

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. 14163
ORDER NO. R-13000

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

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on August 21 and September 18, 2007, at Santa Fe, New Mexico, before Examiners David K. Brooks, Terry Warnell and Richard Ezeanyim.

NOW, on this 2nd day of October, 2008, the Division Director, having considered the testimony, the record and the recommendations of the Examiners,

FINDS THAT:

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

(2) Merrion Oil & Gas Corporation ("Applicant"), seeks an order pooling all uncommitted interests from the surface to the base of the Fruitland Coal formation in the N/2 equivalent of irregular Section 18, Township 29 North, Range 13 West, NMPM, in San Juan County, New Mexico, to form a non-standard 250-acre, more or less, gas spacing unit for all formations or pools spaced on 320 acres within this vertical extent, which presently include, but are not necessarily limited to, the Basin-Fruitland Coal Gas Pool (71629).

(3) The Unit is to be dedicated to the following wells (the proposed wells):

(a) Applicant's proposed Westland Park Well No. 1 (API No. 30-045-34749), (the "proposed well") to be drilled at a surface location 1269 feet from the North line and 1183 feet from the West line (Unit C) of Section 18, to a standard

Oil Conservation Commission
Case No. 13957
Exhibit No. 3

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bottomhole location in the Fruitland Coal, 1269 feet from the North line and 706 feet from the West Line (Lot 1) of Section 18, and

(b) Applicant's proposed Westland Park Well No. 2 (API No. 30-045-34750), (the "proposed well") to be drilled at a surface location 1269 feet from the North line and 1183 feet from the West line (Unit C) of Section 18, to a standard bottomhole location in the Fruitland Coal, 1269 feet from the North line and 2355 feet from the East Line (Unit B) of Section 18.

(4) Two or more separately owned tracts are embraced within the Unit, and/or there are royalty interests and/or undivided interests in oil and gas minerals in one or more tracts included in the Unit that are separately owned. Applicant presented evidence indicating that it has valid addresses for all interest owners. However, since the record in this case does not clearly establish that all interest owners have been located, provision should be made for an escrow account in case any interest owner is actually unlocatable.

(5) Applicant is an owner of an oil and gas working interest within the Unit. Applicant has the right to drill and proposes to drill the proposed wells to a common source of supply within the Unit at the proposed location.

(6) There are interest owners in the Unit that have not agreed to pool their interests.

(7) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford to the owner of each interest in the Unit the opportunity to recover or receive without unnecessary expense its just and fair share of hydrocarbons, this application should be approved by pooling all uncommitted interests, whatever they may be, in the oil and gas within the Unit.

(8) Applicant should be designated the operator of the proposed wells and of the Unit.

(9) Any pooled working interest owner who does not pay its share of estimated well costs should have withheld from production its share of reasonable well costs plus an additional 200% thereof as a reasonable charge for the risk involved in drilling the well.

(10) Reasonable charges for supervision (combined fixed rates) should be fixed at \$5,000 per month, per well, while drilling, and \$500 per month, per well, while producing, provided that these rates should be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "Accounting Procedure-Joint Operations."

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Merriam Oil & Gas Corporation, all uncommitted interests, whatever they may be, in the oil and gas from the surface to the

base of the Fruitland Coal formation in the N/2 equivalent of irregular Section 18, Township 29 North, Range 13 West, NMPM, in San Juan County, New Mexico, are pooled to form a non-standard 250-acre, more or less, gas spacing unit for all formations or pools spaced on 40 acres within this vertical extent, which presently include, but are not necessarily limited to, the Basin-Fruitland Coal Gas Pool (71629).

(2) The Unit shall be dedicated to the following wells (the proposed wells):

(a) Applicant's proposed Westland Park Well No. 1 (API No. 30-045-34749), (the "proposed well") to be drilled at a surface location 1269 feet from the North line and 1183 feet from the West line (Unit C) of Section 18, to a standard bottomhole location in the Fruitland Coal, 1269 feet from the North line and 706 feet from the West Line (Lot 1) of Section 18, and

(b) Applicant's proposed Westland Park Well No. 2 (API No. 30-045-34750), (the "proposed well") to be drilled at a surface location 1269 feet from the North line and 1183 feet from the West line (Unit C) of Section 18, to a standard bottomhole location in the Fruitland Coal, 1269 feet from the North line and 2355 feet from the East Line (Unit B) of Section 18.

