STATE OF NEW MEXICO



ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

GARREY CARRUTHERS
GOVERNOR

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

October 26, 1990

Case 10175

Maralex Resources, Inc. 518 17th Street
Suite 1030
Denver, CO 80202

Attention: A.M. O'Hare

RE: Application for an unorthodox coal gas well location; Hammond

W.N. Federal Well No. 11, 205' FNL - 130' FEL (Unit A) Section 34, Township 27 North, Range 8 West, NMPM, Basin-Fruitland

Coal Gas Pool, San Juan County, New Mexico.

Dear Mr. O'Hare:

Due to the extreme nature of the subject location, the Division cannot process this application administratively. Therefore, this matter will be set for hearing before a Division Examiner on the next available docket, which is scheduled for November 28, 1990.

Please provide adequate notice for such applications prior to the hearing as required by Division General Rule 1207.

Sincerely,

Michael E. Stogner Chief Hearing Officer

MES/ag

cc: Oil Conservation Division - Aztec

US Bureau of Land Management - Farmington

HINKLE, COX, EATON, COFFIELD & HENSLEY

ATTORNEYS AT LAW

218 MONTEZUMA

POST OFFICE BOX 2068

SANTA FE, NEW MEXICO 87504-2068

(505) 982-4554

FAX (505) 982-8623

OF COUNSEL MACK FASLEY

CLARENCE E. HINKLE (1901-1985) W. E. BONDURANT, JR. (1913-1973) ROY C. SNODGRASS, JR. (1914-1987)

November 27, 1990

700 UNITED BANK PLAZA POST OFFICE BOX TO ROSWELL NEW MEXICO 88202 (505) 622-6510 FAX (505) 623-9332

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MARGARET CAPTER LUC MARTIN MEYERS GREGORY S. WHEELER ANDREW J. CLOUTIER AMES A GILLESPIE GARY W. LARSON S'EPHANIE LANDRY JOHN R. KULSETH, JR. LISA K. SMITH*

William J. LeMay, Director Energy, Minerals and Natural OR CONSERVATION DIVISION Resources Department Oil Conservation Division * State Land Office Building Santa Fe, New Mexico 87503

Case No. 10175 - Maralex Resources, Inc.

Dear Mr. LeMay:

On behalf of Maralex Resources, Inc., I respectfully request a continuance of the hearing concerning the application of Maralex Resources, Inc. for an unorthodox well location in San Juan County, New Mexico, to the next examiner hearing scheduled for December 19, 1990.

Thank you for your attention to this matter.

Sincerely,

OML: frs

Maralex Resources, Inc. Mickey O'Hare

STATE OF NEW MEXICO



ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

BRUCE KING GOVERNOR January 24, 1991

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

Mr. James Bruce Re: Hinkle, Cox, Eaton, Coffield & Hensley Attorneys at Law 500 Marquette, N.W., Suite 800 Albuquerque, New Mexico 87102-213	CASE NO. 10175 ORDER NO. R-9415 Applicant: Maralex Resources, Inc.
Dear Sir:	
Enclosed herewith are two copies Division order recently entered i	
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:

APPLICATION OF MARALEX RESOURCES,

INC. FOR AN UNORTHODOX COAL AND

GAS WELL LOCATION, SAN JUAN

COUNTY, NEW MEXICO.

)

CASE NO. 10175

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

January 10, 1991 2:05 p.m. Santa Fe, New Mexico

This matter came on for hearing before the Oil

Conservation Division on January 10, 1991, at 2:05 p.m. at Oil

Conservation Division Conference Room, State Land Office

Building, 310 Old Santa Fe Trail, Santa Fe, New Mexico, before

Deborah F. LaVine, RPR, Certified Court Reporter No. 252, in

and for the County of Santa Fe, State of New Mexico.

