

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:

ORIGINAL

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

CASE NO. 14541

REPORTER'S TRANSCRIPT OF PROCEEDINGS  
EXAMINER HEARING

BEFORE: WILLIAM V. JONES, Technical Examiner  
DAVID K. BROOKS, Legal Examiner

September 16, 2010

Santa Fe, New Mexico

This matter came on for hearing before the  
New Mexico Oil Conservation Division, WILLIAM V. JONES,  
Technical Examiner, and DAVID K. BROOKS, Legal Examiner,  
on Thursday, September 16, 2010, at the New Mexico  
Energy, Minerals and Natural Resources Department, 1220  
South St. Francis Drive, Room 102, Santa Fe, New Mexico.

REPORTED BY: Jacqueline R. Lujan, CCR #91  
Paul Baca Professional Court Reporters  
500 Fourth Street, N.W., Suite 105  
Albuquerque, NM 87103 505-843-9241

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A P P E A R A N C E S

FOR THE APPLICANT:

TOMMY ROBERTS, ESQ.  
P.O. Box 129  
Farmington, New Mexico 87499  
(505) 327-6807

WITNESSES: PAGE

George Sharpe:

Direct examination by Mr. Roberts 3  
Examination by Examiner Jones 14  
Examination by Examiner Brooks 15

INDEX PAGE

EXHIBITS 1 THROUGH 9 WERE ADMITTED 14

REPORTER'S CERTIFICATE 17

1 EXAMINER JONES; Let's call Case 14541,  
2 application of Merrion Oil & Gas Corporation for  
3 compulsory pooling, San Juan County, New Mexico.

4 Call for appearances.

5 MR. ROBERTS: Mr. Examiner, my name is  
6 Tommy Roberts. I'm an attorney in Farmington, New  
7 Mexico. I'm appearing on behalf of the applicant,  
8 Merrion Oil & Gas Corporation. I have one witness.

9 EXAMINER JONES: Any other appearances in  
10 this case?

11 The witness has already been sworn.

12 EXAMINER BROOKS: We can let the record  
13 reflect that the witness is still under oath.

14 MR. ROBERTS: Mr. Examiner, we'll just  
15 ask Mr. Sharpe.

16 GEORGE SHARPE

17 Having been first duly sworn, testified as follows:

18 DIRECT EXAMINATION

19 BY MR. ROBERTS:

20 Q. Mr. Sharpe, would you just identify yourself  
21 for the record?

22 A. My name is George Sharpe. I live in  
23 Farmington, New Mexico. I work for Merrion Oil & Gas  
24 Corporation. I am the investment manager for Merrion Oil  
25 & Gas. I'm a petroleum engineer.

1 MR. ROBERTS: Mr. Examiner, I would ask  
2 that you take administrative notice of Mr. Sharpe's prior  
3 qualifications as an expert in the field of petroleum  
4 engineering.

5 EXAMINER JONES: We'll take administrative  
6 notice of Mr. Sharpe's qualifications.

7 Q. (By Mr. Roberts) Mr. Sharpe, would you  
8 briefly state the purpose of the application in this  
9 case?

10 A. The application of this case is to compulsory  
11 pool the north half of Section 18, 29 North, 13 West, to  
12 form a standard 250-acre proration unit for the basin  
13 Fruitland Coal pool, and to compulsory pool -- that will  
14 be dedicated to the Westland Park 1 and 2 wells, and to  
15 compulsory pool the northwest quarter of Section 18 to be  
16 dedicated to the Westland Park 1 well on a nonstandard  
17 proration unit of 90 acres.

18 Q. What 's the status of the -- I assume you  
19 filed an application for approval of a nonstandard  
20 90-acre spacing and proration unit?

21 A. Yes.

22 Q. What's the status of that?

23 A. To my knowledge, it's been approved.

24 Q. And you worked with Philana on that, as well

25 EXAMINER BROOKS: Which one is this?

1 THE WITNESS: The Westland Park 1.

2 EXAMINER BROOKS: That has been approved,  
3 yes.

4 Q. (By Mr. Roberts) Mr. Sharpe, to your  
5 knowledge, is what you seek to accomplish here consistent  
6 with the pool rules for both of these pools?

7 A. Yes.

8 Q. I'm going to ask you to refer to what you've  
9 marked as Exhibit Number 1 and identify that exhibit.

10 A. Exhibit Number 1 is a general locator map of  
11 the entire San Juan Basin showing the location of these  
12 wells on the western edge of the City of Farmington and  
13 the western portion of the basin.

14 Q. Move quickly on to Exhibit 2 and identify that  
15 exhibit, please. Identify its relevance to the  
16 application.

