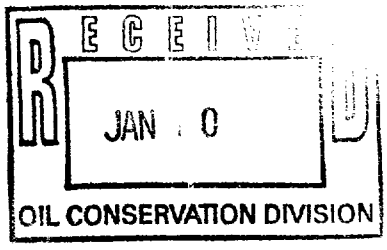
**STATE OF NEW MEXICO**
**ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT**
**OIL CONSERVATION DIVISION**




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

**APPLICATION OF MERIDIAN OIL INC. FOR COMPULSORY POOLING AND AN UNORTHODOX GAS WELL LOCATION, SAN JUAN COUNTY, NEW MEXICO - PURPOSED SEYMOUR WELL NO. 7A**

**CASE NO. 11434**

## HARTMAN'S REPLY MEMORANDUM IN SUPPORT OF MOTION TO DISMISS AND IN OPPOSITION TO MERIDIAN'S APPLICATION

Doyle and Margaret Hartman, doing business as Doyle Hartman, Oil Operator ("Hartman") hereby offer this Reply Memorandum in Support of the Intervention and Motion to Dismiss filed November 28, 1995. This Memorandum will address points raised in Meridian's Response to Hartman's Motion to Dismiss ("Response") which was served on Hartman January 8, 1996.

## I.

## REPLY TO MERIDIAN'S STATEMENT OF FACTS

Meridian lists eleven (11) different facts in its Response. Most are unnecessary and irrelevant to the issue raised by Hartman's Motion to Dismiss Meridian's Application. In fact, the only facts relevant to dispose of this Application are as follows:

1. On March 30, 1953, the then owners of leasehold interest covering the E/2 Section 23, T31N, R9W, entered into a Communitization Agreement by which they

pooled their interest in two separately owned tracts as to the Mesa Verde Formation underlying the 320-acre proration unit. The lands covered by the Communitization Agreement comprised the entire 320-acre proration unit covering the E/2 of Section 23. The Communitization Agreement provides that "all matters of operation shall be governed by the Operator under and pursuant to the terms and provisions" of the March 30, 1953 Operating Agreement.

2. The Operating Agreement covers the entire 320-acre standard proration unit and calls for the drilling of only one well on the unit. That well was drilled and is known as the Seymour No. 7.

3. Meridian's application for forced pooling covers the identical 320-acre tract which is subject to the 1953 Communitization Agreement and Operating Agreement.

4. Meridian has attempted to secure the agreement of other working interest owners in 320-acre tract to a new Operating Agreement which would provide for the drilling of the Seymour 7A well and would authorize assessment of a 300% penalty provision for non-consent interest owners. Both Hartman and Four Star Oil & Gas Company ("Four Star") have refused to agree to Meridian's proposed terms.

5. Alternatively, if Meridian is authorized to drill the proposed Seymour 7A well without the agreement of the other interest owners, it must do so under the terms of the existing Communitization Agreement and without Meridian's desired penalty provisions for non-consenting interest owners.

## II.

## SUMMARY OF HARTMAN'S POSITION AND OBJECTION TO MERIDIAN'S MISCHARACTERIZATION OF HARTMAN'S POSITION

Meridian offers an inaccurate, partial and incomplete recitation of Hartman's position in its Response, p. 3. Hartman's position is set out in full in its Intervention and Motion to Dismiss. NMOCD has no authority to force pool the 320-acre tract at issue in Meridian's application pursuant to NMSA 1978 § 70-2-17(C), because the owners of that tract have agreed to pool their interests. Section 70-2-17(c) authorizes forced pooling only as to tracts where interest owners "have not agreed to pool their interests." The statute does not authorize NMOCD to modify an existing operating agreement which already pools all interests in the tract. Sims v. Medina, 72 N.M. 186, 382 P.2d 183 (1963) (commission is a creature of statute, expressly defined and limited by laws creating it).

The Operating Agreement is a valid expression of the parties' pooling agreement which is consistent with all applicable NMOCD orders and regulations. The parties to the Communitization Agreement and Operating Agreement have not automatically agreed to the drilling of any additional wells on the 320-acre tract. NMOCD has no authority to compel non-consenting working interest owners to agree to Meridian's proposal for the Seymour 7A well.

Alternatively, if NMOCD authorizes Meridian to drill a second well on the unit as the operator, Meridian must drill subject to the terms of the existing Operating Agreement, reflecting the parties' agreement to pool their interests, and without the

requested penalties for non-consent.

## III.

## LEGAL AUTHORITY

### 1. NMOCD PRECEDENT CONFIRMS THAT FORCED POOLING IS UNAVAILABLE WHERE INTEREST OWNERS HAVE ALREADY POOLED THEIR INTERESTS PURSUANT TO AN OPERATING AGREEMENT.

Meridian has failed to cite to any case law or regulatory precedent which authorizes NMOCD to force pool the entire 320-acre tract comprising the E/2 of Section 23 where the entire tract is already subject to a pooling agreement. NMOCD has previously recognized that it has no statutory authority to force pool these interests under these circumstances.

A case directly on point is NMOCD Order No. R-8013 in Case No. 8606, the Application of Doyle Hartman for Simultaneous Dedication and Compulsory Pooling related to Hartman's proposed E. E. Jack Well No. 5 Jalmat infill gas well. A copy of the Division's Order is attached hereto as Exhibit A. In that case, Hartman sought compulsory pooling as to a 160-acre unit area which was already covered by a binding and an existing Operating Agreement between the working interest owners. The Division denied the application for compulsory pooling as follows:

> (12) Because of a lack of evidence to the contrary, it appears that the "Agreements" are current binding operating agreements for the subject proration unit, having provisions governing those issues to be addressed in compulsory pooling cases obviating the need for such a hearing in this case.

See also in Case No. 11294 cited in Four Star's Memorandum, pp. 4-5.

Similarly, here, a valid Operating Agreement governing the parties' rights and obligations regarding development of the entire 320-acre Mesaverde tract exists. As with Hartman's 1985 E. E. Jack No. 5 application, the issues to be addressed in Meridian's current compulsory pooling application are already a matter of agreement between the interest owners in this tract, who have already agreed to pool their interests in the tract regarding development of and production from the Blanco Mesaverde pool. The fact that the parties have not agreed on the drilling of a second well does not change the fact that their interests have been pooled. Meridian's dissatisfaction with the Operating Agreement does not authorize the NMOCD to force pool the interests in a manner contrary to the parties' written agreement to pool those interests.

The Sims decision, cited and quoted by Meridian in its Response, actually supports denial of Meridian's application. In that case, the New Mexico Supreme Court held that the Order of the Oil Conservation Commission was void. The case involved an application for force-pooling of both the Northwest and Southwest quarters of Section 25 in Lea County, New Mexico and the creation of two separate standard 160-acre production units covering the northwest and southwest quarters of that Section. Parts of each section had previously been joined, first by order of the Commission, and later under a Communitization Agreement between the parties.

In recognizing that the Commission is authorized to require pooling of property interests when such pooling has not been agreed upon by the parties, the Court

clearly relied upon the fact that "the pooling of the entire west half of Section 25 had not been agreed upon." 72 N.M. at 188-89. Sims thus confirms that force pooling is available only where the acreage at issue has not been pooled by agreement of the parties. Here, the entire 320-acre tract which is affected by Meridian's application has been pooled by agreement of the interest owners.

Meridian's reliance on the NMOCD proceedings referenced in its Response is grossly misplaced. None of those cases involved circumstances where the parties had pooled their interests as to the entire unit and were subject to an Operating Agreement. In the Tenneco application for an infill well in the Basin Dakota Pool, cited by Meridian (Case No. 9265), the acreage at issue was initially force pooled "By Division Order No. R-8297 dated September 4, 1986." A copy of Order No. R-8565 is attached as Exhibit B. The Order does not reference any applicable Operating Agreement pertaining to the proration unit. There was no Operating Agreement between the interest owners of the tract.

The Merrion Oil and Gas application referenced in Meridian's Response, as reflected in Division Order R-10060, is similarly distinguishable. There, the Division granted a forced pooling request in the absence of a valid Operating Agreement pooling the parties' interest in the tract. Merrion's Pre-Hearing Statement, attached hereto as Exhibit C, states "Apparently, there is no operating agreement in effect applicable to these lands and interest." Order R-10060, attached as Exhibit D, does not reference any applicable Operating Agreement.