FOR: OIL CONSERVATION

DIVISION

BY: DEBORAH F. LAVINE, RPR Certified Court Reporter CCR No. 252

HUNNICUTT REPORTING
1660 OLD PECOS TRAIL, SUITE F
SANTA FE, NEW MEXICO 87501 (505) 982-9770

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	HUNNICUTT REPORTING DEBORAH F. LAVINE, CCR, RPR		

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1		APPEARANCES
2	BEFORE:	DAVID R. CATANACH, Hearing Examiner
3		
4	FOR THE DIVISION:	ROBERT G. STOVALL, ESQ. General Counsel
5		Oil Conservation Commission State Land Office Building
6		310 Old Santa Fe Trail Santa Fe, New Mexico 87501
7		bulled Te, New Heates 57501
8	FOR THE APPLICANT:	HINKLE, COX, EATON, COFFIELD & HENSLEY Attorneys at Law
9		BY: JAMES G. BRUCE, ESQ. 500 Marquette, Northwest
LO		Suite 800 Albuquerque, New Mexico 87102
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EXAMINER CATANACH: At this time, we'll call case 10175. 1 2 MR. STOVALL: Application of Maralex Resources, Inc. for an unorthodox coal gas well location, San Juan County, New 3 Mexico. 5 EXAMINER CATANACH: Are there appearances in this case? MR. BRUCE: Mr. Examiner, my name is Jim Bruce from the 6 7 Hinkle law firm in Albuquerque representing the applicant. I 8 have one witness to be sworn. EXAMINER CATANACH: Any other appearances? Will the 9 witness please stand to be sworn in. 10 11 (Witness sworn.) ALEXIS MICHAEL O'HARE 12 13 the Witness herein, having been first duly sworn, was examined 14 and testified as follows: 15 DIRECT EXAMINATION 16 BY MR. BRUCE: Would you please state your full name and city of 17 18 residence. My full name is Alexis Michael O'Hare. I reside in 19 20 Denver, Colorado. And what is your occupation, and who is your 21 22 employer? I'm a petroleum engineer, and I'm employed by 23 24 Maralex Resources. What is your position with Maralex? 25 Ο.

1	A. I'm president.
2	Q. Have you previously testified before the OCD as an
3	engineer?
4	A. Yes, I have.
5	Q. And your credentials were accepted as a matter of
6	record?
7	A. Yes, they were.
8	Q. And are you responsible for Maralex' well location
9	applications?
10	A. Yes, I am.
11	Q. And are you familiar with this case?
12	A. Yes.
13	MR. BRUCE: Mr. Examiner, is the witness acceptable?
14	EXAMINER CATANACH: He is.
15	Q. (By Mr. Bruce:) Briefly, Mr. O'Hare, what does
16	Maralex seek in this case?
17	A. We seek an unorthodox coal gas well location in
18	Section 34, Township 27 North, Range 8 West to test the
19	Basin-Fruitland coal pool.
20	Q. Now this application was originally a request for
21	administrative approval of an unorthodox location, was it not?
22	A. That is correct.
23	(Applicant's Exhibit No. 1 was
24	marked for identification.)
25	O And is Evhibit Number 1 a conv of your letter of

1	application?
2	A. Yes, it is.
3	(Applicant's Exhibit No. 2 was
4	marked for identification.)
5	Q. Now this location, referring to Exhibit Number 2,
6	would you identify the location.
7	A. The location is 205 feet from the north line and
8	130 feet from the east line of Section 34 with a stand-up
9	proration unit, 320 acre.
10	Q. Now does this plat also indicate the offset
11	operators?
12	A. Yes, it does.
13	Q. Would you please identify them for the record.
14	A. Maralex owns both the tracts to the north and the
15	northeast. And Great Lakes Chemical owns the tract directly
16	to the east of the proposed location.
17	Q. Were the offsets notified of this hearing?
18	A. Yes, they were.
19	(Applicant's Exhibit No. 3 was
20	marked for identification.)
21	Q. And is Exhibit Number 3 a copy of your notification
22	letter?
23	A. Yes, it is.
24	Q. And the certified return receipts are also
25	attached, are they not?

1	A. That is correct.
2	Q. What is the reason Maralex seeks this location?
3	A. Purely topographic.
4	(Applicant's Exhibit No. 4 was
5	marked for identification.)
6	Q. And would you refer to Exhibit Number 4 and expound
7	upon that in a little more detail.
8	A. The location is currently staked on top of Blanco
9	Mesa in the extreme northeast corner of the section.
10	Virtually all of the northeast quarter of Section 34 is cliff
11	sites or canyon walls, and we could not find any other
12	suitable location.
13	Q. There appears to be a canyon running down there.
14	Was that a suitable location? And if not, why not?
15	A. There's one well located in the bottom of that
16	canyon right alongside an intermittent wash. But there was
17	not suitable room on that location for another well. There
18	are boulders surrounding that location and very steep canyon
19	walls.
20	Q. In your opinion, can this well be economically
21	drilled directionally to a standard bottom hole location?
22	A. No, it cannot.
23	Q. Would there also be any problems or some problems
24	anyway due to the angle and the distance of the directional

drilling?

