

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

RECEIVED

001 8 1998
OIL CON. DIV.
DIST. 3
IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 12041
Order No. R-11063

APPLICATION OF MERRION OIL & GAS
CORPORATION FOR COMPULSORY
POOLING, SAN JUAN COUNTY, NEW
MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on September 17, 1998, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 30th day of September, 1998, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given and the Division has jurisdiction of this case and its subject matter.

(2) The applicant, Merrion Oil & Gas Corporation, seeks an order pooling all mineral interests from the surface to the base of the Pictured Cliffs formation underlying the NW/4 of Section 14, Township 29 North, Range 13 West, NMPM, San Juan County, New Mexico, forming a standard 160-acre gas spacing and proration unit for any and all formations and/or pools developed on 160-acre spacing within that vertical extent which presently include but are not necessarily limited to the West Kutz-Pictured Cliffs Gas Pool. This unit is to be dedicated to the applicant's proposed Redfern Com Well No. 3 (API No. 30-045-29610) to be drilled at a standard gas well location within the NW/4 of Section 14.

(3) The applicant has the right to drill and proposes to drill its Redfern Com Well No. 3 at a standard gas well location within the NW/4 of Section 14.

(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 the unit the opportunity to recover or receive without unnecessary expense its just and fair share of the production in any pool completion resulting from this order, this application should be approved by pooling all mineral interests, whatever they may be, within the unit.

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

(7) Any non-consenting working interest owner should be afforded the opportunity to pay its share of estimated well costs to the operator in lieu of paying its share of reasonable well costs out of production.

(8) The applicant requested that a 200 percent risk penalty be assessed against those interest owners who do not pay their share of estimated well costs to the operator.

(9) The evidence and testimony presented by the applicant indicates that the proposed Redfern Com Well No. 3 will be drilled as a Pictured Cliffs producing well in an area that has already experienced substantial development in the West Kutz-Pictured Cliffs Gas Pool. The geologic risk associated with drilling the Redfern Com Well No. 3 appears to be minimal and, therefore, the risk penalty should be reduced accordingly.

(10) Any non-consenting working interest owner who does not pay its share of estimated well costs should have withheld from production its share of reasonable well costs plus an additional 150 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(11) Any non-consenting working 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.

(12) Following determination of reasonable well costs, any non-consenting working interest owner who has paid its 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.

(13) Reasonable charges for supervision (combined fixed rates) should be fixed at \$3250.00 per month while drilling and \$350.00 per month while producing. The operator should be authorized to withhold from production the proportionate share of both the supervision charges and the actual expenditures required for operating the well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(14) All proceeds from production from the well that 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.

(15) If the operator of the pooled unit fails to commence drilling the well to which the unit is dedicated on or before January 1, 1999, or if all the parties to this forced pooling reach voluntary agreement subsequent to entry of this order, this order should become of no further effect whatsoever.

(16) The operator of the well and unit should notify 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 Pictured Cliffs formation underlying the NW/4 of Section 14, Township 29 North, Range 13 West, NMPM, San Juan County, New Mexico, are hereby pooled forming a standard 160-acre gas spacing and proration unit for any and all formations and/or pools developed on 160-acre spacing within that vertical extent which presently include but are not necessarily limited to the West Kutz-Pictured Cliffs Gas Pool. This unit shall be dedicated to the applicant's Redfern Com Well No. 3 (API No. 30-045-29610) to be drilled at a standard gas well location within the NW/4 of Section 14.

PROVIDED HOWEVER THAT, the operator of the unit shall commence drilling the well on or before January 1, 1999, and shall thereafter continue drilling the well with due diligence to a depth sufficient to test the Pictured Cliffs formation.

PROVIDED FURTHER THAT, in the event the operator does not commence drilling the well on or before January 1, 1999, Ordering Paragraph (1) shall be of no further effect whatsoever, unless the operator obtains a time extension from the Division Director for good cause shown.

PROVIDED FURTHER THAT, should the well not be drilled to completion or abandoned within 120 days after commencement thereof, the operator shall appear before the Division Director and show cause why Ordering Paragraph (1) should not be rescinded.

(2) Merrion Oil & Gas Corporation is hereby designated the operator of the well and unit.

(3) After the effective date of this order and within 90 days prior to commencing the well, the operator shall furnish the Division and each known working interest owner in the unit an itemized schedule of estimated well costs.

(4) Within 30 days following receipt of the schedule of estimated well costs, any non-consenting working interest owner shall have the right to pay its share of estimated well costs to the operator in lieu of paying its share of reasonable well costs out of production, and any such owner who pays its 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 the schedule, the actual well costs shall be the reasonable well costs; provided, however, that if there is an objection to actual well costs within the 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 its share of estimated well costs in advance as provided above shall pay to the operator its share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator its 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 proportionate share of reasonable well costs attributable to each non-consenting working interest owner who has not paid its share of estimated well costs within 30 days following receipt of the schedule of estimated well costs; and
- (b) as a charge for the risk involved in drilling the well, 150 percent of such share of reasonable well costs.

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

(9) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$3250.00 per month while drilling and \$350.00 per month while producing. The operator is hereby authorized to withhold from production the proportionate share of both the supervision charges and the actual expenditures required for operating the 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 this order.

(11) Any well costs or charges that 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 well that are not disbursed for any reason shall immediately 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 the escrow agent within 30 days from the date of first deposit with the escrow agent.

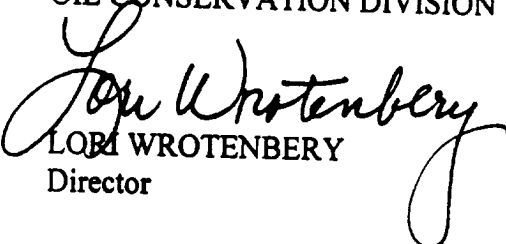
(13) Should all the parties to this forced pooling order reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(14) The operator of the well and unit shall notify the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

(15) Jurisdiction is hereby 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


LORI WROTENBERY
Director

S E A L