

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

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

CASE NO. 11962
ORDER NO. R-2650-A

APPLICATION OF MERRION OIL & GAS CORPORATION FOR COMPULSORY
POOLING AND A NON-STANDARD GAS WELL LOCATION, SAN JUAN COUNTY,
NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on April 16 and May 14, 1998 at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 19th day of June, 1998 the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

FINDS THAT:

- (1) Due public notice has been given and the Division has jurisdiction of this case.
- (2) By Division Order No. R-2650, dated February 12, 1964, and issued in Case No. 2980 all mineral interests in the Basin-Dakota Pool underlying the W/2 of Section 15, Township 29 North, Range 13 West, NMPM, San Juan County, were pooled in order to form a standard 320-acre gas spacing and proration unit for that pool. Order No. R-2650 also authorized Pioneer Production Corporation to drill its Farmington "C" Com. Well No. 1 (API No. 30-045-12174) in the Basin-Dakota Pool at an unorthodox gas well location within the unit 1625 feet from the South line and 1250 feet from the West line (Unit L) of Section 15.
- (3) The applicant in this case, Merrion Oil & Gas Corporation ("Merrion"), which now owns and operates the Farmington "C" Com. Well No. 1, intends to abandon the Dakota interval within the wellbore and recomplete up-hole into the West Kutz-Pictured Cliffs Pool. At this time Merrion seeks an order pooling all mineral interests in the Pictured Cliffs formation underlying the SW/4 of Section 15 in order to form a standard 160-acre gas spacing and proration unit for the West Kutz-Pictured Cliffs Pool.
- (4) Pursuant to **Rule 104.C(3)(a)** of the Division's rules governing the West Kutz-Pictured Cliffs Pool, the location of the Farmington "C" Com. Well No. 1 is considered to be unorthodox.

(5) The applicant owns an interest in the West Kutz-Pictured Cliffs Pool underlying the NW/4 of Section 15 and as such has the right to drill for and develop those minerals underlying the proposed 160-acre spacing unit.

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

(7) No interested or affected party appeared at the hearing in opposition to this application.

(8) To avoid the drilling of unnecessary wells, to protect correlative rights, to prevent waste and to afford to the owner of each interest in the unit the opportunity to recover or receive without unnecessary expense a just and fair share of hydrocarbon production from the West Kutz-Pictured Cliffs Pool, this application should be approved by pooling all mineral interests, whatever they may be, within the 160-acre unit. In addition, to afford the applicant the opportunity to produce its just and equitable share of the gas in the West Kutz-Pictured Cliffs Pool, prevent the economic loss caused by the drilling of unnecessary wells, avoid the augmentation of risk arising from the drilling of an excessive number of wells and otherwise prevent waste and protect correlative rights, the proposed unorthodox gas well location should be approved.

(9) Merrion should: (i) remain the operator of the well; and (ii) be designated the operator of the 160-acre unit.

(10) Any non-consenting working interest owner should be afforded the opportunity to pay its proportionate share of estimated recompletion costs to the operator.

(11) The applicant requested that a risk penalty of 200 percent be assessed against non-consenting interest owners.

(12) Inasmuch as the well has already been drilled, the remaining risk should apply only to re-entry and recompletion operations to be conducted on the well. The risk penalty should therefore be reduced.

(13) Any non-consenting working interest owner who does not pay its proportionate share of estimated recompletion costs should have withheld from production its proportionate share of reasonable recompletion costs plus an additional 100 percent as a reasonable charge for the risk involved in the recompletion of the well.

(14) Any non-consenting interest owner should be afforded the opportunity to object to the actual recompletion costs but actual recompletion costs should be adopted as the reasonable recompletion costs in the absence of such objection.

(15) Following determination of reasonable recompletion costs, any non-consenting working interest owner who has paid its proportionate share of estimated costs should pay to the

operator any amount that reasonable recompletion costs exceed estimated recompletion costs and should receive from the operator any amount that paid estimated recompletion costs exceed reasonable recompletion costs.

(16) \$3,871.88 per month while recompleting and \$371.67 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); the operator should be authorized to withhold from production the proportionate share of the supervision charges and actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(17) All proceeds from production from the 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.

