1	NEW MEXICO OIL CONSERVATION DIVISION
2	STATE LAND OFFICE BUILDING
3	STATE OF NEW MEXICO
4	CASE NO. 10632
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6	IN THE MATTER OF:
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8	The Application of Meridian Oil, Inc., for Compulsory Pooling and an
9	Unorthodox Coal Gas Well Location, San Juan County, New Mexico.
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15	BEFORE:
16	MICHAEL E. STOGNER
17	Hearing Examiner
18	State Land Office Building
19	December 17, 1992
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21	D E G E I V E C
2 2	JAN 6 1992
23	REPORTED BY:
2 4	CARLA DIANE RODRIGUEZ Certified Court Reporter
25	for the State of New Mexico

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2	
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7	
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11	M. HOMRO REBERTIN, Edg.
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EXAMINER STOGNER: Call next case, No. 1 10632. 2 MR. STOVALL: Which is the application 3 of Meridian Oil, Inc., for compulsory pooling and 4 an unorthodox coal gas well location, San Juan 5 County, New Mexico. 6 EXAMINER STOGNER: Call for 7 8 appearances. q MR. KELLAHIN: If it please the Examiner, my name is Tom Kellahin of the Santa Fe 10 law firm of Kellahin and Kellahin, appearing on 11 12 behalf of Meridian Oil, Inc. EXAMINER STOGNER: Any other 13 14 appearances? 15 How many witnesses do you have in this 16 particular case? MR. KELLAHIN: Mr. Examiner, I have the 17 18 same three witnesses as in the prior case, and to expedite my presentation I would like the record 19 to reflect that they're already under oath and 20 continue to do so in this case. 21 EXAMINER STOGNER: And so it shall. 22 23 You may continue. 24 MR. KELLAHIN: The next case has the 25 off-pattern request for the Maddox 777 well.

addition, there is a request for a compulsory pooling order.

When originally filed, Unocal was a working interest owner which had not yet committed its interest. It is my understanding that the documents necessary to commit their interest on a voluntary basis have been executed, and so we would propose to delete them from the pooling.

That leaves remaining, then, the unusual circumstance of one of the oil and gas leases in the spacing unit not having a pooling clause, and so we'll be seeking a compulsory pooling in order to proportionately allocate the royalty and overrides in a lease that is being dedicated to the spacing unit. Mr. Alexander will describe that for you.

There will be no need for a risk factor penalty or royalty charges involved because these are royalty owners and they do not bear any cost for those items.

EXAMINER STOGNER: Mr. Kellahin, is this something similar to an old mineral lease royalty interest back in the early 50s, 40s, that was common at those times?

MR. KELLAHIN: Yes, sir. We've done this on occasion. It doesn't happen too often, but occasionally we're required to do this in order to consolidate that interest, and we proportionately reduce it so they have their fair share of the spacing unit.

EXAMINER STOGNER: Okay.

MR. KELLAHIN: In addition, the unorthodox location as docketed showed a 640-foot setback from the east boundary. That now has been moved back to a more standard location which is 790 from that boundary. However, it is still in the wrong quarter section so it is off-pattern. But the well footage setback now meets the 790 setback rule.

EXAMINER STOGNER: What is the footage location that you're proposing at this time?

MR. STOVALL: Did you want to have the witness testify to that?

 $$\operatorname{MR.}$$ KELLAHIN: I will, and it's on one of the displays.

MR. STOVALL: That would be a better way to do it. Let's go ahead and get the witness to put that in.

MR. KELLAHIN: It's going to be 790

from the east boundary and 2150 from the south 1 2 line.

EXAMINER STOGNER: Okay. You may continue.

ALAN ALEXANDER

Having been previously duly sworn upon his oath, was examined and testified as follows:

EXAMINATION

BY MR. KELLAHIN:

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- Mr. Alexander, let me have you, sir, Q. turn to Exhibit No. 1 and, for the record, identify the documents behind Exhibit tab No. 1?
- The documents behind Exhibit tab No. 1 consist of our application for compulsory pooling as well as the application for the unorthodox coal well location for our Maddox Com #777 well.

This well is located in Section 17 of Township 30 North, Range 8 West, in the southeast quarter of that section.

- Of the working interest owners in the Q. east half of 17, which of those interest owners first proposed the drilling of a coal gas well in the spacing unit?
- Α. This well was first proposed by Conoco, 25 Inc. They contacted us around October 9th of

this year to propose this work and to start all of the work necessary to form a unit and get all the parties committed to it.

