

*M.S.*

**TOMMY ROBERTS**

ATTORNEY-AT-LAW

(505) 326-3359

P. O. BOX 129  
FARMINGTON, NEW MEXICO 87499

OFFICE  
3005 NORTHRIDGE DR. • SUITE G

January 22, 1987

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

Attn: Michael Stogner

Re: Commission Case No. 9063  
Application of Merrion Oil & Gas Corporation  
for Enforcement of the Common Purchaser  
Requirements of Section 70-2-19 NMSA 1978 (1984  
Supp.)  
Rio Arriba County, New Mexico

Dear Mr. Stogner:

Per your request, please find enclosed a copy of Merrion  
Oil & Gas Corporation's Application in the above  
referenced matter.

Sincerely,

  
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TOMMY ROBERTS

TR:nk

encl.

STATE OF NEW MEXICO  
OIL CONSERVATION COMMISSION

IN THE MATTER OF THE APPLICATION  
OF MERRION OIL AND GAS CORPORATION  
FOR ENFORCEMENT OF THE COMMON  
PURCHASER REQUIREMENTS OF SECTION  
70-2-19 NMSA 1978 (1984 SUPP.)  
AND OTHER PERTINENT PROVISIONS  
OF THE OIL AND GAS ACT, RIO ARRIBA  
COUNTY, NEW MEXICO.

Case No. 9063

APPLICATION

Applicant, Merrion Oil & Gas Corporation, by and through  
its undersigned attorney, states:

1. Merrion Oil & Gas Corporation (hereinafter sometimes  
referred to as "MOG") is a New Mexico corporation duly authorized  
to do business in New Mexico.

2. The Oil Conservation Commission has jurisdiction  
in this cause and the subject matter thereof.

3. MOG is the owner of certain undivided oil and  
gas leasehold operating rights interests in and under United  
States Oil and Gas Lease Serial No. NM-03992, insofar as said  
lease covers the SW/4 of Section 13, Township 24 North, Range  
2 West, N.M.P.M., Rio Arriba County, New Mexico, and in and  
under certain fee oil and gas leases insofar as said leases  
cover the SW/4 of Section 14, Township 24 North, Range 2 West,  
N.M.P.M., Rio Arriba County, New Mexico.

4. MOG, as record operator, completed its Oso Canyon  
Gas Com "C" No. 1 Well on January 10, 1985 at a location 1650  
feet from the north line and 1650 feet from the west line of

Section 13, Township 24 North, Range 2 West, N.M.P.M., Rio Arriba County, New Mexico. In accordance with applicable pool rules, a 320 acre spacing and proration unit--the W/2 of said Section 13--was established for the well. The well was completed in, and is capable of producing oil and casinghead gas from, the Mancos formation underlying said lands.

5. MOG, as record operator, completed its Krystina Gas Com No. 1 Well on December 20, 1984 at a location 1820 feet from the south line and 1650 feet from the west line of Section 14, Township 24 North, Range 2 West, N.M.P.M., Rio Arriba County, New Mexico. In accordance with applicable pool rules, a 320 acre spacing and proration unit--the S/2 of said Section 14--was established for the well. The well was completed in, and is capable of producing oil and casinghead gas from, the Mancos formation underlying said lands.

6. The lands described in Paragraph Nos. 4 and 5 above are contained within the horizontal boundaries of, and are subject to the rules applicable to, the common source of supply known as the Gavilan Mancos Oil Pool.

7. The casinghead gas which is capable of being produced from the Oso Canyon Gas Com. "C" No. 1 Well and the Krystina Gas Com No. 1 Well is not covered by a gas purchase agreement.

8. Numerous other wells have been drilled and completed within the boundaries of the common source of supply known as the Gavilan Mancos Oil Pool and most, if not all, of such wells

are now producing, or have in the past produced, for sale, casinghead gas.

9. El Paso Natural Gas Company (hereinafter sometimes referred to as "EPNG") is engaged in purchasing casinghead gas produced from numerous wells in the Gavilan Mancos Oil Pool. By virtue of such purchasing activities, EPNG is a "common purchaser", as that term is defined under applicable state law.

10. Among those producers from whom EPNG purchases casinghead gas produced from the wells in the Gavilan Mancos Oil Pool is an affiliate company of EPNG.

