

CASE 6723: MEREION & PAYLESS FOR COM-
PULSORY POOLING, RIO ARriba COUNTY, NEW
MEXICO

CASE Number

6723

Application

Transcripts.

Small Exhibits

ETC.

ROBERT L. BAYLESS

PETROLEUM CLUB PLAZA BUILDING

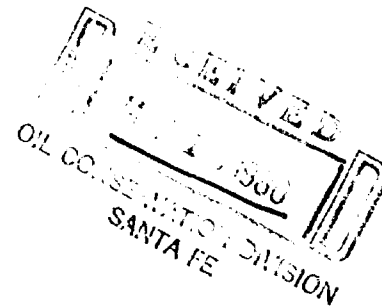
P. O. BOX 1841

FARMINGTON, NEW MEXICO 87401

March 14, 1980

Energy & Minerals Department
Oil Conservation Division
P.O. Box 2088
Santa Fe, NM 87501

ATTENTION: Mr. Joe D. Ramey



Case 6723

RE: Commission Order #R-6193

Gentlemen:

The above Compulsory Pooling Order provides that upon written notification, Merrion & Bayless can request an extension of time for commencement of drilling a well in the SW/4 of Section 27, T24N, R2W, NMPM, South Blanco-Pictured Cliffs Pool, Rio Arriba County, N.M. Due to the unavailability of a satisfactory drilling rig, Merrion & Bayless have not been able to contract the services necessary to commence the drilling of this well and therefore request a 90-day extension.

Yours truly,

MERRION & BAYLESS

By

ROBERT L. BAYLESS

RLB/eh

xc: Hobbs OCD
Artesia OCD
Aztec OCD

Well was to be started by Feb 15, 1980 according to the provisions of Order No. R-6193

325-5093
Notified Mr. Bayless that we considered the order to have expired - He will go to another hearing for these lands before drilling the well. Order was dead one before he wrote this letter.
Jen

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
14 November 1979

EXAMINER HEARING

IN THE MATTER OF:

Application of Merrion & Bayless for) CASE
compulsory pooling, Rio Arriba County,) 6723
New Mexico.)

BEFORE: Daniel S. Nutter

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation	Ernest L. Padilla, Esq.
Division:	Legal Counsel for the Division
	State Land Office Bldg.
	Santa Fe, New Mexico 87503

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ROBERT L. BAYLESS, PRO SE	3
Exhibit One, Plat	3
MARY ANN BROWN, PRO SE	10
ROBERT L. BAYLESS STATEMENT	22

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1 MR. NUTTER: Call next Case Number 6723.

2 MR. PADILLA: Application of Merrion and
3 Bayless for compulsory pooling, Rio Arriba County, New Mexico.

4 MR. BAYLESS: I'm Robert L. Bayless. I've
5 appeared previously before the Commission and my qualifica-
6 tions are on record, I believe.

7 MR. PADILLA: Do you represent yourself,
8 Mr. Bayless?

9 MR. BAYLESS: Yes.

10
11 (Mr. Bayless sworn.)

12
13 MR. NUTTER: Go ahead.

14 MR. BAYLESS: May I submit Exhibit One,
15 being an acreage plat.

16 This is a -- we are making a request for
17 a forced pool order on the southwest quarter of Section 27,
18 Township 24 North, 2 West, Rio Arriba County, for a Pictured
19 Cliffs gas well.

20 When you look at the exhibit you'll notice
21 there is one Federal lease and two Brown fee leases. This
22 is just a coincidence that Brown fee leases are not related
23 to each other.

24 We have a lease on the Federal minerals in
25 the northwest 40. We have received a demand letter from the

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1 USGS to develop this 40-acre tract because of a well imme-
2 diately to the northwest, to the north.

3 So we have that 40 under our -- in our
4 name. We have a farm-out on the 80 acres being the east
5 half of the southwest, called the John F. Brown fee. We
6 have attempted to obtain a lease from Paul and Marie Brown,
7 being the southwest of the southwest, unsuccessfully.

8 We request a pooling order covering this
9 entire 160. We request, because of the risk involved, a
10 300 percent factor on the investment pertaining to that
11 acreage.

12 MR. NUTTER: Okay, Mr. Bayless, you have
13 a Federal lease on the northwest of the southwest, right?

14 MR. BAYLESS: Yes.

15 MR. NUTTER: You have a farm-out on the
16 east half of the southwest.

17 MR. BAYLESS: Right.

18 MR. NUTTER: And as the farm-out-ee, you
19 have working interest rights there.

20 MR. BAYLESS: Yes.

21 MR. NUTTER: What's the status now of the
22 40 acres to the southwest southwest?

23 MR. BAYLESS: This belongs to Paul and
24 Marie Brown. We have been unable to obtain a lease from
25 them. We have offered that they could participate in the

1 drilling of the well. They have been -- they have not been
2 interested in doing that.

3 MR. NUTTER: And that land is not, to your
4 knowledge, leased to anyone at this time?

5 MR. BAYLESS: They had a lease on it that
6 expired November the 1st, to my knowledge. The lease was
7 not perpetuated by production. The lease covered other
8 acreage.

9 MR. NUTTER: Who was the lease owner at
10 that time?

11 MR. BAYLESS: Rio Grande Exploration.

12 MR. NUTTER: And their lease expired
13 11-1.

14 MR. BAYLESS: Yes.

15 MR. NUTTER: Did you negotiate with Rio
16 Grande Exploration and try to get an arrangement with them
17 to dedicate that land to this well?

18 MR. BAYLESS: Yes, and they had an obliga-
19 tion pertaining to the base lease for the drilling of a
20 Dakota test, which they did not commence by the November 1st.
21 The lease expired. They were not able to drill a Dakota
22 test.

23 MR. NUTTER: Would this Pictured Cliffs
24 well have perpetuated the lease for them?

25 MR. BAYLESS: No. Their lease had a re-

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1 quirement of a Dakota test.

2 MR. NUTTER: I see, and you're proposing
3 a Pictured Cliffs well here.

4 MR. BAYLESS: Yes, sir.

5 MR. NUTTER: Now, in your negotiations with
6 Paul and Marie Brown, you have attempted to obtain a lease
7 from them.

8 MR. BAYLESS: Yes.

9 MR. NUTTER: And so far you've been unsuc-
10 cessful in obtaining that lease.

11 MR. BAYLESS: Yes.

12 MR. NUTTER: And you have attempted to
13 bring them into a voluntary communitization as working interest
14 owners with you on your proposed well?

15 MR. BAYLESS: I've met with the Browns
16 repeatedly and I've explained to them that there were about
17 three avenues. One, to lease to us; one to join in the
18 drilling -- or number two, to join in the drilling; and
19 number three, to go through a forced pooling hearing.

20 And the first two choices were not ac-
21 ceptable to them.

22 MR. NUTTER: And so you're here today.

23 MR. BAYLESS: Okay. Do you have any other
24 exhibits there you wanted to discuss?

25 MR. BAYLESS: No, sir.

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1 MR. NUTTER: Well, what's the cost of the
2 well going to be? What are the anticipated factors in a
3 compulsory pooling, which is requested here today?

4 MR. BAYLESS: We ask for a 300 percent re-
5 covery. Our estimated costs will be approximately \$90,000.

6 MR. NUTTER: Do you have an AFE?

7 MR. BAYLESS: I do not have an AFE with
8 me. I can submit one, if you --

9 MR. NUTTER: You estimate it will be
10 90,000. Is that for a producing well or --

11 MR. BAYLESS: That's for a completed
12 Pictured Cliffs well at a depth of 3400 feet.

13 MR. NUTTER: You're requesting a 300 per-
14 cent charge for anyone's interest in here. Are you aware
15 that the statute limits any penalty to 200 percent?

16 MR. BAYLESS: Well, I have trouble with my
17 grammar. As I understand it, it's cost plus 200 percent.

18 MR. NUTTER: Right, so it would be 200 per-
19 cent penalty factor plus 100 percent actual share.

20 MR. BAYLESS: Yes, sir.

21 MR. NUTTER: Now, why are you asking 200
22 percent risk factor, Mr. Bayless, when you're apparently
23 offset to such an extent by a producing well that the USGS
24 is making a demand that you drill this acreage to keep them
25 from being drained?

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1 MR. BAYLESS: The USGS demanding offset
2 wells does not necessarily -- is not necessarily indicative
3 of the calibre of the reservoir, the reservoir rock, or the
4 wells.

5 The wells in this area are very erratic
6 in their performance.

7 MR. BAYLESS: Where is the nearest Pictured
8 Cliffs producer to your proposed location?

9 MR. BAYLESS: It will be in the northwest
10 160 and it will be in the northwest of the northwest.

11 MR. NUTTER: Are there any other Pictured
12 Cliffs producing wells in this area?

13 MR. BAYLESS: To the northwest again over
14 in Section 28 there are Pictured Cliffs wells. All these
15 wells are well -- are well within a stripper category of
16 gas wells. In other words, they -- all the wells in the
17 immediate area are making less than 60 Mcf a day.

18 MR. NUTTER: Are they old wells? Are they
19 new wells?

20 MR. BAYLESS: Yes, the one immediately to
21 the north is quite old. It's thirteen years old.

22 The one immediately to the west is a very
23 recent well drilled by El Paso. It's a unit well.

24 MR. NUTTER: And it would be classified as
25 a stripper, also?

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1 MR. BAYLESS: It appears to me, the pro-
2 duction I've seen, that it will be.