- Q. What portion of the spacing unit had they proposed that the well be drilled?
- A. Originally, Conoco, Inc., proposed the well be drilled in the northeast quarter of this section.
- Q. Summarize for us what subsequently transpired.
- A. Once they contacted us, we began looking at this proposal along with Conoco. It's a joint project at this time, even. We determined from our analysis of the wells that have completed in this area and our analysis of the kicks that had taken place in the Mesaverde wells that have been drilled previously, that the more prudent and less risky thing to do would be to move the well to the southeast quarter and drill it down there for those reasons. All of the working interest owners, including Conoco and Amoco, are in agreement with this move to the southeast quarter.
- Q. Let me have you turn to Exhibit No. 2, and the display shown behind Exhibit No. 2.

- A. The display behind Exhibit No. 2 is an offset operator owner plat that describes this section for the Maddox Com #777 well. It also indicates the offset owners and operators and their position to the proposed east half drill block.
- Q. This location shown on the display is the revised location?
 - A. Yes, sir, that's correct.

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- Q. Summarize for us the revision of the location from where it was first proposed in the southeast quarter.
- A. We first proposed the location at a distance from the east line of 640 feet. That would be the most critical measurement. The reason for that initially is, this is a rather complex area, topographically. The San Juan river runs through this area.

We were attempting to find a location somewhat removed from the existing wells and to fit the existing topography and to fit with the wishes of this fee surface owner in this area.

Upon further study, we found we were able to find a location 790 feet from the east line and we preferred to move it back to that

location. It's a compromise and it's a little bit riskier, but everything being considered, we're happy with that location at this point in time.

- Q. Have you received any objection to the location from any of the offset operators?
 - A. No, sir, we have not.

- Q. Let's turn now to the display shown behind Exhibit tab No. 3, the first display, and have you help us see some of the topographic features that limited the location to the one proposed?
- A. The two exhibits behind Exhibit 3, the first one is a nine-section plat of the area showing all of the wells. It's a little easier to see the topography to scale.

If you'll turn to the section page behind Exhibit No. 3, you can see where the San Juan river runs through this quarter section, as well as the locations of the existing wells in this area.

That presented us with some problems in attempting to locate this well where we did.

South of the river that acreage is all developed, it's commercial real estate, and we're not able

to locate a well anywhere south of the river on this acreage, so that left us with the north half of the southeast quarter and those are the factors that dictated pretty much where we would be able to locate a well on this quarter section.

- Q. The display also shows a dashed black outline which appears to indicate differences in leases within the spacing unit?
 - A. Yes, sir.

- Q. Is that what that represents?
- A. That is correct.
- Q. Identify for us the tract that contains the lease which does not have a pooling clause.
- A. If you'll look in the southeast quarter of Section 17, you will see three segmented portions, three different groups of leases. If you'll look at the segmented portion that's pretty much in the center of the southeast quarter—the actual descrption of that is the north 200 yards of the south half of the southeast quarter—that is the lease that does not currently contain a pooling clause.
- Q. Has Meridian dealt with this lease in past efforts, to consolidate it with other tracts to form spacing units?

A. Yes, sir, we have, and I believe we have also purchased this lease from our purchaser. There was not much information in the file to indicate whether they were successful. We normally try to amend all of these types of leases, and sometimes we're unsuccessful and it causes these pooling cases to happen.

- Q. Who is the working interest owner for the lease?
- A. It consists of Meridian and our partners. It's a group of people.
- Q. Let me ask you to turn back to what is marked as Exhibit B to the application which is contained behind Exhibit No. 1. It's the second to the last page in Exhibit No. 1 which says "Exhibit B," and it lists a bunch of names and addresses.

Excluding Unocal, which was the working interest owner, what do the rest of the names on that sheet represent?

A. Those are the parties that own a common royalty and an overriding royalty in this particular lease. They would be the parties that would be affected by this application since there was not a pooling clause in this lease.

1	Q. Have you satisfied yourself that the
2	identity and addresses are as current and
3	accurate as Meridian can obtain?
4	A. Yes, sir, that's correct.
5	Q. Have you caused notification to be sent
6	to all these individuals or entities?
7	A. Yes, sir, we have.
8	Q. Have you received any comments,
9	objections, or any correspondence, phone calls
10	from any of these people?
11	A. No, sir, we have not.
12	MR. KELLAHIN: That concludes my
13	examination of Mr. Alexander. We move the
14	introduction of Exhibits 1, 2 and 3.
15	EXAMINER STOGNER: Exhibits 1, 2 and 3
16	will be admitted into evidence.
17	Mr. Stovall.
18	EXAMINATION
19	BY MR. STOVALL:
20	Q. Have you asked any of those people to
21	sign a pooling agreement for this tract?
2 2	A. I investigated the lease we have, our
23	lease file on that, and although it's not
24	entirely complete, I did not find some

correspondence in this particular file where the

prior party to us had approached those people.

