

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:

CASE NO. 11047
ORDER NO. R-10235

**APPLICATION OF MERIDIAN OIL INC.
FOR AN UNORTHODOX COAL GAS WELL
LOCATION, 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 4, 1994 at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 3rd day of November, 1994, 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, Meridian Oil Inc. ("Meridian"), seeks approval of an unorthodox coal gas well location for its Johnson POW Well No. 1 to be drilled 240 feet from the South line and 340 feet from the East line (Unit P) of Section 21, Township 27 North, Range 10 West, NMPM, Basin-Fruitland Coal (Gas) Pool, San Juan County, New Mexico.

(3) The subject well will be located within an existing standard 320-acre gas spacing and proration unit comprising the E/2 of said Section 21, which is presently dedicated to its Johnson Well No. 2 (**API No. 30-045-06366**), located at a previously approved unorthodox coal gas well location (Division Administrative Order NSL-2824) 1625 feet from the South line and 1090 feet from the East line (Unit I) of said Section 21.

(4) Meridian also operates seven other Basin-Fruitland coal gas wells and 14 conventional Pictured Cliffs gas wells in Sections 21, 22, 27, and 28, Township 27 North, Range 10 West, NMPM, San Juan County, New Mexico.

(5) The Basin-Fruitland Coal (Gas) Pool was created and defined by Division Order No. R-8768, dated October 17, 1988, and was initially spaced on 320-acre spacing (Rule 4) with standard coal gas well locations to be not closer than 790 feet to any outer boundary of the spacing unit, nor closer than 130 feet to any quarter section line, nor closer than 10 feet to any quarter-quarter section line or subdivision inner boundary (Rule 7).

(6) Division Order R-8768-A, issued July 16, 1991, made permanent the special rules and procedures for the Basin-Fruitland Coal (Gas) Pool and found among other things that "traditional engineering methods such as decline curve analysis, volumetric calculations and material balance which are usually utilized to determine drainage areas are inapplicable to the Basin-Fruitland Coal Gas Pool due to the unique producing characteristics of the coal seams."

(7) At this time Meridian proposes to initiate a pilot reservoir study within the area encompassing all of said Sections 21, 22, 27, and 28 in order to obtain reservoir characterization data, to define Fruitland coal gas production characteristics, and to allow Meridian the opportunity to refine its Fruitland coal gas reservoir stimulation model. Said "Project Area" is to be known as the Johnson-Fruitland Coal Gas Reservoir Study Project.

(8) The unorthodox coal gas well location for the Johnson POW Well No.1 is needed in order to place it at the approximate center of the group of 8 coal gas wells all within the Project Area.

(9) An interference test will be conducted in the basal and upper coal zones within the Project Area by shutting-in the 8 coal gas wells and all of the Pictured Cliffs wells within the Project Area and producing the Johnson POW Well No. 1 with the nearest four coal gas wells used as pressure observation wells. Upon completion of the Pilot Project, the Johnson POW Well No. 1 will be used as a pressure observation well and the other wells returned to production.

(10) The proposed well would be at an unorthodox location because it is 240 feet from the South side and 340 feet from the East side of Section 21 rather than the required 790 feet and would require an exception to Rule 7 of the subject pool. The closest standard coal gas well location would place the subject Johnson POW Well No. 1 too far to the north and west and may adversely affect the ability to obtain accurate pressure interference data.

(11) In order to avoid the impairment of correlative rights Meridian has designated a Project Area which consists entirely of federal oil and gas leases; will obtain the consent of all the Fruitland coal gas working interest owners in the Project Area; and commits to pay each burden (royalty and overriding royalty) owner in each of the eight 320-acre coal gas spacing units in the Project Area as if the Johnson POW Well No. 1 was located in that spacing unit with each such burden owner therefore being paid their proportionate share of the revenue derived solely from sale proceeds of said Johnson POW Well No. 1 production.

(12) Approval of the application will afford the applicant and all working interest owners in the Project Area the opportunity to produce, to gather uninterpreted reservoir data concerning this pool, to obtain uninterpreted reservoir characterization data, to define Basin-Fruitland Coal Gas Pool production characteristics, and to allow Meridian Oil Inc. an opportunity to refine its Fruitland coal gas reservoir simulation model.

(13) Amoco Production Company, an offset operator to the Project Area, entered its appearance but did not raise any objection to the granting of this application.

(14) No other offset operator and/or interest owner appeared at the hearing in opposition to the application.

(15) The subject application and proposed reservoir study appears to exhibit sound engineering practices, is in the best interest of conservation, will prevent waste and will serve to protect correlative rights; therefore, said application for the above-described unorthodox coal gas well location should be approved.

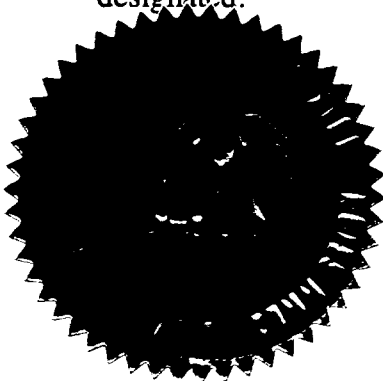
IT IS THEREFORE ORDERED THAT:

(1) The applicant, Meridian Oil Inc., is hereby authorized to drill its Johnson POW Well No. 1 at an unorthodox coal gas well location 240 feet from the South line and 340 feet from the East line (Unit P) of Section 21, Township 27 North, Range 10 West, NMPM, for production from the Basin-Fruitland Coal Gas Pool, San Juan County, New Mexico.

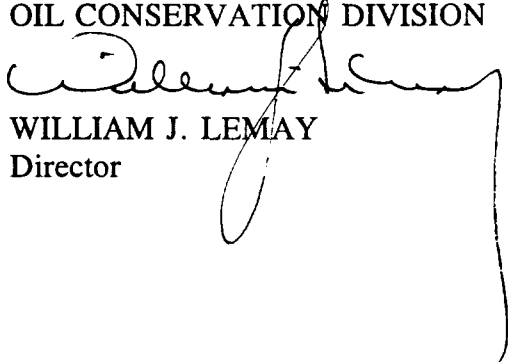
(2) The E/2 of said Section 21, being an existing standard 320-acre gas spacing and proration unit for said pool, shall be dedicated to the subject well during that period of the Johnson-Fruitland Coal Gas Reservoir Study Project in which this well will be actually producing from the Basin-Fruitland Coal (Gas) Pool.

(3) Jurisdiction is hereby 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