

CASE 6892: MERRION & BAYLESS FOR COM-  
PULSORY POOLING, RIO ARRIBA COUNTY, NEW  
MEXICO

Case No.

6892

Application

Transcripts

Small Exhibits

ETC

STATE OF NEW MEXICO  
ENERGY & MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION

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

Case No. 6892  
Order No. R-6398

APPLICATION OF MERRION & BAYLESS  
FOR COMPULSORY POOLING, RIO ARRIBA  
COUNTY, NEW MEXICO

APPLICATION FOR REHEARING

COMES NOW MERRION & BAYLESS, by their attorneys KELLAHIN & KELLAHIN,  
and pursuant to the Provision of Section 70-2-25 New Mexico Statutes  
Annotated, 1978, and apply to the Oil Conservation Division of New Mexico  
for Rehearing of the above captioned Case No. 6892 and Order No. R-6366  
issued pursuant thereto and in support thereof state:

STATEMENT OF FACTS:

1. The applicant, Merrion & Bayless, received New Mexico Oil  
Conservation Division Order No. R-6366 on June 16, 1980 under the Division  
cover letter dated June 13, 1980. Said order, attached as Exhibit "A", was  
entered on June 5, 1980 and adversely affects Merrion & Bayless, a party herein.
2. That on June 16, 1980, Merrion & Bayless wrote a letter to the Oil  
Conservation Division deposited in the U.S. Mails on June 16, 1980, postage  
paid, attached hereto as Exhibit "B", requesting another hearing on this matter  
to have the risk factor penalty increased to 200%.
3. That the risk factor entered herein is arbitrary and not supported  
by substantial evidence.
4. That the substantial evidence in this case supports the awarding  
of a 200% risk factor.
5. That on July 2, 1980, Paul and Marie Brown, an interested and affected  
party to this case, through their attorney, mailed a letter requesting a De

Novo Hearing in this matter, said letter mailed to the Oil Conservation Division, deposited in the U.S. Mails on July 2, 1980, postage paid, and attached hereto as Exhibit "C".

6. That on July 10, 1980, Merrion & Bayless, through their attorneys filed another application for a De Novo Hearing which was received by the New Mexico Oil Conservation Division on July 10, 1980, a copy of which is attached hereto as Exhibit "D".

7. That all the affected parties have timely applied for a De Novo Hearing.

8. That on July 16, 1980, the New Mexico Oil Conservation Division sent to the attorneys for the respective parties a letter denying the applications for a De Novo Hearing for both parties, a copy of which is attached hereto as Exhibit "E".

#### GROUND FOR REHEARING

1. Section 70-2-13 NMSA-1978 provides in part that:

"When any matter or proceedings is referred to an examiner and a decision is rendered thereon, any party adversely affected shall have the right to have said matter heard De Novo before the Commission upon application filed with the division within thirty days from the time any such decision is rendered."

2. Although the subject order was entered on Thursday June 5, 1980, it was not mailed to the affected parties until Friday, June 13, 1980.

3. That the failure of the Division to timely mail copies of the order to the affected parties on the same date as the date of the order substantially reduces the time for the affected party to then file an application for a Hearing De Novo.

4. That such action by the Division has prejudiced the rights of Merrion & Bayless in this case and has arbitrarily denied them procedural due process.

5. That the thirty day period for filing an application for a De Novo Hearing in this case should be from the date of the receipt of the order by the affected parties and not the date of the order itself.



6. That the mailing of an order by the Division to the affected parties fails to provide a reliable method of timely informing the affected parties of that decision.

7. That the letter mailed by Merrion & Bayless on June 16, 1980, (Exhibit B), constitutes timely filing of an application for De Novo Hearing.

8. That the application filed by Kellahin & Kellahin as attorneys for Merrion & Bayless on July 10, 1980, constitutes timely filing of an application for De Novo Hearing.

9. That the application mailed by Dale B. Dilts as attorney for Paul and Marie Brown, on July 2, 1980, constitutes timely filing of an application for De Novo Hearing.

10. That the Division's letter of July 16, 1980, constitutes a decision of the Division under Section 20-2-25 NMSA-1978 and that this Application for Rehearing has been timely filed.

11. That Rule 6 (a) and 6 (e) of the New Mexico Rules of Civil Procedure should be applied to this case thereby enlarging the thirty day period for filings herein.

12. That the Division should be required to adopt, establish, use and apply in this case and all other cases a method of service of Division orders to insure actual timely notice to the affected parties.

13. That the Division's actions in this case are arbitrary, capricious, not supported by substantial evidence and are therefore unlawful, invalid and void.

WHEREFORE, applicant prays that the Division grant a rehearing in the above captioned cause and that after rehearing as provided by law, the Division increase the risk factor penalty assessed in this case to the statutory maximum of 200%.

Respectfully submitted,

KELLAHIN & KELLAHIN

By:

W. Thomas Kellahin

P.O. Box 1769

Santa Fe, New Mexico 87501

OFF. 828-8098  
RES. 827-9094

J. GREGORY MERRION  
PETROLEUM ENGINEER  
P. O. Box 807  
FARMINGTON, NEW MEXICO 87401

February 1, 1982



CERTIFIED MAIL  
RETURN RECEIPT REQUESTED

*Case 6892 De Novo*

State of New Mexico  
Oil Conservation Division  
P. O. Box 2088  
Santa Fe, New Mexico 87501

Re: Order R-6366-A-1

Gentlemen:

Enclosed please find a complete listing of all costs incurred in the drilling and completion of the East Lindrith #5 well which was covered by the subject forced pooling order. This listing is furnished pursuant to paragraph 5 of that order. By copy of this letter, Mr. Paul Brown is also furnished a copy of well costs.

Yours very truly,

MERRION & BAYLESS

A handwritten signature in cursive script, appearing to read "Gregory Merrion".

By J. Gregory Merrion

JGM/rs

cc: Mr. Paul Brown  
General Delivery  
Regina, New Mexico 87406

Memor Oil & Gas Corp  
Reserve of Costs - E. Lindwell #5  
11/78 thru 1/82

P. 1 of 4

COLUMN WRITE @	Refers Number	Description	ITEM AMOUNT	TOTALS
1				
2		<u>ROADS LOCATIONS &amp; DAMAGES</u>		
3				
4	11654	KERR LAND SURVEY	104 <sup>25</sup>	
5	13465	GARY Nelson	1019 <sup>20</sup>	
6	14521	Henry Nelson	1,710 <sup>00</sup>	
7	15224	Henry Nelson	2,037 <sup>75</sup>	
8	1182	Henry Nelson	93 <sup>38</sup>	
9				\$ 4964 <sup>58</sup>
10				
11		<u>CONTRACT DRILLING</u>		
12				
13	14567	JAMES Drilling Corp		23,842 <sup>00</sup>
14				
15				
16		<u>DAYWORK DRILLING</u>		
17				
18	14567	JAMES Drilling Corp	2496 <sup>00</sup>	
19	15214	L+B Speed Drill	1,089 <sup>32</sup>	
20	00760	Bayless Pulling	5037 <sup>08</sup>	
21	1037	Bayless Pulling	1,282 <sup>35</sup>	
22				9,904 <sup>79</sup>
23				
24		<u>CEMENTING</u>		
25				
26	14622	Dow Chemical USA	4,998 <sup>07</sup>	
27	14666	National Cementers Corp	1,306 <sup>71</sup>	
28	00766	Cementers Inc	621 <sup>00</sup>	
29	00768	Cementers Inc	1,616 <sup>11</sup>	
30	00769	Cementers Inc	778 <sup>32</sup>	
31	01213	Cementers Inc	896 <sup>31</sup>	
32				10,216 <sup>52</sup>
33				
34		<u>LOGGING</u>		
35				
36	14801	Birdwell		5,138 <sup>02</sup>
37				
38		<u>DRILLING OVERHEAD</u>		
39				
40	0069	Pulling overhead	500 <sup>00</sup>	
41	0193	Pulling overhead	500 <sup>00</sup>	
42	10-233	Pulling overhead	1700 <sup>00</sup>	
43				2,700 <sup>00</sup>
44				
45		<u>Drilling Mud + Chemicals</u>		
46				
47	14702	Van Waters + Rogers	224 <sup>91</sup>	
48	14846	The Mud Company	(249 <sup>94</sup> )	
49				(25 <sup>00</sup> )
50				
51		Total Page 1		\$ 56,740 <sup>91</sup>

Mention Oil & Gas Corp  
 Remorse of Costs - E. Lendith #5  
 11/78 thru 1/82

Page 2 of 4

COLUMN WRITE	Refers To	Description	Item Amount	Totals
1				
2		<u>ENGINEERING</u>		
3				
4	0065	Charg Engineer's Field Time	\$ 118.89	
5	0074	Charg Engineer's Field Time	255.30	
6	0075	Engineer's Vehicle	603.1	
7	10-26	Charg Eng to Wells	150.00	
8				\$ 584.50
9				
10		<u>TRUCKING</u>		
11				
12	14567	James Dulling Company	2262.00	
13	14693	Sumco Trucking	198.88	
14	14704	B.T. Walker, Inc	804.54	
15	00778	Dalgarno Transport	265.98	
16	N 8657	Dawn Trucking	1,402.70	
17				4,933.90
18				
19		<u>RENTAL TOOLS</u>		
20				
21	14620	Oerhan Oil Tool Company	1086.80	
22	15076	Tesoro Sand & Marine	265.85	
23	01139	DOTCO	206.96	
24	01503	Tesoro H & M	56.16	
25				637.65
26				
27		<u>PERFORATING AND WIRE LINE</u>		
28				
29	01210	Bluejet		3,266.54
30				
31		<u>WELL STIMULATION</u>		
32				
33	01414	The Western Company	17690.93	
34	1225	Furn Well Serv	617.05	
35				18,307.98
36				
37		<u>CONTRACT LABOR</u>		
38				
39	14625	E. L. Welding	135.85	
40	14684	San Juan Casing Service	1,883.61	
41	14699	Trio Construction Company	379.73	
42	14710	Wilson Service Company	366.78	
43				2,765.97
44				
45		Total Page 2		\$ 30,496.54

Memor Oil & Gas Corp  
Resume of Costs - G. Lindahl #5  
11/78 thru 1/82

Page 3 of 4

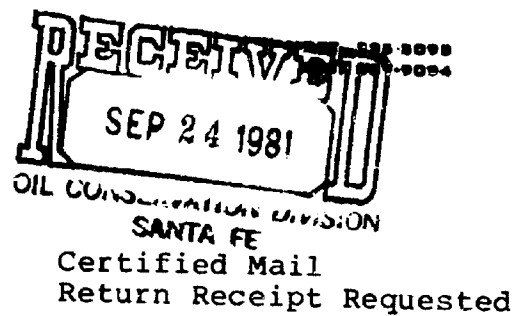
COLUMN WRITE	Reference Number	Description	Item Amount	Totals
1				
2		<u>COMPANY LABOR</u>		
3				
4	0072	Roustabout Expense	346.32	
5	0073	Roustabout Vehicle	260.00	
6	0076	Supervisors Expense	28.14	
7	0077	Supervisors Vehicle	17.93	
8	0085	Roustabout Expense	19.52	
9	0086	Roustabout Vehicle	20.00	
10	0122	Roustabout Expense	270.42	
11	0123	Roustabout Vehicle	220.00	
12	0124	Trailer Expense	27.00	
13	0125	Supervisor Expense	38.19	
14	0126	Supervisor Vehicle	15.15	
15	0219	Vehicle Expense	57.89	
16	10-07	Chrg Daily Tech to Lease	247.14	
17	11-21	Chrg Roustabouts to Lease	479.20	
18	12-10	Field Super Time	294.69	
19	01-103	Field Super Time	110.51	
20	01-110	Chrg Roustabouts to Lease	159.95	
21				2612.05
22		<u>MISCELLANEOUS INTANGIBLE EXPENSE</u>		
23				
24	13140	McKee Signs	17.57	
25	13397	Montgomery, Andrewst Harbors	163.49	
26	13503	Robert L. Bayless	95.85	
27	13507	Harty	23.04	
28	14580	Stry Nelson	310.00	
29	14587	Robert L. Bayless	122.40	
30	14700	Valley Machine Shop	46.01	
31	14856	Nine Star Trading Co.	209.00	
32	14995	Fluor	155.19	
33	15143	Cementers, Time	168.08	
34	017454	Clay Smith	30.00	
35	000305	Farm Corners Auction	357.42	
36	017552	Kellakin + Kellakin	1,141.25	
37	17853	Kellakin + Kellakin	11.44	
38	01256	Farm Daily Taxes	32.3	
39	20297	John Anderson	11.00	
40				2866.99
41		<u>CASING</u>		
42				
43				
44	15033	Nine Star Trading Corp		9,182.83
45				
46		<u>THE STATE</u>		
47				
48	01460	Nine Star		6,481.78
49				
50				
51				
52				
53				
54				
55				
56				
57				
58				
59				
60				
61				
62				
63				
64				
65				
66				
67				
68				
69				
70				
71				
72				
73				
74				
75				
76				
77				
78				
79				
80				
81				
82				
83				
84				
85				
86				
87				
88				
89				
90				
91				
92				
93				
94				
95				
96				
97				
98				
99				
100				
101				
102				
103				
104				
105				
106				
107				
108				
109				
110				
111				
112				
113				
114				
115				
116				
117				
118				
119				
120				
121				
122				
123				
124				
125				
126				
127				
128				
129				
130				
131				
132				
133				
134				
135				
136				
137				
138				
139				
140				
141				
142				
143				
144				
145				
146				
147				
148				
149				
150				
151				
152				
153				
154				
155				
156				
157				
158				
159				
160				
161				
162				
163				
164				
165				
166				
167				
168				
169				
170				
171				
172				
173				
174				
175				
176				
177				
178				
179				
180				
181				
182				
183				
184				
185				
186				
187				
188				
189				
190				
191				
192				
193				
194				
195				
196				
197				
198				
199				
200				
201				
202				
203				
204				
205				
206				
207				
208				
209				
210				
211				
212				
213				
214				
215				
216				
217				
218				
219				
220				
221				
222				
223				
224				
225				
226				
227				
228				
229				
230				
231				
232				
233				
234				
235				
236				
237				
238				
239				
240				
241				
242				
243				
244				
245				
246				
247				
248				
249				
250				
251				
252				
253				
254				
255				
256				
257				
258				
259				
260				
261				
262				
263				
264				
265				
266				
267				
268				
269				
270				
271				
272				
273				
274				
275				
276				
277				
278				
279				
280				
281				
282				
283				
284				
285				
286				
287				
288				
289				
290				
291				
292				
293				
294				
295				
296				
297				
298				
299				
300				
301				
302				
303				
304				
305				
306				
307				
308				
309				
310				
311				
312				
313				
314				
315				
316				
317				
318				
319				
320				
321				
322				
323				
324				
325				
326				
327				
328				
329				
330				
331				
332				
333				
334				
335				
336				
337				
338				
339				
340				
341				
342				
343				
344				
345				
346				
347				
348				
349				
350				
351				
352				
353				
354				
355				
356				
357				
358				
359				
360				
361				
362				
363				
364				
365				
366				
367				
368				
369				
370				
371				
372				
373				
374				
375				
376				
377				
378				
379				
380				
381				
382				
383				
384				
385				
386				
387				
388				
3				

Merrion Oil & Gas Corp  
 Resume of Costs - E. Lindahl #5  
 4/78 thru 1/82

Page 4 of 4

COLUMN WRITE @	Refers Nusla	Description	Item Amount	Totals
1				
2		<u>WELL HEAD EQUIPMENT</u>		
3				
4	14995	FLUOR	\$ 50610	
5	15206	FLUOR	6876	
6				\$ 57446
7				
8		<u>CONNECTIONS + VALVES</u>		
9				
10	01349	Rig Equipment	3542	
11	1/82	Rig Equipment	89336	
12				92878
13				
14		<u>MISCELLANEOUS TANGIBLE ITEMS</u>		
15				
16	17128	Wire Str		52250
17				
18		Total Page 4		202574
19		Previous Page Total		10838110
20				
21		Grand Total		\$ 11040684
22				
23				
24				
25				
26				
27				
28				
29				
30				
31				
32				
33				
34				
35				
36				
37				
38				
39				
40				
41				
42				
43				
44				
45				
46				
47				
48				
49				
50				

J. GREGORY MERRION  
PETROLEUM ENGINEER  
P. O. Box 807  
FARMINGTON, NEW MEXICO 87401



September 23, 1981

New Mexico Oil Conservation Division  
P.O. Box 2088  
Santa Fe, NM 87501

*Case 6892*

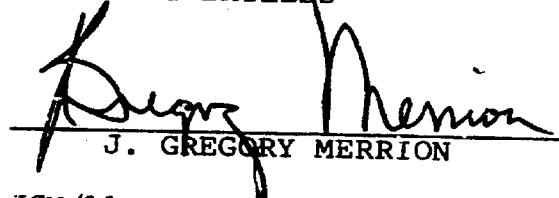
RE: Order #R 6366-A-1

Gentlemen:

Pursuant to subject order we enclose herewith our AFE  
on the East Lindrith No. 5 itemizing our estimated well  
costs.

Yours very truly,

MERRION & BAYLESS

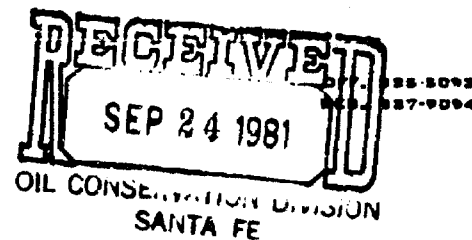
  
J. GREGORY MERRION

JGM/11

Enclosure



J. GREGORY MERRION  
PETROLEUM ENGINEER  
P. O. BOX 507  
FARMINGTON, NEW MEXICO 87401



Certified Mail  
Return Receipt Requested

September 23, 1981

Mr. Paul Brown  
General Delivery  
Regina, New Mexico 87406

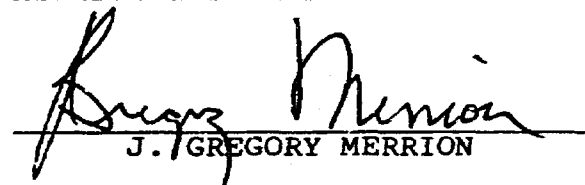
Dear Mr. Brown,

Enclosed please find a copy of the New Mexico Oil Conservation Division Order #R-6366-A-1 together with a copy of our AFE on the East Lindrith No. 5 well located in the SW/4, Section 27, T-24N, R2W, Rio Arriba County, New Mexico.

Pursuant to this order you have 30 days to pay your share of the estimated well costs if you elect to participate in this well.

Yours very truly,

MERRION & BAYLESS

  
J. GREGORY MERRION

JGM/11

Enclosures



MERRION & BAYLESS  
WELL COST ESTIMATE

WELL NAME: East Lindrith #5

LOCATION: SW/4 Sec. 27, T24N, R2W  
Rio Arriba County, NM

PROPOSAL: Drill well to test the Pictured Cliffs formation

TANGIBLE COST:

*Surface casing	100 ft. 7" @ \$7.00/ft.	\$ 700.00
Production Casing	3400 ft. 3-1/2" @ 3.00/ft.	10,200.00
Tubing	3400 ft. 1-1/4" @ 1.50	5,100.00
Wellhead Equipment		2,500.00
TOTAL TANGIBLES:		\$ 18,500.00

INTANGIBLE COST:

Location:		
*Survey		\$ 250.00
*Archeologist		100.00
*Roads & Location		1,500.00
Drilling:		
*Footage	3400 ft. @ \$8.50	28,900.00
*Daywork	36 hrs. @ \$150/hr.	5,400.00
*Open Hole Logging		5,000.00
Casing Float Equipment		1,500.00
*Trucking		1,500.00
*Mud & Water		9,000.00
Cementing:		
*Surface Casing		1,800.00
Production Casing		5,000.00
Completion:		
Completion Rig with Reverse Equipment		6,000.00
Perforating & Logging		2,500.00
Acidizing		2,000.00
Fracturing		17,000.00
Tank Rental		1,500.00
Trucking		2,000.00
*Location Clean-up		1,000.00
Roustabout		4,000.00
Supervision:		
*Administrative		2,000.00
*Field		2,500.00
TOTAL INTANGIBLES:		\$100,450.00

5% Contingency: 5,023.00  
TOTAL WELL COST: \$123,973.00

\*DRY HOLE COST: \$ 59,650.00

COST ESTIMATE

J. Gregory Merrion  
Robert L. Bayless  
Paul Brown

37.5% = \$46,489.88  
37.5% = \$46,489.88  
25.0% = \$30,993.24  
100.0% \$123,973.00

Date: March 14, 1980

APPROVED:

BY: \_\_\_\_\_  
MERRION & BAYLESS

BY: \_\_\_\_\_  
Paul Brown



BRUCE KING  
GOVERNOR  
LARRY KENOE  
SECRETARY

STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION

POST OFFICE BOX 2088  
STATE LAND OFFICE BUILDING  
SANTA FE, NEW MEXICO 87501  
(505) 827-2434

June 13, 1980

Mr. Robert L. Bayless  
P. O. Box 1541  
Farmington, New Mexico 87401

Re: CASE NO. 6892  
ORDER NO. R-6366

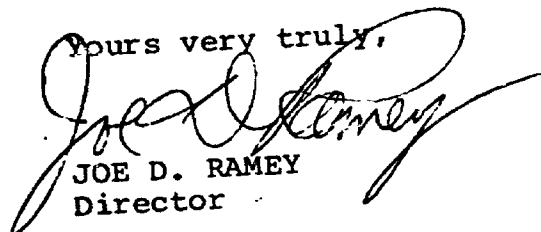
Applicant:

Merrion & Bayless

Dear Sir:

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

Yours very truly,

  
JOE D. RAMEY  
Director

JDR/fd

Copy of order also sent to:

Hobbs OCD X  
Artesia OCD X  
Aztec OCD X

Other \_\_\_\_\_

STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION  
STATE LAND OFFICE BLDG.  
SANTA FE, NEW MEXICO  
21 May 1980

EXAMINER HEARING

IN THE MATTER OF:

Application of Merrion & Bayless  
for compulsory pooling, Rio Arriba  
County, New Mexico.

CASE  
6892

BEFORE: Richard L. Stamets

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation  
Division:

Ernest L. Padilla, Esq.  
Legal Counsel to the Division  
State Land Office Bldg.  
Santa Fe, New Mexico 87501

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7409

I N D E X

1

2

3

TESTIMONY BY MR. BAYLESS

4

5

STATEMENT BY MRS. MARIE BROWN

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 435-7409

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7409

Page 3

1 MR. STAMETS: We'll call next Case 6892.

2 MR. PADILLA: Application of Merrion and  
3 Bayless for compulsory pooling, Rio Arriba County, New  
4 Mexico.

5 MR. STAMETS: Call for appearances in this  
6 case.

7 MR. BAYLESS: Robert L. Bayless.

8 MR. STAMETS: Would you like to stand and  
9 be sworn, Mr. Bayless?

10  
11 (Mr. Bayless sworn.)

12  
13 MR. STAMETS: You may proceed, Mr. Bay-  
14 less.

15 MR. BAYLESS: This is a request for a  
16 forced pool hearing for a Pictured Cliffs well to be located  
17 in the southwest quarter of Section 27, 24 North, 2 West.

18 We previously have obtained this under  
19 Case Number 6723, Commission Order R-6193. We were unable  
20 during the winter to timely drill the well and that order  
21 expired.

22 Basically the same situation exists now  
23 as in the case we presented for this R-6193 order, the same  
24 exhibits I have, and so forth.

25 What would you -- can I introduce any-

1 thing out of the old case?

2 MR. STAMETS: I don't see any problem  
3 with that. If we have any questions on a particular exhibit  
4 we can cover it as we go through the case.

5 MR. BAYLESS: Okay. The basic problem is  
6 that there -- of the 160 acres the northwest of the southwest  
7 is a Federal lease and we have received a demand to drill a  
8 well to include this acreage because of drainage from off-  
9 setting wells. We own that lease.

10 The east half of the southwest is a fee  
11 lease owned by Mobil Oil Company on which we have a farmout.

12 The southwest of the southwest 40 acres  
13 is a 40-acre fee lease belonging to Paul and Marie Brown,  
14 who live in the immediate area of Lindrith. We have been  
15 unable to obtain a lease from these people.

16 At the time previously, when I appeared,  
17 we estimated our well costs at \$90,000. This is going to  
18 be a 3400-foot Pictured Cliffs test. Our latest AFE is  
19 about \$123,000. We ask for a recovery factor of 200 per-  
20 cent in addition to our cost. We have for \$150 a month  
21 combined overhead rate.

22 I believe this covers the main points.

23 MR. STAMETS: Have you made any further  
24 attempts since the original hearing to obtain any sort of  
25 a voluntary agreement with the Browns?

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7409

1 MR. BAYLESS: Subsequent, and actually  
2 during the last hearing, the Browns revealed that they had  
3 leased this to a company in Albuquerque, and this company  
4 in turn became a second company. I have been in contact  
5 with them. I submitted an operating agreement and an AFE  
6 for them to participate. At one time they thought they  
7 would.

8 I have now been advised that they are  
9 unable to and that their lease is expiring and that the  
10 Browns have -- were going to enter into a lease agreement  
11 with another firm.

12 The Browns have a situation where this  
13 40 acres is contiguous to another 280 acres and their re-  
14 quirement from the various people they have leased to has  
15 been that a Dakota well be drilled on the 280 acres, and  
16 the problem the people had that have had leases on this and  
17 who more or less wanted to participate, was that they could  
18 participate in this Pictured Cliffs but if it earned nothing  
19 from the Browns in the way of a lease until a Dakota well  
20 was drilled, and this made it impossible.

21 And to answer your question, I've not  
22 contacted the Browns subsequent to the last hearing.

23 MR. STAMETS: But you have contacted the  
24 individual who --

25 MR. BAYLESS: Yes.

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7409

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7409

Page 6

1 MR. STAMETS: -- currently has the lease.  
2 Do you have a copy of their correspondence?

3 MR. BAYLESS: Yes, I do, however, I'd like  
4 to show them to you now and then send you copies later on.

5 MR. STAMETS: Let me look at it and you  
6 can Xerox off some copies before you leave.

7 MR. BAYLESS: My reply on May the 9th from  
8 Jacks (sic), I called him and he said that he does not think  
9 he has a valid lease.

10 MR. STAMETS: And I presume that the ori-  
11 ginal case documented your inability to arrive at some sort  
12 of an agreement with the Browns.

13 MR. BAYLESS: Yes, it did. I went down  
14 there several times to talk with the Browns and was unable  
15 to come to any understanding with them.

16 MR. STAMETS: Are there any other ques-  
17 tions of Mr. Bayless? He may be excused.

18 Anything further in this case?

19 The case will be taken under advisement  
20 and I ask that you get a copy of this for me before you leave.

21 MR. BAYLESS: Yes, I will.

22

23

(Hearing concluded.)

24

25

(At the end of the docket on 21 May 1980  
at the verbal request of Mrs. Marie Brown, the hearing was



SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7409

Page 7

1 re-opened by Examiner Stamets for the purpose of permitting  
2 Mrs. Brown to make a statement, as follows:)

3  
4 MR. STAMETS: Mrs. Brown, what's the  
5 nature of the material you brought to give us today? What  
6 did you wish to say?

7 MRS. BROWN: Last fall we had leased this  
8 company and the lease run out.

9 MR. STAMETS: Uh-huh.

10 MRS. BROWN: And Mr. Bayless went in there  
11 without any -- telling us anything and drilled. I don't  
12 know what his results were.

13 MR. STAMETS: Well, Mr. Bayless testimony  
14 was that the well had not been drilled and that this was for  
15 the purpose of drilling a well.

16 MRS. BROWN: I've been seeing it drilled  
17 under my own -- I'm not under oath yet. I'll take it now,  
18 if you want me to.

19 MR. STAMETS: Well, I don't believe we  
20 could accept testimony from you relative to whether Mr. Bay-  
21 less had drilled the well, could we?

22 MRS. BROWN: Well, there's been a --

23 MR. STAMETS: You know, it could be some-  
24 body else's well.

25 MRS. BROWN: No, it's on this location

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7409

Page 3

1 that we let them use our property to get to. I'll swear --  
2 testify under oath that's true.

3 MR. STAMETS: Well --

4 MRS. BROWN: And they've been drilling on  
5 it a week and they've gone today.

6 MR. STAMETS: Okay, what else did you  
7 want to say?

8 MRS. BROWN: Well, I want to say that we  
9 would oppose his supervision as long as he and Gary Nelson  
10 have our stolen Caterpillar, worth about \$50,000, in there  
11 using it to grade up roads without our consent. In fact,  
12 we didn't know Gary Nelson had it till he tried to sell it  
13 to a third party.

14 MR. STAMETS: I don't believe this is  
15 getting us any place.

16 I tell you what I will do.

17 MRS. BROWN: What?

18 MR. STAMETS: I will re-open the case for  
19 purposes of a statement from you relative to these facts and  
20 give the statement the consideration that statements receive  
21 in these cases.

22 MRS. BROWN: Yes, sir.

23 MR. STAMETS: And will you show, Sally,  
24 that Case 6892 has been re-opened for purposes of a statement  
25 from Mrs. Marie Brown, is that correct?

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 435-7409

Page 9

1 MRS. BROWN: Yes, sir.

2 MR. STAMETS: Okay, Mrs. Brown, you may  
3 proceed to tell us what you would like to in this matter.

4 MRS. BROWN: The lease went out the 13th  
5 of May to Mr. Jackson and the evening of the 14th of May  
6 the next night about 5:00 o'clock, a rig was moved in on this  
7 location, which we had let them use our 40 acres to get to  
8 or locate. It sits just outside the boundary in plain sight  
9 of our home.

10 They began drilling the next day on the  
11 15th and we have been seeing and hearing it drilling since  
12 that time until 11:30 last night, and this morning they were  
13 taking down the rig; it had been lowered.

14 MR. STAMETS: And when did you say that  
15 you thought that commenced, what date?

16 MRS. BROWN: It began, the drilling began  
17 on the 15th. They moved the rig in there on the 14th, in  
18 the evening.

19 MR. STAMETS: The 15th of May?

20 MRS. BROWN: Of May, yes, sir.

21 MR. STAMETS: Okay.

22 MRS. BROWN: It's been drilling -- they  
23 have been drilling for a week on it.

24 MR. STAMETS: Okay.

25 MRS. BROWN: And we were -- we objected

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7409

1 to a road last fall because it was a public road going to  
2 this --

3 MR. STAMETS: That's not germane to the  
4 case, Mrs. Brown, so if you would stay on issues relative to  
5 this compulsory pooling, I'd appreciate it.

6 MRS. BROWN: The only relevance is that  
7 it's affecting cost going over a cliff that 17 or 18 people  
8 have been testifying they couldn't go over since 1911, and  
9 causing us to have a public road for his benefit through  
10 34. There's been one there since 1952. There's a public  
11 road going right through our property for his benefit. I've  
12 brought the survey plat. So that he could get to this pro-  
13 perty, which is -- all of this quarter section is in the  
14 Taosenas (sic) Canyon. It's perfectly level between there  
15 and the State highway. There's no hill.

16 And he is now -- he's been hiring Gary  
17 Nelson, with the use of our stolen \$50,000 Oliver tractor,  
18 to grade out a road over that to this site, which we didn't  
19 know of until just a day or two ago. We knew the tractor  
20 was stolen but we didn't know that Gary Nelson had been  
21 trying to sell it or to trade it to someone else, until a  
22 day or two ago.

23 That's what they have been using to grade  
24 out the roads. Well, I don't know the purpose of this  
25 1-3/4 mile road to this site over the very bad dirt road

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B

Santa Fe, New Mexico 87501

Phone (505) 455-7409

1 from the highway to this site when we offered him free gratis  
2 our -- the road we use coming into 27, which is between an  
3 eighth and a fourth of a mile to the pavement. We told him  
4 he could use that private road, which is the closest and  
5 the fastest way to get to it, but he also has the public  
6 road, which is the public. I mean it's not private. He  
7 could go wherever he pleased.

8 But the excessive amount of what it will  
9 cost to maintain a road to get to that wellsite will be  
10 prohibitive in the wintertime. That's why I'm objecting to  
11 the road, because I'm certain it will cost a great deal more.

12 MR. STAMETS: Okay, anything else, ma'am?

13 MRS. BROWN: Well, that's really the  
14 basis of it. I had intended to get an attorney but I didn't  
15 have time yesterday and for some reason we didn't get this  
16 notice until Monday. It was mailed the 9th but our mail  
17 service isn't the best.

18 MR. STAMETS: Everybody's mail service.

19 MRS. BROWN: And so I would rather have  
20 an attorney here today. I didn't intend to represent myself  
21 but --

22 MR. STAMETS: Mrs. Brown, I would point  
23 out --

24 MRS. BROWN: Yes.

25 MR. STAMETS: -- that any order which

SALLY W. BOYD, C.S.R.

Rt. 1 Box 191-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7409

1 authorizes compulsory pooling is -- it makes a requirement  
2 that the person who has pooled the acreage give all of the  
3 interest owners an opportunity to join without extra cost  
4 to themselves, and also those orders give any interest owners  
5 the opportunity to object to what they consider unreasonable  
6 well costs.

7 So this should provide you protection from  
8 any costs that you feel would be excessive relative to this  
9 well.

10 And we certainly appreciate you coming  
11 down today and providing us with additional information, some  
12 of which I'm sure we'll look into.

13 MRS. BROWN: We haven't received anything  
14 from Mr. Bayless as to the cost of the well, ever. You  
15 understand he's completely ignored us.

16 Then last fall I did get a copy of this  
17 when I talked to you about the road at the time. I didn't  
18 know where they were coming in at --

19 MR. STAMETS: Do you know when the lease  
20 expired?

21 MRS. BROWN: The 13th. I have a copy of  
22 it. It expired on the 13th of the month. He has a copy  
23 of the lease, so he knew it expired, and he may have had  
24 some correspondence with Mr. Jackson. I don't know. He was  
25 the president of the company. So I don't know about that,

1 but anyway he's had nothing with me, though he did have a  
2 copy of the lease and knew when it expired.

3 But he came in the next day. He wasn't  
4 even on the property till the next day.

5 Thank you very much. I appreciate your  
6 kindness in letting me --

7 MR. STAMETS: Thank you very much. With  
8 that modification we'll take Case 6892 under consideration.

9 MRS. BROWN: Well, thank you very much.

10  
11 (Hearing concluded.)  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7409

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY THAT  
the foregoing Transcript of Hearing before the Oil Conserva-  
tion Division was reported by me; that the said transcript  
is a full, true, and correct record of the hearing, prepared  
by me to the best of my ability.

Sally W. Boyd C.S.R.

SALLY W. BOYD, C.S.R.  
Rt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7409

I do hereby certify that the foregoing is  
a complete and correct transcript of the  
hearing held on 5/21/80 at 6892  
1980.  
Richard L. Stamm, Examiner  
Oil Conservation Division



STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION  
STATE LAND OFFICE BLDG.  
SANTA FE, NEW MEXICO  
21 May 1980

EXAMINER HEARING

IN THE MATTER OF:

Application of Merrion & Bayless  
for compulsory pooling, Rio Arriba  
County, New Mexico.

CASE  
6892

BEFORE: Richard L. Stamets

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation  
Division:

Ernest L. Padilla, Esq.  
Legal Counsel to the Division  
State Land Office Bldg.  
Santa Fe, New Mexico 87501

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7409

I N D E X

TESTIMONY BY MR. BAYLESS

STATEMENT BY MRS. MARIE BROWN

SALLY W. BOYD, C.S.R.

Rt. 1 Box 199-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7409

SALLY W. BOYD, C.S.R.  
Rt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7409

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

MR. STAMETS: We'll call next Case 6892.

MR. PADILLA: Application of Merrion and Bayless for compulsory pooling, Rio Arriba County, New Mexico.

MR. STAMETS: Call for appearances in this case.

MR. BAYLESS: Robert L. Bayless.

MR. STAMETS: Would you like to stand and be sworn, Mr. Bayless?

(Mr. Bayless sworn.)

MR. STAMETS: You may proceed, Mr. Bayless.

MR. BAYLESS: This is a request for a forced pool hearing for a Pictured Cliffs well to be located in the southwest quarter of Section 27, 24 North, 2 West.

We previously have obtained this under Case Number 6723, Commission Order R-6193. We were unable during the winter to timely drill the well and that order expired.

Basically the same situation exists now as in the case we presented for this R-6193 order, the same exhibits I have, and so forth.

What would you -- can I introduce any-

SALLY W. BOYD, C.S.R.

El. 1 Box 191-B

Santa Fe, New Mexico 87501

Phone (505) 455-7409

1 thing out of the old case?

2 MR. STAMETS: I don't see any problem  
3 with that. If we have any questions on a particular exhibit  
4 we can cover it as we go through the case.

5 MR. BAYLESS: Okay. The basic problem is  
6 that there -- of the 160 acres the northwest of the southwest  
7 is a Federal lease and we have received a demand to drill a  
8 well to include this acreage because of drainage from off-  
9 setting wells. We own that lease.

10 The east half of the southwest is a fee  
11 lease owned by Mobil Oil Company on which we have a farmout.

12 The southwest of the southwest 40 acres  
13 is a 40-acre fee lease belonging to Paul and Marie Brown,  
14 who live in the immediate area of Lindrith. We have been  
15 unable to obtain a lease from these people.

16 At the time previously, when I appeared,  
17 we estimated our well costs at \$90,000. This is going to  
18 be a 3400-foot Pictured Cliffs test. Our latest AFE is  
19 about \$123,000. We ask for a recovery factor of 200 per-  
20 cent in addition to our cost. We have for \$150 a month  
21 combined overhead rate.

22 I believe this covers the main points.

23 MR. STAMETS: Have you made any further  
24 attempts since the original hearing to obtain any sort of  
25 a voluntary agreement with the Browns?

1 MR. BAYLESS: Subsequent, and actually  
2 during the last hearing, the Browns revealed that they had  
3 leased this to a company in Albuquerque, and this company  
4 in turn became a second company. I have been in contact  
5 with them. I submitted an operating agreement and an AFE  
6 for them to participate. At one time they thought they  
7 would.

8 I have now been advised that they are  
9 unable to and that their lease is expiring and that the  
10 Browns have -- were going to enter into a lease agreement  
11 with another firm.

12 The Browns have a situation where this  
13 40 acres is contiguous to another 280 acres and their re-  
14 quirement from the various people they have leased to has  
15 been that a Dakota well be drilled on the 280 acres, and  
16 the problem the people had that have had leases on this and  
17 who more or less wanted to participate, was that they could  
18 participate in this Pictured Cliffs but if it earned nothing  
19 from the Browns in the way of a lease until a Dakota well  
20 was drilled, and this made it impossible.

21 And to answer your question, I've not  
22 contacted the Browns subsequent to the last hearing.

23 MR. STAMETS: But you have contacted the  
24 individual who --

25 MR. BAYLESS: Yes.

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7409

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 433-7409

Page 6

1 MR. STAMETS: -- currently has the lease.  
2 Do you have a copy of their correspondence?

3 MR. BAYLESS: Yes, I do, however, I'd like  
4 to show them to you now and then send you copies later on.

5 MR. STAMETS: Let me look at it and you  
6 can Xerox off some copies before you leave.

7 MR. BAYLESS: My reply on May the 9th from  
8 Jacks (sic), I called him and he said that he does not think  
9 he has a valid lease.

10 MR. STAMETS: And I presume that the ori-  
11 ginal case documented your inability to arrive at some sort  
12 of an agreement with the Browns.

13 MR. BAYLESS: Yes, it did. I went down  
14 there several times to talk with the Browns and was unable  
15 to come to any understanding with them.

16 MR. STAMETS: Are there any other ques-  
17 tions of Mr. Bayless? He may be excused.

18 Anything further in this case?

19 The case will be taken under advisement  
20 and I ask that you get a copy of this for me before you leave.

21 MR. BAYLESS: Yes, I will.

22  
23 (Hearing concluded.)

24 (At the end of the docket on 21 May 1980  
25 at the verbal request of Mrs. Marie Brown, the hearing was

1 re-opened by Examiner Stamets for the purpose of permitting  
2 Mrs. Brown to make a statement, as follows:)

3  
4 MR. STAMETS: Mrs. Brown, what's the  
5 nature of the material you brought to give us today? What  
6 did you wish to say?

7 MRS. BROWN: Last fall we had leased this  
8 company and the lease run out.

9 MR. STAMETS: Uh-huh.

10 MRS. BROWN: And Mr. Bayless went in there  
11 without any -- telling us anything and drilled. I don't  
12 know what his results were.

13 MR. STAMETS: Well, Mr. Bayless testimony  
14 was that the well had not been drilled and that this was for  
15 the purpose of drilling a well.

16 MRS. BROWN: I've been seeing it drilled  
17 under my own -- I'm not under oath yet. I'll take it now,  
18 if you want me to.

19 MR. STAMETS: Well, I don't believe we  
20 could accept testimony from you relative to whether Mr. Bay-  
21 less had drilled the well, could we?