But that's not to say they had not been

approached. I just did not find it in my file.

- Q. My question is specifically to this tract. Even though you don't have a pooling clause, those parties could sign a pooling agreement which would pool their interests?
- A. Yes, sir, they could amend the current lease.
- Q. They wouldn't have to amend the current lease. They could sign a pooling agreement, a separate agreement, which would be comparable to a com agreement?
 - A. Yes, sir, that's true.
 - Q. Have you asked them to do so?
- A. We're working on the communitization agreement at this time.
- Q. But you haven't answered my question.

 Have you asked them whether or not they would sign a com agreement or pooling agreement?
- A. No, sir. They have not been asked yet since we have not furnished all of the parties with the communitization agreement for this well.
- Q. If you were to do so, is it your opinion that their interest would be the same as

if they are pooled by an order here?

- A. Yes, sir, in my opinion it would be.
- Q. So there's really not a material difference, in effect, is that correct?
 - A. No, sir, not to my understanding.

MR. STOVALL: Okay. That's it.

EXAMINATION

BY EXAMINER STOGNER:

- Q. For my sake, when I look at the east half of Section 17, the northeast quarter, is that a fee? federal? state tract? I want to break these down so I understand which tract is which.
- A. Yes, sir. The northeast quarter is a federal tract owned by Amoco and Conoco jointly.
- Q. When I go down to the north half of the southeast quarter, how about that particular portion?
- A. Those leases there, there are three leases, they are all fee leases in the north half of the southeast quarter. That lease, if you'll look on Exhibit 3 on that plat, you'll see a land hook there that indicates the south half of the southeast quarter are those same three leases; with that middle tract, the north 200 yards of

1 the southeast quarter, being a separate fee lease. 2 What was that legal description again? Q. 3 The north 200 yards? Of the south half of the southeast 5 Α. 6 quarter. Yes, sir, that's correct. And the parties in Exhibit B of Exhibit 7 No. 1 are the parties of interest in that 8 particular tract, is that correct? 9 They are the royalty and the overriding 10 11 royalty interests, yes, sir. MR. KELLAHIN: With the exception of 12 13 Unocal at the bottom of the page. EXAMINER STOGNER: Any other questions 14 of Mr. Alexander? 15 16 MR. STOVALL: I do have one other question. 17 FURTHER EXAMINATION 18 BY MR. STOVALL: 19 20 It appears from your drawings that this Q. 21 is an irregular shaped section. Are these 22 drawings accurate? Yes, sir, they're accurate. It's 23 irregular shape, but it does consist of 320 24

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acres.

MR. STOVALL: That's it.

2 EXAMINER STOGNER: Any other

questions? Mr. Alexander may be excused at this time.

Mr. Kellahin?

MR. KELLAHIN: Call Mr. Falconi.

JAMES D. FALCONI

Having been previously duly sworn upon his oath, was examined and testified as follows:

EXAMINATION

BY MR. KELLAHIN:

- Q. Mr. Falconi, let me ask you to turn to the display behind Exhibit tab No. 4. Identify for us the information shown on that display.
- A. Okay. Exhibit 4 is a nine-section of the area surrounding the proposed well, the Maddox Com 777. The wells in the Basin Fruitland Coal pool are shown with the triangular symbol, the well number symbol. Below the symbol are two numbers, one number being the gas in place in Bcf, and the other number indicating the current producing rate in Mcf per day.
- Q. Using this as a way to illustrate your conclusions, summarize for us the reasons that you have proposed that the well, to develop the

east half of 17, be located in an off-pattern position in the southeast quarter.

A. We chose to go to the southeast quarter of 17 after a review of the area. The gas in place numbers across the section remain relatively constant, in the 8 to 12 Bcf range, 13 Bcf range.

However, the indications of permeability in this area are limited, and the wells offsetting the proposed location did have kicks in the Fruitland Coal interval when they drilled through it. The well in the northeast quarter of Section 17 did not have a kick in the Fruitland Coal interval, and therefore we're trying to go towards the location with less risk. We're using the kicks in the Fruitland Coal as a permeability indicator.

