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 MERIDIAN OIL INC.
FOR AN UNORTHODOX GAS WELL LOCATION
AND DOWNHOLE COMMINGLING,
SAN JUAN COUNTY, NEW MEXICO.

Reopened Case No. 10721

APPLICATION OF MERIDIAN OIL INC.
FOR DOWNHOLE COMMINGLING,
SAN JUAN COUNTY, NEW MEXICO.

Reopened Case No. 10722

APPLICATION OF MERIDIAN OIL INC.
FOR AN UNORTHODOX GAS WELL LOCATION
AND DOWNHOLE COMMINGLING,
SAN JUAN COUNTY, NEW MEXICO.

Reopened Case No. 10723

APPLICATION OF MERIDIAN OIL INC.
FOR AN UNORTHODOX GAS WELL LOCATION
AND DOWNHOLE COMMINGLING,
SAN JUAN COUNTY, NEW MEXICO.

Reopened Case No. 10724

APPLICATION OF MERIDIAN OIL INC.
FOR AN UNORTHODOX GAS WELL LOCATION
AND DOWNHOLE COMMINGLING,
SAN JUAN COUNTY, NEW MEXICO.

Reopened Case No. 10725

Order No. R-9920-A

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on August 26, 1993, at Santa Fe, New Mexico, before Michael E. Stogner.

NOW, on this 22nd day of October, 1993, 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) At the August 26, 1993 Division Hearing, Case Nos. 10721 through 10725 and Case Nos. 10745 and 10754 were Reopened and consolidated for the purpose of presenting additional testimony.

(3) These cases all involve applications by Meridian Oil Inc. ("Meridian") for approval to initially drill, complete and produce each subject well as downhole commingled wells which would commingle production from the Pictured Cliffs formation with production from the Basin-Fruitland Coal Gas Pool.

(4) On July 9, 1993 the Division entered Order No. R-9920 approving the applications in Case Nos. 10721 through 10725, which adopted Meridian's proposed allocation formula but which also established economic limitations on downhole commingling of the production from these two formations which provided:

> "...in the event total gas production from both pools in a well exceeds 300 MCF per Day, downhole commingling will not be allowed in the effected well until the combined rate drops below 300 MCF/day."

(5) Meridian timely requested that these cases be reopened so that it could present supplemental evidence concerning this issue in order to demonstrate that this economic limitation, unless amended, would restrict Meridian's ability to produce the Pictured Cliffs formation gas and Basin Fruitland Coal gas in these wells.

(6) Meridian presented additional engineering testimony and economic analysis which supports the adoption of an "Economic Limit" for downhole commingling in these wells with such Economic Limit being based upon the relationship of costs to rate and estimated ultimate gas recovery from either the Pictured Cliffs formation or the Basin Fruitland Coal Gas Pool.

(7) In addition, Meridian presented a graph which may be utilized by the Division as an accurate and reliable means by which to establish an Economic Limit for the downhole commingling of production from either of these pools in this area and should be adopted as Exhibit "B" to the original Order.

(8) The Economic Limit plotted on said Exhibit "B", attached hereto and made a part hereof, is based upon either the Pictured Cliff formation or Basin Fruitland Coal Gas Pool well costs with three individual curves representing the minimum estimated cost of:

(a) a single well ($320,000.00);
(b) a dual completed well ($270,000.00); or,
(c) a downhole commingled well ($200,000.00).

(9) As established by Exhibit "B", if the combination of initial rate and estimated ultimate gas recovery ("EUR") for each of the subject wells falls below the curve plotted for the dual completed cost example, then and in that event downhole commingling may be allowed as an alternative economic means by which to produce either pool. For example, if the initial rate of a well is 500 MCFPD and an EUR has been calculated for the well to be 400 MMCF, then as indicated on Exhibit "B" the example well's Economic Limit will be below the dual completion economic limit curve and therefore the example well is entitled to be downhole commingled.

(10) In contrast, the Economic Limit adopted in Order No. R-9920 is too restrictive because it failed to address the fact that there are various combinations of either rate or EUR other than those used in Order R-9920 which would be economic or uneconomic.

(11) As observed by the applicant, Division Order No. R-9920 is more restrictive than the Division's statewide Rule 303-C(1)(b)(i) which allows downhole commingling based upon the economics of a single zone rather than requiring the combined total gas production from both zones to be uneconomic.

(12) The issue of downhole commingling unconventional coal gas production in northwest New Mexico is covered in RULE 12 of the Special Rules and Regulations for the Basin Fruitland Coal Gas Pool, as promulgated by Division Order No. R-8768, as amended, for those reasons covered in this matter such downhole commingling is in itself more confining and is in greater need of protection from abuses than commingling conventional gas production.

(13) No operator or interested party appeared in opposition to the application.

(14) This application should therefore be granted.

IT IS THEREFORE ORDERED THAT:

(1) The application of Meridian Oil Inc. to amend Division Order No. R-9920 to include additional factors in the Economic Limit provisions of said order based upon the relationship of costs to rate and estimated ultimate gas recovery from either the Pictured Cliffs formation or the Basin Fruitland Coal Gas Pool is hereby approved.

(2) The proviso included as a part of Decretory Paragraph No. (1) on page 8 of said Order No. R-9920 is hereby amended to read as follows:

> "PROVIDED HOWEVER, in the event the Economic Limit plotted for production from either pool in a well is less than the curve for the dual completion case as plotted on Exhibit "B" [being a plot of costs compared to both maximum average daily producing rate against pipeline pressure ("Initial Rate") and an estimated ultimate gas recovery ("EUR")] attached hereto and made a part hereof, then and in that event, downhole commingling shall be allowed in the effected well. In the event the Economic Limit plotted for production from both pools in a well initially exceeds the curve for the dual completion case, then downhole commingling shall not be allowed in the well until such time as the Economic Limit in that well for production from either pool drops below the dual completion curve plotted on Exhibit "B"."

(3) Decretory Paragraph No. (3) on page 8 being one in the same shall be changed to read in its entirety as follows:

> "(3) The operator shall consult with the Supervisor of the Aztec Office of the Division to insure the validity and accuracy of the initial test on each well. Further, as part of the procedure for obtaining authorization to produce the subject well as a downhole commingled well, the operator shall submit to the Supervisor of the Aztec Office of the Division a sworn certificate verifying the cost, the Initial Rate and the EUR for that well. The Supervisor of the Aztec Office of the Division shall approve the downhole commingling and authorize the operator to produce the well if the Economic Limit for production from either pool in that well is less than the curve for the dual completion case as plotted on Exhibit "B". In the event the well initially fails to qualify for downhole commingling, the well can still qualify at some future date if and when the Economic Limit in that well for production from either pool drops below the dual completion case curve plotted on Exhibit "B"."

(4) Exhibit "B" attached hereto shall be made a part of the order issued in Case Nos. 10721 through 10725.

(5) Jurisdiction of this cause is hereby retained for the entry of such further orders as the Division may deem necessary.

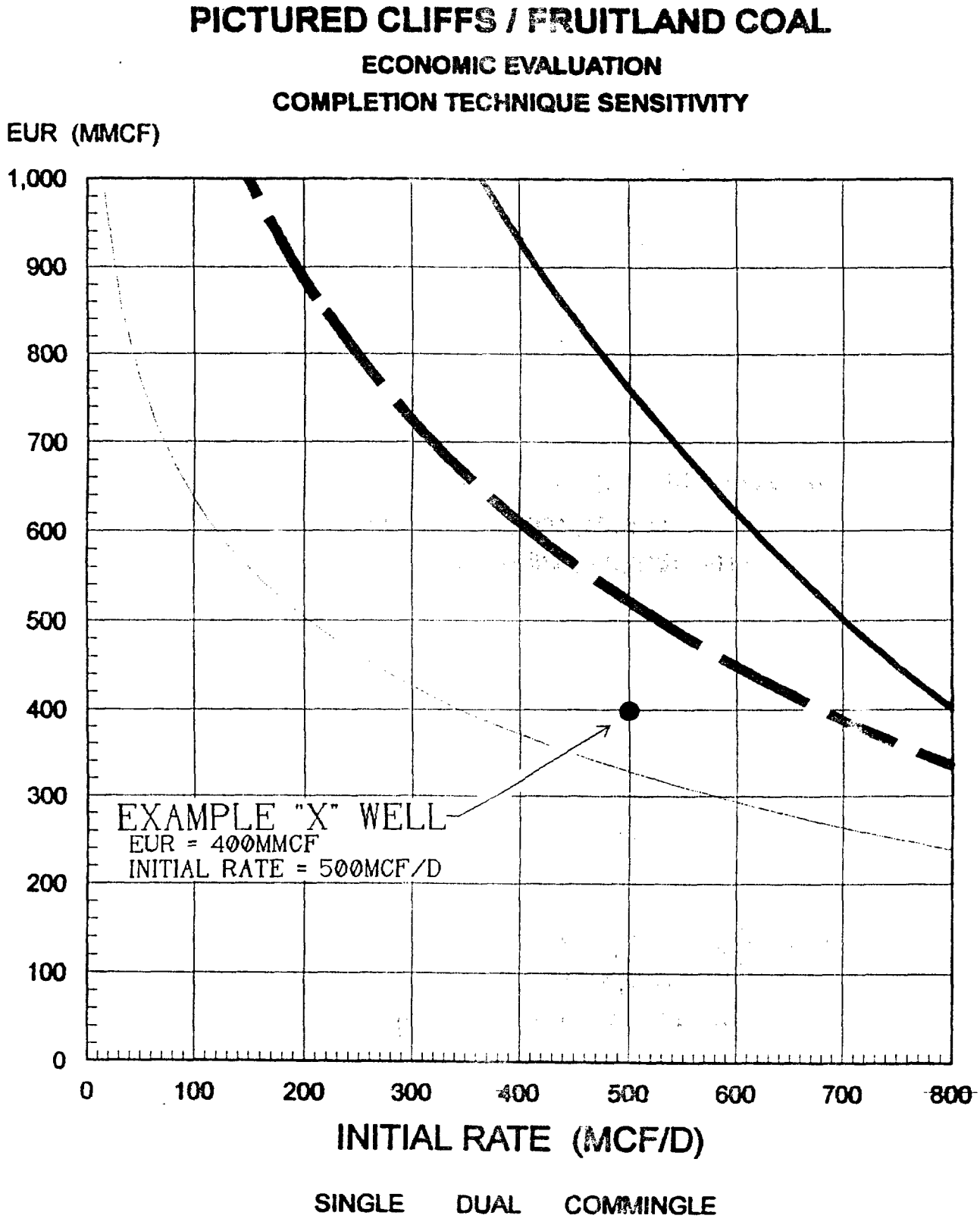
STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

