

KELLAHIN AND KELLAHIN

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W. THOMAS KELLAHIN*

*NEW MEXICO BOARD OF LEGAL SPECIALIZATION
RECOGNIZED SPECIALIST IN THE AREA OF
NATURAL RESOURCES-OIL AND GAS LAW

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November 3, 1994

HAND DELIVERED

Mr. Michael E. Stogner
Chief Hearing Examiner
Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87501

Re: McGrath Well No. 3, J-03-29N-12W
Application of Southland Royalty Company
for downhole commingling and an
unorthodox coal-gas well location,
San Juan County, New Mexico

Dear Mr. Stogner:

On behalf of Southland Royalty Company, please find enclosed our referenced application which we request be set for hearing on the next available Examiner's docket now scheduled for December 1, 1994.

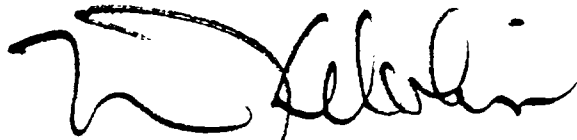
By copy of this letter and application, sent certified mail, we are notifying all interested parties of their right to appear at the hearing and participate in this case, including the right to present evidence either in support of or in opposition to the application and that failure to appear at the hearing may preclude them from any involvement in this case at a later date.

Oil Conservation Division
November 3, 1994
Page Two

Pursuant to the Division's Memorandum 2-90, all parties are hereby informed that if they appear in this case, then they are requested to file a Pre-Hearing Statement with the Division not later than 4:00 PM on Friday, November 25, 1994, with a copy delivered to the undersigned.

Also enclosed is our proposed advertisement of this case for the NMOCD docket.

Very truly yours,

A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', written in a cursive style.

W. Thomas Kellahin

WTK/wtk
Enclosure

cc: Southland Royalty Company and
By Certified Mail - Return Receipt
All Interested Parties

PROPOSED ADVERTISEMENT

Case_____: Application of Southland Royalty Company for downhole commingling and an unorthodox coal-gas well location, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval to downhole commingle conventional Aztec-Pictured Cliffs Gas Pool gas production (160-acre, SE/4 dedication) with coal gas production from the Basin-Fruitland Coal Gas Pool (319.86-acre standard dedication comprising lots 1,2, S/2NE/4 and SE/4 equivalent) within the wellbore of its McGrath Well No. 3 located 1650 feet from the South line and 1650 feet from the East line (Unit J) of irregular Section 3, T29N, R12W, NMPM. Said well location is considered to be an at an unorthodox "off-pattern" coal-gas well location. Said well is located approximately 3 miles southwest of Flora Vista, New Mexico.

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:

APPLICATION OF SOUTHLAND ROYALTY COMPANY CASE:
FOR DOWNHOLE COMMINGLING AND AN
UNORTHODOX COAL-GAS WELL LOCATION,
SAN JUAN COUNTY, NEW MEXICO.

A P P L I C A T I O N

Comes now SOUTHLAND ROYALTY COMPANY. ("Southland") by and through its attorneys, Kellahin and Kellahin, and applies to the New Mexico Oil Conservation Division for approval to downhole commingle conventional Aztec-Pictured Cliffs Gas Pool gas production (160-acre, SE/4 dedication) with coal gas production from the Basin-Fruitland Coal Gas Pool (319.86-acre standard dedication comprising lots 1,2, S/2NE/4 and SE/4 equivalent) within the wellbore of its McGrath Well No. 3 located 1650 feet from the South line and 1650 feet from the East line (Unit J) of Irregular Section 3, T29N, R12W, NMPM. Said well location is considered to be an at an unorthodox "off-pattern" coal-gas well location.

In support of its application, Southland states:

(1) Southland is the operator of the McGrath Well No. 3 in Section 3, T29N, R12W, NMPM, San Juan County, New Mexico which currently is a single completion well in the Aztec-Pictured Cliffs Gas Pool. See Exhibit "A" attached.

