MARALEX
Resources, Inc.

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August 28, 1990

State of New Mexico
Energy, Minerals and Natural Resources Department
Oil Conservation Division
Attn: William J. Lemay
P. O. Box 2088
Santa Fe, NM 87504

RECEIVED
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OIL CONSERVATION DIVISION

RE: Compulsory Pooling
S/2 Section 17, T30N, R11W
N/2 Section 18, T30N, R11W
San Juan County, NM

Case 10112

Gentlemen:

This letter serves as an application for Compulsory Pooling of the working interests set out below in the subject drillsite spacing units. Maralex Resources, Inc. (Maralex) is the name of the applicant.

Maralex is requesting that ownership of the Basin Fruitland Coal common source of supply be pooled for the drilling or recompletion of two wells to be located in the southwest quarter of Section 17 and the northeast quarter of Section 18. Both pooled units will be for the production of coalbed methane gas.

Enclosed as Exhibit 1 are unopened well proposals that were sent to the last known addresses of Mary Lund and the Estate of Luke Howse. Also enclosed as Exhibit 1 are copies of proposals and offers submitted to the remaining interest owners set out below along with the returned mail receipts, evidencing Maralex's attempts to gain voluntary agreements. The interest of each party as derived from pay records for the Pictured Cliffs wells in each of the drillsite quarter sections is as follows:

	Working Interest Ownership In Basin Fruitland Coal Pool	
Owner	S/2 17	N/2 18
Mary Lund	0.60425%	0.60425%
Estate of Luke Howse	0.60425%	0.60425%
Bernice Taylor	4.22960%	4.22960%
Geodyne Resources, Inc.	4.16585%	4.16585%
Elliott Riggs	6.04230%	6.04230%

C. & E. Operators	0.00000%	21.25000%
Meridian	50.00000%	28.75000%

All of these owners are being notified of this pooling request by certified copy of this letter application with submittal to their last known address. Maralex does not expect this application to be opposed.

Exhibit 2 is an overall net coal isopach map showing the projected thickness of the Fruitland coals in the two drillsite spacing units. Geologically, the risk of not encountering the coals is very low. However, there is substantial risk associated with the establishment of commercial production from the coals. Meridian recompleted the Simmons No. 1 in the northwest quarter of Section 17 to the Fruitland coals making that well essentially a 160-acre offset to both of Maralex's proposed locations. Production from that well has varied from about 42 MCFD to about 104 MCFD (see Exhibit 3). Most recent production figures show June production to be about 65 MCFD. Making the assumptions that production increases to a peak rate of 105 MCFD over the next six months, levels off there for a year, and then declines at the fairly shallow rate of 5 percent per year and operating costs average $800 per month, generates the following economics:

Payout: 86.05 months
R.O.I.: 1.04 to 1.0
DROI (15): -0.24
ROR: 9.55
PW(15): -57.64

Exhibit 4 contains the detailed economics summarized in the above table. These economics are based on an initial gas price of $1.35 per MCF and an escalation rate of six percent per year. Since the majority of the participants in the proposed project obtained the majority of their interest through farmouts, these economics provide for a 40 percent back-in to the Farmors after payout. An AFE detailing the charges anticipated for the drilling and completion of the proposed wells is included as Exhibit 5.

Clearly, the economics shown above indicate the risk involved in the drilling of the proposed wells. Maralex is gambling that improved completion techniques (over those used in the Simmons well) will result in substantially better productivity from the Fruitland coals. Maralex is requesting that those owners who are either unwilling or are unavailable to participate in this gamble be assessed a risk penalty of 300 percent of the cost to drill and complete the proposed wells.

As an alternative aimed at minimizing the risk of obtaining a commercially successful well, Maralex is attempting to secure permission from the current owners to recomplete the Brimhall No. 1 well from the Pictured Cliffs formation to the Fruitland coal formation. The lower cost associated with this proposal (Exhibit 6) results in the improved economics shown in Exhibit 7. Though this alternative reduces the risk of commercial failure, this reduction is offset by an increased risk of mechanical failure of the wellbore. The Brimhall well (located in the northwest quarter of Section 18) was drilled in the early fifties and may not have adequate cement behind pipe to facilitate the recompletion attempt. In addition, the mechanical integrity of the production casing may have deteriorated to the point that extensive repairs will be required. In either of these cases, the costs projected will be significantly eclipsed by the work required to repair wellbore problems. In addition, there is a risk that the wellbore problems will be determined to be irreparable after a substantial amount of funds has been expended and then a new wellbore will be required. Therefore, Maralex is requesting the same risk penalty of 300 percent for both proposed Fruitland Coal tests.

As further support for the risk penalty requested by Maralex, a copy of the non-consent provisions of the Operating Agreement that has been submitted to the Farmors and participants is enclosed as Exhibit 8. The non-consent penalty for work on the drill-site spacing units is 300 percent. Assessing a risk penalty that is less than this amount penalizes the participants who have agreed to the proposed work and are shouldering the risks associated with that work.

Maralex is proposing combined fixed rate overhead charges for drilling and production operations of $2,800 and $280 per month, respectively. These are the same charges incorporated in the above-mentioned Operating Agreement (Exhibit 9). These charges should be considered a bargain as most operators in the Basin charge from $300 to $420 per month for combined fixed rate overhead on production operations and ten times that range for drilling operations.

The Price No. 2 well will be located in the SWSW Section 17, T30N, R11W. The Price No. 2 well will be drilled to an approximate total depth of 2100 feet. The Brimhall No. 1 well is located in the NENE Section 18, T30N, R11W. If a new well is required it will be drilled to a total depth of approximately 2000 feet. The existing well was drilled to a total depth of about 1930 feet.

Maralex intends to commence the drilling of the Price No. 2 by the middle of October. Therefore, Maralex requests that this application for compulsory pooling be placed on the Docket for the Division's September 19 hearing.

Please direct any questions or requests for additional information regarding this application to the undersigned at (303) 571-4220.

Sincerely,

A. M. O'Hare

A. M. O'Hare, P.E.
President
Maralex Resources, Inc.

cc: Lonnie Cunningham
Mary Lund, Certified
Estate of Luke Howse, Certified
Bernice Martin Taylor, Certified
Geodyne Resources, Inc., Certified
Elliott Riggs, Certified
C & E Operators, Certified
Meridian Oil, Certified