WILLIAM J. LEMAY
Director

S E A L

Exhibit "B"

Consolidated Case Nos. 10721, 10722, 10723, 10724, and 10725.
Division Order No. R-9920, as amended by R-9920-A



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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
JASON KELLAHIN (RETIRED 1991)

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

September 15, 1993

HAND DELIVERED

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

Re: Meridian Oil Inc.'s
Downhole Commingling Cases

Dear Mr Stogner:

On behalf of Meridian Oil Inc., please find enclosed our suggested order. I have drafted it as an "A" Order to supplement Order R-9920.

If you approve this request, then a combination of both Order R-9920 as modified by this "A" Order would be appropriate for the following additional cases:

OCD Case 10745 (Valdez #5 Well)
OCD Case 10754 (San Juan 28-4 Unit #225 Well)

If you desire me to draft these additional orders, I will be happy to do so. Please let me know.

Very truly yours,

W. Thomas Kellahin

cc: Alan Alexander
Meridian Oil Inc. (Farmington)

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 MERIDIAN OIL INC. FOR AN UNORTHODOX GAS WELL LOCATION AND DOWNHOLE COMMINGLING, SAN JUAN COUNTY, NEW MEXICO. Case No. 10721

APPLICATION OF MERIDIAN OIL INC. FOR DOWNHOLE COMMINGLING, SAN JUAN COUNTY, NEW MEXICO. Case No. 10722

APPLICATION OF MERIDIAN OIL INC. FOR AN UNORTHODOX GAS WELL LOCATION AND DOWNHOLE COMMINGLING, SAN JUAN COUNTY, NEW MEXICO. Case No. 10723

APPLICATION OF MERIDIAN OIL INC. FOR AN UNORTHODOX GAS WELL LOCATION AND DOWNHOLE COMMINGLING, SAN JUAN COUNTY, NEW MEXICO. Case No. 10724

APPLICATION OF MERIDIAN OIL INC. FOR AN UNORTHODOX GAS WELL LOCATION AND DOWNHOLE COMMINGLING, SAN JUAN COUNTY, NEW MEXICO. Case No. 10725

Order No. R-9920-A

MERIDIAN OIL INC.'S PROPOSED
ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on April 22, 1993, at Santa Fe, New Mexico, before Michael E. Stogner.

NOW, on this ____day of September, 1993, 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) On August 26, 1993, Case Nos. 10721 through 10725 and Case Nos. 10745 and 10754 were Re-opened and consolidated for the purpose of presenting additional testimony.

(3) These cases all involve applications by Meridian Oil Inc. ("Meridian") for approval to initially drill, complete and produce each subject well as downhole commingled wells which would commingle production from the Pictured Cliffs formation with production from the Basin-Fruitland Coal Gas Pool.

(4) On July 9, 1993 the Division entered Order R-9920 approving the applications in Case Nos 10721 through 10725, which adopted Meridian's proposed allocation formula but which also established economic limitations on downhole commingling of the production from these two formations which provided:

"...in the event total gas production from both pools in a well exceeds 300 MCF per Day, downhole commingling will not be allowed in the effected well until the combined rate drops below 300 MCF/day."

(5) In addition, the Division proposed to issue orders in Cases 10845 and 10754 containing similar economic limitations as set forth in Order R-9920.

(6) Meridian timely requested that these cases be reopened so that it could present supplemental evidence concerning this issue in order to demonstrate that this economic limitation, unless amended, would preclude the only economic method available to produce the Pictured Cliffs and Basin Fruitland Coal Gas formation gas in these wells.

(7) Meridian presented expert petroleum engineering data and economic analysis which support adoption of an "Economic Limit" for downhole commingling in all seven cases with such Economic Limit being based upon the relationship of costs to rate and estimated ultimate gas recovery from either the Pictured Cliffs formation or the Basin Fruitland Coal Gas Pool.

(8) In addition, Meridian has presented a graph which can be utilized by the Division as an accurate and reliable means by which to establish an Economic Limit for the downhole commingling of production from either of these pools in this area and is hereby adopted as Exhibit "B" to the original Order.

(9) The Economic Limit plotted on Exhibit "B" is based upon either the Pictured Cliff or Basin Fruitland Coal Gas Pool well costs with three individual curves representing the minimum estimated cost of (1) a single well ($320,000.), (2) a dual completed well ($270,000.) or (3) a downhole commingled well ($200,000.).

(10) As established by Exhibit "B", if the combination of initial rate and estimated ultimate gas recovery for each of the subject wells falls below the curve plotted for the dual completed cost example, then and in that event downhole commingling is the only economic means by which to produce either pool.

(11) For example, if the initial rate of a well is 500 MCFPD and an EUR has been calculated for the well to be 400 MMCF, then as indicated on Exhibit "B" the example well's Economic Limit will be below the dual completion economic limit curve and therefore the example well is entitled to be downhole commingled.

(12) In contrast, the Economic Limit adopted in Order R-9920 is too restrictive because it failed to address the fact that there are various combinations of either rate or EUR other than those used in Order R-9920 which would be economic or uneconomic.

(13) Meridian's graph adopted as Exhibit "B" provides an Economic Limit which solves the difficulties of this provision of the current order.

(14) Also, Division Order R-9920 is more restrictive than the Division's statewide Rule 303-C(1)(b)(i) which allows downhole commingling based upon the economics of a single zone rather than requiring the combined total gas production from both zones to be uneconomic.

(15) No operator or interested party appeared in opposition to the application.

(16) This application should be granted.

IT IS THEREFORE ORDERED THAT:

(1) Meridian's request to amend Order R-9920 is approved.

(2) The following ordering paragraph contained on Page 8 of Order R-9920 is amended by deleting the following:

"PROVIDED HOWEVER, in the event total gas production from both pools in a well exceeds 300 MCF per Day, downhole commingling will not be allowed in the effected well until the combined rate drops below 300 MCF/day."

and the substituting the following:

"PROVIDED HOWEVER, in the event the Economic Limit plotted for production from either pool in a well is less than the curve for the dual completion case as plotted on Exhibit "B" [being a plot of costs compared to both maximum average daily producing rate against pipeline pressure ("Initial Rate") and an estimated ultimate gas recovery ("EUR")], then and in that event, downhole commingling shall be allowed in the effected well. In the event the Economic Limit plotted for production from both pools in a well initially exceeds the curve for the dual completion case, then downhole commingling shall not be allowed in the well until such time as the Economic Limit in that well for production from either pool drops below the dual completion curve plotted on Exhibit "B".

add a new ordering paragraph (3) as follows:

" As part of the procedure for obtaining authorization to produce the subject well as a downhole commingled well, the operator shall submit to the Supervisor of the Aztec Office of the Division a sworn

certificate verifying the cost, the Initial Rate and the EUR for that well. The Supervisor of the Aztec Office of the Division shall approve the downhole commingling and authorize the operator to produce the well if the Economic Limit for production from either pool in that well is less than the curve for the dual completion case as plotted on Exhibit "B". In the event the well initially fails to qualify for downhole commingling, the well can still qualify at some future date if and when the Economic Limit in that well for production from either pool drops below the dual completion case curve plotted on Exhibit "B".

renumber existing ordering paragraph (3) through (8)

(3) Jurisdiction is hereby retained for the entry of such further orders as the Division may deem necessary.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