3 MR. NUTTER: How about operating costs, Mr.
4 Bayless? What are your costs for combined fixed rates for
5 the overhead?

6 MR. BAYLESS: I don't know what we're
7 charging now, to tell you the truth. I'm sorry. I'll pro-
8 vide you with that information. We have one thing for
9 Pictured Cliffs and another for Dakota, and I don't remember
10 what our Pictured Cliffs rate is now.

11 But it will be -- we have -- well, we have
12 many joint operations with major companies and our rate will
13 be what is commonly accepted in the San Juan Basin.

14 MR. NUTTER: I think most of those wells
15 up there carry a combined fixed rate overhad charge of about
16 \$150 a month.

17 MR. BAYLESS: I started to say that but I
18 couldn't swear. I know it's been crawling up in the last
19 year or so.

20 MR. NUTTER: How about if we talk about
21 \$150 a month?

22 Okay, are there any questions of Mr. Bay-
23 less? Does anyone have any questions?

24 He may be excused.

25 Does anyone have any statements they wish

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to make in this case?

MS. BROWN: Yes, sir. I'm Mary Ann Brown.

MR. NUTTER: Did you want to testify,
Ms. Brown?

MS. BROWN: Yes, I would like to testify.

MR. NUTTER: Okay. Would you swear Mrs.
Brown, please?

(Mrs. Brown sworn.)

MS. BROWN: To start --

MR. NUTTER: Mrs. Brown, are you Marie
Brown, the owner of the 40-acre tract which is in the
southwest quarter of the southwest quarter of Section 27,
Township 24 North, Range 2 West, the lands that are the sub-
ject of this hearing today?

MS. BROWN: We have just leased that land
to another company, and --

MR. NUTTER: You're the -- you're the fee
owner of the lands?

MS. BROWN: Yes, my husband and I are the
fee owner of that 40 acres, but we have leased it from the
surface down to another company. In fact, we've been dis-
cussing this for quite -- we had a temporary agreement since
October the 1st, before the lease ever expired. We com-

1 pleted the lease last night.

2 But there are a few things that I need to
3 discuss with you, even though the -- this lease has several
4 stipulations in it. For instance, the last stipulation is
5 that the lessee may not -- the lease may not be assigned
6 without the lessors consent. That is, they couldn't lease
7 it to Mr. Bayless without our consent, even -- that's im-
8 portant in this lease.

9 MR. NUTTER: Who is your new lessee?

10 MS. BROWN: It's the Sandia Corporation,
11 Sandia Oil and Gas Company, Incorporated.

12 MR. NUTTER: Is that an Albuquerque com-
13 pany?

14 MS. BROWN: Yes, I believe it's Albuquer-
15 que. The address is here somewhere.

16 Anyway, we've been discussing it with
17 them for quite some time. They're more or less the succes-
18 sors to the Rio Grande Exploration Company. Part of them
19 are successors to that company.

20 This started more than a year ago in July
21 of 1968. Some people came to our house and they wanted to
22 cross this particular 40. They came in on a private road
23 to my home. And they wanted to cross this particular 40 to
24 put down a well location. And they put it only a few feet
25 north of our boundary in Section 27; north of this 40 acres.

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1 We're not referring to 34. This lease covers 34, too.

2 We asked who -- what company it was and
3 they said Merrion and Bayless and that they wanted to --
4 they wanted to put a well there, and when they went out
5 there, we discovered that they were including this 40 acres
6 in their lease, or they thought they were going to drill on
7 160 to cover this 40.

8 Well, we told them to please tell Mr. Bay-
9 less that they didn't have it leased; that our lease had
10 run out and we refused to re-lease it to the same company
11 because they had agreed to put down a Dakota well and they
12 hadn't, and we wouldn't re-lease it to that company.

13 Well, he did nothing for nine months. He
14 didn't offer me a lease. He did nothing and the land was
15 there unleased, and finally he sent me a copy of the lease
16 after I had already been contacted by the Rio Grande ser-
17 vices and was more or less -- more or less agreed. We
18 hadn't signed a lease, but we'd agreed that we would lease
19 to them. I thought maybe he wasn't interested in it.

20 But then they came in several times and
21 wanted to use the road across our property and a road on an
22 easement that we have. We don't own the property. I have
23 a copy of the easement here. We had bought the easement,
24 the pavement, and he wanted to use this road. It was washed
25 out, in bad condition, but we were using it every day to

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1 get in and out to our house. It's less than a quarter of a
2 mile from the pavement to this quarter acre of this 40 acres
3 he wants.

4 And he told me that he would repair the
5 road; he'd put in a couple of culverts and put in, I think,
6 two cattleguards, I believe, or something to that effect,
7 and that he would work over a dam that had washed out; the
8 dam washed out this winter, this last winter, because we're
9 in the area where they had to get the military officials to
10 get us out. We're in that very bad, snowy area and it
11 ruined the dam. So he couldn't have come -- gone across
12 the 40 acres to get to the site because every time it rained
13 the water ran out across the road and without repairing the
14 dam, he couldn't get across the 40 acres. He could have
15 gotten on the private easement to the property but he
16 couldn't have crossed it.

17 And he agreed to do that, and we really
18 made an effort to try to sublease to him. We went to Rio
19 Grande Services and in fact I have some copies here to ten-
20 tative agreements that we signed where they were going to
21 sublease through the Pictured Cliffs to Mr. Bayless. And
22 he sent me out another agreement. He realized that we have
23 been leasing land, that and other land, for several years
24 for approximately \$20.00 an acre a year, so by not leasing
25 at all for about nine months, he had saved himself about

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1 \$800 or \$900 because from July, when they located the site,
2 until March he did nothing.

3 I have a copy of the first lease he sent
4 me the 23rd day of March asking to lease the land we have
5 in Section 34, as well as that in -- and in each lease --
6 this is -- this is the trouble, and this little item may
7 not mean much to you people but my husband and I are older
8 people and we've cut wood for years, and it says here;
9 "Lessors shall have the privilege at his own risk and ex-
10 pense of using gas from any gas well on said land for stoves
11 and inside lights in the principal dwelling located on the
12 lease premises by making his own connections thereto."

13 We told Mr. Bayless that the use of the
14 road and for the lease, we'd not take a bonus, if he would
15 connect up the gas in one trailer house on that property,
16 and he said, oh, he couldn't do that.

17 MR. NUTTER: You mean connect it up at
18 his expense, run the line?

19 MS. BROWN: At his expense instead of me.

20 MR. NUTTER: And run the line over to the
21 trailer house.

22 MS. BROWN: Yes, that is what we asked,
23 and he said, oh, no, he couldn't do that.

24 Then we asked him if he would let us do it
25 and if he'd pay for it. Well, the argument wasn't particu-

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1 larly whether we were supposed to pay for the well or not
2 pay for it. But he came in and he said, oh, no, you can't
3 have the minerals in that 40 because we're going to put the
4 hole down on Federal land that you don't have any minerals
5 under. Now, the other two 40's belong to old man John F.
6 Brown, who was a very close friend of ours, though he wasn't
7 related. He has the other two 40's and in his patent he
8 had all of that land. I have a copy of the patent here.
9 The whole thing was leased at one time some years ago, in
10 '49, I believe, and they got the gas for their homestead out
11 of part of this larger lease of 320. So Mr. Bayless wouldn't
12 have that problem. In fact there's no house on those two
13 40's there, and of course, the Federal government lease, it
14 has no house on it.

15 So I was the only one that wanted the
16 connection. It wasn't whether I owed for the connection or
17 I didn't owe for it.

18 Now it seemed to me that it wasn't prohi-
19 bitive for him to put it in for the lease money, you under-
20 stand. We were -- in all of our leases lately we've gotten
21 15 percent of the minerals. We haven't leased for several
22 years for less than 15 percent of the minerals, and he put
23 that in the lease and this is the last one he sent me, but
24 even if I had to put it at my own expense, you understand,
25 we would have done it. But the problem is he says that we

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1 don't have any right to it; even went to the trouble of
2 getting a letter from the -- aren't you Mr. Padilla, Mr.
3 Ernie Padilla?

4 MR. PADILLA: Yes, ma'am.

5 MS. BROWN: You're the gentleman I talked
6 to over the telephone concerning this, and I talked to a
7 couple of attorneys. Of course, I -- I don't know much
8 about how the effect might be on people, but I do know that
9 we have other property and neighbors have property like this.
10 Well, if three 40's are owned by minerals which have to have
11 the -- that is, it's in the contract, you understand, this
12 is the contract. He didn't cut that out of the contract.
13 He just thought that the idea was that we really weren't
14 pooling it, that we didn't have any rights.

15 Now my understanding of pooling is that
16 whenever we go together, it's all one -- one property.
17 Isn't that the idea?

18 MR. NUTTER: I believe you're right, Mrs.
19 Brown.

20 MS. BROWN: And that I would be entitled
21 to exactly the same thing that I had before I pooled, which
22 would be 15 percent of 1/4th of this, because there's only
23 one 40 involved, of the minerals, which is in the lease, and
24 he -- we had no argument over that.

