



BRUCE KING  
GOVERNOR

STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION



POST OFFICE BOX 2088  
STATE LAND OFFICE BUILDING  
SANTA FE, NEW MEXICO 87504  
(505) 827-5800

December 30, 1992

KELLAHIN, KELLAHIN & AUBREY  
Attorneys at Law  
P. O. Drawer 2265  
Santa Fe, New Mexico 87504

RE: CASE NO. 10632  
ORDER NO. R-9816

Dear Sir:

Enclosed herewith are two copies of the above-referenced Division order recently entered in the subject case.

Sincerely,

A handwritten signature in cursive script that reads "Sally E. Leichtle".

Sally E. Leichtle  
Administrative Secretary

cc: BLM - Farmington  
OCD Aztec Office  
Steve Keene

KELLAHIN AND KELLAHIN

ATTORNEYS AT LAW

EL PATIO BUILDING

117 NORTH GUADALUPE

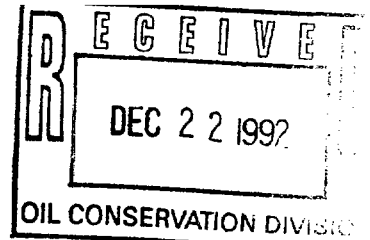
POST OFFICE BOX 2265

SANTA FE, NEW MEXICO 87504-2265

W. THOMAS KELLAHIN\*

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

JASON KELLAHIN (RETIRED 1991)



TELEPHONE (505) 982-4285  
TELEFAX (505) 982-2047

December 22, 1992

Michael E. Stogner  
Hearing Examiner  
Oil Conservation Division  
310 Old Santa Fe Trail  
Room 219  
Santa Fe, New Mexico 87501

**HAND DELIVERED**

RE: Application of Meridian Oil Inc.  
for an unorthodox coal gas well  
location, and compulsory pooling,  
San Juan County, New Mexico  
NMOCD Case No. 10632

Dear Mr. Stogner:

On behalf of Meridian Oil, Inc. please find  
enclosed our Proposed Order of the Division for the  
above-referenced case. We have also enclosed a floppy  
disk with this order on it for your use.

If you have questions or require anything else  
with regard to this matter, please call.

Very truly yours,

A large, stylized handwritten signature in black ink, appearing to read "W. Thomas Kellahin".

W. Thomas Kellahin

WTK/jcl

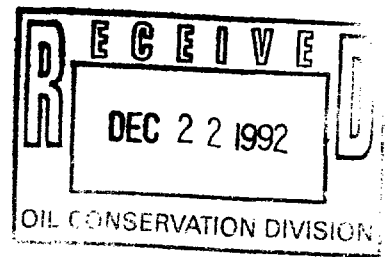
Enclosures

xc: With Enclosures

John Zendt - Meridian Oil Inc.

Alan Alexander - Meridian Oil Inc.

ltr1222.330



**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. 10632**

**ORDER NO. R-\_\_\_\_\_**

**APPLICATION OF MERIDIAN OIL INC.  
FOR AN UNORTHODOX COAL GAS WELL  
LOCATION AND COMPULSORY POOLING,  
SAN JUAN COUNTY, NEW MEXICO.**

**MERIDIAN OIL INC.'S  
PROPOSED  
ORDER OF THE DIVISION**

**BY THE DIVISION:**

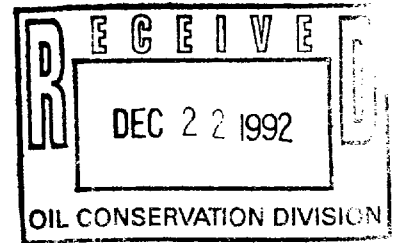
This cause came on for hearing at 8:15 a.m. on December 17, 1992 at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this \_\_\_\_ day of December, 1992, 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., originally sought approval to drill its proposed Maddox Com #777 Well at an unorthodox coal gas well location 640 feet from the East line and 2270 feet from the South line (Unit I) of Section 17, Township 30 North, Range 8 West, NMPM, Basin-Fruitland Coal Gas Pool, San Juan County, New Mexico. In addition, the applicant seeks to dedicate the E/2 of Section 17 to the subject well forming a standard 320-acre gas spacing unit for said pool. Finally, the applicant seeks an order pooling



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certain working, royalty and overriding royalty interest in the subject gas spacing unit.