The Application of Curtis Little, adjudicated by Order No. R-5962, is similarly distinguishable from this case. There, the Division found that "there are interest owners in the proposed proration unit who have not agreed to pool their interests." A copy of the Order, attached as Exhibit E, indicates that no Operating Agreement was in effect regarding the proration unit sought to be force pooled.

Meridian's reliance on Order R-9332, involving an application by Hartman for compulsory pooling to drill an infill well is particularly disingenuous and deceptive. A copy of the Division's Order is attached hereto as Exhibit E. As a review of the Order demonstrates, Hartman's application sought approval of a proposed 280-acre non-standard gas proration unit. At the time of the application, there was an existing 160-acre Eumont non-standard gas proration unit which was dedicated to the Hartman operated State "A" Well No. 4. Hartman's application sought to include additional acreage in the proration unit. Hartman proposed the drilling of State "A" Com Well No. 5 and dedication of the proposed 280-acre unit to both the No. 4 and the No. 5 well. There was no Operating Agreement covering the entire proposed 280-acre unit, and no agreement covering the acreage on which the proposed State "A" No. 5 was to be drilled. In order to allow all productive Eumont acreage to proportionally share in potentially available and recoverable Eumont gas reserves, the Division granted the application, force pooled the interests, formed a non-standard 280-acre gas spacing and proration unit and simultaneously dedicated production from the unit to the No. 4 and No. 5 wells.

## 2. THE OIL CONSERVATION COMMISSION DID NOT MODIFY ALL EXISTING OPERATING AGREEMENTS COVERING THE BLANCO MESAVERDE POOL BY ADOPTING ORDER NO. R-1670-T

Meridian offers a tortuous argument which suggests that the Commission, by Order No. R-1670-T, impliedly required modification of all existing, valid Operating Agreements covering the Blanco Mesaverde Pool which call for the drilling of one well on a 320-acre proration unit. Response, pp. 3-6. According to Meridian, the Division and the parties can assume that the only reason that the parties to the applicable Operating Agreement here agreed to the drilling of only one well was because, at the time the Operating Agreement was negotiated, Order No. R-1670 permitted the drilling of only one well on each 320-acre proration unit in the Blanco Mesaverde pool.

Meridian's argument is invalid to the extent that it assumes to know or speculates as to why the parties to the Operating Agreement limited the development of this proration unit by allowing for the drilling of only one well. Meridian's speculations notwithstanding, it is just as valid to assume that the parties to the Operating Agreement simply bargained for one well in order to assure that they had control over operations and could limit development absent unanimous agreement by all interest owners in the drilling of any additional wells. Had the parties to the Operating Agreement desired, they could have included a provision in the Operating Agreement authorizing additional drilling operations on the 320-acre tract in the event Order R-1670 were ever amended or modified to allow for the drilling of additional wells on the 320-acre proration unit.

Meridian's argument that Order No. R-1670-T supports modification of valid Operating Agreements misconstrues the nature and effect of that Order. A copy of Order No. R-1670-T is attached hereto as Exhibit G. The dispositive provision of the Order states as follows:

> (1) That the Special Rules for the Blanco Mesaverde pool in San Juan and Rio Arriba Counties, New Mexico, as promulgated by Order No. R-1670, as amended, are hereby amended to permit the optional drilling of a second well on each proration unit... . (Emphasis added).

Order No. R-1670-T permits the optional drilling of a second well. It does not require the drilling of a second well. It does not even suggest that the drilling of a second well is desirable. Order No. R-1670-T does nothing more than authorize interest owners to drill a second well on the proration unit if they agree to do so.

Here, the interest owners have not automatically agreed to the drilling of a second well. Nothing in Order No. R-1670-T compels Hartman or Four Star to comply with Meridian's wishes for the drilling of a second well. Meridian's request is an improper attempt to have NMOCD resolve a private contractual matter between the parties, where Meridian has failed to make a good faith attempt to negotiate with Hartman and Four Star.

### 3. MERIDIAN HAS FAILED TO MAKE REASONABLE EFFORTS TO OBTAIN VOLUNTARY AGREEMENT FOR THE DRILLING OF AN ADDITIONAL WELL .

Hartman adopts and incorporates by reference the argument on this issue offered by Four Star in its Memorandum Brief filed with the Division. Meridian filed its

application for force pooling the same day Hartman received Meridian's October 31, 1995 letter proposing the Seymour No. 7A well. If Meridian wishes to negotiate regarding the drilling of an additional well, it should do so in a businesslike manner rather than by seeking to impose its will on Hartman under the threat of an application for force pooling. This is a matter for negotiation and agreement by and between the interest owners in the 320-acre proration unit.

## IV.

## CONCLUSION

NMOCD lacks authority to force pool acreage which is already subject to a binding voluntary pooling agreement between the interest owners of that acreage. Meridian's application should be dismissed and/or denied. Alternatively, if Meridian is authorized to drill the Seymour 7A well, it must do so under the terms of the existing Operating Agreement and without the non-consent penalties it seeks to have imposed.

Respectfully submitted,

GALLEGOS LAW FIRM, P.C.

By _____

J.E. GALLEGOS
MICHAEL J. CONDON
460 St. Michael's Drive, Bldg. 300
Santa Fe, New Mexico 87505
(505) 983-6686

Attorneys for Hartman

## CERTIFICATE OF SERVICE

I hereby certify that I have caused a true and correct copy of the foregoing to be hand-delivered on this 10th day of January, 1996 to the following:

Tom Kellahin
117 N. Guadalupe
Santa Fe, NM 87501

William F. Carr
Post Office Box 2208
Santa Fe, NM 87504-2208

Michael J. Condon

MICHAEL J. CONDON

Jack L.

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. 8606
Order No. R-8013

APPLICATION OF DOYLE HARTMAN FOR SIMULTANEOUS DEDICATION AND COMPULSORY POOLING, LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8 a.m. on July 2, 1985, at Santa Fe, New Mexico, before Examiner Gilbert P. Quintana.

NOW, on this 20th day of August, 1985, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

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

(2) The applicant, Doyle Hartman, seeks an order pooling all mineral interests from the surface to the base of the Jalmat Gas Pool underlying the NW/4 of Section 8, Township 24 South, Range 37 East, NMPM, Lea County, New Mexico, forming a previously approved 160-acre non-standard spacing and proration unit in the Jalmat Gas Pool.

(3) The applicant proposes to simultaneously dedicate said gas proration unit to his existing E. E. Jack Well No. 1 located 1980 feet from the North line and 660 feet from the West line (Unit E) of said Section 8 and his proposed E. E. Jack Well No. 5 to be drilled at a standard location within said unit.

(4) Marilyn A. Tarlton, interest owner in the subject proration unit and trustee of the surviving trustor's trust of the Lortscher Family Trust, dated November 26, 1980, has not agreed to the drilling of said E. E. Jack Well No. 5.

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(5) Evidence was presented showing that an operating agreement entitled, "Operating Agreement", dated January 16, 1951, covering the subject unit area, was entered into by and between Howard Hogan, operator, and Charles T. Scott, Harold S. Russell, Herbert J. Schmitz, and F. D. Lortscher, non-operators.

(6) Said operating agreement was modified December 15, 1954, by an agreement entitled, "Modification of Operating Agreement" and was entered into by and between R. Olsen, operator, and the same non-operators in Finding No. (5) above.

(7) The applicant, Doyle Hartman, controls 66.667 percent of the subject proration unit, including the titles of Howard Hogan, R. Olsen, Herbert J. Schmitz, and Charles T. Scott, Jr.

(8) Marilyn A. Tarlton controls the title of F. D. Lortscher, which is 20 percent of the subject proration unit.

(9) Ms. Tarlton contends that the applicant, other interest owners, and herself are governed by the operating agreements in Findings Nos. (5) and (6) above, hereafter referred to as the "Agreements."

(10) The "Agreements" have provisions for the drilling of additional wells on the subject proration unit, including provisions for non-consent drilling risk penalties, drilling supervision charges, and production supervision charges.