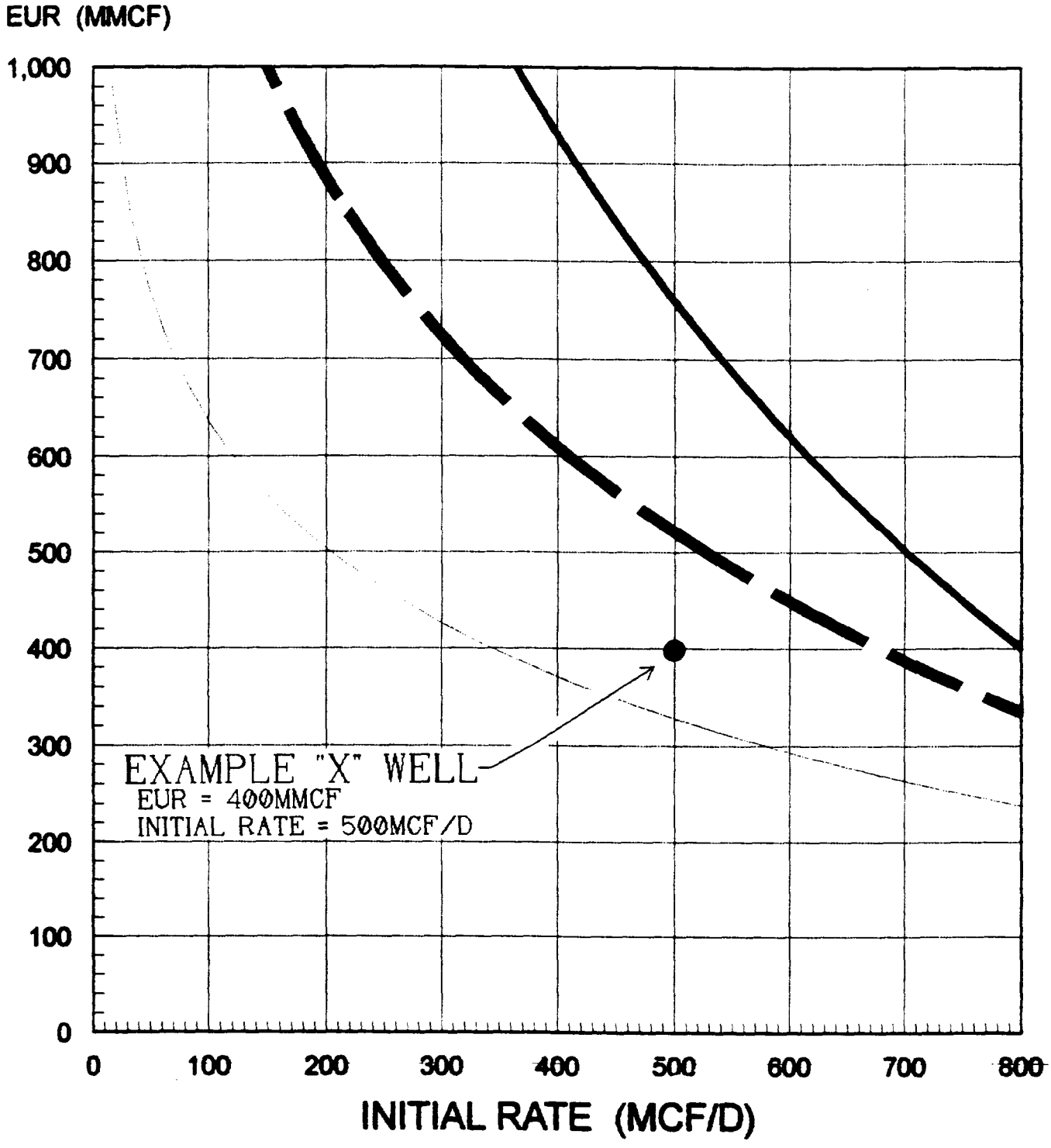
WILLIAM J. LEMAY
Director

S E A L

PICTURED CLIFFS / FRUITLAND COAL

ECONOMIC EVALUATION

COMPLETION TECHNIQUE SENSITIVITY



INITIAL RATE VS EUR

NEW MEXICO OIL CONSERVATION DIVISION

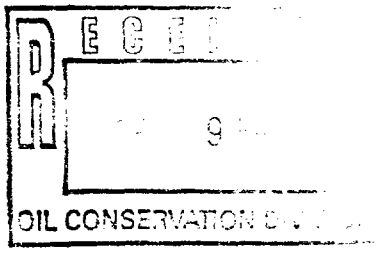
STATE LAND OFFICE BUILDING

STATE OF NEW MEXICO

CASE NOS. 10745 and 10754

IN THE MATTER OF:

The Application of Meridian Oil Inc.
to amend Division Order No. R-9920
and to reopen Cases 10754 and 10745,
San Juan and Rio Arriba Counties, New Mexico



BEFORE:

MICHAEL E. STOGNER
Hearing Examiner
State Land Office Building
August 26, 1993

ORIGINAL

REPORTED BY:

SUSAN B. SPERRY
Certified Court Reporter
for the State of New Mexico

A P P E A R A N C E S

FOR THE NEW MEXICO OIL CONSERVATION DIVISION:

ROBERT G. STOVALL, ESQ.
General Counsel
State Land Office Building
Post Office Box 2088
Santa Fe, New Mexico 87504-2088

FOR THE APPLICANT:

KELLAHIN AND KELLAHIN
P. O. Box 2265
Santa Fe, New Mexico 87504
BY: W. Thomas Kellahin, Esq.

I N D E X

E X H I B I T S

EXAMINER STOGNER: Call the next cases, 10745 and 10754, to be reopened.

MR. STOVALL: These are the applications of Meridian Oil Inc., to amend Division Order No. R-9920 and to reopen Cases 10754 and 19745, San Juan and Rio Arriba Counties, New Mexico.

EXAMINER STOGNER: Call for appearances.

MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of the Santa Fe law firm of Kellahin and Kellahin, appearing on behalf of the Applicant, and I have one witness to be sworn.

EXAMINER STOGNER: Are there any other appearances? Will the witness please step forward, take the bench, raise your right hand.

MR. KELLAHIN: Mr. Examiner, we appreciate the opportunity to reopen these cases and to discuss with you again a certain provision of Order 9920. We have requested the opportunity to supplement the record and to present to you our request for the economic criteria to justify the downhole commingling of those wells.

I have brought with me today certain witnesses that are available for discussion, all the witnesses that participated in the original hearing. Mr. Alexander is here, if there's any questions of him.

Mr. Mike Dawson is the reservoir geologist that

presented the geology, I've asked him to come back. Mr. Jim Craddock is the production engineer supervisor for Meridian. These wells are his responsibility.

Mr. Scott Daves works for Mr. Craddock, under his supervision. Mr. Scott Daves was the original engineering witness that provided the discussion to the division concerning the five cases that were decided by Order R-9920.

In addition, Mr. Daves worked in association with Mr. Shipley, who was the engineer that presented the economics on the other two cases that are reopened, the Valdez well, and then the last well.

I propose to call for direct testimony Mr. Scott Daves to explain to you his economic criteria, and to discuss with you the opportunity to amend the existing order.

In our discussions yesterday with these technical people, we have drafted yesterday proposed language changes where, if you agree with us, we have suggested a solution.

This has been an evolving process. At the original hearing, substantial effort was spent on the allocation formula by which reliable means of allocation between the Pictured Cliffs and the Fruitland could be realized. Meridian believes that the Examiner has

properly and carefully allocated the production.

You may remember that following that initial hearing, you requested Mr. Daves to provide additional support on the economics. We now want to present to you what we think is a viable solution, so that you can use a graph that will give you an economic threshold to justify downhole commingling.

Mr. Daves, in his technical analysis, has used three factors: the cost components, initial rate, and ultimate gas recovery. He's made his analysis on Pictured Cliffs, and he's prepared to discuss with you how he made those conclusions and how the calculations were prepared.

In the prehearing statement, we have suggested one solution to you. Should the Examiner decide to have a specific value as to initial rate and ultimate recovery, we've suggested a number. There is an inherent weakness in that methodology, because it only picks one point in time to set that rate.

In reflecting on the prehearing statement yesterday, we would like to suggest to you that we substitute a different method, which would be the adoption of a curve, which Mr. Daves will explain to you. A point can be found on that curve, below which the combination of rate or EUR will give you the threshold below which then the only way to produce this gas is under a downhole

commingling procedure.

With that introduction, then, I'd like to present Mr. Daves to explain to you this aspect of the case.

We have not marked this for introduction. It is an orientation map, which perhaps we can unroll it somewhere convenient for you, just to give you a sense of where these wells are.

SCOTT DAVES

After having been first duly sworn under oath, was questioned and testified as follows:

EXAMINATION

BY MR. KELLAHIN:

Q. For the record, would you please state your name and occupation?

A. My name is Scott Daves. I'm a reservoir engineer with Meridian Oil.

Q. Mr. Daves, were you the technical witness that provided the reservoir engineering and the economic presentation at the original hearing that resulted in Order R-9920?

A. Yes.

Q. In addition, have you reviewed the transcript and record not only of that case, but of the consolidated cases for 10754 and 10745?

A. Yes.

Q. Do you now have additional recommendations to the Examiner with regards to the adoption of an economic criteria by which downhole commingling, in your opinion, would be justified for these seven cases?

A. Yes, I do.

MR. KELLAHIN: We tender Mr. Daves as an expert reservoir engineer.

Examiner STOGNER: Mr. Daves is so qualified.

Q. (By Mr. Kellahin) Let me have you take a moment, Mr. Daves, and use the orientation map to identify for the Examiner the seven wells or the seven cases that are the subject of this hearing.

A. Okay. The two road wells that are listed are right here. The Rhodes C-101, the Rhodes C-102, the Whitley A 100, the Rally Call No. 500, Adams 500, the San Juan Unit 20 or San Juan 28-4 Unit No. 225, and the Valdez No. 5.

Examiner STOGNER: So the record is clear, the first four wells that you talk about were in the lower right-hand corner of the large map that is on the table, not offered as an exhibit today.

