



Amoco Production Company

Denver Region
1670 Broadway
P.O. Box 800
Denver, Colorado 80201
303-830-4040

May 10, 1988

Mr. William J. Lemay, Director
New Mexico Oil Conservation Division
P. O. Box 2088
Santa Fe, NM 87504-2088

File: NWA-297-986.511

Dear Mr. Lemay:

W. S.

New Mexico ~~Oil~~ Conservation Division
Case No. 9327, Order R-8641
Compulsory Pooling
Section 22-T26N-R2W
Gavalin-Mancos Oil Pool
Rio Arriba County, New Mexico

On April 21, 1988 the New Mexico Oil Conservation Division issued Order R-8641 force pooling all mineral interest within Section 22 in the Gavilan-Mancos Oil Pool. Pursuant to Rule 14 and 15 of the order, this letter is to advise you that Amoco Production Company has received voluntary agreement from all parties and this order shall no longer be in further effect. If there are any questions concerning this matter, please contact me at (303) 830-5072.

Sincerely,

J. W. Hawkins
J. W. Hawkins

JWH/mla

cc:

J. M. Alsup - Building
T. D. Autry - Building
R. J. Broussard - Farmington
M. E. Cuba - Building
G. R. Jones - Building
K. J. Lund - Building

LTR837

ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION



GARREY CARRUTHERS
GOVERNOR

April 21, 1988

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

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

Re: CASE NO. 9227
ORDER NO. R-8641

Applicant:

Dugan Production Corporation

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 Ernest L. Padilla, Kent Lund, James Bruce

KELLAHIN, KELLAHIN AND AUBREY

Attorneys at Law

W. Thomas Kellahin
Karen Aubrey

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Post Office Box 2265

Santa Fe, New Mexico 87504-2265

Telephone 982-4285
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Jason Kellahin
Of Counsel

April 12, 1988

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

Re: Dugan Producing Corporation
Compulsory Pooling
NMOCD Case 9327
Amoco's Seifert Well
Gavilan Mancos Pool
Rio Arriba County, New Mexico

Dear Mr. Catanach:

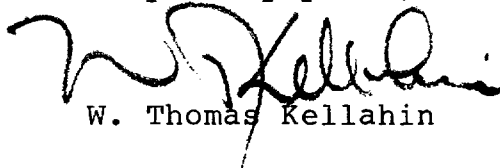
On behalf of Dugan Production Corp. and to aid you in the entry of an order as soon as possible in the referenced case I have enclosed for your review a proposed draft order.

We are most anxious to have an order in this case because of the Dugan lease which expires on April 20, 1988.

I have also enclosed a copy of the order entered by the Commission in the Loddy well for a reference.

Please call me if you have any questions.

Very truly yours,



W. Thomas Kellahin

WTK:ca
Enc.

cc: Mr. John Roe (Dugan)
Kent Lund (Amoco-Denver)
Jim Bruce, Esq.

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

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

APPLICATION OF DUGAN PRODUCTION
CORP. FOR COMPUSORY
POOLING, RIO ARRIBA COUNTY,
NEW MEXICO.

CASE: 9327

DUGAN PRODUCTION CORP'S.
PROPOSED ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on March 16, 1988, at Santa Fe, New Mexico, before Examiner David L. Catanach.

NOW, on this ____ day of April, 1988, 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, Dugan Production Corp. ("Dugan"), seeks an order pooling all mineral interest in the Gavilan-Mancos Oil Pool underlying a 640-acre tract being all of Section 22, T26N, R2W, NMPM, Rio Arriba County, New Mexico, to be dedicated to the Amoco Production Company Seifert Gas Com "A" Well No. 1 located 940 feet FSL and 990 feet FEL (Unit P) of said Section 22, which is presently completed in and producing from

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the Gavilan-Mancos Oil Pool and which is currently dedicated to a non-standard 320-acre oil spacing and proration unit underlying the E/2 of said Section.

(3) In the alternative, Dugan seeks an order pooling all mineral interests in the Gavilan-Mancos Oil Pool underlying the W/2 of said Section 22, thereby forming a non-standard 320-acre oil spacing and proration unit for said pool to be dedicated to a proposed well thereon. Dugan also requested, for the purpose of a compulsory pooling order, that the OCD consider the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of the applicant as operator of the well and unit, and a charge for risk involved in drilling the well.

