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G. J. MORGAN
Independent Oil & Gas Operator

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999 18th St., Suite 1000
Denver, Colorado 80202

August 20, 1984

Texas Gas Exploration Corp.
410 17th St., Suite 340
Denver, Colorado 80202

Gentlemen:

G. J. Morgan hereby requests consent from Texas Gas Exploration Corp. permitting the drilling of a Mesaverde well at a location 562 feet from the north line and 422 feet from the west line of Section 19, T8N, R92W in Moffat County, Colorado, with a tolerance of 200 feet in any direction.

~~In consideration therefor, Morgan shall within 10 days hereof deliver to Texas Gas Exploration Corp. a farmout option proposal for the development of Texas Gas Exploration Corp. leasehold interests in Section 18 of T8N, R92W.~~ *FAK*

Sincerely,

G. J. Morgan
G. J. Morgan

Signature

Agreed to and accepted by *[Signature]*
for and on behalf of Texas Gas Exploration Corp. on this 20th day of August, 1984.

BEFORE THE OIL AND GAS CONSERVATION COMMISSION
OF THE STATE OF COLORADO

IN THE MATTER OF THE PROMULGATION)
AND ESTABLISHMENT OF FIELD RULES TO) CAUSE NO. 289
GOVERN OPERATIONS IN THE LAY CREEK)
FIELD, MOFFAT COUNTY, COLORADO) ORDER NO. 289-6

REPORT OF THE COMMISSION

This cause came on for hearing before the Commission on at 9:00 a.m., in Suite 380 Logan Tower Building, 1580 Logan Street, Denver, Colorado, after giving Notice of Hearing as required by law, on the application of G. J. Morgan for an order to delete certain lands from the spaced area as established by Order No. 289-1 and re-establish an additional 320-acre unit consisting of the NW1/4 Section 19, Township 8 North, Range 92 West, 6th P.M. and the NE1/4 Section 24, Township 8 North, Range 93 West, 6th P.M., with a permitted well provided for, and further to grant an exception to the permitted well location as provided for in Order No. 289-1 for a well to be drilled as an exception in the 320-acre unit consisting of the S1/2 Section 18, Township 8 North, Range 92 West. In addition it is requested that all interests in the unit consisting of the NW1/4 Section 19, Township 8 North, Range 92 West, and the NE1/4 Section 24, Township 8 North, Range 93 West, 6th P.M. be pooled for the operation and development of the Almond formation in accordance with 34-60-116 C.R.S. 1973, as amended.

FINDINGS

The Commission finds as follows:

1. G. J. Morgan, as applicant herein, is an interested party in the subject matter of the above-referenced hearing.
2. Due notice of the time, place and purpose of the hearing has been given in all respects as required by law.
3. The Commission has jurisdiction over the subject matter embraced in said Notice, and of the parties interested therein, and jurisdiction to promulgate the hereinafter prescribed order.
4. On May 21, 1974, the Commission issued Order No. 289-1 which established 320-acre drilling and spacing units for production of gas from the Almond formation of the Mesaverde Group underlying certain lands in the Lay Creek Field, Moffat County, Colorado. The units of the N1/2 and S1/2 of each section with the permitted well for each unit located in the NW1/4 and SE1/4 of each section, no closer than 900 feet to the boundaries of the quarter section.
5. Evidence presented at the hearing indicates that little or no development has occurred in the following described lands, and said lands should be deleted from the spaced area of the Lay Creek Field as established by Order No. 289-1 and made subject to the general rules and regulations of the Commission.

Township 8 North, Range 92 West, 6th P.M.

Section 19: E1/2, SW1/4
Section 20: All
Section 29: All
Section 30: All

Township 8 North, Range 93 West, 6th P.M.

Section 24: W1/2, SE1/4

The lands remaining in the spaced area of the Lay Creek Field and subject to the provisions of Order No. 289-1 are described as follows:

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Township 8 North, Range 92 West, 6th P.M.

Section 18: All
Section 19: NW1/4

Township 8 North, Range 93 West, 6th P.M.

Section 13: All
Section 24: NE1/4

6. A 320-acre unit for the production of gas from the Almond formation of the Mesaverde Group should be established consisting of the NW1/4 Section 19, Township 8 North, Range 92 West and the NE1/4 Section 24, Township 8 North, Range 93 West with the permitted well located 562 feet from the north line and 422 feet from the west line of said Section 19, with a tolerance of 200 feet in any direction for topographic and surface hazard reasons, but in any event no closer than 600 feet from any lease line without written consent from the lease owner.

7. An exception to the permitted well location should be allowed for the unit consisting of the S1/2 Section 18, Township 8 North, Range 92 West, 6th P.M. for a well to be drilled no closer than 660 feet from the west line and 660 feet from the south line of said section, but in any event no closer than 600 feet from any lease line without written consent from the lease owner.

8. In order to insure proper and efficient development of the spacing units and to promote conservation of the oil and gas resources of the State, an order should be made pooling all interests in the spacing unit consisting of the NW1/4 Section 19, Township 8 North, Range 92 West and the NE1/4 Section 24, Township 8 North, Range 93 West, 6th P.M.