THE WITNESS: Lower left-hand.

Examiner STOGNER: I'm sorry, lower left-

hand corner.

THE WITNESS: The first five are.

Examiner STOGNER: Marked with pink arrows?

THE WITNESS: Right.

Examiner STOGNER: And then subsequent to, or the last two wells, are on the far right-hand side?

THE WITNESS: Correct.

Examiner STOGNER: And they're in which unit?

THE WITNESS: It's the San Juan 28-4 unit, Unit No. 225. And the other one is Valdez Unit No. 5 -- excuse me. It's Valdez No. 5; it's not a unit well.

Examiner STOGNER: It's the far-right well?

THE WITNESS: Right.

Examiner STOGNER: Okay. Thank you.

Q. (By Mr. Kellahin) Give us a generalized summary, if you will, Mr. Daves, of the relationship that caused you to package onto your analysis the five cases that were described as being on the lower-left area? Those are the ones dealt with by Order R-9920?

A. Correct.

Q. And, how they relate, then, to the other two wells, which are 10745 and 10754?

A. How they relate is, they were all proposed as new drill wells. They are all proposed as Fruitland

Coal/Pictured Cliffs commingles. And, although they do produce out of various pools, as designated by various orders, they are Pictured Cliffs/Fruitland Coal commingles as proposed.

Q. Let's focus on the five for a moment.

A. Okay.

Q. Are you the engineer primarily responsible for analyzing the economics to determine whether or not it was suitable to drill for those two pools in this area, using either downhole commingling, dual completion, or single-well technology?

A. Yes.

Q. What was the analysis or the criteria that you and your company apply in order to answer that question?

A. The three primary criteria that we look at, first off, we look at reserves. Are there enough reserves in there to pay out the investment of drilling and completing, facilitating these wells?

Second thing that we look at is cost. We look for the optimal cost scenario.

And the third thing that we look at is initial rates.

Q. Let's turn to the exhibit that shows the summary of the economic criteria. Where is that found in the exhibit book?

A. It's Exhibit 2.

Q. Describe for me, as a layman, what do you do as a reservoir engineer when you look at reserves, costs, and flow rate in order to compare those factors, or components, to arrive at a decision on what to do, in terms of the type of well you drill?

A. First off, as far as reserves are concerned, we look for a method, an amount of reserves that will provide us with a way to pay out our investment. And that would lead you into the costs, and we evaluate the various alternatives as to how to produce those reserves.

And then, the final thing that we look at is flow rate.

Q. Define for me what you have meant by "flow rate." What kind of rate of flow are you looking for in the well?

A. Initialized, initial stabilized production, and then production through the life of the well.

Q. Why is that important to you as a rate, as opposed to any other way to measure rate?

A. That's where your sales come from. That's where your revenue is generated.

Q. When you look at the five wells in this area that were authorized under Order R-9920, what was the range of maximum flow rate that you analyzed? You started

from zero, and projected on up to what maximum rate?

A. 750 a day. We didn't expect those kinds of rates, but we ran sensitivities to evaluate that scenario.

Q. The purpose of running it to that extreme is to cover any potential rate that might have been expected in either pool within this area?

A. Right, correct.

Q. What do you do about the reserve volume or number that you used in the analysis?

A. When you look at reserves, there again, we sensitized between zero and some number that we know would be slightly above a theoretical EUR in a specific area.

Q. The purpose, then, would be to investigate the full range of potential reserve that might be realized in either pool?

A. Correct.

Q. All right. Having investigated the greatest range of flow rate and the greatest expansion of EUR, what did you do about the cost?

A. I explored the options of a single completion per zone, a dual completion per zone, and a commingle completion per zone.

Q. One of the provisions of the order we're seeking to modify is that provision which dealt with the downhole commingling for both pools. The order provides that the

economic criteria is based upon a combination rate for both pools?

A. Right. I believe that's what the order states.

Q. And you're proposing to change that?

A. Correct.

Q. Why?

A. The problem with just using a rate is it doesn't take into consideration a reserve amount. And economics are as sensitive, or more sensitive, to a reserve amount as they are an initial rate.

Q. Why would you not want to determine EUR and rate on a consolidated basis for both pools? Why would you separate it out and focus only on one pool first, and then the other?

A. In a true economic analysis, I don't think you can. It's as sensitive to each of those two factors, an economic solution.

Q. My question is, when you look at the economic solution, Meridian proposes to apply that to an individual pool?

A. Right.

Q. The order lumps it together for both pools?

A. Right.

Q. Why are you proposing to single out the economic criteria for either the PC or the Fruitland separately?

A. One of the things that we looked at when we looked through, evaluated the orders was, is a zone in and of itself economic?

So, we're looking at that point using reserves and rates and costs, and evaluating each zone specifically for an economic determination, if that zone is itself economic.

Q. Your basis for doing that is the application of the downhole commingling rule in the rule book?

A. That's correct.

Q. Is there an economic criteria within the downhole commingling rules that discusses this issue?

A. I believe the wording is it is economic -- I can quote that; might be best if I do that. Says that, "The commingling is necessary to permit a zone or zones to be produced which would not otherwise be economically produceable."

Q. There may be instances, then, where one pool would be economic, but the other one is not?

A. That's correct.

Q. And, therefore, in order to produce the uneconomic pool, you've got to have downhole commingling, or you have to abandon those reserves?

A. Exactly.

Q. Having followed that methodology, were you able

to come to an engineering conclusion about various threshold rates, below which only downhole commingling was the method by which these reserves could be produced?

A. That's correct. We documented that with Exhibit No. 3. It's a graph.

Q. Let's look at Exhibit No. 3, and show us how to read it, and then we'll go through specific examples.

A. Okay. On the X axis, you have initial rate, and that's sales rate on a daily basis. On the Y axis, you have EUR, states here Pictured Cliffs, EUR.

And then, the three curved lines that go through the dark line, that is representative of a 15 percent, a 15 percent rate of return for a single-well completion. This dotted line that's in the middle would be a dual completion, based on those costs.

And the dotted-dashed line, which is the lowest left-hand corner, would be a commingle. And each of these represents the point at which you would have a given EUR and a given initial rate that would give you a 15 percent rate of return for each of the various scenarios.

Q. Is this an exhibit that currently is in the case file for any of these cases?

A. No, sir, it's not.

Q. It's a new exhibit?

A. Right.

Q. Why have you utilized the 15 percent rate of return?

A. That's a typical economic threshold.

Q. Was that the rate of return that Mr. Shipley used when he presented the economics on the other two cases?

A. That's correct.

Q. When you look at the curve, what determines the position of those curves for each case on this display?

A. The investment and the specific operating costs for each scenario shape that curve.

Q. Talking about the costs of the well and operating expenses associated with that type of well?

A. Correct.

Q. The darkest curve, the one in the upper right-hand corner of the illustration, is for the single-well cost and operating expenses for a well to be drilled only to the Pictured Cliffs or Fruitland Coal?

A. That's correct.

Q. Would the economics change for either one of those pools for this example?

A. Slightly, if at all.

Q. Would that slight change make any material difference in the decision to be made by the Examiner here?

A. No.

Q. When you look at the next curve down, what does that represent?

A. That represents a dual completion, and the associated costs and operating costs that would be associated with that.

Q. And, then, the lowest curve represents what?

A. A commingle.

Q. Describe for us how you would apply this curve as a basis upon which to determine, prior to drilling, whether or not, in a certain area, we can have downhole commingling approved as the method for producing reserves from these two pools.

A. Using the allocation formula that was presented in previous testimony, you could determine an EUR and estimated initial rate using those two pieces of data. You could move along the Y axis, determine an EUR, find that point on the Y axis. You could move along the X axis, determine an initial rate, connect the two somewhere within the graph.

And, at that point, that would give you an evaluation of whether the well is economic or not, given the various scenarios.

Q. In any individual example, the initial rate may vary considerably in relation to the EUR?

A. Correct. Correct. And that's why it's important that you have both of these on a separate axis.

Q. Have you provided a tabulation for the Examiner? I believe it's shown behind Exhibit Tab No. 4?

A. That's correct.

Q. What is the purpose of the information on Exhibit No. 4?

A. Two things, essentially. One, to give a summary of where we are with our program with these specific cases, and the results that we have at this point.

And, then, at the same time, you can use that data and those results, and go back into this curve and determine which is the economic completion technique to use.

Q. Let's deal with one question first.

A. Okay.

Q. When we look at Exhibit 4, let's second-guess ourselves. We asked for approval to downhole commingle initially drilled wells in certain areas.

In examining this data, did we make the right choice for those wells?

A. To commingle?

Q. Yes, sir.

A. That's correct.

Q. Was there any other result realized from

drilling these wells?

A. No, sir.

Q. None of the drilling information would have, now, in hindsight, allowed you to either dual or separately produce either reservoir?

A. That's correct.

Q. Give us an example of that. Let's look at Exhibit 4 and start off with the Aztec 700.

A. All right. This was a well that was completed, drilling completed last year. The initial flow test for the Pictured Cliffs was determined to be 266 MCF per day. The original flow test for the Fruitland Coal was 539 MCF per day.

If you use that ratio, those two times, the initial monthly production of 275 MCF per day, you calculate out a Pictured Cliffs initial rate of 91 MCF a day. We determined the shut-in bottomhole pressure of 130 PSI.