(2) The well is to be recompleted so that production from the Basin-Fruitland Coal Gas Pool and the Pictured Cliffs formation can be downhole commingled in the wellbore.

(3) In addition, Southland has selected to recomplete its McGrath Well No. 3 at an unorthodox "off pattern" coal gas well location in order to downhole commingle that production with the Pictured Cliffs production in order to recover marginal Pictured Cliffs gas reserves located in the SE/4 of Section 3.

(4) The ownership is not common for the well and its respective spacing and proration units in both pools.

(5) In accordance with Division Rule 303-C-1.(b), the Applicant states and will demonstrate at hearing:

1. the downhole commingling in this wellbore is necessary because evidence indicates that the Pictured Cliffs formation in this area of the San Juan Basin should be marginally productive and that due to the marginal production expected, it is uneconomic to drill a stand alone Pictured Cliffs Well. In addition, it is not economic to attempt to dually complete those formations in this well;

2. there will be no crossflow between the two zones commingled;

3. neither commingled zones exposes the other to damage by produced liquids;

4. the fluids from each zone are compatible with the other;

5. it is expected that the bottom hole pressure of the lower pressure zone is not less than 50 percent of the bottom hole pressure of the higher pressure zone adjusted to a common datum.

6. the value of the commingled production will not be less than the sum of the values of the individual production.

(6) The proposed downhole commingling is necessary in order for the applicant to economically recover Basin-Fruitland Coal Gas and Pictured Cliffs Gas Pool reserves underlying each respective proration unit.

(7) Due to the nature of the Basin-Fruitland Coal Gas production, straight allocation of gas volumes from both zones is not appropriate. Meridian therefore seeks the adoption of a monthly allocation formula to be presented at the time of the hearing.

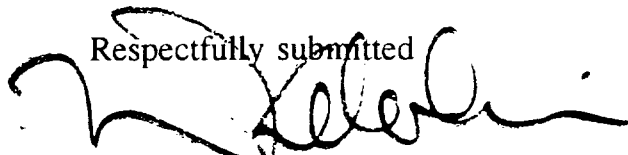
(8) Applicant requests that this matter be docketed for hearing on the Division's Examiner docket now scheduled for December 1, 1994.

(9) A copy of this application is being sent to all owners of production within the respective spacing unit for the well who may be affected by downhole commingling.

(10) Copy of this application has been sent to all offsetting operators to the two spacing units for the well.

WHEREFORE Applicant requests that this matter be set for hearing on December 1, 1994 before a duly appointed Examiner of the Oil Conservation Division and that after notice and hearing as required by law, the Division enter its order granting this application.