17 A. Exhibit Number 2 is a topographic map showing  
18 the north half of Section 18. It shows it to be a  
19 truncated section because of legal surveys, with a  
20 standard 160-acre northeast quarter and a nonstandard  
21 90-acre northwest quarter. It shows it to be within the  
22 City of Farmington with a number of neighborhoods in the  
23 area, and, again, very fractured and complicated land  
24 ownership and mineral ownership.

25 Q. Turn to what you've marked as Exhibit 3 and

1 please identify that exhibit.

2 A. Exhibit Number 3 is the C-102 well location  
3 plats. The first page shows the north half of Section 18  
4 dedicated to the Westland Park Number 1, basin Fruitland  
5 Coal. Exhibit Number 2 shows the northwest quarter of  
6 Section 18 dedicated to the West Kutz Pictured Cliffs  
7 pool for the Westland Park Number 1.

8 And second page of the exhibit shows the north  
9 half of Section 18 dedicated to a horizontal well drilled  
10 in the basin Fruitland Coal for the Westland Park Number  
11 2.

12 Q. I notice that the north half of this section  
13 is not a standard size?

14 A. It is not.

15 Q. You indicated it contains 250.15 acres?

16 A. Yes.

17 Q. Is it your understanding that that is,  
18 nevertheless, a standard proration unit?

19 A. It is within 75 percent of the standard 320  
20 acres, so it is considered standard because it is a legal  
21 partition of a section without fracturing out the  
22 section, if those are the right terms.

23 EXAMINER BROOKS: I believe we required a  
24 nonstandard unit in this case. We did create a  
25 nonstandard unit.

1 THE WITNESS: We did for the northwest  
2 quarter, for the 90-acre Pictured Cliffs. But we were  
3 advised by Steve Hayden that, as long as it was a  
4 contiguous portion of a section, without breaking up that  
5 section, if it was within plus or minus 25 percent.

6 EXAMINER BROOKS: That's right.

7 THE WITNESS: And the 250 acres is 77  
8 percent of 320.

9 EXAMINER BROOKS: Yeah, if it's within the  
10 tolerances, right. I was thinking it was 30 percent,  
11 but --

12 Q. (By Mr. Roberts) Move on to Exhibit Number 4  
13 and identify that exhibit, please.

14 A. Exhibit Number 4 is a bubble map showing the  
15 projected ultimate recoveries of the Pictured Cliffs from  
16 Fruitland Coal wells in the area of the Westland Park.  
17 The proposed Westland Park Number 1 is identified toward  
18 the center of that map, and the Westland Park Number 2 is  
19 in the same spacing unit. It's going to be drilled from  
20 the same pad.

21 The Pictured Cliffs' ultimates are shown in  
22 the left-hand bubbles. The Fruitland Coal's are shown in  
23 the right-hand bubbles. And I guess what I want this to  
24 illustrate is the variability of the production from both  
25 the Pictured Cliffs and the Fruitland Coal in this area.

1 So although we hope to have an economic well, there is  
2 substantial risks, certainly a significant statistical  
3 risk, that these wells may or may not be economic.

4 Q. Let's have you move on to what you marked as  
5 Exhibit Number 5. Please identify that exhibit.

6 A. Exhibit Number 5 are the authorizations for  
7 expenditures, AFEs, for the Westland Park 1 and the  
8 Westland Park 2. The Westland Park 1 is to be drilled as  
9 a vertical well. It has an estimated drilling and  
10 completion cost of \$444,000. The Westland Park Number 2  
11 is going to be a horizontal Fruitland Coal well drilled  
12 from the same drilling pad. It has estimated drilling  
13 completion costs of \$679,000.

14 Q. The ~~Wellbores~~<sup>#1</sup> completed in both the Fruitland  
15 Coal and Pictured Cliffs formation, you intend to  
16 downhole commingle; is that correct?

17 A. That's correct. The Westland Park Number 1  
18 will be commingled in those formations, or we're applying  
19 for approval.

20 Q. Are those costs of commingling included in the  
21 estimate of expenditures for these wells?

22 A. The split between those costs is shown on this  
23 AFE. And it's not exactly, but roughly, fifty-fifty.  
24 Primarily, the difference is the completion costs.

25 Q. In or opinion, are these estimated costs

1 reasonable, given the nature of this operation?

2 A. These costs are reasonable, yes.

3 Q. Are they consistent with your experience in  
4 drilling Fruitland Coal wells in the San Juan Basin and  
5 Pictured Cliffs wells in the San Juan Basin?

6 A. Yes, they are.

7 Q. Move on to Exhibit 6 and identify that,  
8 please.

9 A. I guess in looking at this AFE more closely,  
10 for the record, I misspoke. The slight difference in the  
11 cost appears to be the footage difference between the  
12 Fruitland Coal and the PC, where the drilling costs are  
13 slightly higher for the Fruitland Coal than the Pictured  
14 Cliffs. I think that's just because he allocated all the  
15 damages for the Fruitland Coal -- I think the operating  
16 agreement will say that those will be split fifty-fifty.