(3) The operator of the Unit shall commence drilling the first of the proposed wells on or before December 31, 2008, and shall thereafter continue drilling the wells with due diligence to test the Fruitland Coal formation.

(4) In the event the operator does not commence drilling one of the proposed wells on or before December 31, 2008, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause demonstrated by satisfactory evidence.

(5) If neither of the proposed wells is drilled to completion, or both of the proposed wells are abandoned, within 120 days after commencement of the first of the proposed wells, then Ordering Paragraph (1) shall be of no further effect unless operator appears before the Division Director and obtains an extension of the time for completion of the proposed wells for good cause shown by satisfactory evidence.

(6) Upon final plugging and abandonment of both of the proposed wells, the pooled unit created by this Order shall terminate, unless this order has been amended to authorize further operations.

(7) Merrion Oil & Gas Corporation (OGRID 14634) is hereby designated the operator of the proposed wells and of the Unit.

(8) After pooling, uncommitted working interest owners are referred to as pooled working interest owners. ("Pooled working interest owners" are owners of working interests in the Unit, including unleased mineral interests, who are not parties to an operating agreement governing the Unit.) After the effective date of this order, the

operator shall furnish the Division and each known pooled working interest owner in the Unit an itemized schedule of estimated costs of drilling, completing and equipping the proposed wells ("well costs").

(9) Within 30 days from the date the schedule of estimated well costs is furnished, any pooled working interest owner shall have the right to pay its share of estimated well costs of both proposed wells to the operator in lieu of paying its share of reasonable well costs out of production as hereinafter provided, and any such owner who pays its share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges. Pooled working interest owners who elect not to pay their share of estimated well costs as provided in this paragraph shall thereafter be referred to as "non-consenting working interest owners." Pooled parties shall be allowed only one election, which shall apply to both proposed wells. However, as further provided below, separate accounting shall be made for recovery of well costs for each proposed well.

(10) The operator shall furnish the Division and each known pooled working interest owner (including non-consenting working interest owners) an itemized schedule of actual well costs of each of the proposed wells within 90 days following completion of such proposed well. If no objection to the actual well costs is received by the Division, and the Division has not objected, within 45 days following receipt of the schedule, the actual well costs shall be deemed to be the reasonable well costs. If there is an objection to actual well costs within the 45-day period, the Division will determine reasonable well costs after public notice and hearing.

(11) Within 60 days following determination of reasonable well costs for each of the proposed wells, any pooled working interest owner who has paid its share of estimated costs in advance as provided above shall pay to the operator its share of the amount that reasonable well costs for such well exceed estimated well costs for such well, and shall receive from the operator the amount, if any, that the estimated well costs it has paid exceed its share of reasonable well costs for such well.

(12) The operator is hereby authorized to withhold the following costs and charges from production from each well separately:

- (a) the proportionate share of reasonable well costs attributable to each non-consenting working interest owner; and
- (b) as a charge for the risk involved in drilling the well, 200% of the above costs.

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

(14) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$5,000 per month, per well, while drilling and \$500 per month, per well, while producing, provided that these rates shall be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "Accounting Procedure-Joint Operations." The operator is authorized to withhold from production from each proposed well, separately, the proportionate share of both the supervision charges and the actual expenditures required for operating such well, not in excess of what are reasonable, attributable to pooled working interest owners.

(15) Except as provided in Paragraphs (12) and (14) above, all proceeds from production from the proposed wells that 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 (Attention: Records Clerk) of the name and address of the escrow agent not later than one year from the date of issuance of this Order.

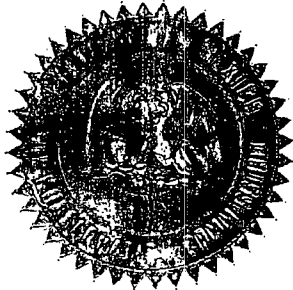
(16) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working interests' share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

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

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

(19) Jurisdiction of this case 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.



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STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in dark ink, appearing to read "Mark E. Fesmire".

MARK E. FESMIRE, P.E.
Director