Respectfully submitted

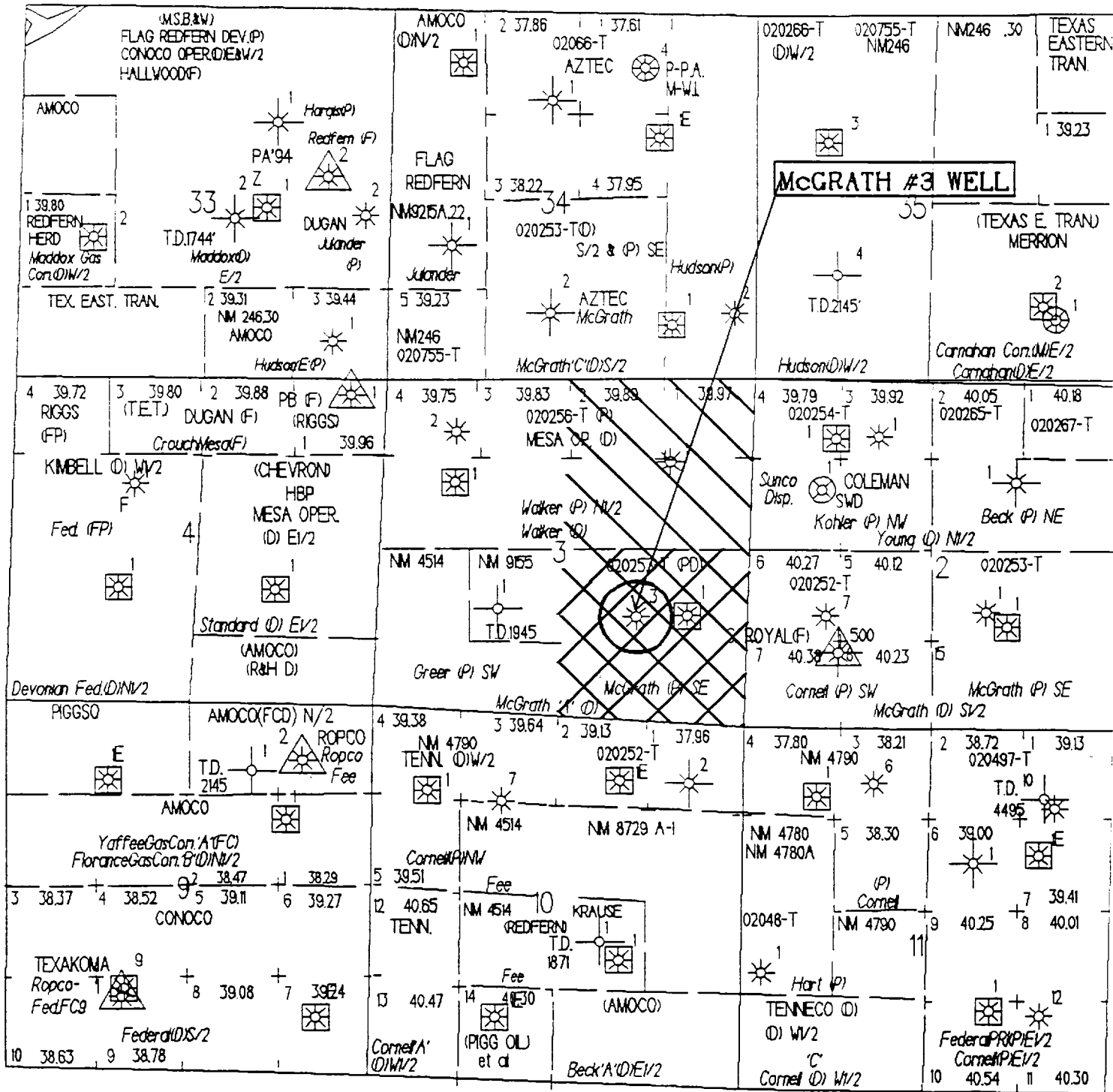
A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', is written over the typed name and address.

W. Thomas Kellahin
KELLAHIN and KELLAHIN
P. O. Box/2265
Santa Fe, New Mexico 87501
(505) 982-4285
Attorneys for Applicant