(4) Amoco Production Company ("Amoco") is the operator of the subject Seifert well and is an interest owner in the E/2 of Section 22, and appeared at the hearing in support of the application as set forth in paragraph (11) below.

(5) Dugan is a working interest owner in the W/2 of said Section 22 and has the right to drill a well in the W/2 as proposed in the alternative request set forth in finding (3) above.

(6) On December 23, 1983, the Division adopted Order R-7407 which established temporary special rules and regulations for the Gavilan Mancos Oil Pool, effective as of March 1, 1984, including a provision for 320-acre spacing.

(7) On June 8, 1987, the Commission adopted permanent special rules and regulations for the Gavilan Mancos Oil Pool by Order R-7407-E which, among other things, increased the spacing from 320-acres to 640-acres and amended the original Rule 2 substituting the following:

(3) Rule 2 of the temporary special rules and regulations for the Gavilan-Mancos Oil Pool as promulgated by Order R-7407 is hereby amended as follows:

Rule 2(a). A standard proration unit shall consist of between 632 and 648 acres consisting of a governmental section with at least one and not more than two wells drilled or recompleted thereon; provided that if the second well is drilled or recompleted on a standard unit it shall not be located in the same quarter section, nor closer than 1650 feet to the first well drilled on the unit; and provided further that proration units formed prior to the date of this order are hereby granted exception to this rule. (Emphasis added).

(8) On June 28, 1987, Amoco completed the Seifert Well No. 1 in the Cavilan Mancos Oil Pool and dedicated 320-acres being the E/2 of said Section 22 to the well.

(9) On February 9, 1988, Dugan filed an application with the Division for a compulsory pooling order to pool the W/2 of said Section with the E/2 of Section 22 which is already dedicated to the Seifert well thereby forming a standard 640 acre proration unit and deleting the exemption of the original 320-acre non-standard spacing unit.

(10) In addition, Dugan seeks provisions to allow the W/2 working interest owners an opportunity to share in production from the Seifert well from the date of 1st production, by paying 125% of their proportionate share of the original actual costs of drilling and completing the Seifert well, plus 100% of their proportionate share of the actual costs to install surface production equipment and facilities on said well.

(11) Dugan and Amoco representing a combined ownership of 53.6% of the section have agreed to the following terms and conditions that would apply to the order to be entered in this case:

(a) That Amoco continues as operator of the Seifert well and the resulting 640-acre spacing unit;

(b) That the subject well should be dedicated to a 640-acre proration unit as of the date of first production;

(c) Except for the modification of the necessary terms to increase the size of the spacing unit from 320-acres to 640-acres, the new communitization and joint operating agreements shall contain the same terms and conditions as the original agreements that applied to the 320-acre E/2 spacing unit and that the working interest owners in the W/2 shall be given a thirty day election period to sign the new communitization and joint operating agreements;

(d) The actual cost of drilling, and completing the well shall not exceed \$500,000 and the installation of surface production equipment and facilities will not exceed \$100,000.

(e) The W/2 working interest owners shall remit a cash payment in the amount of 125% of their proportionate share of the actual costs incurred in the drilling and completing the subject well which will allow such parties to participate as to their working interest share in all production from the well.

(f) In addition, the W/2 working interest owners shall remit a cash payment in the amount of 100% of their proportionate share of the actual costs of the surface equipment for the subject well;

(g) In the event any W/2 working interest owner does not pay its share as set forth in subparagraph (e) and (f) Amoco shall, pursuant to the terms of the operating agreement and this order, withhold a 300% (costs plus 200%) non-consent penalty to be recovered out of production prior to such party participation for their working interest share of production from the well;

(h) Such 125% cash payment or 300% non-consent penalty shall be shared among those parties in the E/2 of Section 22 in the proportion for which they participated in the well ("Drilling Parties") as compensation for the risk previously assumed by said parties.

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(i) The sums and methods set forth in this subsection represents a reasonable and fair method to reimburse the drilling parties and to afford to the new owners a fair and reasonable means of participation; and

(j) That the overhead charge should be \$3,083/month while drilling and \$384/month while operating.

