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W. THOMAS KELLAHIN*

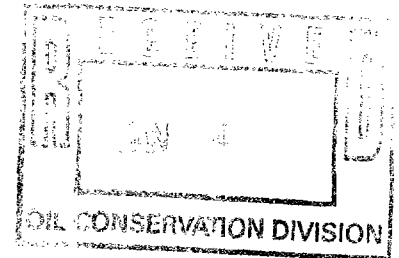
*NEW MEXICO BOARD OF LEGAL SPECIALIZATION
RECOGNIZED SPECIALIST IN THE AREA OF
NATURAL RESOURCES-OIL AND GAS LAW

JASON KELLAHIN (RETIRED 1991)

TELEPHONE (505) 982-4285
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January 24, 1994

HAND DELIVERED



Mr. William J. LeMay
Oil Conservation Division
State Land Office Building
310 Old Santa Fe Trail, 2nd Floor
Santa Fe, New Mexico 87501

10921

Re: Huerfano Unit #74 Well-19M-T27N,R10W
Huerfano Unit #18 Well-32M-T27N,R10W
Application of Meridian Oil Inc.
for downhole commingling,
San Juan County, 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 February 17, 1994.

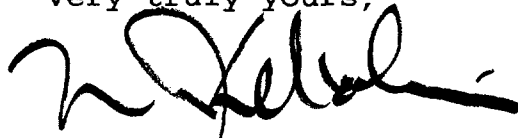
By copy of this letter and application, sent certified mail, we are notifying all interested parties of their right to appear at the hearing and participate in this case, including the right to present evidence either in support of or in opposition to the application and that failure to appear at the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

Mr. William J. LeMay
January 24, 1994
Page Two

Pursuant to the Division's Memorandum 2-90, all parties are hereby informed that if they appear in this case, then they are requested to file a Pre-Hearing Statement with the Division not later than 4:00 PM on Friday, February 11, 1994, with a copy delivered to the undersigned.

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

Very truly yours,

A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', written over a horizontal line.

W. Thomas Kellahin

WTK/mg
Enclosure

cc: Meridian Oil Inc. and
By Certified Mail - Return Receipt
All Interested Parties

Mr. William J. LeMay
January 24, 1994
Page Two

10921

PROPOSED ADVERTISEMENT

Case _____ : **Application of Meridian Oil Inc. for downhole commingling, San Juan County, New Mexico.** Applicant seeks approval to downhole commingle (a) Fulcher Kutz-Pictured Cliffs Gas Pool and the Basin-Fruitland Coal Gas Pool production within the wellbore of its Huerfano Unit #74 Well located in Unit M of 19, T27N, R10W, an existing Pictured Cliffs formation well dedicated to the SW/4 of Section 19 with the W/2 of said Section to be dedicated to coal gas production; and (b) West Kutz-Pictured Cliffs Gas Pool and the Basin-Fruitland Coal Gas Pool production within the wellbore of its Huerfano Unit #18 Well located in Unit M of Section 32, T27N, R10W, an existing Pictured Cliffs formation well dedicated to the SW/4 of Section 32 with the S/2 of said Section to be dedicated to coal gas production.

The Huerfano Unit #74 Well is located approximately 4 miles west from Angles Peak, New Mexico.

The Huerfano Unit #18 Well is located approximately 4 miles southwest from Angles Peak, New Mexico.

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

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

CASE: 10921

A P P L I C A T I O N

Comes now MERIDIAN OIL INC., ("Meridian") by and through its attorneys, Kellahin and Kellahin, and applies to the New Mexico Oil Conservation Division for approval to downhole commingle (a) Fulcher Kutz-Pictured Cliffs Gas Pool and the Basin-Fruitland Coal Gas Pool production within the wellbore of its Huerfano Unit #74 Well located in Unit M of 19, T27N, R10W, an existing Pictured Cliffs formation well dedicated to the SW/4 of Section 19 with the W/2 of said Section to be dedicated to coal gas production; and (b) West Kutz-Pictured Cliffs Gas Pool and the Basin-Fruitland Coal Gas Pool production within the wellbore of its Huerfano Unit #18 Well located in Unit M of Section 32, T27N, R10W, an existing Pictured Cliffs formation well dedicated to the SW/4 of Section 32 with the S/2 of said Section to be dedicated to coal gas production.

