

**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. 14162
ORDER NO. R-13115**

**APPLICATION OF MERRION OIL & GAS CORPORATION FOR
COMPULSORY POOLING, SAN JUAN COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on August 21, 2008, at Santa Fe, New Mexico, before Examiners David K. Brooks and Terry Warnell.

NOW, on this 23rd day of April, 2009, the Division Director, having considered the testimony, the record and the recommendations of the Examiners,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of this case and of the subject matter.

(2) This case was heard on August 21, 2008. The evidence presented indicated that the notices sent to parties required to be notified did not comply with Division Rule 1210.B, the rule applicable at that time. Accordingly, the case was continued to the September 18, 2008 docket.

(3) On September 15, 2008, Merrion Oil & Gas Corporation ("Applicant") filed a revised affidavit of notice demonstrating that all required parties had been duly noticed for the hearing on September 18, 2009. However, one respondent, Richardson Production Company ("Richardson"), entered an appearance and requested a further continuance. The case was subsequently continued numerous times. On February 9, 2009, Richardson notified the Division that it withdrew its objection to the application in this case. When the case was called on March 31, 2009, pursuant to a previous continuance, no party answered. However, Applicant notified the Division by email on April 15, 2009 that it still wanted this application to be granted.

(4) Applicant fully presented its case at the hearing on August 21, 2008. All parties were subsequently duly noticed, and Richardson, the only party who responded, has withdrawn its objection. Accordingly, there is no need for further proceedings, and a final order should now be entered.

(5) Applicant seeks an order pooling all uncommitted interests in the Fruitland Coal formation in the W/2 of Section 9, Township 29 North, Range 13 West, NMPM, in San Juan County, New Mexico, to form a standard 320-acre gas spacing unit ("the Unit") for the Basin-Fruitland Coal Gas Pool (71629).

(6) The Unit is to be dedicated to Applicant's proposed Glade Park Well No. 1 (API No. 30-045-34747) to be drilled at a standard location 2484 feet from the North line and 1861 feet from the West line (Unit F) of Section 9, and Applicant's proposed Glade Park Well No. 2 (API No. 30-045-34748), to be drilled at a presumably unorthodox location 1561 feet from the South line and 2012 feet from the West line (Unit K) of Section 9 (the "proposed wells").

(7) Two or more separately owned tracts are embraced within the Unit, and/or there are royalty interests and/or undivided interests in oil and gas minerals in one or more tracts included in the Unit that are separately owned.

(8) Applicant is an owner of an oil and gas working interest within the Unit. Applicant proposes to drill and, subject to obtaining an exception for the apparently unorthodox location of the Glade Park Well No. 2, has the right to drill the proposed wells to a common source of supply within the Unit at the proposed locations.

(9) There are interest owners in the Unit that have not agreed to pool their interests. Some interest owners are unlocatable.

(10) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford to the owner of each interest in the Unit the opportunity to recover or receive without unnecessary expense its just and fair share of hydrocarbons, this application should be approved by pooling all uncommitted interests, whatever they may be, in the oil and gas within the Unit.

(11) Applicant should be designated the operator of the proposed wells and of the Unit.

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

(13) Reasonable charges for supervision (combined fixed rates) should be fixed at \$5,000 per month, per well, while drilling and \$500 per month, per well, while

producing, provided that these rates should be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations.*"

(14) The proposed location of the Glade Park Well No. 2 is apparently unorthodox since it is located 2012 feet from the West line of Section 9. If Section 9 is a regular section, the well would be only 628 feet from the eastern boundary of the Unit. Applicable special pool rules for the Basin-Fruitland Coal Gas Pool require that wells be located at least 660 feet from a unit outer boundary. Since this case was not noticed as an application of approval of an unorthodox well location, and no evidence was presented concerning the apparently unorthodox location of the Glade Park Well No. 2, this Order, insofar as it relates to the Glade Park Well No. 2, should be made conditional upon applicant obtaining the necessary approval for that proposed location.

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Merrion Oil & Gas Corporation, all uncommitted interests, whatever they may be, in the oil and gas in the Fruitland Coal formation in the W/2 of Section 9, Township 29 North, Range 13 West, NMPM, in San Juan County, New Mexico, are pooled to form a standard 320-acre, more or less, gas spacing unit ("the Unit") for the Basin-Fruitland Coal Gas Pool (71629).

(2) The Unit shall be dedicated to Applicant's proposed Glade Park Well No. 1 (API No. 30-045-34747) to be drilled at a standard location 2484 feet from the North line and 1861 feet from the West line (Unit F) of Section 9, and Applicant's proposed Glade Park Well No. 2 (API No. 30-045-34748), to be drilled at a presumably unorthodox location 1561 feet from the South line and 2012 feet from the West line (Unit K) of Section 9 (the "proposed wells").

