

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  
CONSIDERATION:

CASE NO. 11572

APPLICATION OF Hallwood Petroleum Inc.  
for Compulsory Pooling,  
San Juan County, New Mexico

PRE-HEARING STATEMENT

This pre-hearing statement is submitted by Merrion Oil & Gas Corporation, as required by the Oil Conservation Division.

APPEARANCES OF PARTIES

APPLICANT

Hallwood Petroleum Inc.

ATTORNEY

Kellahin and Kellahin

OPPOSITION OR OTHER PARTY

Merrion Oil & Gas Corp.  
Attn: George Sharpe  
610 Reilly Ave.  
Farmington, NM 87401  
(505) 327-9801, ext. 114

ATTORNEY

Tommy Roberts  
P.O. Box 1020  
Farmington, NM 87499  
(505) 325-1801

STATEMENT OF CASE

APPLICANT (Hallwood Petroleum)

Applicant seeks a compulsory pooling order to drill the Mead 27-1 in the Basin Fruitland Coal Field in the north half of Section 27, Township 32 North, Range 13 West. Hallwood has requested that 1.) they be named operator, 2.) all working interest owners share in the costs of the well, 3.) a 200% risk factor penalty be assessed any owners going non-consent, 4.) overhead rates be set at \$452/month for operations and \$4176/month for drilling, and 5.) non-participating owners be pooled under the above terms. Merrion believes Hallwood will present the following arguments to support them as the best choice to operate the well:

- 1.) They are the general partner of two limited partnerships owning 57.5% of the working interest in the well;
- 2.) They initiated the well by being the first to submit an AFE;
- 3.) They operate a dozen or so coal wells in the immediate area; and
- 4.) Associated with those operations, they own gas gathering, gas compression, and water disposal facilities serving their operated wells.

OPPOSITION OR OTHER PARTY (Merrion Oil & Gas)

Merrion has filed a “parallel” application seeking compulsory pooling on the Mead 27-1 under similar provisions as Hallwood except a.) our proposed overhead rates are \$300/month for operations and \$3500/month for drilling and b.) we ask that Merrion be named the operator. Merrion’s counter arguments to Hallwood’s are:

- 1.) While Hallwood may represent the largest interest as the general partner of the two limited partnerships, Merrion actually owns the largest interest at a 36.25% working interest.
- 2.) Merrion initiated the well by requesting a farm-in from Hallwood in February of 1996. After reviewing our proposal, Hallwood declined our request and subsequently submitted their AFE.

- 3.) Merrion is an established, efficient, low cost operator of over 250 wells in the San Juan Basin. For example, our proposed operating rate of \$300 per month versus \$452 per month for Hallwood will result in significant savings over time to the working interest owners while protecting correlative rights by extending the economic life of the well.
  
- 4.) The fact that Hallwood Petroleum owns 100% of the gas gathering, gas compression, and water disposal facilities, while the limited partnerships own the well, sets up a significant conflict of interest if Hallwood also operates the well. Hallwood has firmly stated that they intend to use their facilities and charge the Mead 27-1 the price they set. We believe that is not in the best interest of all of the working interest owners, including Merrion, Union Oil Co., and Hallwood's captive limited partners. A prudent operator would negotiate with all available service providers to get the best terms for the well and its owners. However, as a 100% owner of the gas handling and water disposal services, Hallwood is basically single-sourcing themselves at non-negotiable fees. Their \$1.00/Bbl water disposal fee, while no bargain, will at least save money in lieu of trucking to Bloomfield, NM. However, their \$0.25/MCF gathering and compression fee may be as much as \$0.20 higher than the cost of tying directly into El Paso's line and compressing ourselves, depending on the well's flow rate. Merrion will show that if the well performs similar to the offsets, this gathering fee will cost the working interest owners hundreds of thousands of dollars over the life of the well. In addition, because Hallwood's gathering fee can be deducted to determine the net wellhead price for royalty payments, the higher fee will also cost the mineral owners many thousands of dollars in royalty income.

PROPOSED EVIDENCE

APPLICANT (Hallwood)

WITNESSES (Name and Expertise)	EST. TIME	EXHIBITS
Not Known		

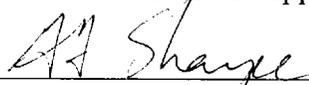
OPPOSITION (Merrion)

WITNESSES (Name and Expertise)	EST. TIME	EXHIBITS
George F. Sharpe Petroleum Engineer	60 minutes	<ul style="list-style-type: none"><li>- Well location and lease ownership plat</li><li>- Hallwood AFE</li><li>- Hallwood Operating Agreement</li><li>- Merrion AFE</li><li>- Merrion Operating Agreement</li><li>- Correspondence between Merrion and Hallwood</li><li>- Reserve calculations</li><li>- Offset well production map</li><li>- Offset well production plot</li><li>- El Paso tie-in location plat</li><li>- Comparison economics of well with El Paso tie-in versus well with Hallwood tie-in</li><li>- Loss in royalty with Hallwood tie-in</li><li>- Summary of reasons supporting Merrion's application</li><li>- Proof of Notice</li></ul>

PROCEDURAL MATTERS

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

We request that this application be consolidated with Merrion's application for compulsory pooling on the same well.

  
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George F. Sharpe  
Manager - Oil & Gas Investments  
Merrion Oil & Gas Corporation