(12) Based upon pressure interference data presented by Dugan which shows an offsetting well, the Wildfire #1, is currently exhibiting pressure depletion believed to be from production in Gavilan Mancos wells more than one mile away, the drilling of a well in the W/2 of Section 22 does not appear to be necessary.

(13) Based upon a comparison of measured reservoir pressures in the offsetting Wildfire No. 1 to the measured BHP in 9 other Gavilan Mancos wells during the test period 6/30/87 thru 2/23/88 ordered by NMOC Order R-7407-E, it is apparent that the area of the Wildfire No. 1, and presumably the adjacent offsetting Seifert Gas Com "A" No. 1 is in good pressure communication with the Gavilan Mancos Pool for which 640 acre spacing has been established.

(14) Based upon the reservoir economic analysis presented by Dugan for both the W/2 and E/2 of Section 22, the correlative rights of the working interest, royalty and overriding royalty owners in both the W/2 and E/2 of Section 22 will be protected by approval of this application.

(15) To avoid the drilling of unnecessary wells, to protect correlative rights, to avoid waste, and to afford the owners of each interest in the 640 acre unit the opportunity to recover or receive without unnecessary expense its just and fair share of production from the Gavilan Mancos Pool, the exemption for the Seifert well original 320-acre unit should be deleted and 640 acre spacing made effective as of June 8, 1987 and all mineral interests in Section 22 should be pooled as a single 640 acre unit for the Gavilan Mancos Oil Pool and dedicated to the Seifert Well.

(16) That Amoco should be designated the operator of the subject well and spacing unit.

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(17) The Division finds that the method of cost allocation proposed by Dugan is reasonable and adequately compensates the original owners for the investment made which sum is found to be not more than \$500,000 for drilling and completing and \$100,000 for equipping said well.

(18) Each of the working interest owners in the W/2 should be afforded the opportunity to elect to either pay to the operator its proportionate share of the sum of the actual costs for participation in the Seifert well as set out in finding 12(e) and 12(f), or to pay its proportionate share of such costs out of production as set out in finding 12(g); such election should be made by any such working interest owner in the W/2 of Section 22 within thirty (30) days after the issuance of an Order in this case by the Division. The operator should be entitled to withhold from production said owner and working interest owners proportionate share of such costs as described above, plus his share of future costs, unless any working interest owner so elects and tenders payment of its proportionate share of such costs as described above to operator within thirty (30) days after the OCD issues a pooling order.

(19) Should any working interest owner in the W/2 of Section 22 not so elect to pay its share of such adjusted well costs within said period, it should have withheld from production its share of actual costs, plus an additional 200 percent thereof as a reasonable charge for the risk involved in the well.

(20) \$3,083 per month while drilling and \$384 per month while producing should be fixed as reasonable charges for supervision of the subject well (combined fixed rates); that in the event W/2 working interest owners elect to pay its proportionate share of the actual costs incurred in the drilling, completion, and operation of the subject well out of production, then the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to the interest of said owner 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 and attributable to that interest.

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(21) The operator of the well and unit shall notify the Director of the Division in writing as to which parties elected a voluntary agreement and which parties subject to the forced pooling provisions of this order.

(22) Dugan has an expiring federal oil & gas lease covering the NW/4 of Section 22 and in order to perpetuate said lease, Dugan on or before 4/30/88 must have either commenced the drilling of a well on the lease in the W/2 of this section or have the lease included in a standard 640-acre spacing unit covering the entire section which has been approved by BLM.

(23) In the event Dugan is unable to obtain the perpetuation of the subject lease as a result of a new communitization agreement being approved by the BLM, then and in that event, a 320-acre non-standard spacing and proration unit should be approved for the W/2 of Section 22 and a compulsory pooling order issued authorizing Dugan to commence the subject well on or before April 30, 1988.

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be within the Mancos formation underlying all of Section 22, Township 26 North, Range 2 West, NMPM, Rio Arriba County, New Mexico, are hereby pooled to form a standard 640 acre oil spacing and proration unit to be dedicated to the Amoco Seifert #1 well which has been drilled and completed at a standard location thereon.

(2) That Amoco Production Company is hereby designated the operator of the subject well and unit.