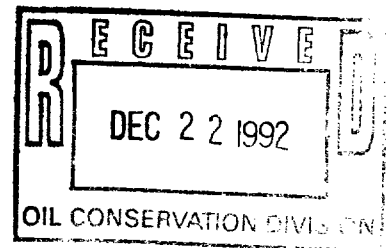
(3) At the hearing, applicant amended its well location to move it to a more standard location 790 feet from the East line and 2150 feet from the South line of said Section 17. In addition, Applicant requested that UNOCAL Corporation be deleted from the pooling order because Unocal Corporation had committed its working interest ownership to the drilling of the subject well on a voluntary basis.

(4) The proposed well will be located within the Basin-Fruitland Coal Gas Pool and is therefore subject to the Special Rules and Regulations for said pool as promulgated by Division Order No. R-8768, as amended, which require that wells be located in either the NE/4 or SW/4 of a single government section no closer than 790 feet from any outer boundary of the proration unit nor closer than 130 feet from any quarter section line nor closer than 10 feet from any quarter-quarter section line or subdivision inner boundary.

(5) The location of the proposed Maddox Com #777 Well is standard with respect to the setback requirements but is "off-pattern" with respect to the quarter section location, being located in the SE/4 of said Section 17.

(6) Based upon information obtained from the drilling log analysis of drilling "kicks" in the coal seams encountered while drilling certain wells in the area, the applicant contends that within Section 17 there exists a permeability transition zone within the coal seams which would cause a well drilled in the NE/4 to be a low capacity producer while a well drilled in the SE/4 would have a higher probability of being a good producer.

(7) Although the applicant's geologic evidence does not conclusively establish the existence of a permeability transition zone, further evidence presented does indicate that wells generally to the



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north, south and west of the proposed Maddox Com #777 Well exhibit substantially reduced producing rates while wells to the east exhibit greatly increased producing rates.

(8) There are some six wells within one mile of Section 17 which are drilled in "off pattern" locations.

(9) If drilled in the NE/4 of said Section 17, the subject well would be offset by five coal gas wells within 160-acres of its location. But if drilled in the SE/4 of said Section 17, the subject well would establish greater distances between it and existing coal gas wells.

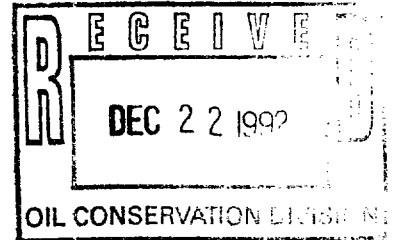
(10) Although the measured geologic parameters of coal thickness, structural position and formation continuity are all similar between the high capacity wells and the low capacity wells in this area, the capacity of the wells to produce varies greatly among the wells.

(11) While exact drainage areas cannot be calculated for each well, the offsetting high capacity wells to the east of the subject spacing unit do have the ability to drain a portion of the E/2 of Section 17 and thereby will adversely affect the correlative rights of the owners of the affected spacing unit unless this application is approved.

(12) Applicant's evidence and testimony indicates that while its estimates of original gas in place underlying the E/2 of Section 17 of 11.7 BCF of gas are comparable to the original gas in place estimates for the adjoining spacing units, there is a great variation in productivity of the coal gas wells which can only be explained by inferring a permeability transition in this area of the pool.

(13) The evidence in this case does demonstrate that the applicant cannot recover its just and equitable share of the gas reserves underlying the E/2

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of Section 17 unless it locates the subject well in an "off-pattern" location in the SE/4 of Section 17.

(14) The owners and operators offsetting the proposed well were notified of this application but did not file any objection.

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

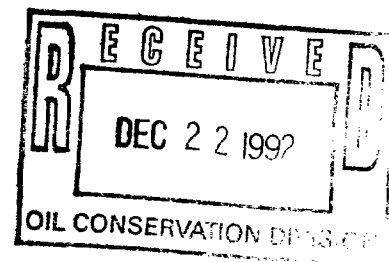
(16) Included in the proposed gas spacing unit is a fee lease which does not contain a pooling clause and which is identified as Lease NM-9586 being the north 200 feet of the S/2SE/4 of said Section 17.