25 The only argument we had was whether I

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1 was entitled to gas and oil for one dwelling on that 40 acres.

2 Not only for the lease on it but for the
3 use of the road, because I was letting him use the road that
4 I had an easement to that's our private easement that we
5 bought at quite a bit of expense so we could get to the high-
6 way easier ourselves. It's strictly a private road 40 feet
7 wide.

8 MR. NUTTER: So you weren't able to come
9 to any agreement with Bayless?

10 MS. BROWN: We didn't come to any agreement
11 and I went and discussed this with the other gas and oil
12 company. I had gone to the trouble of -- in the temporary
13 agreement, this here is the assignment, the first one that
14 we made with the -- we didn't make it with Merrion and Bay-
15 less. He wasn't interested. He said he'd just wait till
16 it went out and then, you know, he would -- if they didn't
17 drill, why then he would get it from me.

18 MR. NUTTER: Well, now you have made a
19 lease with Sandia Gas and Oil Corporation.

20 MS. BROWN: And they have agreed to put gas
21 and oil in this -- on my property, that is.

22 MR. NUTTER: Well now, presumably, if the
23 Division should enter an order pooling the lands as requested
24 by Merrion and Bayless here today, then Sandia Oil and Gas
25 Corporation would be a 1/4th working interest owner in the

1 well.

2 MS. BROWN: I don't know. Some of them
3 said that they probably would be here today but then they
4 said they thought they probably would -- they couldn't, as
5 far as I'm concerned, Mr. Bayless has not done anything to
6 my road. He used it to -- this road which is on Section 28
7 adjoining 27. It has nothing to do with the 40 acres, really.
8 It's the easement we bought from a neighbor.

9 I would not re-assign my equity, or the
10 right I have with Sandia, to Mr. Bayless unless he came in
11 and fixed my road the way he told me he was going to do.

12 MR. NUTTER: Well now, did you get a 15th
13 did you retain 15 percent royalty when you leased to Sandia?

14 MS. BROWN: Yes, 15 percent.

15 MR. NUTTER: Now that's the interest that
16 you say you wouldn't transfer to Mr. Bayless?

17 MS. BROWN: Now, I just wouldn't assign
18 anything to Mr. Bayless, according to this contract, there
19 is quite a lot in here. I wouldn't assign anything to him
20 until he -- this was not in connection with Sandia. We
21 didn't lease them that road. They're coming on -- in on
22 another road.

23 I feel that he owes me at least for re-
24 pairing the road because he did use it; not a lot. He hasn't
25 drilled a well, you understand, but he did use it to locate

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1 his well site and he has come out there several times and I
2 spent hours making out those papers, trying to come to some
3 agreement where we could assign the property to the explora-
4 tion drilling company.

5 MR. NUTTER: And there's no way that he
6 can get to this location he's proposed except across your
7 land?

8 MS. BROWN: No, he can go other ways. He
9 just thought it was the fastest and easiest, at least that
10 was my -- I think he can go other ways, yes, but I feel he
11 is under obligation to me to go ahead and work over the road
12 whether he uses it or not because of the fact that he said
13 that he would, and he did use it.

14 That's my only point. Of course, this
15 does have some other provisions in here, quite a few, but
16 we did, we retained 15 percent of the minerals.

17 MR. NUTTER: Now, do you have the mailing
18 address for this Sandia Gas and Oil Corporation? Do you
19 have their mailing address there on that document?

20 MS. BROWN: I don't think it's on here.
21 I have an address here but I don't believe this is on here.
22 It's on Eubank, wherever that is, some place on Eubank. I
23 was there last night.

24 Well, I'll look in my purse and locate a
25 card where you can --

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1 MR. NUTTER: If you could get hold of them
2 and tell them to give us their address, unless we already
3 have it, I'm not acquainted with the company myself.

4 MS. BROWN: I'll be most happy to, yes,
5 I'll be glad to.

6 MR. NUTTER: Just tell them we need their
7 address.

8 MS. BROWN: Now, that's my only trouble --

9 MR. NUTTER: Mr. Bayless might need their
10 address, too. I don't know.

11 MS. BROWN: I would like to know for my
12 own satisfaction, and I feel that perhaps you're the people
13 to say, I have other property where we have the same situa-
14 tion except in a little way different. We own the surface,
15 quite a large tract of land, but we don't own the minerals,
16 you do, but we have some 40's that we own the minerals on
17 jutting up into those sections, and also that we own quite
18 a strip of lots, 47-acre lots, you know, up and down the side
19 where the geographical surveys came together, and we -- I
20 want to know could our mineral rights, the right to have it
21 in a house, a dwelling on the property, could it be taken
22 away from us under those circumstances, or do we have the
23 right, when it's in the contract. I mean I'm talking about
24 what's in the agreement that you sign?

25 MR. NUTTER: Well, I couldn't answer that.

1 Mr. Padilla could.

2 MS. BROWN: That's what I wanted to know.
3 I talked to two other attorneys, incidentally. One of them
4 was with Standard Oil and another man who's a contractor,
5 and they both said no, that they couldn't take it away from
6 us.

7 MR. PADILLA: Mrs. Brown, I don't think
8 this is the subject matter of this case today, and I'd be
9 happy to discuss it possibly at some other time, but at this
10 time I don't think that you should take up time discussing
11 what your rights may be under -- in other lands.

12 MS. BROWN: It's in this lease. I mean
13 in this lease right here, that these people have agreed that
14 I can have it on that 40 acres if they --

15 MR. NUTTER: Well, I believe, Mrs. Brown,
16 that it's always considered that when production comes from
17 communitized lands, whether they're communitized by order of
18 the Division or communitized voluntarily, that the production
19 is considered to be coming from all of those lands.

20 MS. BROWN: Thank you, that was my impres-
21 sion --

22 MR. NUTTER: Not where the well is.

23 MS. BROWN: -- you understand, that that
24 was -- I just want what comes to me, you understand, but
25 that was the only argument I had with Mr. Bayless.

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1 MR. NUTTER: You would be receiving royalty
2 under the southwest southwest and if the provisions are such
3 that you're supposed to get the gas there, I think you're
4 contributing gas, it might be you'll have some gas in your
5 trailer house one of these days.

6 MS. BROWN: Well, thank you, very much

7 MR. NUTTER: Yes, ma'am, thank you.

8 MS. BROWN: I'm not contesting it, but I
9 will get you the Sandia Company's address. I have it here
10 some place.

11 MR. NUTTER: Okay. Were there any ques-
12 tions of Ms. Brown?

13 MR. BAYLESS: Is it proper for me to make
14 any statements?

15 MR. NUTTER: Yeah, I'm going to let you
16 make a statement, if you wish. I just wonder if you have
17 any questions of Ms. Brown? Before she is excused.

18 MR. BAYLESS: None that I know of.

19 MR. NUTTER: Okay, Ms. Brown, you may be
20 excused.

21 Now we'll call for statements. Does any-
22 one have any statements they wish to offer in Case Number
23 6723? Mr. Bayless?

24 MR. BAYLESS: I'd just like to make two
25 points.

1 First of all, this well is going to be
2 located on U.S.A. minerals, and I have a letter from the
3 USGS saying that they do not recognize household gas to be
4 taken from a well located on U.S.A. minerals, and I'm really
5 in no position to judge whether this is correct or not, but
6 that's their position.

7 And secondly, I'd just like for the record
8 to show that the only use of Mrs. Brown's road has been for
9 me to go in and talk to Mrs. Brown. We have not moved any
10 equipment in it. We have not -- we are not utilizing the
11 road for the drilling of the well or access to the well.
12 We have brought a road in from the north where it does not
13 cross her property.

14 After talking to Mrs. Brown several times,
15 I thought that would be more appropriate.

16 MR. NUTTER: Thank you.

17 Does anyone else have anything they wish
18 to offer in Case Number 6723?

19 We'll take the case under advisement.

20
21 (Hearing concluded.)
22
23
24
25

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REPORTER CERTIFICATE

I, SALLY W. BOYD, a Certified Shorthand Reporter,
DO HEREBY CERTIFY that the foregoing and attached Transcript
of Hearing before the Oil Conservation Division was reported
by me; that the said transcript is a full, true, and correct
record of the hearing, prepared by me to the best of my
ability from my notes taken at the time of the hearing.

Sally W. Boyd C.S.R.
Sally W. Boyd C.S.R.

I do hereby certify the foregoing is
a complete and correct transcript of the proceedings in
the above hearing of Case No. 6723
heard by me on 11/14 1979.
[Signature], Examiner
Oil Conservation Division

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STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
14 November 1979

EXAMINER HEARING

IN THE MATTER OF:

Application of Merrion & Bayless for
compulsory pooling, Rio Arriba County,
New Mexico.

CASE
6723

BEFORE: Daniel S. Nutter

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation
Division:

Ernest L. Padilla, Esq.
Legal Counsel for the Division
State Land Office Bldg.
Santa Fe, New Mexico 87503

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I N D E X

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ROBERT L. BAYLESS, PRO SE	3
Exhibit One, Plat	3
MARY ANN BROWN, PRO SE	10
ROBERT L. BAYLESS STATEMENT	22

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MR. NUTTER: Call next Case Number 6723.