Also, if you look at the nine-section, numerous wells in the nine-section are currently off-pattern there in the northwest or the southeast. That's particularly true of the section to the east of us, Section 16, the Delhi Com #300 well is located off-pattern.

By putting the well up in the northeast quarter, we would be crowding that location.

- Also, in the west half of Section 17, the Howell
 "C" Com No. 1 is also located off-pattern.
- 3 Therefore, developing the east half of Section 17
- 4 off-pattern remains consistent with the offset
- 5 | wells.

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Q. If you look at the northeast quarter of Section 17, that 160 acres is virtually surrounded on the north and west and east side by

coal gas wells also on 160-acre spacing?

- 10 A. That is correct.
 - Q. Your conclusion, then, is it's preferable, in order to recover the recoverable gas in the spacing unit, to move farther south in the spacing unit?
 - A. That's correct, for two purposes: Not to crowd the existing wells, and also the indications of permeability.
 - Q. Let's turn now to the display behind Exhibit tab No. 5, which also shows the location of not only the coal gas wells but other wells that you may have utilized information from in order to help you support your location.
 - A. That's correct. Exhibit No. 5 is a nine-section plat also, showing all wells which penetrated the Fruitland Coal interval. What we

have specifically highlighted in yellow on this plat are wells that took kicks in the Fruitland Coal when the mud weighed in excess of 10 pounds.

As you can see, in the east half of Section 17, we have three existing wells. I believe it's the Howell "A" 4, located in the northeast of Section 17. That well drilled the Fruitland Coal interval with water. There were no indications of pressure or permeability when it penetrated the Fruitland Coal interval.

However, in the southeast quarter we have two existing wells, the Maddox Com #2, denoted with a dry hole symbol. That was a test to the Pictured Cliffs interval. That well was subsequently plugged. However, when we drilled the Fruitland Coal interval, it did take a kick and it required a 10.5 pound mud wave to control the pressure.

Immediately offsetting that well is the Maddox Com #1A which also took a kick while drilling the Fruitland Coal interval, which has given us good indications of pressure and permeability in the southeast quarter of the section.

Q. What's the significance of the kick in relation to the mud wave?

- A. The significance of the kick in relation to the mud wave is that if you get a kick while drilling the Fruitland Coal interval, you do have an indication of permeability. The mud wave is an indication of the pressure in the formation. The #4 well in the northeast, as you can see, that well was drilled with water to the Fruitland Coal interval. There's no indication of pressure or permeability.
- Q. What is your ultimate conclusion, then, about the optimum location in which to drill the well to appropriately develop the coal gas reserves in the east half of 17?
- A. My conclusion from our study is that it lessens the risk and protects the correlative rights better by recovering the reserves in the west half by drilling in a location off-pattern. It lessens the risk in that we have indications of permeability in the southeast quarter versus the northeast quarter.

In addition, we won't be crowding the offset wells by remaining off-pattern.

Q. Have you shared your opinions and

conclusions with the other working interest 1 owners in the spacing unit? 2 Α. Yes, we have. As Alan indicated in his 3 testimony, originally the well was proposed by Conoco in the northeast quarter. We did an 5 6 intensive review of the area and determined that 7 the southeast quarter was more optimum to recover the reserves in that drill block. 8 Conoco and Amoco have both agreed with q our recommendation and would prefer to see the 10 11 well off-pattern. MR. KELLAHIN: That concludes my 12 examination of Mr. Falconi. We would move the 13 14 introduction of his Exhibits 4 and 5. 15 EXAMINER STOGNER: Exhibit 4 and 5 will 16 be admitted into evidence at this time. I have no questions of Mr. Falconi at 17 18 this point. 19 **GREGORY L. JENNINGS** 20 Having been previously duly sworn upon his oath,

Having been previously duly sworn upon his oath, was examined and testified as follows:

EXAMINATION

BY MR. KELLAHIN:

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Q. Mr. Jennings, let me have you quickly summarize the information from Exhibits 6 and 7

and then we'll talk about the cross-section, which is Exhibit No. 8. For Exhibit 6, this is the isopach you prepared on coal thickness for the area?

- A. That's correct. It's an isopach of the total Fruitland Coal. You can see the Maddox Com 777 location with a star, basically about 50 feet of coal in and around the section that we're proposing to drill. No significant changes.
- Q. Do you see any material difference in coal thickness that would indicate to you where the optimum location is in which to drill a well in the east half of the spacing unit?
- A. No. The thickness appears to have no correlation with the changes in production.
- Q. Let's go to Exhibit 7. This is your structure map on the base of the Fruitland Coal?
 - A. Right.