25

1	A. Yes, there would be. The canyon is about 800 to
2	1,000 feet in depth there. We would have to start our kickoff
3	point after we reached the bottom of the canyon since we would
4	be heading back in a direction towards the cliff wall. We
5	would have to drill a minimum of 882 feet of horizontal
6	displacement to get to a legal location 790 feet offset from
7	both section lines, which would require very steep or high
8	angles.
9	Q. Were Exhibits 1 and 3 prepared by you?
10	A. Yes, they were.
11	Q. And could you tell me about Exhibits 2 and 4, who
12	they were prepared by.
13	A. Exhibits 2 and 4 were prepared by Arco Oil & Gas
14	immediately prior to our acquisition of these leases from
15	Arco. And they have since been revised by myself.
16	Q. And in your opinion, is the granting of this
17	application in the interests of conservation and the
18	prevention of waste?
19	A. Yes, it is.
20	MR. BRUCE: Mr. Examiner, I move the admission of
21	Exhibits 1 through 4.
22	EXAMINER CATANACH: Exhibits 1 through 4 will be admitted
23	as evidence.
24	(Applicant's Exhibits Nos. 1 through 4

admitted into evidence.)

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1	EXAMINATION
2	BY EXAMINER CATANACH:
3	Q. Mr. O'Hare, I see where Maralex and Great Lakes
4	Chemical have offset acreage. Where do Ibex and Meridian Oil
5	have their offset acreage?
6	A. Meridian is the owner of the west half of Section
7	34. Ibex owns the southwest quarter of Section 27 to the
8	northwest of the location.
9	Q. What about Western Oil Producers?
10	A. Western Oil & Minerals did own the east half of
11	Section 27, but we have since purchased their interest.
12	Q. The well that you said was at the bottom of
13	Cottonwood Canyon
14	A. Right.
15	Q what is that, a Dakota or Mesa Verde well?
16	A. I believe that's a Mesa Verde well, but I have not
17	verified that through the state records.
18	Q. That's not a well that Maralex operates?
19	A. No, it is not. We have that well shown in the
20	northeast quarter of Section 34 at the base of Cottonwood
21	Canyon labeled as a Picture Cliffs well on Exhibit Number 2.
22	EXAMINATION
23	BY MR. STOVALL:
24	Q. Mr. O'Hare, I'm trying to make sure I'm looking at
25	the right lines on your Exhibit Number 4. There appears to m

to be a grid pattern which would be the sections or quarter
sections on that. And we're looking at a photocopy, so it
makes it a little more difficult to understand.

Starting out, the dot marked with the arrow is your proposed location; is that correct?

- A. That is correct.
- Q. Now there's roughly an east/west line that's kind of at an angle there and then a north/south line that's right there. Is that the section line?
- A. Yes, it is.

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- Q. Those are the section lines?
- A. Right. I've got the original topo map that that was copied off of if you'd like to see it.
 - Q. It might be helpful to look at it and have it marked. Now you're on top of the mesa there; is that right?
 - A. That's right.
 - Q. That way we'll just try and keep the record clean so -- you've indicated to us, let's see, Section 34, I've identified -- okay. I can relate that now to the photocopy. I can see the section lines. That helps.

So as you go to the south and west from your location, actually going to go towards a legal location, is that moving downslope?

- A. Yes, it is.
- Q. So what you're saying is, In order to attempt a

1 directional well, you've got to get down below the bottom of the canyon --3 Α. Right. -- before you can even start kicking out. Otherwise, you'll come out the side of the cliff; is that what you're saying? 6 Α. That's correct. MR. STOVALL: I don't have anymore questions. 8 9 (By Examiner Catanach:) Let's see. Do you know who 0. 10 owns that well, that Picture Cliffs well in Section 34?

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- A. I believe that is still owned by Arco Oil & Gas.
- Q. Did you obtain the farmout rights just for the coal in this area?
- A. We purchased the lease from the base of the Fruitland coal back to the surface.
- Q. Drilling from the existing Picture Cliffs well, you said that was not feasible either?
- A. No, that is a very small location, and we don't see any way that we can get a new location on it. The other thing I'd like to point out is that the coals in this area are thinning and are not anywhere near as productive as they are in the northern parts of the San Juan Basin. And so our economics are very tight as it is for the low costs that we have projected for the proposed location.
 - Q. Has Maralex actually drilled a well in this area?