(3) Within 30 days of the date of this order, any working interest owner in the W/2 of said Section 22 shall have the right to pay 125% of its share of the actual costs of drilling and completing the Seifert Gas Com "A" No. 1 well and 100% of its share of equipping said well to the original drilling parties in lieu of paying its share out of production and any such owner who so pays its share as provided shall remain liable for future costs, and for operating costs from June 8, 1987 forward, but shall not be liable for risk charges.

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

(a) The pro rata share of the actual costs said sum not to exceed \$600,000 attributable to each non-consenting working interest owner who has not paid his share of said sum as provided in Paragraph (3) of this order; and

(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 said sum as provided in Paragraph (3) of this order.

(5) \$3,083.00 per month while drilling and \$384.00 per month while producing are hereby fixed as reasonable charges for supervision of the subject well (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 the subject well, not in excess of what are reasonable, attributable to the interest of each non-consenting working interest.

(6) 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.

(7) 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.

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

(9) To insure Dugan the right to develop its expiring lease and if all possibilities of timely forming a standard 640 acre spacing unit comprising all of Section 22 and dedicated to Amoco's Seifert Gas Com "A" No. 1 well have been unsuccessful, then upon written notice from Dugan, the provisions of order paragraphs (1) through (8) shall terminate and the following provisions shall apply.

(a) All mineral interest in the Gavilan Mancos Oil Pool, whatever they may be, underlying the W/2 of Section 22, T26N, R2W, NMPM, Rio Arriba County, New Mexico are hereby pooled to form a non-standard 320-acre oil spacing proration unit for said pool, to be dedicated to a well proposed to be drilled thereon.

(b) Dugan Production Corporation is hereby designated the operator of the subject well and non-standard unit.

(c) 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.

(d) 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.

(e) 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.

(f) 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.

(g) 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.

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

(i) \$4,000.00 per month while drilling and \$400.00 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.

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(j) Any unservered 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.

(k) 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.

(l) 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.

(m) 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.

(n) The operator of the well and non-standard spacing unit shall notify the Director of the Division in writing of the subsequent election of all parties subject to the force pooling provisions of this order.

(10) Jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

DONE at Santa Fe, new Mexico, on the date and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION Division

William J. LeMay
Director

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION COMMISSION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONSIDERING:

CASE NO. 9225
Order No. R-8639

APPLICATION OF MESA GRANDE, LTD. FOR
AN ORDER FORCE-POOLING AND REFORMING AN
EXISTING NON-STANDARD PRORATION UNIT TO A
STANDARD PRORATION UNIT IN THE GAVILAN-
MANCOS OIL POOL, RIO ARriba COUNTY,
NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9:00 a.m. on January 21, 1988, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 7th day of April, 1988, the Commission, a quorum being present, having considered the testimony presented and the exhibits received at said hearing, and being fully advised in the premises,

FINDS THAT:

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

(2) Applicant Mesa Grande, Ltd. is majority interest owner in the E/2 of Section 20, Township 25 North, Range 2 West, NMPM, Rio Arriba County, New Mexico, and is joined in this application by one minority owner, Arriba Corporation, to establish a standard 640-acre oil spacing and proration unit in the Gavilan-Mancos Oil Pool consisting of said Section 20, and to pool all oil and gas mineral interests in said unit.

(3) Protestant, Sun Exploration and Production Company is the majority interest owner and operator of a producing oil well, Loddy No. 1 drilled and completed in the Gavilan-Mancos Oil Pool, at a standard location in the SE/4 NW/4 of said Section 20 to which the W/2 of Section 20 was dedicated as a standard unit under Order R-7407.

(4) Order R-7407-E entered June 8, 1987 enlarged the standard proration unit to 640 acres, consisting of a governmental section but provided exception for proration units formed prior to the date of the order.

(5) Section 70-2-18 NMSA 1978, provides in Paragraph (a) that when a division order increases the size of a standard proration unit, operators shall, from the effective date of the order, account to and pay each owner in the enlarged unit "either the amount to which each interest would be entitled if pooling had occurred or the amount to which each interest is entitled in the absence of pooling, whichever is greater". However, Paragraph (C) of this section authorizes the Division to establish non-standard proration units and for interest owners to share in production from the non-standard unit from the date of its formation.