(11) The applicant failed to provide evidence to refute that the "Agreements" are not binding and do not govern the operation of the subject proration unit.

(12) Because of a lack of evidence to the contrary, it appears that the "Agreements" are current binding operating agreements for the subject proration unit, having provisions governing those issues to be addressed in compulsory pooling cases obviating the need for such a hearing in this case.

(13) The compulsory pooling portion of this application should be denied.

(14) The simultaneous dedication portion of this application should be approved, provided the proposed new well is drilled under the provisions of the "Agreements."

IT IS THEREFORE ORDERED THAT:

(1) The portion of the application of Doyle Hartman seeking an order pooling all mineral interests from the surface to the base of the Jalmat Gas Pool underlying the NW/4 of Section 8, Township 24 South, Range 37 East, NMPM, Lea County, New Mexico, is hereby denied.

(2) The previously approved 160-acre non-standard gas proration unit, comprising the NW/4 of said Section 8, shall be simultaneously dedicated to the proposed E. E. Jack Well No. 5 and the applicant's E. E. Jack Well No. 1 located in Unit E of said Section 8 provided the E. E. Jack Well No. 5 is drilled under the terms of the "Agreements."

(3) 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

R. L. STAMETS
Director

S E A L

fd/

STATE OF NEW MEXICO
ENERGY, MINERALS, AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

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

CASE NO. 9265
Order No. R-8565

APPLICATION OF TENNECO OIL COMPANY FOR COMPULSORY POOLING, SAN JUAN COUNTY, NEW MEXICO.

ORDER OF THE DIVISON

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on November 18, 1987, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 9th day of December, 1987, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

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

(2) The applicant, Tenneco Oil Company, seeks an order pooling all mineral interests in the Basin-Dakota Pool underlying the E/2 of Section 10, Township 29 North, Range 13 West, NMPM, San Juan County, New Mexico, forming a standard 320-acre gas spacing and proration unit for said pool to be dedicated to the applicant's proposed City of Farmington Comm Well No. 1E, to be drilled at an unorthodox surface and bottomhole location previously approved by Division Orders Nos. R-8253 and R-8253-A.

(3) By Division Order No. R-8297 dated September 4, 1986, the Division, upon the application of Tenneco Oil Company, pooled all mineral interests in the Basin-Dakota

Pool underlying the E/2 of said Section 10, to be dedicated to the applicant's City of Farmington Comm Well No. 1.

(4) The proposed City of Farmington Comm Well No. 1E will be an infill well and will share the proration unit consisting of the E/2 of said Section 10 with the existing City of Farmington Comm Well No. 1.

(5) Although the subject acreage has previously been pooled by the applicant as described in Finding No. (3) above, the applicant seeks an order pooling the subject acreage for the purpose of recovering its share of the well costs plus a penalty from each non-consenting interest owner in the proration unit for the proposed infill well.

(6) The applicant has the right to drill and should be allowed to drill its proposed infill well.

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

(8) To avoid the drilling of unnecessary wells, to protect correlative rights, to avoid waste, 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 production in any pool completion resulting from this order, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

(9) The applicant should be designated the operator of the subject well and unit.

(10) 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.

(11) Any non-consenting working interest owner who 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.

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

(13) Following determination of reasonable well costs, any non-consenting working interest owner who 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.

(14) $4000.00 per month while drilling and $400.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); the operator should be authorized to withhold from production the proportionate share of such supervision charges 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.

(15) 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.

(16) Upon the failure of the operator of said pooled unit to commence drilling the well to which said unit is dedicated on or before March 15, 1988, the order pooling said unit should become null and void and of no effect whatsoever.

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

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

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be, in the Basin-Dakota Pool underlying the E/2 of Section 10, Township 29 North, Range 13 West, NMPM, San Juan County, New Mexico, are hereby pooled to form a standard 320-acre gas spacing and proration unit to be dedicated to the applicant's City of Farmington Comm Well No. 1E, an infill well to be drilled at a previously approved surface and bottomhole location within the E/2 of said Section 10.

PROVIDED HOWEVER THAT, the operator of said unit shall commence the drilling of said well on or before the 15th day of March, 1988, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Dakota formation;

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said well on or before the 15th day of March, 1988, Ordering Paragraph No. (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 Ordering Paragraph No. (1) of this order should not be rescinded.

(2) Tenneco Oil Company is hereby designated the operator of the subject well and unit.

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

(6) Within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated well 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) 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) The operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(9) $4000.00 per month while drilling and $400.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); the operator is hereby authorized to withhold from production the proportionate share of such supervision charges 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) 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) Any well costs or charges which are to be paid out of production shall be withheld only from the working interest's share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

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

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

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

(15) 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

WILLIAM J. LEMAY,
Director

S E A L

**MERRION**

OIL & GAS

'93 NO 24 AM 9 14

November 23, 1993

Mr. Michael Stogner
State of New Mexico
Energy, Minerals and Natural Resources Department
New Mexico Oil Conservation Division
P.O. Box 2088
Santa Fe, NM 87501-2088

FAXED & MAILED

Case : C888

RE: Application for Compulsory Pooling
Merrion Oil & Gas Corporation
N/2 of Section 24, T27N, R7W, N.M.P.M.
Rio Arriba County, New Mexico

Gentlemen:

Please consider this letter the formal application of Merrion Oil & Gas Corporation for an order of the New Mexico Oil Conservation Division force-pooling all mineral interests from the surface of the earth to the base of the Dakota formation underlying the N/2 of Section 24, Township 27 North, Range 7 West, N.M.P.M., Rio Arriba County, New Mexico, forming a 352.07 acre gas spacing and proration unit for the Basin Dakota Gas Pool to be dedicated to the Shelby Federal No. 1E Well to be drilled in the Dakota formation at a standard gas well location 880 feet from the north line and 2030 feet from the west line of said Section 24. Merrion Oil & Gas Corporation requests that such order designate Merrion Oil & Gas Corporation as the operator of the proposed drilling operation, and that it provide for the recovery by the joining working interest owners of the costs of drilling, completing, equipping and operating the well, together with a reasonable charge for risk involved in drilling the well. In addition, Merrion Oil & Gas Corporation requests that the order establish a reasonable charge for the supervision of the well during the drilling and production stages.

Please place this application on the December 16, 1993 docket of the New Mexico Oil Conservation Division.

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

Yours Truly,

MERRION OIL & GAS CORPORATION

Crystal Williams

Crystal Williams
Landman

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

Exhibit C

*610 Reilly Avenue • P.O. Box 840 • Farmington, New Mexico 87499 • 505-327-9801 505-326-5900 (Fax)*

FAX 505-326-5900



MERRION OIL & GAS CORPORATION
610 REILLY AVE. • P. O. BOX 840
FARMINGTON, NEW MEXICO 87499
505-327-9801

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

December 9, 1993

Mr. William LeMay
Director
New Mexico Oil Conservation Division
P. O. Box 2088
Santa Fe, N. M. 87503

Already covered in Case 10888 to be heard 12/16/93

**RE: APPROVAL FOR A NON-STANDARD DAKOTA PRORATION UNIT...SHELBY FEDERAL No. 1 AND 1E WELLS**

Dear Mr. LeMay:

Merrion Oil & Gas Corporation hereby applies for approval of a non-standard Dakota proration unit consisting of the N/2, Section 24, T27N, R7W, Rio Arriba, New Mexico, 352.07 acres more or less to be dedicated to the Shelby Federal No. 1 and 1E wells located thereon.

We further request that this application be placed on the Division's January 6, 1994 Hearing Docket.

This hearing is requested as a follow-up to Case #10888 to be heard December 16, 1993 wherein Merrion has requested compulsory pooling approval for the same proration unit, and is necessary to provide adequate constructive notification to all offset operators.

Enclosed are two additional copies of this letter application.

Sincerely,

Steven S. Dunn
Operations Manager

SSD/ejg

xc: Mr. Frank Chavez,NMOCD, Aztec, NM 87410
Mr. Tommy Roberts, Box 1020,Farmington,NM 87499
Crystal Williams-Land Department
File

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

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

CASE NO. 10888

APPLICATION OF MERRION OIL & GAS CORPORATION FOR COMPULSORY POOLING AND A NON-STANDARD GAS PRORATION UNIT, RIO ARRIBA COUNTY, NEW MEXICO.

