

**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 THE:**

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

**CASE NO. 14541
ORDER NO. R-13000-B**

ORDER OF THE DIVISION

BY THE DIVISION:

This matter came on for hearing at 8:15 a.m. on September 16, 2010, at Santa Fe, New Mexico, before Examiner William V. Jones and again on October 14, 2010 before Examiner Terry G. Warnell.

NOW, on this 20th day of October, 2010, 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) Merrion Oil & Gas Corporation ("Merrion" or "Applicant"), seeks an order pooling all uncommitted interests within the N/2 of Section 18, Township 29 North, Range 13 West, NMPM, San Juan County, New Mexico as follows:

the N/2 (equivalent) to form a 250.15-acre, more or less, gas spacing unit for gas production from the Fruitland Coal formation, Basin-Fruitland Coal Gas Pool (71629) and

the NW/4 (equivalent) to form a 90.15-acre, more or less, non-standard gas spacing unit for production from the Pictured Cliffs formation, including but not limited to, the Undesignated West Kutz-Pictured Cliffs Gas Pool (79680).

(3) The proposed Units are to be dedicated to Applicant's two "proposed wells" described below:

(a) Westland Park Well No. 1 (API No. 30-045-34749), to be drilled vertically at a gas well location 1269 feet from the North line and 1183 feet from the West line, Unit C of Section 18 to an approximate depth of 1100 feet.

(b) Westland Park Well No. 2 (API No. 30-045-34750) is to be horizontally drilled within the Fruitland Coal formation from the same surface pad as Well No. 1; with a surface location 1264 feet from the North line and 1196 feet from the West line, Unit C of Section 18 and a bottomhole terminus 1264 feet from the North line and 660 feet from the East line, Unit A of Section 18.

(4) Well No. 1 is to be completed within the Pictured Cliffs and the Fruitland Coal formations and production is to be downhole commingled. The Applicant will obtain Downhole Commingle permits from the Division for both wells prior to commencing production.

(5) The proposed 90.15-acre, more or less, Pictured Cliffs gas spacing unit is less than 70 percent of the size of a standard 160-acre gas spacing unit, therefore an exception pursuant to Rule 15.11 is required prior to production. In addition, the proposed location of Well No. 1 is less than 660 feet from the eastern edge of this proposed unit and therefore unorthodox. On September 13, 2010, the Division issued administrative permits NSP-1944 and NSL-6257, granting Applicant permission to form this gas spacing unit and place Well No. 1 at an unorthodox location within the new unit.

(6) The proposed 250.15-acre Fruitland Coal gas spacing unit is more than 70 percent of the size of a standard 320-acre gas spacing unit and therefore within the limits approvable by the Division's district office. Both proposed wells are to be located within this proposed Fruitland Coal Gas spacing unit at standard surface and bottomhole locations.

(7) On October 2, 2008, Division Order No. R-13000 issued in Case No. 14163, pooled the N/2 of Section 18 for Fruitland Coal Gas production. Commission Order No. R-13000-A was a dismissal of a De Novo review. The two proposed coal gas wells in that application proposed similar drill sites, but differed from the current proposal in that Well No. 1 was to be deviated in a westerly direction to a standard bottomhole location. The current case proposes to pool both the Fruitland Coal and the Pictured Cliffs formations and to drill one vertical well to both formations and one horizontal well in the Fruitland Coal.

(8) This portion of the San Juan Basin is not in the High Productivity area and therefore notice is not required to offsetting owners prior to drilling an optional Fruitland Coal gas well within a 320-acre gas spacing unit.

(9) This case was unopposed and was presented at the September 16, 2010, examiner hearing with testimony from one witness. The case was continued to the October 14, 2010, docket in order to provide more specific notice in the county

newspaper to un-located owners being pooled. Applicant presented evidence of this notice at the October 14, 2010 hearing and the case was taken under advisement.

(10) Merrion sees potential to economically recover additional hydrocarbons and to reduce surface disturbances by drilling both wells from the same surface site and target both formations in the downhole commingled vertical well. In the vertically drilled Well No. 1, Merrion proposes to allocate drilling costs equally to each target formation and charge completion costs specifically to each formation being completed.

(11) Notice of the compulsory pooling application was provided to those parties not already committed to the drilling of these wells. No other party appeared at either hearing, or otherwise opposed the granting of this application.

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

(13) Applicant is an owner of an oil and gas working interest within the Units. Applicant has the right to drill and proposes to drill the proposed wells to a common source of supply within the Units at the proposed locations.

