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El Patio - 117 North Guadalupe
Post Office Box 2265
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W. Thomas Kellahin
Karen Aubrey

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Of Counsel

Telephone 982-4285
Area Code 505

September 23, 1986

RECEIVED

SEP 24 1986

OIL CONSERVATION DIVISION

Mr. Richard L. Stamets
Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87501

Re: Jerome P. McHugh

Case 9006

Dear Mr. Stamets:

On behalf of Jerome P. McHugh and Associates we would appreciate you setting the enclosed application for hearing on the October 22, 1986 Division Examiner hearing docket.

By copy of this letter to Mountain States Natural Gas, we are notifying them of their right to appear and participate in the hearing. They are further advised that failure to appear can result in the Division entering a forced pooling order, pooling their respective interest in this unit.

Very truly yours,

W. Thomas Kellahin

WTK:ca
Enc.

cc: Jerome P. McHugh & Associates
Suite 1225
650 South Cherry
Denver, Colorado 80222
Attn: Kent Craig

Mountain States Natural Gas (Certified Mail)
P. O. Box 35426
Tulsa, Oklahoma 74543
Attn: Mr. Albert Blair

KELLAHIN and KELLAHIN
*Attorneys at Law*
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W. Thomas Kellahin
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Area Code 505

November 13, 1986

MOUNTAIN STATES NATURAL GAS
P. O. Box 35426
Tulsa, Oklahoma 74135

"Certified"
Return-Receipt Requested

Attn: Mr. Albert J. Blair

Case 9006

Re: Jerome P. McHugh
T25N, R2W, NMPM
Section 4: S/2
Rio Arriba County, New Mexico
Oil Conservation Division
Compulsory Pooling Order R-8343

Dear Mr. Blair:

In accordance with the terms of the enclosed New Mexico Oil Conservation Division Order R-8343, we are sending you a copy of this order and copy of the estimated costs of the subject well as set forth on the AFE dated May 20, 1986.

On behalf of Jerome P. McHugh, you are hereby notified that pursuant to paragraph (4) of the order you have thirty (30) days from receipt of this letter to pay your share of the subject well costs and avoid the penalty which will apply if your share of the costs is taken out of production.

Very truly yours,

Original signed by
W. THOMAS KELLAHIN

W. Thomas Kellahin

WTK:ca
Enc.

cc: Jerome P. McHugh & Associates
650 South Cherry, Suite 1225
Denver, Colorado 80222
Attn: Mr. Kent Craig

Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87504

[illegible] [illegible] NO.: 1

LOCATION: NW SW SEC 4 T[illegible] R[illegible] COUNTY: RIO ARRIBA

OPERATOR: JEROME P. McHUGH AND ASSOC. STATE: NEW MEX.