## PRE-HEARING STATEMENT

This prehearing statement is submitted by Merrion Oil & Gas Corporation as required by the Oil Conservation Division.

APPEARANCES OF PARTIES

| APPLICANT | ATTORNEY |
|---|---|
| Merrion Oil & Gas Corporation | Tommy Roberts |
| P.O. Box 840 | P.O. Box 1020 |
| Farmington, New Mexico 87499 | Farmington, New Mexico 87499 |
| Attn: George Sharpe | 505/325-1801 |
| 505/327-9801 | |

| OPPOSITION OR OTHER PARTY | ATTORNEY |
|---|---|
| Doris Henderson | Not known |
| Harriett Buchenau | |

(It is not known whether Buchenau will oppose this application. All correspondence mailed to Henderson was returned as "undeliverable" and her whereabouts could not otherwise be ascertained by Applicant.

## STATEMENT OF CASE

APPLICANT

(Please make a concise statement of what is being sought with the application and the reasons therefore.)

Applicant seeks an order pooling all minerals interests in the Basin Dakota Pool underlying Lots 1-8 (N/2) of Section 24, Township 27 North, Range 7 West, forming a non-standard 352.07 acre gas spacing and proration unit. The proposed spacing and proration unit is currently dedicated to a well located in Lot 8 (SE/4NE/4). Applicant proposes to drill an infill well at a standard gas well location in Lot 3 (NE/4NW/4) and to simultaneously dedicate the spacing and proration unit to the two (2) wells.

Two (2) interest owners are the focus of the compulsory pooling application. Both are owners of a certain percentage of a production payment interest which, by the terms of its creation, converts to a working interest when production attributable to the lease and lands to which it applies falls below certain levels. Apparently, there is no operating agreement in effect applicable to these lands and interests.

Doris Henderson, one of the owners, could not be located by Applicant after diligent search and inquiry. All correspondence mailed to her has been returned to Applicant. Harriett Buchenau, the other owner, has advised representatives of Applicant that she does not believe she has a working interest. She has further stated that, if she does own a working interest, she would elect to have the interest force-pooled.

With respect to the non-standard spacing and proration unit issue, Applicant simply states that the boundaries of the N/2 of Section 24 have been established by governmental survey.

OPPOSITION OR OTHER PARTY

(Please make a concise statement of the basis for opposing this application or otherwise state the position of the party filing this statement.)

NOT APPLICABLE TO APPLICANT'S STATEMENT

## PROPOSED EVIDENCE

APPLICANT

| | WITNESSES (Name and expertise) | EST. TIME | EXHIBITS |
|---|---|---|---|
| 1) | Crystal Williams<br>- Landman | 15 minutes | - Area Map<br>- Lease Ownership Plat<br>- Written correspondence<br>- Proof of Notice<br>- Pertinent Title Documents |
| 2) | George Sharpe<br>- Petroleum Engineer | 30 minutes | - Authority for Expenditure<br>- Operating Agreement<br>- Evidence of Re-survey<br>- Others as may be determined necessary |

OPPOSITION

| WITNESSES (Name and expertise) | EST. TIME | EXHIBITS |
|---|---|---|
| NOT APPLICABLE | | |

PROCEDURAL MATTERS
(Please identify any procedural matters which need to be resolved prior to the hearing)

NONE

Tommy Roberts

TOMMY ROBERTS, Attorney for
Merrion Oil & Gas Corporation

DATED: December 9, 1993

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

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

*CASE NO. 10888*
*ORDER NO. R-10060*

**APPLICATION OF MERRION OIL AND GAS CORPORATION FOR COMPULSORY POOLING AND A NON-STANDARD GAS PRORATION UNIT, RIO ARRIBA COUNTY, NEW MEXICO**

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on December 16, 1993 and February 3, 1994, at Santa Fe, New Mexico, before Examiner Jim Morrow.

Now, on this 10th day of February, 1994, the Division Director, having considered the testimony, the record and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

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

(2) The applicant, Merrion Oil & Gas Corporation (Merrion) seeks an order pooling all mineral interests in the Basin Dakota Pool underlying Lots 1 through 8 (N/2 equivalent) of Section 24, Township 27 North, Range 7 West, NMPM, Rio Arriba County, New Mexico, being a non-standard 352.07-acre gas spacing and proration unit presently dedicated to a well located 1720 feet from the North line and 1000 feet from the East line (Unit H)of said Section 24.

(3) The applicant proposes to drill an infill well at a standard gas well location in Lot 3(NE/4 NW/4 equivalent)of said Section 24 to which said unit is also to be simultaneously dedicated.

(4) The applicant has the right to develop the subject unit and produce the gas underlying it; at this time however, not all the working interest owners in the proposed 352.07-acre gas spacing and proration unit have agreed to pool their interests.

(5) The applicant's witness presented documents and testimony at the December 16th hearing to show that 94.375% of the working interest owners in the subject unit have signed an operating agreement and are committed to participating in drilling the proposed well. Two working interest owners, Doris Henderson with 3.75% and Harriet M. Buchenau with 1.875% had not committed their interests. Until recently these two interests (along with the interest of Sara Mims with 1.875%) were participating as overriding royalty interests. In searching the title, Merrion discovered that the Henderson, Mims, and Bechenau interests should have converted to working interest due to reduced rates of production from the property. These interests have been treated as working interests since July 1, 1993. Ms. Buchenau advised Merrion that she does not believe she has a working interest, but if she does, she would elect to have it forced pooled. Ms. Henderson had not been found. Ms. Mims has agreed to participate.

(6) At the December 16th hearing, legal counsel for the Division instructed the Applicant to try harder to locate Ms. Henderson.

(7) The applicant submitted an affidavit on February 1, 1994. The affidavit stated that renewed efforts to locate Ms. Henderson had resulted in the discovery that Ms. Henderson had died on July 24, 1992. Two of Ms. Henderson's three heirs have agreed to participate in the proposed operation and the third has agreed to sell her interest to Merrion. Ms. Bechenau's interest (1.875%)is the only working interest which is not committed to participation in the operation at this time.

(8) The applicant submitted information to show that the North half of said Section 24 was approved as a non-standard gas proration unit on March 8, 1968. Since that time said unit has been dedicated to the Shelby Federal Com Well No. 1 Simultaneous dedication of the unit to the proposed infill well will not require further approval of the non-standard gas proration unit. The portion of the application concerning approval for a non-standard gas proration unit should therefore be dismissed

(9) To avoid the drilling of unnecessary wells, to protect correlative rights, to prevent waste and to afford to the owner of each interest in 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.

(10) The applicant should be designated the operator of the subject well and unit.

(11) 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.

(12) Any non-consenting working interest owner who does not pay his share of estimated well costs should have withheld from production his share of reasonable well costs plus an additional 200 percent thereof as a reasonable charge for risk involved in the drilling of the well.

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

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

(15) Applicant requested that combined fixed-rate overhead charges be set at $5012 and $440, based on Ernst and Young survey results from 1992. The operator should be authorized to withhold from production the proportionate share of such supervision charges 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.

(16) 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.

(17) Upon the failure of the operator of said pooled unit to commence work on the infill well to which said unit is to be dedicated on or before April 1, 1994, the order pooling said unit should become null and void and of no further effect whatsoever.

(18) Should all the parties to this force-pooling reach voluntary agreement subsequent to entry of this order, this order should thereafter be of no further effect.

(19) The operator of the well and unit should notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the force-pooling provisions of this order.

(20) No offset operator or interest owner appeared at the hearing in oppositio to this application.

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be, in the Basin Dakota Poc underlying Lots 1 through 8 (N/2 equivalent) of Section 24, Township 27 North, Range West, NMPM, Rio Arriba County, New Mexico, are hereby pooled to form a nor standard 352.07-acre gas spacing and proration unit for said pool.

(2) Said unit is to be simultaneously dedicated to an existing well located 172 feet from the North line and 1000 feet from the East line (Unit H) of said Section 2 and to an infill well to be drilled at a standard gas well location in Lot 3 (NE/4 NW/ equivalent) of said Section 24.