22 MRS. BROWN: Well, there's been a --

23 MR. STAMETS: You know, it could be some-  
24 body else's well.

25 MRS. BROWN: No, it's on this location

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7409

SALLY W. BOYD, C.S.R.

RL 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7409

Page 8

1 that we let them use our property to get to. I'll swear --  
2 testify under oath that's true.

3 MR. STAMETS: Well --

4 MRS. BROWN: And they've been drilling on  
5 it a week and they've gone today.

6 MR. STAMETS: Okay, what else did you  
7 want to say?

8 MRS. BROWN: Well, I want to say that we  
9 would oppose his supervision as long as he and Gary Nelson  
10 have our stolen Caterpillar, worth about \$50,000, in there  
11 using it to grade up roads without our consent. In fact,  
12 we didn't know Gary Nelson had it till he tried to sell it  
13 to a third party.

14 MR. STAMETS: I don't believe this is  
15 getting us any place.

16 I tell you what I will do.

17 MRS. BROWN: What?

18 MR. STAMETS: I will re-open the case for  
19 purposes of a statement from you relative to these facts and  
20 give the statement the consideration that statements receive  
21 in these cases.

22 MRS. BROWN: Yes, sir.

MR. STAMETS: And will you show, Sally,  
that Case 6892 has been re-opened for purposes of a statement  
from Mrs. Marie Brown, is that correct?



SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7409

Page 9

1 MRS. BROWN: Yes, sir.

2 MR. STAMETS: Okay, Mrs. Brown, you may  
3 proceed to tell us what you would like to in this matter.

4 MRS. BROWN: The lease went out the 13th  
5 of May to Mr. Jackson and the evening of the 14th of May  
6 the next night about 5:00 o'clock, a rig was moved in on this  
7 location, which we had let them use our 40 acres to get to  
8 or locate. It sits just outside the boundary in plain sight  
9 of our home.

10 They began drilling the next day on the  
11 15th and we have been seeing and hearing it drilling since  
12 that time until 11:30 last night, and this morning they were  
13 taking down the rig; it had been lowered.

14 MR. STAMETS: And when did you say that  
15 you thought that commenced, what date?

16 MRS. BROWN: It began, the drilling began  
17 on the 15th. They moved the rig in there on the 14th, in  
18 the evening.

19 MR. STAMETS: The 15th of May?

20 MRS. BROWN: Of May, yes, sir.

21 MR. STAMETS: Okay.

22 MRS. BROWN: It's been drilling -- they  
23 have been drilling for a week on it.

24 MR. STAMETS: Okay.

25 MRS. BROWN: And we were -- we objected

1 to a road last fall because it was a public road going to  
2 this --

3 MR. STAMETS: That's not germane to the  
4 case, Mrs. Brown, so if you would stay on issues relative to  
5 this compulsory pooling, I'd appreciate it.

6 MRS. BROWN: The only relevance is that  
7 it's affecting cost going over a cliff that 17 or 18 people  
8 have been testifying they couldn't go over since 1911, and  
9 causing us to have a public road for his benefit through  
10 34. There's been one there since 1952. There's a public  
11 road going right through our property for his benefit. I've  
12 brought the survey plat. So that he could get to this pro-  
13 perty, which is -- all of this quarter section is in the  
14 Taosenas (sic) Canyon. It's perfectly level between there  
15 and the State highway. There's no hill.

16 And he is now -- he's been hiring Gary  
17 Nelson, with the use of our stolen \$50,000 Oliver tractor,  
18 to grade out a road over that to this site, which we didn't  
19 know of until just a day or two ago. We knew the tractor  
20 was stolen but we didn't know that Gary Nelson had been  
21 trying to sell it or to trade it to someone else, until a  
22 day or two ago.

23 That's what they have been using to grade  
24 out the roads. Well, I don't know the purpose of this  
25 1-3/4 mile road to this site over the very bad dirt road

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7409

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7409

1 from the highway to this site when we offered him free gratis  
2 our -- the road we use coming into 27, which is between an  
3 eighth and a fourth of a mile to the pavement. We told him  
4 he could use that private road, which is the closest and  
5 the fastest way to get to it, but he also has the public  
6 road, which is the public. I mean it's not private. He  
7 could go wherever he pleased.

8 But the excessive amount of what it will  
9 cost to maintain a road to get to that wellsite will be  
10 prohibitive in the wintertime. That's why I'm objecting to  
11 the road, because I'm certain it will cost a great deal more.

12 MR. STAMETS: Okay, anything else, ma'am?

13 MRS. BROWN: Well, that's really the  
14 basis of it. I had intended to get an attorney but I didn't  
15 have time yesterday and for some reason we didn't get this  
16 notice until Monday. It was mailed the 9th but our mail  
17 service isn't the best.

18 MR. STAMETS: Everybody's mail service.

19 MRS. BROWN: And so I would rather have  
20 an attorney here today. I didn't intend to represent myself  
21 but --

22 MR. STAMETS: Mrs. Brown, I would point  
23 cut --

24 MRS. BROWN: Yes.

25 MR. STAMETS: -- that any order which

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7409

1 authorizes compulsory pooling is -- it makes a requirement  
2 that the person who has pooled the acreage give all of the  
3 interest owners an opportunity to join without extra cost  
4 to themselves, and also those orders give any interest owners  
5 the opportunity to object to what they consider unreasonable  
6 well costs.

7 So this should provide you protection from  
8 any costs that you feel would be excessive relative to this  
9 well.

10 And we certainly appreciate you coming  
11 down today and providing us with additional information, some  
12 of which I'm sure we'll look into.

13 MRS. BROWN: We haven't received anything  
14 from Mr. Bayless as to the cost of the well, ever. You  
15 understand he's completely ignored us.

16 Then last fall I did get a copy of this  
17 when I talked to you about the road at the time. I didn't  
18 know where they were coming in at --

19 MR. STAMETS: Do you know when the lease  
20 expired?

21 MRS. BROWN: The 13th. I have a copy of  
22 it. It expired on the 13th of the month. He has a copy  
23 of the lease, so he knew it expired, and he may have had  
24 some correspondence with Mr. Jackson. I don't know. He was  
25 the president of the company. So I don't know about that,

1 but anyway he's had nothing with me, though he did have a  
2 copy of the lease and knew when it expired.

3 But he came in the next day. He wasn't  
4 even on the property till the next day.

5 Thank you very much. I appreciate your  
6 kindness in letting me --

7 MR. STAMETS: Thank you very much. With  
8 that modification we'll take Case 6992 under consideration.

9 MRS. BROWN: Well, thank you very much.

10  
11 (Hearing concluded.)  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B

Santa Fe, New Mexico 87501

Phone (505) 455-7409

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY THAT  
the foregoing Transcript of Hearing before the Oil Conserva-  
tion Division was reported by me; that the said transcript  
is a full, true, and correct record of the hearing, prepared  
by me to the best of my ability.

SALLY W. BOYD, C.S.R.  
Rt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7409

I do hereby certify that the foregoing is  
a complete record of the hearing in  
the case of \_\_\_\_\_  
heard by me on \_\_\_\_\_.

\_\_\_\_\_, Examiner  
Oil Conservation Division

OIL CONSERVATION DIVISION  
P. O. BOX 2088  
SANTA FE, NEW MEXICO 87501

July 16, 1980

Kellahin & Kellahin  
Attorneys at Law  
Post Office Box 1769  
Santa Fe, New Mexico 87501

Dale B. Dilts  
Attorney at Law  
4 Marble Plaza Center  
6001 Marble N.E.  
Albuquerque, New Mexico 87110

Re: Case No. 6892  
Order No. R-6366  
Applications for  
De Novo Hearing

Gentlemen:

Paul and Marie Brown and Merrion and Bayless, through their attorneys, have requested de novo hearings in the above-referenced case. After examining both applications it appears that neither of the applications for de novo hearings was timely filed.

The order for which de novo hearings are requested was entered on June 5, 1980. The application for de novo hearing should have been filed with the Commission no later than July 7, 1980, within 30 days after issuance of the order. The Brown application was received by the Commission on July 8, 1980, one day late. The Merrion and Bayless application was received on July 10.

Accordingly, both applications for de novo hearings before the Oil Conservation Commission are hereby denied.

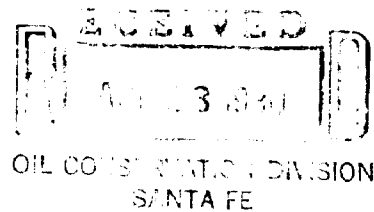
STATE OF NEW MEXICO  
OIL CONSERVATION COMMISSION

JOE D. RAMEY  
Secretary

JDR/fd

C  
O  
P  
Y

ROBERT L. BAYLESS  
PETROLEUM CLUB PLAZA BUILDING  
P. O. BOX 1841  
FARMINGTON, NEW MEXICO 87401



*Case 6892*

April 22, 1980

State of New Mexico  
Energy & Minerals Department  
Oil & Gas Conservation Division  
P.O. Box 2088  
Santa Fe, NM 87501

Gentlemen:

Please consider this our request for a forced pool hearing covering a proposed Pictured Cliff formation gas well to be drilled in the SW/4 of Section 27, T24N, R2W, Rio Arriba County, New Mexico. As the attached plat indicates, we control the oil and gas operating rights on all the quarter section with the exception of the SW 40 acre tract, which is owned by Paul and Marie Brown of Lindrith, New Mexico (with a mailing address of Regina, New Mexico).

We request that we be named to drill the proposed Pictured Cliff gas well with the pooling of interest to cover from the surface of the ground to the base of the Pictured Cliff formation. Paul and Marie Brown have refused to lease to us and we request that we be allowed to recover the drilling, completing and operating costs attributable to this tract, plus a penalty factor of 200%.

In order that we may drill this well before this summer, we request the hearing be set as soon as possible. The U.S.G.S. has requested the well be drilled as the NW 40 acre tract has U.S.A. minerals and there is presently a Pictured Cliff formation gas well located as a direct offset to the North, namely the NW/4 Section 27, T24N, R2W.

This request was originally made October 23, 1979, and Order R-6193 was issued November 21, 1979. Because of the severe winter weather, we were



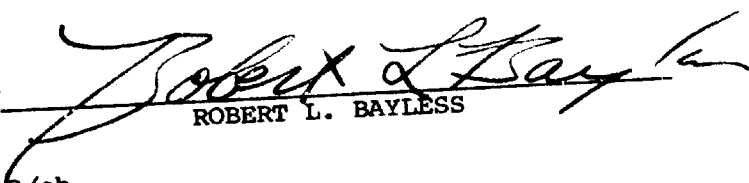
Oil Conservation Division  
April 22, 1980  
Page 2

unable to timely drill this well. If administrative approval can be given for this renewal it would be helpful.

Yours truly,

MERRION & BAYLESS

By

  
ROBERT L. BAYLESS

RLB/eh

Enclosure (1)

xc: Oil Conservation Division, Aztec

NEW MEXICO OIL CONSERVATION COMMISSION  
WELL LOCATION AND ACREAGE DEDICATION PLAT

Form C-102  
Supersedes C-128  
Effective 1-1-65

All distances must be from the outer boundaries of the Section.

Operator <b>MERRION &amp; BAYLESS</b>		Lease <b>East Lindrith</b>		Well No. <b>5</b>
Unit Letter <b>L</b>	Section <b>27</b>	Township <b>24N</b>	Range <b>2W</b>	County <b>RIO ARriba</b>
Actual Footage Location of Wells <b>1600</b> feet from the <b>South</b> line and <b>1000</b> feet from the <b>West</b> line				
Ground Level Elev. <b>7225</b>	Producing Formation <b>Pictured Cliffs</b>	Pool <b>South Blanco</b>	Dedicated Acreage <b>160</b> Acres	

1. Outline the acreage dedicated to the subject well by colored pencil or hatchure marks on the plat below.
2. If more than one lease is dedicated to the well, outline each and identify the ownership thereof (both as to working interest and royalty).
3. If more than one lease of different ownership is dedicated to the well, have the interests of all owners been consolidated by communitization, unitization, force-pooling, etc?

☐ Yes ☒ No If answer is "yes," type of consolidation \_\_\_\_\_

If answer is "no," list the owners and tract descriptions which have actually been consolidated. (Use reverse side of this form if necessary.) Will be communitized.

No allowable will be assigned to the well until all interests have been consolidated (by communitization, unitization, forced-pooling, or otherwise) or until a non-standard unit, eliminating such interests, has been approved by the Commission.

Sec		27
NM-02599	JOHN F. BROWN FEE	
1000'		
PAUL & MARIE BROWN FEE		
1600'		

CERTIFICATION

I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.  
Original Signed  
**J. Gregory Merrion**

Name  
**J. Gregory Merrion**  
Position  
**Co-Owner**  
Company  
**Merrion & Bayless**  
Date  
**April 18, 1979**

I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my knowledge and belief.

Date Surveyed  
**September 24, 1978**  
Registered Professional Engineer and/or Land Surveyor  
**Fred S. Kerr Jr.**  
Certified by  
**395 KERR, JR.**

350 600 850 1100 1350 1600 1850 2100 2400 2600 2800 3000 3200 3400 3600 3800 4000 4200 4400 4600 4800 5000

77

Mrs. Marie Brown  
Regina, NM

87046

Mailed copy of Order R-6366  
on June 18, 1980

ROBERT L. BAYLESS

PETROLEUM CLUB PLAZA BUILDING

P. O. BOX 1241

FARMINGTON, NEW MEXICO 87401

RECEIVED  
APR 23 1980  
SANTA FE DIVISION

Case 6892

April 22, 1980

State of New Mexico  
Energy & Minerals Department  
Oil & Gas Conservation Division  
P.O. Box 2088  
Santa Fe, NM 87501

Gentlemen:

Please consider this our request for a forced pool hearing covering a proposed Pictured Cliff formation gas well to be drilled in the SW/4 of Section 27, T24N, R2W, Rio Arriba County, New Mexico. As the attached plat indicates, we control the oil and gas operating rights on all the quarter section with the exception of the SW 40 acre tract, which is owned by Paul and Marie Brown of Lindrith, New Mexico (with a mailing address of Regina, New Mexico).

We request that we be named to drill the proposed Pictured Cliff gas well with the pooling of interest to cover from the surface of the ground to the base of the Pictured Cliff formation. Paul and Marie Brown have refused to lease to us and we request that we be allowed to recover the drilling, completing and operating costs attributable to this tract, plus a penalty factor of 200%.

In order that we may drill this well before this summer, we request the hearing be set as soon as possible. The U.S.G.S. has requested the well be drilled as the NW 40 acre tract has U.S.A. minerals and there is presently a Pictured Cliff formation gas well located as a direct offset to the North, namely the NW/4 Section 27, T24N, R2W.

This request was originally made October 23, 1979, and Order R-6193 was issued November 21, 1979. Because of the severe winter weather, we were

Oil Conservation Division  
April 22, 1980  
Page 2

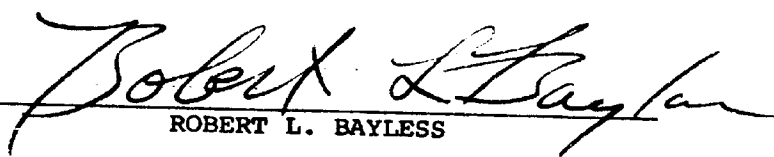


unable to timely drill this well. If administrative approval can be given for this renewal it would be helpful.

Yours truly,

MERRION & BAYLESS

By

  
ROBERT L. BAYLESS

RLB/eh

Enclosure (1)

✓xc: Oil Conservation Division, Aztec

NEW MEXICO OIL CONSERVATION COMMISSION  
WELL LOCATION AND ACREAGE DEDICATION PLAT

Form C-102  
Supersedes C-128  
Effective 1-1-65

All distances must be from the outer boundaries of the Section.

Operator <b>MERRION &amp; BAYLESS</b>			Lease <b>East Lindrith</b>		Well No. <b>5</b>
Unit Letter <b>L</b>	Section <b>27</b>	Township <b>24N</b>	Range <b>2W</b>	County <b>RIO ARRIBA</b>	
Actual Footage Location of Well: <b>1600</b> feet from the <b>South</b> line and <b>1000</b> feet from the <b>West</b> line					
Ground Level Elev. <b>7225</b>	Producing Formation <b>Pictured Cliffs</b>		Pool <b>South Blanco</b>		Dedicated Acreage <b>160</b> Acres

1. Outline the acreage dedicated to the subject well by colored pencil or hachure marks on the plat below.
2. If more than one lease is dedicated to the well, outline each and identify the ownership thereof (both as to working interest and royalty).
3. If more than one lease of different ownership is dedicated to the well, have the interests of all owners been consolidated by communitization, unitization, force-pooling, etc?

☐ Yes ☒ No If answer is "yes," type of consolidation \_\_\_\_\_

If answer is "no," list the owners and tract descriptions which have actually been consolidated. (Use reverse side of this form if necessary.) Will be communitized.

No allowable will be assigned to the well until all interests have been consolidated (by communitization, unitization, forced-pooling, or otherwise) or until a non-standard unit, eliminating such interests, has been approved by the Commission.

Sec		27	
<b>NH-02599</b> <b>JOHN F. BROWN FEE</b> <b>1000'</b>		<b>PAUL &amp; MARIE BROWN FEE</b> <b>1600'</b>	

CERTIFICATION

I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.

J. Gregory Merrion

Name  
**J. Gregory Merrion**

Position  
**Co-Owner**

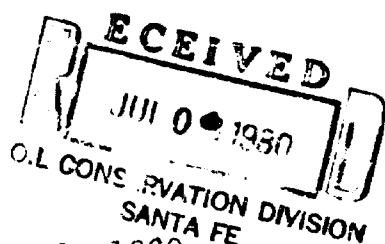
Company  
**Merrion & Bayless**

Date  
**April 18, 1979**

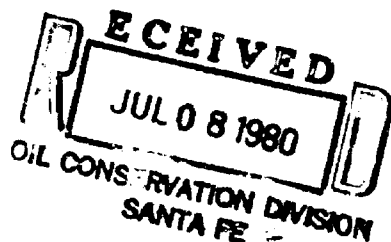
I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my knowledge and belief.

Date Surveyed  
**September 14, 1978**  
 Registered Professional Engineer  
 and/or Land Surveyor of  
**Greg B. Kerr Jr.**  
 Certificate No.  
**3952**  
**KERR, JR.**

300 600 900 1200 1500 1800 2100 2400 2700 3000 3300 3600 3900 4200 4500 4800 5100 5400 5700 6000



July 2, 1980



Oil Conservation Commission  
P. O. Box 2088  
Santa Fe, New Mexico 87501

Re: Order of the Division  
Case No. 6892  
Order No. R-6366

Gentlemen:

Paul Brown and Marie Ann Brown, his wife, hereby appeal from the captioned order and respectfully request another hearing de novo relative thereto. As grounds therefor the Browns show the Oil Conservation Commission that the gas well involved was completed by Merrion and Bayless prior to the hearing on May 21, 1980.

Yours very truly,

*Dale B. Dilts*  
Dale B. Dilts  
Attorney for the Browns

DBD:mms

7/8/80  
Talked to Mr. Dilts relation  
to his de novo request. He still wants to  
go with the de novo but will advise  
his clients on the 57% risk factor, i.e., its  
advantages.

*E/P*

Dale B. Dilts

Attorney at Law

4 Marble Plaza Center

3001 Marble N.E.

Albuquerque

N.M. 87110

255-8743

Office 255-8743

Residence 255-8743

Jason Kellahin  
W. Thomas Kellahin  
Karen Aubrey

KELLAHIN and KELLAHIN  
*Attorneys at Law*  
500 Don Gaspar Avenue  
Post Office Box 1769  
Santa Fe, New Mexico 87501

Telephone 982-4285  
Area Code 505

July 10, 1980

Mr. Joe Ramey, Director  
New Mexico Oil Conservation Division  
P. O. Box 2088  
Santa Fe, New Mexico 87501

re: Application of Merrion & Bayless  
Case No. 6892, Order No. R-6366

Dear Mr. Ramey:

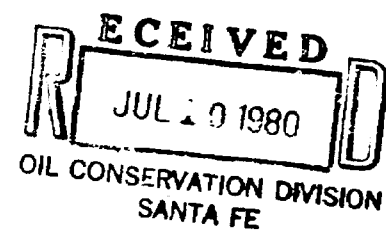
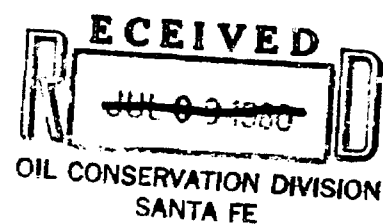
Merrion and Bayless request a hearing de novo before  
the Oil Conservation Commission, particularly as to the  
risk factor allowed in Order No. R-6366.

Yours very truly,

  
Jason Kellahin

cc: J. Gregory Merrion

JK:msf





Docket No. 14-80

Dockets Nos. 16-80 and 17-80 are tentatively set for June 4 and 25, 1980. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: COMMISSION HEARING - TUESDAY - MAY 20, 1980

OIL CONSERVATION COMMISSION - 9 A.M. - ROOM 205  
STATE LAND OFFICE BUILDING, SANTA FE, NEW MEXICO

CASE 6715: (DE NOVO)

Application of Texaco Inc. for an unorthodox gas well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of its Loomis Fed. Well No. 1 to be drilled 1600 feet from the North line and 660 feet from the West line of Section 5, Township 21 South, Range 32 East, South Salt Lake-Morrow Gas Pool, the N/2 of said Section 5 to be dedicated to the well.

Upon application of Texaco Inc. and Bass Enterprises Production Company this case will be heard De Novo pursuant to the provisions of Rule 1220.

\*\*\*\*\*

Docket No. 15-80

DOCKET: EXAMINER HEARING - WEDNESDAY - MAY 21, 1980

9 A.M. - OIL CONSERVATION DIVISION CONFERENCE ROOM,  
STATE LAND OFFICE BUILDING, SANTA FE, NEW MEXICO

The following cases will be heard before Richard L. Stamets, Examiner, or Daniel S. Nutter, Alternate Examiner:

- ALLOWABLE: (1) Consideration of the allowable production of gas for June, 1980, from fifteen prorated pools in Lea, Eddy, and Chaves Counties, New Mexico.
- (2) Consideration of the allowable production of gas for June, 1980, from four prorated pools in San Juan, Rio Arriba, and Sandoval Counties, New Mexico.

CASE 6891: In the matter of the hearing called by the Oil Conservation Division on its own motion to permit Midwest Refining Company and all other interested parties to appear and show cause why the State Well No. 1 located in Unit A of Section 16, Township 33 South, Range 14 West, Hidalgo County, should not be plugged and abandoned in accordance with a Division-approved plugging program.

CASE 6859: (Continued from April 9, 1980, Examiner Hearing)

Application of R & G Drilling Company for an unorthodox gas well location, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of a well to be drilled 1890 feet from the North line and 1830 feet from the East line of Section 28, Township 28 North, Range 11 West, Kutz-Fruitland Pool, the NE/4 of said Section 28 to be dedicated to the well.

CASE 6886: (Continued from May 7, 1980, Examiner Hearing)

Application of Aminoil USA, Inc. for compulsory pooling and an unorthodox location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Wolfcamp and Pennsylvanian formations underlying the S/2 of Section 10, Township 24 South, Range 28 East, to be dedicated to a well to be drilled at an unorthodox location 2080 feet from the South line and 1773 feet from the East line of said Section 10. Also to be considered will be 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. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 6884: (Continued from May 7, 1980, Examiner Hearing)

Application of Supron Energy Corporation for compulsory pooling and a dual completion, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Mesaverde and Dakota formations underlying the N/2 of Section 4, Township 30 North, Range 11 West, to be dedicated to a proposed dual completion to be drilled at a standard location thereon. Also to be considered will be 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. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well.

- CASE 6892: Application of Merrion & Bayless for compulsory pooling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the South Blanco-Pictured Cliffs Pool underlying the SW/4 of Section 27, Township 24 North, Range 2 West, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be 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. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well.
- CASE 6878: (Readvertised)
- Application of Stevens Oil Company for a non-standard gas proration unit and unorthodox location, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks approval of a 160-acre non-standard gas proration unit comprising the N/2 SW/4 and S/2 NW/4 of Section 25, Township 8 South, Range 28 East, Twin Lakes-San Andres Associated Pool, to be dedicated to its O'Brien "F" Well No. 4 at an unorthodox location 1650 feet from the South line and 2310 feet from the West line of said Section 25.
- CASE 6893: Application of Stevens Oil Company to amend Order No. R-5353, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks a revision of the special rules for the Twin Lakes-San Andres Associated Pool as promulgated by Order No. R-5353 to provide that each well, oil or gas, shall be located no nearer than 330 feet to any quarter-quarter section line, except that any well drilled in a known gas productive area shall be located within 150 feet of the center of the quarter-quarter section.
- CASE 6894: Application of Sun Oil Company for an unorthodox well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of its Jennings-Federal "B" Well No. 1, a Yates test to be drilled 2440 feet from the South line and 2290 feet from the West line of Section 15, Township 19 South, Range 32 East, Lusk Field, the NE/4 SW/4 to be dedicated to the well.
- CASE 6895: Application of Sun Gas Company for an NGPA determination, Lea County, New Mexico. Applicant, in the above-styled cause, seeks findings that the drilling of its J. A. Akens Well No. 10 located in Unit N of Section 3, Township 21 South, Range 36 East, was necessary to effectively and efficiently drain that portion of an existing proration unit which could not be drained by the existing well.
- CASE 6896: Application of John E. Schalk for a non-standard gas proration unit and an unorthodox gas well location, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks approval of a 160-acre non-standard Blanco Mesaverde gas proration unit comprising the NE/4 of Section 8, Township 25 North, Range 3 West, to be dedicated to his Gulf Well No. 2 to be drilled at an unorthodox location 1925 feet from the North line and 790 feet from the East line of said Section 8.
- CASE 6897: Application of McClellan Oil Corporation for two compulsory poolings, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from 1200 feet below the surface to the base of the Abo formation underlying the SW/4 and the SE/4 of Section 30, Township 6 South, Range 26 East, each to be dedicated to a proposed gas well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said wells and the allocation of the cost thereof as well as actual operating costs and charges for supervision. Also to be considered will be the designation of applicant as operator of the wells and a charge for risk involved in drilling said wells.
- CASE 6898: Application of Conoco Inc. for an unorthodox gas well location and simultaneous dedication, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of its Meyer B-28 Well No. 4 to be drilled 560 feet from the North line and 1980 feet from the West line of Section 28, Township 20 South, Range 37 East, Eumont Gas Pool, to be simultaneously dedicated with its Meyer B-28 Well No. 1 in Unit C to the NE/4 and E/2 NW/4 of said Section 28.
- CASE 6899: Application of Yates Petroleum Corporation for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of a Morrow test well to be drilled 660 feet from the South and East lines of Section 9, Township 17 South, Range 26 East, the E/2 of said Section 9 to be dedicated to the well.
- CASE 6900: Application of Yates Petroleum Corporation for a non-standard oil proration unit, unorthodox well location, and downhole commingling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval of an 80-acre non-standard oil proration unit comprising the N/2 SE/4 of Section 22, Township 16 South, Range 33 East, Kemnitz Field, to be dedicated to its Sombrero "MS" State Well No. 1 at an unorthodox location 1650 feet from the South and East lines of said Section 22. Applicant also seeks approval for the downhole commingling of Wolfcamp and Cisco production in the wellbore of said well.

- CASE 6901: Application of Harvey E. Yates Company for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Wolfcamp thru Mississippian formations underlying the E/2 of Section 19, Township 14 South, Range 36 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be 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. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well.
- CASE 6902: Application of Harvey E. Yates Company for a dual completion, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the dual completion (conventional) of its Young Deep Unit Well No. 1 located in Unit D of Section 10, Township 18 South, Range 32 East, to produce gas from the Morrow formation and oil from the Bone Springs formation thru parallel strings of tubing.
- CASE 6903: Application of Harvey E. Yates Company for an unorthodox gas well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of a Pennsylvanian-Mississippian test well to be drilled 660 feet from the South line and 990 feet from the East line of Section 33, Township 13 South, Range 36 East, the S/2 of said Section 33 to be dedicated to the well.
- CASE 6904: Application of Harvey E. Yates Company for a unit agreement, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the McDonald Unit Area, comprising 1,440 acres, more or less, of fee lands in Townships 13 and 14 South, Range 36 East.
- CASE 6905: Application of Harvey E. Yates Company for a unit agreement, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks approval for the Buffalo Lake Unit Area, comprising 2,560 acres, more or less, of Federal, State, and fee lands in Township 15 South, Range 27 East.

NEW MEXICO OIL CONSERVATION COMMISSION  
WELL LOCATION AND ACREAGE DEDICATION PLAT

Form C-107  
Supersedes C-128  
Effective 1-1-65

All distances must be from the outer boundaries of the Section.

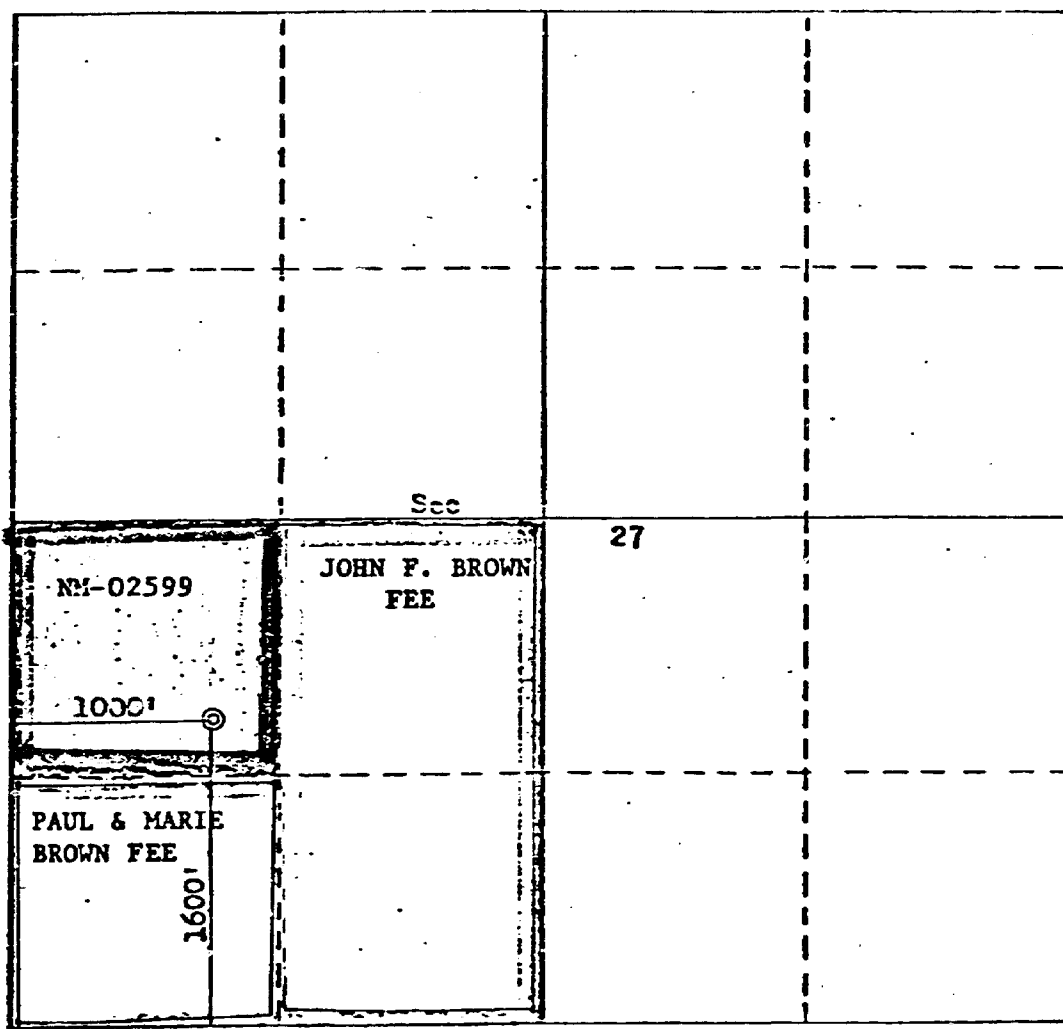
Operator <b>MERRION &amp; BAYLESS</b>			Lease <b>East Lindrith</b>		Well No. <b>5</b>
Unit Letter <b>L</b>	Section <b>27</b>	Township <b>24N</b>	Range <b>2W</b>	County <b>RIO ARRIBA</b>	
Actual Footage Location of Well: <b>1600</b> feet from the <b>South</b> line and <b>1000</b> feet from the <b>West</b> line					
Ground Level Elev. <b>7225</b>	Producing Formation <b>Pictured Cliffs</b>		Pool <b>South Blanco</b>	Dedicated Acreage <b>160</b> Acres	

1. Outline the acreage dedicated to the subject well by colored pencil or hachure marks on the plat below.
2. If more than one lease is dedicated to the well, outline each and identify the ownership thereof (both as to working interest and royalty).
3. If more than one lease of different ownership is dedicated to the well, have the interests of all owners been consolidated by communitization, unitization, force-pooling, etc?

☐ Yes ☒ No If answer is "yes," type of consolidation \_\_\_\_\_

If answer is "no," list the owners and tract descriptions which have actually been consolidated. (Use reverse side of this form if necessary.) Will be communitized.

No allowable will be assigned to the well until all interests have been consolidated (by communitization, unitization, forced-pooling, or otherwise) or until a non-standard unit, eliminating such interests, has been approved by the Commission.



CERTIFICATION

I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.

*J. Gregory Merrion*

Name

**J. Gregory Merrion**

Position

**Co-Owner**

Company

**Merrion & Bayless**

Date

**April 18, 1979**

I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my knowledge and belief.

Date Surveyed

**September 24, 1978**

Registered Professional Engineer

and/or Land Surveyor

*Frederick S. Kerr Jr.*

**Frederick S. Kerr Jr.**

Certificate No.

**395**

**KERR, JR.**

March 14, 1980

Mr. Thurman E. Jackson  
7104 Lantern Rd., N.E.  
Albuquerque, NM 87109

Dear Mr. Jackson:

Enclosed please find two copies of our well cost estimate for the East Lindrith #5 well. Please execute and return one copy to our office and retain the second copy for your files. Should you have any questions in this matter, please do not hesitate to call us.

Yours truly,

MERRION & BAYLESS

By

ROBERT L. BAYLESS

RLB/eh

Enclosures: 2 - Well Cost Estimate

7/9/80 RLB called Jackson to learn  
status. He advised he didn't  
think his leave was valid.

DRAFT

dr/

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. 6892

Order No. R- 6366

APPLICATION OF MERRION & BAYLESS  
FOR COMPULSORY POOLING, RIO ARRIBA  
COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on May 21  
1980, at Santa Fe, New Mexico, before Examiner Richard L. Stamets  
NOW, on this \_\_\_\_\_ day of May, 1980, the Division  
Director, having considered the testimony, the record, and the  
recommendations of the Examiner, and being fully advised in the  
premises,

FINDS:

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

(2) That the applicant, Merrion & Bayless,  
seeks an order pooling all mineral interests in the South Blanco-  
Pictured Cliifs Pool underlying the SW/4  
of Section 27, Township 24 North, Range 2 West  
NMPM, \_\_\_\_\_, Rio Arriba County, New  
Mexico.

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

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

(5) That to avoid the drilling of unnecessary wells, to protect correlative rights, 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 gas in said pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

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

(7) That 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) That 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 ~~10~~<sup>5</sup> percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(9) That any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but that actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(10) That 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) That \$ ~~150.00~~ per month while drilling and \$ \_\_\_\_\_ per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that 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) That 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) That 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 September 15, 1980, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, <sup>Cliffs Pool</sup> in the South Blanco-Pictured / ~~Formation~~ underlying the SW/4 of Section 27, Township 24 North, Range 2 West, NMPM, \_\_\_\_\_, Rio Arriba County, New Mexico, are hereby pooled to form a standard 160- acre gas spacing and proration 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 15th day of September, 1980, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Pictured Cliffs formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 15th day of September, 1980, Order (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 Order (1) of this order should not be rescinded.

(2) That Merrion & Bayless is hereby designated the operator of the subject well and unit.

(3) That 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) That 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 that 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) That 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; that 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, that 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) That 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) That 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, ~~20~~<sup>5</sup> 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) That the operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(9) That \$ 150<sup>00</sup> per month ~~while drilling and~~  
\$            per month ~~while producing~~<sup>13</sup> are hereby fixed as a reasonable charges for supervision (combined fixed rates); that 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.

-6-  
Case  
Order No.

(10) That 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) That any well costs or charges which are to be paid out of production shall be withheld only from the working interests' share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(12) That 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; that 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) That 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 herein-  
above designated.

ROUGH

STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION

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

CASE NO. 6892 DE NOVO

Order No. R-6366-A

APPLICATION OF MERRION & BAYLESS  
FOR COMPULSORY POOLING, RIO  
ARRIBA COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing <sup>de novo</sup> at 9 a.m. on July 20,  
1981, at Santa Fe, New Mexico, before the Oil Conservation  
Commission of New Mexico, hereinafter referred to as the  
"Commission."

NOW, on this \_\_\_\_\_ day of August, 1981, 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:

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

(2) That the applicant, Merrion & Bayless,  
seeks an order pooling all mineral interests in the  
South Blanco-Pictured Cliffs Pool underlying the SW1/4  
of Section 27, Township 24 North, Range 2 West,  
NMPM, Rio Arriba County, New Mexico.

(3) That the matter came on for hearing at 9 a.m. on  
May 21, 1980, at Santa Fe, New Mexico, before  
Examiner Richard L. Stenetz and, pursuant to this  
hearing, Order No. R-6366 was issued on June 5,  
1980, which granted the application

2. That this cause originally came up for hearing ~~before~~ on May 21, 1980, in Case No. 6492 before an examiner of the Oil Conservation Division, and as a result of said hearing the Oil Conservation Division issued its Order No. R-6366 pooling all mineral interests in the Santa Blanco-Pictured Cliffs Pool underlying the SW/4 of Section 27, Township 24 North, Range 2 West, NMPM, Rio Arriba County, New Mexico.

3. That as a result of Order No. R-6366 ~~the~~ applicants and protestant herein <sup>separately requested</sup> a ~~de novo~~ <sup>de novo</sup> hearing before the Commission, that said requests for de novo hearings ~~to~~ were denied ~~on that basis~~ by the Commission on that basis that said requests ~~for~~ were not timely filed.

~~4. That after exhausting their administrative remedies, the Commission applicants sought a Writ of Mandamus in filed a Petition~~

4. That after exhausting their ~~administrative~~ remedies before the Commission, applicants filed their Petition for a Writ of Mandamus <sup>in the District Court of Rio Arriba County, New Mexico</sup> to compel the Oil Conservation Division to grant them a de novo hearing.

5. That protestant herein, by and through his attorney, intervened in said district court action as a party of record.
6. That said district court action was settled by a stipulation of all of the parties thereto that the Commission would grant to the applicants and protestant herein a hearing de novo in Case 6892.
7. That by its order <sup>entered</sup> ~~dated~~ June 18, 1981, the District Court of Rio Arriba County, New Mexico approved said stipulation and ordered that the Oil Conservation Commission <sup>grant a ~~de novo~~ hearing de novo in Case ~~6898~~ 6892.</sup>
8. That the evidence presented at the Commission hearing resulting from the ~~Court evidence & Order of the District Court~~ <sup>Commission</sup> demonstrates that the ~~earlier~~ <sup>Division Order</sup> No. R-6366 should be affirmed by the Commission except in the following regards:
- a. ~~Paragraph~~ Finding 8 should be amended to read:

That 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 50 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

b. Finding 11 should be amended  
to read:

(11) That \$ 2700<sup>00</sup> per month while drilling and  
\$ 270<sup>00</sup> per month while producing should be fixed as reason-  
able charges for supervision (combined fixed rates); that 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.

IT IS THEREFORE ORDERED:

1. That Oil Conservation Division Order  
No R-6366 is hereby affirmed except  
in the following regards:

2. Order (7) is amended to  
read:

~~(7)~~ That 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, 150 percent of the pro  
rata share of reasonable well costs attribu-  
table 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. Order (9) is amended to read:

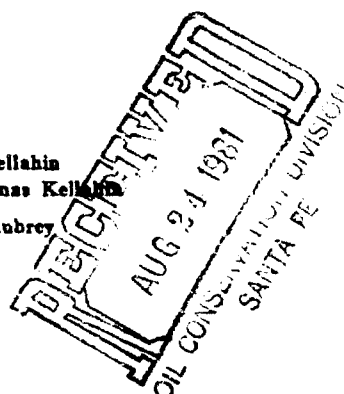
"(9) That \$ 2700<sup>00</sup> per month while drilling and \$ 270<sup>00</sup> per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charges 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."