You can calculate out, using the next two columns there, the hydrocarbon pore volume and recovery factor, and you get a Pictured Cliffs EUR of 175.7 million cubic feet.

Now, having that 175.7 number and the 91 MCF per day, you can go to this graph. You can pick off the 91 MCF per day point, and the 175.7 million cubic feet, and

find that point, and you see that it falls well below even the commingle threshold economics.

Q. You can follow a similar analysis on all the other well information tabulated?

A. That's correct. Several of the wells have not yet been completed, so there is no data. But the estimations of pressure are there for those wells, and they show what the EURs are estimated to be at this point.

We don't expect any surprises; that the pressure should be in that range right there.

Q. Do you have an opinion as to whether this information validates the reliability of the type of economic curve you're proposing to utilize in these amended cases?

A. It gives a clear representation of whether a well is economic or not, given the various scenarios.

Q. Does the economic picture change when we move from the Pictured Cliffs analysis to the Fruitland Coal Gas Pool analysis?

A. Not really.

Q. The caption on the graph says, Fruitland Coal gas or Pictured Cliffs economic evaluation?

A. Right.

Q. How would you utilize the graph, then, in making

the decision on downhole commingling for either pool?

A. You would use the graph essentially the same way. You would determine an EUR for the Fruitland Coal, and an initial rate, and it would fall under the same curves, so you could use this curve for that.

Q. Is this standard industry reservoir economic analysis that is applied by Meridian and others to analyze EURs for different pools?

A. Yes.

Q. There's nothing special or unusual about the methodology or the calculations used?

A. No.

Q. Do you have an opinion as to whether or not this serves as a reliable basis for providing an economic limitation in the commingling orders for these cases?

A. Yes, it's a reliable basis.

Q. Let me ask you to turn to Exhibit Tab 1. Look beyond the application, and find the last page in there, which says "Meridian's Proposed Amendments to Order."

Are you with me?

A. I'm with you.

Q. I'm interested in the last paragraph of that proposed change, where it talks about how to utilize this curve in the order. Are you with me?

A. Yes.

Q. Read the paragraph for us and then tell us, in your opinion as an expert, if that can be utilized by another engineer, clerical individuals at the Division's district office, in order to validate or verify whether or not a particular well is going to be eligible for downhole commingling.

A. Okay. "In the event total gas production from either pool in a well exceeds the curve for the dual completion case, as plotted on Exhibit A, attached"...

Q. That would be this curve we've been describing?

A. That's correct.

Q. All right.

A. "Being a plot of costs, compared with, compared to both maximum average daily producing rate, and estimated ultimate gas recovery, EUR, then, and in that event, downhole commingling shall not be allowed in the affected well until such time as total gas production from either pool in that well drops below the described limit on the curve."

Q. Describe for us how you would put that into operation, then, if the Examiner agrees to make this modification in the order.

A. A good example here might be a EUR of 600 million. This is for one that would exceed that economic --

Q. Let's look at the graph, and if we're using the graph as the benchmark, you would look at an EUR you'd find on the Y axis, 600?

A. Correct, 600. And on the X axis, an initial rate of 500 a day. You would go up, find the point where those two lines intersect, you see that it is above the economic threshold for a dual.

Q. So, downhole commingling does not get approved at that time for that well?

A. Correct. Now, if, say, the rate, the EUR was the same and the rate was only 300 a day, you'd scoot over two segments there, and you would see that it does not exceed that economic threshold. And, therefore, commingling could be allowed.

Q. Why is this method preferable to the one contained in the order, where it has a combined total gas production, it says, in excess of 300 MCF per day?

A. One, if you look at the single rate out of a single zone here at 300 a day, if that zone was the only one producing, according to this curve, you would have to dual it at 710 million cubic feet. Okay?

If you look back at Exhibit 4, the various cases that we've presented, the EURs in all of these do not exceed that number. So, therefore, you're limiting yourself to an initial rate of 300, but yet, there's no

discussion of how EUR affects that, that economic limit or economic threshold.

Q. By combining those two factors and comparing them to cost, in your opinion, would that be an accurate way in which the Division can determine at what threshold point they will allow Meridian, as operator, to pursue downhole commingling for initially drilled wells?

A. It defines that threshold limit; that limit is a function of several things. So, what these curves do is define that limit very clearly.

Q. Let's talk about "what if."

A. Okay.

Q. If the Division approves this for these wells, and you have a different area of the basin that has PC and Fruitland potential?

A. Right.

Q. You believe them to be marginal areas?

A. Yes.

Q. Would you then have to develop a new curve to apply to another area, or is this curve here generic, so that it could be applied to all similar cases in the basin?

A. You would probably be able to use this curve for a lot of areas. But, in my opinion, I would want a curve that's specific to those investment costs, those operating

costs, those EURs, and those initial rates.

Granted, for the cases that we're talking about, it does work. But, if you move to a different area, they may not.

Q. And, that would be part of your obligation, if you were the applicant, then, to provide the necessary reservoir and geologic information to meet some threshold area and to define the area in which these components were common?

A. Absolutely.

MR. KELLAHIN: That concludes my examination of Mr. Daves, Mr. Examiner. We move the introduction of his Exhibits 1 through 4.

EXAMINER STOGNER: Exhibits 1 through 4 will be admitted at this time.

EXAMINATION

BY EXAMINER STOGNER:

Q. Mr. Daves, looking at Exhibit No. 3 of Order No. R-9920, of all the wells that were included in that particular order, would this particular curve be adequate for those wells?

A. Absolutely.

Q. And, of course, for the two reopened cases today?

A. Right.

Q. What part of the basin are -- pardon me. When I said "the basin," the Basin Fruitland Coal pool, would this not be adequate or cover sufficiently what type of production, what type of associated water production, or whatever? What kind of factors would be involved that this curve would change?

A. Essentially, we're talking Fruitland Coal; correct?

Q. Throughout the basin. You mentioned that this was adequate for this, in most cases.

A. Correct.

Q. When would it not be adequate?

A. Where you would have excessive line pressures, low reservoir pressures, high water rates, deep wells; different variables that would affect your costs, primarily.

Q. In your opinion or your knowledge out there, do you have none of those factors in this area at this time?

A. No, sir.

Q. Is the line out there that these wells will be feeding into, are they subject to pressure change?

A. Somewhat.

Q. But not in a realm that would make this curve unusable?

A. That's correct.

Q. Have you done an EUR on these wells involved in this case today, on this matter today?

A. For the Pictured Cliffs. We've tested -- if you'll refer to Exhibit 4, the results that we have so far of the wells that are in these cases, the Rhodes C 101, the Rhodes C 102, and the Whitley A 100, what we have done to date is, we have drilled the well, we have completed the Pictured Cliffs, we have concluded our flow tests for the Pictured Cliffs, and we have established shut-in bottomhole pressures.

With that data, we have been able to calculate EURs for the Pictured Cliffs.

Q. And that's shown on the last column to the right?

A. Yes, sir.

Q. And, then, in looking at -- all these wells, then, produce a combined, over, a combined rate of over 300 MCF; is that correct?

A. There's a possibility that they will, a real strong possibility, once you combine them with the Fruitland Coal.

Q. The ones that you have tests, I'm looking at the Aztec 700, you show a Pictured Cliffs flow rate of 266; is that correct?

A. Right, that's a test rate. The actual sales

rate was 275, and then the actual allocated to the Pictured Cliffs was 91.

EXAMINER STOGNER: Mr. Stovall, do you have any questions?

MR. STOVALL: This engineering stuff, I don't understand it. No, I don't.

EXAMINER STOGNER: I have no other questions at this time.

Mr. Kellahin, do you have anything further?

MR. KELLAHIN: No, sir.

EXAMINER STOGNER: Would you provide me a rough draft?

MR. KELLAHIN: Yes, sir, I'd be happy to.

EXAMINER STOGNER: And how to incorporate this curve, perhaps, as an exhibit.

MR. KELLAHIN: Yes, sir.

MR. STOVALL: Mr. Kellahin, is your language in your prehearing statement, is that intended to be the language that you would copy?

MR. KELLAHIN: No, sir.

MR. STOVALL: Oh, okay.

MR. KELLAHIN: We provided that initially, and then on reflection, found that this curve was a better way to approach the economic issue. And, so, I'll provide the Examiner with language that we think works.

We have suggested as a draft an appendix behind Exhibit 1, but I'd like to fine-tune that, and we'll just put it within the context of an entire order for your consideration.

EXAMINER STOGNER: If there's nothing further, Mr. Kellahin, then I'll take this matter under advisement and await your rough draft.

MR. KELLAHIN: Thank you.

(And the proceedings concluded.)

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 10745 - 10754 heard by me on 16 August 1992.

Examiner
Oil Conservation Division

CERTIFICATE OF REPORTER

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

I, Susan B. Sperry, 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 September 3, 1993.

Susan B. Sperry

SUSAN B. SPERRY, RPR, CM
CCR No. 156

8/26

MERIDIAN OIL

(AMEND)
ORDER # R-9920

(REOPEN)
CASE # 10745, # 10754

AUGUST 26, 1993

Meridian Oil Inc.