PROVIDED HOWEVER THAT, the operator of said unit shall commence the drilling of said well on or before the 1st day of April, 1994, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Basin Dakota Pool producing formation.

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said well on or before the 1st day of April, 1994, Decretory Paragraphs Nos. (1) and (2) 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 Decretory Paragraph Nos. (1) and (2) of this order should not be rescinded.

(3) Merrion Oil and Gas Corporation is hereby designated the operator of the subject well and unit.

(4) After the effective date of this order and prior to commencing work on said well, the operator shall furnish the Division and each working interest owner in the subject unit an itemized schedule of estimated well costs.

(5) 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 out of production, and 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.

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

(7) Within 60 days following determination of reasonable well costs, any non-consenting working interest owner who 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.

(8) 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; and

(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.

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

(10) $5,012 per month while drilling and $440 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); the operator is hereby authorized to withhold from production the proportionate share of such supervision charges 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.

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

(12) Any well costs or charges which are to be paid out of production shall be withheld only from the working interest's share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

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

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

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

(16) The portion of this case involving the non-standard gas proration unit is hereby dismissed for the reason set out in Finding Paragraph No. 6.

(17) Jurisdiction of this cause is retained for 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

WILLIAM J. LEMAY
Director

SEAL

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

*CASE NO. 10888*
*ORDER NO. R-10060-A*

**APPLICATION OF MERRION OIL AND GAS CORPORATION FOR COMPULSORY POOLING AND A NON-STANDARD GAS PRORATION UNIT, RIO ARRIBA COUNTY NEW MEXICO**

NUNC PRO TUNC ORDER

BY THE DIVISION:

It appearing to the Division that Order No. R-10060, dated February 10, 1994, does not correctly state the intended order of the Division,

IT IS THEREFORE ORDERED THAT:

(1) Ordering Paragraph No. (5) on Page 5 of Order No. R-10060, dated February 10, 1994, be and the same should be amended to read in its entirety:

> "(5) 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 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."

(2) The corrections set forth in this order be entered nunc pro tunc as of February 10, 1994.

DONE at Santa Fe, New Mexico, on this 7th day of March, 1994.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

WILLIAM J. LEMAY
Director

SEAL

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. 6437
Order No. R-5962

APPLICATION OF CURTIS LITTLE FOR COMPULSORY POOLING, APPROVAL OF INFILL DRILLING, AND A NON-STANDARD PRORATION UNIT, SAN JUAN COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on February 28, 1979, at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 30th day of March, 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, Curtis Little, seeks the rescission of Order No. R-4556 and approval of an order pooling all mineral interests in the Dakota formation underlying all of partial Section 11 and Lot 4 and the SW/4 SW/4 of partial Section 12, Township 28 North, Range 13 West, NMPM, Basin-Dakota Pool, San Juan County, New Mexico, to form a 344.36-acre non-standard gas proration unit.

(3) That the applicant has the right to drill and proposes to drill a well at a standard location on the proposed non-standard proration unit.

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

Exhibit E

(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 150 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 $2000.00 per month while drilling and $175.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charges 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 July 1, 1979, the order pooling said unit should become null and void and of no effect whatsoever.

(14) That the standard proration unit in said Basin-Dakota Pool is 320 acres.

(15) That the evidence presented at the hearing demonstrated that the existing well on the proposed unit is incapable of efficiently and economically draining such unit.

(16) That the evidence presented further demonstrated that the drilling and completion of applicant's proposed well should result in the production of an additional one to two billion cubic feet of gas from the proration unit which would not otherwise be recovered.

(17) That such additional recovery from the non-standard proration unit will result in such unit being more efficiently and economically drained.

(18) That applicant's proposed well is to be drilled as an "infill" well on the proposed non-standard proration unit.

(19) That in order to permit the drainage of a portion of the reservoir covered by the proposed 344.36-acre non-standard proration unit which cannot be effectively and efficiently drained by the existing well thereon, the subject application for infill drilling should be approved as an exception to the standard well spacing requirements for said Basin-Dakota Pool.

(20) That Division Order No. R-4556 should not be rescinded but should be superseded.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Dakota formation underlying all of partial Section 11 and Lot 4 and the SW/4 SW/4 of partial Section 12, Township 28 North, Range 13 West, NMPM, Basin-Dakota Pool, San Juan County, New Mexico, are hereby pooled to form a non-standard 344.36-acre gas spacing and proration unit to be dedicated to a well to be drilled 1085 feet from the South line and 285 feet from the West line of said Section 12 as an infill well on such proration unit. The authorization for infill drilling granted by this order is an exception to applicable well spacing requirements and is necessary to permit the drainage of a portion of the reservoir covered by the subject non-standard proration unit

which cannot efficiently and economically be drained by any existing well thereon.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the 1st day of July, 1979, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Dakota formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 1st day of July, 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 Curtis Little is hereby designated the operator of the subject well and unit.

(3) That after the effective date of this order and within 30 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, 150 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 $2000.00 per month while drilling and $175.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charges 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 prupose 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 San Juan 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 Division Order No. R-4556 is hereby superseded.

(14) 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
Director

S E A L

fd/

STATE OF NEW MEXICO
ENERGY, MINERALS, AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

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

CASE NO. 9994
Order No. R-9332

APPLICATION OF DOYLE HARTMAN FOR COMPULSORY POOLING, A NON-STANDARD GAS PRORATION UNIT AND SIMULTANEOUS DEDICATION, LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on June 28, 1990, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 24th day of October, 1990, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

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

(2) The applicant, Doyle Hartman (Hartman), seeks an order pooling all mineral interests in the Eumont Gas Pool underlying the SE/4 of Section 5 and the NE/4 of Section 8, Township 21 South, Range 36 East, NMPM, Lea County, New Mexico, forming a non-standard 320-acre gas spacing and proration unit for said pool. IN THE ALTERNATIVE, the applicant seeks an order pooling all mineral interests in the Eumont Gas Pool underlying the N/2 SE/4 and SE/4 SE/4 of said Section 5, and the NE/4 of said Section 8, forming a non-standard 280-acre gas spacing and proration unit for said pool.

In either instance, the applicant proposes to simultaneously dedicate all production from the Eumont Gas Pool to the existing State "A" Well No. 4 located 660 feet from the North and East lines (Unit A) of said Section 8, which is unorthodox for the proposed 280-acre unit, and to its proposed State "A" Com Well No. 5 to be drilled at an undetermined location in the SE/4 of said Section 5.

(3) At the time of the hearing, the applicant testified that it is pursuing approval of the proposed 280-acre non-standard gas proration unit as described above and no longer requests consideration of the proposed 320-acre non-standard gas proration unit.

(4) The applicant has the right to drill and proposes to drill its State "A" Com Well No. 5 as described above.

(5) Chevron U.S.A. Inc. (Chevron), an interest owner in the proposed proration unit who has not agreed to pool its interest, appeared at the hearing in opposition to the application.

(6) The evidence indicates that Chevron and Hartman each own a 50% working interest in the existing 160-acre Eumont non-standard gas proration unit comprising the NE/4 of said Section 8 (approved or "grandfathered" in by Division Order No. R-520, dated August 12, 1954), which is currently dedicated to the Hartman operated State "A" Well No. 4 as described above.

(7) The applicant has recently acquired the SE/4 SE/4 of Section 5 from Arco Oil & Gas Company, said tract previously contained within a 240-acre non-standard Eumont gas proration unit dedicated to the State "G" Well No. 1, and has also recently acquired the N/2 SE/4 of Section 5, which, according to evidence and testimony, has not been developed in the Eumont Gas Pool nor has it previously been included in a Eumont gas proration unit due to an excessive overriding royalty burden.

(8) The evidence indicates that Doyle Hartman owns approximately 90% of the working interest in said N/2 SE/4 and SE/4 SE/4 of said Section 5, and that Chevron owns no interest in these tracts.

(9) The applicant testified that it has successfully reduced the overriding royalty burdens on the N/2 SE/4 and now proposes to drill the State "A" Com Well No. 5 on said tract to recover the remaining Eumont gas reserves.