Jurisdiction



M-68-2: MERRION & BAYLESS FOR COM-  
PULSORY POOLING, RIO ARRIBA COUNTY, NEW 000)  
MEXICO DE NOVO JULY 20, 1981

Jason Kellahin  
W. Thomas Kellahin  
Karen Aubrey



KELLAHIN and KELLAHIN  
*Attorneys at Law*  
500 Don Gaspar Avenue  
Post Office Box 1769  
Santa Fe, New Mexico 87501

Telephone 982-4285  
Area Code 505

August 20, 1981

Mr. Ernie Padilla  
Oil Conservation Division  
P.O. Box 2088  
Santa Fe, New Mexico 87501

RE: Case 6892 - DeNovo  
Order R-6366-A

Dear Ernie:

This will confirm our telephone conversation today concerning the above referenced DeNovo Order.

As I told you, I am concerned about the provision of page 3 of the original order which required the well to be completed within 120 days of commencement. The DeNovo Order does not address that problem. As you know, we have delayed completion pending the De Novo Order and more than 120 days have expired.

Further, I need to have a clear understanding of what if any additional notices I must give Brown and whether he will now have another opportunity to join in the well.

I have advised Mr. Merrion not to complete the well pending clarification of these matters.

It would be my preference that Order R-6892-DeNovo be withdrawn and a new order be entered Nunc Pro Tunc which sets for all of the terms and conditions of a pooling order in the new order, rather than incorporate provisions by reference back to the Examiner Order.

Please call me if you have any questions.

Very truly yours,

  
W. Thomas Kellahin

WTK:jm  
cc: Mr. Greg Merrion



BRUCE KING  
GOVERNOR  
LARRY KEHOE  
SECRETARY

STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION

August 17, 1981

POST OFFICE BOX 2088  
STATE LAND OFFICE BUILDING  
SANTA FE, NEW MEXICO 87501  
(505) 827-2434

Mr. Thomas Kellahin  
Kellahin & Kellahin  
Attorneys at Law  
Post Office Box 1769  
Santa Fe, New Mexico

Re: CASE NO. 6892  
ORDER NO. R-6366-A

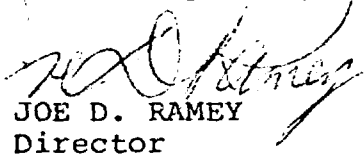
Applicant:

Merrion & Bayless

Dear Sir:

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

Yours very truly,

  
JOE D. RAMEY  
Director

JDR/fd

Copy of order also sent to:

Hobbs OCC x  
Artesia OCC x  
Aztec OCC x

Other Paul Brown

STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION  
STATE LAND OFFICE BLDG.  
SANTA FE, NEW MEXICO  
20 July 1981

COMMISSION HEARING

IN THE MATTER OF:

Application of Merrion & Bayless  
for compulsory pooling, Rio Arriba  
County, New Mexico.

CASE  
6892

BEFORE: Commissioner Ramey  
Commissioner Arnold

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation  
Division:

Ernest L. Padilla, Esq.  
Legal Counsel to the Division  
State Land Office Bldg.  
Santa Fe, New Mexico 87501

For the Applicant:

W. Thomas Kellahin, Esq.  
KELLAHIN & KELLAHIN  
500 Don Gaspar  
Santa Fe, New Mexico 87501

For Protestants:

Paul Brown, pro se  
Julia Merson  
Virgil Benson

## I N D E X

## J. GREGORY MERRION

Direct Examination by Mr. Kellahin

13

Questions by Ms. Merson

33

Cross Examination by Mr. Arnold

33

Cross Examination by Mr. Ramey

36

Questions by Ms. Merson

37

## STATEMENT BY MR. PAUL BROWN

41

Questions by Mr. Kellahin

48

## STATEMENT BY MS. JULIA MERSON

58

Questions by Mr. Kellahin

60

Questions by Mr. Arnold

61

## E X H I B I T S

Applicant Exhibit One, Plat

14

Applicant Exhibit Two, Cost Estimate

19

Applicant Exhibit Three, Order

21

Applicant Exhibit Four, Statement

27

Applicant Exhibit Five, Daily Report

28

Applicant Exhibit Six, Well History

29

Applicant Exhibit Seven, Decline Curve

30

Applicant Exhibit Eight, Documents

1  
2 MR. RAMEY: The hearing will come to  
3 order.

4 We have one case on the docket this  
5 morning, Case 6892.

6 MR. PADILLA: Application of Merrion  
7 and Bayless for compulsory pooling, Rio Arriba County, New  
8 Mexico.

9 MR. RAMEY: I'll ask for appearances  
10 at this time.

11 MR. KELLAHIN: If the Commission please,  
12 I'm Tom Kellahin, Kellahin and Kellahin Santa Fe, New  
13 Mexico, appearing on behalf of the Applicant Merrion and  
14 Bayless, and I have one witness.

15 MR. RAMEY: All right, Mr. Kellahin,  
16 you may proceed. I ask that the witnesses stand and be  
17 sworn at this time.

18 MR. KELLAHIN: Mr. Ramey, I think it  
19 might be appropriate to suggest if Mr. Brown is here, are  
20 you Mr. Brown, sir?

21 MR. BROWN: Yes, sir, I am, Paul Brown.

22 MR. KELLAHIN: This case involves the  
23 compulsory pooling, Mr. Ramey, of a 40-acre tract in which  
24 we understand Mr. Brown owns the oil and gas minerals. This  
25 is a Pictured Cliffs 160-acre proration unit, and Mr. Brown's

1  
2 interest, to our knowledge, constitutes 25 percent, and it  
3 might be appropriate to ask Mr. Brown if he would like to  
4 participate in the hearing, and what not.

5 MR. RAMEY: Do you intend to testify,  
6 Mr. Brown?

7 MS. MERSON: He can't hear you.

8 MR. RAMEY: Do you intend to testify at  
9 the hearing or give evidence at the hearing?

10 MR. BROWN: Well, I'm not prepared for  
11 anything. I don't have any, any preparation of any -- any  
12 knowledge of any hearing, so I -- yes, I have a few remarks  
13 to put on the record, and we'll go from there, whatever you  
14 want to do.

15 MR. RAMEY: All right. After after Mr.  
16 Kellahin presents his case, why then we'll ask you to --

17 MR. BROWN: I, I' -- lost my hearing aid  
18 and I'm rather helpless in that position, but thank you.

19 MR. KELLAHIN: May I ask Mr. Brown some  
20 questions so I'll understand whether he's prepared for the  
21 hearing today?

22 Are you, Mr. Brown?

23 MR. BROWN: Yes.

24 MR. KELLAHIN: Do you have anyone here?  
25 I see there's a lady and a gentleman with you, sir. Do you

1  
2 have anyone here to assist you in this hearing?

3 MR. BROWN: No.

4 MR. KELLAHIN: Would you identify the  
5 people that have come with you, sir?

6 MR. BROWN: I think this is Julia  
7 Elizabeth Merson, and this is Mr. Benson, I think, from Albu-  
8 querque. I think his name is Benson, as I remember it.

9 MR. KELLAHIN: Ms. Merson, do you have  
10 an interest in this property?

11 MS. MERSON: Well, I'm not sure at this  
12 time. I have to listen, okay? I'm going to let him come up  
13 with the facts and --

14 MR. KELLAHIN: You're Mr. Brown's daughter,  
15 aren't you?

16 MS. MERSON: That's correct.

17 MR. KELLAHIN: All right. And you, sir,  
18 who are you?

19 MR. BENSON: I'm a friend of the Browns.

20 MR. KELLAHIN: All right, are you an  
21 attorney?

22 MR. BENSON: No.

23 MR. KELLAHIN: Mr. Brown, where's Mr.  
24 Dilts?

25 MR. BROWN: Well, let's go into that when



1 I'm under oath. Let's don't bother about that right now.

2 MR. KELLAHIN: Well, sir, you indicated  
3 on the record that you weren't prepared for this hearing.  
4 This case has been involved in the Commission and in the  
5 District Court for some eighteen months, Mr. Brown, and if  
6 you're not prepared for the hearing today, we ought to find  
7 out why not.  
8

9 MR. BROWN: Well, I don't think you're  
10 under oath at this time.

11 MR. KELLAHIN: No, sir, but you --

12 MR. BROWN: I know I'm not, so we'd just  
13 sit here and talk about it, so let's just get under oath and  
14 get this for the record.

15 MR. KELLAHIN: All right, sir. Are you  
16 prepared to continue today without the presence of your at-  
17 torney, Mr. Dilts?

18 MR. BROWN: Well, let's put it this way.  
19 He knew there was a hearing here.

20 MR. KELLAHIN: That doesn't answer my  
21 question, Mr. Brown.

22 MR. BROWN: No, that doesn't answer  
23 your question, but I've already answered that.

24 MR. KELLAHIN: Are you prepared to go  
25 to this hearing today without the assistance of your --

1

2

MR. BROWN: No.

3

MR. KELLAHIN: -- attorney?

4

5

MR. BROWN: No, I'm not prepared but I'm here. If there's anybody that's not prepared to say a thing, it's me. Are you prepared for this hearing?

6

7

MR. KELLAHIN: Yes, sir. I've had more than eighteen months to get ready for this hearing.

8

9

10

MR. BROWN: Are you a member of the Bar Association?

11

MR. KELLAHIN: You bet.

12

13

MR. BROWN: You've had this for eighteen months.

14

MR. KELLAHIN: Yes, sir.

15

16

17

18

19

20

21

22

23

24

25

Mr. Ramey, I think we have a problem that needs to be addressed, and that's whether or not this man is here prepared for the hearing. Mr. Padilla, the Commission attorney, and I have dealt for a matter of months over this case with Mr. Dilts, who has professed representation of the Browns. I called him on Friday. He knew of the hearing and he's been notified on several occasions by me and by the Commission of the hearing, and I'm not sure how the Commission ought to proceed in the absence of Mr. Dilts, especially in light of the statement by Mr. Brown that this hearing comes of some surprise to him and he is not prepared.

1  
2 MS. MERSON: He's never been notified.

3 MR. KELLAHIN: Well, he got notice from  
4 somebody or he wouldn't be here today.

5 MS. MERSON: He's never been notified.  
6 I've been going through all of his papers because I know that  
7 he's never been notified of this hearing.

8 MR. KELLAHIN: How do you explain his  
9 presence today if he didn't receive notice?

10 MR. BROWN: A friend of mine called me  
11 on the phone last night and --

12 MR. RAMEY: Now Mr. Dilts does not re-  
13 present you? Mr. Dilts --

14 MR. BROWN: Well, I just don't know  
15 about that. I just wonder about that.

16 MR. RAMEY: Tom, are you insisting upon  
17 representation for Mr. Brown?

18 MR. KELLAHIN: No, sir, I just want the  
19 record to be very clear that he's had an attorney actively  
20 involved in the litigation of his interest in this case and  
21 the attorney is not here, despite the fact I talked to him  
22 on Friday, and if Mr. Brown is here present, I would like to  
23 proceed with my case, but I think you ought to be satisfied  
24 in your own selves that the man has had an adequate opportu-  
25 nity to get prepared and come to the hearing.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

MS. MERSON: Well, to our knowledge, Mr. Dilts has never notified us of anything and we have not been certainly notified. There's been no written notice whatsoever.

And as he said, a friend called him last night and told him to come.

And I strictly acted as chauffeur.

MR. KELLAHIN: Let me make an opening statement, Mr. Ramey, and then we'll abide by your wishes in this.

MR. BROWN: Please speak plain, please. I'm sorry, I have no hearing aid and I'm curious about your opening statement.

MR. KELLAHIN: Yes, sir.

MR. RAMEY: Mr. Brown, why don't you pull that chair right up to the table.

MR. BROWN: Thank you.

MR. RAMEY: Maybe you can hear a little better.

MR. BROWN: Thank you.

MR. KELLAHIN: Merrion and Bayless propose to dedicate 160-acre proration unit in Rio Arriba County in Section 27 of 24 North, 2 West, to a South Blanco-Pictured Cliffs Pool for a well drilled to the Pictured Cliffs.

The first case that was filed before the

1  
2 Division was Case 6723 back on November 14th, 1979.

3 In Case 6723 the applicant sought to  
4 force pool Mr. and Mrs. Brown as having owned the mineral  
5 interests underlying the southwest quarter of the southwest  
6 quarter of that section.

7 Subsequent to that Examiner Hearing Order  
8 No. R-6193 was entered on November 21st, 1979. It pooled Mr.  
9 and Mrs. Brown acreage and assessed a 200 percent penalty  
10 factor. The provisions of that order required that a well  
11 be commenced prior to February 15th, 1980, and apparently  
12 the applicant did not get his well commenced within that  
13 period time due to weather or whatever the reason was. Mr.  
14 Merrion is here to testify as to the actual circumstances.

15 But after the February expiration date  
16 Mr. Bayless, of Merrion and Bayless, filed an application on  
17 the 22nd of April, 1980, to -- he had asked for an admini-  
18 strative approval to extend the original order; however, it  
19 was set for a new case hearing before an examiner.

20 The well was spudded on May 14th, 1980,  
21 and the case came to hearing in Case 6892, which is the case  
22 here, on May 21st, 1980.

23 At that hearing Mrs. Brown was present  
24 and Mr. Bayless was present and subsequent to the hearing  
25 Commission Order R 6366 was entered on June 5th, 1980, force

pooling the acreage again but this time assessing a 5 percent risk factor penalty.

Subsequent to that order both Mr. and Mrs. Brown and Merrion and Bayless each filed for a hearing de novo. The Commission determined that each of the applications for a hearing de novo were not timely filed and subsequent to that Merrion and Bayless, later joined by Mr. and Mrs. Brown, filed suit in District Court to have that decision set aside.

As a result of a stipulation of all parties, the District Judge Scarborough for Rio Arriba County, entered an order in June dismissing the case without prejudice under the stipulation that the case would now be heard before the Commission.

And that's why we are here today, is to present testimony to justify the re-issuance of the forced pooling order but to request that the risk factor be increased from 5 percent to 200 percent, based upon Mr. Merrion's testimony.

Mr. Dilts has been actively involved. He filed his notice for a rehearing. He's received and participated in all pleadings in District Court, and approved the stipulation and settlement in an order of District Court.

He's had notice and opportunity, we

1  
2 believe, pursuant to the District Court order to be present  
3 at the hearing today.

4 We would propose that we continue with  
5 the hearing on behalf of Merrion and Bayless.

6 MR. RAMEY: Do you have any comments,  
7 Mr. Brown, that you would like to make at this time?

8 MR. BROWN: Well, I'd like to say this  
9 is rather an interesting thing. I understand that this has  
10 been in Judge Scarborough's court, but apparently he declined  
11 to take action in it.

12 MR. RAMEY: We will proceed with the  
13 hearing. If any party is not satisfied they can request a  
14 rehearing. There's still that administrative procedure to  
15 go through.

16 So at this time we will proceed. You  
17 may call -- ask your witness to be sworn.

18 MR. KELLAHIN: All right, sir, we call  
19 Greg Merrion.

20 MR. RAMEY: And if you're going to  
21 testify, Mr. Brown, why I'd ask that you stand and be sworn  
22 at this time, too.

23 And, Mrs. Merson, are you planning on  
24 testifying, possibly?

25 MS. MERSON: I possibly may.

1  
2 MR. RAMEY: You may. Why don't you  
3 stand and be sworn.  
4

5 (Witnesses sworn.)  
6

7 J. GREGORY MERRION  
8 being called as a witness and being duly sworn upon his oath,  
9 testified as follows, to-wit:  
10

11 DIRECT EXAMINATION

12 BY MR. KELLAHIN:

13 Q Mr. Merrion, would you please state your  
14 name and occupation, sir?

15 A I'm J. Gregory Merrion. I'm an inde-  
16 pendent petroleum producer in Farmington, New Mexico.

17 Q Mr. Merrion, do you hold any professional  
18 degrees?

19 A I've a Bachelor of Science in petroleum  
20 engineering from the University of Tulsa.

21 Q And you are the Merrion of Merrion and  
22 Bayless, the applicant in this case?

23 A That is correct.

24 Q And, Mr. Merrion, have you previously  
25 testified as a petroleum engineer before the Oil Conservation



1  
2 Division of New Mexico?

3 A I have.

4 Q And have those qualifications been ac-  
5 cepted and made a matter of record?

6 A Yes, they have.

7 Q Mr. Merrion, have you prepared certain  
8 exhibits with regards to this case?

9 A Yes, I have.

10 MR. KELLAHIN: We tender Mr. Merrion as  
11 an expert petroleum engineer.

12 MR. RAMEY: He is so qualified.

13 Q Mr. Merrion, I show you what I have  
14 marked as Applicant Exhibit Number One and ask you to identify  
15 that for me, sir.

16 A This is a plat of a portion of the  
17 South Blanco-Pictured Cliffs Pool, showing outlined in green  
18 the proration unit which we have asked to be force pooled.  
19 The acreage hachured is the 40 acres which has not joined  
20 us in the proration unit for the Pictured Cliffs well, the  
21 East Lindrith No. 5, and that is the 40 acres we wish to  
22 force pool.

23 Q Who are the owners of that 40-acre  
24 tract, to the best of your knowledge and information, Mr.  
25 Merrion?

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

A. Paul Brown.

Q All right, sir, and describe for me generally what is the status of the rest of that 120 acres.

A We have a lease on the northwest quarter and a farmout on the east 80 acres from Mobil Oil Company.

Q What is the well spot in the southwest quarter of Section 27?

A That is 1000 feet from the west line and 1600 feet from the south line of Section 27.

Q Is that well location located on any of the Brown tract?

A It is not.

Q And what is the status of that well?

A The well has been drilled, casing has been set and cemented, and operations were suspended.

Q Have you run any production tests or any other kinds of tests to determine whether or not this is an economic well?

A No, we have not perforated the well.

Q What are your proposals with regards to this well, Mr. Merrion?

A Well, we would like to get on with our completion and as soon as we can settle the forced pooling matter, or obtain some kind of arrangements wherein the other

1 40 acres can join us, we will continue with our completion.

2 A All right, sir, where do you intend to  
3 complete the well? In what pool or formation?

4 A In the South Blanco Pictured Cliffs Pool  
5 and formation.

6 Q All right, sir. Would you identify for  
7 me, if you have an opinion with regards to the risk factor  
8 to be assessed in this case?

9 A You'll note that dry holes are marked  
10 with a cross in red on this map; that uncommercial wells are  
11 outlined with a triangle in red. There are fourteen dry holes  
12 in this particular area and eight wells of doubtful commer-  
13 ciality. Two of the doubtful wells straddle the well in  
14 question on the east and on the west.

15 We feel that it's obvious that there is  
16 a great deal of risk. We might also point out that the East  
17 Lindrith Unit No. 4, in the northeast quarter of Section 26  
18 is apparently a dry hole. This well offsets a well drilled  
19 on the east which had made 552 million feet, a half a billion.

20 Q The No. 3 Well you've just mentioned is  
21 in the northwest quarter of 25?

22 A That is correct.

23 Q And it is the west offset to this No. 4  
24 well in the northeast quarter of 26?  
25

1

2

A That is correct.

3

4

Q All right. What is the conclusion you draw from studying these two wells?

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

A Well, nothing's a sure thing, I guess.

The No. 4 Well we felt was well located. The well to the southeast and the well to the east were both excellent wells, and we have spent a lot of money on the No. 4 Well, even after setting pipe, and we apparently have a dry hole.

Q In your opinion, Mr. Merrion, what is the percentage of risk in terms of the statutory penalty which you would recommend be applied to this well?

A We feel we should get 200 percent.

Q Does structure play any importance in Pictured Cliffs production Mr. Merrion?

A No.

Q All right. You've drawn our attention to the relationship between the No. 3 and No. 4 Wells in Section 25 and 26. Is there any other similar comparison you can draw to lay a basis for your risk factor penalty opinion?

A Well, I might point out that in many areas where development is taking place it is a question, assuming that structure does not play a factor, it's a question of finding good sand development.

1  
2 In this particular case I think there's  
3 the additional factor that some of these wells have been  
4 producing here for 20 or 30 years and we run the risk of  
5 finding partially depleted sands with lower pressure.

6 I might point out that the well in the  
7 northeast quarter of Section 22, our East Lindrith Unit No. 1,  
8 had an initial bottom hole pressure, or initial shut-in sur-  
9 face pressure in the neighborhood of 350 pounds. I don't have  
10 the exact figure with me. This compared to a virgin pressure  
11 of something in the neighborhood of 800 pounds, so that more  
12 than half the gas was already gone when the well was drilled.  
13 This presents another risk factor for development in this  
14 particular area.

15 Q In your opinion what, if any, effect on  
16 the risk factor should the fact that the well has been  
17 drilled, pipe set and cemented, have upon that penalty?

18 A I don't think it should have any effect  
19 at all. You'll note that the well to the east and west of  
20 this location are both very doubtful as to their commercial-  
21 ity. We feel like the log looks fine on this particular well  
22 but we felt like it did on the No. 3 and on the No. 4, also.  
23 A person has to perforate and frac test these wells before  
24 you know really what you have.

25 Q All right, sir. Let me show you what

1  
2 I've marked as Applicant Exhibit Number Two and have you  
3 identify that document, Mr. Merrion.

4 A Let's see, before we go on to that, if  
5 we may, Mr. Kellahin, I would like to point out that there are  
6 about three or four busts on Exhibit One. I corrected a  
7 couple of them in pen and that would be the monthly production  
8 on the East Lindrith 1 in the northeast quarter of Section 22.

9 Q All right, just a minute. Let's make  
10 those corrections.

11 A I had already done that. That was one  
12 million feet per month or 1000 Mcf per month over 12,000 Mcf  
13 cumulative.

14 Q I understand there's also an error con-  
15 tained in the south half of Section 34.

16 A Okay, the well with the triangle around  
17 it shows commercial production. The well in the other quarter  
18 section, the southeast does not. So she has either transposed  
19 those production data or put the circle or the triangle  
20 around the wrong well there. I don't know.

21 Also --

22 MR. RAMEY: So your triangle there in  
23 the south half of Section 34 should be in the southeast  
24 quarter.

25 A I suspect that's true, sir.

Also, in the northwest of Section 25 she shows 109 million -- 109,000 Mcf monthly production on that No. 3 Well, and I suspect that should be 1.09. I think she's failed to put the decimal point in there.

I apologize for the sloppiness of that exhibit. It wasn't intended.

Q Are there any other additions and corrections on that exhibit?

A I can't see any.

Q All right sir, let's go to Exhibit Number Two, then, and have you identify that for me.

A Exhibit Number Two is a well cost estimate which was prepared in March 14th, 1980, and I think at that time the Browns had entered into some kind of an arrangement with a company represented by Thurman E. Jackson, Rio Grande Exploration Company in Albuquerque, and we had submitted this AFE, I think, to them in the event they wanted to join us. But this was our well cost estimate for the drilling and completion of the East Lindrith Unit No. 5, which is located on the quarter section on which we're asking for forced pooling.

Q You've expended certain monies with regards to the drilling of that well, have you not, Mr. Merriam?

A Our costs to date incurred are \$63,945.10,

1  
2 which agrees closely with what we had estimated for costs  
3 to date, and we still feel like this particular AFE will be  
4 fairly accurate to its completion.

5 Q What additional sums do you estimate will  
6 be necessary to expend in order to properly complete and  
7 test this well?

8 A Well, as I said, we feel like the total  
9 AFE is still fairly accurate so that the additional \$60,000  
10 would be required to perforate, frac, run tubing, install a  
11 wellhead, and so forth.

12 Q With regards to those estimated costs,  
13 Mr. Merrion, what, if any, percentage of those costs do you  
14 propose be assessed against the Browns' working interest in  
15 that acreage?

16 A Well, they had 25 percent of the acreage  
17 their interest in the costs will be 25 percent, or \$30,993.24  
18 estimated.

19 Q How would you propose to recover those  
20 costs expended on behalf of the Browns?

21 A Well, we would hope to obtain -- recover  
22 those out of future production along with additional reim-  
23 bursement for risk in the amount of 200 percent, hopefully.

24 Q Mr. Merrion I show you what we've  
25 marked as Exhibit Number Three and ask you to identify that



document.

A This is the order of the Oil Conservation Division, Order No. R- 6193, which was issued granting forced pooling on this quarter section on November 21st, 1979, and giving us 200 percent for risk.

Q All right, sir. Mr. Merrion, would you summarize for us at this point what has been the chronology of the efforts to either lease this acreage or obtain a pooling order and drill the well?

A In early 1979, if not late 1978, after receiving indications from the USGS that they would demand a Pictured Cliffs well in the southwest quarter of Section 27, Township 24 North, Range 2 West, to protect the United States minerals in the northwest of the southwest quarter from drainage, Mr. Bayless contacted Marie Brown regarding leasing her 40 acres, being the southwest of the southwest of Section 27, to enable us to form a 160-acre proration unit. Mrs. Brown would not discuss leasing except for a Dakota formation well.

Mr. Bayless proposed a lease only to the base of the Pictured Cliffs, but she was not interested.

At a subsequent meeting in the summer of 1979 Mr. Bayless went to their house to again discuss a lease with Mr. and Mrs. Brown, and Mr. and Mrs. Brown rode

1  
2 in the pickup with Mr. Bayless to look at an old road leading  
3 to their acreage, which Merrion and Bayless agreed to rebuild  
4 if we drilled a well on their land.

5 They insisted on the right to have free  
6 gas regardless of the location of the well. Mr. Bayless ex-  
7 plained the USGS regulations would not permit a household tie  
8 to a well if located on United State minerals.

9 Mr. Bayless talked with the Browns fre-  
10 quently and became aware that they had leased to a company  
11 in Albuquerque, Rio Grande Exploration and Production. This  
12 lease required a Dakota test well and initially Rio Grande  
13 was willing to participate in the Pictured Cliffs well; how-  
14 ever after we had prepared papers for their execution, they  
15 became aware they would not be able to drill the Dakota due  
16 to financial problems, and consequently, they could not earn  
17 the Pictured Cliffs formation by joining us.

18 After the Rio Grande lease expired, Mr.  
19 Bayless again talked to the Browns but they were adamant in  
20 their demands and Merrion and Bayless concluded it would be  
21 unwise to locate the proposed well on the Brown land. So  
22 the wellsite was located on the United States minerals.  
23 Likewise, the access road to the well was located to avoid  
24 the Brown land.

25 Except to drive in and to the Brown

1  
2 house, Mr. Bayless did not drive over their land except on  
3 the forementioned inspection when both Browns were with Mr.  
4 Bayless. We have no knowledge of how the surveyor gained  
5 access to the wellsite.

6 It was at this time that we concluded  
7 that there was no hope of obtaining a lease from the Browns,  
8 nor their participating in the well, and we requested the  
9 forced pooling hearing. This occurred late in the fall of  
10 1979.

11 Q All right. Subsequent to the compulsory  
12 pooling order which is R-6193, what, if anything, did Merrion  
13 and Bayless do with regards to the drilling of the East  
14 Lindrith No. 5 Well?

15 A We had a very inclement winter and there  
16 was also a rig availability problem in that particular time  
17 frame. It was not our desire to get in and drill until the  
18 weather cleared up. This is a particularly bad area when it  
19 rains and snows and it's very difficult to get equipment in  
20 and out. We were waiting for the spring thaw and things to  
21 dry out, and we did finally arrange for a drilling rig, one  
22 that, my recollection, came up from Grants, New Mexico, from  
23 the uranium area.

24 We let the time the expiration time on  
25 the order pass by inadvertently, not realizing that it had

1  
2 expired until we'd already made preparations to drill the  
3 well and we asked for administrative approval for an extension  
4 of that order, but were denied, and a new hearing was reset  
5 and we ended up spudding the well a week before the hearing.

6 Q Subsequently you received Commission  
7 Order 6333, dated June 5th, 1980?

8 A Yes.

9 Q That was the second pooling order?

10 A Right.

11 Q Have you made any recent efforts or  
12 attempts to have the Browns join, farmout, lease to you, or  
13 make some arrangements with regards to their interest in  
14 this well?

15 A Just less than a week ago, last Tuesday,  
16 July 14th, I called Paul Brown's house in an effort to talk  
17 to him and offer him again an opportunity to join. He was  
18 not there. The phone was answered by, I thought, a young  
19 person, a child or young person, who said they would inform  
20 Mr. Brown that I had called and ask him to call back. I  
21 never received a return call.

22 That afternoon I called Mr. Dale Dilts,  
23 who on previous occasions had represented the Browns. Mr.  
24 Dilts was not in but he returned my call and we discussed --  
25 I told him that we were trying to offer Mr. Brown either a

1  
2 lease, a farmout, or an opportunity to join us in the drilling  
3 of this well.

4 Mr. Dilts felt like he probably still  
5 represented the Browns but he wasn't sure. But he told me  
6 he would pass that on to the Browns, that we had made these  
7 offers.

8 I never heard back from the Mr. Dilts.

9 Q All right. As of the hearing today, Mr.  
10 Merrion, what, if any, proposals would you make to the Browns  
11 with regards to their participation in the well?

12 A They are welcome to join us in the costs  
13 we've incurred to this date and the additional costs which  
14 we will incur in completing the well by signing a communiti-  
15 zation agreement and an operating agreement.

16 We'd be happy to offer them a farmout  
17 arrangement.

18 We would be happy to negotiate on a  
19 lease on what we consider would be handsome terms.

20 Q Can you give us some of the general terms  
21 that you would consider to be fair and reasonable with re-  
22 gards either to a lease or a farmout arrangement on the  
23 Brown acreage?

24 A On a farmout arrangement the sweetest  
25 deal and a common deal is a straight 1/8th for the landowner

1 plus an additional 1/8th override until such time that pay-  
2 out is occurred, at which time the second 1/8th override can  
3 be converted to 1/2 working interest, proportionately reduced.  
4

5 On the lease, straight lease, I'm  
6 not sure about the dollar figure. I'll have to study the  
7 matter. I haven't really cleared that with my partner.

8 It would depend upon whether it was for  
9 the Pictured Cliffs or all horizons, whether it was just the  
10 40 acres in the entire 320, and so forth.

11 Q The specific terms you gave us with re-  
12 gards to a farmout of the Pictured Cliffs formation, are  
13 those terms consistent with the operations under farmouts  
14 in the Pictured Cliffs formation? You talked about an 1/8th  
15 and an additional 1/8th?

16 A That is a very favorable terms for the  
17 person getting the -- or Mr. Brown.

18 Q All right, Mr. Merrion, let me direct  
19 your attention to what I've marked as Exhibit Number Five  
20 and have you identify that exhibit.

21 A Exhibit Five is a daily report, chrono-  
22 logical well history on the East Lindrith Unit No. 5.

23 Q It shows a spud date of May 14th, 1980,  
24 and that shutdown operations May 22nd is it?

25 A May 22nd we'd run a temperature survey

1  
2 after having run casing and cementing it. We did move back  
3 in in August and pressure tested the casing, and looks like  
4 we have a small leak there.

5 Q All right, sir.

6 Let's go on to the well history on the  
7 No. 4.

8 Mr. Merrion, would you identify for us  
9 Exhibit Number Six?

10 A Exhibit Number Six is a chronological  
11 well history on the East Lindrith Unit No. 4, located in the  
12 northeast quarter of Section 26, Township 24 North, Range 2  
13 West.

14 Q What is the purpose of this exhibit, Mr.  
15 Merrion?

16 A The main purpose of the exhibit is to  
17 show that the well is an essentially dry hole. It's a well  
18 that we previously referred to in connection with Exhibit  
19 One, indicating it did offset an excellent well on the east  
20 and the southeast, and yet it appears to be a dry hole.

21 Q If I understand your opinion, this No.  
22 4 Well could be similar to the No. 5 Well, in that the No. 4  
23 Well at the time that the pipe was set and cemented and be-  
24 for it was perforated and tested and actually production was  
25 attempted, appeared that it may be economic, and yet it

1  
2 turns out to be an uneconomic well.

3 A That is correct.

4 Q So the fact that a well has been  
5 drilled, pipe set and cemented, is no indication of whether  
6 or not the well will be economic.

7 A That's true.

8 Q All right. All right, sir, would you  
9 identify Exhibit Number Seven and tell us what this exhibit  
10 shows?

11 A Exhibit Number Seven is a production  
12 decline curve on the East Lindrith Unit No. 3 Well in the  
13 southeast quarter of Section 27.

14 On a logarithmic scale the production  
15 in Mcf per month is plotted versus time from first production  
16 in October of 1980 through June of 1981.

17 It shows a decline from roughly 2000 Mcf  
18 per month to a little over 900 Mcf per month in nine months  
19 time.

20 The purpose of the exhibit is to indicate  
21 that the economics of the East Lindrith Unit No. 3 are ex-  
22 tremely questionable at this time. We still are unsure  
23 whether sufficient gas will be produced from the well in  
24 order to pay for the cost of drilling.

25 Q Mr. Merrion, I show you what is marked



as Exhibit Number Eight and ask you to identify that exhibit.

A Exhibit Number Eight are certain exhibits taken from a farmout agreement and operating agreement with the Continental Oil Company, Conoco, Incorporated, in connection with a farmout which Merrion and Bayless obtained from them in Township 23 North, Range 4 West, Sandoval County, New Mexico. This is approximately fifteen miles from the area in question and covers Pictured Cliffs development.

Q What's the purpose of the exhibit, Mr. Merrion?

A The purpose of the exhibit, if you refer to the page three of the accounting procedures, which is enclosed, the overhead rate allowed is \$270 per month per well. That's for producing, and \$2700 while drilling. The purpose of the exhibit is to indicate our transaction for overhead rates allowed currently in the area for Pictured Cliffs wells.

Q In your opinion what would be a fair and reasonable overhead charge to assess against the non-consenting working interest owners in the subject well?

A I believe that this figure represents our current transaction and \$270 per month.

Q You would recommend those figures be adopted in any Commission order with regard to overhead charges?

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

A I would.

MR. RAMEY: That's the operating charge, Mr. Merrion. Do you have a drilling rate charge?

A A drilling rate is \$2700, I believe, Mr. Ramey.

MR. RAMEY: I note on the other orders that you didn't have any drilling rate charge.

A Apparently we had neglected to ask for it.

Q Now what is your time schedule for the completion of this well, Mr. Merrion?

A We would like to get on with it as soon as possible, and especially before bad weather hits in the fall, and we don't know when that will happen, but anytime after -- there have been years where September it starts raining and it never does let up until the snow starts to fall. Other years maybe you can drill up through November. We would certainly like to get on with it as soon as possible in order to avoid the bad weather.

Q In your opinion, Mr. Merrion, will approval of this application be in the best interests of conservation, the prevention of waste, and the protection of correlative rights?

A Yes, it will.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

Q And were Exhibits One through Eight, except for the Commission order, prepared by you or compiled under your direction and supervision?

A They were.

MR. KELLAHIN: We move the admission of Applicant's Exhibits One through Eight.

MR. RAMEY: Applicant's Exhibits One through Eight will be admitted.

MR. KELLAHIN: That concludes our examination of Mr. Merrion.

MR. RAMEY: I would suggest we take about a fifteen or twenty minute break and perhaps let Mr. Brown's side look it over and talk it over.

(Thereupon a recess was taken.)

MR. RAMEY: Would the hearing come back to order and Mr. Merrion, would you take the stand, please?

A Yes, sir.

MR. RAMEY: Are there any questions of Mr. Merrion?

## QUESTIONS BY MS. MERSON:

Q I'd like for him to clarify that 1/8th farmout plus the 1/8th override. I still don't understand that.

A We would be happy to offer the Browns a 1/8th landowners' royalty plus a 1/8th override until such time that we recovered our cost of drilling and production, at which time the 1/8th override could at your option be converted to a 1/2 working interest.

Q So we still stay at the 1/8th royalty until the production costs were balanced. Is that what you're saying?

A You would be getting 25 percent total royalty proportionately reduced until such time that we got our money back for drilling and producing the well, at which time you could convert your override to a half working interest while keeping your basic royalty.

## CROSS EXAMINATION

## BY MR. ARNOLD:

Q I don't fully understand that myself yet.

50 percent working interest that you're talking about would be a -- in other words they have 40 acres

1  
2 out of --

3 A Everything I'm talking about is propor-  
4 tionately reduced.

5 Q Okay, you're talking about 50 percent of  
6 1/8th -- you're talking about 1/8th of an interest in the  
7 total well there.

8 A Okay, my offer is that until such time  
9 that I get my money back for drilling and producing, they  
10 will have 25 percent royalty proportionately reduced, but  
11 they have 25 percent of the unit, so that would be 25 percent  
12 times 25 percent, or a total of 6-1/4 percent of the entire  
13 well.

14 Q Now that's strictly override you're  
15 talking about there.

16 A Well, it's basic royalty plus override,  
17 total of royalty.

18 Now, after we get our money back out  
19 of drilling and producing the well, they would continue with  
20 their basic 1/8th landowners royalty proportionately reduced,  
21 which in fact would then be 1/4 of an 1/8, or 1/32, and in  
22 addition to that they would, they have a 1/2 working interest,  
23 which again would be proportionately reduced, so that would  
24 be 1/8th of the entire well.

25 Q 1/8th plus what, then?

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

A  $1/8$  plus  $1/32$ .

May I borrow your pad and a pencil,  
please?

(There followed a discussion  
off the record.)

MR. KELLANIN: Let's put those numbers  
on the record, Greg, so everybody will understand what they are.

A Okay. The offer is, then, until payout  
they will have a 25 percent royalty proportionately reduced  
to their quarter interest in the well, which will result in  
a 6.25 percent royalty interest in the total production from  
the well.

Q Prior to payout?

A That is until payout. After we have  
recovered our costs of drilling and producing they will then  
have a  $1/8$ th royalty interest proportionately reduced, plus  
a 50 percent of  $7/8$ ths working interest proportionately re-  
duced.

And that boils down to a .14 -- let me  
restate that. 14.0625 percent of the total revenue from the  
well and 12.5 percent of the total cost of producing the  
well, after payout.

1  
2 MR. RAMEY: Are there any other questions  
3 of Mr. Merrion?  
4

5 CROSS EXAMINATION

6 BY MR. RAMEY:

7 Q Mr. Merrion, let's discuss this risk  
8 factor a little bit. Is there a -- is there a certain amount  
9 of risk in the physical drilling of the well?

10 A Yes, yes, sir.

11 Q Loss of, perhaps, you know losing the  
12 hole?

13 A Yes.

14 Q Twisting off the bit and everything?

15 A Yeah.

16 Q And you have, you now have the hole down  
17 so that that risk is no longer present.

18 A That's true.

19 Q So that you might therefor agree that  
20 the risk factor might be reduced somewhat?

21 A I really think that the risk of losing  
22 the hole is rather minimal. The main risk, I think, is in  
23 getting an uncommercial well or a dry hole.

24 So if you reduced the risk -- were to  
25 reduce the risk factor for having the hole down, it should

1  
2 be a small reduction.

3 Q How small is small?

4 A Ten percent of the total risk.

5  
6 QUESTIONS BY MS. MERSON:

7 Q What is the largest risk factor, Mr.  
8 Merrion? What is your largest risk factor?

9 A We had requested for the commonly awarded  
10 risk factor of 200 percent, and this is what we had originally  
11 been awarded in the initial hearing.

12 MR. RAMEY: I think what she's asking is  
13 what is the big risk?

14 A Oh. What -- what --

15 Q Let me clarify that. What is the large  
16 risk now? You said 10 percent for drilling it. What is the  
17 large risk? I mean we'd like to have that put in figures.  
18 You've come out with figures for drilling and everything like  
19 this and I'd like to find out what the risk figures comes  
20 out to.

21 A What the risk figures come --

22 Q How are they distributed?

23 A Oh, what risk is awarded to losing the  
24 hole while drilling? What risk is awarded to --

25 Q That's right.



1  
2 A Well, the entire risk is whether we get  
3 a dry hole or an uncommercial well.

4 Q But you've already said that. That's  
5 the 200 percent. You just said 10 percent was for putting  
6 in the casing and what not.

7 A I reluctantly agreed to that.  
8 Okay, ten percent then to mechanically  
9 losing the hole on drilling.

10 Q And there's no risk factor of mechanical  
11 failure after this and risk factor of other developments or --

12 A Well, there's mechanical -- risk factor  
13 for mechanical failure after pipe is set, yes.

14 Q So then you'd have another --

15 A You have channel cement behind the  
16 casing or --

17 Q (Inaudible) or what. I don't know  
18 anything about drilling wells, nothing. The well is sitting  
19 there. I went and looked at it and I could see, you know, it  
20 had been drilled and it's still sitting there. So I don't --  
21 this is my first experience and I'd like to have some break-  
22 down.

23 Because apparently the 200 percent is  
24 the big factor right here.

25 A Well, this is an estimate and Mr. Ramey

1  
2 put me on the spot and asked me how much risk was there in  
3 drilling the well and --

4 Q Well, I was going to anyway.

5 A And I said 10 percent of the total.  
6 Perhaps the mechanical failure after setting pipe, which would  
7 include such things as bad cement job, fracing out of zone  
8 into water, things like that, I would say would be greater  
9 than the risk of losing the hole while you're drilling.

10 Q How frequently does this happen on a  
11 well --

12 MR. RAMEY: Ms. Merson, please, please  
13 let him complete his answer before --

14 Q Okay.

15 MR. RAMEY: -- you ask another question.  
16 I'm sure the reporter is having a hard time trying to make  
17 the record on this.

