

LAW OFFICES

OIL CONSERVATION DIVISION

TANSEY, ROSEBROUGH, GERDING & STROTHER, P.C.

621 WEST ARRINGTON
FARMINGTON, NEW MEXICO
TELEPHONE: (505) 325-1801

92 MAY 14 AM 8 45

OF COUNSEL
Charles M. Tansey

TELECOPIER:
(505) 325-4675

Douglas A. Echols
Richard L. Gerding
Connie R. Martin
Michael T. O'Loughlin
James B. Payne
Tommy Roberts
Haskell D. Rosebrough
Robin D. Strother
Karen L. Townsend

Mailing Address:
P. O. Box 1020
Farmington, N.M. 87499

May 13, 1992

Case 10478

State of New Mexico
Energy, Minerals and Natural
Resources Department
New Mexico Oil Conservation Division
P.O. Box 2088
Santa Fe, New Mexico 87504

Attn: William J. Lemay, Director

Re: Application for Pool Creation and Promulgation
of Temporary Special Pool Rules
Sandoval County, New Mexico

Gentlemen:

Merrion Oil & Gas Corporation hereby submits its written application for an Order of the New Mexico Oil Conservation Division creating a new pool for the production of oil from the Fractured Mancos Shale Formation and the promulgation of temporary special pool rules therefor, including provisions for 640-acre oil spacing and proration units, designated well location requirements, and special allowables. Said pool would comprise all of Townships 18 and 19 North, Range 3 West, N.M.P.M., Sandoval County, New Mexico.

Merrion Oil & Gas Corporation previously verbally submitted this application and was advised that the application would be placed on the New Mexico Oil Conservation Division's May 28, 1992 examiner hearing docket.

Enclosed are two additional copies of this letter application. Please advise should you require any additional information.

Sincerely,

Tommy Roberts

Tommy Roberts,
Attorney for
Merrion Oil & Gas Corp.

William J. Lemay, Director
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TR:mkc

cc: Merrion Oil & Gas Corp.
P.O. Box 840
Farmington, New Mexico 87499
Attn: Steven S. Dunn, Operations Manager

cc: New Mexico Oil Conservation Division
District III Office
1000 Rio Brazos Road
Aztec, New Mexico 87410
Attn: Frank Chavez, Supervisor

Special Rules for the Fractured Mancos Shale in McKinley, Rio Arriba, San Juan, and Sandoval Counties

Rule 1

Each well permitted, completed, or recompleted in McKinley, Rio Arriba, San Juan, or Sandoval County in the Fractured Mancos Shale as herein described and not closer than one mile to a designated Mancos, Gallup, or Hospah pool shall be spaced, drilled, operated, and produced in accordance with the Special Rules and Regulations hereinafter set forth.

Rule 2

A standard Proration Unit for a well completed in the Fractured Mancos Shale shall be 632 to 648 acres which shall comprise a single governmental section being a legal subdivision of the United States Public Land Surveys. A second well may be drilled on a Proration Unit if the first well cannot produce either more than 50 barrels of oil per day after 180 days of production nor more than 300 MCF per day after 180 days of production. A non-standard Proration Unit resulting from a correction in a lands survey may be approved administratively by the Division Director if such Proration Unit is no greater than 800 acres or less than 480 acres. To obtain such approval, the applicant shall furnish the Director with the appropriate plats and request that the application be published on the hearing docket as an administrative application. The applicant may furnish proof that all of the operators of direct and diagonal offset Proration Units were notified by registered or certified mail of his intent to form a non-standard unit. The Director may approve the application upon receipt of written consents, or if no offset operator has objected to the non-standard unit within 20 days after the offset operator was notified, or if no objections are received within 10 days of the notice being published in the regular hearing docket. The Director may docket any application for hearing.

Rule 3

A standard well location shall be no closer than 990 feet to the outer boundary of the Proration Unit nor closer than 10 feet to an interior line. A non-standard location can be approved only after notice and hearing and shall subject the entire Proration Unit to an allowable penalty. The second well on a Proration Unit cannot be located in the same quarter section as the first well. A directional survey will be required of any well drilled closer than 1090 feet to the proration unit boundary before an allowable is assigned to it.

Rule 4

The top allowable production for wells completed in the Fractured Mancos Shale shall be 800 barrels of oil per day with a limiting GOR of 2000 cubic feet of gas per barrel. Wells completed at non-standard bottomhole locations will be assigned top allowables according to the following formula:

$$\frac{(\text{Actual bottomhole distance to drill tract boundary}/990)^3}{800} \times$$

Rule 5

Within 30 days of first production from a well drilled in the Fractured Mancos Shale Area the well shall be shut-in and a bottom hole pressure build-up test conducted in accordance with procedures obtained from the Aztec office. The results of this test shall be submitted to the Aztec District office. At the request of the operator, these results will be kept confidential for a period of 365 days from the date of completion. (See Rule 1105)

Rule 6

The vertical limits of the Fractured Shale shall be from 500 feet below the top of the Point Lookout formation to the base of the Greenhorn formation.