In support of its application, Meridian states:

(1) Meridian is the operator of the:

(a) Fulcher Kutz-Pictured Cliffs Gas Pool and the Basin-Fruitland Coal Gas Pool production within the wellbore of its Huerfano Unit #74 Well located in Unit M of 19, T27N, R10W, an existing Pictured Cliffs formation well dedicated to the SW/4 of Section 19 with the W/2 of said Section to be dedicated to coal gas production; See Exhibit A-1; and

(b) West Kutz-Pictured Cliffs Gas Pool and the Basin-Fruitland Coal Gas Pool production within the wellbore of its Huerfano Unit #18 Well located in Unit M of Section 32, T27N, R10W, an existing Pictured Cliffs formation well dedicated to the SW/4 of Section 32 with the S/2 of said Section to be dedicated to coal gas production. See Exhibit B-1.

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

(3) The Huerfano Unit #18 Well is at standard locations and within standard spacing and proration units for both the West Kutz-Pictured Cliffs Pool (SW/4) and the Basin Fruitland Coal Gas Pool (S/2).

(4) The Huerfano Unit #74 Well is located at a previously approved unorthodox gas well location for the Fulcher Kutz-Pictured Cliffs Gas Pool and within a standard proration and spacing unit for said pool consisting of SW/4 of Section 19.

(5) The Huerfano Unit #74 Well is located at a standard well location for the Basin Fruitland Coal Gas Pool and will be dedicated to a standard 334.08-acre proration and spacing unit for said pool consisting of the W/2 of Section 19.

(6) Division Order R-9921-A established an administrative procedure for downhole commingling of Pictured Cliffs Gas Pool and Basin Fruitland Coal Gas Pool production without additional notice to those interest owners. However, there are owners involved in these two wells who have not been previously notified.

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

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

1. That the downhole commingling in these wellbores is necessary because the current Pictured Cliffs production is marginal and can be economically extended if it is commingled with potential Basin Fruitland Coal Gas Pool production. It is not economic to attempt to dually complete those formations in these wells.

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

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

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

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

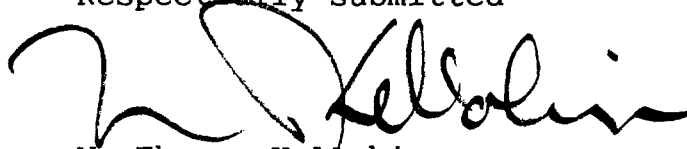
(10) Applicant requests that this matter be docketed for hearing on the Division's Examiner docket now scheduled for February 17, 1994.

(11) Copy of this application has been sent to all offsetting operators to the two spacing units for each well as set forth on Exhibits A-2, A-3, B-2, and B-3.

(12) A copy of this application is being sent to all owners of production within the respective spacing units who may be affected by downhole commingling and who were not notified in the case which resulted in Division Order R-9921-A.

