q. And in your opinion, Mr. Hahn, will granting
19 the Applications be in the interests of conservation,
20 the prevention of waste and protection of correlative
21 rights?

22 A. Yes.

23 MR. HALL: That concludes our direct of this
24 witness. We would move the admission of Exhibit 7 and
25 also Exhibit 8, which is counsel's affidavit pursuant

1 to Rule 1207.

2 EXAMINER STOGNER: Exhibits 7 and 8 will be
3 admitted into evidence at this time.

4 MR. HALL: We have nothing further in the
5 case.

6 EXAMINATION

7 BY EXAMINER STOGNER:

8 Q. Mr. Hahn, on Exhibit 3 on each of these
9 cases, I was doing some comparison and you have core
10 and related service charges, item 210 on each of them.
11 And one, in Case Number 9980, is \$10,000 more than the
12 other two. Would you go into a little bit more detail
13 on this?

14 A. Item number 210?

15 Q. Yes.

16 A. Okay, I'm not showing any costs on item 210.

17 Q. Okay, I'm sorry, 205. I'm sorry, well-
18 stimulation services.

19 A. Oh, okay, well stimulation services.

20 Q. Had my eyes crossed.

21 A. Sure. The differences in the well-
22 stimulation cost, basically -- It's based on the net
23 coal thickness that we expect to encounter in the
24 different wells. Kind of a rule of thumb we've been
25 going with is about 5000 pounds of proppant per net

1 foot of coal.

2 And based on a geologic prognosis before we
3 drill the well, we have an estimated coal thickness.
4 So the AFE's were built based on that.

5 EXAMINER STOGNER: Okay, are there any other
6 questions of this witness?

7 MR. MORROW: I didn't tie that in with
8 thickness. What is the total size of the frac job that
9 you propose here?

10 THE WITNESS: It varies, of course, based on
11 the thickness. When the AFE cost estimates were built,
12 all of the stimulation estimates were based on a three-
13 stage frac.

14 We haven't actually done any three-stage
15 fracs yet, but if we estimate we're going to encounter
16 50 foot of coal, then we would expect to pump, you
17 know, 250,000 pounds of sand. And then the cost
18 estimate is based on that volume of sand and the other
19 related fluid costs that we'll have with that.

20 MR. MORROW: I had a question about the well
21 spots on Exhibit 1, what the completions were. What do
22 those represent? Those on the proration unit where you
23 propose to drill, there's several well spots there
24 indicating some kind of completion.

25 THE WITNESS: In like Case 9980, for example?

1 MR. MORROW: Yes, that would be fine.
2 There's, I guess, four other locations shown there.

3 THE WITNESS: Okay. All of the other
4 locations that you're seeing are wells that are
5 completed in a reservoir other than the Fruitland Coal,
6 Mesa Verde, Pictured Cliffs, Dakota, some of the other
7 formations.

8 MR. MORROW: Is that above the Fruitland
9 Coal?

10 THE WITNESS: No, they're all deeper than the
11 Fruitland Coal. The Fruitland Coal is the shallowest.

12 MR. MORROW: So you can get some idea, I
13 guess, from the log of the coal thickness, or can you?

14 THE WITNESS: Yes, that's -- We have real
15 good control on the coal thickness, because all of the
16 wells that have been drilled in the Basin have
17 penetrated the Fruitland Coal.

18 EXAMINER STOGNER: That sometimes represents
19 the 156 percent; is that right, Mr. Hall?

20 MR. HALL: Only sometimes.

21 EXAMINER STOGNER: Sometimes.

22 Are there any other questions of this
23 witness?

24 MR. HALL: No, sir.

25 EXAMINER STOGNER: If not, you may be

1 excused.

2 Mr. Hall, do you have anything further? Or
3 does anybody have anything further in any of these
4 three cases?

5 If not, Case Numbers 10,004 and 9981 will be
6 taken under advisement at this time. Case Number 9980
7 will be continued and readvertised for the August 8th,
8 1990, hearing, and I apologize to Mr. Hall for the
9 advertisement error.

10 (Thereupon, these proceedings were concluded
11 at 12:41 p.m.)

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CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Shorthand Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.


WITNESS MY HAND AND SEAL August 6, 1990.



STEVEN T. BRENNER
CSR No. 106

My commission expires: October 14, 1990

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case Nos. 10,004, 9980, 9981 heard by me on 11 July 1990.


Michael J. Higgins, Examiner
Oil Conservation Division

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. 10004
ORDER NO. R-9234

APPLICATION OF MESA OPERATING
LIMITED PARTNERSHIP FOR COMPULSORY
POOLING, SAN JUAN COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on July 11, 1990, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 19th day of July, 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) At the time of the hearing, this case was consolidated with Case Nos. 9980 and 9981 for the purpose of testimony.
- (3) The applicant, Mesa Operating Limited Partnership, seeks an order pooling all mineral interests in the Basin-Fruitland Coal Gas Pool underlying the W/2 of Section 32, Township 29 North, Range 8 West, NMPM, San Juan County, New Mexico, forming a standard 320-acre gas spacing and proration unit for said pool.
- (4) The applicant has the right to drill a well on said unit and proposes to drill its F.C. State Com Well No. 8 at a standard coal gas well location in the SW/4 of said Section 32.

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

(6) To avoid the drilling of unnecessary wells, to protect correlative rights, to prevent 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 gas in said pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

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

(8) 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.

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

(10) 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.

(11) 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.

(12) \$3831.00 per month while drilling and \$382.00 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.

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(13) 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.

(14) Upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before October 15, 1990, the order pooling said unit should become null and void and of no further effect whatsoever.

(15) Should all the parties to this force-pooling reach voluntary agreement subsequent to entry of this order, this order should thereafter be of no further effect.

(16) The operator of the well and unit should notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the force-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 the W/2 of Section 32, Township 29 North, Range 8 West, NMPM, San Juan County, New Mexico, are hereby pooled to form a standard 320-acre gas spacing and proration unit to be dedicated to its proposed F.C. State Com Well No. 8 to be drilled at a standard coal gas well location in the SW/4 of said Section 32.

PROVIDED HOWEVER THAT, the operator of said unit shall commence the drilling of said well on or before the 15th day of October, 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 15th day of October, 1990, Decretory 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 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 Decretory Paragraph No. (1) of this order should not be rescinded.

(2) Mesa Operating Limited Partnership is hereby designated the operator of the subject well and unit.

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(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 an 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 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; and
- (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

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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) \$3831.00 per month while drilling and \$382.00 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 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 the parties to this force-pooling reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(14) The operator of the subject well and unit shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the force-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.

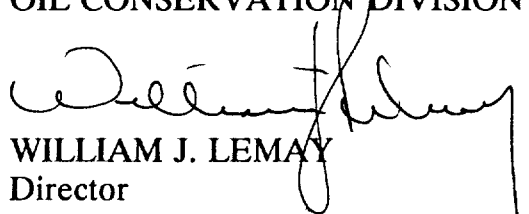
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DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



S E A L

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION



WILLIAM J. LEMAY
Director