- Q. Do you see any material differences in structure with regards to the optimum location of a well in the east half of the section in order to develop the coal gas reserves?
- A. No. No changes in structure. Regional dip to the northeast, and nothing significant occurring structurally.

Q. Let's look at the cross-section.

Orient us as to where the wells are that you have picked in the cross-section, Exhibit No. 8, and why you've chosen those three wells to display.

A. Okay. It's a three-well cross-section,
B - B', north to south. We'll start on the
south. I hate to keep showing you things that
don't influence the production, but we've got six
basic coal seams that are present in all three
wells on this cross-section.

The well to the south--I should back up by saying that this area has quite a number of producers that are poor. We consider this location to have quite a bit of inherent risk. The location to the south on this cross-section is an example of nearby poor results.

This well is an open hole completion producing 12 Mcf a day. The cross-section runs up to the twin well that we're proposing to offset. It was an old Pictured Cliffs well that Union Texas drilled and they plugged it after they determined that the Pictured Cliffs was not commercial.

Then we moved to the north where we do have a good producer making 2.5 million a day.

Same coal seam is present there. Once again, nothing on the logs that would enable us to determine indications of permeability, but that is the key that we're playing.

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- Q. Having examined all the conventional geologic information, and excluding all those components as explanations for the optimum location, what then did you and Mr. Falconi do in order to pick the best location in the spacing unit?
- Well, we're back to our evaluation of older wells and looking for wells that took kicks. It's really pretty simple in this spacing unit. We have a number of poor wells nearby, as you can see. The No. 4 well in the northeast quarter drilled the coal with water, encountered no kicks whatsoever, which indicates a lot of risk associated with drilling in the northeast quarter. Both of these wells that we're twinning did take kicks in the coal. While that's not a guarantee, it certainly makes us feel that that's the optimum location to drill. In fact, it also happens to be more consistent with the current pattern of the wells in the area, so that's where we're proposing to drill.

1 MR. KELLAHIN: That concludes my examination of Mr. Jennings. We would move the 2 introduction of his Exhibits 6, 7 and 8. EXAMINER STOGNER: Exhibits 6, 7 and 8 will be admitted into evidence. And I have one 5 simple question. 6 EXAMINATION 7 BY EXAMINER STOGNER: 8 The fact that the northeast quarter, 9 which would be a standard pattern on federal 10 acreage, did not have any influence on the 11 location of this well? 12 13 Α. No. EXAMINER STOGNER: No other questions 14 of Mr. Jennings. 15 MR. KELLAHIN: Mr. Examiner, Exhibit 9 16 is the certificate of mailing and notification to 17 all affected parties. 18 That concludes our presentation, with 19 the admission of Exhibit No. 9. 20 EXAMINER STOGNER: Exhibit No. 9 will 21 also be admitted at this time. 22 Mr. Kellahin, I'm going to ask you for 23 a few things: A rough draft of this particular 24

order. Also, I notice in the application there

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     is a coal gas well location in the west half of
     17 belonging to Meridian. Could you also allude
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     to the order number that compulsory pooled the
     same interest--
               THE WITNESS:
                             It was probably
 5
     grandfathered. It was an old--
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                              We'll check it out.
               MR. KELLAHIN:
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               MR. STOVALL: Mr. Kellahin, in that
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     draft order, because its royalty or
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     noncost-bearing interests, and they've not
     actually at this point been given the opportunity
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     to be pooled, make sure that the finding is
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     included.
                Address the fact that it really
     doesn't change their interest if they were
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     pooled.
               MR. KELLAHIN:
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                              Okay.
               EXAMINER STOGNER: I'll leave that to
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     your convenience.
               Is there anything further in Case No.
19
     10632?
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               MR. KELLAHIN: No, sir.
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               EXAMINER STOGNER: If not, this case
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    will be taken under advisement at this time but
23
24
     will not be acted on until I get a rough draft
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from you, Mr. Kellahin.

1	Let's take a 15-minute recess at this
2	time, and when we come back we'll be ready to
3	hear the C. W. Trainer tight formation c ase.
4	(And the proceedings concluded.)
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CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

I, Carla Diane Rodriguez, Certified

Court Reporter and Notary Public, HEREBY CERTIFY

that the foregoing transcript of proceedings

before the Oil Conservation Division was reported

by me; that I caused my notes to be transcribed

under my personal supervision; and that the

foregoing is a true and accurate record of the

proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL December 23, 1992.

2 1

CARLA DIANE RODRIGUEZ, RPR J CCR No. 4