18 Q I'm sorry. I was thinking ahead.

19 MR. BROWN: I feel so stupid without my  
20 hearing aid, because they're broke down and it's so hard to  
21 hear what people are talking about and it's impossible to  
22 communicate with people if you don't know what they're saying.

23 MR. RAMEY: I was talking to your  
24 daughter, sir.

25 MR. BROWN: Thank you. Thank you.

1  
2 A So I would say that of the total risk  
3 20 percent would be loss of the hole due to mechanical diffi-  
4 culties after setting pipe.

5 That accounts for 30 percent of the total  
6 risk. I would say 50 percent then would be -- well, the re-  
7 maining 70 percent is -- is just getting a well that either  
8 will not produce at all or will produce insufficient quanti-  
9 ties of gas to get your money back.

10 Q So you're not asking for 200 percent.

11 A I was -- of the total risk I asked for  
12 200 percent. Mr. Ramey said what part of that 200 percent is  
13 out of the way now since you've drilled the well and got pipe  
14 set, and I said 10 percent of the 200 percent, which leaves  
15 180 percent.

16 Now I said 20 percent, --

17 MR. KELLAHIN: 10 percent of 200 percent

18 is 190 percent.

19 A

20 If you take that away from 200 percent that leaves 180.  
21 10 percent of 200 percent is 20 percent.

22 MR. KELLAHIN: All right.

23 A

24 So we're talking of percents of per-  
25 cent. So I said mechanical difficulty after setting pipe,  
20 percent of 200 percent, and the remainder, the 70 percent  
of 200 percent would be the risk of getting a dry hole or a

1  
2 well incapable of producing sufficient gas to pay for the  
3 cost of drilling.

4 MS. MERSON: I would recommend that we  
5 give him the 20 percent for mechanical failure.

6 MR. RAMEY: You may take the stand and  
7 so testify, but please wait until you get on the stand.

8 Any other questions of Mr. Merrion? He  
9 may be excused.

10 Do you have anything further, Mr. Kellahin?

11 MR. KELLAHIN: No, sir.

12 MR. RAMEY: Now, Mr. Brown, would you  
13 like to take the stand?

14 MR. BROWN: I feel kind of stupid being  
15 over here but I'm more or less involved in this and we'd  
16 just as well -- you know, it takes a good understanding to be  
17 good friends, and there's no way that we can be good friends  
18 without talking this over and studying about these things  
19 and knowing what's going on, and I am rather surprised at  
20 this thing.

21 I hired a lawyer, Dale B. Dilts to re-  
22 present me in this thing and he said well, they didn't pay  
23 any attention to his deeds, or didn't pay any attention to  
24 anything that I had, and he didn't have any business over  
25 here because it was dangerous to come over here in a situation

1  
2 like this. If they don't pay any attention to a man's deeds,  
3 if they don't pay any attention to his property rights, then  
4 he didn't have anything to say because we passed the law.

5 There's no law involved in this and as  
6 far as this risk factor, he said it's a risk to have property  
7 in Rio Arriba County. I don't know whether you know it or  
8 not, but I had my wife to represent me here last year on this  
9 thing and she was murdered in cold blood. She was murdered  
10 because she come over here to represent me.

11 Now we've got a lawyer here, Kellahin  
12 and Kellahin, that are members of the Bar Association, re-  
13 putable members of the Bar Association, and they're just  
14 trying to make a living, oh, say \$100 an hour or \$1000 an  
15 hour, with no risk factor. That's a wonderful thing that  
16 they can come in here and make this thing.

17 I have fought the Bar Association ever  
18 since I owned that property 40 years ago, trying to hang on  
19 there and get a little something out of it.

20 Now Mr. Bayless -- excuse me, Mr. Merrion  
21 talks about the risk factor. I've been attacked every way  
22 in the world and nearly killed three or four times because  
23 I tried to own property in Rio Arriba County. There's nobody  
24 respects a person's property rights in that county. I've  
25 had lots better offers than Mr. Merrion has brought out and

1  
2 yes, he comes in and talks about taking risks, he risked  
3 putting a well down there.

4 He didn't say a thing about an oil well  
5 within a mile of that location that was one of the best that  
6 they've ever produced in the State of New Mexico. They've  
7 dried it up, but it's still a good well, and I could have  
8 leased that at that time, if it hadn't been for the Bar  
9 Association, for \$500 an acre, that day, but the Bar Asso-  
10 ciation come in and attacked me and they've been after me  
11 ever since.

12 Of course Mr. Kellahin and Mr. Kellahin  
13 are not the Bar Association. They're just victims of the Bar  
14 Association that's just trying to lead them on, but the Bar  
15 Association had my wife murdered to keep her from being over  
16 here to represent me, to protect my interest.

17 And we go on to this thing, there's no  
18 risk to me, but I risk my life up there every day. I've had  
19 cattle there. I've had 50 to 100, 150 head of cows there for  
20 years, but the oil company comes in and cuts my fences and  
21 run my cows out. Right now the Forest Service is suing me  
22 over my cows being into the forest because the oil companies  
23 cut my fences down and made highways wherever they wanted  
24 to go. There's nothing I can do about it, because I hired  
25 a lawyer that terrifies for his own life and he had to admit

1  
2 himself that my wife's murder was a mighty strange thing.

3 And we run into this risk factor. It's  
4 a pitiful thing to try to own land in Rio Arriba County.

5 Now we have elections there every couple  
6 of years but the police board counts the elections, the com-  
7 missioners don't count them, and Emilio Naranjo runs the county  
8 and he takes my property for public roads. Of course, he's  
9 got a very good assistant, a very capable assistant. He's  
10 got Walter Kegal that is a member of the bar association, same  
11 as Mr. Kellahin and Kellahin, and they work well together,  
12 I'll have to say.

13 Now, Merrion is a very honest man, I've  
14 got no word against Mr. Merrion's actions whatsoever.

15 Mr. Bayless come out there three or  
16 four years ago and wanted to lease the place and he offered  
17 me, I think, \$10 an acre to lease the whole thing, and I told  
18 him I didn't think that was hardly right, that I couldn't do  
19 that because the -- the cost was too much on me. I'd been  
20 out away over \$200,000 on that property trying to hang on.

21 I had to haul water there for fifteen  
22 years because my place was a public road and I couldn't put  
23 a well down.

24 Now, if you'll notice, Mr. Merrion and  
25 Bayless have put their oil well just off of this public road.

1  
2 They know how wide that road is. But my lawyer said it would  
3 be a joke to come over to this place this morning, it wasn't  
4 safe. He'd be disbarred if he brought out any facts in the  
5 matter.

6 Now the Bar Association can appoint a new  
7 judge at any time to hear any complaints that they've got  
8 against me, and that's the end of me. Whether it's safe to  
9 go home or not, I don't know, because the Bar Association  
10 can have their assistant make me commit suicide, cut my head  
11 off or shoot myself in the back, or something, before I get  
12 home. Because my wife didn't die of natural causes; she was  
13 murdered.

14 Mr. Bayless knew for years where we  
15 lived. He's come by there and leased that any time. In fact  
16 he come by there in January, I believe it was, and talked  
17 to my wife a little bit and he talked about giving her a small  
18 pittance for the lease, about a fourth of what it was worth,  
19 in any language, and a tenth of what she was getting for other  
20 leases all around us, and he slammed the door when he left  
21 and kicked it a time or two and said, "Well, to hell with  
22 you. I didn't want your damned old lease anyway, you old  
23 bitch." And left.

24 And I'm interested in an oil well because  
25 there's oil wells all around there, and I tried to talk oil



1  
2 to Mr. Bayless and he said, "I wouldn't give \$10.00 for an  
3 oil well. The way the government does it today, I wouldn't  
4 give \$10.00 for an oil well."

5 Well, all right, I can't argue with him.  
6 He was using his money, not mine. He could do what he pleased.  
7 But I didn't have to lease to him. And now they've got the  
8 lawyers of the Bar Association to come over here and try to  
9 bring in a bunch of propaganda, and it's like he said, he  
10 come up with the word that he'd made a bust on it. He brought  
11 in a bunch of busts to you people here for you to consider.

12 Now how much honesty there is in that,  
13 I don't know, but we do know it's a bust because he said so  
14 himself, and I feel bad about it, because I don't like these  
15 busts and I don't like to be taken for a bust and we -- at  
16 one time we had a private enterprise. When I bought that  
17 property it was private enterprise. When they taken it over,  
18 why, the courts, see, they've had it ever since. Now the  
19 court can adjudicate that anyway they want to, but I'd like  
20 to get paid for my cows. I had a \$54,000 tractor up the  
21 canyon, and I suppose that they taken that tractor to build  
22 roads around my place to suit themselves, to bring in the  
23 machinery and take it out.

24 As he said it was bad last winter a  
25 time or two. If they could come on my place and build a road

1

47

2 that I could drive in and out on, I'd have loved it. I needed  
3 help. I didn't need somebody to drag me in the mud. I need  
4 help.

5 But the Ku Klux Klan has nothing on the  
6 Bar Association of New Mexico.

7 Unless you've been sued by Kegal, Campos,  
8 and Standley for owning property, you don't know what I'm  
9 talking about.

10 I'm sorry I can't hear what was said.  
11 I got my wife to represent me last year and the Bar Associa-  
12 tion got her killed because she come over here and tried to  
13 represent me. I thought they'd kill me, not her, but it was  
14 her that they taken, and I don't know what we're going to do  
15 about this kind of a mess but there's no question about  
16 Merrion and Bayless being in the oil business. Right west  
17 of my house there was a firm come in and put down two gas  
18 wells about the same time as Merrion and Bayless put down  
19 that gas well and they turned them on and they've got them  
20 in the line and they produce.

21 They said we'd like to lease your place  
22 but under the present conditions we can't do it. Bullock  
23 and Brothers (sic). They're good gas wells. Of course that  
24 risk factor is still there. I'm risking my life trying to  
25 get home because I might shoot myself in the back to commit

1  
2 suicide, and you talk about a risk factor.

3 I had to haul water for fifteen years  
4 because the Bar Association got after me. I raised two kids  
5 up there carrying wood by hand because I couldn't get gasoline  
6 to run a car on. I had to haul water because the Bar Asso-  
7 ciation got after me.

8 MR. KELLAHIN: Mr. Brown, may I ask you  
9 some questions?

10 MR. BROWN: Yes, sir, ask them. I'd love  
11 for you to ask some.

12 MR. KELLAHIN: I've never seen you be-  
13 fore today, have I, Mr. Brown?

14 MR. BROWN: I didn't say anything about  
15 you except you're a member of the Bar Association.

16 MR. KELLAHIN: All right, sir.

17 MR. BROWN: I saw you before, yes.

18 MR. KELLAHIN: When was that?

19 MR. BROWN: I've been in Santa Fe for  
20 four years off and on and I saw you around the courthouse a  
21 time or two; however, that's beside the point, we had no  
22 business whatsoever.

23 MR. KELLAHIN: I've never had any business  
24 dealings with you, have I, Mr. Brown?

25 MR. BROWN: That's right.

1  
2 MR. KELLAHIN: All right, sir. Let me  
3 direct your attention to Mr. Merrion's Exhibit Number One.  
4 Can you see that? Do you see this exhibit this plat?  
5 I want you to look at Section 27. Can you see the outline in  
6 the green? Do you see that?

7 MR. BROWN: There it is.

8 MR. KELLAHIN: Yes, sir.

9 MR. BROWN: That's --

10 MR. KELLAHIN: Mr. Merrion has told us  
11 that you own the oil and gas minerals underlying the southwest  
12 quarter of the southwest quarter of 27. Is that your property,  
13 Mr. Brown?

14 MR. BROWN: That's my property.

15 MR. KELLAHIN: And you own the oil and  
16 gas minerals under that tract.

17 MR. BROWN: I own the oil and gas miner-  
18 als under that property.

19 MR. KELLAHIN: All right, sir.

20 MR. BROWN: The southwest quarter of the  
21 southwest quarter of 27.

22 MR. KELLAHIN: All right, sir, and you  
23 have gone out and looked at the well that Mr. Merrion has  
24 talked about today.

25 MR. BROWN: Yes.

1  
2 MR. KELLAHIN: All right, sir, that well  
3 is not on your property, is it, sir?

4 MR. BROWN: Not exactly, no.

5 MR. KELLAHIN: It offsets --

6 MR. BROWN: It's fairly close.

7 MR. KELLAHIN: It offsets your property  
8 to the north, doesn't it? The well's not on your land, is  
9 it, Mr. Brown?

10 MR. BROWN: Just off my property.

11 MR. KELLAHIN: All right, sir. Now you  
12 understand Mr. Merrion wants to make that a Pictured Cliffs  
13 gas well, don't you, sir?

14 MR. BROWN: Well, I don't know what he  
15 wants to make.

16 MR. KELLAHIN: Well, he's --

17 MR. BROWN: He's made whatever it is;  
18 he done it a year ago.

19 MR. KELLAHIN: Yes, sir he's told us  
20 he wants to make it a Pictured Cliffs gas well.

21 MR. BROWN: I'll grant you that.

22 MR. KELLAHIN: All right, sir. Have  
23 you previously ever leased your oil -- your gas minerals  
24 underlying that tract?

25 MR. BROWN: Well, I think I've leased

1  
2 it a time or two. Now, you're getting into things that my  
3 wife taken care of, because I've been sick. They nearly beat  
4 me to death up there, and I've got an awful headache, and I  
5 can't hear anything you say over there, so she taken care of  
6 my business.

7 MR. KELLAHIN: Mr. Merrion's never made  
8 any threats against you, has he. Mr. Brown?

9 MR. BROWN: Well, Mr. Bayless hasn't  
10 either.

11 MR. KELLAHIN: All right, sir, neither  
12 one of those gentlemen have bothered you, have they?

13 MR. BROWN: Well --

14 MR. KELLAHIN: Let me ask you -- let me  
15 ask you about --

16 MR. BROWN: Mr. Bayless did make some  
17 mighty insulting remarks to my wife.

18 MR. KELLAHIN: Yes, sir, and you've told  
19 us about that.

20 Let me ask you about the Pictured Cliffs  
21 gas underneath your tract, Mr. Brown.

22 MR. BROWN: You ask -- you tell me about  
23 it. I don't know. I haven't -- I haven't put a well down  
24 there.

25 MR. KELLAHIN: All right. Do you know

1  
2 the Rio Grande Exploration and Production Company?

3 MR. BROWN: No, I haven't paid any atten-  
4 tion to a Rio Grande Exploration Company.

5 MR. KELLAHIN: Yes, sir. Who's the last  
6 individual or company you and your wife gave an oil and gas  
7 lease to?

8 MR. BROWN: I'm not prepared to tell you  
9 that.

10 MR. KELLAHIN: You don't know.

11 MR. BROWN: I'm not prepared to go into  
12 that at all.

13 MR. KELLAHIN: All right. What were the  
14 terms and conditions of the last oil and gas lease that you  
15 gave to anyone on any of your property?

16 MR. BROWN: You could tell me a lot  
17 plainer than I could tell you.

18 MR. KELLAHIN: No, sir I don't know.  
19 I'm asking you.

20 MR. BROWN: Well, I don't know.

21 MR. KELLAHIN: You don't know?

22 MR. BROWN: I don't know.

23 MR. KELLAHIN: All right. You've heard  
24 Mr. Merrion make you a proposal on a farmout agreement with  
25 regards to your Pictured Cliffs gas, did you not, sir?

1  
2 MR. BROWN: I heard him talk about his  
3 risk factor.

4 MR. KELLAHIN: No, sir, I'm talking to  
5 you about the royalty and the overriding royalty he's offered  
6 to you.

7 MR. BROWN: Well, I get the impression  
8 that he's rather a Scotchman, don't you?

9 MR. KELLAHIN: I don't know, sir. That's  
10 your impression. He's offered to give you an 1/8th royalty  
11 and an additional 1/8th overriding royalty for the interest  
12 in this well.

13 MR. BROWN: But that includes a risk  
14 factor.

15 MR. KELLAHIN: We're going to talk about  
16 that in a minute.

17 MR. BROWN: No, we're not. We're going  
18 to talk about it right now, because there's a risk factor  
19 involved there and I was talking about a risk factor.

20 MR. KELLAHIN: All right, you tell me  
21 what you want.

22 MR. BROWN: And I've risked a lot more  
23 than he has.

24 MR. KELLAHIN: I can appreciate that,  
25 but what is it that you want?



1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

MR. BROWN: My wife back.

MR. KELLAHIN: I can't do that for you, sir. What do you want to do about the property rights you have to the oil and gas underlying this 40-acre tract?

MR. BROWN: Why didn't he talk to her when she was here? Why didn't he talk to her instead of waiting to bring you into it? Where did you come in?

MR. KELLAHIN: I'm asking you the questions, Mr. Brown. Are you willing to lease this property, Mr. Brown?

MR. BROWN: No.

MR. KELLAHIN: All right, under no circumstances do you want that property leased to Mr. Merrion.

MR. BROWN: Just a minute, now, just a minute.

I've got nothing against Mr. Merrion.

MR. KELLAHIN: I understand that. My point of my question is you're here today to obtain something and I want to know what it is you want.

MR. BROWN: I come only just to see what happened. I was just curious.

MR. KELLAHIN: All right, sir, are you willing to lease your oil and gas minerals?

MR. BROWN: Yes. Yes.

1 MR. KELLAHIN: Well, what are the terms

2 and conditions?

3 MR. BROWN: Well, let's put it this way.

4 I have no terms or conditions. I'd just have to say what

5 was fair was fair.

6 MR. KELLAHIN: You don't believe Mr.

7 Merrion's offer to you today is fair and reasonable?

8 MR. BROWN: No, I do not.

9 MR. KELLAHIN: All right, sir. You don't

10 leave Mr. Merrion with any choice but to force pool your

11 acreage, do you, Mr. Brown?

12 MR. BROWN: Well, I wouldn't say that.

13 MR. KELLAHIN: What else can he do?

14 MR. BROWN: That -- that --

15 MR. KELLAHIN: You said you didn't like

16 MR. BROWN: Just a minute. Aren't you

17 a lawyer here of the Kellahin and Kellahin firm?

18 MR. KELLAHIN: Yes, sir.

19 MR. BROWN: Well, then don't ask me

20 what he can do. Tell him what he can do.

21 MR. KELLAHIN: I'm asking you what you

22 want to do about your acreage here. You have certain rights

23 at this hearing, Mr. Brown, and I want to understand what you

24 want.

25

1  
2 MR. BROWN: What's fair is fair and  
3 what's not fair is not fair.

4 MR. KELLAHIN: All right, sir. You said  
5 you complained about the risk factor. Have you hired any  
6 engineers or geologists to determine what you believe to be  
7 a fair risk for drilling and completion of this well?

8 MR. BROWN: Well, I've been there and  
9 saw them. I just stated that, a few of the risks, a very  
10 few of them.

11 MR. KELLAHIN: All right, you and --

12 MR. BROWN: Trying to raise cattle on  
13 the property is one of the risks. Trying to live there and  
14 coming over here to say anything to you is another risk.

15 MR. KELLAHIN: Mr. Brown.

16 MR. BROWN: Yes, sir.

17 MR. KELLAHIN: You and your wife received  
18 a copy of the compulsory pooling order.

19 MR. BROWN: All right.

20 MR. KELLAHIN: All right, sir. And  
21 through your lawyer, Mr. Dilts you applied for a hearing  
22 de novo, another hearing before the Commission, back in June  
23 of last year.

24 MR. BROWN: Well. I think that was a  
25 long time ago. I'm perfectly satisfied with what the Com-

mission come up with. They had a rather reasonable solution.

Now just how we got off onto this I don't know, but they were not unreasonable. You're -- you're fighting them, not me.

MR. KELLAHIN: No, sir. I'm trying to understand what you want the Commission to do for you or what you want Mr. Merrion to do for you.

MR. BROWN: That's immaterial. They have no argument with you. They settled it.

MR. KELLAHIN: So you don't have any objection to the Division order the way it was introduced -- or decided in June of last year?

MR. BROWN: I've had practically every legal paper stolen out of my house since my wife was murdered and I don't have anything. I don't have any idea what that was. I don't -- I'm not competent to say what you've done or haven't done.

But I think the Commission made a very reasonable decision on it and I'm not here to argue with the Commission. I'm -- I'm here to bring out a few facts in this so we can have a good understanding as we go along.

MR. KELLAHIN: All right, sir, is there anything else you want to tell us that you haven't already told us?

1  
2 MR. BROWN: Well, as far as I know, I  
3 think that's the main thing, that there's a risk factor in-  
4 volved for me and Mr. Bayless has put -- Merrion and Bayless  
5 has put the well down with no risk to that.

6 MR. KELLAHIN: Have you ever drilled or  
7 operated any oil and gas wells in New Mexico?

8 MR. BROWN: Well, I've worked on a well  
9 rig some and I've had them around and I've people talking to  
10 me about leases, and the -- the best prospects that I've had  
11 have been scared off because they had no place to drill.

12 MR. KELLAHIN: Thank you, Mr. Brown.  
13 I have nothing else.

14 MR. RAMEY: Anyone else have any questions  
15 of Mr. Brown? He may be excused.

16 MR. BROWN: Thank you.

17 MR. RAMEY: Ms. Merson, would you like  
18 to --

19 MS. MERSON: Yes, thank you. Do you  
20 want me to sit up there or right here?

21 MR. RAMEY: Why don't you move up?

22 MS. MERSON: All right.

23 MR. RAMEY: Would you identify yourself,  
24 please?

25 MS. MERSON: I'm Julia Merson. I'm Paul

1  
2 Brown's daughter.

3                   It seems to me that we should ask that  
4 the risk factor be eliminated since Mr. Merrion and Mr. Bay-  
5 less have already drilled this well, and he's taken the risk,  
6 and it's obvious, since there are three nonproducing wells,  
7 two on the east and one on the west that he's already taken  
8 the risk, and I'm not sure what terms that we can negotiate  
9 at all at this point, but I think that we ought to ask that  
10 that risk factor be eliminated.

11                   MR. RAMEY: Now you do realize, Ms.  
12 Merson, that, you know, that if you agree to -- to join the  
13 drilling of the well that -- that no risk would be applied,  
14 even if --

15                   MS. MERSON: I can't make that decision.  
16 It's not my property. I can only talk it over with my father  
17 and see if Mr. Merrion and my dad can come to some, you know,  
18 agreement. But at this point, from listening today here to  
19 this information, I don't feel that the risk is very good,  
20 since there are three nonproducing wells directly adjacent  
21 to this area, that it's feasible to have a risk factor, and  
22 most of the risk -- well, ten percent, and he's not able to  
23 give direct figures, quote direct figures, because I asked  
24 him while he was under oath about the figures of the drilling,  
25 and he was not able to give -- he came up with approximations

1  
2 of what, you know, what risk factors might be considered.

3 That's all I have.

4 MR. RAMEY: Any other questions of Ms.  
5 Merson?

6 MR. KELLAHIN: Yes. Ms. Merson, is it?

7 MS. MERSON: Yes, Merson.

8 MR. KELLAHIN: Do you have any background  
9 or expertise in the oil and gas industry?

10 MS. MERSON: No, I don't. That's not  
11 my field of expertise.

12 MR. KELLAHIN: And your observations and  
13 comments you've just made were based upon what you heard  
14 today from Mr. Merrion?

15 MS. MERSON: Yes, and I have gone up and  
16 looked at the well. I walked all over it the other day to  
17 figure out how far it was from the property line and the fact  
18 that it had been drilled and is there and --

19 MR. KELLAHIN: This well is not on your  
20 dad's property, is it?

21 MS. MERSON: It's about, I don't -- I  
22 didn't measure it.

23 MR. KELLAHIN: But it's off --

24 MS. MERSON: It's north of the property  
25 line.

1  
2 MR. KELLAHIN: All right. I have nothing  
3 else. Thank you.

4 MR. ARNOLD: Could I ask --

5 MR. RAMEY: Mr. Arnold.

6 MR. ARNOLD: You stated that, or the way  
7 I understood what you stated, was that due to the fact that  
8 there were three noncommercial wells close to this well --

9 MS. MERSON: Very close to it, in approx-  
10 imation, yes.

11 MR. ARNOLD: Therefor there should be  
12 risk assigned.

13 MS. MERSON: No, I said that's certainly  
14 one assumption. I didn't say that that was the only factor.  
15 I said that he's already drilled the well and that was a  
16 factor of the risk. That the fact, and another factor was  
17 the fact that it would not produce, which he said was a large  
18 factor, and there are two non -- three nonproducing, two on  
19 the west and one on the -- two on the east and one on the  
20 west.

21 MR. ARNOLD: Well, that was the point  
22 I was trying to make. Suppose there had been three good com-  
23 mercial wells close to it.

24 MS. MERSON: Well, then the risk might  
25 have been different. Obviously that doesn't hold true.



1  
2 MR. ARNOLD: Do you think the risk  
3 should be bigger if it was surrounded by good producers?

4 MS. MERSON No, I don't think so. I  
5 think the fact that the well has been drilled and he's already  
6 taken that risk of drilling a well in a nonproducing area,  
7 that's, you know, that's a pretty large risk.

8 MR. ARNOLD: Thank you.

9 MS. MERSON: And he took that risk on  
10 his own. We didn't have anything to say about his risk on  
11 that.

12 Did you have a question?

13 MR. BENSON: Mr. Arnold has followed  
14 the questions that I was going to ask.

15 MR. RAMEY: Any other questions? You  
16 may be excused.

17 MS. MERSON: Thank you.

18 MR. RAMEY: I assume you have nothing  
19 further at this time. Do you have a closing statement, Mr.  
20 Kellahin;

21 MR. KELLAHIN: No, sir, I waive closing  
22 arguments. I think it's apparent to the Commission that the  
23 only competent evidence of record with regards to the risk  
24 factor demonstrates that there is a remaining risk involved  
25 of 180 percent based upon the statute, and we would suggest

1  
2 that that be the risk awarded in this case.

3 MR. RAMEY: Thank you. If no one has  
4 anything else further to add to this case, we will take the  
5 case under advisement and the hearing is adjourned.

6  
7 (Hearing concluded.)  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREPY CERTIFY that  
the foregoing Transcript of Hearing before the Oil Conserva-  
tion Division was reported by me; that the said transcript  
is a full, true, and correct record of the hearing, prepared  
by me to the best of my ability.

Sally W. Boyd CSR

SALLY W. BOYD, C.S.R.

Mt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7409

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. 6892  
Order No. R-6366

APPLICATION OF MERRION & BAYLESS  
FOR COMPULSORY POOLING, RIO ARriba  
COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on May 21, 1980,  
at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 5th day of June, 1980, the Division  
Director, having considered the testimony, the record, and the  
recommendations of the Examiner, and being fully advised in the  
premises,

FINDS:

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

(2) That the applicant, Merrion & Bayless, seeks an order  
pooling all mineral interests in the South Blanco-Pictured  
Cliffs Pool underlying the SW/4 of Section 27, Township 24  
North, Range 2 West, NMPM, Rio Arriba County, New Mexico.

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

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

(5) That to avoid the drilling of unnecessary wells, to  
protect correlative rights, 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 gas  
in said pool, the subject application should be approved by  
pooling all mineral interests, whatever they may be, within  
said unit.

-2-

Case No. 6892  
Order No. R-6366

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

(7) That 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) That 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 5 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(9) That any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but that actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(10) That 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) That \$150.00 should be fixed as a reasonable charge for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charge 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) That 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) That 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 September 15, 1980, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the South Blanco-Pictured Cliffs Pool underlying the SW/4 of Section 27, Township 24 North, Range 2 West, NMPM, Rio Arriba County, New Mexico, are hereby pooled to form a standard 160-acre gas spacing and proration 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 15th day of September, 1980, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Pictured Cliffs formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 15th day of September, 1980, Order (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 Order (1) of this order should not be rescinded.

(2) That Merrion & Bayless is hereby designated the operator of the subject well and unit.

(3) That 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) That 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 that 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) That 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; that 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, that 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) That 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) That 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, 5 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) That the operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(9) That \$150.00 per month is hereby fixed as a reasonable charge for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charge 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.

-5-

Case No. 6892

Order No. R-6366

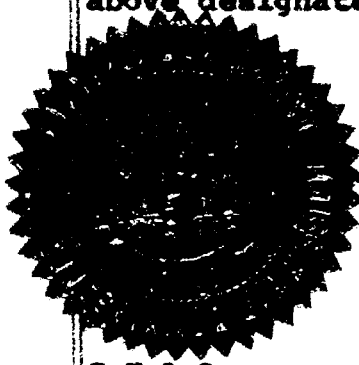
(10) That any unsevered mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(11) That any well costs or charges which are to be paid out of production shall be withheld only from the working interests share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(12) That 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; that 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) That 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.



S E A L

STATE OF NEW MEXICO  
OIL CONSERVATION DIVISION

  
JOE D. RAMEY  
Director

fd/



STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION

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

CASE NO. 6892 DE NOVO  
Order No. R-6366-A

APPLICATION OF MERRION & BAYLESS  
FOR COMPULSORY POOLING, RIO ARRIBA  
COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing de novo at 9 a.m. on July 20, 1981, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 13th day of August, 1981, 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:

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

(2) That this cause originally came up for hearing on May 21, 1980, in Case No. 6892 before an examiner of the Oil Conservation Division, and as a result of said hearing the Oil Conservation Division issued its Order No. R-6366 pooling all mineral interests in the South Blanco-Pictured Cliffs Pool underlying the SW/4 of Section 27, Township 24 North, Range 2 West, NMPM, Rio Arriba County, New Mexico.

(3) That as a result of Order No. R-6366 applicants and protestant herein separately requested a de novo hearing before the Commission; that said requests for de novo hearings were denied by the Commission on the basis that said requests were not timely filed.

(4) That after exhausting their remedies before the Commission, applicants filed their Petition For a Writ of Mandamus

in the District Court of Rio Arriba County, New Mexico, to compel the Oil Conservation Division to grant them a de novo hearing.

(5) That protestant herein, by and through his attorney, intervened in said district court action as a party of record.

(6) That said district court action was settled by a stipulation of all of the parties thereto that the Commission would grant to the applicants and protestant herein a hearing de novo in Case 6892.

(7) That by its order entered June 18, 1981, the District Court of Rio Arriba County, New Mexico, approved said stipulation and ordered that the Oil Conservation Commission grant a hearing de novo in Case 6892.

(8) That the evidence presented at the Commission hearing resulting from the Order of the District Court demonstrated that Division Order No. R-6366 should be affirmed by the Commission except in the following regards:

a. Finding No. (8) should be amended to read:

"(8) That 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 150 percent thereof as a reasonable charge for the risk involved in the drilling of the well."

b. Finding No. (11) should be amended to read:

"(11) That \$2700.00 per month while drilling and \$270.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that 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.

IT IS THEREFORE ORDERED:

(1) That Oil Conservation Division Order No. R-6366 is hereby affirmed except in the following regards:

-3-

Case No. 6892 De Novo  
Order No. R-6366-A

a. Order No. (7) is amended to read:

"(7) That 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, 150 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."

b. Order No. (9) is amended to read:

"(9) That \$2700.00 per month while drilling and \$270.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that 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."

(2) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

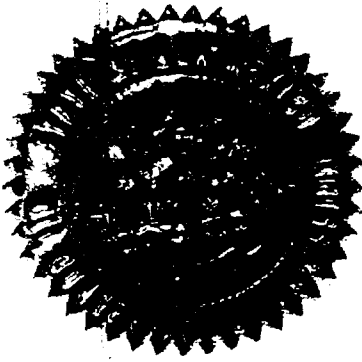
DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO  
OIL CONSERVATION COMMISSION

ALEX J. ARMIJO, Member

EMERY C. ARNOLD, Member

JOE D. RAMEY, Member & Secretary



SEAL  
fd/

Page 1

NEW MEXICO OIL CONSERVATION COMMISSION

COMMISSION HEARING

SANTA FE, NEW MEXICO

Hearing Date JULY 20, 1981 Time: 9:00 A.M.

NAME	REPRESENTING	LOCATION
<i>Gregg Merion</i> <i>W. Kelblin</i> JIM LAIR	<i>Merion, Bagless</i> <i>Kelblin &amp; Kelblin</i> NEW MEXICO STATE LAND OFFICE	<i>Farmington, NM</i> <i>Santa Fe, NM</i> SANTA FE

STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION  
STATE LAND OFFICE BLDG.  
SANTA FE, NEW MEXICO  
20 July 1981

COMMISSION HEARING

-----  
IN THE MATTER OF:

Application of Merrion & Bayless  
for compulsory pooling, Rio Arriba  
County, New Mexico.

CASE  
6892

BEFORE: Commissioner Ramey  
Commissioner Arnold

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation  
Division:

Ernest L. Padilla, Esq.  
Legal Counsel to the Division  
State Land Office Bldg.  
Santa Fe, New Mexico 87501

For the Applicant:

W. Thomas Kellahin, Esq.  
KELLAHIN & KELLAHIN  
500 Don Gaspar  
Santa Fe, New Mexico 87501

For Protestants:

Paul Brown, pro se  
Julia Merson  
Virgil Benson

- 1
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- 10
- 11
- 12
- 13
- 14
- 15
- 16
- 17
- 18
- 19
- 20
- 21
- 22
- 23
- 24
- 25

2  
11  
31  
31  
31  
31  
41  
41  
51  
61  
61  
11  
11  
21  
21  
21  
21  
31

STATEMENT BY MR. PAUL BROWN	41
Questions by Mr. Kellahin	48
STATEMENT BY MS. JULIA MERSON	58
Questions by Mr. Kellahin	60
Questions by Mr. Arnold	61

17  
18  
19  
20  
21  
22  
23  
24  
25

Applicant Exhibit One, Plat	14
Applicant Exhibit Two, Cost Estimate	19
Applicant Exhibit Three, Order	21
Applicant Exhibit Four, Statement	27
Applicant Exhibit Five, Daily Report	28
Applicant Exhibit Six, Well History	29
Applicant Exhibit Seven, Decline Curve	30
Applicant Exhibit Eight, Documents	

1

2

3

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

MR. RAMEY: The hearing will come to order.

We have one case on the docket this morning, Case 6892.

MR. PADILLA: Application of Merrion and Bayless for compulsory pooling, Rio Arriba County, New Mexico.

MR. RAMEY: I'll ask for appearances at this time.

MR. KELLAHIN: If the Commission please, I'm Tom Kellahin, Kellahin and Kellahin, Santa Fe, New Mexico, appearing on behalf of the Applicant, Merrion and Bayless, and I have one witness.

MR. RAMEY: All right, Mr. Kellahin, you may proceed. I ask that the witnesses stand and be sworn at this time.

MR. KELLAHIN: Mr. Ramey, I think it might be appropriate to suggest if Mr. Brown is here, are you Mr. Brown, sir?

MR. BROWN: Yes, sir, I am, Paul Brown.

MR. KELLAHIN: This case involves the compulsory pooling, Mr. Ramey, of a 40-acre tract in which we understand Mr. Brown owns the oil and gas minerals. This is a Pictured Cliffs 160-acre proration unit, and Mr. Brown's

1 interest, to our knowledge, constitutes 25 percent, and it  
2 might be appropriate to ask Mr. Brown if he would like to  
3 participate in the hearing, and what not.  
4

5 Mr. Brown?

6 MS. MERSON: He can't hear you.

7 MR. RAMEY: Do you intend to testify at  
8 the hearing or give evidence at the hearing?

9 MR. BROWN: Well, I'm not prepared for  
10 anything. I don't have any, any preparation of any -- any  
11 knowledge of any hearing, so I -- yes, I have a few remarks  
12 to put on the record, and we'll go from there, whatever you  
13 want to do.

14 MR. RAMEY: All right. After, after Mr.

15 Kellahin presents his case, why then we'll ask you to --

16 MR. BROWN: I, I've lost my hearing aid  
17 and I'm rather helpless in that position, but thank you.

18 MR. KELLAHIN: May I ask Mr. Brown some  
19 questions so I'll understand whether he's prepared for the  
20 hearing today?

21 Are you, Mr. Brown?

22 MR. BROWN: Yes.

23 MR. KELLAHIN: Do you have anyone here?  
24 I see there's a lady and a gentleman with you, sir. Do you  
25



1  
2 have anyone here to assist you in this hearing?

3 MR. BROWN: No.

4 MR. KELLAHIN: Would you identify the  
5 people that have come with you, sir?

6 MR. BROWN: I think this is Julia  
7 Elizabeth Merson, and this is Mr. Benson, I think, from Albu-  
8 querque. I think his name is Benson, as I remember it.

9 MR. KELLAHIN: Ms. Merson, do you have  
10 an interest in this property?

11 MS. MERSON: Well, I'm not sure at this  
12 time. I have to listen, okay? I'm going to let him come up  
13 with the facts and --

14 MR. KELLAHIN: You're Mr. Brown's daughter,  
15 aren't you?

16 MS. MERSON: That's correct.

17 MR. KELLAHIN: All right. And you, sir,  
18 who are you?

19 MR. BENSON: I'm a friend of the Browns.

20 MR. KELLAHIN: All right, are you an  
21 attorney?

22 MR. BENSON: No.

23 MR. KELLAHIN: Mr. Brown, where's Mr.  
24 Dilts?

25 MR. BROWN: Well, let's go into that when

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

I'm under oath. Let's don't bother about that right now.

MR. KELLAHIN: Well, sir, you indicated on the record that you weren't prepared for this hearing. This case has been involved in the Commission and in the District Court for some eighteen months, Mr. Brown, and if you're not prepared for the hearing today, we ought to find out why not.

MR. BROWN: Well, I don't think you're under oath at this time.

MR. KELLAHIN: No, sir, but you --

MR. BROWN: I know I'm not, so we'd just sit here and talk about it, so let's just get under oath and get this for the record.

MR. KELLAHIN: All right, sir. Are you prepared to continue today without the presence of your attorney, Mr. Dilts?

MR. BROWN: Well, let's put it this way. He knew there was a hearing here.

MR. KELLAHIN: That doesn't answer my question, Mr. Brown.

MR. BROWN: No, that doesn't answer your question, but I've already answered that.

MR. KELLAHIN: Are you prepared to go to this hearing today without the assistance of your --

1

2

MR. BROWN: No.

3

MR. KELLAHIN: -- attorney?

4

5

MR. BROWN: No, I'm not prepared but I'm here. If there's anybody that's not prepared to say a thing, it's me. Are you prepared for this hearing?

6

7

MR. KELLAHIN: Yes, sir. I've had more than eighteen months to get ready for this hearing.

8

9

MR. BROWN: Are you a member of the Bar Association?

10

11

MR. KELLAHIN: You bet.

12

13

MR. BROWN: You've had this for eighteen months.

14

15

MR. KELLAHIN: Yes, sir.

16

17

18

19

20

21

22

23

24

25

Mr. Ramey, I think we have a problem that needs to be addressed, and that's whether or not this man is here prepared for the hearing. Mr. Padilla, the Commission attorney, and I have dealt for a matter of months over this case with Mr. Dilts, who has professed representation of the Browns. I called him on Friday. He knew of the hearing and he's been notified on several occasions by me and by the Commission of the hearing, and I'm not sure how the Commission ought to proceed in the absence of Mr. Dilts, especially in light of the statement by Mr. Brown that this hearing comes of some surprise to him and he is not prepared.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

MS. MERSON: He's never been notified.

MR. KELLAHIN: Well, he got notice from somebody or he wouldn't be here today.

MS. MERSON: He's never been notified. I've been going through all of his papers because I know that he's never been notified of this hearing.

MR. KELLAHIN: How do you explain his presence today if he didn't receive notice?

MR. BROWN: A friend of mine called me on the phone last night and --

MR. RAMEY: Now Mr. Dilts does not represent you? Mr. Dilts --

MR. BROWN: Well, I just don't know about that. I just wonder about that.

MR. RAMEY: Tom, are you insisting upon representation for Mr. Brown?

MR. KELLAHIN: No, sir, I just want the record to be very clear that he's had an attorney actively involved in the litigation of his interest in this case and the attorney is not here, despite the fact I talked to him on Friday, and if Mr. Brown is here present, I would like to proceed with my case, but I think you ought to be satisfied in your own selves that the man has had an adequate opportunity to get prepared and come to the hearing.

1  
2 MS. MERSON: Well, to our knowledge, Mr.  
3 Dilts has never notified us of anything and we have not been  
4 certainly notified. There's been no written notice whatsoever.

5 And as he said, a friend called him last  
6 night and told him to come.

7 And I strictly acted as chauffeur.

8 MR. KELLAHIN: Let me make an opening  
9 statement, Mr. Ramey, and then we'll abide by your wishes in  
10 this.

11 MR. BROWN: Please speak plain, please.  
12 I'm sorry, I have no hearing aid and I'm curious about your  
13 opening statement.

14 MR. KELLAHIN: Yes, sir.

15 MR. RAMEY: Mr. Brown, why don't you  
16 pull that chair right up to the table.

17 MR. BROWN: Thank you.

18 MR. RAMEY: Maybe you can hear a little  
19 better.

20 MR. BROWN: Thank you.

21 MR. KELLAHIN: Merrion and Bayless pro-  
22 pose to dedicate 160-acre proration unit in Rio Arriba County  
23 in Section 27 of 24 North, 2 West, to a South Blanco-Pictured  
24 Cliffs Pool for a well drilled to the Pictured Cliffs.