(17) As the current lessee of Lease NM-9586, applicant has voluntarily committed the working interests to this spacing unit and the subject well, but because of the absence of a pooling clause in the lease, is unable to commit the royalty and overriding royalty owners.

(18) Pursuant to Section 70-2-17(c) NMSA (1978) and in order to obtain its just and equitable share of potential production underlying this spacing unit, applicant needs an order pooling these royalty and overriding royalty owners interest involved in order to protect correlative rights and prevent waste.

(19) The affect of the pooling of these royalty and overriding royalty interests is the same as if these interests had been committed to a communitization agreement for this spacing unit and its proposed well.

(20) Pursuant to Division notice requirements, applicant has notified the following royalty and overriding interest owners of this request: Kathlyn H. Gibson Estate, Elizabeth While Family Trust, Mabel Glenn Ham Revocable Trust, Jane Manning Pitkin, Ethel Parnell, and Glenn D. Hughes.



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(21) This application should be approved by pooling all uncommitted royalty and/or overriding royalty interest in Lease NM-9586 to form a standard 320-acre gas spacing unit consisting of the E/2 of said Section 17, and designating the applicant as the operator of the subject well and unit.

(22) All proceeds from production from the subject well which are not distributed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(23) Should all parties to this compulsory pooling reach voluntary agreement subsequent to entry of this order, then the portion of this order dealing with compulsory pooling shall be of no further effect.

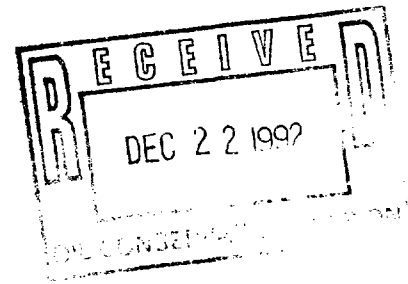
(24) The operator of the well and unit shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the compulsory pooling provisions of this order.

(25) In order to allow the applicant the opportunity to produce its just and equitable share of the gas reserves in the Basin-Fruitland Coal Gas Pool underlying the E/2 of Section 17, thereby protecting its correlative rights, the application should be approved.

**IT IS THEREFORE ORDERED THAT:**

(1) The applicant, Meridian Oil Inc., is hereby authorized to drill its Maddox Com #777 Well at an unorthodox coal gas well location 790 feet from the East line and 2150 feet from the South line (Unit I) of Section 17, Township 30 North, Range 8 West, NMPM, Basin-Fruitland Coal Gas Pool, San Juan County, New Mexico.

(2) The E/2 of Section 17 shall be dedicated to the above-described well forming a standard 320-acre gas spacing unit for said pool.



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(3) The following royalty interest and/or overriding royalty interest owners, or their successors, in the Basin Fruitland Coal Gas Pool underlying the E/2 of Section 17, Township 30 North, Range 8 West, San Juan County, New Mexico are hereby pooled to form a standard 320-acre gas spacing unit to be dedicated to the Maddox Com #777 Well to be drilled and located as provided above:

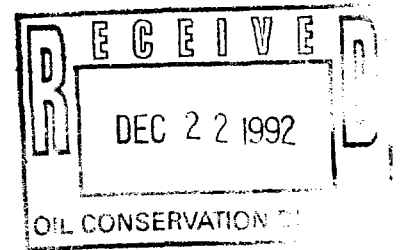
- (a) Kathlyn H. Gibson Estate  
George A. Scharhag, Personal  
Representative
- (b) Elizabeth While Family Trust  
Linda Payne Trustee
- (c) Mabel Glenn Ham Revocable Trust  
Kathlyn N. Black, Trustee
- (d) Jane Manning Pitkin
- (e) Ethel Parnell
- (f) Glenn D. Hughes

(4) Meridian Oil Inc. is hereby designated the operator of the subject well and unit.

(5) All proceeds from production from the subject well which are not disbursed for any reason shall immediately 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 of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

(6) Should all parties to this compulsory pooling order reach voluntary agreement subsequent to the entry of this order, that portion of the order dealing with compulsory pooling shall thereafter be of no further effect.





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(7) 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

S E A L