MR. PADILLA: Application of Merriam and Bayless for compulsory pooling, Rio Arriba County, New Mexico.

MR. BAYLESS: I'm Robert L. Bayless. I've appeared previously before the Commission and my qualifications are on record, I believe.

MR. PADILLA: Do you represent yourself, Mr. Bayless?

MR. BAYLESS: Yes.

(Mr. Bayless sworn.)

MR. NUTTER: Go ahead.

MR. BAYLESS: May I submit Exhibit One, being an acreage plat.

This is a -- we are making a request for a forced pool order on the southwest quarter of Section 27, Township 24 North, 2 West, Rio Arriba County, for a Pictured Cliffs gas well.

When you look at the exhibit you'll notice there is one Federal lease and two Brown fee leases. This is just a coincidence that Brown fee leases are not related to each other.

We have a lease on the Federal minerals in the northwest 40. We have received a demand letter from the

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1 USGS to develop this 40-acre tract because of a well imme-
2 diately to the northwest, to the north.

3 So we have that 40 under our -- in our
4 name. We have a farm-out on the 80 acres being the east
5 half of the southwest, called the John F. Brown fee. We
6 have attempted to obtain a lease from Paul and Marie Brown,
7 being the southwest of the southwest, unsuccessfully.

8 We request a pooling order covering this
9 entire 160. We request, because of the risk involved, a
10 300 percent factor on the investment pertaining to that
11 acreage.

12 MR. NUTTER: Okay, Mr. Bayless, you have
13 a Federal lease on the northwest of the southwest, right?

14 MR. BAYLESS: Yes.

15 MR. NUTTER: You have a farm-out on the
16 east half of the southwest.

17 MR. BAYLESS: Right.

18 MR. NUTTER: And as the farm-out-ee, you
19 have working interest rights there.

20 MR. BAYLESS: Yes.

21 MR. NUTTER: What's the status now of the
22 40 acres to the southwest southwest?

23 MR. BAYLESS: This belongs to Paul and
24 Marie Brown. We have been unable to obtain a lease from
25 them. We have offered that they could participate in the

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1 drilling of the well. They have been -- they have not been
2 interested in doing that.

3 MR. NUTTER: And that land is not, to your
4 knowledge, leased to anyone at this time?

5 MR. BAYLESS: They had a lease on it that
6 expired November the 1st, to my knowledge. The lease was
7 not perpetuated by production. The lease covered other
8 acreage.

9 MR. NUTTER: Who was the lease owner at
10 that time?

11 MR. BAYLESS: Rio Grande Exploration.

12 MR. NUTTER: And their lease expired
13 11-1.

14 MR. BAYLESS: Yes.

15 MR. NUTTER: Did you negotiate with Rio
16 Grande Exploration and try to get an arrangement with them
17 to dedicate that land to this well?

18 MR. BAYLESS: Yes, and they had an obliga-
19 tion pertaining to the base lease for the drilling of a
20 Dakota test, which they did not commence by the November 1st.
21 The lease expired. They were not able to drill a Dakota
22 test.

23 MR. NUTTER: Would this Pictured Cliffs
24 well have perpetuated the lease for them?

25 MR. BAYLESS: No. Their lease had a re-

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1 quirement of a Dakota test.

2 MR. NUTTER: I see, and you're proposing
3 a Pictured Cliffs well here.

4 MR. BAYLESS: Yes, sir.

5 MR. NUTTER: Now, in your negotiations with
6 Paul and Marie Brown, you have attempted to obtain a lease
7 from them.

8 MR. BAYLESS: Yes.

9 MR. NUTTER: And so far you've been unsuc-
10 cessful in obtaining that lease.

11 MR. BAYLESS: Yes.

12 MR. NUTTER: And you have attempted to
13 bring them into a voluntary communitization as working interest
14 owners with you on your proposed well?

15 MR. BAYLESS: I've met with the Browns
16 repeatedly and I've explained to them that there were about
17 three avenues. One, to lease to us; one to join in the
18 drilling -- or number two, to join in the drilling; and
19 number three, to go through a forced pooling hearing.

20 And the first two choices were not ac-
21 ceptable to them.

22 MR. NUTTER: And so you're here today.

23 MR. BAYLESS: Okay. Do you have any other
24 exhibits there you wanted to discuss?

25 MR. BAYLESS: No, sir.

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MR. NUTTER: Well, what's the cost of the well going to be? What are the anticipated factors in a compulsory pooling, which is requested here today?

MR. BAYLESS: We ask for a 300 percent recovery. Our estimated costs will be approximately \$90,000.

MR. NUTTER: Do you have an AFE?

MR. BAYLESS: I do not have an AFE with me. I can submit one, if you --

MR. NUTTER: You estimate it will be \$0,000. Is that for a producing well or --

MR. BAYLESS: That's for a completed Pictured Cliffs well at a depth of 3400 feet.

MR. NUTTER: You're requesting a 300 percent charge for anyone's interest in here. Are you aware that the statute limits any penalty to 200 percent?

MR. BAYLESS: Well, I have trouble with my grammar. As I understand it, it's cost plus 200 percent.

MR. NUTTER: Right, so it would be 200 percent penalty factor plus 100 percent actual share.

MR. BAYLESS: Yes, sir.

MR. NUTTER: Now, why are you asking 200 percent risk factor, Mr. Bayless, when you're apparently offset to such an extent by a producing well that the USGS is making a demand that you drill this acreage to keep them from being drained?

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1 MR. BAYLESS: The USGS demanding offset
2 wells does not necessarily -- is not necessarily indicative
3 of the calibre of the reservoir, the reservoir rock, or the
4 wells.

5 The wells in this area are very erratic
6 in their performance.

7 MR. BAYLESS: Where is the nearest Pictured
8 Cliffs producer to your proposed location?

9 MR. BAYLESS: It will be in the northwest
10 160 and it will be in the northwest of the northwest.

11 MR. NUTTER: Are there any other Pictured
12 Cliffs producing wells in this area?

13 MR. BAYLESS: To the northwest again over
14 in Section 28 there are Pictured Cliffs wells. All these
15 wells are well -- are well within a stripper category of
16 gas wells. In other words, they -- all the wells in the
17 immediate area are making less than 60 Mcf a day.

18 MR. NUTTER: Are they old wells? Are they
19 new wells?

20 MR. BAYLESS: Yes, the one immediately to
21 the north is quite old. It's thirteen years old.

22 The one immediately to the west is a very
23 recent well drilled by El Paso. It's a unit well.

24 MR. NUTTER: And it would be classified as
25 a stripper, also?

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1 MR. BAYLESS: It appears to me, the pro-
2 duction I've seen, that it will be.

3 MR. NUTTER: How about operating costs, Mr.
4 Bayless? What are your costs for combined fixed rates for
5 the overhead?

6 MR. BAYLESS: I don't know what we're
7 charging now, to tell you the truth. I'm sorry. I'll pro-
8 vide you with that information. We have one thing for
9 Pictured Cliffs and another for Dakota, and I don't remember
10 what our Pictured Cliffs rate is now.

11 But it will be -- we have -- well, we have
12 many joint operations with major companies and our rate will
13 be what is commonly accepted in the San Juan Basin.

14 MR. NUTTER: I think most of those wells
15 up there carry a combined fixed rate overhad charge of about
16 \$150 a month.

17 MR. BAYLESS: I started to say that but I
18 couldn't swear. I know it's been crawling up in the last
19 year or so.

20 MR. NUTTER: How about if we talk about
21 \$150 a month?

22 Okay, are there any questions of Mr. Bay-
23 less? Does anyone have any questions?

24 He may be excused.

25 Does anyone have any statements they wish

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1 to make in this case?

2 MS. BROWN: Yes, sir. I'm Mary Ann Brown.

3 MR. NUTTER: Did you want to testify,
4 Ms. Brown?

5 MS. BROWN: Yes, I would like to testify.

6 MR. NUTTER: Okay. Would you swear Mrs.
7 Brown, please?

8
9 (Mrs. Brown sworn.)

10
11 MS. BROWN: To start --

12 MR. NUTTER: Mrs. Brown, are you Marie
13 Brown, the owner of the 40-acre tract which is in the
14 southwest quarter of the southwest quarter of Section 27,
15 Township 24 North, Range 2 West, the lands that are the sub-
16 ject of this hearing today?

17 MS. BROWN: We have just leased that land
18 to another company, and --

19 MR. NUTTER: You're the -- you're the fee
20 owner of the lands?

21 MS. BROWN: Yes, my husband and I are the
22 fee owner of that 40 acres, but we have leased it from the
23 surface down to another company. In fact, we've been dis-
24 cussing this for quite -- we had a temporary agreement since
25 October the 1st, before the lease ever expired. We com-

1 pleted the lease last night.

2 But there are a few things that I need to
3 discuss with you, even though the -- this lease has several
4 stipulations in it. For instance, the last stipulation is
5 that the lessee may not -- the lease may not be assigned
6 without the lessors consent. That is, they couldn't lease
7 it to Mr. Bayless without our consent, even -- that's im-
8 portant in this lease.