MC GRATH #3 WELL

UNIT J, SECTION 3, T29N, R12W

SAN JUAN CO, NEW MEXICO



FRUITLAND SAND WELL



FRUITLAND COAL WELL



PICTURED CLIFFS WELL



MESA VERDE WELL



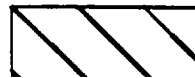
DAKOTA WELL



GALLUP WELL



PICTURED CLIFFS
SPACING UNIT



FRUITLAND COAL
SPACING UNIT

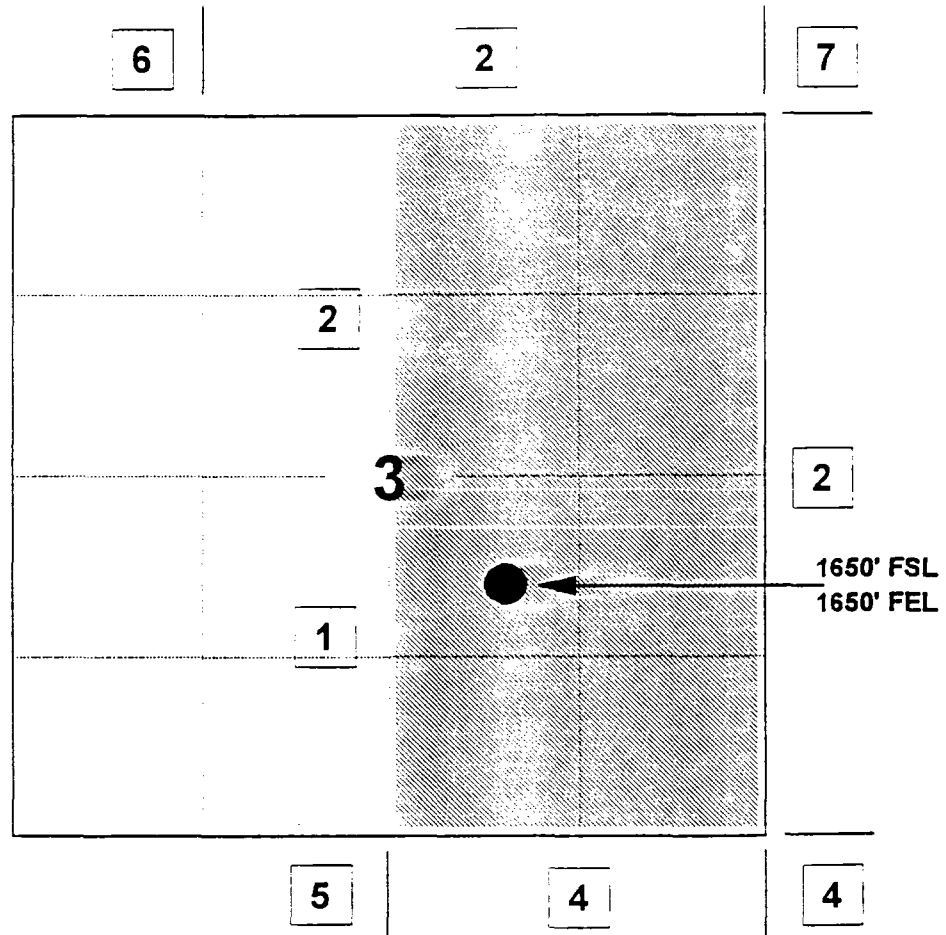
MERIDIAN OIL INC

McGRATH #3

OFFSET OPERATOR \ OWNER PLAT

Pictured Cliffs / Fruitland Coal Formations Commingle Well

Township 29 North, Range 12 West



1) Meridian Oil Inc.

2) Southland Royalty Company

3) Meridian Oil Inc. & Southland Royalty Company

4) See Attachment

5) See Attachment

6) See Attachment

7) See Attachment

- 4) Meridian Oil Inc.
Southland Royalty Company
Amoco Production Company, PO Box 800, Denver, CO 80201
John J. Redfern, PO Box 1747, Midland, TX 79701
John J. Christmann, PO Box 1747, Midland, TX 79701
Rosalind Redfern, PO Box 2127, Midland, TX 79702
Jack Markham, 1500 Broadway St., Lubbock, TX 79401
J. H. Herd, PO Box 1747, Midland, TX 79701
Kerr McGee Corporation, Kerr McGee Center, Oklahoma City, OK 73125
- 5) Meridian Oil Inc.
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Partnership Properties Company, 717 17 St., Denver, CO 80201
Frank A. Schultz, 3202 Urban Ave, Dallas, TX 75227
C. W. Murchison Estate, 1445 Ross Ave, Suite 2600, LB 201, Dallas, TX 75202
Prime Energy Corporation, 100 Sandau, Suite 300, San Antonio, TX 78216
Prudential Bache Energy Income, 109 Northpark Blvd, Box 3134, Covington, LA 70434
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Glenn Turner Jr., Turtle Creek Blvd., Suite 1201, Dallas, TX 75219
William G. Webb, c/o Questa Petroleum Inc., Box 451, Albuquerque, NM 87103-0451