25 The first case that was filed before the

1  
2 Division was Case 6723 back on November 14th, 1979.

3 In Case 6723 the applicant sought to  
4 force pool Mr. and Mrs. Brown as having owned the mineral  
5 interests underlying the southwest quarter of the southwest  
6 quarter of that section.

7 Subsequent to that Examiner Hearing Order  
8 No. R-6193 was entered on November 21st, 1979. It pooled Mr.  
9 and Mrs. Brown acreage and assessed a 200 percent penalty  
10 factor. The provisions of that order required that a well  
11 be commenced prior to February 15th, 1980, and apparently  
12 the applicant did not get his well commenced within that  
13 period time due to weather or whatever the reason was. Mr.  
14 Merrion is here to testify as to the actual circumstances.

15 But after the February expiration date  
16 Mr. Bayless, of Merrion and Bayless, filed an application on  
17 the 22nd of April, 1980, to -- he had asked for an admini-  
18 strative approval to extend the original order; however, it  
19 was set for a new case hearing before an examiner.

20 The well was spudded on May 14th, 1980,  
21 and the case came to hearing in Case 6892, which is the case  
22 here, on May 21st, 1980.

23 At that hearing Mrs. Brown was present  
24 and Mr. Bayless was present and subsequent to the hearing  
25 Commission Order R-6366 was entered on June 5th, 1980, force

pooling the acreage again but this time assessing a 5 percent risk factor penalty.

Subsequent to that order both Mr. and Mrs. Brown and Merrion and Bayless each filed for a hearing de novo. The Commission determined that each of the applications for a hearing de novo were not timely filed and subsequent to that Merrion and Bayless, later joined by Mr. and Mrs. Brown, filed suit in District Court to have that decision set aside.

As a result of a stipulation of all parties, the District Judge Scarborough for Rio Arriba County, entered an order in June dismissing the case without prejudice under the stipulation that the case would now be heard before the Commission.

And that's why we are here today, is to present testimony to justify the re-issuance of the forced pooling order but to request that the risk factor be increased from 5 percent to 200 percent, based upon Mr. Merrion's testimony.

Mr. Dilts has been actively involved. He filed his notice for a rehearing. He's received and participated in all pleadings in District Court, and approved the stipulation and settlement in an order of District Court.

He's had notice and opportunity, we

1  
2 believe, pursuant to the District Court order to be present  
3 at the hearing today.

4 We ~~would~~ propose that we continue with  
5 the hearing on behalf of Merrion and Bayless.

6 MR. RAMEY: Do you have any comments,  
7 Mr. Brown, that you would like to make at this time?

8 MR. BROWN: Well, I'd like to say this  
9 is rather an interesting thing. I understand that this has  
10 been in Judge Scarborough's court, but apparently he declined  
11 to take action in it.

12 MR. RAMEY: We will proceed with the  
13 hearing. If any party is not satisfied they can request a  
14 rehearing. There's still that administrative procedure to  
15 go through.

16 So at this time we will proceed. You  
17 may call -- ask your witness to be sworn.

18 MR. KELLAHIN: All right, sir, we call  
19 Greg Merrion.

20 MR. RAMEY: And if you're going to  
21 testify, Mr. Brown, why I'd ask that you stand and be sworn  
22 at this time, too.

23 And, Mrs. Merson, are you planning on  
24 testifying, possibly?

25 MRS. MERSON: I possibly may.



1 MR. RAMEY: You may. Why don't you

2 stand and be sworn.

3 (Witnesses sworn.)

4 J. GREGORY MERRION

5 being called as a witness and being duly sworn upon his oath,

6 testified as follows, to-wit:

7 DIRECT EXAMINATION

8 BY MR. KELLAHIN:

9 Q Mr. Merrion, would you please state your

10 name and occupation, sir?

11 A I'm J. Gregory Merrion. I'm an inde-

12 pendent petroleum producer in Farmington, New Mexico.

13 Q Mr. Merrion, do you hold any professional

14 degrees?

15 A I've a Bachelor of Science in petroleum

16 engineering from the University of Tulsa.

17 Q And you are the Merrion of Merrion and

18 Bayless, the applicant in this case?

19 A That is correct.

20 Q And, Mr. Merrion, have you previously

21 testified as a petroleum engineer before the Oil Conservation

22

1  
2 Division of New Mexico?

3 A I have.

4 Q And have those qualifications been ac-  
5 cepted and made a matter of record?

6 A Yes, they have.

7 Q Mr. Merrion, have you prepared certain  
8 exhibits with regards to this case?

9 A Yes, I have.

10 MR. KELLAHIN: We tender Mr. Merrion as  
11 an expert petroleum engineer.

12 MR. RAMEY: He is so qualified.

13 Q Mr. Merrion, I show you what I have  
14 marked as Applicant Exhibit Number One and ask you to identify  
15 that for me, sir.

16 A This is a plat of a portion of the  
17 South Blanco-Pictured Cliffs Pool, showing outlined in green  
18 the proration unit which we have asked to be force pooled.  
19 The acreage hachured is the 40 acres which has not joined  
20 us in the proration unit for the Pictured Cliffs well, the  
21 East Lindrith No. 5, and that is the 40 acres we wish to  
22 force pool.

23 Q Who are the owners of that 40-acre  
24 tract, to the best of your knowledge and information, Mr.  
25 Merrion?

1

2

A. Paul Brown.

3

4

Q. All right, sir, and describe for me generally what is the status of the rest of that 120 acres.

5

6

A. We have a lease on the northwest quarter and a farmout on the east 80 acres from Mobil Oil Company.

7

8

Q. What is the well spot in the southwest quarter of Section 27?

9

10

A. That is 1000 feet from the west line and 1600 feet from the south line of Section 27.

11

12

Q. Is that well location located on any of the Brown tract?

13

14

A. It is not.

15

16

Q. And what is the status of that well?

A. The well has been drilled, casing has been set and cemented, and operations were suspended.

17

18

19

Q. Have you run any production tests or any other kinds of tests to determine whether or not this is an economic well?

20

21

A. No, we have not perforated the well.

22

23

Q. What are your proposals with regards to this well, Mr. Merrion?

24

25

A. Well, we would like to get on with our completion and as soon as we can settle the forced pooling matter, or obtain some kind of arrangements wherein the other

1  
2 40 acres can join us, we will continue with our completion.

3 A All right, sir, where do you intend to  
4 complete the well? In what pool or formation?

5 A In the South Blanco Pictured Cliffs Pool  
6 and formation.

7 Q All right, sir. Would you identify for  
8 me, if you have an opinion with regards to the risk factor  
9 to be assessed in this case?

10 A You'll note that dry holes are marked  
11 with a cross in red on this map; that uncommercial wells are  
12 outlined with a triangle in red. There are fourteen dry holes  
13 in this particular area and eight wells of doubtful commer-  
14 ciality. Two of the doubtful wells straddle the well in  
15 question on the east and on the west.

16 We feel that it's obvious that there is  
17 a great deal of risk. We might also point out that the East  
18 Lindrith Unit No. 4, in the northeast quarter of Section 26  
19 is apparently a dry hole. This well offsets a well drilled  
20 on the east which had made 552 million feet, a half a billion

21 Q The No. 3 Well you've just mentioned is  
22 in the northwest quarter of 25?

23 A That is correct.

24 Q And it is the west offset to this No. 4  
25 Well in the northeast quarter of 26?

1

2

A. That is correct.

3

Q. All right. What is the conclusion

4

you draw from studying these two wells?

5

A. Well, nothing's a sure thing, I guess.

6

The No. 4 Well we felt was well located. The well to the

7

southeast and the well to the east were both excellent wells,

8

and we have spent a lot of money on the No. 4 Well, even

9

after setting pipe, and we apparently have a dry hole.

10

Q. In your opinion, Mr. Merrion, what is

11

the percentage of risk in terms of the statutory penalty which

12

you would recommend be applied to this well?

13

A. We feel we should get 200 percent.

14

Q. Does structure play any importance in

15

Pictured Cliffs production, Mr. Merrion?

16

A. No.

17

Q. All right. You've drawn our attention

18

to the relationship between the No. 3 and No. 4 Wells in

19

Section 25 and 26. Is there any other similar comparison

20

you can draw to lay a basis for your risk factor penalty

21

opinion?

22

A. Well, I might point out that in many

23

areas where development is taking place it is a question,

24

assuming that structure does not play a factor, it's a

25

question of finding good sand development.

1  
2 In this particular case I think there's  
3 the additional factor that some of these wells have been  
4 producing here for 20 or 30 years and we run the risk of  
5 finding partially depleted sands with lower pressure.

6 I might point out that the well in the  
7 northeast quarter of Section 22, our East Lindrith Unit No. 1,  
8 had an initial bottom hole pressure, or initial shut-in sur-  
9 face pressure in the neighborhood of 350 pounds. I don't have  
10 the exact figure with me. This compared to a virgin pressure  
11 of something in the neighborhood of 800 pounds, so that more  
12 than half the gas was already gone when the well was drilled.  
13 This presents another risk factor for development in this  
14 particular area.

15 Q In your opinion what, if any, effect on  
16 the risk factor should the fact that the well has been  
17 drilled, pipe set and cemented, have upon that penalty?

18 A I don't think it should have any effect  
19 at all. You'll note that the well to the east and west of  
20 this location are both very doubtful as to their commercial-  
21 ity. We feel like the log looks fine on this particular well  
22 but we felt like it did on the No. 3 and on the No. 4, also.  
23 A person has to perforate and frac test these wells before  
24 you know really what you have.

25 Q All right, sir. Let me show you what

1  
2 I've marked as Applicant Exhibit Number Two and have you  
3 identify that document, Mr. Merrion.

4 A Let's see, before we go on to that, if  
5 we may, Mr. Kellahin, I would like to point out that there are  
6 about three or four busts on Exhibit One. I corrected a  
7 couple of them in pen and that would be the monthly production  
8 on the East Lindrith 1 in the northeast quarter of Section 22.

9 Q All right, just a minute. Let's make  
10 those corrections.

11 A I had already done that. That was one  
12 million feet per month or 1000 Mcf per month over 12,000 Mcf  
13 cumulative.

14 Q I understand there's also an error con-  
15 tained in the south half of Section 34.

16 A Okay, the well with the triangle around  
17 it shows commercial production. The well in the other quarter  
18 section, the southeast does not. So she has either transposed  
19 those production data or put the circle or the triangle  
20 around the wrong well there. I don't know.

21 Also --

22 MR. RAMEY: So your triangle there in  
23 the south half of Section 34 should be in the southeast  
24 quarter.

25 A I suspect that's true, sir.

Also, in the northwest of Section 25 she shows 109 million -- 109,000 Mcf monthly production on that No. 3 Well, and I suspect that should be 1.09. I think she's failed to put the decimal point in there.

I apologize for the sloppiness of that exhibit. It wasn't intended.

Q Are there any other additions and corrections on that exhibit?

A I can't see any.

Q All right, sir, let's go to Exhibit Number Two, then, and have you identify that for me.

A Exhibit Number Two is a well cost estimate which was prepared in March 14th, 1980, and I think at that time the Browns had entered into some kind of an arrangement with a company represented by Thurman E. Jackson, Rio Grande Exploration Company in Albuquerque, and we had submitted this AFE, I think, to them in the event they wanted to join us. But this was our well cost estimate for the drilling and completion of the East Lindrith Unit No. 5, which is located on the quarter section on which we're asking for forced pooling.

Q You've expended certain monies with regards to the drilling of that well, have you not, Mr. Merriam?

A Our costs to date incurred are \$63,945.10,



1  
2 which agrees closely with what we had estimated for costs  
3 to date, and we still feel like this particular AFE will be  
4 fairly accurate to its completion.

5 Q What additional sums do you estimate will  
6 be necessary to expend in order to properly complete and  
7 test this well?

8 A Well, as I said, we feel like the total  
9 AFE is still fairly accurate so that the additional \$60,000  
10 would be required to perforate, frac, run tubing, install a  
11 wellhead, and so forth.

12 Q With regards to those estimated costs,  
13 Mr. Merrion, what, if any, percentage of those costs do you  
14 propose be assessed against the Browns' working interest in  
15 that acreage?

16 A Well, they had 25 percent of the acreage,  
17 their interest in the costs will be 25 percent, or \$30,993.24  
18 estimated.

19 Q How would you propose to recover those  
20 costs expended on behalf of the Browns?

21 A Well, we would hope to obtain -- recover  
22 those out of future production along with additional reim-  
23 bursement for risk in the amount of 200 percent, hopefully.

24 Q Mr. Merrion, I show you what we've  
25 marked as Exhibit Number Three and ask you to identify that

document.

A This is the order of the Oil Conservation Division, Order No. R- 6193, which was issued granting forced pooling on this quarter section on November 21st, 1979, and giving us 200 percent for risk.

Q All right, sir. Mr. Merrion, would you summarize for us at this point what has been the chronology of the efforts to either lease this acreage or obtain a pooling order and drill the well?

A In early 1979, if not late 1978, after receiving indications from the USGS that they would demand a Pictured Cliffs well in the southwest quarter of Section 27, Township 24 North, Range 2 West, to protect the United States minerals in the northwest of the southwest quarter from drainage, Mr. Bayless contacted Marie Brown regarding leasing her 40 acres, being the southwest of the southwest of Section 27, to enable us to form a 160-acre proration unit. Mrs. Brown would not discuss leasing except for a Dakota formation well.

Mr. Bayless proposed a lease only to the base of the Pictured Cliffs, but she was not interested.

At a subsequent meeting in the summer of 1979 Mr. Bayless went to their house to again discuss a lease with Mr. and Mrs. Brown, and Mr. and Mrs. Brown rode

1  
2 in the pickup with Mr. Bayless to look at an old road leading  
3 to their acreage, which Merrion and Bayless agreed to rebuild  
4 if we drilled a well on their land.

5 They insisted on the right to have free  
6 gas regardless of the location of the well. Mr. Bayless ex-  
7 plained the USGS regulations would not permit a household tie  
8 to a well if located on United State minerals.

9 Mr. Bayless talked with the Browns fre-  
10 quently and became aware that they had leased to a company  
11 in Albuquerque, Rio Grande Exploration and Production. This  
12 lease required a Dakota test well and initially Rio Grande  
13 was willing to participate in the Pictured Cliffs well; how-  
14 ever after we had prepared papers for their execution, they  
15 became aware they would not be able to drill the Dakota due  
16 to financial problems, and consequently, they could not earn  
17 the Pictured Cliffs formation by joining us.

18 After the Rio Grande lease expired, Mr.  
19 Bayless again talked to the Browns but they were adamant in  
20 their demands and Merrion and Bayless concluded it would be  
21 unwise to locate the proposed well on the Brown land. So  
22 the wellsite was located on the United States minerals.  
23 Likewise, the access road to the well was located to avoid  
24 the Brown land.

25 Except to drive in and to the Brown

1  
2 house, Mr. Bayless did not drive over their land except on  
3 the forementioned inspection when both Browns were with Mr.  
4 Bayless. We have no knowledge of how the surveyor gained  
5 access to the wellsite.

6 It was at this time that we concluded  
7 that there was no hope of obtaining a lease from the Browns,  
8 nor their participating in the well, and we requested the  
9 forced pooling hearing. This occurred late in the fall of  
10 1979.

11 Q All right. Subsequent to the compulsory  
12 pooling order which is R-6193, what, if anything, did Merrion  
13 and Bayless do with regards to the drilling of the East  
14 Lindrith No. 5 Well?

15 A We had a very inclement winter and there  
16 was also a rig availability problem in that particular time  
17 frame. It was not our desire to get in and drill until the  
18 weather cleared up. This is a particularly bad area when it  
19 rains and snows and it's very difficult to get equipment in  
20 and out. We were waiting for the spring thaw and things to  
21 dry out, and we did finally arrange for a drilling rig, one  
22 that, my recollection, came up from Grants, New Mexico, from  
23 the uranium area.

24 We let the time, the expiration time on  
25 the order pass by inadvertently, not realizing that it had

1 expired until we'd already made preparations to drill the  
2 well and we asked for administrative approval for an extension  
3 of that order, but were denied, and a new hearing was reset  
4 and we ended up spudding the well a week before the hearing.

5 Q Subsequently you received Commission  
6 Order 6333, dated June 5th, 1980?

7 A Yes.

8 Q That was the second pooling order?

9 A Right.

10 Q Have you made any recent efforts or  
11 attempts to have the Browns join, farmout, lease to you, or  
12 make some arrangements with regards to their interest in  
13 this well?

14 A Just less than a week ago, last Tuesday,  
15 July 14th, I called Paul Brown's house in an effort to talk  
16 to him and offer him again an opportunity to join. He was  
17 not there. The phone was answered by, I thought, a young  
18 person, a child or young person, who said they would inform  
19 Mr. Brown that I had called and ask him to call back. I  
20 never received a return call.

21 That afternoon I called Mr. Dale Dilts,  
22 who on previous occasions had represented the Browns. Mr.  
23 Dilts was not in but he returned my call and we discussed --  
24 I told him that we were trying to offer Mr. Brown either a  
25

1  
2 lease, a farmout, or an opportunity to join us in the drilling  
3 of this well.

4 Mr. Dilts felt like he probably still  
5 represented the Browns but he wasn't sure. But he told me  
6 he would pass that on to the Browns, that we had made these  
7 offers.

8 I never heard back from the Mr. Dilts.

9 Q All right. As of the hearing today, Mr.  
10 Merrion, what, if any, proposals would you make to the Browns  
11 with regards to their participation in the well?

12 A They are welcome to join us in the costs  
13 we've incurred to this date and the additional costs which  
14 we will incur in completing the well by signing a communiti-  
15 zation agreement and an operating agreement.

16 We'd be happy to offer them a farmout  
17 arrangement.

18 We would be happy to negotiate on a  
19 lease on what we consider would be handsome terms.

20 Q Can you give us some of the general terms  
21 that you would consider to be fair and reasonable with re-  
22 gards either to a lease or a farmout arrangement on the  
23 Brown acreage?

24 A On a farmout arrangement the sweetest  
25 deal and a common deal is a straight 1/8th for the landowner

1  
2 plus an additional 1/8th override until such time that pay-  
3 out is occurred, at which time the second 1/8th override can  
4 be converted to 1/2 working interest, proportionately reduced.

5 On the lease, straight lease, I'm  
6 not sure about the dollar figure. I'll have to study the  
7 matter. I haven't really cleared that with my partner.

8 It would depend upon whether it was for  
9 the Pictured Cliffs or all horizons, whether it was just the  
10 40 acres in the entire 320, and so forth.

11 Q The specific terms you gave us with re-  
12 gards to a farmout of the Pictured Cliffs formation, are  
13 those terms consistent with the operations under farmouts  
14 in the Pictured Cliffs formation? You talked about an 1/8th  
15 and an additional 1/8th?

16 A That is a very favorable terms for the  
17 person getting the -- or Mr. Brown.

18 Q All right, Mr. Merrion, let me direct  
19 your attention to what I've marked as EXhibit Number Five  
20 and have you identify that exhibit.

21 A Exhibit Five is a daily report, chrono-  
22 logical well history on the East Lindrith Unit No. 5.

23 Q It shows a spud date of May 14th, 1980,  
24 and that shutdown operations, May 22nd, is it?

25 A May 22nd we'd run a temperature survey

1  
2 after having run casing and cementing it. We did move back  
3 in in August and pressure tested the casing, and looks like  
4 we have a small leak there.

5 Q All right, sir.

6 Let's go on to the well history on the  
7 No. 4.

8 Mr. Merrion, would you identify for us  
9 Exhibit Number Six?

10 A Exhibit Number Six is a chronological  
11 well history on the East Lindrith Unit No. 4, located in the  
12 northeast quarter of Section 26, Township 24 North, Range 2  
13 West.

14 Q What is the purpose of this exhibit, Mr.  
15 Merrion?

16 A The main purpose of the exhibit is to  
17 show that the well is an essentially dry hole. It's a well  
18 that we previously referred to in connection with Exhibit  
19 One, indicating it did offset an excellent well on the east  
20 and the southeast, and yet it appears to be a dry hole.

21 Q If I understand your opinion, this No.  
22 4 well could be similar to the No. 5 Well, in that the No. 4  
23 Well at the time that the pipe was set and cemented and be-  
24 for it was perforated and tested and actually production was  
25 attempted, appeared that it may be economic, and yet it



1  
2 turns out to be an uneconomic well.

3 A That is correct.

4 Q So the fact that a well has been  
5 drilled, pipe set and cemented, is no indication of whether  
6 or not the well will be economic.

7 A That's true.

8 Q All right. All right, sir, would you  
9 identify Exhibit Number Seven and tell us what this exhibit  
10 shows?

11 A Exhibit Number Seven is a production  
12 decline curve on the East Lindrith Unit No. 3 Well in the  
13 southeast quarter of Section 27.

14 On a logarithmic scale the production  
15 in Mcf per month is plotted versus time from first production  
16 in October of 1980 through June of 1991.

17 It shows a decline from roughly 2000 Mcf  
18 per month to a little over 900 Mcf per month in nine months  
19 time.

20 The purpose of the exhibit is to indicate  
21 that the economics of the East Lindrith Unit No. 3 are ex-  
22 tremely questionable at this time. We still are unsure  
23 whether sufficient gas will be produced from the well in  
24 order to pay for the cost of drilling.

25 Q Mr. Merrion, I show you what is marked

as Exhibit Number Eight and ask you to identify that exhibit.

A. Exhibit Number Eight are certain exhibits taken from a farmout agreement and operating agreement with the Continental Oil Company, Conoco, Incorporated, in connection with a farmout which Merrion and Bayless obtained from them in Township 23 North, Range 4 West, Sandoval County, New Mexico. This is approximately fifteen miles from the area in question and covers Pictured Cliffs development.

Q. What's the purpose of the exhibit, Mr. Merrion?

A. The purpose of the exhibit, if you refer to the page three of the accounting procedures, which is enclosed, the overhead rate allowed is \$270 per month per well. That's for producing, and \$2700 while drilling. The purpose of the exhibit is to indicate our transaction for overhead rates allowed currently in the area for Pictured Cliffs wells.

Q. In your opinion what would be a fair and reasonable overhead charge to assess against the non-consenting working interest owners in the subject well?

A. I believe that this figure represents our current transaction and \$270 per month.

Q. You would recommend those figures be adopted in any Commission order with regard to overhead charges?

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

A. I would.

MR. RAMEY: That's the operating charge, Mr. Merrion. Do you have a drilling rate charge?

A. A drilling rate is \$2700, I believe, Mr. Ramey.

MR. RAMEY: I note on the other orders that you didn't have any drilling rate charge.

A. Apparently we had neglected to ask for it.

Q. Now what is your time schedule for the completion of this well, Mr. Merrion?

A. We would like to get on with it as soon as possible, and especially before bad weather hits in the fall, and we don't know when that will happen, but anytime after -- there have been years where September it starts raining and it never does let up until the snow starts to fall. Other years maybe you can drill up through November. We would certainly like to get on with it as soon as possible in order to avoid the bad weather.

Q. In your opinion, Mr. Merrion, will approval of this application be in the best interests of conservation, the prevention of waste, and the protection of correlative rights?

A. Yes, it will.

1                   Q           And were Exhibits One through Eight,  
2  
3 except for the Commission order, prepared by you or compiled  
4 under your direction and supervision?

5                   A           They were.

6                   MR. KELLAHIN: We move the admission of  
7 Applicant's Exhibits One through Eight.

8                   MR. RAMEY: Applicant's Exhibits One  
9 through Eight will be admitted.

10                  MR. KELLAHIN: That concludes our exam-  
11 ination of Mr. Merrion.

12                  MR. RAMEY: I would suggest we take about  
13 a fifteen or twenty minute break and perhaps let Mr. Brown's  
14 side look it over and talk it over.

15                               (Thereupon a recess was  
16 taken.)  
17

18                  MR. RAMEY: Would the hearing come back  
19 to order and Mr. Merrion, would you take the stand, please?

20                  A           Yes, sir.

21                  MR. RAMEY: Are there any questions of  
22

23 Mr. Merrion?  
24  
25

1  
2 QUESTIONS BY MS. MERSON:

3 Q I'd like for him to clarify that 1/8th  
4 farmout plus the 1/8th override. I still don't understand  
5 that.

6 A We would be happy to offer the Browns a  
7 1/8th landowners' royalty plus a 1/8th override until such  
8 time that we recovered our cost of drilling and production,  
9 at which time the 1/8th override could at your option be con-  
10 verted to a 1/2 working interest.

11 Q So we'd still stay at the 1/8th royalty  
12 until the production costs were balanced. Is that what  
13 you're saying?

14 A You would be getting 25 percent total  
15 royalty proportionately reduced until such time that we got  
16 our money back for drilling and producing the well, at which  
17 time you could convert your override to a half working inter-  
18 est while keeping your basic royalty.

19  
20 CROSS EXAMINATION

21 BY MR. ARNOLD:

22 Q I don't fully understand that myself  
23 yet.

24 50 percent working interest that you're  
25 talking about would be a -- in other words they have 40 acres

1  
2 out of --

3 A Everything I'm talking about is propor-  
4 tionately reduced.

5 Q Okay, you're talking about 50 percent of  
6 1/8th -- you're talking about 1/8th of an interest in the  
7 total well there.

8 A Okay, my offer is that until such time  
9 that I get my money back for drilling and producing, they  
10 will have 25 percent royalty proportionately reduced, but  
11 they have 25 percent of the unit, so that would be 25 percent  
12 times 25 percent, or a total of 6-1/4 percent of the entire  
13 well.

14 Q Now that's strictly override you're  
15 talking about there.

16 A Well, it's basic royalty plus override,  
17 total of royalty.

18 Now, after we get our money back out  
19 of drilling and producing the well, they would continue with  
20 their basic 1/8th landowners royalty proportionately reduced,  
21 which in fact would then be 1/4 of an 1/8, or 1/32, and in  
22 addition to that they would, they have a 1/2 working interest,  
23 which again would be proportionately reduced, so that would  
24 be 1/8th of the entire well.

25 Q 1/8th plus what, then?

1  
2 A 1/8 plus 1/32.  
3 May I borrow your pad and a pencil,  
4 please?  
5

6 (There followed a discussion  
7 off the record.)  
8

9 MR. KELLAHIN: Let's put those numbers  
10 on the record, Greg, so everybody will understand what they are.

11 A Okay. The offer is, then, until payout  
12 they will have a 25 percent royalty proportionately reduced  
13 to their quarter interest in the well, which will result in  
14 a 6.25 percent royalty interest in the total production from  
15 the well.

16 Q Prior to payout?

17 A That is until payout. After we have  
18 recovered our costs of drilling and producing they will then  
19 have a 1/8th royalty interest proportionately reduced, plus  
20 a 50 percent of 7/8ths working interest proportionately re-  
21 duced.

22 And that boils down to a .14 -- let me  
23 restate that. 14.0625 percent of the total revenue from the  
24 well and 12.5 percent of the total cost of producing the  
25 well, after payout.

1  
2 MR. RAMEY: Are there any other questions  
3 of Mr. Merrion?  
4

5 CROSS EXAMINATION

6 BY MR. RAMEY:

7 Q Mr. Merrion, let's discuss this risk  
8 factor a little bit. Is there a -- is there a certain amount  
9 of risk in the physical drilling of the well?

10 A Yes, yes, sir.

11 Q Loss of, perhaps, you know, losing the  
12 hole?

13 A Yes.

14 Q Twisting off the bit and everything?

15 A Yeah.

16 Q And you have, you now have the hole down  
17 so that that risk is no longer present.

18 A That's true.

19 Q So that you might therefor agree that  
20 the risk factor might be reduced somewhat?

21 A I really think that the risk of losing  
22 the hole is rather minimal. The main risk, I think, is in  
23 getting an uncommercial well or a dry hole.

24 So if you reduced the risk -- were to  
25 reduce the risk factor for having the hole down, it should



1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

be a small reduction.

Q How small is small?

A Ten percent of the total risk.

QUESTIONS BY MS. MERSON:

Q What is the largest risk factor, Mr. Merrion? What is your largest risk factor?

A We had requested for the commonly awarded risk factor of 200 percent, and this is what we had originally been awarded in the initial hearing.

MR. RAMEY: I think what she's asking is what is the big risk?

A Oh. What -- what --

Q Let me clarify that. What is the large risk now? You said 10 percent for drilling it. What is the large risk? I mean we'd like to have that put in figures. You've come out with figures for drilling and everything like this and I'd like to find out what the risk figures comes out to.

A What the risk figures come --

Q How are they distributed?

A Oh, what risk is awarded to losing the hole while drilling? What risk is awarded to --

Q That's right.

1  
2 A Well, the entire risk is whether we get  
3 a dry hole or an uncommercial well.

4 Q But you've already said that. That's  
5 the 200 percent. You just said 10 percent was for putting  
6 in the casing and what not.

7 A I reluctantly agreed to that.

8 Okay, ten percent then to mechanically  
9 losing the hole on drilling.

10 Q And there's no risk factor of mechanical  
11 failure after this and risk factor of other developments or --

12 A Well, there's mechanical -- risk factor  
13 for mechanical failure after pipe is set, yes.

14 Q So then you'd have another --

15 A You have channel cement behind the  
16 casing or --

17 Q (Inaudible) or what. I don't know  
18 anything about drilling wells, nothing. The well is sitting  
19 there. I went and looked at it and I could see, you know, it  
20 had been drilled and it's still sitting there. So I don't --  
21 this is my first experience and I'd like to have some break-  
22 down.

23 Because apparently the 200 percent is  
24 the big factor right here.

25 A Well, this is an estimate and Mr. Ramey

1  
2 put me on the spot and asked me how much risk was there in  
3 drilling the well and --

4 Q Well, I was going to anyway.

5 A And I said 10 percent of the total.  
6 Perhaps the mechanical failure after setting pipe, which would  
7 include such things as bad cement job, fracing out of zone  
8 into water, things like that, I would say would be greater  
9 than the risk of losing the hole while you're drilling.

10 Q How frequently does this happen on a  
11 well --

12 MR. RAMEY: Ms. Merson, please, please  
13 let him complete his answer before --

14 Q Okay.

15 MR. RAMEY: -- you ask another question.  
16 I'm sure the reporter is having a hard time trying to make  
17 the record on this.

18 Q I'm sorry. I was thinking ahead.

19 MR. BROWN: I feel so stupid without my  
20 hearing aid, because they're broke down and it's so hard to  
21 hear what people are talking about and it's impossible to  
22 communicate with people if you don't know what they're saying.

23 MR. RAMEY: I was talking to your  
24 daughter, sir.

25 MR. BROWN: Thank you. Thank you.

1  
2 A. So I would say that of the total risk  
3 20 percent would be loss of the hole due to mechanical diffi-  
4 culties after setting pipe.

5 That accounts for 30 percent of the total  
6 risk. I would say 50 percent then would be -- well, the re-  
7 maining 70 percent is -- is just getting a well that either  
8 will not produce at all or will produce insufficient quanti-  
9 ties of gas to get your money back.

10 Q So you're not asking for 200 percent.

11 A I was -- of the total risk I asked for  
12 200 percent. Mr. Ramey said what part of that 200 percent is  
13 out of the way now since you've drilled the well and got pipe  
14 set, and I said 10 percent of the 200 percent, which leaves  
15 180 percent.

16 Now I said 20 percent, --

17 MR. KELLAHIN: 10 percent of 200 percent  
18 is 190 percent.

19 A 10 percent of 200 percent is 20 percent.  
20 If you take that away from 200 percent that leaves 180.

21 MR. KELLAHIN: All right.

22 A So we're talking of percents of per-  
23 cent. So I said mechanical difficulty after setting pipe,  
24 20 percent of 200 percent, and the remainder, the 70 percent  
25 of 200 percent would be the risk of getting a dry hole or a

1  
2 well incapable of producing sufficient gas to pay for the  
3 cost of drilling.

4 MS. MERSON: I would recommend that we  
5 give him the 20 percent for mechanical failure.

6 MR. RAMEY: You may take the stand and  
7 so testify, but please wait until you get on the stand.

8 Any other questions of Mr. Merrion? He  
9 may be excused.

10 Do you have anything further, Mr. Kellahin?

11 MR. KELLAHIN: No, sir.

12 MR. RAMEY: Now, Mr. Brown, would you  
13 like to take the stand?

14 MR. BROWN: I feel kind of stupid being  
15 over here but I'm more or less involved in this and we'd  
16 just as well -- you know, it takes a good understanding to be  
17 good friends, and there's no way that we can be good friends  
18 without talking this over and studying about these things  
19 and knowing what's going on, and I am rather surprised at  
20 this thing.

21 I hired a lawyer, Dale B. Dilts to re-  
22 present me in this thing and he said well, they didn't pay  
23 any attention to his deeds, or didn't pay any attention to  
24 anything that I had, and he didn't have any business over  
25 here because it was dangerous to come over here in a situation

1  
2 like this. If they don't pay any attention to a man's deeds,  
3 if they don't pay any attention to his property rights, then  
4 he didn't have anything to say because we passed the law.

5 There's no law involved in this and as  
6 far as this risk factor, he said it's a risk to have property  
7 in Rio Arriba County. I don't know whether you know it or  
8 not, but I had my wife to represent me here last year on this  
9 thing and she was murdered in cold blood. She was murdered  
10 because she come over here to represent me.

11 Now we've got a lawyer here, Kellahin  
12 and Kellahin, that are members of the Bar Association, re-  
13 putable members of the Bar Association, and they're just  
14 trying to make a living, oh, say \$100 an hour or \$1000 an  
15 hour, with no risk factor. That's a wonderful thing that  
16 they can come in here and make this thing.

17 I have fought the Bar Association ever  
18 since I owned that property 40 years ago, trying to hang on  
19 there and get a little something out of it.

20 Now Mr. Bayless -- excuse me, Mr. Merrion  
21 talks about the risk factor. I've been attacked every way  
22 in the world and nearly killed three or four times because  
23 I tried to own property in Rio Arriba County. There's nobody  
24 respects a person's property rights in that county. I've  
25 had lots better offers than Mr. Merrion has brought out and

1  
2 yes, he comes in and talks about taking risks, he risked  
3 putting a well down there.

4 He didn't say a thing about an oil well  
5 within a mile of that location that was one of the best that  
6 they've ever produced in the State of New Mexico. They've  
7 dried it up, but it's still a good well, and I could have  
8 leased that at that time, if it hadn't been for the Bar  
9 Association, for \$500 an acre, that day, but the Bar Asso-  
10 ciation come in and attacked me and they've been after me  
11 ever since.

12 Of course Mr. Kellahin and Mr. Kellahin  
13 are not the Bar Association. They're just victims of the Bar  
14 Association that's just trying to lead them on, but the Bar  
15 Association had my wife murdered to keep her from being over  
16 here to represent me, to protect my interest.

17 And we go on to this thing, there's no  
18 risk to me, but I risk my life up there every day. I've had  
19 cattle there. I've had 50 to 100, 150 head of cows there for  
20 years, but the oil company comes in and cuts my fences and  
21 run my cows out. Right now the Forest Service is suing me  
22 over my cows being into the forest because the oil companies  
23 cut my fences down and made highways wherever they wanted  
24 to go. There's nothing I can do about it, because I hired  
25 a lawyer that terrifies for his own life and he had to admit

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

himself that my wife's murder was a mighty strange thing.

And we run into this risk factor. It's a pitiful thing to try to own land in Rio Arriba County.

Now we have elections there every couple of years but the police board counts the elections, the commissioners don't count them, and Emilio Naranjo runs the county and he takes my property for public roads. Of course, he's got a very good assistant, a very capable assistant. He's got Walter Kegal that is a member of the bar association, same as Mr. Kellahin and Kellahin, and they work well together, I'll have to say.

Now, Merrion is a very honest man, I've got no word against Mr. Merrion's actions whatsoever.

Mr. Bayless come out there three or four years ago and wanted to lease the place and he offered me, I think, \$10 an acre to lease the whole thing, and I told him I didn't think that was hardly right, that I couldn't do that because the — the cost was too much on me. I'd been out away over \$200,000 on that property trying to hang on.

I had to haul water there for fifteen years because my place was a public road and I couldn't put a well down.

Now, if you'll notice, Mr. Merrion and Bayless have put their oil well just off of this public road.



1  
2 They know how wide that road is. But my lawyer said it would  
3 be a joke to come over to this place this morning, it wasn't  
4 safe. He'd be disbarred if he brought out any facts in the  
5 matter.

6 Now the Bar Association can appoint a new  
7 judge at any time to hear any complaints that they've got  
8 against me, and that's the end of me. Whether it's safe to  
9 go home or not, I don't know, because the Bar Association  
10 can have their assistant make me commit suicide, cut my head  
11 off or shoot myself in the back, or something, before I get  
12 home. Because my wife didn't die of natural causes; she was  
13 murdered.

14 Mr. Bayless knew for years where we  
15 lived. He's come by there and leased that any time. In fact  
16 he come by there in January, I believe it was, and talked  
17 to my wife a little bit and he talked about giving her a small  
18 pittance for the lease, about a fourth of what it was worth,  
19 in any language, and a tenth of what she was getting for other  
20 leases all around us, and he slammed the door when he left  
21 and kicked it a time or two and said, "Well, to hell with  
22 you. I didn't want your damned old lease anyway, you old  
23 bitch." And left.

24 And I'm interested in an oil well because  
25 there's oil wells all around there, and I tried to talk oil

1  
2 to Mr. Bayless and he said, "I wouldn't give \$10.00 for an  
3 oil well. The way the government does it today, I wouldn't  
4 give \$10.00 for an oil well."

5 Well, all right, I can't argue with him.  
6 He was using his money, not mine. He could do what he pleased.  
7 But I didn't have to lease to him. And now they've got the  
8 lawyers of the Bar Association to come over here and try to  
9 bring in a bunch of propaganda, and it's like he said, he  
10 come up with the word that he'd made a bust on it. He brought  
11 in a bunch of busts to you people here for you to consider.

12 Now how much honesty there is in that,  
13 I don't know, but we do know it's a bust because he said so  
14 himself, and I feel bad about it, because I don't like these  
15 busts and I don't like to be taken for a bust and we -- at  
16 one time we had a private enterprise. When I bought that  
17 property it was private enterprise. When they taken it over,  
18 why, the courts, see, they've had it ever since. Now the  
19 court can adjudicate that anyway they want to, but I'd like  
20 to get paid for my cows. I had a \$54,000 tractor up the  
21 canyon, and I suppose that they taken that tractor to build  
22 roads around my place to suit themselves, to bring in the  
23 machinery and take it out.

24 As he said it was bad last winter a  
25 time or two. If they could come on my place and build a road

1  
2 that I could drive in and out on, I'd have loved it. I needed  
3 help. I didn't need somebody to drag me in the mud. I need  
4 help.

5 But the Ku Klux Klan has nothing on the  
6 Bar Association of New Mexico.

7 Unless you've been sued by Kegal, Campos,  
8 and Standley for owning property, you don't know what I'm  
9 talking about.

10 I'm sorry I can't hear what was said.  
11 I got my wife to represent me last year and the Bar Associa-  
12 tion got her killed because she come over here and tried to  
13 represent me. I thought they'd kill me, not her, but it was  
14 her that they taken, and I don't know what we're going to do  
15 about this kind of a mess but there's no question about  
16 Merrion and Bayless being in the oil business. Right west  
17 of my house there was a firm come in and put down two gas  
18 wells about the same time as Merrion and Bayless put down  
19 that gas well and they turned them on and they've got them  
20 in the line and they produce.

21 They said we'd like to lease your place  
22 but under the present conditions we can't do it. Bullock  
23 and Brothers (sic). They're good gas wells. Of course that  
24 risk factor is still there. I'm risking my life trying to  
25 get home because I might shoot myself in the back to commit

1  
2 suicide, and you talk about a risk factor.

3 I had to haul water for fifteen years  
4 because the Bar Association got after me. I raised two kids  
5 up there carrying wood by hand because I couldn't get gasoline  
6 to run a car on. I had to haul water because the Bar Asso-  
7 ciation got after me.

8 MR. KELLAHIN: Mr. Brown, may I ask you  
9 some questions?

10 MR. BROWN: Yes, sir, ask them. I'd love  
11 for you to ask some.

12 MR. KELLAHIN: I've never seen you be-  
13 fore today, have I, Mr. Brown?

14 MR. BROWN: I didn't say anything about  
15 you except you're a member of the Bar Association.

16 MR. KELLAHIN: All right, sir.

17 MR. BROWN: I saw you before, yes.

18 MR. KELLAHIN: When was that?

19 MR. BROWN: I've been in Santa Fe for  
20 four years off and on and I saw you around the courthouse a  
21 time or two; however, that's beside the point, we had no  
22 business whatsoever.

23 MR. KELLAHIN: I've never had any business  
24 dealings with you, have I, Mr. Brown?

25 MR. BROWN: That's right.

1  
2 MR. KELLAHIN: All right, sir. Let me  
3 direct your attention to Mr. Merrion's Exhibit Number One.  
4 Can you see that? Do you see this exhibit, this plat?  
5 I want you to look at Section 27. Can you see the outline in  
6 the green? Do you see that?

