

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. 11963
ORDER NO. R-10996

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 on May 14, 1998, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 8th 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 and its subject matter.

(2) The applicant, Merrion Oil & Gas Corporation, seeks an order pooling all mineral interests in the Pictured Cliffs formation underlying the NW/4 of Section 15, Township 29 North, Range 13 West, NMPM, San Juan County, New Mexico, thereby forming a standard 160-acre gas spacing and proration unit for the Undesignated West Kutz-Pictured Cliffs Pool.

(3) The unit is to be dedicated to its proposed Vine Com. Well No. 1 (API No. 30-045-29519) to be drilled at an unorthodox gas well location 670 feet from the North line and 1290 feet from the West line (Unit D) of Section 15.

(4) Pursuant to Rule 104.A(3) of the Division's statewide rules, the proposed 160-acre unit is subject to Division Rule 104.C(3)(a), which currently provides for 160-acre spacing and proration units with wells to be located no closer than 790 feet to any outer boundary of the tract nor closer than 130 feet to any quarter-quarter section or subdivision inner boundary.

(5) The proposed well site is located within the city limits of Farmington, New Mexico and the unorthodox location of the well is necessitated in order to adequately avoid occupied dwellings, streets, and business establishments located within the NW/4 of Section 15.

(6) The applicant owns an interest in the Undesignated 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.

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

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

(9) 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 hydrocarbons in the Undesignated 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 Undesignated 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.

(10) The applicant should be designated the operator of the well and corresponding 160-acre unit.

(11) Any non-consenting working interest owner should be afforded the opportunity to pay a proportionate share of estimated well costs to the operator.

(12) Any non-consenting working interest owner who does not pay a proportionate share of estimated well costs should have withheld from production a proportionate 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.

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

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

(15) \$3,871.88 per month while drilling and \$371.67 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates) and the operator should be authorized to withhold from production the proportionate share of such 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.

(16) 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.

(17) If the operator of the pooled unit fails to commence the drilling of the well to which the 160-acre unit is to be dedicated on or before August 15, 1998, or if all the parties to this forced pooling order reach voluntary agreement subsequent to entry of this order, this order should become null and void and of no effect whatsoever.

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

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be, within the Pictured Cliffs formation underlying the NW/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 for the Undesignated West Kutz-Pictured Cliffs Pool. The unit shall be dedicated to the proposed Vine Com. Well No. 1 (API No. 30-045-29519) to be drilled at an unorthodox gas well location 670 feet from the North line and 1290 feet from the West line (Unit D) of Section 15.

PROVIDED HOWEVER THAT, the operator of the unit shall commence the drilling of the well on or before the 15th day of August, 1998, and shall thereafter continue the drilling of the well with due diligence to a depth sufficient to test the Undesignated West Kutz-Pictured Cliffs Pool.

PROVIDED FURTHER THAT, in the event the operator does not commence the drilling of the well on or before the 15th 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 drilled to completion, or abandonment, within 120 days after commencement thereof, the operator shall appear before the Director and show cause why Ordering Paragraph (1) of this order should not be rescinded.

(2) Merrion Oil & Gas Corporation is hereby designated the operator of the well and 160-acre unit.

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

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

(5) The operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; if no objection to the actual well costs is received by the Division and the Division has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, if there is objection to actual well costs within the 45-day period the Division will determine reasonable well costs after public notice and hearing.

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

(7) The operator is hereby authorized to withhold the following costs and

charges from production:

- (A) The proportionate share of reasonable well costs attributable to each non-consenting working interest owner who has not paid a proportionate share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished.
 - (B) As a charge for the risk involved in the drilling of the well, 200 percent of the proportionate share of reasonable well costs attributable to each non-consenting working interest owner who has not paid a proportionate share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished.
- (8) The operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.
- (9) \$ 3,871.88 per month while drilling and \$ 371.67 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates) and the operator is hereby 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 immediately be placed in escrow in San Juan County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; the operator shall notify the Division of the name and address of the escrow agent within 30 days from the date of first deposit with the escrow agent.
- (13) Should all the parties to this forced pooling order reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.
- (14) The operator of the subject well and 160-acre unit shall notify the Division

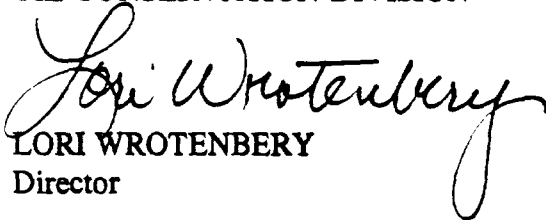
Case No. 11963
Order No. R-10996
Page 6

in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

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

WITNESSE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


LORI WROTENBERY
Director

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