(10) According to applicant's testimony, current Eumont gas allowables are insufficient to economically justify the drilling of the proposed well on a 120-acre non-standard gas proration unit consisting solely of the N/2 SE/4 and SE/4 SE/4 of said Section 5, and seeks to form the proposed 280-acre non-standard gas proration unit for the purpose of increasing the GPU's Eumont gas allowable, thereby increasing the gas available for production from the proposed well.

(11) The applicant has made a good faith effort to secure Chevron's voluntary participation in the drilling of the proposed State "A" Com Well No. 5, and has also offered to purchase Chevron's interest in the NE/4 of Section 8, but has thus far been unable to reach any agreement with Chevron.

(12) The applicant's proposal contains provisions whereby Chevron and Hartman would be allowed to recover their share of the reasonable and equitable value of the existing State "A" Well No. 4 as compensation for contribution of said wellbore to the proposed proration unit, which, according to applicant's evidence, is approximately $195,782.00.

(13) The basis for Chevron's objection to the proposal is that the formation of the proposed 280-acre non-standard proration unit would in effect reduce Chevron's interest in the existing State "A" Well No. 4 and any subsequently drilled well within the proposed proration unit to approximately 28%.

(14) In addition, the evidence indicates that should Chevron elect not to participate in the drilling of the subject well, its share of the well costs plus a risk penalty would be recovered from production from the proposed State "A" Com Well No. 5 as well as production from the existing State "A" Well No. 4.

(15) Chevron contends that such an arrangement would violate its correlative rights by precluding it from recovering its fair share of proven gas reserves yet to be produced from the State "A" Well No. 4.

(16) Chevron presented evidence which indicates that approval of the application would reduce its revenue from the existing State "A" Well No. 4 by approximately $1,319.00 per month. This figure, however, does not take into account additional revenue which may be realized by Chevron by production from the proposed State "A" Com Well No. 5.

(17) Chevron also testified that the present worth profit of its 50 percent interest in the State "A" Well No. 4 is worth more than the resultant 28 percent interest in the State "A" Well No. 4 and the proposed State "A" Com Well No. 5. However, Chevron presented no economic evidence to substantiate said testimony.

(18) Chevron is in agreement with Hartman in principle that in order to economically justify drilling additional Eumont wells, the gas allowable must be increased via proration unit enlargement as evidenced by Chevron's request in Case No. 9949 heard by the Division on May 30 and June 28, 1990, by which Chevron has requested the establishment of a 400-acre non-standard gas proration unit in the Eumont Gas Pool.

(19) The applicant presented evidence and testimony which indicates that due to the communicative nature of the Eumont reservoir, the N/2 SE/4 of said Section 5 has likely suffered substantial drainage from offset Eumont producing wells.

(20) The applicant presented further evidence which indicates that within a 1 1/3 mile radius of the proposed State "A" Com Well No. 5, Chevron owns approximately 42 percent of the production from Eumont producing wells in said area, which may include gas that has been or is currently being drained from the N/2 SE/4 of said Section 5.

(21) According to applicant's testimony, barring any mechanical failure incurred during drilling or completion operations, the proposed State "A" Com Well No. 5 should encounter commercial gas production from the Eumont Gas Pool, and, according to estimates presented both by Hartman and Chevron in this case, said well should ultimately recover between 0.8 and 1.95 BCF of gas.

(22) The proposed non-standard gas proration unit can be efficiently and economically drained and developed by the State "A" Well No. 4 and the proposed State "A" Com Well No. 5.

(23) Denial of the application in this case would in effect preclude Hartman from drilling the proposed State "A" Com Well No. 5, thereby denying him and other working interest owners the opportunity to recover the remaining gas reserves underlying the N/2 SE/4 and SE/4 SE/4 of said Section 5, thereby violating his correlative rights, and may cause waste inasmuch as said gas reserves may remain unrecovered.

(24) To avoid the drilling of unnecessary wells, to protect correlative rights, to avoid waste, 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 production in the Eumont Gas Pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

(25) The applicant should be designated the operator of the subject wells and unit.

(26) Hartman and Chevron should be permitted to recover $195,782.00 as the reasonable and equitable value of the existing wellbore and associated equipment of the State "A" Well No. 4 as compensation for the contribution of said well to the proposed proration unit.

(27) Any non-consenting working interest owner should be afforded the opportunity to pay his share of the reasonable and equitable value ($195,782.00) of the existing State "A" Well No. 4 and the estimated well costs for the proposed State "A" Com Well No. 5 to the operator in lieu of paying his share of such value and costs out of production.

(28) The applicant requested a 200 percent risk penalty be imposed on the cost of drilling the proposed State "A" Com Well No. 5.

(29) The evidence presented indicates that the proposed risk penalty is excessive for the following reasons:

a) the proposed State "A" Com Well No. 5 is an infill well, and, as testified to by the applicant, said well, barring any mechanical failures encountered during drilling or completion operations, should encounter commercial gas production from the Eumont Gas Pool;

b) Even in the event that the proposed State "A" Well No. 5 is non-productive, the applicant will be able to recover the carried interest owners' share of the well costs from production from the State "A" Well No. 4.

(30) Any non-consenting working interest owner who does not pay his share of estimated well costs for the State "A" Com Well No. 5 should have withheld from production his share of the reasonable well costs plus an additional 50 percent thereof as a reasonable charge for the risk involved in the drilling of such well. In addition, any non-consenting working interest owner who does not pay his share of the reasonable and equitable value of the existing State "A" Well No. 4 ($195,782.00) should have his share of said amount withheld from production.

(31) Any non-consenting interest owner should be afforded the opportunity to object to the actual well costs for the State "A" Com Well No. 5, but actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(32) Following determination of reasonable well costs, any non-consenting working interest owner who 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.

(33) $5500.00 per month while drilling the State "A" Com Well No. 5 and $550.00 per month while producing the unit wells should be fixed as reasonable charges for supervision (combined fixed rates); the operator should be authorized to withhold from production the proportionate share of such supervision charges 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 wells, not in excess of what are reasonable, attributable to each non-consenting working interest.

(34) 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.

(35) Upon the failure of the operator of said pooled unit to commence the drilling of the State "A" Com Well No. 5 on said unit on or before January 15, 1991, this order should become null and void and of no effect whatsoever.

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

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

(38) For purposes of assigning a gas allowable in the Eumont Gas Pool, the subject 280-acre non-standard gas proration unit should be assigned an acreage factor of 1.75.

(39) The allowable assigned to the aforesaid proration unit should be permitted to be produced from any well on said unit in any proportion.

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be, in the Eumont Gas Pool underlying the N/2 SE/4 and SE/4 SE/4 of Section 5, and the NE/4 of Section 8, Township 21 South, Range 36 East, NMPM, Lea County, New Mexico, are hereby pooled forming a non-standard 280-acre gas spacing and proration unit to be simultaneously dedicated to the existing State "A" Well No. 4 located at an unorthodox gas well location 660 feet from the North and East lines (Unit A) of said Section 8, and to its proposed State "A" Com Well No. 5 to be drilled at an undetermined location in the SE/4 of said Section 5.

PROVIDED HOWEVER THAT, the operator of said unit shall commence the drilling of said well on or before the 15th day of January, 1991, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Eumont Gas Pool.

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said well on or before the 15th day of January, 1991, Ordering Paragraph No. (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division Director 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 Ordering Paragraph No. (1) of this order should not be rescinded.

(2) Doyle Hartman is hereby designated the operator of the subject wells and unit.

(3) 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 for the new infill well.

(4) 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 the reasonable and equitable value ($195,782.00) of the existing State "A" Well No. 4 and the estimated well costs for the new infill well, the State "A" Com Well No. 5, to the operator in lieu of paying his share of such value and costs out of production, and any such owner who pays his share of such value and costs within 30 days shall remain liable for operating costs but shall not be liable for risk charges.

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

(6) Within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated well 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) 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 the estimated well costs of the new infill well 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 said new infill well, 50 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.

(C) Its pro rata share of the reasonable and equitable value of the existing State "A" Well No. 4 ($195,782.00) attributable to each non-consenting working interest owner who has not paid his share of said costs within 30 days from the date of this order.

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

(9) $5500.00 per month while drilling and $550.00 per month while producing the unit wells are hereby fixed as reasonable charges for supervision (combined fixed rates); the operator is hereby authorized to withhold from unit production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from unit production the proportionate share of actual expenditures required for operating such wells, not in excess of what are reasonable, attributable to each non-consenting working interest.