August 26, 1993

- Application to Amend Order No. R-9920; and,
- To Reopen Case Nos. 10745 and 10754

Exhibit No. 1

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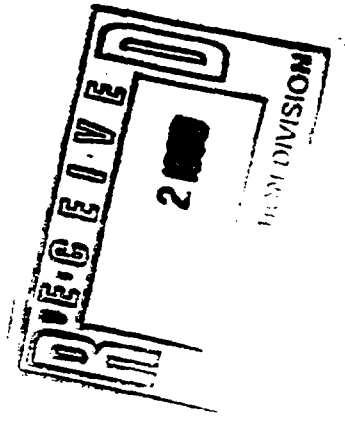
W. THOMAS KELLAHIN*
*NEW MEXICO BOARD OF LEGAL SPECIALIZATION RECOGNIZED SPECIALIST IN THE AREA OF NATURAL RESOURCES-OIL AND GAS LAW
JASON KELLAHIN (RETIRED 1991)

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

August 2, 1993



HAND DELIVERED

Mr. William J. LeMay, Director
Oil Conservation Division
310 Old Santa Fe Trail
Santa Fe, New Mexico 87501

Re: Meridian Oil Inc. Application
to Amend Division Order R-9920
and to Reopen Cases 10745 & 10754,
Rio Arriba and San Juan Counties,
New Mexico

Dear Mr. LeMay:

On behalf of Meridian Oil Inc., please find enclosed our referenced application which we request be set for hearing on the next available examiner's docket now scheduled for August 26, 1993.

On July 9, 1993, I met with Michael E. Stogner, Larry VanRyan and Robert G. Stovall to discuss Division Order R-9920. At my request and with their concurrence, I have filed the enclosed application to have the Division consider modifying certain provisions affecting seven downhole commingling applications rather than filing for a DeNovo hearing before the Commission concerning those provisions.

Also enclosed is my suggested notice of this case for the NMOCD docket.

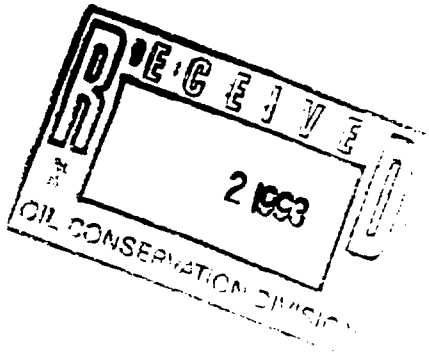
Very truly yours,

W. Thomas Kellahin

cc: Alan Alexander (Meridian-Farmington)

SUGGESTED ADVERTISEMENT

Case_____: Application of Meridian Oil Inc. to amend Division Order R-9920 and to reopen Cases 10754 and 10745, San Juan and Rio Arriba Counties, New Mexico. The applicant seeks to amend Division Order R-9920, dated July 9, 1993, entered in Cases 10721, 10722, 10723, 10724 and 10725 and to Reopen Cases 10745 and 10754 in order to present additional evidence. Specifically, applicant seeks to amend those provisions of Order R-9920 which established an economic limit for downhole commingling of production in certain wells in the Pictured Cliffs formation and the Basin Fruitland Coal Gas Pool and to have said amendments applied to orders to be issued in Cases 10754 and 10754. Those cases involve a total of seven wells located and described in Division Examiner dockets of April 22, 1993 and July 1, 1993.



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._____

APPLICATION OF MERIDIAN OIL INC.
TO AMEND DIVISION ORDER R-9920
AND TO REOPEN CASES 10745 AND 10754
SAN JUAN AND RIO ARRIBA COUNTIES,
NEW MEXICO

APPLICATION

Comes now MERIDIAN OIL INC., ("Meridian") and applies to the New Mexico Oil Conservation Division to amend Division Order R-9920, dated July 9, 1993, entered in Cases 10721, 10722, 10723, 10724 and 10725 and to Reopen Cases 10745 and 10754 in order to present additional evidence.

In support of this application Meridian states:

(1) Meridian is the applicant in the following seven cases pending before the Division all of which involve a common issue concerning the downhole commingling of Pictured Cliffs formation production with the Basin-Fruitland Coal Gas Pool:

1. Case 10721: Rowley Com Well No. 500
   Unit K, (SW/4 and W/2) Sec 7, T27N, R10W,
   San Juan County,

2. Case 10722: McAdams Well No. 500
   Unit A, (NE/4 & E/4) Sec 28, T27N, R10W,
   San Juan County,

3. Case 10723: Whitley "A" Well No. 100,
   Unit L, (SW/4 & W/2) Sec 17, T27N, R11W,
   San Juan County,

4. Case 10724: Rhodes "C" Well No. 101,
   Unit N, (SW/4 & W/2) Sec 30, T28N, R11W,
   San Juan County,

5. Case 10725: Rhodes "C" Well No. 102,
   Unit B, (NE/4 & N/2) Sec 31, T28N, R11W,
   San Juan County,

6. Case 10754: San Juan 28-4 Unit #225 Well,
   Unit N, (SW/4 & S/2) Sec 7, T28N, R4W,
   Rio Arriba County,

7. Case 10745: Valdez #5 Well,
   Unit F, (NW/4 & N/2) Sec 16, T28N, R4W,
   Rio Arriba County.

(2) On July 9, 1993, the Division entered Order R-9920 which is applicable to the first five cases number above and at the request of Meridian has not entered orders in the last two cases.

(3) In Order R-9920 the Division retained continuing jurisdiction over these cases.

(4) Order R-9920 contains the following limitation on downhole commingling of production from the Pictured Cliffs formation and the Basin Fruitland Coal Gas Pool:

"**PROVIDED HOWEVER**, in the event total gas production from both pools in a well exceeds 300 MCF per Day. downhole commingling will not be allowed in the effected well until the combined rate drops below 300 MCF/day."

(5) Meridian requests that all these cases be reopened so that it can present supplemental evidence concerning this issue in order to demonstrate that this limitation, unless amended, will preclude the only economic method available to produce the Pictured Cliffs formation gas in these wells.

(6) Specifically, Meridian seeks to amend those provisions of Order R-9920 which established an economic limit for downhole commingling based upon a combined producing rate of not more than 300 MCFPD of total gas production from both pools.

(7) Meridian proposes that the economic limit for downhole commingling in all seven cases be based upon the relationship of costs to rate and estimated ultimate gas recovery only from the Pictured Cliff pool.

(8) Meridian proposes the following substitution:

"In the event total gas production from the Pictured Cliffs Pool in a well exceeds both a maximum average daily producing rate of 300 MCFPD and an estimated ultimate gas recovery ("EUR") of 900 MMCF, then and in that event downhole commingle will not be allowed in the affected well until both the rate and the EUR drop below the above described limits."

(9) These cases were originally heard by the Division at Examiner Hearings held on April 22, 1993 and July 1, 1993 with Meridian being the only party to appear.

(10) Because Meridian is the only party to have appeared in these case, no further notice is required to reopen these cases.

(11) Meridian requests that this matter be placed on the Division's Examiner docket now set for August 26, 1993.

WHEREFORE, Meridian requests that after hearing, the Division grant the relief requested herein.

Respectfully submitted,

W. Thomas Kellahin
Kellahin & Kellahin
P. O. Box 2265
Santa Fe, New Mexico 87501
(505) 982-4285

MERIDIAN'S PROPOSED AMENDMENTS
TO ORDER

(1) Amendment No.1: (page 4)

delete the last sentence of Finding (7) and substitute the following:

"The economic limit for downhole commingling in these cases should be based upon the relationship of costs to rate and estimated ultimate gas recovery from either the Pictured Cliffs or the Fruitland Coal gas pools.

(2) Amendment No. 2: (Page 8)

delete:

"Provided However, in the event total gas production from both pools in a well exceeds 300 MCF per Day, downhole commingling will not be allowed in the effected well until the combined rate drops below 300 MCF per day."

and substitute the following:

"In the event total gas production from either pool in a well exceeds the curve for the dual completion case as plotted on Exhibit A attached (being a plot of costs compared to both maximum average daily producing rate and an estimated ultimate gas recovery (EUR), then and in that event downhole commingling shall not be allowed in the affected well until such time as the total gas production from either pool in that well drops below the described limit on the curve."

Meridian Oil Inc.

August 26, 1993

- Application to Amend Order No. R-9920; and,
- To Reopen Case Nos. 10745 and 10754

Exhibit No. 2

PICTURED CLIFFS/FRUITLAND COAL

COMPLETION TECHNIQUE
ECONOMIC CRITERIA

In order to facilitate an economic completion of either Pictured Cliffs or Fruitland Coal, three requirements must be met. It is the combination of these three requirements that determines the economic status and completion method (single completion, dual completion, commingled completion) utilized. These three requirements are as follows:

RESERVES **Np(pc) (EUR)**

COSTS **(Investment and Operating)**

FLOW RATE **(Qpci) (Stabilized Production)**

Meridian Oil Inc.