Yeah. We've just drilled a well in the northeast 1 Α. quarter of Section 35 and are in the process of completing it 2 now. But we only encountered 19 feet of coal in six different 3 benches. That's an average of three feet per bench. 4 You have no testing information on that well yet? 5 Q. 6 No. We plan on tracking that tomorrow. Α. 7 How much additional cost would be incurred to Q. 8 directionally drill it? My preliminary estimate is approximately \$90,000 to 9 Α. 10 directionally drill it from our proposed location. What's the cost estimate for a vertical well? 11 Q. 12 Α. It's 260 -- Our AFE cost is \$262,700, a completed 13 well, and that includes the pipeline hookup. Mr. O'Hare, in Section 26 in the southwest, is 14 15 there a Fruitland well in that? 16 Yes. We just drilled a Fruitland well there. Α. Where is that well located? 17 Ο. 18 It was also an unorthodox location, but I don't Α. 19 have the exact footage in front of me. It was in the 20 southwest quarter. Which direction did it go to become unorthodox? 21 Q. I don't need an exact footage, but if you could --22 23 It was from the south line. Α. It was too close to the south line? 24 0.

HUNNICUTT REPORTING
DEBORAH F. LAVINE, CCR, RPR

That is correct.

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Α.

And is it in the east half or the west half of that 1 Q. 2 quarter section? Do you know? I believe it's in the east half. Α. 3 So it would be probably at least 790 from -- excuse Q. me that's whatever, 26 and --5 Α. 1320. 1320, yeah. Orthodox from the east line of the 7 proration unit? 8 9 Α. Right. But encroaching on the south line of that proration 10 unit? 11 That is correct, to the best of my recollection. 12 Α. (By Examiner Catanach:) Who owns the proposed 13 0. surface location? 14 Bureau of Land Management. 15 Α. Have they approved that location? 16 0. They are waiting on the unorthodox location 17 Α. application to be approved, but they say the permit is ready 18 to go out as soon as they receive notice from the NMOCD that 19 20 it is approved. EXAMINER CATANACH: I have nothing further. The witness 21 may be excused. Anything further? 22 23 MR. STOVALL: Mr. O'Hare, would you object to me and Mr. Bruce going ahead and marking the original topo and putting 24

HUNNICUTT REPORTING DEBORAH F. LAVINE, CCR, RPR

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that in? It's just easier to read and identify it for -- and

1	then what I would do is
2	(A discussion was held off the record.)
3	MR. STOVALL: Then I'd ask Mr. O'Hare, recognizing that
4	he's doing so, just so we understand to use my red pen again
5	and mark the approximate location of the proposed well so it's
6	on there.
7	(Applicant's Exhibit No. 5 was
8	marked for identification.)
9	MR. BRUCE: On Maralex Exhibit 5?
LO	MR. STOVALL: Maralex Exhibit 5.
11	THE WITNESS: (Complies.)
L2	EXAMINER CATANACH: And Exhibit 5 will be admitted as
L3	evidence in this case.
L 4	(Applicant's Exhibit No. 5 was
15	admitted into evidence.)
16	EXAMINER CATANACH: There being nothing further, case
L7	number 10175 will be taken under advisement.
18	(The foregoing hearing was adjourned at the approximate
19	hour of 2:20 p.m.)
20	c it it has foregoind is
21	I do hereby certify that the foregoing is a complete regard of the proceedings in
22	the Examiner hearing of Case 115. 1011. the day me on fanoung 10 1951. Framiner
23	Aud & Cotant, Examiner
24	Oil Conservation Division

1	STATE OF NEW MEXICO)
2) ss. COUNTY OF SANTA FE)
3	
4	REPORTER'S CERTIFICATE
5	
6	I, DEBORAH F. LAVINE, RPR, a Certified Court
7	Reporter and Notary Public, DO HEREBY CERTIFY that I
8	stenographically reported these proceedings before the Oil
9	Conservation Division; and that the foregoing is a true,
10	complete and accurate transcript of the proceedings of said
11	hearing as appears from my stenographic notes so taken and
12	transcribed under my personal supervision.
13	I FURTHER CERTIFY that I am not related to nor
14	employed by any of the parties hereto and have no interest in
15	the outcome hereof.
16	DATED at Santa Fe, New Mexico, this 11th of
17	February, 1991.
18	
19	
20	
21	DEBORAH F. LAVINE, RPR
22	My Commission Expires: Certified Court Reporter August 6th, 1993 CCR No. 252, Notary Public
23	nagase con, 1990
24	
25	