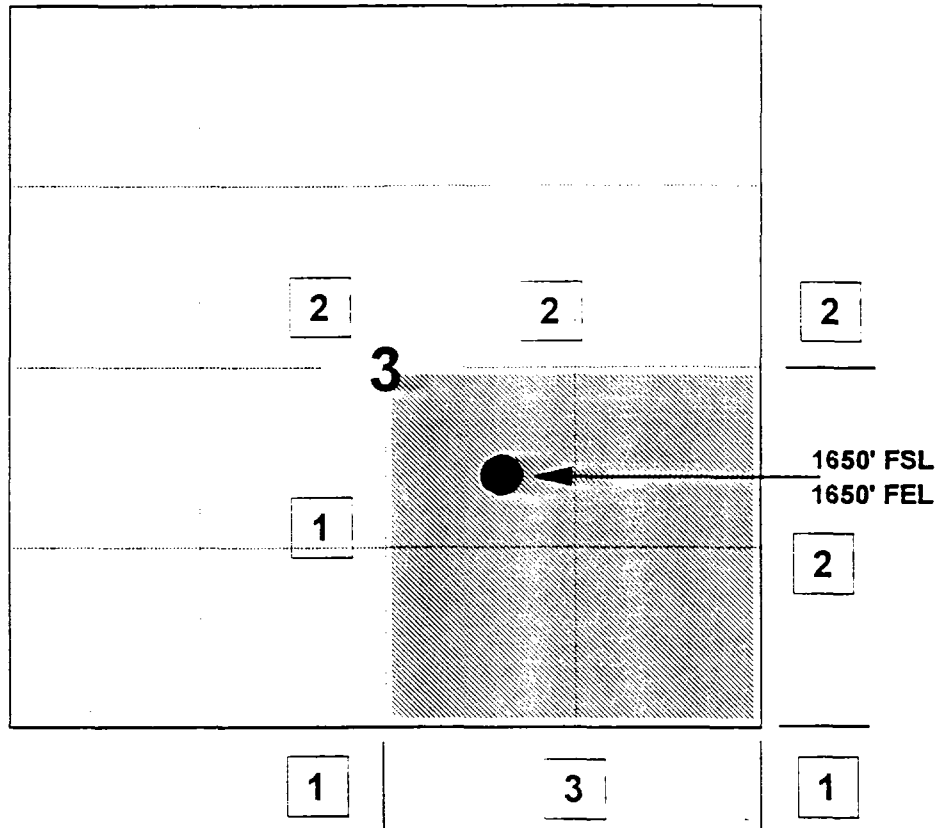
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