(6) The language of Rule 2(a) of the Gavilan pool rules, as amended by Order R-7407-E, exempted all existing 320-acre proration units so that operators of those standard proration units under the former rules would not be required to file applications for non-standard proration units, nor pool such units into a standard 640-acre unit under the current rules.

(7) Applicant demonstrated that reserves underlying Section 20 are insufficient to justify the drilling of a second well and that the Loddy Well No. 1 will adequately drain the entire section so that approval of this application would prevent waste from drilling an unnecessary well and would protect the correlative rights of the owners in both the E/2 and W/2 of the section.

(8) To avoid the drilling of unnecessary wells, to protect correlative rights, to prevent waste, and to afford to the owner of each interest in Section 20 the opportunity to recover without unnecessary expense his just and fair share of the hydrocarbons in the Gavilan-Mancos Oil Pool, the subject application should be approved by establishing a standard 640-acre oil spacing and proration unit consisting of Section 20, Township 25 North, Range 2 West, NMPM, Rio Arriba County, New Mexico, and pooling all oil and gas mineral interests in said unit.

(9) All parties appearing at the hearing agreed Section 20 should be pooled as of June 8, 1987, the effective date of the order enlarging the standard proration unit and the applicant parties present agreed to pay their pro rata share of the cost of drilling, completing and operating the well; however, the language and intent of the order as described in Finding (6) hereinabove requires an effective date be set no

earlier than February 1, 1988, the first day of the month following the hearing.

(10) Protestant claimed, and the Commission concurs, that payment for one-half the cost of the well is inadequate compensation and, considering the commercial quality of the well, represents unjustified oil income for applicants who did not share the risk in drilling the well and a penalty for protestant, or his predecessor, who undertook the risk to drill the well under the existing pool rules which authorized 320 acre spacing units.

(11) The well was completed in 1985 and produced briefly in both 1985 and 1986 due to circumstances beyond the control of the operator so the well had not paid out at the time of hearing.

(12) The well has changed ownership since completion but protestant stipulated the cost of the well was approximately \$440,000 and also alleges a well drilled today would cost approximately \$625,333 and that applicant should pay his percentage of the estimated current cost under a 640-acre proration unit, or in the alternative, pay interest on the actual well cost from completion to the effective date of the enlarged spacing unit being February 1, 1988, comprising a 28 months time period.

(13) No party at the hearing suggested a change of operator or suggested a reasonable charge for supervision (combined fixed rate).

(14) Applicant's witness stated that "a couple of weeks is a reasonable time to elect to advance the actual payment" -- representing well costs plus penalty if one is assessed, and to forward payment to the operator.

(15) The reasonable cost to working interest operators of the E/2 of Section 20, Township 25 North, Range 2 West, for their pro rata share of the drilling, completing and equipping the well should be \$220,000 plus simple interest at 12% per annum, which is standard industry rate for compensation for unpaid balances in the Copas - 1974 Accounting Procedures in A.A.P.L. Form 610 - 1977 Model Operating Agreement, until the effective date establishing the enlarged unit (28 months), or \$281,600; however, in the event any such working interest owner chooses not to pay his pro rata share of such cost within thirty days after receipt of a copy of this order together with invoice for amount due, operator should be authorized to take out of production the pro rata share of such amount attributable to non-paying working interest owners plus a risk

penalty equal to 100 percent of their pro rata share of the \$281,600.

(16) A reasonable charge for supervision (combined fixed rate) of the well and unit is \$450 per month.

(17) Should the parties hereto subsequently enter into an operating agreement the order should become void and of no further effect regarding those items covered in the operating agreement.

(18) Sun Exploration and Production Company should remain as operator of the well.

IT IS THEREFORE ORDERED THAT:

(1) A standard 640 acre oil spacing and proration unit is hereby established consisting of Section 20, Township 25 North, Range 2 West, NMPM, Gavilan-Mancos Oil Pool, Rio Arriba County, New Mexico, and all oil and gas mineral interests in said unit are hereby pooled and dedicated to Sun Exploration and Production Company's (Sun's) Loddy Well No. 1 located 1750 feet from the North and West lines of said Section 20, and Sun is designated as the operator of said well and standard proration unit, all of which is to be effective February 1, 1988.

