

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. 10112
Order No. R-9356

APPLICATION OF MARALEX RESOURCES,
INC. FOR COMPULSORY POOLING,
SAN JUAN COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on October 3, 1990, at Santa Fe, New Mexico, before Examiner Jim Morrow.

NOW, on this 13th day of November, 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) At the time of the hearing, this case was consolidated with Case No. 10113 for the purpose of testimony.
- (3) Maralex Resources filed application for compulsory pooling using the alternate procedure set out in Oil Conservation Division General Rule 1207.1(ii). Review of the application indicated the proposed 200 percent risk penalty to be excessive. The matter was placed on the October 3, 1990 docket to provide an opportunity for applicant to present additional evidence to support the requested 200 percent penalty.
- (4) The applicant, Maralex Resources, Inc., seeks an order pooling all mineral interests in the Basin-Fruitland Coal Gas Pool underlying Lots 1 and 2, NE/4 and E/2 NW/4 (N/2 equivalent) of Section 18, Township 30 North, Range 11 West, NMPM, San Juan County, New Mexico, forming a standard 326.01-acre gas spacing and proration unit. Said unit is to be dedicated to either the existing B.H. Keyes and M.H. Keys Trust Brimhall Well No. 1, to be recompleted up-hole from the Aztec-Pictured Cliffs Pool to said coal gas zone, at a standard coal gas well location 990 feet from the

North and East lines (Unit A) of said Section 18 or, if said Brimhall Well No. 1 is not found to be mechanically sound, to a new well to be drilled at a standard coal gas well location in the NE/4 of said Section 18.

(5) The applicant has the right to drill a new well in the NE/4 of said Section 18 and is attempting to secure the right from the current owners to recomplete the Brimhall Well No. 1. Applicant proposes to first attempt a recompletion of the Brimhall Well No. 1 and if unsuccessful to drill a new well as described above.

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

(7) At the October 3, 1990 hearing, the applicant submitted testimony in support of a 200 percent risk penalty instead of 156 percent. The information presented shows that the economics of coal gas wells vary in different areas of the San Juan Basin.

(8) Applicant further testified that he is looking at what he considers an optimistic producing rate of 100 MCF per day from this project, with a peak rate of 200 MCF per day. At a capital cost of \$236,000, this would generate a payout of 44 months, a discounted present worth at 15 percent of \$56,000 and an internal rate of return of almost 21 percent.

(9) Evidence submitted by Maralex indicates that the Basin-Fruitland Coal formation is most likely present in this area and other evidence which was presented would not justify a risk penalty factor greater than the 156 percent normally applied in this area.

(10) 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 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.

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

(12) 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.

(13) 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 156 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(14) 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.

(15) 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.

(16) \$2,800 per month while drilling a new well or recompleting said existing well and \$280.00 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.

(17) 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.

(18) Upon the failure of the operator of said pooled unit to commence drilling of a well or recompletion of said existing well to which said unit is dedicated on or before February 1, 1991, the order pooling said unit should become null and void and of no further effect whatsoever.

(19) 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.

(20) 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.

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be, in the Basin-Fruitland Coal Gas Pool, underlying Lots 1 and 2, NE/4 and E/2 NW/4 (N/2 equivalent) of Section 18, Township 30 North, Range 11 West, NMPM, San Juan County, New Mexico, are hereby pooled to form a 326.01-acre gas spacing and proration unit to be dedicated to either the Brimhall Well to be recompleted at a standard coal gas well location 990 feet from the North line

and 990 feet from the East line (Unit A) of said Section 18 or to a new well to be drilled at a standard coal gas well location in the NE/4 of said Section 18.

PROVIDED HOWEVER THAT, the operator of said unit shall commence the drilling of said well on or before the 1st day of February, 1991, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Basin-Fruitland Coal Gas Pool.

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said well on or before the 1st day of February, 1991, Decretory 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 Decretory Paragraph No. (1) of this order should not be rescinded.

(2) Maralex Resources, Inc., 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 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; and
- (B) As a charge for the risk involved in the drilling of the well, 156 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) \$2,300.00 per month while drilling and \$280.00 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 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 shall be withheld from the working interest's share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

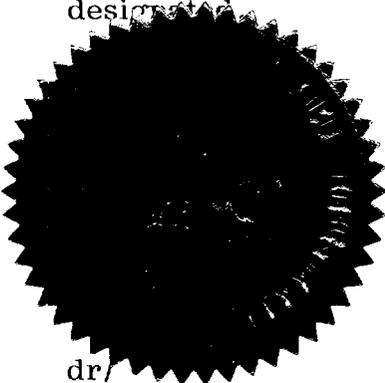
(12) All proceeds from production from the subject well which are not disbursed for any reason shall be placed in escrow in San Juan County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; the operator shall notify the Division of the name and address of said escrow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

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

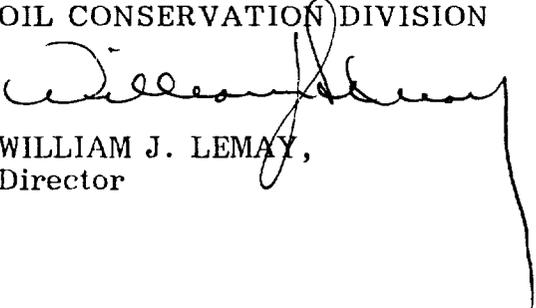
(14) The operator of the subject well and unit shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the force-pooling provisions of this order.

(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