7 MR. BROWN: There it is.

8 MR. KELLAHIN: Yes, sir.

9 MR. BROWN: That's --

10 MR. KELLAHIN: Mr. Merrion has told us  
11 that you own the oil and gas minerals underlying the southwest  
12 quarter of the southwest quarter of 27. Is that your property,  
13 Mr. Brown?

14 MR. BROWN: That's my property.

15 MR. KELLAHIN: And you own the oil and  
16 gas minerals under that tract.

17 MR. BROWN: I own the oil and gas miner-  
18 als under that property.

19 MR. KELLAHIN: All right, sir.

20 MR. BROWN: The southwest quarter of the  
21 southwest quarter of 27.

22 MR. KELLAHIN: All right, sir, and you  
23 have gone out and looked at the well that Mr. Merrion has  
24 talked about today.

25 MR. BROWN: Yes.

1 MR. KELLAHIN: All right, sir, that well  
2 is not on your property, is it, sir?

3 MR. BROWN: Not exactly, no.

4 MR. KELLAHIN: It offsets --

5 MR. BROWN: It's fairly close.

6 MR. KELLAHIN: It offsets your property  
7 to the north, doesn't it? The well's not on your land, is  
8 it, Mr. Brown?

9 MR. BROWN: Just off my property.

10 MR. KELLAHIN: All right, sir. Now you  
11 understand Mr. Merrion wants to make that a Pictured Cliffs  
12 gas well, don't you, sir?

13 MR. BROWN: Well, I don't know what he  
14 wants to make.

15 MR. KELLAHIN: Well, he's --

16 MR. BROWN: He's made whatever it is;  
17 he done it a year ago.

18 MR. KELLAHIN: Yes, sir, he's told us

19 he wants to make it a Pictured Cliffs gas well.

20 MR. BROWN: I'll grant you that.

21 MR. KELLAHIN: All right, sir. Have  
22 you previously ever leased your oil -- your gas minerals  
23 underlying that tract?

24 MR. BROWN: Well, I think I've leased  
25

1  
2 it a time or two. Now, you're getting into things that my  
3 wife taken care of, because I've been sick. They nearly beat  
4 me to death up there, and I've got an awful headache, and I  
5 can't hear anything you say over there, so she taken care of  
6 my business.

7 MR. KELLAHIN: Mr. Merrion's never made  
8 any threats against you, has he, Mr. Brown?

9 MR. BROWN: Well, Mr. Bayless hasn't  
10 either.

11 MR. KELLAHIN: All right, sir, neither  
12 one of those gentlemen have bothered you, have they?

13 MR. BROWN: Well --

14 MR. KELLAHIN: Let me ask you -- let me  
15 ask you about --

16 MR. BROWN: Mr. Bayless did make some  
17 mighty insulting remarks to my wife.

18 MR. KELLAHIN: Yes, sir, and you've told  
19 us about that.

20 Let me ask you about the Pictured Cliffs  
21 gas underneath your tract, Mr. Brown.

22 MR. BROWN: You ask -- you tell me about  
23 it. I don't know. I haven't -- I haven't put a well down  
24 there.

25 MR. KELLAHIN: All right. Do you know

1

52

2

the Rio Grande Exploration and Production Company?

3

4

MR. BROWN: No, I haven't paid any attention to a Rio Grande Exploration Company.

5

6

7

MR. KELLAHIN: Yes, sir. Who's the last individual or company you and your wife gave an oil and gas lease to?

8

9

MR. BROWN: I'm not prepared to tell you that.

10

11

12

MR. KELLAHIN: You don't know.

MR. BROWN: I'm not prepared to go into that at all.

13

14

15

MR. KELLAHIN: All right. What were the terms and conditions of the last oil and gas lease that you gave to anyone on any of your property?

16

17

MR. BROWN: You could tell me a lot plainer than I could tell you.

18

19

MR. KELLAHIN: No, sir, I don't know. I'm asking you.

20

21

22

23

24

25

MR. BROWN: Well, I don't know.

MR. KELLAHIN: You don't know?

MR. BROWN: I don't know.

MR. KELLAHIN: All right. You've heard Mr. Merrion make you a proposal on a farmout agreement with regards to your Pictured Cliffs gas, did you not, sir?



1 MR. BROWN: I heard him talk about his

2 risk factor.

3 MR. KELLAHIN: No, sir, I'm talking to  
4 you about the royalty and the overriding royalty he's offered  
5 to you.

6 MR. BROWN: Well. I get the impression  
7 that he's rather a Scotchman, don't you?

8 MR. KELLAHIN: I don't know, sir. That's  
9 your impression. He's offered to give you an 1/8th royalty  
10 and an additional 1/8th overriding royalty for the interest  
11 in this well.

12 MR. BROWN: But that includes a risk  
13 factor.

14 MR. KELLAHIN: We're going to talk about  
15 that in a minute.

16 MR. BROWN: No, we're not. We're going  
17 to talk about it right now, because there's a risk factor  
18 involved there and I was talking about a risk factor.

19 MR. KELLAHIN: All right, you tell me  
20 what you want.

21 MR. BROWN: And I've risked a lot more  
22 than he has.

23 MR. KELLAHIN: I can appreciate that,  
24 but what is it that you want?  
25

1  
2 MR. BROWN: My wife back.

3 MR. KELLAHIN: I can't do that for you,  
4 sir. What do you want to do about the property rights you  
5 have to the oil and gas underlying this 40-acre tract?

6 MR. BROWN: Why didn't he talk to her  
7 when she was here? Why didn't he talk to her instead of  
8 waiting to bring you into it? Where did you come in?

9 MR. KELLAHIN: I'm asking you the ques-  
10 tions, Mr. Brown. Are you willing to lease this property, Mr.  
11 Brown?

12 MR. BROWN: No.

13 MR. KELLAHIN: All right, under no cir-  
14 cumstances do you want that property leased to Mr. Merrion.

15 MR. BROWN: Just a minute, now, just a  
16 minute.

17 I've got nothing against Mr. Merrion.

18 MR. KELLAHIN: I understand that.  
19 My point of my question is you're here today to obtain some-  
20 thing and I want to know what it is you want.

21 MR. BROWN: I come only just to see what  
22 happened. I was just curious.

23 MR. KELLAHIN: All right, sir, are you  
24 willing to lease your oil and gas minerals?

25 MR. BROWN: Yes. Yes.

1

2

3

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

MR. KELLAHIN: Well, what are the terms and conditions?

MR. BROWN: Well, let's put it this way. I have no terms or conditions. I'd just have to say what was fair was fair.

MR. KELLAHIN: You don't believe Mr. Merrion's offer to you today is fair and reasonable?

MR. BROWN: No, I do not.

MR. KELLAHIN: All right, sir. You don't leave Mr. Merrion with any choice but to force pool your acreage, do you, Mr. Brown?

MR. BROWN: Well, I wouldn't say that.

MR. KELLAHIN: What else can he do?

MR. BROWN: That -- that --

MR. KELLAHIN: You said you didn't like --

MR. BROWN: Just a minute. Aren't you a lawyer here of the Kellahin and Kellahin firm?

MR. KELLAHIN: Yes, sir.

MR. BROWN: Well, then don't ask me what he can do. Tell him what he can do.

MR. KELLAHIN: I'm asking you what you want to do about your acreage here. You have certain rights at this hearing, Mr. Brown, and I want to understand what you want.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

MR. BROWN: What's fair is fair and  
what's not fair is not fair.

MR. KELLAHIN: All right, sir. You said  
you complained about the risk factor. Have you hired any  
engineers or geologists to determine what you believe to be  
a fair risk for drilling and completion of this well?

MR. BROWN: Well, I've been there and  
saw them. I just stated that, a few of the risks, a very  
few of them.

MR. KELLAHIN: All right, you and --

MR. BROWN: Trying to raise cattle on  
the property is one of the risks. Trying to live there and  
coming over here to say anything to you is another risk.

MR. KELLAHIN: Mr. Brown.

MR. BROWN: Yes, sir.

MR. KELLAHIN: You and your wife received  
a copy of the compulsory pooling order.

MR. BROWN: All right.

MR. KELLAHIN: All right, sir. And  
through your lawyer, Mr. Dilts, you applied for a hearing  
de novo, another hearing before the Commission, back in June  
of last year.

MR. BROWN: Well, I think that was a  
long time ago. I'm perfectly satisfied with what the Com-

mission come up with. They had a rather reasonable solution.

Now just how we got off onto this I don't know, but they were not unreasonable. You're -- you're fighting them, not me.

MR. KELLAHIN: No, sir. I'm trying to understand what you want the Commission to do for you or what you want Mr. Merrion to do for you.

MR. BROWN: That's immaterial. They have no argument with you. They settled it.

MR. KELLAHIN: So you don't have any objection to the Division order the way it was introduced -- or decided in June of last year?

MR. BROWN: I've had practically every legal paper stolen out of my house since my wife was murdered and I don't have anything. I don't have any idea what that was. I don't -- I'm not competent to say what you've done or haven't done.

But I think the Commission made a very reasonable decision on it and I'm not here to argue with the Commission. I'm -- I'm here to bring out a few facts in this so we can have a good understanding as we go along.

MR. KELLAHIN: All right, sir, is there anything else you want to tell us that you haven't already told us?

1  
2 MR. BROWN: Well, as far as I know, I  
3 think that's the main thing, that there's a risk factor in-  
4 volved for me and Mr. Bayless has put -- Merrion and Bayless  
5 has put the well down with no risk to that.

6 MR. KELLAHIN: Have you ever drilled or  
7 operated any oil and gas wells in New Mexico?

8 MR. BROWN: Well, I've worked on a well  
9 rig some and I've had them around and I've people talking to  
10 me about leases, and the -- the best prospects that I've had  
11 have been scared off because they had no place to drill.

12 MR. KELLAHIN: Thank you, Mr. Brown.  
13 I have nothing else.

14 MR. RAMEY: Anyone else have any questions  
15 of Mr. Brown? He may be excused.

16 MR. BROWN: Thank you.

17 MR. RAMEY: Ms. Merson, would you like  
18 to --

19 MS. MERSON: Yes, thank you. Do you  
20 want me to sit up there or right here?

21 MR. RAMEY: Why don't you move up?

22 MS. MERSON: All right.

23 MR. RAMEY: Would you identify yourself,  
24 please?

25 MS. MEPSON: I'm Julia Merson. I'm Paul

1 Brown's daughter.

2 It seems to me that we should ask that  
3 the risk factor be eliminated since Mr. Merrion and Mr. Bay-  
4 less have already drilled this well, and he's taken the risk,  
5 and it's obvious, since there are three nonproducing wells,  
6 two on the east and one on the west, that he's already taken  
7 the risk, and I'm not sure what terms that we can negotiate  
8 at all at this point, but I think that we ought to ask that  
9 that risk factor be eliminated.

10 MR. RAMEY: Now you do realize, Ms.  
11 Merson, that, you know, that if you agree to -- to join the  
12 drilling of the well that -- that no risk would be applied,  
13 even if --

14 MS. MERSON: I can't make that decision.  
15 It's not my property. I can only talk it over with my father  
16 and see if Mr. Merrion and my dad can come to some, you know,  
17 agreement. But at this point, from listening today here to  
18 this information, I don't feel that the risk is very good,  
19 since there are three nonproducing wells directly adjacent  
20 to this area, that it's feasible to have a risk factor, and  
21 most of the risk -- well, ten percent, and he's not able to  
22 give direct figures, quote direct figures, because I asked  
23 him while he was under oath about the figures of the drilling,  
24 and he was not able to give -- he came up with approximations  
25

1  
2 of what, you know, what risk factors might be considered.

3 That's all I have.

4 MR. RAMEY: Any other questions of Ms.  
5 Merson?

6 MR. KELLAHIN: Yes. Ms. Merson, is it?

7 MS. MERSON: Yes, Merson.

8 MR. KELLAHIN: Do you have any background  
9 or expertise in the oil and gas industry?

10 MS. MERSON: No, I don't. That's not  
11 my field of expertise.

12 MR. KELLAHIN: And your observations and  
13 comments you've just made were based upon what you heard  
14 today from Mr. Merrion?

15 MS. MERSON: Yes, and I have gone up and  
16 looked at the well. I walked all over it the other day to  
17 figure out how far it was from the property line and the fact  
18 that it had been drilled and is there and --

19 MR. KELLAHIN: This well is not on your  
20 dad's property, is it?

21 MS. MERSON: It's about, I don't -- I  
22 didn't measure it.

23 MR. KELLAHIN: But it's off --

24 MS. MERSON: It's north of the property  
25 line.



1  
2 MR. KELLAHIN: All right. I have nothing  
3 else. Thank you.

4 MR. ARNOLD: Could I ask --

5 MR. RAMEY: Mr. Arnold.

6 MR. ARNOLD: You stated that, or the way  
7 I understood what you stated, was that due to the fact that  
8 there were three noncommercial wells close to this well --

9 MS. MERSON: Very close to it, in approx-  
10 imation, yes.

11 MR. ARNOLD: Therefore there should be  
12 risk assigned.

13 MS. MERSON: No, I said that's certainly  
14 one assumption. I didn't say that that was the only factor.  
15 I said that he's already drilled the well and that was a  
16 factor of the risk. That the fact, and another factor was  
17 the fact that it would not produce, which he said was a large  
18 factor, and there are two non -- three nonproducing, two on  
19 the west and one on the -- two on the east and one on the  
20 west.

21 MR. ARNOLD: Well, that was the point  
22 I was trying to make. Suppose there had been three good com-  
23 mercial wells close to it.

24 MS. MERSON: Well, then the risk might  
25 have been different. Obviously, that doesn't hold true.

1  
2 MR. ARNOLD: Do you think the risk  
3 should be bigger if it was surrounded by good producers?

4 MS. MERSON: No, I don't think so. I  
5 think the fact that the well has been drilled and he's already  
6 taken that risk of drilling a well in a nonproducing area,  
7 that's, you know, that's a pretty large risk.

8 MR. ARNOLD: Thank you.

9 MS. MERSON: And he took that risk on  
10 his own. We didn't have anything to say about his risk on  
11 that.

12 Did you have a question?

13 MR. BENSON: Mr. Arnold has followed  
14 the questions that I was going to ask.

15 MR. RAMEY: Any other questions? You  
16 may be excused.

17 MS. MERSON: Thank you.

18 MR. RAMEY: I assume you have nothing  
19 further at this time. Do you have a closing statement, Mr.  
20 Kellahin;

21 MR. KELLAHIN: No, sir, I waive closing  
22 arguments. I think it's apparent to the Commission that the  
23 only competent evidence of record with regards to the risk  
24 factor demonstrates that there is a remaining risk involved  
25 of 180 percent based upon the statute, and we would suggest

1 that that be the risk awarded in this case.

2 MR. RAMEY: Thank you. If no one has  
3 anything else further to add to this case, we will take the  
4 case under advisement and the hearing is adjourned.  
5

6 (Hearing concluded.)  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that  
the foregoing Transcript of Hearing before the Oil Conserva-  
tion Division was reported by me; that the said transcript  
is a full, true, and correct record of the hearing, prepared  
by me to the best of my ability.

Sally W. Boyd CSR

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B

Santa Fe, New Mexico 87201

Phone (505) 455-7409

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25



BRUCE KING  
GOVERNOR  
LARRY KEHOE  
SECRETARY

STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION

September 15, 1981

POST OFFICE BOX 2088  
STATE LAND OFFICE BUILDING  
SANTA FE, NEW MEXICO 87501  
(505) 827-2434

Mr. Thomas Kellahin  
Kellahin & Kellahin  
Attorneys at Law  
Post Office Box 1769  
Santa Fe, New Mexico

Re: CASE NO. 6892  
ORDER NO. R-6366-B

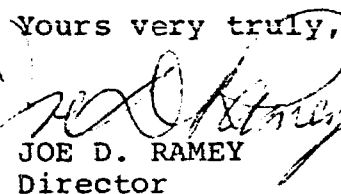
Applicant:

Merrion & Bayless

Dear Sir:

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

Yours very truly,

  
JOE D. RAMEY  
Director

JDR/fd

Copy of order also sent to:

Hobbs OCC	<u>                    </u>	<u>X</u>
Artesia OCC	<u>                    </u>	<u>X</u>
Aztec OCC	<u>                    </u>	<u>X</u>

Other Paul Brown

STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION COMMISSION

CASE NO. 6892 DE NOVO  
Order No. R-6366-B

APPLICATION OF MERRION & BAYLESS  
FOR COMPULSORY POOLING, RIO ARRIBA  
COUNTY, NEW MEXICO.

NUNC PRO TUNC ORDER

BY THE COMMISSION:

It appearing to the Commission that Order No. R-6366-A,  
dated August 13, 1981, does not correctly state the intended  
order of the Commission,

IT IS THEREFORE ORDERED:

(1) That Order No. R-6366-A issued August 13, 1981, is  
hereby withdrawn and the attached Order No. R-6366-A-1 dated  
September 15, 1981 is hereby substituted in lieu thereof.

(2) DONE at Santa Fe, New Mexico, on this 15th day  
of September, 1981,

STATE OF NEW MEXICO  
OIL CONSERVATION COMMISSION

ALEX J. ARMIJO, Member

  
EMERY C. ARNOLD, Member

  
JOE D. RAMEY, Member & Secretary

SEAL

fd/

STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION

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

CASE NO. 6892 DE NOVO  
Order No. R-6366-A-1

APPLICATION OF MERRION & BAYLESS  
FOR COMPULSORY POOLING, RIO ARRIBA  
COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing de novo at 9 a.m. on July 20, 1981, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 15th day of September, 1981, 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:

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

(2) That this cause originally came up for hearing on May 21, 1980, in Case No. 6892 before an examiner of the Oil Conservation Division, and as a result of said hearing the Oil Conservation Division issued its Order No. R-6366 pooling all mineral interests in the South Blanco-Pictured Cliffs Pool underlying the SW/4 of Section 27, Township 24 North, Range 2 West, NMPM, Rio Arriba County, New Mexico.

(3) That as a result of Order No. R-6366 applicant and protestant herein separately requested a de novo hearing before the Commission; that said requests for de novo hearings were denied by the Commission on the basis that said requests were not timely filed.

(4) That after exhausting its remedies before the Commission, applicant filed its Petition For a Writ of Mandamus

in the District Court of Rio Arriba County, New Mexico, to compel the Oil Conservation Division to grant a de novo hearing.

(5) That protestant herein, by and through his attorney, intervened in said district court action as a party of record.

(6) That said district court action was settled by a stipulation of all of the parties thereto that the Commission would grant to the applicant and protestant herein a hearing de novo in Case 6892.

(7) That by its order entered June 18, 1981, the District Court of Rio Arriba County, New Mexico, approved said stipulation and ordered that the Oil Conservation Commission grant a hearing de novo in Case 6892.

(8) That the applicant, Merriam & Bayless, seeks an order pooling all mineral interests in the South Blanco-Pictured Cliffs Pool underlying the SW/4 of Section 27, Township 24 North, Range 2 West, NMPM, Rio Arriba County, New Mexico.

(9) That the applicant has the right to drill and has commenced but not completed a well at a standard location thereon.

(10) That there are interest owners in the proposed production unit who have not agreed to pool their interests.

(11) That to avoid the drilling of unnecessary wells, to protect correlative rights, 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 gas in said pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

(12) That the applicant should be designated the operator of the subject well and unit.

(13) That 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.

(14) That 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 150 percent thereof as a reasonable charge for the risk involved in the drilling of the well.



(15) That any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but that actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(16) That 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 said estimated well costs exceed reasonable well costs.

(17) That \$2700.00 per month while drilling and \$270.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that 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.

(18) That 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.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the South Blanco-Pictured Cliffs Pool underlying the SW/4 of Section 27, Township 24 North, Range 2 West, NMPM, Rio Arriba County, New Mexico, are hereby pooled to form a standard 160-acre gas spacing and proration unit to be dedicated to a well drilled at a standard location thereon.

PROVIDED HOWEVER, that the operator of said unit shall continue the drilling and completion of said well with due diligence to a depth sufficient to test the Pictured Cliffs formation;

PROVIDED FURTHER, that should said well not be drilled to completion, or abandonment, within 120 days after the date of this order, said operator shall appear before the Division Director and show cause why Order (1) of this order should not be rescinded.

(2) That Merrion & Bayless is hereby designated the operator of the subject well and unit.

(3) That within 30 days after the effective date of this order, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(4) That 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 that 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) That 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; that 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, that 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) That 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) That 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, 150 percent of the pro rata share of reasonable well costs attribu-

table 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) That the operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(9) That \$2700.00 per month while drilling and \$270.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that 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) That 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) That 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) That 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; that 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) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

-6-  
Case No. 6892 De Novo  
Order No. R-6366-A-1

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

STATE OF NEW MEXICO  
OIL CONSERVATION COMMISSION

ALEX J. ARMIJO, Member

  
EMERY F. ARNOLD, Member

  
JOE D. RAMEY, Member & Secretary

S E A L

fd/

MERRION & BAYLESS  
WELL COST ESTIMATE

WELL NAME: East Lindrith #5

LOCATION: SW/4 Sec. 27, T24N, R2W  
Rio Arriba County, NM

PROPOSAL: Drill well to test the Pictured Cliffs formation

TANGIBLE COST:		\$ 700.00
*Surface casing	100 ft. 7" @ \$7.00/ft.	10,200.00
Production Casing	3400 ft. 3-1/2" @ 3.00/ft.	5,100.00
Tubing	3400 ft. 1-1/4" @ 1.50	2,500.00
Wellhead Equipment		\$ 18,500.00
TOTAL TANGIBLES:		

INTANGIBLE COST:		\$ 250.00
Location:		100.00
*Survey		1,500.00
*Archeologist		
*Roads & Location		
Drilling:		28,900.00
*Footage	3400 ft. @ \$8.50	5,400.00
*Daywork	36 hrs. @ \$150/hr.	5,000.00
*Open Hole Logging		1,500.00
Casing Float Equipment		1,500.00
*Trucking		9,000.00
*Mud & Water		
Cementing:		1,800.00
*Surface Casing		5,000.00
Production Casing		
Completion:		6,000.00
Completion Rig with Reverse Equipment		2,500.00
Perforating & Logging		2,000.00
Acidizing		17,000.00
Fracturing		1,500.00
Tank Rental		2,000.00
Trucking		1,000.00
*Location Clean-up		4,000.00
Roustabout		
Supervision:		2,000.00
*Administrative		2,500.00
*Field		\$100,450.00
TOTAL INTANGIBLES:		
5% Contingency:		5,023.00
TOTAL WELL COST:		\$123,973.00
*DRY HOLE COST:		\$ 59,650.00

BEFORE THE  
OIL CONSERVATION COMMISSION  
Santa Fe, New Mexico

Case No. 6892 Exhibit No. 2

Submitted by \_\_\_\_\_

Hearing Date \_\_\_\_\_

COST ESTIMATE

J. Gregory Merrion	37.5% = \$46,489.88
Robert L. Bayless	37.5% = \$46,489.88
Paul & Marie Brown (Jackson)	25.0% = \$30,993.24
	100.0% = \$123,973.00

Date: March 14, 1980

APPROVED:

BY: \_\_\_\_\_  
MERRION & BAYLESS

BY: \_\_\_\_\_  
Paul & Marie Brown  
(Thurman E. Jackson)

STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT BEFORE THE  
OIL CONSERVATION DIVISION OIL CONSERVATION COMMISSION  
Santa Fe, New Mexico

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

Case No. 6872 Exhibit No. 3  
Submitted by MYB  
Hearing Date \_\_\_\_\_

CASE NO. 6723  
Order No. R-6193

APPLICATION OF MERRION & BAYLESS  
FOR COMPULSORY POOLING, RIO ARRIBA  
COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on November 14, 1979, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 21st day of November, 1979, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

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

(2) That the applicant, Merrion & Bayless, seeks an order pooling all mineral interests in the Pictured Cliffs formation underlying the SW/4 of Section 27, Township 24 North, Range 2 West, NMPM, South Blanco-Pictured Cliffs Pool, Rio Arriba County, New Mexico.

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

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

(5) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each interest in said unit the opportunity to recover or

-2-

Case No. 6723  
Order No. R-6193

receive without unnecessary expense his just and fair share of the gas in said pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

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

(7) That 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) That any non-consenting working interest owner that 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) That any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but that actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(10) That following determination of reasonable well costs, any non-consenting working interest owner that 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) That \$150.00 per month should be fixed as a reasonable charge for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charge 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) That 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.

-3-

Case No. 6723

Order No. R-6193

(13) That 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 15, 1980, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Pictured Cliffs formation underlying the SW/4 of Section 27, Township 24 North, Range 2 West, NMPM, South Blanco-Pictured Cliffs Pool, Rio Arriba County, New Mexico, are hereby pooled to form a standard 160-acre gas spacing and proration 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 15th day of February, 1980, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Pictured Cliffs formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 15th day of February, 1980, Order (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 Order (1) of this order should not be rescinded.

(2) That Merrion & Bayless are hereby designated the operator of the subject well and unit.

(3) That 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) That 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



-4-

Case No. 6723

Order No. R-6193

share of reasonable well costs out of production, and that 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) That 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; that 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, that 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) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner that 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) That 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) That the operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

-5-

Case No. 6723

Order No. R-6193

(9) That \$150.00 per month is hereby fixed as a reasonable charge for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charge 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) That 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.

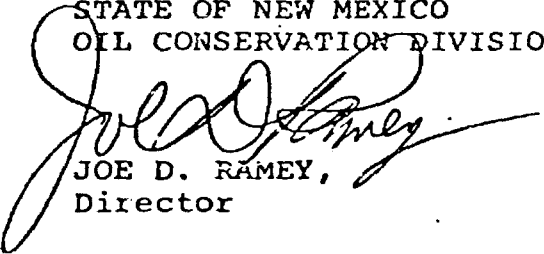
(11) That any well costs or charges which are to be paid out of production shall be withheld only from the working interests share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(12) That 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; that 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) That 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

  
JOE D. RAMEY,  
Director

S E A L

dr/

RLB CONTACTS W/MARIE BROWN

RE: PIC CLIFF WELL

Involving Brown's 40 Acres

In early 1979 (if not late 1978) after receiving indications from USGS they would demand a Pictured Cliff Well in the SW-1/4 27-T24N-R2W to protect the USA minerals in NW-1/4 SW-1/4 from drainage, I contacted Marie Brown regarding leasing her 40 acres (being SW-1/4 SW-1/4) to enable us to form 160 acre pro-ration unit.

Mrs. Brown would not discuss leasing except for a Dakota formation well. I proposed a lease only to base of Pictured Cliffs but she was not interested.

At a subsequent meeting in summer of 1979, I went to their house to again discuss a lease and Mr. and Mrs. Brown rode in my pick-up with me to look at an old road leading to their acreage which we agreed to rebuild if we drilled the well on their land. They insisted on right to have free gas regardless of the location of the well. I explained the USGS regulations would not permit a household tie to the well if located on USA minerals.

I talked with the Browns frequently and became aware they had leased to a company in Albuquerque, Rio Grande Exploration and Production. This lease required a Dakota test well and initially Rio Grande was willing to participate in the Pictured Cliff Well, however, after I had prepared papers for their execution they became aware they would not be able to drill the Dakota due to financial problems and consequently they could not earn the Pictured Cliffs Formation by joining us.

After the Rio Grande lease expired, I again talked to the Browns but they were adamant in their demands and JGM & RLB concluded it would be unwise to locate the proposed well on the Brown land so the well site was located on the USA minerals, likewise the access road to the well was located to avoid Brown land.

Except to drive in to the Brown house, I did not drive over their land except on the aforementioned inspection when both Browns were with me. I have no knowledge of how Fred Kerr surveyed into the well site.

It was at this time we concluded there was no hope in obtaining a lease from the Browns nor their participating in the well and we requested the forced pooling hearing. This occurred late fall of 1979.

BEFORE THE  
OIL CONSERVATION COMMISSION  
Santa Fe, New Mexico

Case No. 6892 Exhibit No. 4

Submitted by MTB

Hearing Date July 20, 1981

MERRION & BAYLESS  
East Lindrith #5  
1600 FSL & 1000 FWL  
Section 27, T24N, R2W  
Rio Arriba County, New Mexico

DAILY REPORT

05-14-80 Move in rig up James Drilling Company.

05-15-80 Spud 9-3/4" hole to 103'. Set 97 ft. of 7", 23 lb/ft surface casing with 50 sx. Drilling at 550'.

05-16-80 Drilling at 1700', vis. 33, wt. 9.3

05-17-80 Drilling at 2400', everything ok.

05-19-80 Drilling at 3080', lost circulation. (SSD)

05-20-80 Lost circulation at 3080'. Regained 90% returns by 3150'. Mud wt. 9.1, vis. 80, water loss 8.0. (JGM)

05-21-80 TD @ 3275. WOC. Birdwell ran Induction Electric log 3245 to surface. Gamma Ray, Density Neutron 3240-1700. Ran 107 jts. 3-1/2", 9.3#, J-55 seal lock casing. Set at 3251 K.B. and cemented with 150 sx (279 cu.ft.) Dowell RFC cement. Displaced plug to 3235' K.B. with full circulation until last 8 bbls of displacement which was lost, but hole remained full. Plug down 2:30 a.m. (JGM)

05-22-80 Wilson Service Co. ran temperature survey from surface to 3240'. Found top of cement @ 1400'. (JGM)

08-07-80 Rigged up Cementers Inc. Pressure tested to 3400 PSIG. Pumping in @ 1/2 B/M @ 3400 pumped away 3 Bbls. Water rigged down. (JCA)

BEFORE THE  
OIL CONSERVATION COMMISSION  
Santa Fe, New Mexico

Case No. 6892 5

Submitted by mtb

Dated July 20, 1981

WELL HISTORY

MERRION & BAYLESS  
East Lindrith No. 4  
NM-03992  
SE/NE Section 26, T24N, R2W  
Rio Arriba County, New Mexico

10-24-79 Move in, rig up Wilson Drilling Co.  
10-25-79 Spud 9-3/4" hole to 95 ft. Set 95 ft. of 7", 23 lbs/ft surface casing.  
10-26-79 Drilling out from under surface.  
10-27-79 Drilling @ 910 ft.  
10-28-79 Drilling @ 1560 ft.  
10-29-79 Drilling @ 2380 ft.  
10-30-79 Trip at 2540 ft.  
10-31-79 Drilling @ 2650 ft.  
11-01-79 Drilling @ 2980 ft.  
11-02-79 Drilling @ 3240 ft.  
11-03-79 Lost circulation at 3260 ft., regained.  
11-04-79 Bit plugged with LCM, making trip.  
11-05-79 Attempting to get back to bottom; hole heaving and tight.  
11-06-79 Lost circulation for past 24 hours. Approximately 650 bbls. pumped away, no returns.  
11-07-79 Still lost circulation. Attempting to spot cement plug.  
11-08-79 Shut down, mud and snow, roads impassible.  
11-09-79 Shut down, mud and snow, roads impassible.  
11-10-79 Shut down, mud and snow, roads impassible.  
11-11-79 Shut down, mud and snow, roads impassible.  
11-12-79 Shut down, mud and snow, roads impassible.  
11-13-79 Started operations @ noon yesterday; re-entered hole; lost 180 bbls mud @ 800 ft. Reaming hole and mixing mud.  
11-14-79 Reached old TD of 3260 -- could not circulate, started drilling blind.

Oil & Gas Division  
New Mexico  
Case No. 1892  
Hearing Date

Merrion & Bayless  
East Lindrith #4  
Well History  
Page 2

- 11-15-79 Reached TD @ 3351 ft. while drilling with no circulation since 3260 ft. Hole in very poor condition and unable to run open hole logs. Trip out laying down drill pipe.
- 11-16-79 Finished laying down drill pipe. Cut saw tooth end on shoe joint and started running 3-1/2", 9.2#, K-55, buttress thread casing. Hit first bridge at 550' and started rotating casing. Circulated through bridges from 535 to 1000 ft. Ran free to 1900 ft. Circulated through bridges to 2400 ft. Ran free to bottom. Rotated and cleaned out to 3350 ft.
- 11-17-79 Landed casing @ 3357 ft K.B. Rig up Dowell and cemented with 50 sx RFC Thixotropic cement with 25 lbs/sx gilsonite followed by 100 sx 50-50 Class 'H' and pozmix with 2% gel and 25 lbs/sx gilsonite and 1/4# celoflake. Used hesitation squeeze technique while placing cement. Attempted to seal off loss circulation zone. Staged plug displacement over 2-1/2 hr. period. Displaced plug at 3345 ft. at 5:00 a.m. Bumped plug w/ 1000 PSIG. Bled back and held okay. No circulation established during cement job. Well on vacuum throughout job.
- 11-19-79 Ran temperature survey from surface to 3345 ft. Found top of cement at 3250 ft. WOCT.
- 11-26-79 Rig up Blue Jet, ran cement bond log. Found PBTD 3351 ft. K.B. Top of cement @ 3205. Good bond from 3205 to 3250, excellent bond from 3250 to 3351. Ran Gamma Ray - Collar - Neutron log from 3351 ft. K.B. to 2000 ft. K.B. Top of Pictured Cliffs @ 3290 ft. Welder installed 3-1/2" NUE 10rd collar @ surface. Made up valve and shut in well.
- 12-03-79 Rig up Western Co. Pressured casing to 4000 PSIG, held ok. Rig up Blue Jet. Perforated 3 holes 3340, 3343, 3346 per correlation log. Broke down w/ water, rate 11 BPM, pressure 1850 PSIG. Estimate 3 holes open. ISDP 150 PSIG. Perforated 5 holes 3298, 3301, 3306, 3316, 3324 per correlation log. Broke down rate 18 BPM, pressure 1000 PSIG. Estimate all 8 holes open. Fracked w/ 500 gals 15% acid, 40,000 lbs. 10/20 sand, 924 bbls. water w/ 2-1/2 lbs/1000 gal FR-2, 1 gal/1000 Clay Stabilizer in pad, 1.4 gal/1000 adomal, 1/2 gal/1000 gal adicide. ISDP 150 PSIG. Down to 50 PSIG in 1/2 min. Shut in.
- 12-7-79 Move in, Rig up C & C Oil Field Services. Swabbed 3 hours, rig broke down.
- 12-8-79 Rig broke down.
- 12-9-79 Rig broke down.
- 12-10-79 Fixed rig. Hung up swab, worked for 3 hours trying to free swab.
- 12-11-79 Shear off to swab mandrel. Depthometer out, mandrel @ 3263 ft. Retrieved sinker bar, and line. Released rig. Waiting on workover rig.

Merrion & Bayless  
East Lindrith #4  
Well History  
Page 3

- 04-21-80 Ran sinker bar. Found swab and mandrell at 3267'. Fluid level at 2500'. Rig down. (JCA)
- 04-22-80 Swabbed 10 runs. Brought back 20 bbls of frac water and sand. Swab cup sanded up. Rigged down. (JCA)
- 05-07-80 Rigged up Flint. Ran sinker bar. Found fill @ 982'. (JCA)
- 05-08-80 Ran sinker bar. Found fill @ 982'. Ran 1-1/2" EUE tubing string & Dotco fishing tool to 3294'. Circulated with pump truck while turning to the right. Pressured to 1800 PSI. Tripped tubing. (JCA)
- 05-09-80 Ran sinker bar. Found bottom @ 3293'. Ran 1-1/2" EUE string and Dotco grabber tool. Tripped tubing and shut in. (JCA)
- 06-04-80 L & B Speed Drill drilled up and circulated out all of swab mandril and rubbers with possible exception of bottom swab nut. Cleaned out to PB depth but could not circulate through perf zone and lost 60 bbls. water. Pulled 3 jts. of tubing and kelly length (109') and left tubing in hole. Bit sub and drag wing bit on tubing.
- RED NOTE: Bit will not clear wellhead; will need to strip off head.
- Remaining in hole: 100 jts. tubing plus sub plus bit.
- Well now ready to kick off and place on production. (RLB)
- 07-07-80 Move in. Rig up. Action Swab Co. Run sinker bar with depthometer. Found TD @ 3250'. Fluid level @ 2000. Well dead. SDON. (JCA)
- 07-08-80 Ran in with Swab Cup. Paraffin Plug @ 600'. Worked through cutting with 20 Gals. diesel. Swabbed 16 runs pulling 1000' of fluid. Brought back 35 Bbls. of fluid. Slight show of gas. TSTM. SDON. (JCA)
- 07-09-80 Swabbed 11 runs pulling 1000' of fluid gas cut. Brought back 25 Bbls. Casing pressure 310 PSIG. Tubing pressure 195 PSIG. After swabbing dropped to 155 PSIG. on casing. SDON. (JCA)
- 07-10-80 Casing pressure 300 PSIG. Tubing pressure 230 PSIG. swabbed 26 runs pulling 500' of gas cut fluid. Brought back 20 Bbls. fluid. Casing pressure dropped to 100 PSIG. Blowing estimated 50 MCF to atmosphere. Possible sand off across perms. Rig down. Move off. (JCA)
- 07-22-80 Move in rig up L & B Speed Drill. Tag fill with bit on 1-1/2" tubing @ 3330'. Estimated 30' of fill in wellbore. Lay down 10 jts. SDON. (JCA)
- 07-23-80 Come out of hole with 1-1/2" tubing and bit. Retally. SDON. (JCA)



Merrion & Bayless  
East Lindrith #4  
Well History  
Page 4

- 07-24-80 Run 1-1/2" tubing in hole. Clean out with air to 3351', making est. 50 MCF gas with heavy spray of water. Lay down 2 jts and SDON. Leave blowing to atmosphere. (JCA)
- 07-25-80 Run in and tag with 1-1/2" tubing. Wellbore still clean to 3351'. Land with 103 jts. in hole @ 3334'. Unload with air compressor. Making drilling mud, cotton seep hulls, water, etc. Very little gas. Rig down and move off. (JCA)
- 06-30-81 Move in. Rig up B&H Service Company. Swab 1-1/2" tubing. 12 runs. Made little gas and 10 BBL H2O. Left tubing open. SDON. (JCA)
- 07-01-81 Rained out. Could not get to location. (JCA)
- 07-03-81 Swabbed 2 runs. Well unloaded. Blew down in 20 minutes. Left fluid @ 600' off bottom. Rig down. Move off. (JCA)

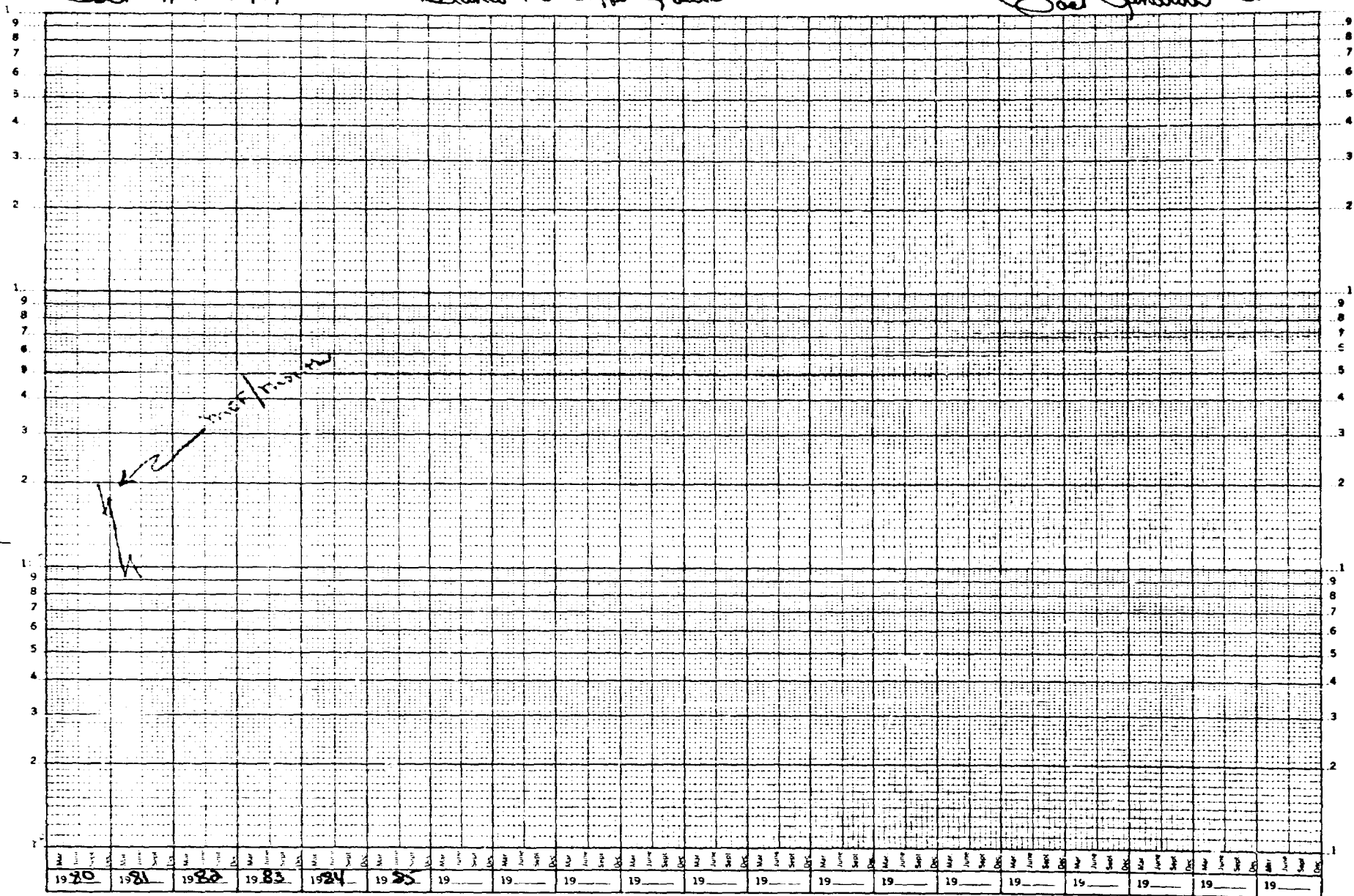
Sec 27, T24N, R2W

Blanco Pic Cliffs South

East Lindell #3

47 6840

K-2 10 YEARS BY MONTHS & 1/16 CYCLES  
PLotted & PUBLISHED BY U.S.G.P.S.