(2) The operator is to account to and pay each owner in said enlarged unit his pro rata share of production from the enlarged unit from the effective date of this order; provided said owners of working interests in the E/2 of said Section 20 shall within 30 days after receipt of a copy of this order together with an invoice for the amount due, pay their pro rata share of the cost of said well plus 12% per annum interest for 28 months, or \$281,600, as described in Finding (15) hereinabove; or in the event of failure to make such payment shall have taken out of production by the operator said amount plus 100 percent of their pro rata share of the \$281,600, as described in said Finding (15) until operator has been paid the monies required by this order.

(3) A reasonable supervision charge (combined fixed rate) is hereby determined to be \$450 per month for said well and the operator is hereby authorized to withhold from production the proportionate share of such supervision charge attributable to each non-paying working interest as well as the proportionate share of actual expenditures for operating said well.

(4) 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.

(5) 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.

(6) 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.

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

(8) 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.

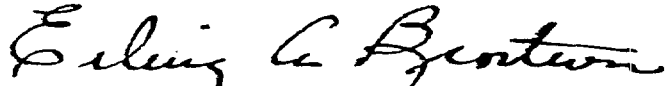
(9) Jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION



WILLIAM R. HUMPHRIES, Member



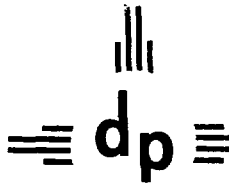
ERLING A. BROSTUEN, Member



WILLIAM J. LEMAY, Chairman
and Secretary

S E A L

dr/



dugan production corp.

April 12, 1988

Mr. David Catanach
New Mexico Oil Conservation Division
P.O. Box 2088
Santa Fe, NM 87504-2088

RE: NMOCD Case #9327
Dugan Production Corp's Application for Compulsory Pooling
Section 22, T-26-N, R-2-W, NMPM
Rio Arriba County, New Mexico

Dear Mr. Catanach:

I am writing to follow-up a phone conversation between you and John Roe of our office on this date regarding the captioned compulsory pooling case heard on March 16, 1988.

With reference to Dugan Production's Exhibit No. 2, we had footnoted that the interest assigned to Sun Exploration and Production from Kindermac Partners may have had minor interests, totalling less than 1.5%, conveyed to two other partners. As of this date, both Dugan Production and Amoco Production have been in contact with each of these parties and it does appear that Kindermac Partners did make an assignment of interest to these two parties. With regards to our efforts to voluntarily pool Section 22 to form a 640 acre spacing unit, both parties involved are in receipt of the proposed voluntary pooling and communitization agreements for all of Section 22, T-26N, R-2W and both parties have indicated to me that they will execute both the pooling agreements and communitization agreements necessary for the 640 acre spacing unit.

For your records, on a 640 acre basis, 0.9677% would be owned by Mr. Frank Pace, Jr., Putnam Trust Company, 10 Mason Street, Greenwich, Connecticut 06830, (203) 869-3000. The individual with Putnam Trust Company that I spoke with was Mr. Haven A. Knight. In addition to this interest, 0.4843% (on a 640 acre basis) appears to have been assigned to Ms. Janette P. Kurtz, P.O. Box 6227, Denver Colorado 80206, (303) 320-4704. I have spoken with Mr. Charles Kurtz, who is handling Janette's interest, in regard to this matter.

New Mexico Oil Conservation Division

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If these two interests are confirmed, the resulting effect on the interest ownership breakdown identified on our Exhibit No. 2 will be a reduction in Sun Exploration and Production's interest from 36.4844% to 33.5804% on a 320 acre basis; and from 18.2422% to 16.7902% on a 640 acre basis.

We apologize for this matter, however, as you may be able to appreciate, we are dealing with acreage that is in a period of transition of owners between Kindermac Partners and Sun Exploration and Production and the land records are in somewhat of a disarray. As I indicated, it does appear that this ownership does exist and both parties, as well as Sun Exploration and Production, have indicated their intention to voluntarily pool their interest to form a 640 acre spacing unit comprising all of Section 22, T-26N, R-2W, Rio Arriba County, New Mexico.

Should you have any further questions, please feel free to contact me or John Roe.

Sincerely,



Richard Corcoran
Landman

JDR/RC/cg/#9327

cc: Tom Kellahin