9 MR. NUTTER: Who is your new lessee?

10 MS. BROWN: It's the Sandia Corporation,
11 Sandia Oil and Gas Company, Incorporated.

12 MR. NUTTER: Is that an Albuquerque com-
13 pany?

14 MS. BROWN: Yes, I believe it's Albuquer-
15 que. The address is here somewhere.

16 Anyway, we've been discussing it with
17 them for quite some time. They're more or less the succes-
18 sors to the Rio Grande Exploration Company. Part of them
19 are successors to that company.

20 This started more than a year ago in July
21 of 1968. Some people came to our house and they wanted to
22 cross this particular 40. They came in on a private road
23 to my home. And they wanted to cross this particular 40 to
24 put down a well location. And they put it only a few feet
25 north of our boundary in Section 27; north of this 40 acres.

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1 We're not referring to 34. This lease covers 34, too.

2 We asked who -- what company it was and
3 they said Merrion and Bayless and that they wanted to --
4 they wanted to put a well there, and when they went out
5 there, we discovered that they were including this 40 acres
6 in their lease, or they thought they were going to drill on
7 160 to cover this 40.

8 Well, we told them to please tell Mr. Bay-
9 less that they didn't have it leased; that our lease had
10 run out and we refused to re-lease it to the same company
11 because they had agreed to put down a Dakota well and they
12 hadn't, and we wouldn't re-lease it to that company.

13 Well, he did nothing for nine months. He
14 didn't offer me a lease. He did nothing and the land was
15 there unleased, and finally he sent me a copy of the lease
16 after I had already been contacted by the Rio Grande ser-
17 vices and was more or less -- more or less agreed. We
18 hadn't signed a lease, but we'd agreed that we would lease
19 to them. I thought maybe he wasn't interested in it.

20 But then they came in several times and
21 wanted to use the road across our property and a road on an
22 easement that we have. We don't own the property. I have
23 a copy of the easement here. We had bought the easement,
24 the pavement, and he wanted to use this road. It was washed
25 out, in bad condition, but we were using it every day to

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1 get in and out to our house. It's less than a quarter of a
2 mile from the pavement to this quarter acre of this 40 acres
3 he wants.

4 And he told me that he would repair the
5 road; he'd put in a couple of culverts and put in, I think,
6 two cattleguards, I believe, or something to that effect,
7 and that he would work over a dam that had washed out; the
8 dam washed out this winter, this last winter, because we're
9 in the area where they had to get the military officials to
10 get us out. We're in that very bad, snowy area and it
11 ruined the dam. So he couldn't have come -- gone across
12 the 40 acres to get to the site because every time it rained
13 the water ran out across the road and without repairing the
14 dam, he couldn't get across the 40 acres. He could have
15 gotten on the private easement to the property but he
16 couldn't have crossed it.

17 And he agreed to do that, and we really
18 made an effort to try to sublease to him. We went to Rio
19 Grande Services and in fact I have some copies here to ten-
20 tative agreements that we signed where they were going to
21 sublease through the Pictured Cliffs to Mr. Bayless. And
22 he sent me out another agreement. He realized that we have
23 been leasing land, that and other land, for several years
24 for approximately \$20.00 an acre a year, so by not leasing
25 at all for about nine months, he had saved himself about

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1 \$800 or \$900 because from July, when they located the site,
2 until March he did nothing.

3 I have a copy of the first lease he sent
4 me the 23rd day of March asking to lease the land we have
5 in Section 34, as well as that in -- and in each lease --
6 this is -- this is the trouble, and this little item may
7 not mean much to you people but my husband and I are older
8 people and we've cut wood for years, and it says here,
9 "Lessors shall have the privilege at his own risk and ex-
10 pense of using gas from any gas well on said land for stoves
11 and inside lights in the principal dwelling located on the
12 lease premises by making his own connections thereto."

13 We told Mr. Bayless that the use of the
14 road and for the lease, we'd not take a bonus, if he would
15 connect up the gas in one trailer house on that property,
16 and he said, oh, he couldn't do that.

17 MR. NUTTER: You mean connect it up at
18 his expense, run the line?

19 MS. BROWN: At his expense instead of me.

20 MR. NUTTER: And run the line over to the
21 trailer house.

22 MS. BROWN: Yes, that is what we asked,
23 and he said, oh, no, he couldn't do that.

24 Then we asked him if he would let us do it
25 and if he'd pay for it. Well, the argument wasn't particu-

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1 iarily whether we were supposed to pay for the well or not
2 pay for it. But he came in and he said, oh, no, you can't
3 have the minerals in that 40 because we're going to put the
4 hole down on Federal land that you don't have any minerals
5 under. Now, the other two 40's belong to old man John F.
6 Brown, who was a very close friend of ours, though he wasn't
7 related. He has the other two 40's and in his patent he
8 had all of that land. I have a copy of the patent here.
9 The whole thing was leased at one time some years ago, in
10 '49, I believe, and they got the gas for their homestead out
11 of part of this larger lease of 320. So Mr. Bayless wouldn't
12 have that problem. In fact there's no house on those two
13 40's there, and of course, the Federal government lease, it
14 has no house on it.

15 So I was the only one that wanted the
16 connection. It wasn't whether I owed for the connection or
17 I didn't owe for it.

18 Now it seemed to me that it wasn't prohi-
19 bitive for him to put it in for the lease money, you under-
20 stand. We were -- in all of our leases lately we've gotten
21 15 percent of the minerals. We haven't leased for several
22 years for less than 15 percent of the minerals, and he put
23 that in the lease and this is the last one he sent me, but
24 even if I had to put it at my own expense, you understand,
25 we would have done it. But the problem is he says that we

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1 don't have any right to it; even went to the trouble of
2 getting a letter from the -- aren't you Mr. Padilla, Mr.
3 Ernie Padilla?

4 MR. PADILLA: Yes, ma'am.

5 MS. BROWN: You're the gentleman I talked
6 to over the telephone concerning this, and I talked to a
7 couple of attorneys. Of course, I -- I don't know much
8 about how the effect might be on people, but I do know that
9 we have other property and neighbors have property like this.
10 Well, if three 40's are owned by minerals which have to have
11 the -- that is, it's in the contract, you understand, this
12 is the contract. He didn't cut that out of the contract.
13 He just thought that the idea was that we really weren't
14 pooling it, that we didn't have any rights.

15 Now my understanding of pooling is that
16 whenever we go together, it's all one -- one property.
17 Isn't that the idea?

18 MR. NUTTER: I believe you're right, Mrs.
19 Brown.

20 MS. BROWN: And that I would be entitled
21 to exactly the same thing that I had before I pooled, which
22 would be 15 percent of 1/4th of this, because there's only
23 one 40 involved, of the minerals, which is in the lease, and
24 he -- we had no argument over that.

25 The only argument we had was whether I

1 was entitled to gas and oil for one dwelling on that 40 acres

2 Not only for the lease on it but for the
3 use of the road, because I was letting him use the road that
4 I had an easement to that's our private easement that we
5 bought at quite a bit of expense so we could get to the high-
6 way easier ourselves. It's strictly a private road 40 feet
7 wide.

8 MR. NUTTER: So you weren't able to come
9 to any agreement with Bayless?

10 MS. BROWN: We didn't come to any agreement
11 and I went and discussed this with the other gas and oil
12 company. I had gone to the trouble of -- in the temporary
13 agreement, this here is the assignment, the first one that
14 we made with the -- we didn't make it with Merrion and Bay-
15 less. He wasn't interested. He said he'd just wait till
16 it went out and then, you know, he would -- if they didn't
17 drill, why then he would get it from me.

18 MR. NUTTER: Well, now you have made a
19 lease with Sandia Gas and Oil Corporation.

20 MS. BROWN: And they have agreed to put gas
21 and oil in this -- on my property, that is.

22 MR. NUTTER: Well now, presumably, if the
23 Division should enter an order pooling the lands as requested
24 by Merrion and Bayless here today, then Sandia Oil and Gas
25 Corporation would be a 1/4th working interest owner in the

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1 well.

2 MS. BROWN: I don't know. Some of them
3 said that they probably would be here today but then they
4 said they thought they probably would -- they couldn't, as
5 far as I'm concerned, Mr. Bayless has not done anything to
6 my road. He used it to -- this road which is on Section 28
7 adjoining 27. It has nothing to do with the 40 acres, really
8 It's the easement we bought from a neighbor.

9 I would not re-assign my equity, or the
10 right I have with Sandia, to Mr. Bayless unless he came in
11 and fixed my road the way he told me he was going to do.

12 MR. NUTTER: Well now, did you get a 15th --
13 did you retain 15 percent royalty when you leased to Sandia?

14 MS. BROWN: Yes, 15 percent.

15 MR. NUTTER: Now that's the interest that
16 you say you wouldn't transfer to Mr. Bayless?

17 MS. BROWN: Now, I just wouldn't assign
18 anything to Mr. Bayless, according to this contract, there
19 is quite a lot in here. I wouldn't assign anything to him
20 until he -- this was not in connection with Sandia. We
21 didn't lease them that road. They're coming on -- in on
22 another road.

23 I feel that he owes me at least for re-
24 pairing the road because he did use it; not a lot. He hasn't
25 drilled a well, you understand, but he did use it to locate

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1 his well site and he has come out there several times and I
2 spent hours making out those papers, trying to come to some
3 agreement where we could assign the property to the explora-
4 tion drilling company.