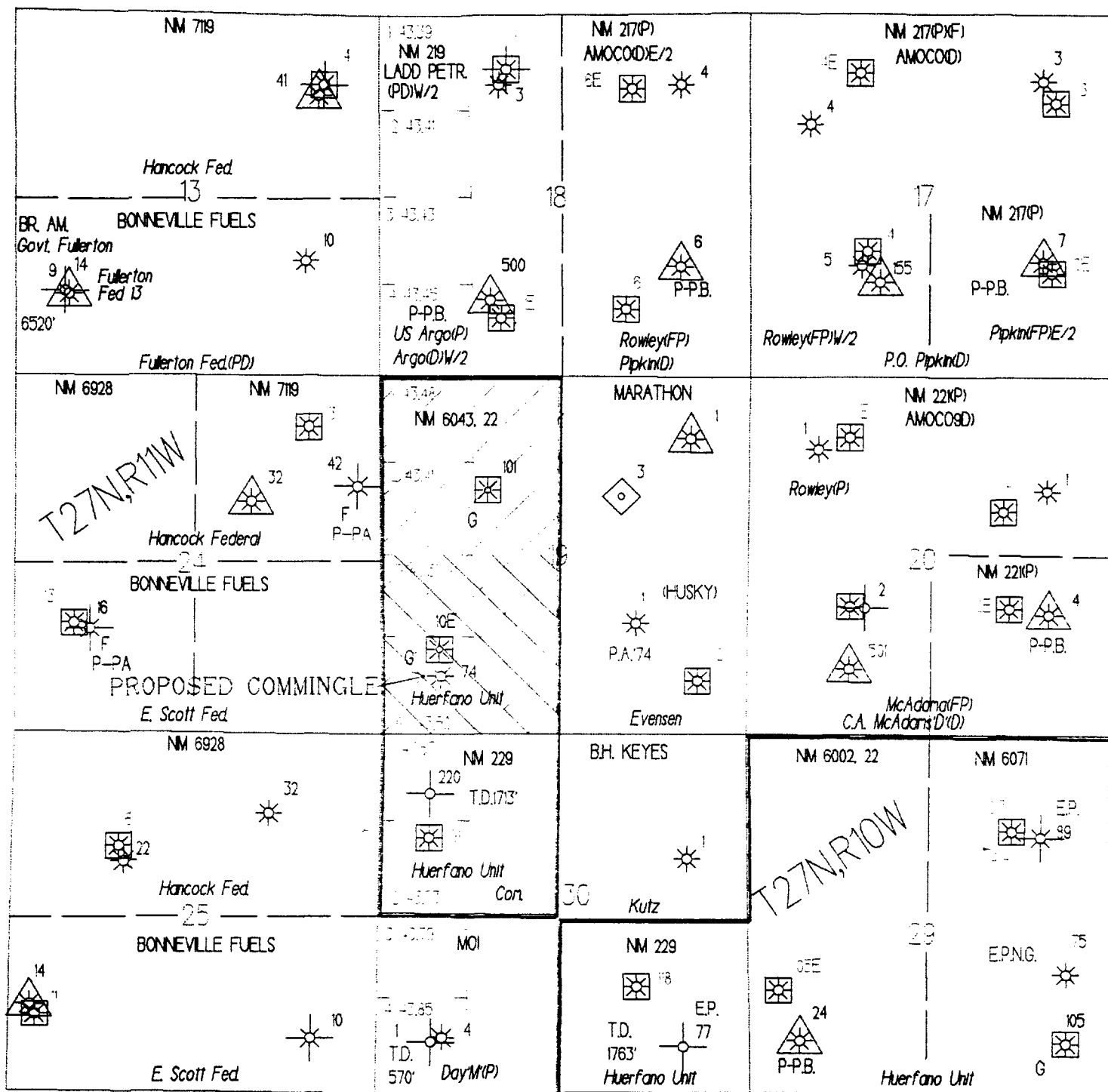
WHEREFORE Applicant requests that this matter be set for hearing on February 17, 1994 before a duly appointed Examiner of the Oil Conservation Division and that after notice and hearing as required by law, the Division enter its order granting this application.






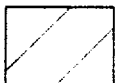


Respectfully submitted

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

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

HERFANO UNIT #74 WELL SWSW SECTION 19, T27N, R10W SAN JUAN CO., NEW MEXICO



- | | | |
|---|--|--|
|  FRUITLAND SAND WELL |  MESAVERDE WELL |  SPACING UNIT PICTURED CLIFFS |
|  FRUITLAND COAL WELL |  DAKOTA WELL |  SPACING UNIT FRUITLAND COAL |
|  PICTURED CLIFFS WELL |  GALLUP WELL | |