DESCRIPTION: 8200' DAKOTA TEST

+=+=+=+=+=+=+=+=+=+=+=+=+=+=+=+=+=+=+=+=+=+=+=+=+=+=+=+=+=+=+=+=+=+=+=+=+=

| ACCOUNTING CODE | EXPENDITURE DESCRIPTION | TANGIBLE COST | INTANGIBLE COST |
|---|---|---|---|
| | LEGAL COSTS/SURFACE DAMAGES | XXXXXXXXX | 6,000 |
| | SURVEYOR/ARCHEOLOGIST/ROADS/LOCATION | XXXXXXXXX | 10,000 |
| | CONTRACT DRILLING | XXXXXXXXX | 110,000 |
| | MUD/CHEMICALS/ADDITIVES | XXXXXXXXX | 27,000 |
| | WATER/PURCHASE/TRANSPORTATION | XXXXXXXXX | 8,000 |
| | OPEN HOLE LOGGING | XXXXXXXXX | 8,000 |
| | MUD LOGGING | XXXXXXXXX | 2,000 |
| | DST/FORMATION TESTING | XXXXXXXXX | 0 |
| | CORING/CORE ANALYSIS | XXXXXXXXX | 0 |
| | TRUCKING/HAULING/CATWORK | XXXXXXXXX | 3,000 |
| | CEMENTING SERVICES | XXXXXXXXX | INCL |
| | RENTAL TOOLS AND EQUIPMENT | XXXXXXXXX | 2,000 |
| | PROFFESIONAL SERVICES AND EXPENSES | XXXXXXXXX | 3,000 |
| | SUPERVISION/OVERHEAD | XXXXXXXXX | 4,000 |
| | CONTRACT SERVICES/SUPPLIES | XXXXXXXXX | 3,000 |
| | PLUG/ABANDON/CLEANUP | XXXXXXXXX | 6,500 |
| | MISCELLANEOUS/CONTINGENCIES | XXXXXXXXX | 10,000 |
| | CASING, SURFACE &/OR CONDUCTOR | INCL | XXXXXXXXX |
| | CASING, INTERMEDIATE | 0 | XXXXXXXXX |
| | FLOAT EQUIPMENT & CENTRALIZERS | INCL | XXXXXXXXX |
| | CASING HEAD/ DRILLING FLANGE | 1,000 | XXXXXXXXX |
| | NON-CONTROLLABLE EQUIPMENT | 500 | XXXXXXXXX |
| | DRY HOLE COST: TOTAL $204,000 <<< | 1,500 | 202,500 |
| | CEMENTING SERVICES | XXXXXXXXX | 18,000 |
| | COMPLETION UNIT/POWER SWIVEL/PUMP/PITS | XXXXXXXXX | 15,000 |
| | PERFORATING AND CASED HOLE LOGGING | XXXXXXXXX | 4,000 |
| | FORMATION TREATING/FRAC/ACID | XXXXXXXXX | 15,000 |
| | RENTAL TOOLS & EQUIPMENT | XXXXXXXXX | 3,000 |
| | DIRT WORK/CONSTRUCTION | XXXXXXXXX | 3,000 |
| | CONTRACT SERVICES/SUPPLIES | XXXXXXXXX | 7,000 |
| | SUPERVISION/OVERHEAD | XXXXXXXXX | 3,000 |
| | PROFESSIONAL SERVICES & EXPENSES | XXXXXXXXX | 3,000 |
| | MISCELLANEOUS/CONTINGENCIES | XXXXXXXXX | 9,000 |
| | CASING, PRODUCTION &/OR LINER | 45,000 | XXXXXXXXX |
| | FLOAT EQUIPMENT & CENTRALIZERS | 4,000 | XXXXXXXXX |
| | TUBING/PACKER/SPECIAL SUBSURFACE EQUIP | 24,000 | XXXXXXXXX |
| | RODS/PUMP/AUXILLARY EQUIP | 12,000 | XXXXXXXXX |
| | TUBING HEAD/CHRISTMAS TREE | 4,000 | XXXXXXXXX |
| | PUMPING UNIT, PRIME MOVER | [illegible] | XXXXXXXXX |
| | [illegible] | [illegible] | XXXXXXXXX |
| | [illegible] | [illegible] | XXXXXXXXX |
| | [illegible] | [illegible] | XXXXXXXXX |
| | VALVES/FITTINGS/[illegible] | [illegible] | XXXXXXXXX |
| | NON-CONTROLLABLE [illegible] | [illegible] | XXXXXXXXX |
| | TRUCKING/HAULING/TRANSPORTATION | 3,000 | XXXXXXXXX |
| | COMPLETION COSTS: TOTAL $246,000 <<< | 166,000 | 80,000 |

[illegible]

ILLEGIBLE

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

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

CASE NO. 9006
Order No. R-8343

APPLICATION OF JEROME P. MCHUGH & ASSOCIATES FOR COMPULSORY POOLING, RIO ARRIBA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on October 22, 1986, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 10th day of November, 1986, 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) The applicant, Jerome P. McHugh & Associates, seeks an order pooling all mineral interests from the surface to the base of the Dakota formation underlying the S/2 of Section 4, Township 25 North, Range 2 West, NMPM, Rio Arriba County, New Mexico, to form a standard 320-acre spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing.

(3) The applicant has the right to drill and proposes to drill a well at a standard location thereon.

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

(5) 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.

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

(7) 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.

(8) 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 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(9) 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.

(10) 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.

(11) $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.

(12) 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.

(13) 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 February 1, 1987, the order pooling said unit should become null and void and of no effect whatsoever.

(14) 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.

(15) 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, from the surface to the base of the Dakota formation underlying the S/2 of Section 4, Township 25 North, Range 2 West, NMPM, Rio Arriba County, New Mexico, are hereby pooled to form a standard 320-acre spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing, said unit to be dedicated to a well to be drilled at a standard location thereon.

PROVIDED HOWEVER THAT, the operator of said unit shall commence the drilling of said well on or before the first day of February, 1987, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Dakota formation;

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said well on or before the first day of February, 1987, 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 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) Jerome P. McHugh & Associates 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 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.

(B) As a charge for the risk involved in the drilling of the well, 200 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 unsevered 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 Rio Arriba 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 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

R. L. STAMETS,
Director

S E A L

STATE OF NEW MEXICO
# ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

TONEY ANAYA
GOVERNOR

November 12, 1986

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87501
(505) 827-5800

Mr. Thomas Kellahin
Kellahin & Kellahin
Attorneys at Law
Post Office Box 2265
Santa Fe, New Mexico

Re: CASE NO. 9006
ORDER NO. R-8343

Applicant:

Jerome P. McHugh & Associates

Dear Sir:

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

Sincerely,

R. L. Stamets

R. L. STAMETS
Director

RLS/fd

Copy of order also sent to:

Hobbs OCD x
Artesia OCD x
Aztec OCD x

Other ______