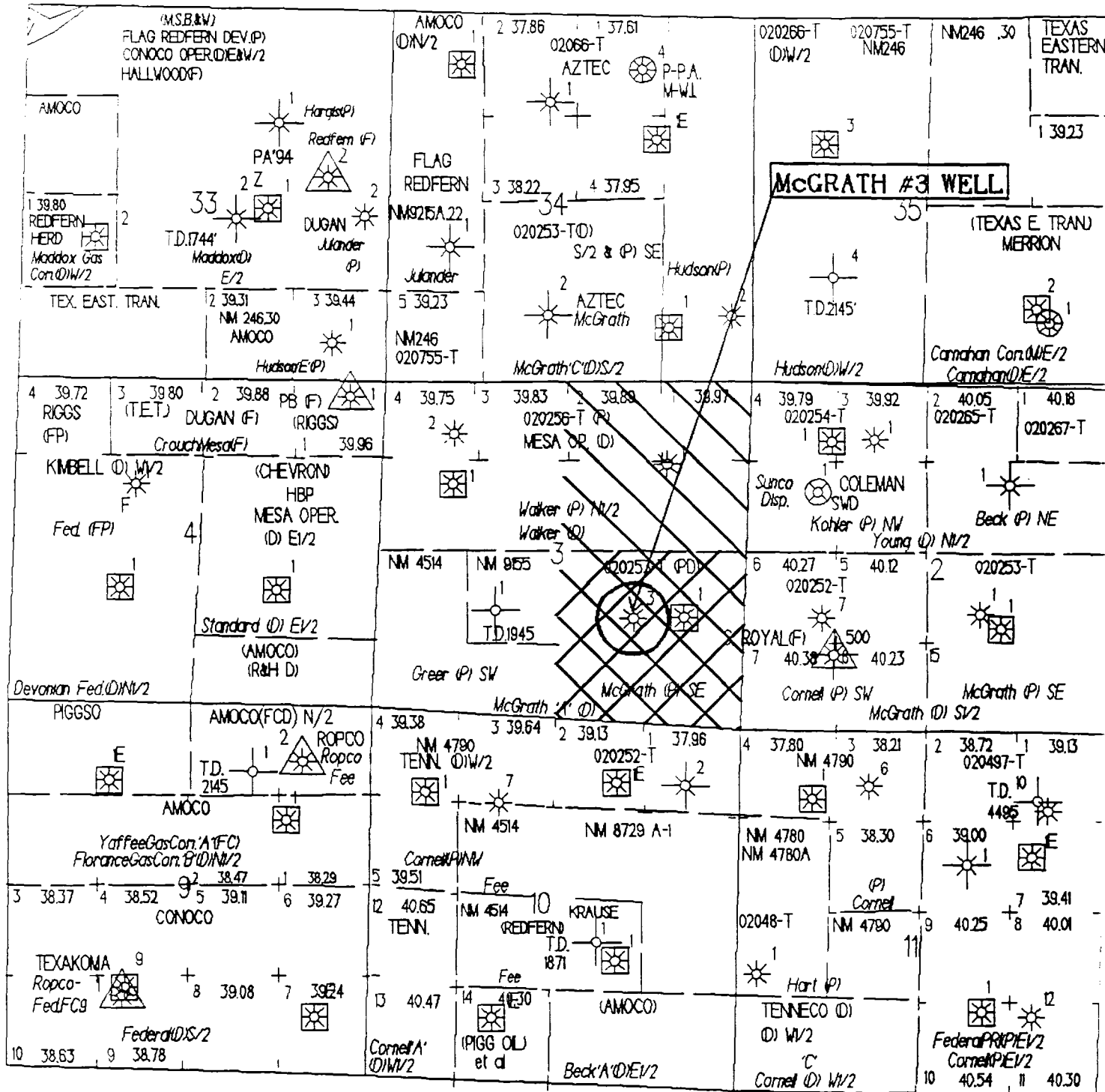
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MC GRATH #3 WELL