9. An order of the Commission pooling all interests in said spacing unit is necessary in order to afford each owner of an interest in said units the opportunity to recover and receive his just and equitable share of the oil and associated hydrocarbons from the common source of supply underlying said unit.

10. Production obtained from said spacing unit should be allocated to each mineral owner therein on the basis of the proportion that the number of net mineral acres owned by each owner bears to the total number of mineral acres within said unit.

O R D E R

NOW, THEREFORE, IT IS ORDERED, that the following described lands are hereby deleted from the spaced area of the Lay Creek Field as established by Order No. 289-1 and shall be subject to the general rules and regulations of the Commission.

Township 8 North, Range 92 West, 6th P.M.

Section 19: E1/2, SW1/4
Section 20: All
Section 29: All
Section 30: All

Township 8 North, Range 93 West, 6th P.M.

Section 24: W1/2, SE1/4

and the lands remaining in the spaced area of the Lay Creek Field are described as follows:

Township 8 North, Range 92 West, 6th P.M.

Section 18: All
Section 19: NW1/4

Township 8 North, Range 93 West, 6th P.M.

Section 13: All
Section 24: NE1/4

IT IS FURTHER ORDERED, that a 320-acre drilling and spacing unit for the production of gas and associated hydrocarbons from the Almond formation of the Mesaverde group shall be established consisting of the NW1/4 Section 19, Township 8 North, Range 92 West and the NE1/4 Section 24, Township 8 North, Range 93 West, 6th P.M., with the permitted well located 562 feet from the north line and 422 feet from the west line of said Section 19, with a tolerance of 200 feet in any direction for topographic and surface hazard reasons, but in any event no closer than 600 feet from any lease line without written consent from the lease owner.

IT IS FURTHER ORDERED, that an exception is hereby granted from the permitted well location provided for in Order No. 289-1 for a well to be drilled in the unit consisting of the S1/2 Section 18, Township 8 North, Range 92 West, 6th P.M. at a location no closer than 660 feet from the west line and 660 feet from the south line of said Section 18, but in any event no closer than 600 feet from any lease line without written consent from the lease owner.

IT IS FURTHER ORDERED that pursuant to the provisions of 34-60-116, C.R.S., as amended, of the Oil and Gas Conservation Act of the State of Colorado, all interests in the drilling and spacing unit consisting of the NW1/4 Section 19, Township 8 North, Range 92 West and the NE1/4 Section 18, Township 8 North, Range 93 West, 6th P.M., Lay Creek Field, Moffat County, Colorado, are hereby pooled for the development of gas and associated hydrocarbons from the Almond formation of the Mesaverde Group underlying said unit.

IT IS FURTHER ORDERED, that the production obtained from said drilling unit shall be allocated to each owner therein in the unit to the total number of mineral acres within said drilling unit; each owner of an interest in said drilling unit shall be entitled to receive his share of the production of the well located on said drilling unit applicable to his interest in said drilling unit.

IT IS FURTHER ORDERED, that the unleased mineral owner should be afforded the opportunity to elect whether to participate in the operating of said well, and pay his or her proportionate share of the actual costs thereof, which proportionate share shall be determined by dividing the number of net mineral acres owned by said unleased mineral owner by the total number of mineral acres in the Spacing Unit.

IT IS FURTHER ORDERED, that the operator responsible for drilling of the well on the spacing unit shall prepare an Authorization for Expenditure ("AFE"), which shall be submitted to the unleased mineral owner in the Spacing Unit.

IT IS FURTHER ORDERED, that within thirty (30) days from the date of receipt of said AFE by the unleased mineral owner, such mineral owner shall indicate whether he agrees to participate in the cost thereof. Such election shall be made in writing, either by executing the AFE or similar document. In the event a written election to participate is not made by an unleased mineral owner within such time period, said unleased mineral owner shall be deemed to have elected not to participate and shall therefore be deemed to be non-consenting as to the well.

IT IS FURTHER ORDERED, that the non-consenting unleased mineral owner within each Spacing Unit shall be treated as the owner of the landowner's royalty to the extent of 12.5% of his or her record title interest, whatever that interest may be, until such time as the consenting owner recovers, only out of the non-consenting owner's proportionate 87.5% share of production, the costs specified in C.R.S. 34-60-116 (7)(b), as amended. After recovery of such costs, the non-consenting mineral owner shall then own his proportionate 8/8th share of the well, surface facilities and production, and then be liable for his proportionate share of further costs incurred in connection with the well as if he had originally agreed to the drilling.

IT IS FURTHER ORDERED, that the provisions contained in the above order shall become effective forthwith.

IT IS FURTHER ORDERED, that the Commission expressly reserves its right, after notice and hearing, to alter, amend or repeal any and/or all of the above orders.

ENTERED this 12th day of September,
1984, as of August 20, 1984

OIL AND GAS CONSERVATION COMMISSION
OF THE STATE OF COLORADO

BY Frank J. Piro
Frank J. Piro, Secretary