BEFORE THE  
OIL CONSERVATION COMMISSION  
Santa Fe, New Mexico

Case No. 6892 Exhibit No. 7

Submitted by \_\_\_\_\_

Hearing Date \_\_\_\_\_

## EXHIBIT "A"

LEASE SCHEDULE TO Farmout Agreement, DATED October 17, 19 80CONOCO INC.  
BETWEEN ~~CONINOXXXLXXXLXXXLXXX~~ AND ~~MERRION & BAYLESS~~ J. GREGORY MERRION &  
ROBERT L. BAYLESS, COUNTY ~~XXXXXX~~ OF Sandoval, STATE OF Ne

CONTINENTAL LEASE NUMBER	LESSOR	LESSEE	DATE	DESCRIPTION
92915	Jicarilla Apache Indian Tribe	Humble Oil & Refining Co.	12-28-50	Township 23 North, Range 4 West, Sandoval County, New Mexico Insofar and only insofar as said lease covers the S/2 Section 19 and S/2 Section 20, containing 640 acres more or less and limited in depth to the leasehold rights from surface to the base of the Pictured Cliffs formation.

BEFORE THE  
OIL CONSERVATION COMMISSION  
Santa Fe, New MexicoCase No. 6892 Exhibit No. 8Submitted by MOBHearing Date July 20, 1981

## EXHIBIT "A"

LEASE SCHEDULE TO Farmout Agreement, DATED October 17, 19 80~~MERRION & BAYLESS~~ J. GREGORY MERRION &  
ROBERT L. BAYLESSCOUNTY ~~XXXXXX~~ OF Sandoval, STATE OF New Mexico

LESSEE	DATE	DESCRIPTION	RECORDED	
			BOOK	PAGE
Humble Oil & Refining Co.	12-28-50	Township 23 North, Range 4 West, Sandoval County, New Mexico Insofar and only insofar as said lease covers the S/2 Section 19 and S/2 Section 20, containing 640 acres more or less and limited in depth to the leasehold rights from surface to the base of the Pictured Cliffs formation.	7	193

BEFORE THE  
OIL CONSERVATION COMMISSION  
Santa Fe, New Mexico  
Case No. 6892 Exhibit No. 8  
Submitted by MOB  
Hearing Date July 20, 1981

A.A.P.L. FORM 610  
MODEL FORM OPERATING AGREEMENT—1956  
Non-Federal Lands

EXHIBIT "E"  
to  
FARMOUT AGREEMENT DATED OCTOBER 17, 1980  
By and Between CONOCO INC.  
and ~~MERRION & BAYLESS~~  
J. GREGORY MERRION & ROBERT L. BAYLESS

OPERATING AGREEMENT

DATED

October 17, 1980,

FOR UNIT AREA IN TOWNSHIP 23 North, RANGE 4 West

Sandoval COUNTY, STATE OF New Mexico

AMERICAN ASSOCIATION OF PETROLEUM LANDMEN  
APPROVED FORM. A.A.P.L. NO. 610  
MAY BE ORDERED DIRECTLY FROM THE PUBLISHER  
KRAFTBILT PRODUCTS, BOX 800, TULSA 74101

**Taxes**

All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties.

**11. Insurance**

Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the event Joint Operations are conducted in a state in which Operator may act as self-insurer for Workmen's Compensation and/or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self-insurance program and in that event, Operator shall include a charge at Operator's cost not to exceed manual rates.

**12. Other Expenditures**

Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III, and which is incurred by the Operator in the necessary and proper conduct of the Joint Operations.

**III. OVERHEAD****1. Overhead - Drilling and Producing Operations**

- i. As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge drilling and producing operations on either:

- ( ☒ ) Fixed Rate Basis, Paragraph 1A, or  
(     ) Percentage Basis, Paragraph 1B.

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 2A, Section II. The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in the Overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.

- ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property shall (     ) shall not ( ☒ ) be covered by the Overhead rates.

**A. Overhead - Fixed Rate Basis**

- (1) Operator shall charge the Joint Account at the following rates per well per month:

Drilling Well Rate \$ 2,700.00  
Producing Well Rate \$ 270.00

- (2) Application of Overhead - Fixed Rate Basis shall be as follows:

**(a) Drilling Well Rate**

- [1] Charges for onshore drilling wells shall begin on the date the well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
- [2] Charges for offshore drilling wells shall begin on the date when drilling or completion equipment arrives on location and terminate on the date the drilling or completion equipment moves off location or rig is released, whichever occurs first, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
- [3] Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig, commence through date of rig release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive days.

**(b) Producing Well Rates**

- [1] An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.
- [2] Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.
- [3] An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.
- [4] A one-well charge may be made for the month in which plugging and abandonment operations are completed on any well.
- [5] All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

- (3) The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas Fields Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

MERRION & BAYLESS  
WELL COST ESTIMATE

WELL NAME: East Lindrith #5

LOCATION: SW/4 Sec. 27, T24N, R2W  
Rio Arriba County, NM

PROPOSAL: Drill well to test the Pictured Cliffs formation

TANGIBLE COST:

*Surface casing	100 ft. 7" @ \$7.00/ft.	\$ 700.00
Production Casing	3400 ft. 3-1/2" @ 3.00/ft.	10,200.00
Tubing	3400 ft. 1-1/4" @ 1.50	5,100.00
Wellhead Equipment		2,500.00
TOTAL TANGIBLES:		\$ 18,500.00

INTANGIBLE COST:

Location:		
*Survey		\$ 250.00
*Archeologist		100.00
*Roads & Location		1,500.00
Drilling:		
*Footage	3400 ft. @ \$8.50	28,900.00
*Daywork	36 hrs. @ \$150/hr.	5,400.00
*Open Hole Logging		5,000.00
Casing Float Equipment		1,500.00
*Trucking		1,500.00
*Mud & Water		9,000.00
Cementing:		
*Surface Casing		1,800.00
Production Casing		5,000.00
Completion:		
Completion Rig with Reverse Equipment		6,000.00
Perforating & Logging		2,500.00
Acidizing		2,000.00
Fracturing		17,000.00
Tank Rental		1,500.00
Trucking		2,000.00
*Location Clean-up		1,000.00
Roustabout		4,000.00
Supervision:		
*Administrative		2,000.00
*Field		2,500.00
TOTAL INTANGIBLES:		\$100,450.00

BEFORE THE  
OIL CONSERVATION COMMISSION  
Santa Fe, New Mexico

Case No. 6892 Exhibit No. 2

Submitted by \_\_\_\_\_

Hearing Date \_\_\_\_\_

COST ESTIMATE

J. Gregory Merrion  
Robert L. Bayless  
Paul & Marie Brown (Jackson)

5% Contingency:	5,023.00
TOTAL WELL COST:	\$123,973.00
*DRY HOLE COST:	\$ 59,650.00

37.5%	= \$46,489.88
37.5%	= \$46,489.88
25.0%	= \$30,993.24
100.0%	\$123,973.00

Date: March 14, 1980

*spent to date - \$63,510*

APPROVED:

BY: \_\_\_\_\_  
MERRION & BAYLESS

BY: \_\_\_\_\_  
Paul & Marie Brown  
(Thurman E. Jackson)



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

OIL CONSERVATION COMMISSION  
Santa Fe, New Mexico

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

Case No. 6892 Exhibit No. 3  
Submitted by WMB  
Hearing Date \_\_\_\_\_

CASE NO. 6723  
Order No. R-6193

APPLICATION OF MERRION & BAYLESS  
FOR COMPULSORY POOLING, RIO ARRIBA  
COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on November 14, 1979, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 21st day of November, 1979, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

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

(2) That the applicant, Merrion & Bayless, seeks an order pooling all mineral interests in the Pictured Cliffs formation underlying the SW/4 of Section 27, Township 24 North, Range 2 West, NMPM, South Blanco-Pictured Cliffs Pool, Rio Arriba County, New Mexico.

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

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

(5) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each interest in said unit the opportunity to recover or

-2-

Case No. 6723  
Order No. R-6193

receive without unnecessary expense his just and fair share of the gas in said pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

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

(7) That 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) That any non-consenting working interest owner that 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) That any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but that actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(10) That following determination of reasonable well costs, any non-consenting working interest owner that 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) That \$150.00 per month should be fixed as a reasonable charge for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charge 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) That 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.

-3-

Case No. 6723  
Order No. R-6193

(13) That 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 15, 1980, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Pictured Cliffs formation underlying the SW/4 of Section 27, Township 24 North, Range 2 West, NMPM, South Blanco-Pictured Cliffs Pool, Rio Arriba County, New Mexico, are hereby pooled to form a standard 160-acre gas spacing and proration 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 15th day of February, 1980, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Pictured Cliffs formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 15th day of February, 1980, Order (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 Order (1) of this order should not be rescinded.

(2) That Merrion & Bayless are hereby designated the operator of the subject well and unit.

(3) That 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) That 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

-4-

Case No. 6723  
Order No. R-6193

share of reasonable well costs out of production, and that 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) That 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; that 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, that 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) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner that 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) That 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) That the operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

-5-

Case No. 6723

Order No. R-6193

(9) That \$150.00 per month is hereby fixed as a reasonable charge for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charge 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) That 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.

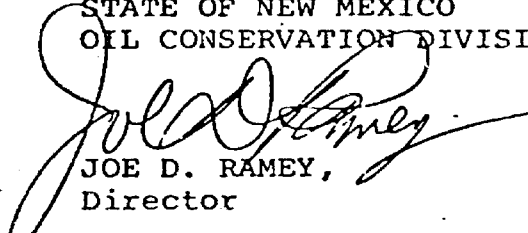
(11) That any well costs or charges which are to be paid out of production shall be withheld only from the working interests share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(12) That 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; that 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) That 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

  
JOE D. RAMEY,  
Director

S E A L

dr/

RLB CONTACTS W/MARIE BROWN

RE: PIC CLIFF WELL

Involving Brown's 40 Acres

In early 1979 (if not late 1978) after receiving indications from USGS they would demand a Pictured Cliff Well in the SW-1/4 27-T24N-R2W to protect the USA minerals in NW-1/4 SW-1/4 from drainage, I contacted Marie Brown regarding leasing her 40 acres (being SW-1/4 SW-1/4) to enable us to form 160 acre pro-ration unit.

Mrs. Brown would not discuss leasing except for a Dakota formation well. I proposed a lease only to base of Pictured Cliffs but she was not interested.

At a subsequent meeting in summer of 1979, I went to their house to again discuss a lease and Mr. and Mrs. Brown rode in my pick-up with me to look at an old road leading to their acreage which we agreed to rebuild if we drilled the well on their land. They insisted on right to have free gas regardless of the location of the well. I explained the USGS regulations would not permit a household tie to the well if located on USA minerals.

I talked with the Browns frequently and became aware they had leased to a company in Albuquerque, Rio Grande Exploration and Production. This lease required a Dakota test well and initially Rio Grande was willing to participate in the Pictured Cliff Well, however, after I had prepared papers for their execution they became aware they would not be able to drill the Dakota due to financial problems and consequently they could not earn the Pictured Cliffs Formation by joining us.

After the Rio Grande lease expired, I again talked to the Browns but they were adamant in their demands and JGM & RLB concluded it would be unwise to locate the proposed well on the Brown land so the well site was located on the USA minerals, likewise the access road to the well was located to avoid Brown land.

Except to drive in to the Brown house, I did not drive over their land except on the aforementioned inspection when both Browns were with me. I have no knowledge of how Fred Kerr surveyed into the well site.

It was at this time we concluded there was no hope in obtaining a lease from the Browns nor their participating in the well and we requested the forced pooling hearing. This occurred late fall of 1979.

FILE RE THE  
OIL CONSERVATION COMMISSION  
Santa Fe, New Mexico  
Case No. \_\_\_\_\_ Exhibit No. 4  
Submitted by \_\_\_\_\_  
Hearing Date \_\_\_\_\_

MERRION & BAYLESS  
East Lindrith #5  
1600 FSL & 1000 FWL  
Section 27, T24N, R2W  
Rio Arriba County, New Mexico

DAILY REPORT

- 05-14-80 Move in rig up James Drilling Company.
- 05-15-80 Spud 9-3/4" hole to 103'. Set 97 ft. of 7", 23 lb/ft surface casing with 50 sx. Drilling at 550'.
- 05-16-80 Drilling at 1700', vis. 33, wt. 9.3
- 05-17-80 Drilling at 2400', everything ok.
- 05-19-80 Drilling at 3080', lost circulation. (SSD)
- 05-20-80 Lost circulation at 3080'. Regained 90% returns by 3150'. Mud wt. 9.1, vis. 80, water loss 8.0. (JGM)
- 05-21-80 TD @ 3275. WOC. Birdwell ran Induction Electric log 3245 to surface. Gamma Ray, Density Neutron 3240-1700. Ran 107 jts. 3-1/2", 9.3#, J-55 seal lock casing. Set at 3251 K.B. and cemented with 150 sx (279 cu.ft.) Dowell RFC cement. Displaced plug to 3235' K.B. with full circulation until last 8 bbls of displacement which was lost, but hole remained full. Plug down 2:30 a.m. (JGM)
- 05-22-80 Wilson Service Co. ran temperature survey from surface to 3240'. Found top of cement @ 1400'. (JGM)
- 08-07-80 Rigged up Cementers Inc. Pressure tested to 3400 PSIG. Pumping in @ 1/2 BPM @ 3400 pumped away 3 Bbls. Water rigged down. (JCA)

BEFORE THE OIL CONSERVATION COMMISSION Santa Fe, New Mexico	
Case No. <u>6892</u>	Exhibit No. <u>5</u>
Submitted by <u>MOB</u>	
Hearing Date <u>July 20, 1981</u>	



WELL HISTORY

MERRION & BAYLESS  
East Lindrith No. 4  
NM-03992  
SE/NE Section 26, T24N, R2W  
Rio Arriba County, New Mexico

10-24-79 Move in, rig up Wilson Drilling Co.  
10-25-79 Spud 9-3/4" hole to 95 ft. Set 95 ft. of 7", 23 lbs/ft surface casing.  
10-26-79 Drilling out from under surface.  
10-27-79 Drilling @ 910 ft.  
10-28-79 Drilling @ 1560 ft.  
10-29-79 Drilling @ 2380 ft.  
10-30-79 Trip at 2540 ft.  
10-31-79 Drilling @ 2650 ft.  
11-01-79 Drilling @ 2980 ft.  
11-02-79 Drilling @ 3240 ft.  
11-03-79 Lost circulation at 3260 ft., regained.  
11-04-79 Bit plugged with LCM, making trip.  
11-05-79 Attempting to get back to bottom; hole heaving and tight.  
11-06-79 Lost circulation for past 24 hours. Approximately 650 bbls. pumped away, no returns.  
11-07-79 Still lost circulation. Attempting to spot cement plug.  
11-08-79 Shut down, mud and snow, roads impassible.  
11-09-79 Shut down, mud and snow, roads impassible.  
11-10-79 Shut down, mud and snow, roads impassible.  
11-11-79 Shut down, mud and snow, roads impassible.  
11-12-79 Shut down, mud and snow, roads impassible.  
11-13-79 Started operations @ noon yesterday; re-entered hole; lost 180 bbls mud @ 800 ft. Reaming hole and mixing mud.  
11-14-79 Reached old TD of 3260 -- could not circulate, started drilling blind.

DEW-3, THE  
OIL COMPANY SECTION  
6892 6

Merrion & Bayless  
East Lindrith #4  
Well History  
Page 2

- 11-15-79 Reached TD @ 3351 ft. while drilling with no circulation since 3260 ft. Hole in very poor condition and unable to run open hole logs. Trip out laying down drill pipe.
- 11-16-79 Finished laying down drill pipe. Cut saw tooth end on shoe joint and started running 3-1/2", 9.2#, K-55, buttress thread casing. Hit first bridge at 550' and started rotating casing. Circulated through bridges from 535 to 1000 ft. Ran free to 1900 ft. Circulated through bridges to 2400 ft. Ran free to bottom. Rotated and cleaned out to 3350 ft.
- 11-17-79 Landed casing @ 3357 ft K.B. Rig up Dowell and cemented with 50 sx RFC Thixotropic cement with 25 lbs/sx gilsonite followed by 100 sx 50-50 Class 'H' and pozmix with 2% gel and 25 lbs/sx gilsonite and 1/4# celoflake. Used hesitation squeeze technique while placing cement. Attempted to seal off loss circulation zone. Staged plug displacement over 2-1/2 hr. period. Displaced plug at 3345 ft. at 5:00 a.m. Bumped plug w/ 1000 PSIG. Bled back and held okay. No circulation established during cement job. Well on vacuum throughout job.
- 11-19-79 Ran temperature survey from surface to 3345 ft. Found top of cement at 3250 ft. WOCT.
- 11-26-79 Rig up Blue Jet, ran cement bond log. Found PBTd 3351 ft. K.B. Top of cement @ 3205. Good bond from 3205 to 3250, excellent bond from 3250 to 3351. Ran Gamma Ray - Collar - Neutron log from 3351 ft. K.B. to 2000 ft. K.B. Top of Pictured Cliffs @ 3290 ft. Welder installed 3-1/2" NUE 10rd collar @ surface. Made up valve and shut in well.
- 12-03-79 Rig up Western Co. Pressured casing to 4000 PSIG, held ok. Rig up Blue Jet. Perforated 3 holes 3340, 3343, 3346 per correlation log. Broke down w/ water, rate 11 BPM, pressure 1850 PSIG. Estimate 3 holes open. ISDP 150 PSIG. Perforated 5 holes 3298, 3301, 3306, 3316, 3324 per correlation log. Broke down rate 18 BPM, pressure 1000 PSIG. Estimate all 8 holes open. Fracked w/ 500 gals 15% acid, 40,000 lbs. 10/20 sand, 924 bbls. water w/ 2-1/2 lbs/1000 gal FR-2, 1 gal/1000 Clay Stabilizer in pad, 1.4 gal/1000 adomal, 1/2 gal/1000 gal adicide. ISDP 150 PSIG. Down to 50 PSIG in 1/2 min. Shut in.
- 12-7-79 Move in, Rig up C & C Oil Field Services. Swabbed 3 hours, rig broke down.
- 12-8-79 Rig broke down.
- 12-9-79 Rig broke down.
- 12-10-79 Fixed rig. Hung up swab, worked for 3 hours trying to free swab.
- 12-11-79 Shear off to swab mandrel. Depthometer out, mandrel @ 3263 ft. Retrieved sinker bar, and line. Released rig. Waiting on workover rig.

Merrion & Bayless  
East Lindrith #4  
Well History  
Page 3

- 04-21-80 Ran sinker bar. Found swab and mandrell at 3267'. Fluid level at 2500'. Rig down. (JCA)
- 04-22-80 Swabbed 10 runs. Brought back 20 bbls of frac water and sand. Swab cup sanded up. Rigged down. (JCA)
- 05-07-80 Rigged up Flint. Ran sinker bar. Found fill @ 982'. (JCA)
- 05-08-80 Ran sinker bar. Found fill @ 982'. Ran 1-1/2" EUE tubing string & Dotco fishing tool to 3294'. Circulated with pump truck while turning to the right. Pressured to 1800 PSI. Tripped tubing. (JCA)
- 05-09-80 Ran sinker bar. Found bottom @ 3293'. Ran 1-1/2" EUE string and Dotco grabber tool. Tripped tubing and shut in. (JCA)
- 06-04-80 L & B Speed Drill drilled up and circulated out all of swab mandril and rubbers with possible exception of bottom swab nut. Cleaned out to PB depth but could not circulate through perf zone and lost 60 bbls. water. Pulled 3 jts. of tubing and kelly length (109') and left tubing in hole. Bit sub and drag wing bit on tubing.
- RED NOTE: Bit will not clear wellhead; will need to strip off head.
- Remaining in hole: 100 jts. tubing plus sub plus bit.
- Well now ready to kick off and place on production. (RL)
- 07-07-80 Move in. Rig up. Action Swab Co. Run sinker bar with depthometer. Found TD @ 3250'. Fluid level @ 2000. Well dead. SDON. (JCA)
- 07-08-80 Ran in with Swab Cup. Paraffin Plug @ 600'. Worked through cutting with 20 Gals. diesel. Swabbed 16 runs pulling 1000' of fluid. Brought back 35 Bbls. of fluid. Slight show of gas. TSTM. SDON. (JCA)
- 07-09-80 Swabbed 11 runs pulling 1000' of fluid gas cut. Brought back 25 Bbls. Casing pressure 310 PSIG. Tubing pressure 195 PSIG. After swabbing dropped to 155 PSIG. on casing. SDON. (JCA)
- 07-10-80 Casing pressure 300 PSIG. Tubing pressure 230 PSIG. swabbed 26 runs pulling 500' of gas cut fluid. Brought back 20 Bbls. fluid. Casing pressure dropped to 100 PSIG. Blowing estimated 50 MCF to atmosphere. Possible sand off across perms. Rig down. Move off. (JCA)
- 07-22-80 Move in rig up L & B Speed Drill. Tag fill with bit on 1-1/2" tubing @ 3330'. Estimated 30' of fill in wellbore. Lay down 10 jts. SDON. (JCA)
- 07-23-80 Come out of hole with 1-1/2" tubing and bit. Retally. SDON. (JCA)

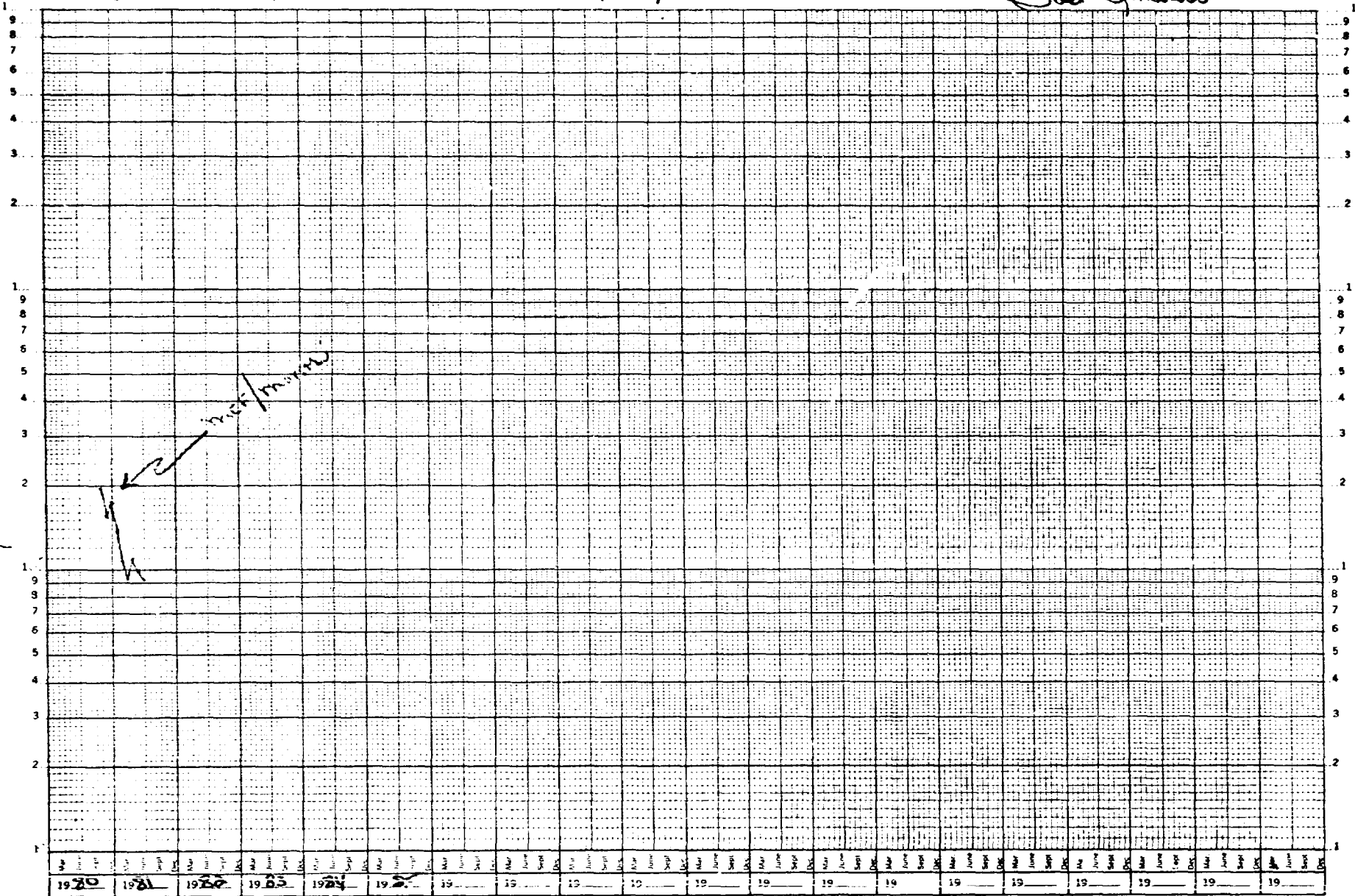
Merrion & Bayless  
East Lindrith #4  
Well History  
Page 4

- 07-24-80 Run 1-1/2" tubing in hole. Clean out with air to 3351', making est. 50 MCF gas with heavy spray of water. Lay down 2 jts and SDON. Leave blowing to atmosphere. (JCA)
- 07-25-80 Run in and tag with 1-1/2" tubing. Wellbore still clean to 3351'. Land with 103 jts. in hole @ 3334'. Unload with air compressor. Making drilling mud, cotton seep hulls, water, etc. Very little gas. Rig down and move off. (JCA)
- 06-30-81 Move in. Rig up B&H Service Company. Swab 1-1/2" tubing. 12 runs. Made little gas and 10 BBL H2O. Left tubing open. SDON. (JCA)
- 07-01-81 Rained out. Could not get to location. (JCA)
- 07-03-81 Swabbed 2 runs. Well unloaded. Blew down in 20 minutes. Left fluid @ 600' off bottom. Rig down. Move off. (JCA)

Sec. 27, T24N, R2W

Blanco Pie Cliffs South

East Lindell #2



## EXHIBIT "A"

LEASE SCHEDULE TO Farmout Agreement, DATED October 17, 19 80

CONOCO INC.  
 BETWEEN ~~CONINXXXXXXXXXXXXXXXXXX~~ AND ~~MERRION & BAYLESS~~ J. GREGORY MERRION &  
 ROBERT L. BAYLESS, COUNTY ~~XXXXXX~~ OF Sandoval, STATE OF New Me

CONTINENTAL LEASE NUMBER	LESSOR	LESSEE	DATE	DESCRIPTION	R BOOK
92915	Jicarilla Apache Indian Tribe	Humble Oil & Refining Co.	12-28-50	Township 23 North, Range 4 West, Sandoval County, New Mexico Insofar and only insofar as said lease covers the S/2 Section 19 and S/2 Section 20, containing 540 acres more or less and limited in depth to the leasehold rights from surface to the base of the Pictured Cliffs formation.	7

BEFORE THE  
 OIL CONSERVATION COMMISSION  
 Santa Fe, New Mexico  
 Case No. 6892 Exhibit No. 8  
 Submitted by \_\_\_\_\_  
 Hearing Date July 20, 1981

## EXHIBIT "A"

LEASE SCHEDULE TO Farmout Agreement, DATED October 17, 19 80~~KNXX~~AND ~~MERRION & BAYLESS~~ J. GREGORY MERRION &  
ROBERT L. BAYLESS, COUNTY ~~KNXX~~ OF Sandoval, STATE OF New Mexico

	LESSEE	DATE	DESCRIPTION	RECORDED	
				BOOK	PAGE
Apache be	Humble Oil & Refining Co.	12-28-50	Township 23 North, Range 4 West, Sandoval County, New Mexico Insofar and only insofar as said lease covers the S/2 Section 19 and S/2 Section 20, containing 640 acres more or less and limited in depth to the leasehold rights from surface to the base of the Pictured Cliffs formation.  <div data-bbox="899 1247 1489 1559" data-label="Text"><p>BEFORE THE OIL CONSERVATION COMMISSION Santa Fe, New Mexico Case No. <u>6892</u> Exhibit No. <u>8</u> Submitted by _____ Hearing Date <u>July 20, 1981</u></p></div>	7	193

A.A.P.L. FORM 610

MODEL FORM OPERATING AGREEMENT—1956  
Non-Federal Lands

EXHIBIT "E"  
to  
FARMOUT AGREEMENT DATED OCTOBER 17, 1980  
By and Between CONOCO INC.  
and ~~MERRION & BAYLESS~~  
J. GREGORY MERRION & ROBERT L. BAYLESS

OPERATING AGREEMENT

DATED

October 17, 1980,

FOR UNIT AREA IN TOWNSHIP 23 North, RANGE 4 West,

Sandoval COUNTY, STATE OF New Mexico

AMERICAN ASSOCIATION OF PETROLEUM LANDMEN  
APPROVED FORM. A.A.P.L. NO. 610  
MAY BE ORDERED DIRECTLY FROM THE PUBLISHER  
KRAFTBILT PRODUCTS, BOX 800, TULSA 74101



**Taxes**

All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties.

**11. Insurance**

Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the event Joint Operations are conducted in a state in which Operator may act as self-insurer for Workmen's Compensation and/or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self-insurance program and in that event, Operator shall include a charge at Operator's cost not to exceed manual rates.

**12. Other Expenditures**

Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III, and which is incurred by the Operator in the necessary and proper conduct of the Joint Operations.

**III. OVERHEAD****1. Overhead - Drilling and Producing Operations**

- i. As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge drilling and producing operations on either:

- ( ☒ ) Fixed Rate Basis, Paragraph 1A, or  
(     ) Percentage Basis, Paragraph 1B.

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 2A, Section II. The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in the Overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.

- ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property shall (     ) shall not ( ☒ ) be covered by the Overhead rates.

**A. Overhead - Fixed Rate Basis**

- (1) Operator shall charge the Joint Account at the following rates per well per month:

Drilling Well Rate \$ 2,700.00  
Producing Well Rate \$ 270.00

- (2) Application of Overhead - Fixed Rate Basis shall be as follows:

**(a) Drilling Well Rate**

- [1] Charges for onshore drilling wells shall begin on the date the well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
- [2] Charges for offshore drilling wells shall begin on the date when drilling or completion equipment arrives on location and terminate on the date the drilling or completion equipment moves off location or rig is released, whichever occurs first, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
- [3] Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig, commence through date of rig release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive days.

**(b) Producing Well Rates**

- [1] An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.
- [2] Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.
- [3] An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.
- [4] A one-well charge may be made for the month in which plugging and abandonment operations are completed on any well.
- [5] All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

- (3) The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas Fields Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

Docket No. 23-81

Dockets Nos. 25-81 and 26-81 are tentatively set for August 12 and 26, 1981. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: COMMISSION HEARING - MONDAY - JULY 20, 1981

OIL CONSERVATION COMMISSION - 9 A.M. - ROOM 205  
STATE LAND OFFICE BUILDING, SANTA FE, NEW MEXICO

---

CASE 6492: (DE NOVO)

Application of Merrion & Bayless for compulsory pooling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the South Blanco-Pictured Cliffs Pool underlying the SW/4 of Section 27, Township 24 North, Range 2 West, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be 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. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well.

Upon application of Merrion & Bayless, this case will be heard De Novo pursuant to the provisions of Rule 1220.

ROBERT W. MERSON  
ATTORNEY AT LAW  
44 KAZAR COURT  
MORAGA, CALIFORNIA 94556  
TELEPHONE 376-3735

415

July 14, 1981

Case 6892 - Application of  
Merrion & Bayless for Compulsory  
Pooling, Rio Arriba County,  
New Mexico

Mr. Joe D. Ramey  
Division Director  
State of New Mexico  
Oil Conservation Division  
State Land Office Building  
Santa Fe, New Mexico 87501

Gentlemen;

This refers to the Notice of Publication published July 9, 1981 of a public hearing to be held July 20, 1981 to consider the Application of Merrion & Bayless for compulsory pooling, Rio Arriba County, New Mexico: South Blanco-Pictured Cliffs Pool underlying the SW $\frac{1}{4}$  of Section 27, Township 24 North, Range 2 West, Case 6892.

On behalf of interested parties not named in the Notice, I request that the proposed hearing date be postponed for 90 days. The reason is that upon information and belief:

1. The notice to parties having an interest in the affected minerals is inadequate because no notice has been sent individually to those parties known and of record to have such interest;

The published notice on its face appears to be fraudulent because it refers to "... a well to be drilled..." when in fact the well was unlawfully drilled before the subject application was filed;

Members or employees of the Commission before whom this application is to be heard may have an undisclosed direct or indirect personal or financial interest in the outcome of the proceedings;

There is insufficient time to investigate the facts before the scheduled hearing.

In addition to the postponement, it is requested that the Commission: notify directly all parties of record or known to have an

Mr. Joe D. Ramey  
Division Director  
State of New Mexico  
July 14, 1981  
Page 2

interest in the recited real estate or minerals therein; and provide me with copies of the complete file on Case 6892 including, particularly, statements by the applicants representing that a well has not been drilled at the site, and including the ex parte determination of the Commission or its employees.

Additionally, the record should be augmented with statements of disclosure of interests by members of the Commission or its employees.

Respectfully submitted,

*Robert W. Munson*

RWM:ma

STATE OF NEW MEXICO

COUNTY OF RIO ARriba

IN THE DISTRICT COURT

J. GREGORY MERRION and ROBERT L.  
BAYLESS, individually and doing  
business as MERRION & BAYLESS,

Petitioner,

ORIGINAL PLEADING  
FILED ON 10/18/81  
RA COUNTY  
DISTRICT COURT CLERK'S OFFICE

No. Ra 80-390(c)

-VS-

OIL CONSERVATION DIVISION OF  
THE STATE OF NEW MEXICO,

Respondent,

-VS-

PAUL BROWN and MARIE BROWN,  
husband and wife,

Intervenors.

O R D E R

This matter having come before the Court upon the  
Stipulation of the parties hereto,

IT IS THEREFORE ORDERED that the New Mexico Oil Conserva-  
tion Division shall grant to the Petitioners and to the  
Intervenors a DeNovo Hearing in Oil Conservation Commission  
Case 6892; and

IT IS FURTHER ORDERED that this Petition and Crossclaim  
shall be dismissed without prejudice to any party hereto.

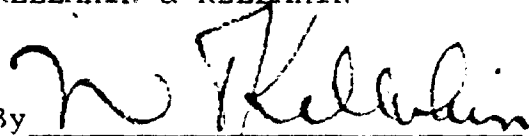
Done and Ordered this \_\_\_\_\_ day of June, 1981.

\_\_\_\_\_  
Judge of the District Court

Submitted by:

KELLAHIN & KELLAHIN

By



W. Thomas Kellahin  
P.O. Box 1769  
Santa Fe, New Mexico 87501  
(505) 982-4285

APPROVED BY:

OIL CONSERVATION DIVISION

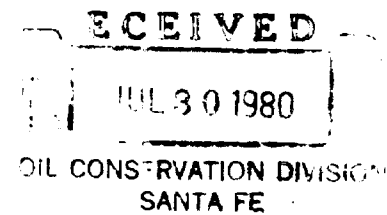
By \_\_\_\_\_

PAUL and MARIE BROWN

By \_\_\_\_\_

Dale B. Dilts

STATE OF NEW MEXICO  
ENERGY & MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION



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

Case No. 6892  
Order No. R-6398

APPLICATION OF MERRION & BAYLESS  
FOR COMPULSORY POOLING, RIO ARriba  
COUNTY, NEW MEXICO

APPLICATION FOR REHEARING

COMES NOW MERRION & BAYLESS, by their attorneys KELLAHIN & KELLAHIN,  
and pursuant to the Provision of Section 70-2-25 New Mexico Statutes  
Annotated, 1978, and apply to the Oil Conservation Division of New Mexico  
for Rehearing of the above captioned Case No. 6892 and Order No. R-6366  
issued pursuant thereto and in support thereof state:

STATEMENT OF FACTS:

1. The applicant, Merrion & Bayless, received New Mexico Oil Conservation Division Order No. R-6366 on June 16, 1980 under the Division cover letter dated June 13, 1980. Said order, attached as Exhibit "A", was entered on June 5, 1980 and adversely affects Merrion & Bayless, a party herein.
2. That on June 16, 1980, Merrion & Bayless wrote a letter to the Oil Conservation Division deposited in the U.S. Mails on June 16, 1980, postage paid, attached hereto as Exhibit "B", requesting another hearing on this matter to have the risk factor penalty increased to 200%.
3. That the risk factor entered herein is arbitrary and not supported by substantial evidence.
4. That the substantial evidence in this case supports the awarding of a 200% risk factor.
5. That on July 2, 1980, Paul and Marie Brown, an interested and affected party to this case, through their attorney, mailed a letter requesting a De

Novo Hearing in this matter, said letter mailed to the Oil Conservation Division, deposited in the U.S. Mails on July 2, 1980, postage paid, and attached hereto as Exhibit "C".

6. That on July 10, 1980, Merrion & Bayless, through their attorneys filed another application for a De Novo Hearing which was received by the New Mexico Oil Conservation Division on July 10, 1980, a copy of which is attached hereto as Exhibit "D".

7. That all the affected parties have timely applied for a De Novo Hearing.

8. That on July 16, 1980, the New Mexico Oil Conservation Division sent to the attorneys for the respective parties a letter denying the applications for a De Novo Hearing for both parties, a copy of which is attached hereto as Exhibit "E".

#### GROUND FOR REHEARING

1. Section 70-2-13 NMSA-1978 provides in part that:

"When any matter or proceedings is referred to an examiner and a decision is rendered thereon, any party adversely affected shall have the right to have said matter heard De Novo before the Commission upon application filed with the division within thirty days from the time any such decision is rendered."

2. Although the subject order was entered on Thursday June 5, 1980, it was not mailed to the affected parties until Friday, June 13, 1980.

3. That the failure of the Division to timely mail copies of the order to the affected parties on the same date as the date of the order substantially reduces the time for the affected party to then file an application for a Hearing De Novo.

4. That such action by the Division has prejudiced the rights of Merrion & Bayless in this case and has arbitrarily denied them procedural due process.

5. That the thirty day period for filing an application for a De Novo Hearing in this case should be from the date of the receipt of the order by the affected parties and not the date of the order itself.



6. That the mailing of an order by the Division to the affected parties fails to provide a reliable method of timely informing the affected parties of that decision.

7. That the letter mailed by Merrion & Bayless on June 16, 1980, (Exhibit B), constitutes timely filing of an application for De Novo Hearing.

8. That the application filed by Kellahin & Kellahin as attorneys for Merrion & Bayless on July 10, 1980, constitutes timely filing of an application for De Novo Hearing.

9. That the application mailed by Dale B. Dilts as attorney for Paul and Marie Brown, on July 2, 1980, constitutes timely filing of an application for De Novo Hearing.

10. That the Division's letter of July 16, 1980, constitutes a decision of the Division under Section 20-2-25 NMSA-1978 and that this Application for Rehearing has been timely filed.

11. That Rule 6 (a) and 6 (e) of the New Mexico Rules of Civil Procedure should be applied to this case thereby enlarging the thirty day period for filings herein.

12. That the Division should be required to adopt, establish, use and apply in this case and all other cases a method of service of Division orders to insure actual timely notice to the affected parties.

13. That the Division's actions in this case are arbitrary, capricious, not supported by substantial evidence and are therefore unlawful, invalid and void.

WHEREFORE, applicant prays that the Division grant a rehearing in the above captioned cause and that after rehearing as provided by law, the Division increase the risk factor penalty assessed in this case to the statutory maximum of 200%.

Respectfully submitted,

KELLAHIN & KELLAHIN

By: 

W. Thomas Kellahin  
P.O. Box 1769  
Santa Fe, New Mexico 87501

I certify that a true and correct copy of the foregoing  
were mailed to Dale B. Dilts, attorney for Paul and Marie Brown,  
this 29 day of July, 1980.