UNIT J, SECTION 3, T29N, R12W

SAN JUAN CO, NEW MEXICO



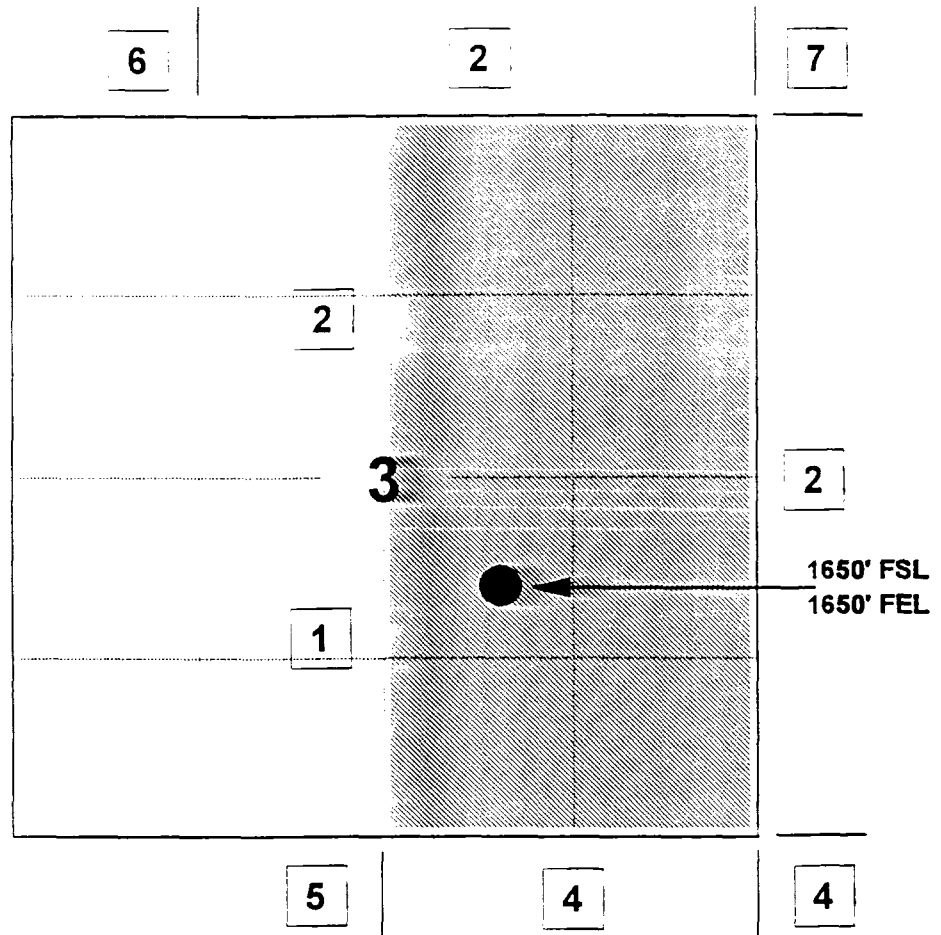
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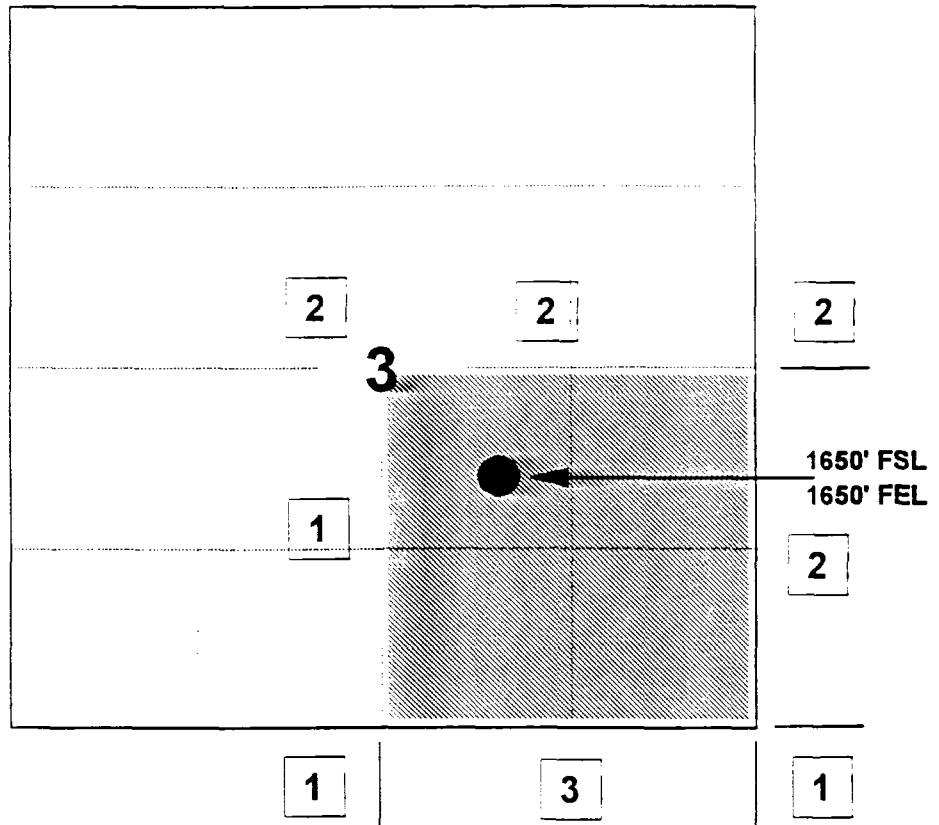
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