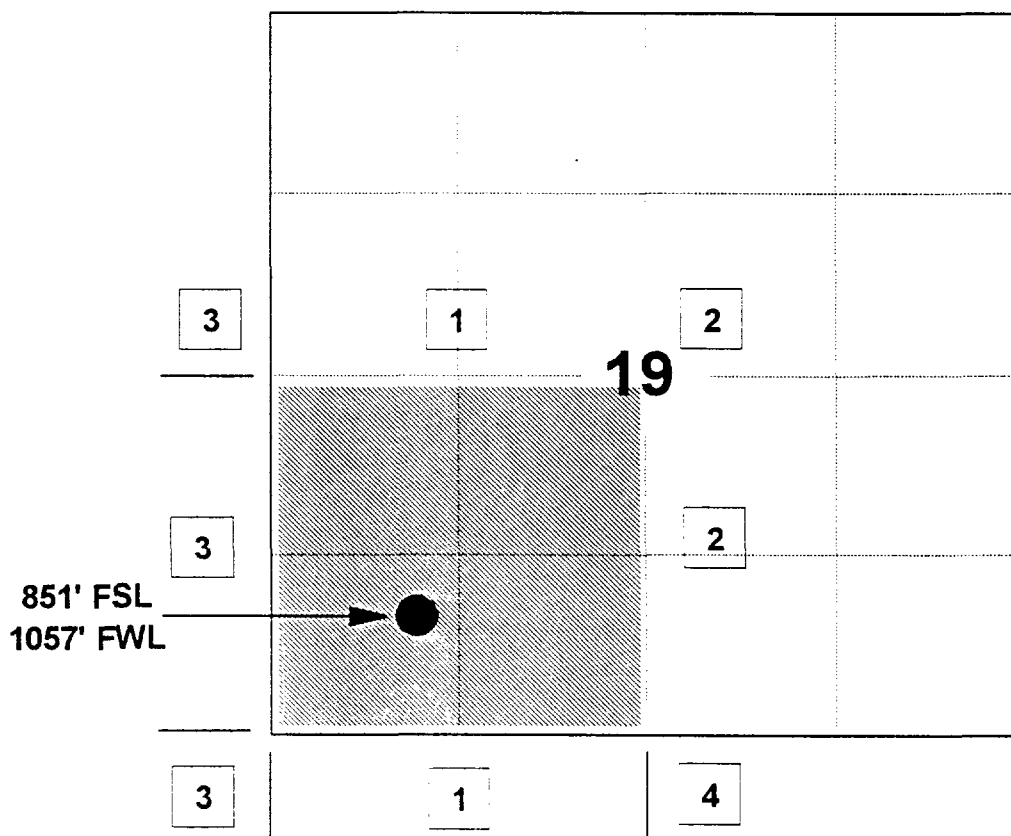
MERIDIAN OIL INC

HUERFANO UNIT #74

OFFSET OPERATOR \ OWNER PLAT

Fruitland Coal / Pictured Cliffs Commingle Well

Township 27 North, Range 10 West



1) Meridian Oil Inc

2) Marathon Oil Company

PO Box 552, Midland, TX 79702

3) Marathon Oil Company &

Bonneville Fuels Company

1600 Broadway, Ste 1100, Denver, CO 80202

Louis Dreyfus Gas Holdings, Inc.

1400 Quail Springs Pkwy, Ste 600, Oklahoma City, OK 73134

4) Roddy Production Co., Inc.