17 Q. Turn to what you marked as Exhibit Number 6,  
18 which is the model form operating agreement. Has this  
19 agreement been sent to all nonjoining parties?

20 A. Yes.

21 Q. What is the contract area covered by the  
22 operating agreement?

23 A. The north half of Section 18, surface to the  
24 base of the Pictured Cliffs formation.

25 Q. Is this the standard form commonly used in the

1 industry for operations of this kind in this area?

2 A. It is.

3 Q. Are there any modifications to the agreement?

4 A. The only substantial modification is the  
5 adding of a provision for commingling formations and  
6 sharing the costs of production.

7 Q. And do you propose Merrion Oil & Gas be  
8 designated as the operator of the contract area?

9 A. We do, yes.

10 Q. Please turn to what you've marked as Exhibit  
11 Number 7 and identify that exhibit, please.

12 A. Exhibit Number 7 is the Ernst & Young survey  
13 of overhead rates in New Mexico for wells of various  
14 depths, and it shows a proposed \$5,000 a month for  
15 drilling and \$500 per month for producing overhead rates,  
16 within the range of the average and median rates for  
17 shallow wells in New Mexico.

18 Q. Let's have you turn to the next exhibit, which  
19 is marked as Exhibit Number 8, and identify that exhibit.

20 A. Exhibit 8 is a list of the ownership breakdown  
21 within the north half of Section 18, also broke down by  
22 quarter sections. The second page of that exhibit shows  
23 a summary for the entire north half. It shows that  
24 Merrion Oil & Gas has leased approximately 36 percent of  
25 the unit.

1 XTO will be a working interest owner/partner.  
2 They have leased 33.9 percent of the unit, Synergy.  
3 Approximately 4 percent of the unit has been leased. And  
4 we have one committed participating mineral interest  
5 owner at 4 percent, and approximately 22 percent of the  
6 mineral -- of the area is owned by mineral interest  
7 owners that have not yet committed as of the date this  
8 was prepared.

9 Q. And the exhibit information indicates that XTO  
10 is a partner in this well?

11 A. Both XTO and Synergy and now Thriftway as  
12 mineral interest owners.

13 Q. They're all committed to the operation?

14 A. They have all been -- well, Thriftway has  
15 committed, and XTO and Synergy are evaluating the  
16 economics, and they've received notification. And I  
17 anticipate that they will participate.

18 Q. Before we move to Exhibit Number 9, I need to  
19 ask you, do you propose a risk factor to be charged  
20 against any interest owner who does not voluntarily join?

21 A. Yes.

22 Q. At what rate?

23 A. We are proposing 200 percent, based on the  
24 risk of an uneconomic well.

25 Q. Let me have you move to what you've marked as

1 Exhibit Number 9, identify the exhibit and explain what  
2 it is.

3 A. Exhibit Number 9 and the other exhibits  
4 attached to it are an affidavit of notification in regard  
5 to this application. And the attached exhibits --  
6 Exhibit 1 is a letter that was sent to the unleased  
7 mineral interest owners outlining their options to  
8 participate, Option 1, Option 2, to lease to Merrion at a  
9 15 percent royalty rate, and then notifying them that if  
10 they did not choose one of the above options, that this  
11 compulsory pooling application was in process, and if  
12 approved, their interest would be pooled.

13 Exhibit Number 2 is a letter to XTO and  
14 Synergy, the other leasehold owners in the area, with  
15 copies of the AFE to drill and signature pages for the  
16 operating agreement, and, again, notifying them that this  
17 compulsory pooling application was in process. Both of  
18 those notifications also discuss the commingling and the  
19 allocation formula for the Westland Park 1 Well.

20 Exhibit 3 is an identical list of all the people  
21 that received notification and their addresses.

22 Exhibit 4 is a copy of the return receipts.  
23 Those were sent certified.

24 And Exhibit 5 is a tracking list, showing that  
25 the majority of the notifications were received. A

1 number of them, it looks like about a dozen, were  
2 returned, and probably 10 of those dozen were unclaimed.  
3 Another three or four, we found other addresses and sent  
4 them to a second address.

5 Finally, Exhibit 6 to that is notification  
6 that was published -- affidavit of notification of  
7 publication, notification of this application in the  
8 "Farmington Daily Times. It was published Thursday,  
9 September 2nd, 2010.

10 Q. Mr. Sharpe, who was responsible in Merrion Oil  
11 & Gas for coordinating these communication efforts and  
12 notification?