(18) If the operator fails to commence recompletion of the well on or before August 15, 1998, or if all the parties to this force-pooling reach voluntary agreement subsequent to entry of this order, this order should become null and void and of no further effect whatsoever.

(19) The operator of the well and 160-acre unit should notify the Division in writing of the subsequent voluntary agreement of all parties subject to the force-pooling provisions of this order.

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be, within the Pictured Cliffs formation underlying the SW/4 of Section 15, Township 29 North, Range 13 West, NMPM, San Juan County, New Mexico, are hereby pooled to form a standard 160-acre gas spacing and proration unit within the West Kutz-Pictured Cliffs Pool. The unit shall be dedicated to the existing Farmington "C" Com. Well No. 1 (API No. 30-045-12174), located at an unorthodox gas well location 1625 feet from the South line and 1250 feet from the West line (Unit L) of Section 15.

PROVIDED HOWEVER THAT, the operator of the unit shall commence recompleting the well, with due diligence, on or before the fifteenth day of August, 1998.

PROVIDED FURTHER THAT, in the event the operator does not commence recompleting the well on or before the fifteenth day of August, 1998, Ordering Paragraph (1) of this order shall be null and void and of no effect whatsoever, unless the operator obtains a time extension from the Division for good cause shown.

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

(2) Merrion Oil & Gas Corporation ("Merrion") is hereby designated the operator of

the well and unit.

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

(4) Within 30 days from the date the schedule of estimated recompletion costs is furnished, any non-consenting working interest owner shall have the right to pay its proportionate share of estimated recompletion costs to the operator in lieu of paying its proportionate share of reasonable recompletion costs out of production, and any such owner who pays its proportionate share of estimated recompletion costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(5) The operator shall furnish the Division and each known working interest owner an itemized schedule of actual recompletion costs within 90 days following the recompletion; if no objection to the actual recompletion costs is received or made by the Division, the actual recompletion costs shall be the reasonable recompletion costs; provided however, if there is an objection to actual recompletion costs within the 45-day period the Division will determine reasonable recompletion costs after public notice and hearing.

(6) Within 60 days following determination of reasonable recompletion costs, any non-consenting working interest owner who has paid its proportionate share of estimated recompletion costs in advance as provided above shall pay to the operator its proportionate share of the amount that reasonable recompletion costs exceed estimated recompletion costs and shall receive from the operator its proportionate share of the amount that estimated recompletion costs exceed reasonable recompletion costs.

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

- (a) The proportionate share of reasonable recompletion costs attributable to each non-consenting working interest owner who has not paid its proportionate share of estimated recompletion costs within 30 days from the date the schedule of estimated recompletion costs is furnished; and
- (b) As a charge for the risk involved in recompleting the well, 100 percent of the proportionate share of reasonable recompletion costs attributable to each non-consenting working interest owner who has not paid its proportionate share of estimated recompletion costs within 30 days from the date the schedule of estimated recompletion costs is furnished.

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

(9) \$3,871.88 per month while recompleting and \$371.67 per month while producing are fixed as reasonable charges for supervision (combined fixed rates); the operator is authorized to withhold from production the proportionate share of such supervision charges and actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(10) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

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

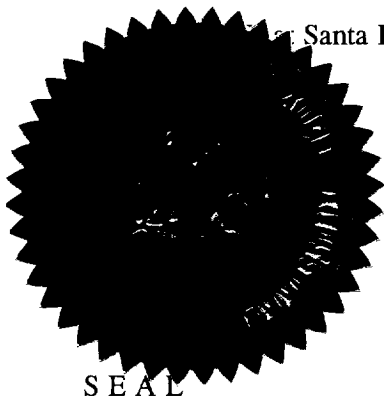
(12) All proceeds from production from the well which are not disbursed for any reason shall be placed in escrow in San Juan County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; the operator shall notify the Division of the name and address of the escrow agent within 30 days from the date of first deposit with the escrow agent.

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

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

(15) Jurisdiction is hereby retained for the entry of such further orders as the Division may deem necessary.

Witness my hand and seal at Santa Fe, New Mexico, on the day and year hereinabove designated.



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

Lori Wrottenbery
LORI WROTENBERY
Director