August 26, 1993

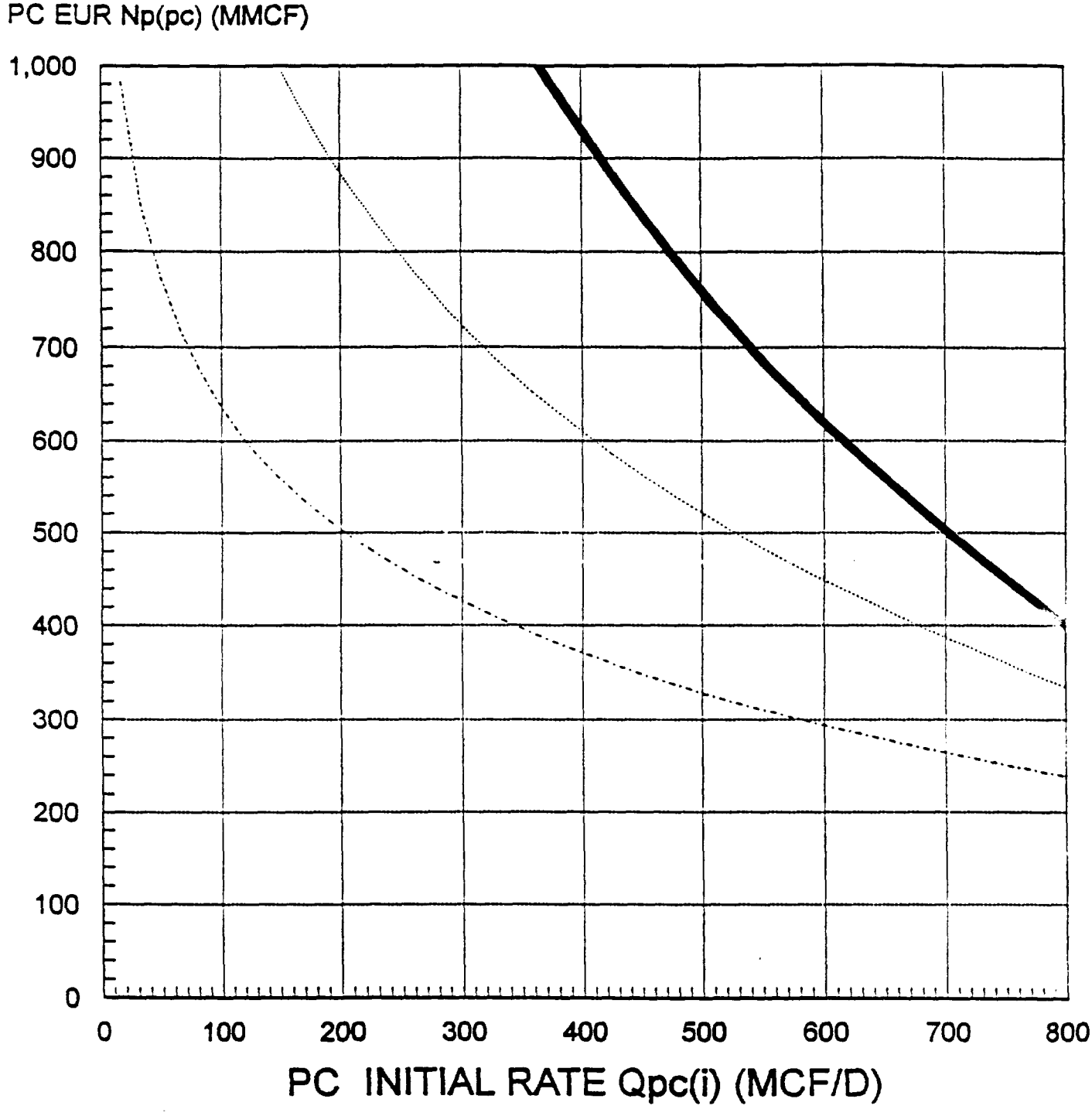
- Application to Amend Order No. R-9920; and,
- To Reopen Case Nos. 10745 and 10754

Exhibit No. 3

FRUITLAND COAL GAS
OR
PICTURED CLIFFS

ECONOMIC EVALUATION

COMPLETION TECHNIQUE SENSITIVITY



SINGLE	DUAL	COMMINGLE
15% ROR	15% ROR	15% ROR

INITIAL RATE VS EUR

Meridian Oil Inc.

August 26, 1993

- Application to Amend Order No. R-9920; and,
- To Reopen Case Nos. 10745 and 10754

Exhibit No. 4

RESERVES
AND
INITIAL RATE

WELL NAME	LOCATION	Qpc(p) MCF/D	Qftc(p) MCF/D	Qpc(i) MCF/D	Qt(i) MCF/D	P*(pc) (psi)	HCPV MMCF/PSI	R.F. (%)	Np(pc) MMCF
AZTEC #700	SW/4 14-28N-11W	266	539	91	275	130	1.59	85.00%	175.70
RHODES C #101	SW/4 30-28N-11W	493	N/A	150	N/A	345	1.05	85.00%	307.91
RHODES C #102	NE/4 31-28N-11W	493	N/A	150	N/A	364	0.61	85.00%	188.73
WHITLEY A #100	SW/4 17-27N-11W	493	N/A	150	N/A	191	1.34	85.00%	217.55
ROWLEY COM #500	SW/4 7-27N-10W	N/A	N/A	N/A	N/A	295	0.84	85.00%	210.63
McADAMS #500	NE/4 28-27N-10W	N/A	N/A	N/A	N/A	295	0.82	85.00%	205.62
HUERFANO UNIT #549	NE/4 33-27N-10W	N/A	N/A	N/A	N/A	295	1.08	85.00%	270.81

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:

CASES NOS. 10745 and
10754

APPLICATION OF MERIDIAN OIL INC.
TO AMEND ORDER R-9920 AND TO REOPEN
CASES 10754 AND 10745, SAN JUAN
AND RIO ARRIBA COUNTIES, NEW MEXICO.

PRE-HEARING STATEMENT

This pre-hearing statement is submitted by MERIDIAN OIL INC. as required by the Oil Conservation Division.

APPEARANCE OF PARTIES

APPLICANT	ATTORNEY
MERIDIAN OIL INC. P. O. Box 4289 Farmington, N.M. 87499 Attn: Alan Alexander (505) 326-9757	W. Thomas Kellahin KELLAHIN AND KELLAHIN P.O. Box 2265 Santa Fe, NM 87504 (505) 982-4285

STATEMENT OF CASE

APPLICANT:

Meridian Oil Inc. requests an amendment to Order R-9920 such that the economic criteria for downhole commingling is based initially upon the relationship of costs to rate and estimated ultimate gas recovery only from the Pictured Cliffs pool. In addition, Meridian seeks to have this same criteria adopted in any order issued for cases 10754 and 10745.

Meridian proposed the following language:

"In the event total gas production from the Pictured Cliffs pool in a well exceeds both a maximum average daily producing rate of 300 MCFD and an estimated ultimate gas recovery (EUR) of 800 MMCF, then and in that event, downhole commingling will not be allowed in the affected well until either (a) both the rate and the EUR for the Pictured Cliffs pool drop below the above described limits, or (b) Meridian Oil Inc. submits evidence to the Aztec District Office of the Division that pursuant to Division Rule 303 (including cost to rate and EUR criteria) the Basin Fruitland Coal Gas Pool production qualifies the well for downhole commingling with the Pictured Cliffs pool."

PROPOSED EVIDENCE

APPLICANT

WITNESSES	EST. TIME	EXHIBITS
Scott Daves (PE)	30-40 Min.	10

Possible additional witnesses:

Jim Craddock (PE)
Mike Dawson (geologist)
Alan Alexander (landman)

PROCEDURAL MATTERS

NONE.

KELLAHIN AND KELLAHIN

By: _____
W. Thomas Kellahin
P.O. Box 2265
Santa Fe, New Mexico 87504
(505) 982-4285

CASE 10801: **Application of Merrion Oil & Gas Corporation for compulsory pooling, San Juan County, New Mexico.** Applicant seeks an order pooling all mineral interests from the surface to the base of the Fruitland Sand formation, underlying the SW/4 of Section 22, Township 30 North, Range 12 West, forming a standard 160-acre gas spacing and proration unit for any and all formations and/or pools developed on 160-acre spacing within said vertical extent. Said unit is to be dedicated to its Osborn Well No. 1 to be recompleted at a standard gas well location 790 feet from the South line and 900 feet from the West line of said Section 22. Also to be considered will be the cost of recompleting said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as the operator of the well and a charge for risk involved in recompleting said well. Said well is located near Flora Vista, New Mexico.

CASE 10802: **Application of Phillips Petroleum Company for an unorthodox oil well location, Eddy County, New Mexico.** Applicant seeks approval of an unorthodox subsurface oil well location for its James "E" Federal Well No. 8 which was directionally drilled to an unorthodox subsurface location being a point at the top of the Cherry Canyon Formation 1970 feet from the South line and 1030 feet from the East line (Unit I) of Section 11, Township 22 South, Range 30 East, Cabin Lake-Delaware Pool. The NE/4 SE/4 of said Section 11 is to be dedicated to said well forming a standard 40-acre oil spacing unit. Said unit is located approximately 22 miles east of Carlsbad, New Mexico.

CASES 10745 and 10754: **(Reopened)**

Application of Meridian Oil Inc. to amend Division Order No. R-9920 and to reopen Cases 10754 and 10745, San Juan and Rio Arriba Counties, New Mexico. Applicant seeks to amend Division Order No. R-9920, dated July 9, 1993, entered in Cases 10721, 10722, 10723, 10724, and 10725 and to Reopen Cases 10745 and 10754 in order to present additional evidence. Specifically, applicant seeks to amend those provisions of Order No. R-9920 which established an economic limit for downhole commingling of production in certain wells in the Pictured Cliffs formation and the Basin-Fruitland Coal Gas Pool and to have said amendments applied to orders to be issued in Cases 10745 and 10754. These cases involve a total of seven wells located and described in Division Examiner dockets of April 22, 1993 and July 1, 1993.