(3) This Order, insofar as it authorizes the drilling of the proposed Glade Park Well No. 2, is conditional upon the operator's obtaining necessary approval for the proposed unorthodox location of that well. If the operator does not obtain such approval on or before July 22, 2009, then it shall return any amounts paid to it pursuant to this Order as well costs for the Glade Park Well No. 2.

(4) The operator of the Unit shall commence drilling the first of the proposed wells on or before April 22, 2010, and shall thereafter continue drilling such well with due diligence to test the Fruitland Coal formation. The operator shall commence drilling the second proposed well within 60 days after completion of the first proposed well.

(5) In the event the operator does not commence drilling the first proposed well on or before April 22, 2010, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause demonstrated by satisfactory evidence.

(6) Should the first proposed well not be drilled and completed within 120 days after commencement thereof, then Ordering Paragraph (1) shall be of no further

effect, and the Unit created by this Order shall terminate, unless operator appears before the Division Director and obtains an extension of the time for completion of the proposed well for good cause shown by satisfactory evidence.

(7) Upon final plugging and abandonment of both of the proposed wells and any other well drilled on the Unit pursuant to Division Rule Part 13, Sections 9 through 11, the pooled unit created by this Order shall terminate, unless this order has been amended to authorize further operations.

(8) Merrion Oil & Gas Corporation (OGRID 14634) is hereby designated the operator of the proposed wells and of the Unit.

(9) After pooling, uncommitted working interest owners are referred to as pooled working interest owners. ("Pooled working interest owners" are owners of working interests in the Unit, including unleased mineral interests, who are not parties to an operating agreement governing the Unit.) After the effective date of this order, the operator shall furnish the Division and each known pooled working interest owner in the Unit an itemized schedule of estimated costs of drilling, completing and equipping the proposed wells ("well costs").

(10) Within 30 days from the date the schedule of estimated well costs is furnished, any pooled working interest owner shall have the right to pay its share of estimated well costs to the operator in lieu of paying its share of reasonable well costs out of production as hereinafter provided, and any such owner who pays its share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges. Pooled working interest owners who elect not to pay their share of estimated well costs as provided in this paragraph shall thereafter be referred to as "non-consenting working interest owners."

(11) The operator shall furnish the Division and each known pooled working interest owner (including non-consenting working interest owners) an itemized schedule of actual well costs within 90 days following completion of each of the proposed wells. 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 the schedule, the actual well costs shall be deemed to be the reasonable well costs for that well. If there is an objection to actual well costs within the 45-day period, the Division will determine reasonable well costs after public notice and hearing.

(12) Within 60 days following determination of reasonable well costs for each well, any pooled working interest owner who has paid its share of estimated costs in advance as provided above shall pay to the operator its share of the amount that reasonable well costs exceed estimated well costs for that well and shall receive from the operator the amount, if any, that the estimated well costs it has paid for that well exceed its share of reasonable well costs.

(13) The operator is hereby authorized to withhold the following costs and charges from production from each well:

- (a) the proportionate share of reasonable well costs for that well attributable to each non-consenting working interest owner; and
- (b) as a charge for the risk involved in drilling the well, 200% of the above costs.

(14) The operator shall distribute the costs and charges withheld from production, proportionately, to the parties who advanced the well costs.

(15) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$5,000 per month, per well, while drilling and \$500 per month, per well, while producing, provided that these rates shall be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations*." The operator is authorized to withhold from production from each well the proportionate share of both the supervision charges and the actual expenditures required for operating that well, not in excess of what are reasonable, attributable to pooled working interest owners.

(16) Except as provided in Paragraphs (13) and (15) above, all proceeds from production from the wells that 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 (Attention: Records Clerk) of the name and address of the escrow agent not later than one year from the date of issuance of this Order.

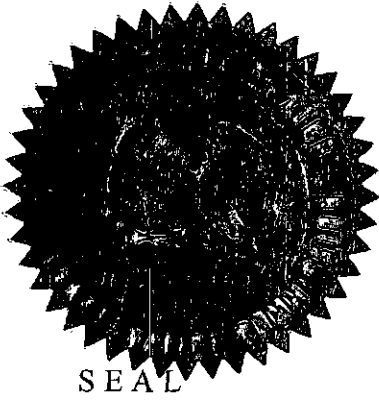
(17) Any unleased mineral interest shall be considered a seven-eighths ($7/8$) working interest and a one-eighth ($1/8$) royalty interest for the purpose of allocating costs and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working interests' share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

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

(19) The operator of the wells and Unit shall notify the Division in writing of the subsequent voluntary agreement of all parties subject to the compulsory pooling provisions of this order.

(20) Jurisdiction of this case 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

A handwritten signature in black ink, appearing to read "Mark E. Fesmire". The signature is fluid and cursive, with a long horizontal stroke at the end.

MARK E. FESMIRE, P.E.
Director