

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:

RECEIVED
OCT 25 1993

Osborn 1
M-22-30-12

OIL CON. DIV. CASE NO. 10801
DIST. 3 ORDER NO. R-9996

APPLICATION OF MERRION OIL & GAS CORPORATION 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 August 26, 1993, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 19th day of October, 1993, 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 from the surface to the base of the Fruitland Sand interval, underlying Lots 9, 10, and 11 and the SE/4 SW/4 (SW/4 equivalent) of Section 22, Township 30 North, Range 12 West, NMPM, San Juan County, New Mexico, forming a standard 159.63-acre gas spacing and proration unit for any and all formations and/or pools developed on 160-acre spacing within said vertical extent, which presently includes only the Undesignated Flora Vista-Fruitland Sand Pool.

(3) Said unit is to be dedicated to its existing Osborn Well No. 1, located at a standard gas well location 790 feet from the South line and 900 feet from the West line (Unit M) of said Section 22. The Osborn Well No. 1 was drilled in 1961 by J. Glenn Turner to a total depth of 3,396 feet and completed in the Flora Vista-Mesaverde Pool from which it produced gas until Merrion recompleted the well up-hole to the Fruitland Sand interval in May, 1993.

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

(5) At the time of the hearing the Jack and Mary Markham's interests, being a 4.25 percent uncommitted working interest in the proposed unit, represented by Roderrick Allen Markham and Manon Markham McMullen through legal counsel ("Markham"), appeared in opposition to this case.

(6) Merrion, prior to contacting the Markham Interests and offering them the opportunity to participate in the recompletion of this well from the Mesaverde formation to the Fruitland Sand, assumed a bulk of the associated risk involved in said recompletion operations with the exception of said wellbore stimulation of this zone.

(7) *At the time of the hearing the applicant requested that it be able to recover the following costs:*

- a) *"Sunk wellbore costs" of \$45,935.00, based upon the cost to drill a new well to this depth with good condition used tubulars;*
- b) *Surface production equipment costs of \$8,515.00; and*
- c) *Recompletion costs based upon an AFE of \$31,540, which includes \$12,000 actual costs incurred for Recompletion, \$17,500.00 estimated cost of wellbore stimulation and \$2,040.00 for associated clean-up, plus a maximum 200 percent risk charge against the total recompletion costs to be charged against any working interest owner who does not pay its share of costs in advance.*

The Markhams objected to said request and suggested that Merrion only be allowed to recover recompletion costs of \$18,120 without any risk factor.

Merrion should be entitled to recover some value for the existing wellbore based upon a salvage value, which, in the absence of any other testimony, is determined to be fifty percent of the cost of a new well. It is entitled to recover the actual cost of surface equipment and the AFE cost is reasonable. It should be entitled to recover the cost of recompletion, including stimulation, and, absent testimony to the contrary, the actual costs incurred to date and the AFE cost of stimulation are reasonable.

Because Merrion undertook initial recompletion costs prior to contacting the Markhams and offering them the opportunity to participate, it undertook the risk and is not entitled to the maximum risk penalty.

FINDING: Merrion is entitled to recover costs as follows:

- a) Salvage value of the wellbore at fifty percent of the cost of a new drill or \$22,867.50;
- b) Reasonable actual costs of surface production equipment, and the AFE costs of \$8,515.00 are determined to be reasonable;
- c) Reasonable costs of recompletion, plus a risk charge of fifty percent of said costs as charge for the additional risk to be incurred in additional recompletion work, such risk to be charged against any working interest owner who does not pay its share of such costs in accordance with this order.

(8) The Markham's correlative rights will be protected by approval of this application with the aforementioned associate costs and penalties because said non-consenting interests will receive their proportionate share of production from the subject well.

(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 any pool resulting from this order, 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 the estimated recompletion costs and the Division assigned "sunk wellbore costs" to the operator in lieu of paying his share of said costs out of production.

(12) Any non-consenting working interest owner who does not pay his share of estimated costs as approved by this order should have withheld from production its share of the recompletion well costs plus an additional 50 percent thereof as a reasonable charge for the risk involved in the recompletion of the well.

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

(14) Following determination of reasonable recompletion well costs, any non-consenting working interest owner who has paid his share of estimated recompletion well costs should pay to the operator any amount that reasonable recompletion well costs exceed estimated recompletion well costs and should receive from the operator any amount that paid estimated recompletion well costs exceed reasonable recompletion well costs.

(15) \$ 4,000.00 per month while recompleting and \$ 342.00 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.

(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) 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.

(18) 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, from the surface to the base of the Fruitland Sand interval, underlying Lots 9, 10, and 11 and the SE/4 SW/4 (SW/4 equivalent) of Section 22, Township 30 North, Range 12 West, NMPM, San Juan County, New Mexico, are hereby pooled to form a standard 159.63-acre gas spacing and proration unit for any and all formations and/or pools developed on 160-acre spacing within said vertical extent, which presently includes only the Undesignated Flora Vista-Fruitland Sand Pool.

(2) Said unit shall be dedicated to the existing Merrion Oil & Gas Corporation Osborn Well No. 1, located at a standard gas well location 790 feet from the South line and 900 feet from the West line (Unit M) of said Section 22.

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

(4) Within 30 days from the date of this order, any non-consenting working interest owner shall have the right to pay his share of the estimated recompletion costs and the Division assigned "sunk wellbore costs" to the operator in lieu of paying his share of the reasonable recompletion costs and the Division assigned "sunk wellbore costs" out of production, and any such owner who pays his share of the estimated recompletion costs and the Division assigned "sunk wellbore costs" as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(5) Any non-consenting working interest owner may, at least forty-five days after receiving the schedule of actual recompletion well costs but not more than ninety days after such receipt, file with the Division an objection to such costs; if no objection to the actual recompletion well costs is received by the Division and the Division has not objected within the period from at least forty-five days to within ninety days following the receipt of said schedule, the actual recompletion well costs shall be the reasonable recompletion well costs; provided however, if there is an objection to actual recompletion well costs within the aforementioned forty-fifth to ninetieth day period, the Division will determine reasonable recompletion well costs after public notice and hearing.

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

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

- (A) The pro rata share of reasonable recompletion well costs and the Division assigned "sunk wellbore costs" attributable to each non-consenting working interest owner

who has not paid his share of estimated recompletion costs and the Division assigned "sunk wellbore costs" within 30 days from the date of this order; and

- (B) As a charge for the risk involved in recompleting the well, 50 percent of the pro rata share of reasonable recompletion well costs attributable to each non-consenting working interest owner who has not paid his share of estimated recompletion 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) \$ 4,000.00 per month while recompleting and \$ 342.00 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 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 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.

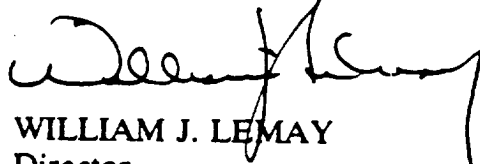
(13) Should all the parties to this force-pooling reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(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

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