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

(11) Any well costs or charges which are to be paid out of production pursuant to this order shall be withheld only from the working interest's share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

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

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

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

(15) The subject 280-acre non-standard gas proration unit herein authorized shall receive an acreage factor in the Eumont Gas Pool of 1.75 for allowable purposes to be produced from any well on said unit in any proportion.

(16) 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

WILLIAM J. LEMAY
Director

S E A L

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONSIDERING:

CASE NO. 5264
Order No. R-1670-T

APPLICATION OF EL PASO NATURAL GAS
COMPANY FOR THE AMENDMENT OF ORDER
NO. R-1670, BLANCO MESAVERDE POOL,
SAN JUAN AND RIO ARRIBA COUNTIES,
NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on August 13 and August 14, 1974, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 14th day of November, 1974, the Commission, a quorum being present, having considered the testimony presented and the exhibits received at said hearing, and being fully advised in the premises,

FINDS:

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

(2) That the Blanco Mesaverde Pool, located in San Juan and Rio Arriba Counties, New Mexico, was created by Commission Order No. 799, dated February 25, 1949.

(3) That the Blanco Mesaverde Pool is governed by special rules and regulations, promulgated by the Commission in Order No. R-1670, as amended, which provide for 320-acre proration units and well locations in the NE/4 and SW/4 of each governmental section, and for the assignment of allowable to each proration unit in the pool based on the amount of acreage in the unit and the deliverability of the unit well.

Exhibit G

(4) That the applicant, El Paso Natural Gas Company, seeks an order amending said Order No. R-1670 to permit the optional drilling of an additional well on each 320-acre proration unit in the Blanco Mesaverde Pool; to determine the deliverability of each proration unit upon which an additional well is drilled by adding the deliverabilities of the two wells; to permit the production of the allowable assigned to a proration unit containing two wells from both wells in any proportion; to consider both wells on a proration unit as one well for purposes of balancing underproduction or over-production; to report the production of each well on the unit as well as the total unit production; and to compare the unit production against the unit allowable for determining whether a unit should be classified marginal or non-marginal.

(5) That the Blanco Mesaverde Pool has been developed for approximately 20 years on 320-acre proration units.

(6) That to change the unit size now in said pool would disturb the equities under many of the existing proration units.

(7) That the proration unit size in the Blanco Mesaverde Pool should continue to be 320 acres.

(8) That Section 65-3-10, New Mexico Statutes Annotated, 1953 Compilation, empowers the Commission to prevent waste of hydrocarbons and to protect the correlative rights of the owners of each interest in said hydrocarbons.

(9) That Section 65-3-5, New Mexico Statutes Annotated, 1953 Compilation, confers jurisdiction on the Commission over all matters relating to the conversion of oil and gas.

(10) That "waste" is defined by Section 65-3-3, New Mexico Statutes Annotated, 1953 Compilation.

(11) That the evidence reveals that the Blanco Mesaverde Pool is not a homogeneous, uniform reservoir.

(12) That the producing formation of the Blanco Mesaverde Pool is comprised of various overlapping, interconnecting, and lenticular sands of relatively low permeability, many of which are not being efficiently drained by existing wells in the pool but which could be more efficiently and economically drained and developed by the drilling of additional wells pursuant to the rule changes proposed by the applicant.

(13) That infill drilling will substantially increase recoverable reserves from the Blanco Mesaverde Pool.

(14) That infill drilling will result in greater ultimate recovery of the reserves under the various proration units in the pool.

(15) That infill drilling in the Blanco Mesaverde Pool will result in more efficient use of reservoir energy and will tend to ensure greater ultimate recovery of gas from the pool, thereby preventing waste.

(16) That if infill drilling is implemented in the Blanco Mesaverde Pool, each operator will be afforded the opportunity to produce, without waste, his just and equitable share of the gas from the Pool, and his correlative rights, as defined by Section 65-3-29, New Mexico Statutes Annotated, 1953 Compilation, therefore, will not be impaired.

(17) That both wells on a proration unit should be produced so long as it is economically feasible to do so.

(18) That the application should be approved.

IT IS THEREFORE ORDERED:

(1) That the Special Rules for the Blanco Mesaverde Pool in San Juan and Rio Arriba Counties, New Mexico, as promulgated by Order No. R-1670, as amended, are hereby amended to permit the optional drilling of a second well on each proration unit; to provide that the deliverability of a proration unit containing two wells shall be the sum of the deliverabilities of each of the wells; to provide that the unit allowable may be produced from both of the wells in any proportion; to consider both wells on the proration unit as one well for purposes of balancing underproduction or overproduction; to provide for the reporting of production from each well individually and to require the reporting of total production from the unit; and to compare the unit production against the unit allowable in determining whether a unit should be classified marginal or non-marginal.

(2) That Rule 2 of the Special Rules for the Blanco Mesaverde Pool, as promulgated by Order No. R-1670, as amended, is hereby amended to read in its entirety as follows:

"RULE 2 (A). The initial well drilled on a proration unit shall be located 990 feet from the outer boundary of either the Northeast or Southwest quarter of the section, subject to a variation of 200 feet for topographic conditions. Further tolerance shall be allowed by the Commission only in cases of extremely rough terrain where compliance would necessarily increase drilling costs.

"RULE 2 (B). The second well drilled on a proration unit shall be located in the quarter section of the unit not containing a well, and shall be located with respect to the unit boundaries as described in Rule 2 (A) above.

"The plats (Form C-102) accompanying the Application for Permit to Drill (OCC Form C-101 or Federal Form 9-331-C) for the second well on a proration unit shall have outlined thereon the boundaries of the unit and shall show the location of the first well on the unit as well as the proposed new well.

"RULE 2 (C). In the event a second well is drilled on any proration unit, both wells shall be produced for so long as it is economically feasible to do so."

(3) That the Special Rules for the Blanco Mesaverde Pool as promulgated by Order No. R-1670, as amended, are hereby amended by the addition of the following Special Rule 9:

RULE 9 (A). The product obtained by multiplying each proration unit's acreage factor by the calculated deliverability (expressed as MCF per day) for the well(s) on the unit shall be known as the AD Factor for the unit. The acreage factor shall be determined to the second decimal place by dividing the acreage within the proration unit by 320, subject to the acreage tolerances provided in Rule 5 (A). The AD Factor shall be computed to the nearest whole number.

RULE 9 (B). The monthly allowable to be assigned to each marginal proration unit shall be equal to its latest available monthly production.

RULE 9 (C). The pool allowable remaining each month after deducting the total allowable assigned to marginal proration units shall be allocated among the non-marginal units entitled to an allowable in the following manner:

1. Seventy-five percent (75%) of the pool allowable remaining to be allocated to non-marginal units shall be allocated among such units in the proportion that each unit's "AD Factor" bears to the total "AD Factor" for all non-marginal units in the pool.

2. Twenty-five percent (25%) of the pool allowable remaining to be allocated to non-marginal units shall be allocated among such units in the proportion that each unit's acreage factor bears to the total acreage factor for all non-marginal units in the pool.

RULE 9 (D). The current deliverability tests, taken in accordance with the "Gas Well Testing Procedures-San Juan Basin, New Mexico," shall be used in calculating allowables for the proration units in the pool for the 12-month period beginning April 1 of the following year.

RULE 9 (E). When calculating the allowable for a proration unit containing two wells, in accordance with Rule 9 of these rules, the deliverability of both wells shall be added in calculating the AD Factor and the unit allowable may be produced from both wells.

(4) That said Special Rules for the Blanco Mesaverde Pool are hereby amended by the addition of the following Special Rule 10 (C):

RULE 10 (C). The calculated deliverability at the "deliverability pressure" shall be determined in accordance with the provisions of the current "Gas Well Testing Rules and Procedures - San Juan Basin, New Mexico."

No well shall be eligible for reclassification to "Exempt Marginal" status unless it is located on a marginal proration unit.

(5) That said Special Rules for the Blanco Mesaverde Pool are hereby amended by the addition of the following Special Rule 12:

RULE 12. The full production of gas from each well, including drilling gas, shall be charged against the proration unit's allowable regardless of the disposition of the gas; provided, however, that gas used in maintaining the producing ability of the well shall not be charged against the allowable.