(14) There are interest owners in the Units that have not agreed to pool their interests and there are un-locatable interest owners within these Units. There is no evidence of a title dispute.

(15) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford to each interest owner 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 proposed gas spacing units.

(16) Merrion Oil & Gas Corporation (OGRID 14634) should be designated the operator of the proposed wells and of the Units.

(17) 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 wells.

(18) Reasonable charges for supervision (combined fixed rates) should be fixed at \$5,000 per month while drilling and \$500 per month 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*."

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Merrion Oil & Gas Corporation ("Applicant"), all uncommitted interests, whatever they may be, in the oil and gas underlying the N/2 of Section 18, Township 29 North, Range 13 West, NMPM, San Juan County, New Mexico, are hereby pooled, as follows:

the N/2 (equivalent) to form a 250.15-acre, more or less, gas spacing unit for gas production from the Fruitland Coal formation, Basin-Fruitland Coal Gas Pool (71629) and

the NW/4 (equivalent) to form a 90.15-acre, more or less, non-standard gas spacing unit for production from the Pictured Cliffs formation, including but not limited to, the Undesignated West Kutz-Pictured Cliffs Gas Pool (79680).

(2) These Units shall be dedicated to Applicant's two "proposed wells" described below:

(a) Westland Park Well No. 1 (API No. 30-045-34749), to be drilled vertically at a gas well location 1269 feet from the North line and 1183 feet from the West line, Unit C of Section 18 to an approximate depth of 1100 feet. This well shall be drilled, logged, and evaluated for completion in both the Pictured Cliffs and the Fruitland Coal formations.

(b) Westland Park Well No. 2 (API No. 30-045-34750) is to be horizontally drilled within the Fruitland Coal formation from the same surface pad as Well No. 1; with a surface location 1264 feet from the North line and 1196 feet from the West line, Unit C of Section 18 and a bottomhole terminus 1264 feet from the North line and 660 feet from the East line, Unit A of Section 18.

(3) Merrion Oil & Gas Corporation (OGRID 14634) is hereby designated the operator of the wells and of the Units.

(4) The operator shall commence drilling the two proposed wells on or before November 1, 2011, and shall thereafter continue drilling each well with due diligence to test the deepest respective target formation for gas production. In the event the operator does not commence drilling before November 1, 2011, 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.

(5) Should either of the wells not be completed within 120 days after commencement of drilling thereof, then Ordering Paragraph (1) shall be of no further effect, except as to the Unit or Units held at that time by a completed well, unless operator appears before the Division Director and obtains an extension of the time for completion of the wells for good cause shown by satisfactory evidence.

(6) Upon final plugging and abandonment of all wells drilled on each of these Units pursuant to this order and to Division Rule Part 13, Sections 9 through 11, the pooled Unit or Units created by this Order shall terminate, unless this order has been amended to authorize further operations.

(7) 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 Units, 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 Units an itemized schedule of estimated costs of drilling, completing and equipping the proposed well ("well costs").

(8) 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."

(9) 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 the proposed well. 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. 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.

(10) Within 60 days following determination of reasonable well costs, 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 and shall receive from the operator the amount, if any, that the estimated well costs it has paid exceed its share of reasonable well costs.

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

- (a) the proportionate share of reasonable well costs 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.

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

(13) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$5,000 per month while drilling and \$500 per month 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 the proportionate share of both the supervision charges and the actual expenditures required for operating the well, not in excess of what are reasonable, attributable to pooled working interest owners.

(14) 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.

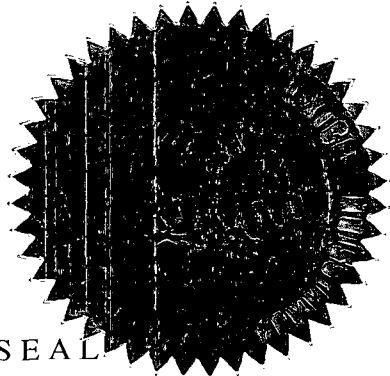
(15) Except as provided in Paragraphs (11) and (13) above, all proceeds from production from the well that are not disbursed for any reason shall be placed in escrow in San Juan County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership. The operator shall notify the 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.

(16) 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.

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

(18) 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.



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STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in black ink, appearing to read "Mark E. Fesmire".

MARK E. FESMIRE, P.E.
Acting Director