5 MR. NUTTER: And there's no way that he
6 can get to this location he's proposed except across your
7 land?

8 MS. BROWN: No, he can go other ways. He
9 just thought it was the fastest and easiest, at least that
10 was my -- I think he can go other ways, yes, but I feel he
11 is under obligation to me to go ahead and work over the road
12 whether he uses it or not because of the fact that he said
13 that he would, and he did use it.

14 That's my only point. Of course, this
15 does have some other provisions in here, quite a few, but
16 we did, we retained 15 percent of the minerals.

17 MR. NUTTER: Now, do you have the mailing
18 address for this Sandia Gas and Oil Corporation? Do you
19 have their mailing address there on that document?

20 MS. BROWN: I don't think it's on here.
21 I have an address here but I don't believe this is on here.
22 It's on Eubank, wherever that is, some place on Eubank. I
23 was there last night.

24 Well, I'll look in my purse and locate a
25 card where you can --

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1 MR. NUTTER: If you could get hold of them
2 and tell them to give us their address, unless we already
3 have it, I'm not acquainted with the company myself.

4 MS. BROWN: I'll be most happy to, yes,
5 I'll be glad to.

6 MR. NUTTER: Just tell them we need their
7 address.

8 MS. BROWN: Now, that's my only trouble --

9 MR. NUTTER: Mr. Bayless might need their
10 address, too. I don't know.

11 MS. BROWN: I would like to know for my
12 own satisfaction, and I feel that perhaps you're the people
13 to say, I have other property where we have the same situa-
14 tion except in a little way different. We own the surface,
15 quite a large tract of land, but we don't own the minerals,
16 you do, but we have some 40's that we own the minerals on
17 jutting up into those sections, and also that we own quite
18 a strip of lots, 47-acre lots, you know, up and down the side
19 where the geographical surveys came together, and we -- I
20 want to know could our mineral rights, the right to have it
21 in a house, a dwelling on the property, could it be taken
22 away from us under those circumstances, or do we have the
23 right, when it's in the contract. I mean I'm talking about
24 what's in the agreement that you sign?

25 MR. NUTTER: Well, I couldn't answer that.

1 Mr. Padilla could.

2 MS. BROWN: That's what I wanted to know.
3 I talked to two other attorneys, incidentally. One of them
4 was with Standard Oil and another man who's a contractor,
5 and they both said no, that they couldn't take it away from
6 us.

7 MR. PADILLA: Mrs. Brown, I don't think
8 this is the subject matter of this case today, and I'd be
9 happy to discuss it possibly at some other time, but at this
10 time I don't think that you should take up time discussing
11 what your rights may be under -- in other lands.

12 MS. BROWN: It's in this lease. I mean
13 in this lease right here, that these people have agreed that
14 I can have it on that 40 acres if they --

15 MR. NUTTER: Well, I believe, Mrs. Brown,
16 that it's always considered that when production comes from
17 communitized lands, whether they're communitized by order of
18 the Division or communitized voluntarily, that the production
19 is considered to be coming from all of those lands.

20 MS. BROWN: Thank you, that was my impres-
21 sion --

22 MR. NUTTER: Not where the well is.

23 MS. BROWN: -- you understand, that that
24 was -- I just want what comes to me, you understand, but
25 that was the only argument I had with Mr. Bayless.

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1 MR. NUTTER: You would be receiving royalty
2 under the southwest southwest and if the provisions are such
3 that you're supposed to get the gas there, I think you're
4 contributing gas, it might be you'll have some gas in your
5 trailer house one of these days.

6 MS. BROWN: Well, thank you, very much

7 MR. NUTTER: Yes, ma'am, thank you.

8 MS. BROWN: I'm not contesting it, but I
9 will get you the Sandia Company's address. I have it here
10 some place.

11 MR. NUTTER: Okay. Were there any ques-
12 tions of Ms. Brown?

13 MR. BAYLESS: Is it proper for me to make
14 any statements?

15 MR. NUTTER: Yeah, I'm going to let you
16 make a statement, if you wish. I just wonder if you have
17 any questions of Ms. Brown? Before she is excused.

18 MR. BAYLESS: None that I know of.

19 MR. NUTTER: Okay, Ms. Brown, you may be
20 excused.

21 Now we'll call for statements. Does any-
22 one have any statements they wish to offer in Case Number
23 6723? Mr. Bayless?

24 MR. BAYLESS: I'd just like to make two
25 points.

1 First of all, this well is going to be
2 located on U.S.A. minerals, and I have a letter from the
3 USGS saying that they do not recognize household gas to be
4 taken from a well located on U.S.A. minerals, and I'm really
5 in no position to judge whether this is correct or not, but
6 that's their position.

7 And secondly, I'd just like for the record
8 to show that the only use of Mrs. Brown's road has been for
9 me to go in and talk to Mrs. Brown. We have not moved any
10 equipment in it. We have not -- we are not utilizing the
11 road for the drilling of the well or access to the well.
12 We have brought a road in from the north where it does not
13 cross her property.

14 After talking to Mrs. Brown several times,
15 I thought that would be more appropriate.

16 MR. NUTTER: Thank you.

17 Does anyone else have anything they wish
18 to offer in Case Number 6723?

19 We'll take the case under advisement.

20
21 (Hearing concluded.)
22
23
24
25

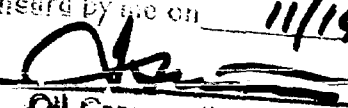
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REPORTER CERTIFICATE

I, SALLY W. BOYD, a Certified Shorthand Reporter,
DO HEREBY CERTIFY that the foregoing and attached Transcript
of Hearing before the Oil Conservation Division was reported
by me; that the said transcript is a full, true, and correct
record of the hearing, prepared by me to the best of my
ability from my notes taken at the time of the hearing.

Sally W. Boyd C.S.R.

SALLY WALTON BOYD
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2026 Plaza Illinois (606) 471-2442
Santa Fe, New Mexico 87501

I do hereby certify that the foregoing is
a complete record of the proceedings in
the first hearing of Case No. 6223
heard by me on 11/14 1979.

Oil Conservation Division, Examiner

ROBERT L. BAYLESS

PETROLEUM BLUE PLAZA BUILDING

P. O. BOX 1841

FARMINGTON, NEW MEXICO 87401

November 16, 1979

State of New Mexico
Energy & Minerals Department
Oil Conservation Division
P.O. Box 2088
Santa Fe, NM 87501

OIL CONSERVATION DIVISION
SANTA FE

ATTN: Mr. Dan Nutter

RE: ~~Forced Pool Hearing~~
Case #6723

Gentlemen:

Supplementing our testimony of yesterday, enclosed please find a letter from the U. S. Geological Survey which pertains specifically to the case at hand. Historically, within a pro-ration unit, if more than one lease is involved only the landowner upon whose land the well is actually situated is entitled to the free household gas. Obviously, if this were not so, there are situations where many royalty-landowners would have small leases all going into a given pro-ration unit and the household gas if provided to every landowner would consume the major part of the well's productive capability.

One alternative solution would be for the Browns to take part of their royalty in kind but this would necessitate a meter to be set at the well head and to compound the problem they would need to lay a line across the NW/WW of Section 27.

As I outlined during the hearing we are willing for this 40 acre tract (SW/SW of Section 27) to participate either through joining, farming out to us or through the forced pool procedure. However, it should be noted that the Browns originally leased to Rio Grande Exploration and now to Sandia Oil & Gas, neither being established oil and gas operators, so it would seem prudent that if we are not allowed the Forced Pool procedure and that Sandia Oil & Gas wishes to participate in the drilling of this test well, that they be required to advance their proportionate share of the AFE prior to commencement of drilling.

The problem we encountered in taking a Pictured Cliff farmout from Rio Grande Exploration was that their lease with the Browns required a Dakota formation test well to validate their lease and consequently, if they

State of New Mexico
Oil Conservation Division
November 16, 1979
Page 2

failed to do this, our farmout and drilling of the Pictured Cliff test well could still not result in a valid lease on the 40 acre tract in question. In talking with Mrs. Brown, it is my impression that the current lease she has made with Sandia Oil & Gas has the same Dakota test well requirement.

In summation and in view of the complications we request a Forced Pooling as we originally requested.

Yours truly,

MERRION & RAYLESS


ROBERT L. RAYLESS

RLB/pb

Enclosure



United States Department of the Interior

GEOLOGICAL SURVEY
Federal Building
701 Camino del Rio
Durango, Colorado 81301

October 18, 1979

Brown

Robert L. Bayless
P. O. Box 1541
Farmington, New Mexico 87401

Dear Mr. Bayless:

Pursuant to your telephone inquiry of October 18, 1979, this is to advise that the Federal Oil and Gas Lease does not provide for a supply of gas to a residential building on the lease. Consequently, this office could not approve use of royalty gas for a resident.

Sincerely yours,

Jerry W. Long
Jerry W. Long
District Engineer





BRUCE KING
GOVERNOR
LARRY KEHOE
SECRETARY

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

November 27, 1979

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87501
(505) 827-2434

Mr. Robert L. Bayless
Merrion & Bayless
P. O. Box 1541
Farmington, New Mexico 87401

Re: CASE NO. 6723
ORDER NO. R-6193

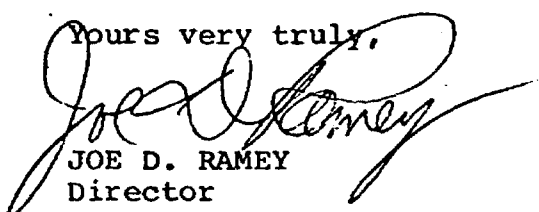
Applicant:

Merrion & Bayless

Dear Sir:

Enclosed herewith are two copies of the above-referenced Division order recently entered in the subject case.