PO Box 2221, Farmington, NM 87499

Exhibit A-2

Pictured Cliffs Formation

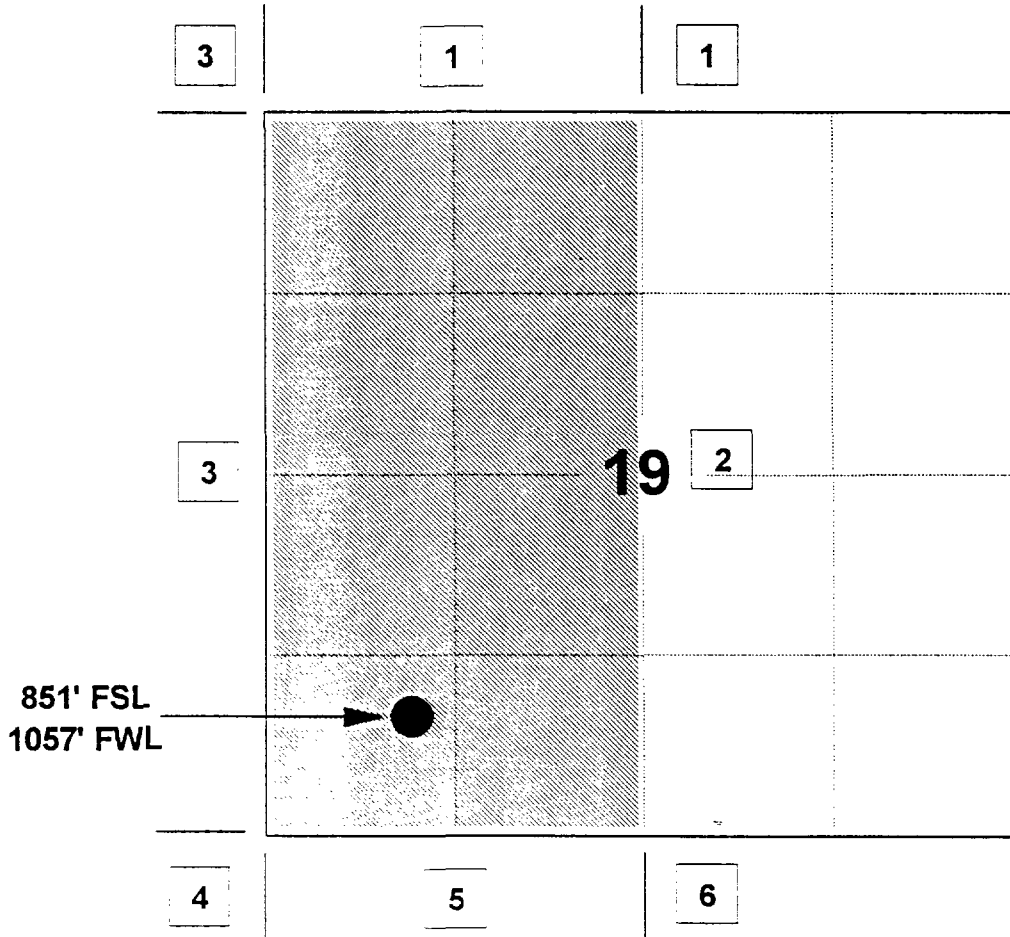
MERIDIAN OIL INC

HUERFANO UNIT #74

OFFSET OPERATOR \ OWNER PLAT

Fruitland Coal / Pictured Cliffs Commingle Well

Township 27 North, Range 10 West



1) Meridian Oil Inc

2) Marathon Oil Company

PO Box 552, Midland, TX 79702

3) Bonneville Fuels Company

1600 Broadway, Ste 1100, Denver, CO 80202

4) Bonneville Fuels Co., Marathon Oil Co. &

Louis Dreyfus Gas Holdings, Inc. 1400 Quail Springs Pkwy, Ste 600, Oklahoma City, OK 73134