13 A. It was done under my supervision by a landman  
14 and me.

15 Q. The main document in Exhibit 9 is entitled,  
16 "Affidavit of Notification," and it is signed by you. In  
17 that affidavit you indicate that it's your opinion and  
18 belief that the notice requirements of the rules of the  
19 Oil Conservation Division have been satisfied; is that  
20 correct?

21 A. That's correct.

22 Q. Mr. Sharpe, were Exhibit Numbers 1 through 9  
23 either prepared by you or at your direction and under  
24 your supervision?

25 A. Yes.

1 Q. In your opinion, would the granting of this  
2 application be in the best interest of conservation and  
3 result in the prevention of waste and the protection of  
4 correlative rights?

5 A. Yes, it will.

6 MR. ROBERTS: Mr. Examiner, I'll move the  
7 admission of Exhibit Numbers 1 through 9 in this case.

8 EXAMINER JONES: Exhibits 1 through 9 will  
9 be admitted.

10 (Exhibits 1 through 9 were admitted.)

11 MR. ROBERTS: I have no other questions  
12 for the witness on direct.

13 EXAMINATION

14 BY EXAMINER JONES:

15 Q. So this was compulsory pooled several years  
16 ago; is that correct?

17 A. This was compulsory pooled several years ago.  
18 Prices cratered, cash flow dried up. We chose not to  
19 drill them. Unfortunately, we let the compulsory pooling  
20 expire.

21 In addition, it and the prior application were  
22 just compulsory pooled at the Fruitland Coal level, and  
23 we've since decided to do Pictured Cliffs completions, as  
24 well, and have added the Pictured Cliffs in the process.

25

1 Q. The Number 1 well is going to be a downhole  
2 commingle well, and Number 2 has a little bit of  
3 horizontal leg in it?

4 A. They're both drilled -- we really could find  
5 one acceptable drilling location in the entire north  
6 half. Our preference would have been to drill a vertical  
7 in the northwest quarter and commingle, but we couldn't  
8 find a spot to drill that worked.

9 Q. The San Juan River runs to the west?

10 A. The San Juan River is to the west and south.  
11 You can see it kind of bends around to the south. And we  
12 were actually in a fairly large rural part, where this  
13 location is, and pretty much the entire rest of the  
14 section has been developed. So we could not find an  
15 acceptable locatation in the northwest quarter. For that  
16 reason, we're drilling a horizontal well into the  
17 northwest quarter with the Westland Park Number 2.

18 EXAMINER JONES: Okay. I have no more  
19 questions.

20 EXAMINATION

21 BY EXAMINER BROOKS:

22 Q. Same thing on this well. This is Pictured  
23 Cliffs and Fruitland Coal; right?

24 A. Yes, sir.

25 Q. Is the allocation going to be fifty-fifty for

1 expenses like you said in the previous case?

2 A. Yes, it is.

3 Q. And so if I asked you all the same questions  
4 about allocation --

5 A. -- it would be all the same answers.

6 Q. All the same as in the Glade Park case?

7 A. Yes.

8 Q. So once again, I'm going to recommend to the  
9 Examiner that we take this -- not take this under  
10 advisement, but continue it to October 14th and have you  
11 republish the notice.

12 A. With the name's of --

13 Q. A list of the unlocateable parties.

14 MR. ROBERTS: We'll take care of that.

15 Thank you.

16 EXAMINER JONES: Thank you both for  
17 coming.

18 We'll continue Case 14541 to October 14th.

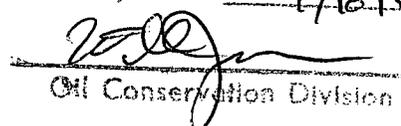
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21 I do hereby certify that the foregoing is  
22 a complete record of the proceedings in  
23 the Examiner hearing of Case No. 14541  
heard by me on 7/16/50

23

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 , Examiner  
Oil Conservation Division

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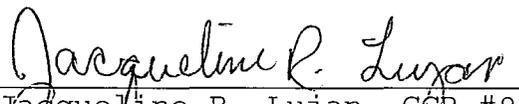
REPORTER'S CERTIFICATE

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I, JACQUELINE R. LUJAN, New Mexico CCR #91, DO  
HEREBY CERTIFY that on September 16, 2010, proceedings in  
the above captioned case were taken before me and that I  
did report in stenographic shorthand the proceedings set  
forth herein, and the foregoing pages are a true and  
correct transcription to the best of my ability.

I FURTHER CERTIFY that I am neither employed by  
nor related to nor contracted with any of the parties or  
attorneys in this case and that I have no interest  
whatsoever in the final disposition of this case in any  
court.

WITNESS MY HAND this 29th day of September,  
2010.

  
Jacqueline R. Lujan, CCR #91  
Expires: 12/31/2010