Yours very truly,


JOE D. RAMEY
Director

JDR/fd

Copy of order also sent to:

Hobbs OCD X
Artesia OCD X
Aztec OCD X

Other Mr. and Mrs. Paul Brown

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

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

CASE NO. 6723
Order No. R-6193

APPLICATION OF MERRION & BAYLESS
FOR COMPULSORY POOLING, RIO ARRIBA
COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on November 14, 1979, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 21st day of November, 1979, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

(1) That due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) That the applicant, Merrion & Bayless, seeks an order pooling all mineral interests in the Pictured Cliffs formation underlying the SW/4 of Section 27, Township 24 North, Range 2 West, NMPM, South Blanco-Pictured Cliffs Pool, Rio Arriba County, New Mexico.

(3) That the applicant has the right to drill and proposes to drill a well at a standard location thereon.

(4) That there are interest owners in the proposed proration unit who have not agreed to pool their interests.

(5) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each interest in said unit the opportunity to recover or

-2-

Case No. 6723

Order No. R-6193

receive without unnecessary expense his just and fair share of the gas in said pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

(6) That the applicant should be designated the operator of the subject well and unit.

(7) That any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(8) That any non-consenting working interest owner that does not pay his share of estimated well costs should have withheld from production his 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.

(9) That any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but that actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(10) That following determination of reasonable well costs, any non-consenting working interest owner that has paid his 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.

(11) That \$150.00 per month should be fixed as a reasonable charge for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charge attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(12) That all proceeds from production from the subject 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.

-3-
Case No. 6723
Order No. R-6193

(13) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before February 15, 1980, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Pictured Cliffs formation underlying the SW/4 of Section 27, Township 24 North, Range 2 West, NMPM, South Blanco-Pictured Cliffs Pool, Rio Arriba County, New Mexico, are hereby pooled to form a standard 160-acre gas spacing and proration unit to be dedicated to a well to be drilled at a standard location thereon.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the 15th day of February, 1980, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Pictured Cliffs formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 15th day of February, 1980, Order (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

PROVIDED FURTHER, that should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Order (1) of this order should not be rescinded.

(2) That Merrion & Bayless are hereby designated the operator of the subject well and unit.

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

(4) That within 30 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his

-4-

Case No. 6723
Order No. R-6193

share of reasonable well costs out of production, and that any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(5) That 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; that 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, that if there is an objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

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

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

- (A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.
- (B) As a charge for the risk involved in the drilling of the well, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

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

-5-

Case No. 6723
Order No. R-6193

(9) That \$150.00 per month is hereby fixed as a reasonable charge for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charge attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

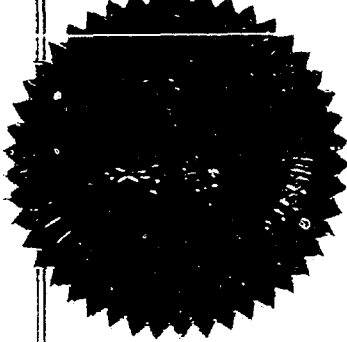
(10) That any unsevered mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(11) That any well costs or charges which 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.

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

(13) That jurisdiction of this cause 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.



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

Joe D. Ramey
JOE D. RAMEY,
Director

dr/

Thurman E Jackson President
Sandia Oil & Gas Co Inc.
7104 Santero Rd N.E.
Albuquerque, New Mex.
Telephone 884-7520

Mr. and Mrs Paul Brown
(Marceline Brown)
Regina, New Mexico 87046
Phone 774-6637

CASE 6721: Application of Aminoil USA, Inc. for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Wolfcamp-Pennsylvanian formations underlying the N/2 of Section 10, Township 24 South, Range 28 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 6684: (Continued from October 31, 1979, Examiner Hearing)

Application of CO₂-In-Action, Inc. for creation of a new carbon dioxide gas pool and special pool rules, Harding County, New Mexico. Applicant, in the above-styled cause, seeks the creation of the North Bueyeros-Santa Rosa CO₂ Gas Pool and the promulgation of special pool rules therefor, including a provision for 40-acre spacing and proration units. Said pool would comprise all or parts of Sections 1 thru 4, Township 20 North, Range 30 East, and Sections 8, 9, 10, 15, 16, 17, 20, 21, 22, 27, 28, 32, 33 and 34, Township 21 North, Range 30 East.

CASE 6722: Application of Lloyd Davidson for an unorthodox oil well location, McKinley County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of his Santa Fe Pacific Well No. 1, a Gallup-Entrada-Dakota test 960 feet from the South line and 1230 feet from the East line of Section 29, Township 16 North, Range 6 West, the SE/4 SE/4 of said Section 29 to be dedicated to the well.

CASE 6723: Application of Merrion & Bayless for compulsory pooling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Pictured Cliffs formation underlying the SW/4 of Section 27, Township 24 North, Range 2 West, South Blanco-Pictured Cliffs Pool, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 6713: (Continued from October 31, 1979, Examiner Hearing)

Application of Depco Inc. for a unit agreement, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks approval for the White Ranch Unit Area, comprising 18,962 acres, more or less, of State, Federal, and fee lands in Townships 12 and 13 South, Ranges 29 and 30 East.

CASE 6724: Application of Coquina Oil Corporation for a non-standard gas proration unit and an unorthodox location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of a well to be drilled 660 feet from the South line and 1650 feet from the East line of Section 7, Township 19 South, Range 32 East, Lusk-Harrow Gas Pool, the S/2 of said Section 7 to be dedicated to the well as a non-standard 320-acre proration unit.

CASE 6725: Application of Tenneco Oil Company for three non-standard gas proration units, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval of a 291.23-acre non-standard gas proration unit comprising the W/2 of Section 6 and the NW/4 of Section 7, a 347.58-acre unit comprising the W/2 of Section 19 and the NW/4 of Section 30, and a 375.17-acre unit comprising the SW/4 of Section 30 and the W/2 of Section 31, all in Township 29 North, Range 8 West, Basin-Dakota Pool, each unit to be dedicated to a well to be drilled at a standard location thereon.

CASE 6726: Application of Tesoro Petroleum Corporation for a waterflood project, McKinley County, New Mexico. Applicant, in the above-styled cause, seeks authority to institute a waterflood project in the South Hospah-Upper Sand Oil Pool by the injection of water into the Upper Hospah Sands through three wells located in Units E and M of Section 5 and Unit I of Section 8, Township 17 North, Range 8 West. Applicant further seeks an administrative procedure for expansion of said project.

CASE 6727: Application of Conoco Inc. for salt water disposal, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to dispose of produced salt water in its Anderson Ranch Unit Well No. 8 located in Unit I of Section 11, Township 16 South, Range 32 East, Anderson Ranch Field. Applicant would dispose into the Wolfcamp, Mississippian, and Devonian formations in the overall interval from 9775 feet to 13,620 feet through selective perforations.

CASE 6728: Application of Conoco Inc. for pressure maintenance expansion, Lea County, New Mexico. Applicant, in the above-styled cause, seeks the expansion of its Scarborough Eaves PM Project by the conversion of its Eaves "A" Well No. 7 located in Unit J of Section 19, Township 26 South, Range 37 East, to water injection in the Yates-Seven Rivers formations.

Rim C-102
 Supersedes C-128
 Effective 1-1-65

All distances must be from the rules boundaries of the Section.

1. Outline the acreage dedicated to the subject well by colored pencil or hachure marks on the plat below.
2. If more than one lease is dedicated to the well, outline each and identify the ownership thereof (both as to working interest and royalty).
3. If more than one lease of different ownership is dedicated to the well, have the interests of all owners been consolidated by communitization, unitization, force-pooling, etc?

☐ Yes ☒ No If answer is "yes," type of consolidation _____

No allowable will be assigned to the well until all interests have been consolidated (by communitization, unitization, forced-pooling, or otherwise) or until a non-standard unit, eliminating such interests, has been approved by the Commission. *PP Wells in Sec 28*

Bayless

6722

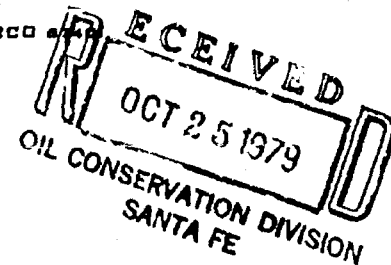
no AFE but.
Est well costs
for 3400' FC producer 90,000
requiring 200% penalty factor
about 1500 per month.