W. J. Kelso

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. 6892  
Order No. R-6366

APPLICATION OF MERRION & BAYLESS  
FOR COMPULSORY POOLING, RIO ARriba  
COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on May 21, 1980,  
at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 5th day of June, 1980, the Division  
Director, having considered the testimony, the record, and the  
recommendations of the Examiner, and being fully advised in the  
premises,

FINDS:

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

(2) That the applicant, Merrion & Bayless, seeks an order  
pooling all mineral interests in the South Blanco-Pictured  
Cliffs Pool underlying the SW/4 of Section 27, Township 24  
North, Range 2 West, NMPM, Rio Arriba County, New Mexico.

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

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

(5) That to avoid the drilling of unnecessary wells, to  
protect correlative rights, 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 gas  
in said pool, the subject application should be approved by  
pooling all mineral interests, whatever they may be, within  
said unit.

EXHIBIT  
A

-2-

Case No. 6892  
Order No. R-6366

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

(7) That 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) That 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 5 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(9) That any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but that actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(10) That 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) That \$150.00 should be fixed as a reasonable charge for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charge 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) That 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) That 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 September 15, 1980, the order pooling said unit should become null and void and of no effect whatsoever.

-3-

Case No. 6892  
Order No. R-6366

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the South Blanco-Pictured Cliffs Pool underlying the SW/4 of Section 27, Township 24 North, Range 2 West, NMPM, Rio Arriba County, New Mexico, are hereby pooled to form a standard 160-acre gas spacing and proration 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 15th day of September, 1980, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Pictured Cliffs formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 15th day of September, 1980, Order (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 Order (1) of this order should not be rescinded.

(2) That Merrion & Bayless is hereby designated the operator of the subject well and unit.

(3) That 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) That 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 that 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) That 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; that if

-4-

Case No. 6892

Order No. R-6366

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, that 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) That 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) That 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, 5 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) That the operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(9) That \$150.00 per month is hereby fixed as a reasonable charge for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charge 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.

-5-

Case No. 6892

Order No. R-6366

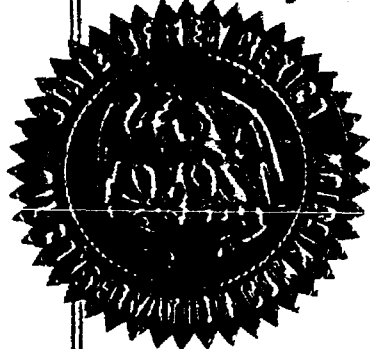
(10) That any unsevered mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(11) That any well costs or charges which are to be paid out of production shall be withheld only from the working interests share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(12) That 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; that 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) That 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.



S E A L

STATE OF NEW MEXICO  
OIL CONSERVATION DIVISION

*Joe D. Ramey*  
JOE D. RAMEY  
Director

fd/

June 16, 1980

State of New Mexico  
Energy & Minerals Department  
Oil Conservation Division  
P.O. Box 2088  
Santa Fe, NM 87501

RE: Order #R-6366  
Case 6892

Gentlemen:

We request a hearing to amend the risk factor provided in the above Order. We would like to point out that in November, 1979, under Order R-6193 a factor of 200% was allowed us. Because of the severe winter we were unable to timely drill the prescribed well and the Order expired. We were under notice from the U.S.G.S., a copy of the letter being attached, to drill a well in the SW/4 of Section 27, T24N, R2W, to prevent drainage of the USA minerals in the NW/SW of Section 27. After we had requested the Forced Pooling hearing but prior to the actual hearing a rotary rig became available and in order to fulfill our obligation to the U.S.G.S. we drilled the subject well (East Lindrith #5.) We should point out that no additional geologic knowledge was available to us subsequent to the original hearing and prior to the drilling of the subject well, so it is difficult to rationalize a change in the risk factor.

Also, the well itself has been drilled and casing cemented but no completion work has been done and costs incurred to date are approximately only one-half of the eventual total costs.

It also should be pointed out that electric log interpretation in this area is not precisely definitive and the risk of a successful completion after the drilling of the well is very substantial.





Oil Conservation Division  
June 16, 1980  
Page 2

Because of the above we request an amendment of the above Order to change the risk factor to 200% as allowed by law. If necessary to accomplish this we request a hearing or if required a DeNovo hearing, and in any instance at the earliest possible moment.

Yours truly,

MERRION & BAYLESS

By \_\_\_\_\_  
ROBERT L. BAYLESS

RLB/eh

Enclosure (1)

RECEIVED  
JUL 0 9 1980  
OIL CONSERVATION DIVISION  
SANTA FE

JUL 2, 1980

RECEIVED  
JUL 0 8 1980  
OIL CONSERVATION DIVISION  
SANTA FE

Oil Conservation Commission  
P. O. Box 2088  
Santa Fe, New Mexico 87501

Re: Order of the Division  
Case No. 6892  
Order No. R-6366

Gentlemen:

Paul Brown and Marie Ann Brown, his wife, hereby appeal from the captioned order and respectfully request another hearing de novo relative thereto. As grounds therefor the Browns show the Oil Conservation Commission that the gas well involved was completed by Merrion and Bayless prior to the hearing on May 21, 1980.

Yours very truly,

*Dale B. Dilts*  
Dale B. Dilts  
Attorney for the Browns

DBD:mms

*1/8/80*  
*Talked to Mr. Dilts relation to his de novo request. He still wants to go with the de novo but will advise his clients on the 57% risk factor, i.e., its advantages.*

*E/P*



Jason Kellahin  
W. Thomas Kellahin  
Karen Aubrey

KELLAHIN and KELLAHIN  
*Attorneys at Law*  
500 Don Gaspar Avenue  
Post Office Box 1769  
Santa Fe, New Mexico 87501

Telephone 982-4285  
Area Code 505

July 10, 1980

Mr. Joe Ramey, Director  
New Mexico Oil Conservation Division  
P. O. Box 2088  
Santa Fe, New Mexico 87501

re: Application of Merrion & Bayless  
Case No. 6892, Order No. R-6366

Dear Mr. Ramey:

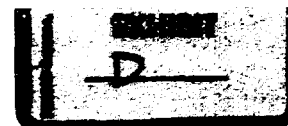
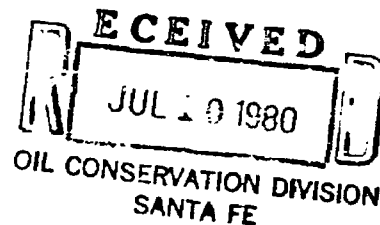
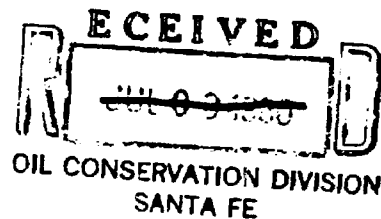
Merrion and Bayless request a hearing de novo before  
the Oil Conservation Commission, particularly as to the  
risk factor allowed in Order No. R-6366.

Yours very truly,

*Jason Kellahin*  
Jason Kellahin

cc: J. Gregory Merrion

JK:msf





STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION

BRUCE KING  
GOVERNOR  
LARRY KEHOE  
SECRETARY

July 16, 1980

POST OFFICE BOX 2088  
STATE LAND OFFICE BUILDING  
SANTA FE, NEW MEXICO 87501  
(505) 827-2434

Kellahin & Kellahin  
Attorneys at Law  
Post Office Box 1769  
Santa Fe, New Mexico 87501

Dale B. Dilts  
Attorney at Law  
4 Marble Plaza Center  
6001 Marble N.E.  
Albuquerque, New Mexico 87110

Re: Case No. 6892  
Order No. R-6366  
Applications for  
De Novo Hearing

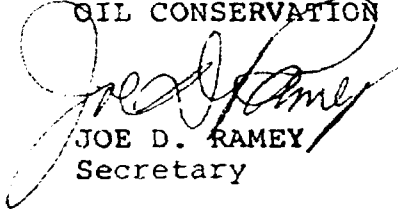
Gentlemen:

Paul and Marie Brown and Merrion and Bayless, through their attorneys, have requested de novo hearings in the above-referenced case. After examining both applications it appears that neither of the applications for de novo hearings was timely filed.

The order for which de novo hearings are requested was entered on June 5, 1980. The application for de novo hearing should have been filed with the Commission no later than July 7, 1980, within 30 days after issuance of the order. The Brown application was received by the Commission on July 8, 1980, one day late. The Merrion and Bayless application was received on July 10.

Accordingly, both applications for de novo hearings before the Oil Conservation Commission are hereby denied.

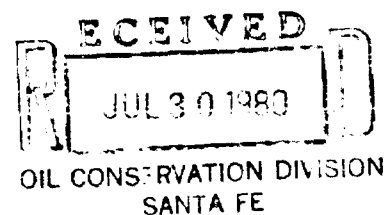
STATE OF NEW MEXICO  
OIL CONSERVATION COMMISSION

  
JOE D. RAMEY  
Secretary

JDR/fd



STATE OF NEW MEXICO  
ENERGY & MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION



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

Case No. 6892  
Order No. R-6398

APPLICATION OF MERRION & BAYLESS  
FOR COMPULSORY POOLING, RIO ARriba  
COUNTY, NEW MEXICO

APPLICATION FOR REHEARING

COMES NOW MERRION & BAYLESS, by their attorneys KELLAHIN & KELLAHIN,  
and pursuant to the Provision of Section 70-2-25 New Mexico Statutes  
Annotated, 1978, and apply to the Oil Conservation Division of New Mexico  
for Rehearing of the above captioned Case No. 6892 and Order No. R-6366  
issued pursuant thereto and in support thereof state:

STATEMENT OF FACTS:

1. The applicant, Merrion & Bayless, received New Mexico Oil  
Conservation Division Order No. R-6366 on June 16, 1980 under the Division  
cover letter dated June 13, 1980. Said order, attached as Exhibit "A", was  
entered on June 5, 1980 and adversely affects Merrion & Bayless, a party herein.
2. That on June 16, 1980, Merrion & Bayless wrote a letter to the Oil  
Conservation Division deposited in the U.S. Mails on June 16, 1980, postage  
paid, attached hereto as Exhibit "B", requesting another hearing on this matter  
to have the risk factor penalty increased to 200%.
3. That the risk factor entered herein is arbitrary and not supported  
by substantial evidence.
4. That the substantial evidence in this case supports the awarding  
of a 200% risk factor.
5. That on July 2, 1980, Paul and Marie Brown, an interested and affected  
party to this case, through their attorney, mailed a letter requesting a De

Novo Hearing in this matter, said letter mailed to the Oil Conservation Division, deposited in the U.S. Mails on July 2, 1980, postage paid, and attached hereto as Exhibit "C".

6. That on July 10, 1980, Merrion & Bayless, through their attorneys filed another application for a De Novo Hearing which was received by the New Mexico Oil Conservation Division on July 10, 1980, a copy of which is attached hereto as Exhibit "D".

7. That all the affected parties have timely applied for a De Novo Hearing.

8. That on July 16, 1980, the New Mexico Oil Conservation Division sent to the attorneys for the respective parties a letter denying the applications for a De Novo Hearing for both parties, a copy of which is attached hereto as Exhibit "E".

#### GROUND FOR REHEARING

1. Section 70-2-13 NMSA-1978 provides in part that:

"When any matter or proceedings is referred to an examiner and a decision is rendered thereon, any party adversely affected shall have the right to have said matter heard De Novo before the Commission upon application filed with the division within thirty days from the time any such decision is rendered."

2. Although the subject order was entered on Thursday June 5, 1980, it was not mailed to the affected parties until Friday, June 13, 1980.

3. That the failure of the Division to timely mail copies of the order to the affected parties on the same date as the date of the order substantially reduces the time for the affected party to then file an application for a Hearing De Novo.

4. That such action by the Division has prejudiced the rights of Merrion & Bayless in this case and has arbitrarily denied them procedural due process.

5. That the thirty day period for filing an application for a De Novo Hearing in this case should be from the date of the receipt of the order by the affected parties and not the date of the order itself.

6. That the mailing of an order by the Division to the affected parties fails to provide a reliable method of timely informing the affected parties of that decision.

7. That the letter mailed by Merrion & Bayless on June 16, 1980, (Exhibit B), constitutes timely filing of an application for De Novo Hearing.

8. That the application filed by Kellahin & Kellahin as attorneys for Merrion & Bayless on July 10, 1980, constitutes timely filing of an application for De Novo Hearing.

9. That the application mailed by Dale B. Dilts as attorney for Paul and Marie Brown, on July 2, 1980, constitutes timely filing of an application for De Novo Hearing.

10. That the Division's letter of July 16, 1980, constitutes a decision of the Division under Section 20-2-25 NMSA-1978 and that this Application for Rehearing has been timely filed.

11. That Rule 6 (a) and 6 (e) of the New Mexico Rules of Civil Procedure should be applied to this case thereby enlarging the thirty day period for filings herein.

12. That the Division should be required to adopt, establish, use and apply in this case and all other cases a method of service of Division orders to insure actual timely notice to the affected parties.

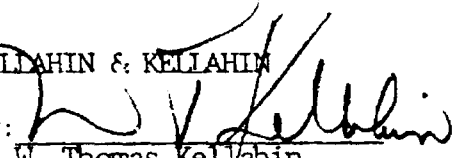
13. That the Division's actions in this case are arbitrary, capricious, not supported by substantial evidence and are therefore unlawful, invalid and void.

WHEREFORE, applicant prays that the Division grant a rehearing in the above captioned cause and that after rehearing as provided by law, the Division increase the risk factor penalty assessed in this case to the statutory maximum of 200%.

Respectfully submitted,

KELLAHIN & KELLAHIN

By:

  
W. Thomas Kellahin  
P.O. Box 1769  
Santa Fe, New Mexico 87501

I certify that a true and correct copy of the foregoing  
were mailed to Dale B. Dilts, attorney for Paul and Marie Brown,  
this 29 day of July, 1980.

W. J. Kelso



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. 6892  
Order No. R-6366

APPLICATION OF MERRION & BAYLESS  
FOR COMPULSORY POOLING, RIO ARRIBA  
COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on May 21, 1980,  
at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 5th day of June, 1980, the Division  
Director, having considered the testimony, the record, and the  
recommendations of the Examiner, and being fully advised in the  
premises,

FINDS:

- (1) That due public notice having been given as required  
by law, the Division has jurisdiction of this cause and the  
subject matter thereof.
- (2) That the applicant, Merrion & Bayless, seeks an order  
pooling all mineral interests in the South Blanco-Pictured  
Cliffs Pool underlying the SW/4 of Section 27, Township 24  
North, Range 2 West, NMPM, Rio Arriba County, New Mexico.
- (3) That the applicant has the right to drill and proposes  
to drill a well at a standard location thereon.
- (4) That there are interest owners in the proposed proration  
unit who have not agreed to pool their interests.
- (5) That to avoid the drilling of unnecessary wells, to  
protect correlative rights, 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 gas  
in said pool, the subject application should be approved by  
pooling all mineral interests, whatever they may be, within  
said unit.



-2-

Case No. 6892

Order No. R-6366

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

(7) That 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) That 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 5 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(9) That any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but that actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(10) That 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) That \$150.00 should be fixed as a reasonable charge for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charge 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) That 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) That 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 September 15, 1980, the order pooling said unit should become null and void and of no effect whatsoever.

-3-

Case No. 6892

Order No. R-6366

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the South Blanco-Pictured Cliffs Pool underlying the SW/4 of Section 27, Township 24 North, Range 2 West, NMPM, Rio Arriba County, New Mexico, are hereby pooled to form a standard 160-acre gas spacing and proration 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 15th day of September, 1980, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Pictured Cliffs formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 15th day of September, 1980, Order (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 Order (1) of this order should not be rescinded.

(2) That Merrion & Bayless is hereby designated the operator of the subject well and unit.

(3) That 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) That 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 that 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) That 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; that if

-4-

Case No. 6892  
Order No. R-6366

no objection to the actual well costs is received by the Division and the Division has not objected within 45 days following racei of said schedule, the actual well costs shall be the reasonable well costs; provided however, that 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) That 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) That 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, 5 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) That the operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(9) That \$150.00 per month is hereby fixed as a reasonable charge for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charge 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.

-5-

Case No. 6892  
Order No. R-6366

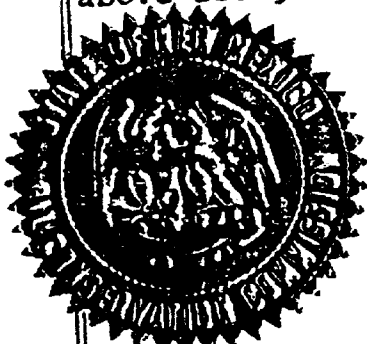
(10) That any unsevered mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(11) That any well costs or charges which are to be paid out of production shall be withheld only from the working interests share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(12) That 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; that 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) That 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.



S E A L

STATE OF NEW MEXICO  
OIL CONSERVATION DIVISION

*Joe D. Ramey*  
JOE D. RAMEY  
Director

fd/

June 15, 1980

State of New Mexico  
Energy & Minerals Department  
Oil Conservation Division  
P.O. Box 2088  
Santa Fe, NM 87501

RE: Order #R-6366  
Case 6892

Gentlemen:

We request a hearing to amend the risk factor provided in the above Order. We would like to point out that in November, 1979, under Order R-6193 a factor of 200% was allowed us. Because of the severe winter we were unable to timely drill the prescribed well and the Order expired. We were under notice from the U.S.G.S., a copy of the letter being attached, to drill a well in the SW/4 of Section 27, T24N, R2W, to prevent drainage of the USA minerals in the NW/SW of Section 27. After we had requested the Forced Pooling hearing but prior to the actual hearing a rotary rig became available and in order to fulfill our obligation to the U.S.G.S. we drilled the subject well (East Lindrith #5.) We should point out that no additional geologic knowledge was available to us subsequent to the original hearing and prior to the drilling of the subject well, so it is difficult to rationalize a change in the risk factor.

Also, the well itself has been drilled and casing cemented but no completion work has been done and costs incurred to date are approximately only one-half of the eventual total costs.

It also should be pointed out that electric log interpretation in this area is not precisely definitive and the risk of a successful completion after the drilling of the well is very substantial.



Oil Conservation Division  
June 16, 1980  
Page 2.

Because of the above we request an amendment of the above Order to change the risk factor to 200% as allowed by law. If necessary to accomplish this we request a hearing or if required a DeNova hearing, and in any instance at the earliest possible moment.

Yours truly,

MERPION & BAYLESS

By \_\_\_\_\_  
ROBERT L. BAYLESS

RLB/eh

Enclosure (1)

RECEIVED  
JUL 0 8 1980  
OIL CONSERVATION DIVISION  
SANTA FE

JUL 2, 1980

RECEIVED  
JUL 0 8 1980  
OIL CONSERVATION DIVISION  
SANTA FE

Oil Conservation Commission  
P. O. Box 2088  
Santa Fe, New Mexico 87501

Re: Order of the Division  
Case No. 6892  
Order No. R-6366

Gentlemen:

Paul Brown and Marie Ann Brown, his wife, hereby appeal from the captioned order and respectfully request another hearing de novo relative thereto. As grounds therefor the Browns show the Oil Conservation Commission that the gas well involved was completed by Merrion and Bayless prior to the hearing on May 21, 1980.

Yours very truly,

*Dale B. Dilts*

Dale B. Dilts  
Attorney for the Browns

DBD:mms

7/8/80  
Talked to Mr. Dilts relation to his de novo request. He still wants to go with the de novo but will advise his clients on the 57% risk factor, i.e., its advantages.

*E/P*





Jason Kellahin  
W. Thomas Kellahin  
Karen Aubrey

KELLAHIN and KELLAHIN  
*Attorneys at Law*  
500 Don Gaspar Avenue  
Post Office Box 1769  
Santa Fe, New Mexico 87501

Telephone 982-4285  
Area Code 505

July 10, 1980

Mr. Joe Ramey, Director  
New Mexico Oil Conservation Division  
P. O. Box 2088  
Santa Fe, New Mexico 87501

re: Application of Merrion & Payless  
Case No. 6892, Order No. R-6366

Dear Mr. Ramey:

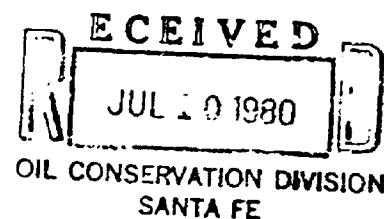
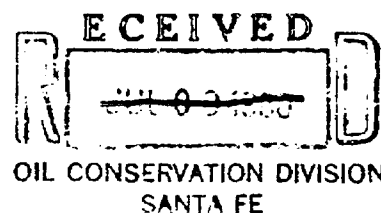
Merrion and Bayless request a hearing de novo before  
the Oil Conservation Commission, particularly as to the  
risk factor allowed in Order No. R-6366.

Yours very truly,

*Jason Kellahin*  
Jason Kellahin

cc: J. Gregory Merrion

JK:msf





BRUCE KING  
GOVERNOR  
LARRY KEHOE  
SECRETARY

STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION

July 16, 1980

POST OFFICE BOX 2088  
STATE LAND OFFICE BUILDING  
SANTA FE, NEW MEXICO 87501  
(505) 827-8434

Kellahin & Kellahin  
Attorneys at Law  
Post Office Box 1769  
Santa Fe, New Mexico 87501

Dale B. Dilts  
Attorney at Law  
4 Marble Plaza Center  
6001 Marble N.E.  
Albuquerque, New Mexico 87110

Re: Case No. 6892  
Order No. R-6366  
Applications for  
De Novo Hearing

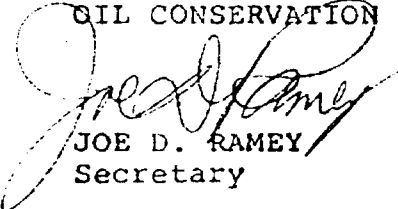
Gentlemen:

Paul and Marie Brown and Merrion and Bayless, through their attorneys, have requested de novo hearings in the above-referenced case. After examining both applications it appears that neither of the applications for de novo hearings was timely filed.

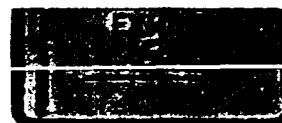
The order for which de novo hearings are requested was entered on June 5, 1980. The application for de novo hearing should have been filed with the Commission no later than July 7, 1980, within 30 days after issuance of the order. The Brown application was received by the Commission on July 8, 1980, one day late. The Merrion and Bayless application was received on July 10.

Accordingly, both applications for de novo hearings before the Oil Conservation Commission are hereby denied.

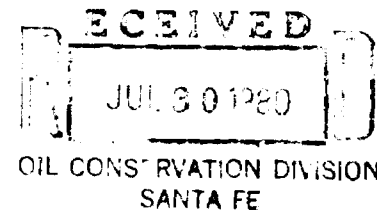
STATE OF NEW MEXICO  
OIL CONSERVATION COMMISSION

  
JOE D. RAMEY  
Secretary

JDR/fd



STATE OF NEW MEXICO  
ENERGY & MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION



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

Case No. 6892  
Order No. R-6398

APPLICATION OF MERRION & BAYLESS  
FOR COMPULSORY POOLING, RIO ARriba  
COUNTY, NEW MEXICO

APPLICATION FOR REHEARING

COMES NOW MERRION & BAYLESS, by their attorneys KELLAHIN & KELLAHIN,  
and pursuant to the Provision of Section 70-2-25 New Mexico Statutes  
Annotated, 1978, and apply to the Oil Conservation Division of New Mexico  
for Rehearing of the above captioned Case No. 6892 and Order No. R-6366  
issued pursuant thereto and in support thereof state:

STATEMENT OF FACTS:

1. The applicant, Merrion & Bayless, received New Mexico Oil Conservation Division Order No. R-6366 on June 16, 1980 under the Division cover letter dated June 13, 1980. Said order, attached as Exhibit "A", was entered on June 5, 1980 and adversely affects Merrion & Bayless, a party herein.
2. That on June 16, 1980, Merrion & Bayless wrote a letter to the Oil Conservation Division deposited in the U.S. Mails on June 16, 1980, postage paid, attached hereto as Exhibit "B", requesting another hearing on this matter to have the risk factor penalty increased to 200%.
3. That the risk factor entered herein is arbitrary and not supported by substantial evidence.
4. That the substantial evidence in this case supports the awarding of a 200% risk factor.
5. That on July 2, 1980, Paul and Marie Brown, an interested and affected party to this case, through their attorney, mailed a letter requesting a De

Novo Hearing in this matter, said letter mailed to the Oil Conservation Division, deposited in the U.S. Mails on July 2, 1980, postage paid, and attached hereto as Exhibit "C".

6. That on July 10, 1980, Merrion & Bayless, through their attorneys filed another application for a De Novo Hearing which was received by the New Mexico Oil Conservation Division on July 10, 1980, a copy of which is attached hereto as Exhibit "D".

7. That all the affected parties have timely applied for a De Novo Hearing.

8. That on July 16, 1980, the New Mexico Oil Conservation Division sent to the attorneys for the respective parties a letter denying the applications for a De Novo Hearing for both parties, a copy of which is attached hereto as Exhibit "E".

#### GROUND FOR REHEARING

1. Section 70-2-13 NMSA-1978 provides in part that:

"When any matter or proceedings is referred to an examiner and a decision is rendered thereon, any party adversely affected shall have the right to have said matter heard De Novo before the Commission upon application filed with the division within thirty days from the time any such decision is rendered."

2. Although the subject order was entered on Thursday June 5, 1980, it was not mailed to the affected parties until Friday, June 13, 1980.

3. That the failure of the Division to timely mail copies of the order to the affected parties on the same date as the date of the order substantially reduces the time for the affected party to then file an application for a Hearing De Novo.

4. That such action by the Division has prejudiced the rights of Merrion & Bayless in this case and has arbitrarily denied them procedural due process.

5. That the thirty day period for filing an application for a De Novo Hearing in this case should be from the date of the receipt of the order by the affected parties and not the date of the order itself.

6. That the mailing of an order by the Division to the affected parties fails to provide a reliable method of timely informing the affected parties of that decision.

7. That the letter mailed by Merrion & Bayless on June 16, 1980, (Exhibit B), constitutes timely filing of an application for De Novo Hearing.

8. That the application filed by Kellahin & Kellahin as attorneys for Merrion & Bayless on July 10, 1980, constitutes timely filing of an application for De Novo Hearing.

9. That the application mailed by Dale B. Dilts as attorney for Paul and Marie Brown, on July 2, 1980, constitutes timely filing of an application for De Novo Hearing.

10. That the Division's letter of July 16, 1980, constitutes a decision of the Division under Section 20-2-25 NMSA-1978 and that this Application for Rehearing has been timely filed.

11. That Rule 6 (a) and 6 (e) of the New Mexico Rules of Civil Procedure should be applied to this case thereby enlarging the thirty day period for filings herein.

12. That the Division should be required to adopt, establish, use and apply in this case and all other cases a method of service of Division orders to insure actual timely notice to the affected parties.

13. That the Division's actions in this case are arbitrary, capricious, not supported by substantial evidence and are therefore unlawful, invalid and void.

WHEREFORE, applicant prays that the Division grant a rehearing in the above captioned cause and that after rehearing as provided by law, the Division increase the risk factor penalty assessed in this case to the statutory maximum of 200%.

Respectfully submitted,

KELLAHIN & KELLAHIN

By:

W. Thomas Kellahin  
P.O. Box 1769

Santa Fe, New Mexico 87501

I certify that a true and correct copy of the foregoing  
were mailed to Dale B. Dilts, attorney for Paul and Marie Brown,  
this 29 day of July, 1980.

W. J. Kelso

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. 6892  
Order No. R-6366

APPLICATION OF MERRION & BAYLESS  
FOR COMPULSORY POOLING, RIO ARriba  
COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on May 21, 1980,  
at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 5th day of June, 1980, the Division  
Director, having considered the testimony, the record, and the  
recommendations of the Examiner, and being fully advised in the  
premises,

FINDS:

- (1) That due public notice having been given as required  
by law, the Division has jurisdiction of this cause and the  
subject matter thereof.
- (2) That the applicant, Merrion & Bayless, seeks an order  
pooling all mineral interests in the South Blanco-Pictured  
Cliffs Pool underlying the SW/4 of Section 27, Township 24  
North, Range 2 West, NMPM, Rio Arriba County, New Mexico.
- (3) That the applicant has the right to drill and proposes  
to drill a well at a standard location thereon.
- (4) That there are interest owners in the proposed proration  
unit who have not agreed to pool their interests.
- (5) That to avoid the drilling of unnecessary wells, to  
protect correlative rights, 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 gas  
in said pool, the subject application should be approved by  
pooling all mineral interests, whatever they may be, within  
said unit.

-2-

Case No. 6892  
Order No. R-6366

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

(7) That 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) That 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 5 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(9) That any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but that actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(10) That 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) That \$150.00 should be fixed as a reasonable charge for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charge 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) That 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) That 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 September 15, 1980, the order pooling said unit should become null and void and of no effect whatsoever.



-3-

Case No. 6892  
Order No. R-6366

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the South Blanco-Pictured Cliffs Pool underlying the SW/4 of Section 27, Township 24 North, Range 2 West, NMPM, Rio Arriba County, New Mexico, are hereby pooled to form a standard 160-acre gas spacing and proration 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 15th day of September, 1980, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Pictured Cliffs formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 15th day of September, 1980, Order (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 Order (1) of this order should not be rescinded.

(2) That Merrion & Bayless is hereby designated the operator of the subject well and unit.

(3) That 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) That 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 that 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) That 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; that if

-4-

Case No. 6892

Order No. R-6366

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, that 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) That 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) That 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, 5 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) That the operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(9) That \$150.00 per month is hereby fixed as a reasonable charge for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charge 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.

-5-

Case No. 6892

Order No. R-6366

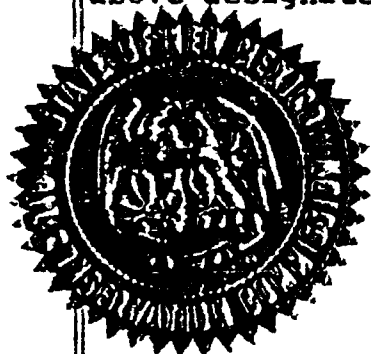
(10) That any unsevered mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(11) That any well costs or charges which are to be paid out of production shall be withheld only from the working interests share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(12) That 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; that 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) That 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.



S E A L

STATE OF NEW MEXICO  
OIL CONSERVATION DIVISION

*Joe D. Ramey*  
JOE D. RAMEY  
Director

1d/

June 16, 1980

State of New Mexico  
Energy & Minerals Department  
Oil Conservation Division  
P.O. Box 2088  
Santa Fe, NM 87501

RE: Order #R-6366  
Case 6892

Gentlemen:

We request a hearing to amend the risk factor provided in the above Order. We would like to point out that in November, 1979, under Order R-6193 a factor of 200% was allowed us. Because of the severe winter we were unable to timely drill the prescribed well and the Order expired. We were under notice from the U.S.G.S., a copy of the letter being attached, to drill a well in the SW/4 of Section 27, T24N, R2W, to prevent drainage of the USA minerals in the NW/SW of Section 27. After we had requested the Forced Pooling hearing but prior to the actual hearing a rotary rig became available and in order to fulfill our obligation to the U.S.G.S. we drilled the subject well (East Lindrith #5.) We should point out that no additional geologic knowledge was available to us subsequent to the original hearing and prior to the drilling of the subject well, so it is difficult to rationalize a change in the risk factor.

Also, the well itself has been drilled and casing cemented but no completion work has been done and costs incurred to date are approximately only one-half of the eventual total costs.

It also should be pointed out that electric log interpretation in this area is not precisely definitive and the risk of a successful completion after the drilling of the well is very substantial.



Oil Conservation Division  
June 16, 1980  
Page 2.

Because of the above we request an amendment of the above Order to change the risk factor to 200% as allowed by law. If necessary to accomplish this we request a hearing or if required a DeNova hearing, and in any instance at the earliest possible moment.

Yours truly,

MERRION & BAYLESS

By \_\_\_\_\_  
ROBERT L. BAYLESS

RLB/eh

Enclosure (1)

RECEIVED  
JUL 0 8 1980  
OIL CONSERVATION DIVISION  
SANTA FE

JUL 2, 1980

RECEIVED  
JUL 0 8 1980  
OIL CONSERVATION DIVISION  
SANTA FE

Oil Conservation Commission  
P. O. Box 2088  
Santa Fe, New Mexico 87501

Re: Order of the Division  
Case No. 6892  
Order No. R-6366

Gentlemen:

Paul Brown and Marie Ann Brown, his wife, hereby appeal from the captioned order and respectfully request another hearing de novo relative thereto. As grounds therefor the Browns show the Oil Conservation Commission that the gas well involved was completed by Merrion and Bayless prior to the hearing on May 21, 1980.

Yours very truly,

*Dale B. Dilts*  
Dale B. Dilts  
Attorney for the Browns

DBD:mms

7/8/80  
Talked to Mr. Dilts relation to his de novo request. He still wants to go with the de novo but will advise his clients on the 57% risk factor, i.e., its advantages.

*E/P*



Jason Kellahin  
W. Thomas Kellahin  
Karen Aubrey

KELLAHIN and KELLAHIN  
*Attorneys at Law*  
500 Don Gaspar Avenue  
Post Office Box 1769  
Santa Fe, New Mexico 87501

Telephone 982-4285  
Area Code 505

July 10, 1980

Mr. Joe Ramey, Director  
New Mexico Oil Conservation Division  
P. O. Box 2088  
Santa Fe, New Mexico 87501

re: Application of Merrion & Bayless  
Case No. 6892, Order No. R-6366

Dear Mr. Ramey:

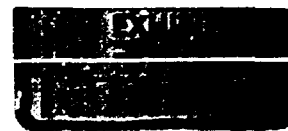
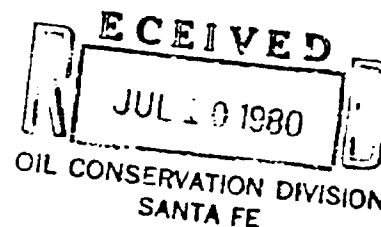
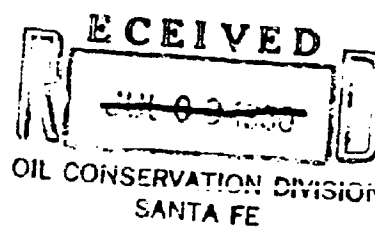
Merrion and Bayless request a hearing de novo before  
the Oil Conservation Commission, particularly as to the  
risk factor allowed in Order No. R-6366.

Yours very truly,

*Jason Kellahin*  
Jason Kellahin

cc: J. Gregory Merrion

JK:msf





BRUCE KING  
GOVERNOR  
LARRY KEHOE  
SECRETARY

STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION

POST OFFICE BOX 2088  
STATE LAND OFFICE BUILDING  
SANTA FE, NEW MEXICO 87501  
(505) 827-8434

July 16, 1980

Kellahin & Kellahin  
Attorneys at Law  
Post Office Box 1769  
Santa Fe, New Mexico 87501

Dale B. Dilts  
Attorney at Law  
4 Marble Plaza Center  
6001 Marble N.E.  
Albuquerque, New Mexico 87110

Re: Case No. 6892  
Order No. R-6366  
Applications for  
De Novo Hearing

Gentlemen:

Paul and Marie Brown and Merrion and Bayless, through their attorneys, have requested de novo hearings in the above-referenced case. After examining both applications it appears that neither of the applications for de novo hearings was timely filed.

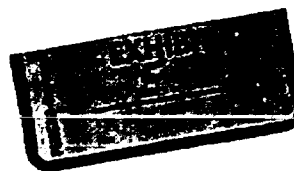
The order for which de novo hearings are requested was entered on June 5, 1980. The application for de novo hearing should have been filed with the Commission no later than July 7, 1980, within 30 days after issuance of the order. The Brown application was received by the Commission on July 8, 1980, one day late. The Merrion and Bayless application was received on July 10.

Accordingly, both applications for de novo hearings before the Oil Conservation Commission are hereby denied.

STATE OF NEW MEXICO  
OIL CONSERVATION COMMISSION

*Joe D. Ramey*  
JOE D. RAMEY  
Secretary

JDR/fd





DRAFT

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

*Commission*

CASE NO. 6892 De Novo

Order No. R- R-6366-B

APPLICATION OF Merrin + Bayless  
for Compulsory Pooling, Rio Arriba  
COUNTY, NEW MEXICO.

*OK*

NUNC PRO TUNC ORDER

BY THE DIVISION:

*Commission*

It appearing to the Division that Order No. R- R-6366-A,  
dated August 13, 19 81, does not correctly state the  
intended order of the Division,

IT IS THEREFORE ORDERED:

(1) That ~~Order No. R-6366-A~~  
~~is hereby withdrawn and Order~~  
~~No R-6366~~ issued August  
13, 1981, is hereby withdrawn and  
the attached Order No R-6366-A-1  
dated September, 1981 is hereby  
substituted in lieu thereof.

~~(2) That this order and the attached order~~  
~~No. R-6366-A-1~~

(2) DONE at Santa Fe, New Mexico, on this

day of September, 1981.

STATE OF NEW MEXICO  
OIL CONSERVATION COMMISSION

ARMANDO

ARNOLD

RAMOS

ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION

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

CASE NO. 6892 DE NOVO  
Order No. R-6366-A-4

APPLICATION OF MERRION & BAYLESS  
FOR COMPULSORY POOLING, RIO ARRIBA  
COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing de novo at 9 a.m. on July 20, 1981, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this ~~13th~~ <sup>September</sup> day of ~~August~~, 1981, 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:

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

(2) That this cause originally came up for hearing on May 21, 1980, in Case No. 6892 before an examiner of the Oil Conservation Division, and as a result of said hearing the Oil Conservation Division issued its Order No. R-6366 pooling all mineral interests in the South Blanco-Pictured Cliffs Pool underlying the SW/4 of Section 27, Township 24 North, Range 2 West, NMPH, Rio Arriba County, New Mexico.

(3) That as a result of Order No. R-6366 applicant and protestant herein separately requested a de novo hearing before the Commission; that said requests for de novo hearings were denied by the Commission on the basis that said requests were not timely filed.

(4) That after exhausting ~~their~~ <sup>its</sup> remedies before the Commission, applicant ~~filed their~~ <sup>its</sup> Petition For a Writ of Mandamus in the District Court of Rio Arriba County, New Mexico, to compel the Oil Conservation Division to grant ~~them~~ a de novo hearing.

(5) That protestant herein, by and through his attorney, intervened in said district court action as a party of record.

(6) That said district court action was settled by a stipulation of all of the parties thereto that the Commission would grant to the applicant and protestant herein a hearing de novo in Case 6892.

(7) That by its order entered June 18, 1981, the District Court of Rio Arriba County, New Mexico, approved said stipulation and ordered that the Oil Conservation Commission grant a hearing de novo in Case 6892.

(2) That the applicant, Merriam & Bayless, seeks an order pooling all mineral interests in the South Blanco-Pictured Cliffs Pool underlying the SW/4 of Section 27, Township 24 North, Range 2 West, NMPM, Rio Arriba County, New Mexico.

*commenced but not complete*  
(9) That the applicant has the right to drill and <sup>has</sup> proposes to drill a well at a standard location thereon.

(10) That there are interest owners in the proposed proration unit who have not agreed to pool their interests.

(11) That to avoid the drilling of unnecessary wells, to protect correlative rights, 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 gas in said pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

(12) That the applicant should be designated the operator of the subject well and unit.

(13) That 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.

(14) That 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 150 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(15) That any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but that actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(16) That 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 <sup>S</sup>aid estimated well costs exceed reasonable well costs.

(17) That \$ 2700.00 per month while drilling and \$ 270.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that 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.

(18) That 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.

~~(19) That 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 \_\_\_\_\_, the order pooling said unit should become null and void and of no effect whatsoever.~~

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the South Blanco Pictured Cliffs Pool formation underlying the SW/4 of Section 27, Township 24 North, Range 2 West, NMPM, La Bamba, \_\_\_\_\_ County, New Mexico, are hereby pooled to form a standard 160- acre gas spacing and proration 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 \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, and shall thereafter~~ continue the drilling and completion of said well with due diligence to a depth sufficient to test the Pictured Cliffs formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, Order (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.

of this  
PROVIDED FURTHER, that should said well not be drilled to completion, or abandonment, within 120 days after <sup>the date</sup> ~~commencement~~ thereof, said operator shall appear before the Division Director and show cause why Order (1) of this order should not be rescinded.

(2) That Murrim + Engle is hereby designated the operator of the subject well and unit.

(3) That ~~after the effective date of this order and within 30 days after the effective date of this order~~ <sup>30 days after the effective date of this order</sup> ~~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) That 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 that 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) That 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; that 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, that 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) That 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

-5-  
Case No.  
Order No. R-

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) That 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, 150 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) That the operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(9) That \$ 2700.00 per month while drilling and \$ 270.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that 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.

-6-  
Case  
Order No.

(10) That 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) That 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) That 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; that 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) That 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 herein-  
above designated.

Sx of NM  
OCC

ARMIDO  
ARNOLD  
RAMEY