5) Meridian Oil Inc. &

BBL, Limited

PO Box 911, Breckenridge, TX 76024-0911

5) Meridian Oil Inc. &

Fairway Oil Company

PO Box 936, Farmington, NM 87499

Exhibit A-3

Fruitland Coal Formation

- Exhibit B-1

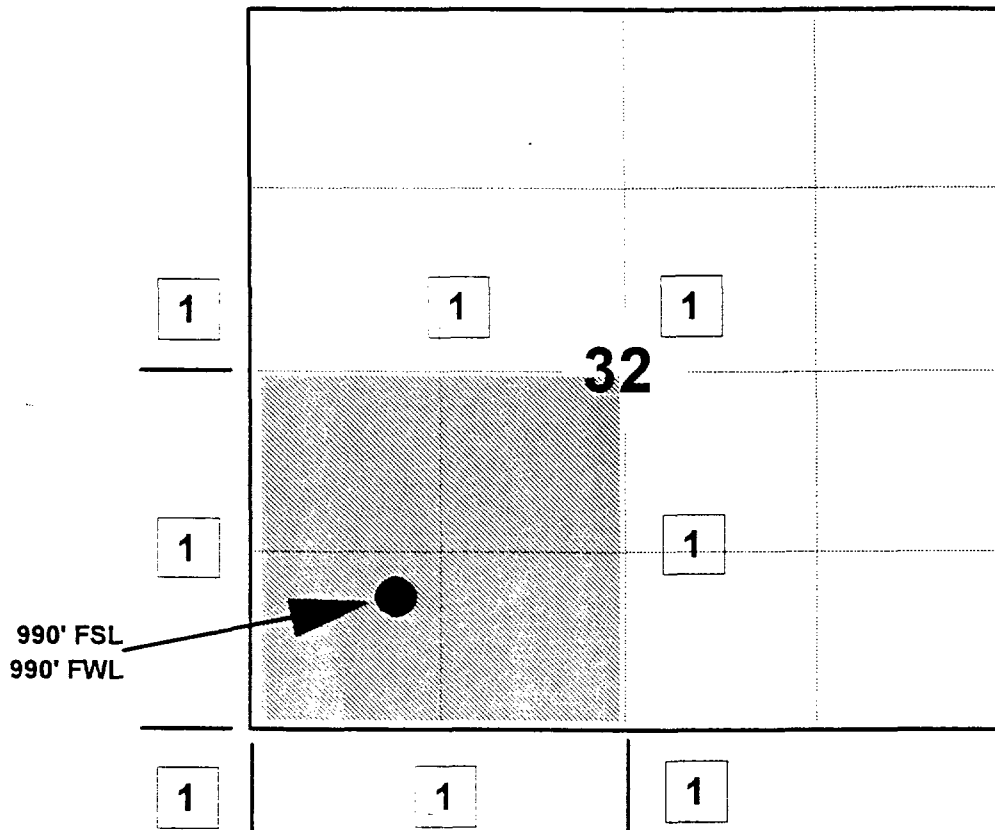
MERIDIAN OIL INC

HUERFANO UNIT #18

OFFSET OPERATOR \ OWNER PLAT

Fruitland Coal \ Pictured Cliffs Commingle Well

Township 27 North, Range 10 West



1) Meridian Oil Inc

Exhibit B-2

Pictured Cliffs

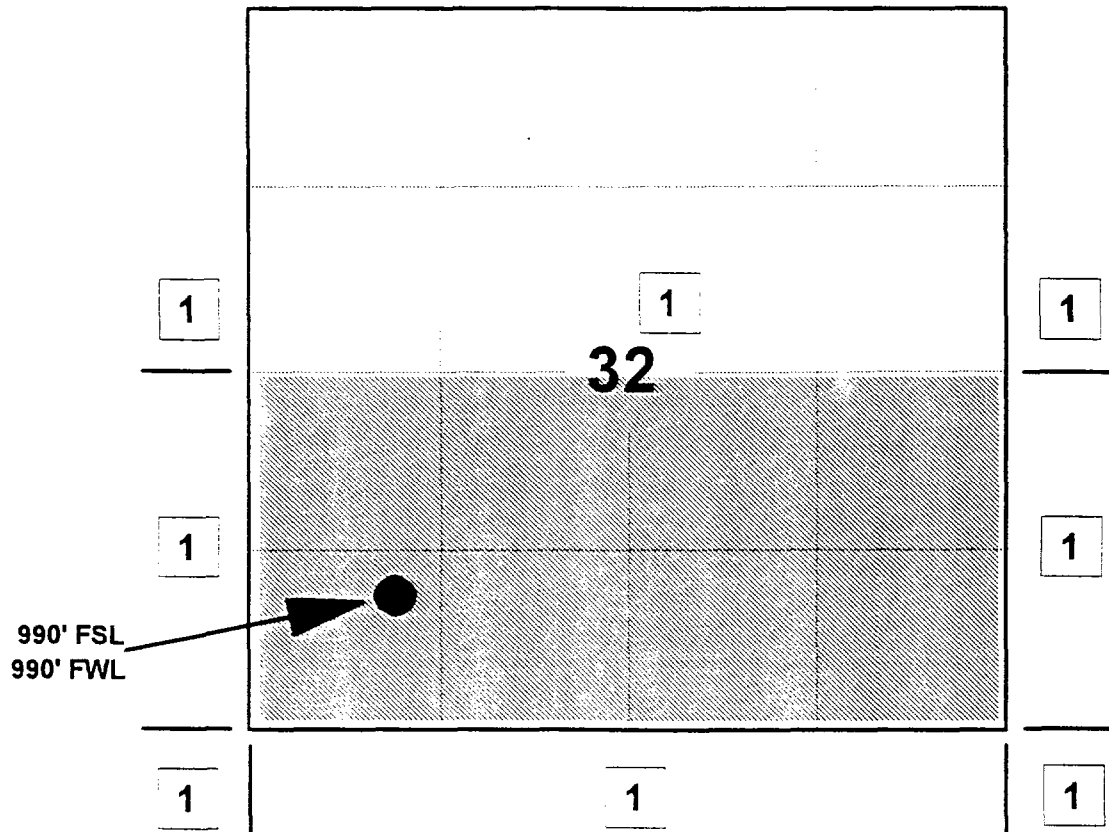
MERIDIAN OIL INC

HUERFANO UNIT #18

OFFSET OPERATOR \ OWNER PLAT

Fruitland Coal \ Pictured Cliffs Commingle Well

Township 27 North, Range 10 West



1) Meridian Oil Inc

Exhibit B-3

Fruitland Coal