(6) That said Special Rules for the Blanco Mesaverde Pool are hereby amended by the addition of the following Special Rule 14:

RULE 14 (A). Underproduction: Any non-marginal proration unit which has an underproduced status as of the end of a gas proration period shall be allowed to carry such underproduction forward into the next gas proration period and may produce such underproduction in addition to the allowable assigned during such succeeding period. Any allowable carried forward into a gas proration period and remaining unproduced at the end of such gas proration period shall be cancelled.

RULE 14 (B). Production during any one month of a gas proration period in excess of the allowable assigned to a proration unit for such month shall be applied against the underproduction carried into such period in determining the amount of allowable, if any, to be cancelled.

(7) That said Special Rules for the Blanco Mesaverde Pool are hereby amended by the addition of the following Special Rule 15:

RULE 15 (A). Overproduction: Any proration unit which has an overproduced status as of the end of a gas proration period shall carry such overproduction forward into the next gas proration period. Said overproduction shall be made up during the succeeding gas proration period. Any unit which has not made up the overproduction carried into a gas proration period by the end of said period shall not be produced until such overproduction is made up.

RULE 15 (B). If, during any month, it is discovered that a proration unit is overproduced in an amount exceeding six times its average monthly allowable for the preceding twelve months (or, in the case of a newly connected well, six times its average monthly allowable for the months available), it shall not be produced that month nor each succeeding month until it is overproduced in an amount six times or less its average monthly allowable, as determined hereinabove.

RULE 15 (C). Allowable assigned to a proration unit during any one month of a gas proration period in excess of the production for the same month shall be applied against the overproduction chargeable to such unit in determining the amount of overproduction which must be made up pursuant to the provisions of Rules 15 (A) or 15 (B) above.

RULE 15 (D). The Secretary-Director of the Commission shall have authority to permit a well which is subject to shut-in, pursuant to Rules 15 (A) or 15 (B) above, to produce up to 500 MCF of gas per month upon proper showing to the Secretary-Director that complete shut-in would cause undue hardship, provided however, such permission shall be rescinded for any well produced in excess of the monthly rate authorized by the Secretary-Director.

RULE 15 (E). The Commission may allow overproduction to be made up at a lesser rate than permitted under Rules 15 (A), 15 (B), or 15 (D) above upon a showing at public hearing that the same is necessary to avoid material damage to the well.

RULE 15 (F). Any allowable accruing to a proration unit at the end of a gas proration period due to the cancellation of underage in the pool and the redistribution thereof shall be applied against the unit's overproduction.

RULE 15 (G). The Secretary-Director of the Commission shall have authority to grant a pool-wide moratorium of up to three months on the shutting in of gas wells in a pool during periods of high-demand emergency upon proper showing that such emergency exists, and that a significant number of the wells in the pool are subject to shut-in pursuant to the provisions of Rules 15 (A) or 15 (B) above. No moratorium beyond the aforementioned three months shall be granted except after notice and hearing.

(8) That said Special Rules for the Blanco Mesaverde Pool are hereby amended by the addition of the following Section E:

E. CLASSIFICATION OF UNITS

RULE 16 (A). The proration period (as defined in Rule 13) shall be divided into four classification periods of three months each, commencing on April 1, July 1, October 1, and January 1. After the production data is available for the last month of each classification period, any unit which had an underproduced status at the beginning of the proration period shall be classified marginal if its highest single month's production during the classification period is less than its average

monthly allowable during said classification period; provided however, that the operator of any unit so classified, or other interested party, shall have 15 days after receipt of notification of marginal classification in which to submit satisfactory evidence to the Commission that the unit is not of marginal character and should not be so classified.

RULE 16 (B). The Secretary-Director may reclassify a marginal or non-marginal proration unit at any time the unit's production data, deliverability data, or other evidence as to the unit's producing ability justifies such reclassification.

RULE 17. A proration unit which is classified as marginal shall not be permitted to accumulate underproduction, and any underproduction accrued to the unit prior to its classification as marginal shall be cancelled.

RULE 18. If, at the end of a proration period, a marginal proration unit has produced more than the total allowable for the period, assigned to a non-marginal unit of like deliverability and acreage, the marginal unit shall be reclassified non-marginal and its allowable and net status adjusted accordingly. (If the unit has been classified as marginal for one proration period only, or a portion of one proration period only, any underproduction cancelled as the result of such classification shall be reinstated upon reclassification back to non-marginal status. All uncompensated-for overproduction accruing to the unit while marginal shall be chargeable upon reclassification to non-marginal.)

RULE 19. A proration unit containing a well which has been reworked or recompleted shall be classified non-marginal as of the date of reconnection of the well to a pipeline until such time as production data, deliverability data, or other evidence as to the unit's producing ability indicates that the unit should be classified marginal.

RULE 20. All proration units not classified marginal shall be classified non-marginal.

(9) That said Special Rules for the Blanco Mesaverde Pool are hereby amended by the addition of the following Special Rule 21 (A):

RULE 21 (A). The monthly gas production from each well shall be metered separately and the gas production therefrom shall be reported to the Commission on Form C-115 in accordance with Rule 1115 of the Commission's Rules and Regulations, so as to reach the Commission on or before the 24th day of the month next succeeding the month in which the gas reported was produced. The operator shall show on such report what disposition has been made of the gas produced. The sum of the production from both wells on the proration unit shall also be reported for multiple-well units.

(10) That said Special Rules for the Blanco Mesaverde Pool are hereby amended by the addition of the following Special Rule 23:

RULE 23. Failure to comply with the provisions of this order or the rules contained herein shall result in the cancellation of allowable assigned to the affected proration unit. No further allowable shall be assigned to the affected unit until all rules and regulations are complied with. The Secretary-Director shall notify the operator of the unit and the purchaser, in writing, of the date of allowable cancellation and the reason therefor.

(11) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

I. R. TRUJILLO, Chairman

ALEX J. ARMIJO, Member

A. L. PORTER, Jr., Member & Secretary

S E A L

dr/

EXHIBIT "A"

# HORIZONTAL LIMITS OF THE BLINEBRY OIL AND GAS POOL LEA COUNTY, NEW MEXICO

**TOWNSHIP 20 SOUTH, RANGE 38 EAST, NMPM**

Sec. 32: SE/4
Sec. 33: NE/4 & S/2
Sec. 34: NW/4 & S/2
Sec. 35: S/2
Sec. 36: W/2

**TOWNSHIP 21 SOUTH, RANGE 36 EAST, NMPM**

Sec. 24: E/2
Sec. 25: NE/4 & S/2
Sec. 36: N/2 & SW/4

**TOWNSHIP 21 SOUTH, RANGE 37 EAST, NMPM**

Sec. 1: Lots 4, 5, 9 through 16, and S/2
Secs. 2 through 4: All
Sec. 8: NE/4
Secs. 9 through 17: All
Sec. 18: SE/4
Secs. 19 through 30: All
Sec. 31: N/2
Sec. 32: E/2
Secs. 33 through 36: All

**TOWNSHIP 22 SOUTH, RANGE 36 EAST, NMPM**

Sec. 1: E/2
Sec. 12: NE/4

**TOWNSHIP 22 SOUTH, RANGE 37 EAST, NMPM**

Secs. 1 through 4: All
Sec. 5: N/2
Sec. 6: N/2
Sec. 8: N/2 & SE/4
Secs. 9 through 15: All
Sec. 16: N/2 & SE/4
Secs. 22 through 25: All
Sec. 26: NE/4 NE/4 and NE/4 SE/4
Sec. 35: NE/4
Sec. 36: N/2 & SE/4

**TOWNSHIP 22 SOUTH, RANGE 38 EAST, NMPM**

Sec. 6: NW/4 & S/2
Sec. 7: W/2
Sec. 18: W/2
Sec. 19: All
Sec. 20: NW/4 & S/2
Secs. 29 through 32: All
Sec. 33: NW/4

**TOWNSHIP 23 SOUTH, RANGE 38 EAST, NMPM**

Sec. 5: NW/4
Sec. 6: N/2