11. Based upon its belief that EPNG is a "common purchaser", as that term is defined under applicable state law, MOG, as an interest owner and record operator, duly tendered to EPNG the casinghead gas capable of being produced from the Oso Canyon Gas Com "C" No. 1 Well and the Krystina Gas Com No. 1 Well. The casinghead gas capable of being produced from said wells is of like quantity, quality and pressure as that casinghead gas which is being produced from other wells in the Gavilan Mancos Oil Pool and which is, and has been, the subject of the purchasing activities of EPNG. In addition, the tender by MOG to EPNG of the casinghead gas capable of being produced from the Oso Canyon Gas Com "C" No. 1 Well and the Krystina Gas Com No. 1 Well was made on such terms and conditions as would not adversely impact the economics of EPNG's pipeline and purchasing operations and as would not adversely impact consumer interests.

12. Notwithstanding the lawful tender by MOG to EPNG of the casinghead gas capable of being produced from the Gavilan Mancos Oil Pool through the Oso Canyon Gas Com "C" No. 1 Well and the Krystina Gas Com No. 1 Well, EPNG has refused to purchase said casinghead gas in accordance with the provisions and requirements of Section 70-2-19 NMSA 1978 (1984 Supp.) and other pertinent provisions of the Oil and Gas Act.

13. As a direct result of the refusal of EPNG to comply with its legal obligations with respect to its status as a "common purchaser" in the common source of supply known as the Gavilan Mancos Oil Pool, the subject wells are required to be shut-in and, consequently, MOG has been, and continues to be, prevented from producing the oil which is capable of being produced from the subject wells. The inability of MOG to produce the oil which is capable of being produced from the subject wells impairs its ability to protect its correlative rights inasmuch as drainage occurs when said wells are shut-in at times when other wells in the common source of supply are produced.

14. The refusal of EPNG to comply with its legal obligations with respect to its status as a "common purchaser" in the common source of supply known as the Gavilan Mancos Oil Pool results in the unlawful discrimination by EPNG in favor of other producers, including its affiliate company. Specifically, the ability of such other producers, including

the affiliate company of EPNG, to sell casinghead gas production, and consequently, oil production, from the common source of supply known as the Gavilan Mancos Oil Pool, as enhanced by the purchasing practices of EPNG, gives such other producers, including the affiliate company of EPNG, a competitive advantage over MOG with respect to the ability to protect and exploit their respective property rights within that common source of supply.

15. The refusal of EPNG to comply with its legal obligations with respect to its status as a "common purchaser" in the common source of supply known as the Gavilan Mancos Oil Pool has placed EPNG in the position of controlling the determination whether the Oso Canyon Gas Com "C" No. 1 Well and the Krystina Gas Com No. 1 Well will be produced or shut-in.

16. By the actions described herein, EPNG has violated, and continues to violate, the provisions and requirements set forth in Section 70-2-19 NMSA 1978 (1984 Supp.) and other pertinent provisions of the Oil and Gas Act.

17. By the actions described herein, EPNG usurps and supplants the Oil Conservation Commission and the Oil Conservation Division as to the authority of those administrative agencies to regulate production of oil and casinghead gas within the reasonable market demand. The actions of EPNG are contrary to the conservation of oil and gas produced or capable of production from the common source of supply known as the Gavilan

Mancos Oil Pool and are believed to constitute a predatory act against MOG as prohibited by the laws of the state and the United States.

WHEREFORE, Applicant requests that the Commission:

1. Set this Application for hearing on the earliest available Commission hearing docket;

2. Enter its order requiring EPNG to purchase casinghead gas produced from the Merrion Oil and Gas Corporation Oso Canyon Gas Com "C" No. 1 Well and the Merrion Oil and Gas Corporation Krystina Gas Com No. 1 Well without discrimination as to price paid, quantities purchased, basis of measurement or gas transportation facilities afforded as compared to casinghead gas from other wells of like quantity, quality and pressure producing from the common source of supply known as the Gavilan Mancos Oil Pool;

3. Enter its order requiring EPNG to take ratably the casinghead gas produced from the Merrion Oil and Gas Corporation Oso Canyon Gas Com "C" No. 1 Well and the Merrion Oil and Gas Corporation Krystina Gas Com No. 1 Well in order to prevent waste, to protect Applicant's correlative rights and to carry out the over all purposes of the Oil and Gas Act; and

4. Grant such other and further relief as the Commission deems appropriate under the circumstances.

Respectfully submitted, .



TOMMY ROBERTS

P. O. Box 129

Farmington, New Mexico 87499

(505) 326-3359

ATTORNEY FOR APPLICANT

MERRION OIL AND GAS CORPORATION