ROBERT L. BAYLESS

PETROLEUM CLUB PLAZA BUILDING

P. O. BOX 1841

FARMINGTON, NEW MEXICO



October 23, 1979

State of New Mexico
Energy & Minerals Department
Oil & Gas Conservation Division
P.O. Box 2088
Santa Fe, NM 87501

Case 6723

Gentlemen:

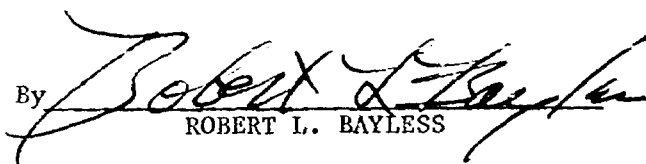
Please consider this our request for a Forced Pool hearing covering a proposed Pictured Cliff formation gas well to be drilled in the SW/4 of Section 27, T24N, R2W, Rio Arriba County, New Mexico. As the attached plat indicates, we control the oil and gas operating rights on all the quarter section with the exception of the SW 40 acre tract, which is owned by Paul and Marie Brown of Lindrith, New Mexico (with a mailing address of Regina, New Mexico).

We request that we be named to drill the proposed Pictured Cliff gas well with the pooling of interest to cover from the surface of the ground to the base of the Pictured Cliff formation. Paul and Marie Brown have refused to lease to us and we request that we be allowed to recover the drilling, completing and operating costs attributable to this tract with a penalty factor of 200%.

In order that we may drill this well before winter, we request the hearing be set as soon as possible. The U.S.C.S. has requested the well be drilled as the NW 40 acre tract has U.S.A. minerals and there is presently a Pictured Cliff formation gas well located as a direct offset to the North, namely the NW/4 Section 27, T24N, R2W.

Yours truly,

MERRION & BAYLESS

By 
ROBERT L. BAYLESS

RLB/eh

Enclosure (1)

xc: NMOCC, Aztec

NEW MEXICO OIL CONSERVATION COMMISSION
WELL LOCATION AND ACREAGE DEDICATION, LAT

Form C-102
Supersedes C-128
Effective 1-1-65

All distances must be from the outer boundaries of the Section.

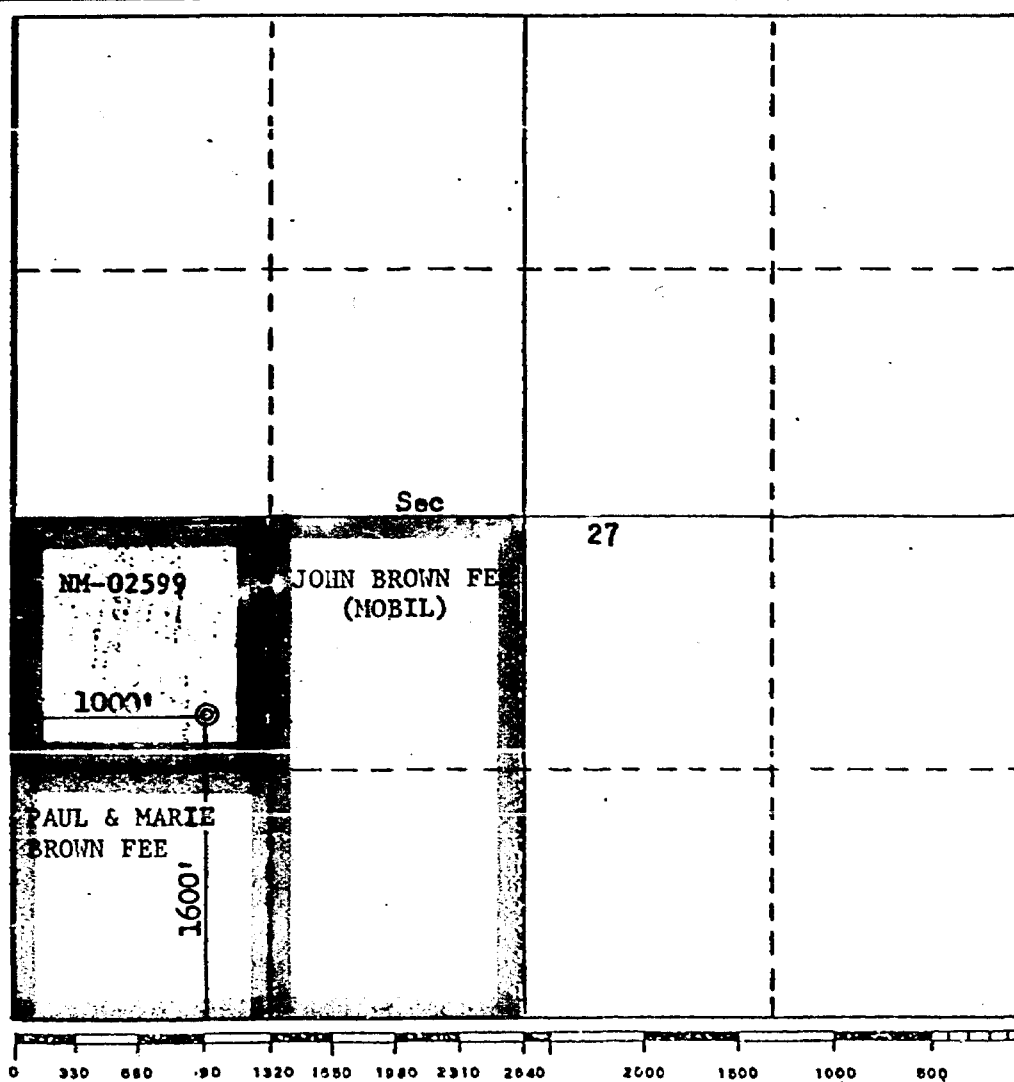
Operator MERRION & BAYLESS		Lease East Lindrith		Well No. 007 251979	
Unit Letter L	Section 27	Township 24N	Range 2W	County RIO ARriba SANTA FE	
Actual Footage Location of Wells: 1600 feet from the South line and 1000 feet from the West line Ground Level Elev. 7225 Producing Formation Pictured Cliffs Pool South Blanco Dedicated Acreage 160 Acres					

1. Outline the acreage dedicated to the subject well by colored pencil or hachure marks on the plat below.
2. If more than one lease is dedicated to the well, outline each and identify the ownership thereof (both as to working interest and royalty).
3. If more than one lease of different ownership is dedicated to the well, have the interests of all owners been consolidated by communitization, unitization, force-pooling, etc?

☐ Yes ☒ No If answer is "yes," type of consolidation _____

If answer is "no," list the owners and tract descriptions which have actually been consolidated. (Use reverse side of this form if necessary.) Will be communitized.

No allowable will be assigned to the well until all interests have been consolidated (by communitization, unitization, forced-pooling, or otherwise) or until a non-standard unit, eliminating such interests, has been approved by the Commission.



CERTIFICATION

I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.

Name
J. Gregory Merrion
Position
Co-Owner
Company
Merrion & Bayless
Date
April 18, 1979

I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my knowledge and belief.

Date Surveyed
September 14, 1978
Registered Professional Engineer
and/or Land Surveyor
Fred B. Kerr Jr.
Certificate No.
3955

DRAFT

dr/

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

dr

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

CASE NO. 6723

Order No. R- 6198

APPLICATION OF MERRION & BAYLESS
FOR COMPULSORY POOLING, RIO ARRIBA
COUNTY, NEW MEXICO.

DM

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on November 14
19 79, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this _____ day of November, 19 79, the Division
Director, having considered the testimony, the record, and the
recommendations of the Examiner, and being fully advised in the
premises,

FINDS:

(1) That due public notice having been given as required by
law, the Division has jurisdiction of this cause and the subject
matter thereof.

(2) That the applicant, Merrion & Bayless,
seeks an order pooling all mineral interests in the Pictured
Cliffs formation underlying the SW/4
of Section 27, Township 24 North, Range 2 West
NMPM, South Blanco-Pictured Cliffs Pool, Rio Arriba County, New
Mexico.

SP
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(3) That the applicant has the right to drill and proposes to drill a well at a standard location thereon.

(4) That there are interest owners in the proposed proration unit who have not agreed to pool their interests.

(5) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the gas in said pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

(6) That the applicant should be designated the operator of the subject well and unit.

(7) That any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(8) That any non-consenting working interest owner that does not pay his share of estimated well costs should have withheld from production his 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.

(9) That any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but that actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(10) That following determination of reasonable well costs, any non-consenting working interest owner that has paid his 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.

(11) That \$150⁰⁰ per month should be fixed as a reasonable charge for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charge attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(12) That all proceeds from production from the subject 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.

(13) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before February 15, 1980, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Pictured Cliffs formation underlying the SW/4 of Section 27, Township 24 North, Range 2 West, NMPM, South Blanco-Pictured Cliffs Pool, Rio Arriba County, New Mexico, are hereby pooled to form a standard 160-acre gas spacing and proration unit to be dedicated to a well to be drilled at a standard location thereon

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the 15th day of February, 1980, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Pictured Cliffs formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 15th day of February, 1979, Order (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

PROVIDED FURTHER, that should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Order (1) of this order should not be rescinded.

(2) That Merrion & Bayless are ~~xxx~~ hereby designated the operator of the subject well and unit.

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

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

(5) That 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; that 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, that if there is an objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(6) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner that has paid his share of estimated costs in advance as provided

above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

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

(A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(B) As a charge for the risk involved in the drilling of the well, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

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

(9) That \$150.00 per month is hereby fixed as a reasonable charge for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charge attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

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(10) That any unsevered 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) That any well costs or charges which 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.

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

(13) That jurisdiction of this cause 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 herein-
above designated.