CASE 10803: **Application of Texaco Exploration and Production, Inc. for an unorthodox gas well location, Eddy County, New Mexico.** Applicant seeks approval to drill its Dow "B" 33 Federal Well No. 2 as a gas well at an unorthodox location 660 feet from the North line and 2310 feet from the West line (Unit C) of Section 33, Township 17 South, Range 31 East, to test the Morrow formation. The W/2 of said Section 33 is to be dedicated to the well. Applicant further requests approval of the unorthodox location as to all prospective pools or formations including but not limited to the Morrow formation. Said well is located approximately 4 1/2 miles south of Maljamar, New Mexico.

CASE 10804: **Application of Collins & Ware, Inc. for special pool rules, Eddy County, New Mexico.** Applicant seeks the promulgation of special pool rules for the Happy Valley-Delaware Pool, located in the NE/4 NW/4 of Section 33, Township 22 South, Range 26 East, including a provision for a gas-oil ratio limitation of 10,000 cubic feet of gas per barrel of oil and a special oil allowable of 160 barrels per day. Said area is located approximately 5 miles southwest of Carlsbad, New Mexico.

CASE 10805: **Application of Collins & Ware, Inc. for an unorthodox gas well location and simultaneous dedication, Eddy County, New Mexico.** Applicant seeks approval of an unorthodox gas well location 710 feet from the South and East lines (Unit P) of Section 25, Township 23 South, Range 28 East, South Culebra Bluff-Atoka Gas Pool. In addition, the applicant seeks an exception to Division General Rule 104(c)(2) to allow the existing 320-acre gas spacing and proration unit comprising the S/2 of said Section 25 to be simultaneously dedicated in this pool to the proposed well and to the existing Ray "25" Well No. 1 located at a standard gas well location 897 feet from the South line and 1980 feet from the West line (Unit N) of said Section 25. Said unit is located approximately 3.5 miles east by southeast of Loving, New Mexico.

CASE 10791: **(Continued from August 12, 1993, Examiner Hearing.)**

Application of Yates Petroleum Corporation for an unorthodox gas well location, Eddy County, New Mexico. Applicant seeks approval to drill its Beauregard ANP State Com Well No. 1 to the Morrow formation, Illinois Camp-Morrow Gas Pool, at an unorthodox gas well location 660 feet from the North line and 1980 feet from the East line (Unit B) of Section 14, Township 18 South, Range 27 East. The E/2 of said Section 14 is to be dedicated to the well. Applicant further requests approval of the unorthodox location as to all prospective pools or formations including but not limited to the Morrow spaced on 320 acres. Said well is located approximately 4 miles northeast of Illinois Camp.

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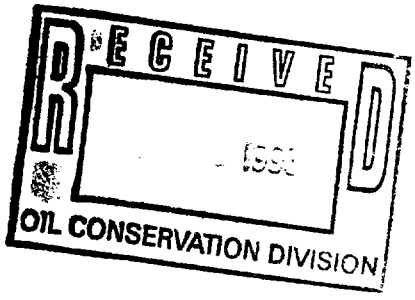
August 2, 1993



HAND DELIVERED

Mr. William J. LeMay, Director
Oil Conservation Division
310 Old Santa Fe Trail
Santa Fe, New Mexico 87501

Re: Meridian Oil Inc. Application
to Amend Division Order R-9920
and to Reopen Cases 10745 & 10754,
Rio Arriba and San Juan Counties,
New Mexico

Dear Mr. LeMay:

On behalf of Meridian Oil Inc., please find enclosed our referenced application which we request be set for hearing on the next available examiner's docket now scheduled for August 26, 1993.

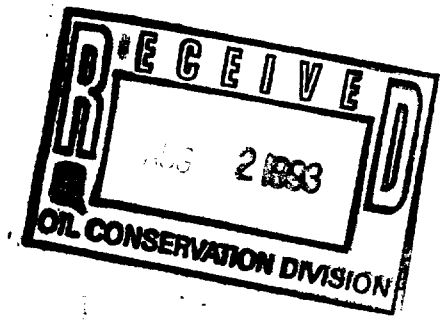
On July 9, 1993, I met with Michael E. Stogner, Larry VanRyan and Robert G. Stovall to discuss Division Order R-9920. At my request and with their concurrence, I have filed the enclosed application to have the Division consider modifying certain provisions affecting seven downhole commingling applications rather than filing for a DeNovo hearing before the Commission concerning those provisions.

Also enclosed is my suggested notice of this case for the NMOCD docket.

Very truly yours,

W. Thomas Kellahin

cc: Alan Alexander (Meridian-Farmington)



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. 10745 and 10754

APPLICATION OF MERIDIAN OIL INC.
TO AMEND DIVISION ORDER R-9920
AND TO REOPEN CASES 10745 AND 10754
SAN JUAN AND RIO ARRIBA COUNTIES,
NEW MEXICO

APPLICATION

Comes now MERIDIAN OIL INC., ("Meridian") and applies to the New Mexico Oil Conservation Division to amend Division Order R-9920, dated July 9, 1993, entered in Cases 10721, 10722, 10723, 10724 and 10725 and to Reopen Cases 10745 and 10754 in order to present additional evidence.

In support of this application Meridian states:

(1) Meridian is the applicant in the following seven cases pending before the Division all of which involve a common issue concerning the downhole commingling of Pictured Cliffs formation production with the Basin-Fruitland Coal Gas Pool:

1. Case 10721: Rowley Com Well No. 500
   Unit K, (SW/4 and W/2) Sec 7, T27N, R10W,
   San Juan County,

2. Case 10722: McAdams Well No. 500
   Unit A, (NE/4 & E/4) Sec 28, T27N, R10W,
   San Juan County,

3. Case 10723: Whitley "A" Well No. 100,
   Unit L, (SW/4 & W/2) Sec 17, T27N, R11W,
   San Juan County,

4. Case 10724: Rhodes "C" Well No. 101,
   Unit N, (SW/4 & W/2) Sec 30, T28N, R11W,
   San Juan County,

5. Case 10725: Rhodes "C" Well No. 102,
   Unit B, (NE/4 & N/2) Sec 31, T28N, R11W,
   San Juan County,

6. Case 10754: San Juan 28-4 Unit #225 Well,
   Unit N, (SW/4 & S/2) Sec 7, T28N, R4W,
   Rio Arriba County,

7. Case 10745: Valdez #5 Well,
   Unit F, (NW/4 & N/2) Sec 16, T28N, R4W,
   Rio Arriba County.

(2) On July 9, 1993, the Division entered Order R-9920 which is applicable to the first five cases number above and at the request of Meridian has not entered orders in the last two cases.

(3) In Order R-9920 the Division retained continuing jurisdiction over these cases.

(4) Order R-9920 contains the following limitation on downhole commingling of production from the Pictured Cliffs formation and the Basin Fruitland Coal Gas Pool:

"**PROVIDED HOWEVER**, in the event total gas production from both pools in a well exceeds 300 MCF per Day, downhole commingling will not be allowed in the effected well until the combined rate drops below 300 MCF/day."

(5) Meridian requests that all these cases be reopened so that it can present supplemental evidence concerning this issue in order to demonstrate that this limitation, unless amended, will preclude the only economic method available to produce the Pictured Cliffs formation gas in these wells.

(6) Specifically, Meridian seeks to amend those provisions of Order R-9920 which established an economic limit for downhole commingling based upon a combined producing rate of not more than 300 MCFPD of total gas production from both pools.

(7) Meridian proposes that the economic limit for downhole commingling in all seven cases be based upon the relationship of costs to rate and estimated ultimate gas recovery only from the Pictured Cliff pool.

(8) Meridian proposes the following substitution:

"In the event total gas production from the Pictured Cliffs Pool in a well exceeds both a maximum average daily producing rate of 300 MCFPD and an estimated ultimate gas recovery ("EUR") of 900 MMCF, then and in that event downhole commingle will not be allowed in the affected well until both the rate and the EUR drop below the above described limits."

(9) These cases were originally heard by the Division at Examiner Hearings held on April 22, 1993 and July 1, 1993 with Meridian being the only party to appear.

(10) Because Meridian is the only party to have appeared in these case, no further notice is required to reopen these cases.

(11) Meridian requests that this matter be placed on the Division's Examiner docket now set for August 26, 1993.

WHEREFORE, Meridian requests that after hearing, the Division grant the relief requested herein.

Respectfully submitted,

W. Thomas Kellahin
Kellahin & Kellahin
P. O. Box 2265
Santa Fe, New Mexico 87501
(505) 982-4285

SUGGESTED ADVERTISEMENT

10745 and

Cases 10754 : Application of Meridian Oil Inc. to amend Division Order R-9920 and to reopen Cases 10754 and 10745, San Juan and Rio Arriba Counties, New Mexico. The applicant seeks to amend Division Order R-9920, dated July 9, 1993, entered in Cases 10721, 10722, 10723, 10724 and 10725 and to Reopen Cases 10745 and 10754 in order to present additional evidence. Specifically, applicant seeks to amend those provisions of Order R-9920 which established an economic limit for downhole commingling of production in certain wells in the Pictured Cliffs formation and the Basin Fruitland Coal Gas Pool and to have said amendments applied to orders to be issued in Cases 10754 and 10754. These cases involve a total of seven wells located and described in Division Examiner dockets of April 22, 1993 and July 1, 1993.