G: 19

518 17th St., Suite 1030 Denver, Colorado 80202 (303) 571-4220

October 5, 1990

State of New Mexico Energy, Minerals and Natural Resources Dept. Oil Conservation Division P. O. Box 2088 Santa Fe, New Mexico 87504

Attn: William J. Lemay

Re: Unorthodox Location

Hammond W.N. Federal No. 11

NE Sec. 34, T27N, R8W San Juan County, NM

Gentlemen:

Maralex Resources, Inc. (Maralex) hereby submits the following application in triplicate for an unorthodox location for the subject well. ARCO Oil and Gas has previously submitted a permit application (see Attachment No. 1) for the subject well with the Bureau of Land Management.

The proposed well is located 205' from the north line and 130' from the east line of Section 34. Attachment No. 2 is a completed C-102. A suitable location for the well could not be found in the northeast quarter of Section 34 due to the topography. Directional drilling of the well is not feasible due to the shallow total depth and the distance from a legal location to the surface location required due to the above mentioned cause.

Topographic obstructions, as shown on Attachment No. 3 include the steep terrain and cliffs leading from Blanco Mesa into Largo Canyon. Although there is one existing well within the orthodox location window, there is not sufficient room on the existing pad for another drilling location.

Attachment No. 4 shows existing wells in the area and all offset operators. To the best of our knowledge, the information on this map is current and correct. None of the offsetting wells are currently producing from the Basin Fruitland Coal pool.

By copy of this letter sent through certified mail, the offset operators are being notified of this application for unorthodox location. They are being requested to return to

Marder L

the NMOCD an executed waiver of objections to the unorthodox location that is provided at the end of this letter. Maralex will submit to the NMOCD the return receipt cards signifying receipt by the offset operators of this notification as soon as they are returned to us.

By virtue of our purchase of ARCO's operating rights to the Fruitland Formation in all of Township 27 North, Range 8 West, San Juan County, New Mexico, Maralex is now the operator of the shallow rights designated under ARCO on Attachment No. 4.

Please call me at (303) 571-4220 at your earliest convenience if any additional information is required for processing of this application.

Sincerely,

A. M. O'Hare, P.E. President Maralex Resources, Inc.

Great Lakes Chemical, Certified Western Oil & Minerals Ltd., Certified Ibex Partnership, Certified Meridian Oil Production, Co., Certified Bureau of Land Management, Farmington Resource Area

> If you have no objection to the proposed unorthodox location, please sign the waiver below and forward to the NMOCD in the envelop provided.

WE HEREBY WAIVE OUR RIGHT TO OBJECT TO THE UNORTHODOX LOCATION PROPOSED IN THIS APPLICATION BY MARALEX RESOURCES, INC.

	Company Name	
	BY:	
) + + > abmonta	Date:	

Attachments

Submit to Appropriate District Office State Lease - 4 copies Fee Lease - 3 copies

State of New Mexico Energy, Minerals and Natural Resources Department

Form C-102 Revised 1-1-89

<u>DISTRICT I</u>
P.O. Box 1980, Hobbs, NM 88240

OIL CONSERVATION DIVISION

P.O. Box 2088

Santa Fe, New Mexico 87504-2088

DISTRICT II
P.O. Drawer DD, Artesia, NM 88210
DISTRICT III
1000 Rio Brazos Rd., Aziec, NM 87410

WELL LOCATION AND ACREAGE DEDICATION PLAT

All Distances must be from the outer boundaries of the section

Operator ARC(0.011	and GAs	Company			case:	ammond to	V.N. Fede	اوم		Well No.
Unit Letter	Section						iaimiiONQ Y	T.N. FEGE	1 01	County	11
A A	Secuo	n 34	Townshi	27 North	K	ange 8 We	st	_		, s	an Juan
Actual Footage Lo	cation of	Well:							MP	M.L	
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Ground level Elev.			ing Formation	111		100l		100	4 110	in the	Dedicated Acreage:
6 690		Frui	tlanc		1	Basin-F	ruitlar	ed Coal	G	as	320 Acres
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