

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
JUN - 9 1997

OIL CON. DIV. CASE NO. 11767
DIST. 3 ORDER NO. R-10807

APPLICATION OF MERRION OIL AND 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 May 1, 1997, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 30th day of May, 1997, 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 and Gas Corporation ("Merrion"), seeks an order pooling all mineral interests in the Basin-Fruitland Coal (Gas) Pool underlying the N/2 of Section 22, Township 32 North, Range 13 West, NMPM, San Juan County, New Mexico, to form a standard 320-acre gas spacing and proration unit for said pool.

(3) The proposed unit is within the boundaries of the Basin-Fruitland Coal (Gas) Pool which is governed by special rules and regulations as promulgated by Division Order No. R-8768, as amended, which require standard 320-acre gas spacing and proration units with wells to be located within the NE/4 or SW/4 of a section and no closer than 790 feet from any outer boundary of the spacing unit nor closer than 130 feet from any quarter section line nor closer than 10 feet from any quarter-quarter section line or subdivision inner boundary.

(4) The applicant owns an interest in the N/2 of said Section 22 and as such has

the right to drill for and develop the minerals underlying the proposed 320-acre unit.

(5) There are interest owners in the N/2 of said Section 22 who have not agreed to pool their interests.

(6) 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.

(7) The original application filed by Merrion in this matter (dated February 24, 1997) proposed to dedicate said 320-acre unit to its Powell Well No. 1 to be drilled at a standard coal gas well location in the NE/4 of said Section 22.

(8) At the time of the hearing Merrion requested the Division consider a proposal that it first be allowed to attempt a re-entry into the plugged and abandoned Southern Union Gas Company Jones Well No. 1 (API No. 30-045-11367), located at a standard coal gas well location 1840 feet from the North line and 880 feet from the East line (Unit H) of said Section 22 and if it is found to be mechanically sound perform a recompletion in the Basin-Fruitland coal gas interval. Division records show that the Jones Well No. 1 was drilled in January 1960 to a total depth of 5,674 feet and found to be non-productive. In February 1960 the wellbore was properly plugged and abandoned.

(9) No interested or affected party, or offset owner or operator appeared at the hearing and/or objected to this application.

(10) The applicant should be designated the operator of the subject unit and subsequent well dedicated to said 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 charge for the risk involved in either re-entering the aforementioned Jones Well No. 1 or in the drilling of a new well.

(13) Based on precedent established in compulsory pooling cases in the Basin-

Fruitland Coal Gas Pool, a 156 percent risk penalty has been established as being proper for wells within said coal gas pool.

(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 well 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) \$3,500.00 per month while re-entering the Jones Well No. 1 or in the drilling of a new well and \$350.00 per month while producing the subsequent well dedicated to said unit 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, in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subsequent well dedicated to said unit, not in excess of what are reasonable, attributable to each non-consenting working interest.

(17) All proceeds from production from the subsequent well dedicated to said unit 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 either commence re-entry operations on the aforementioned Jones Well No. 1 or the drilling of a new well to which said unit is dedicated on or before August 31, 1997, the order pooling said unit should become null and void and of no further effect whatsoever.

(19) Should any of the parties to this force-pooling reach voluntary agreement, this order should thereafter be of no further effect as to those parties.

(20) The operator of the subsequent well dedicated to said unit should notify the Director of the Division in writing of the subsequent voluntary agreement of any party subject to the force-pooling provisions of this order.

(21) At the time of the hearing the applicant advised the Division that if it

became necessary, due to geology, to drill a new well (the proposed Powell Well No. 1) at a location in the N/2 of said Section 22 that is considered to be unorthodox, that any forced pooling order issued in this matter be applicable to said unorthodox location provided the operator file with the Division a proper request pursuant to any and all applicable rules and procedures for an unorthodox Basin-Fruitland coal gas well location.

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be, in the Basin-Fruitland Coal (Gas) Pool underlying the N/2 of Section 22, Township 32 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 either the existing Southern Union Gas Company Jones Well No. 1 (API No. 30-045-11367), located at a standard coal gas well location 1840 feet from the North line and 880 feet from the East line (Unit H) of said Section 22 or, if said Jones Well No. 1 is found not to be mechanically sound and can not be properly recompleted into the Basin-Fruitland coal gas interval, to a new well, to be designated the Powell Well No. 1, to be drilled at a standard coal gas well location in the NE/4 of said Section 22.

PROVIDED HOWEVER THAT, the operator of said unit shall either commence re-entry operations on the aforementioned Jones Well No. 1 or the drilling of a new well on or before the thirty-first day of August, 1997, and shall thereafter continue said re-entry or the drilling with due diligence in a manner to test the Basin-Fruitland Coal (Gas) Pool.

PROVIDED FURTHER THAT, in the event said operator does not either commence said re-entry or drilling operations on or before the thirty-first day of August, 1997, 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 the subsequent well to be dedicated to said unit 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.

FURTHER, should a new well (the proposed Powell Well No. 1) be drilled and completed at a location within the N/2 of said Section 22 that is considered to be unorthodox for the Basin-Fruitland Coal (Gas) Pool the operator shall file with the Division a proper request pursuant to any and all applicable rules and procedures for said unorthodox location.

(2) Merrion Oil and Gas Corporation is hereby designated the operator of the subject unit and subsequent well dedicated to said unit.

(3) After the effective date of this order and within 90 days prior to commencing re-entry or drilling operations, 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 on the subsequent well dedicated to said unit; 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 either re-entering the aforesaid Jones Well No. 1 or in the drilling of a new 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) \$3,500.00 per month while re-entering the Jones Well No. 1 or in the drilling of a new well and \$350.00 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 subsequent well dedicated to said unit 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.

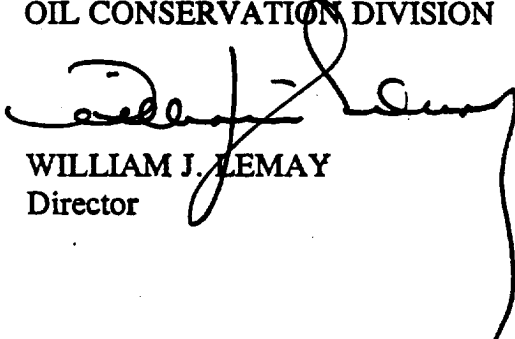
(13) Should all parties to this force-pooling reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(14) The operator of the unit and subsequent well dedicated to said 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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