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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)

June 27, 1994

HAND DELIVERED

11038

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

JUN 28 1994

Re: Klein/Vaughn Area
Application of Meridian Oil Inc.
for Downhole Commingling,
Rio Arriba County, New Mexico

Dear Mr. Stogner:

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 July 21, 1994.

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

Oil Conservation Division
June 27, 1994
Page 2

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, July 15, 1994, with a copy delivered to the undersigned.

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

Very truly yours,



W. Thomas Kellahin

cc: Meridian Oil Inc.

11038

10:21

PROPOSED ADVERTISEMENT

Case _____: Application of Meridian Oil Inc. for downhole commingling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks exceptions from Division General Rule 303(C) to establish on an area-wide basis authorization for downhole commingling of Dakota, Mesaverde and Gallup gas production in the wellbores of existing or future wells drilled anywhere within Sections 26 through 30, 33, 34 and S/2 35 in Township 26 North, Range 6 West, Rio Arriba County, New Mexico, said production being portions of the Basin-Dakota Gas Pool, the Blanco-Mesaverde Gas Pool and Undesignated Gallup production. The center of said area is located approximately 4 miles southeast from El Paso Natural Gas Company Largo Station, 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
RIO ARRIBA COUNTY, NEW MEXICO.

CASE: 11038

APPLICATION

Comes now MERIDIAN OIL INC., by and through its attorneys, Kellahin and Kellahin, and applies to the New Mexico Oil Conservation Division for exceptions from Division General Rule 303(C) to establish on an area-wide basis authorization for downhole commingling of Dakota, Mesaverde and Gallup gas production in the wellbores of existing or future wells drilled anywhere within Sections 26 through 30, 33, 34 and S/2 35 in Township 26 North, Range 6 West, Rio Arriba County, New Mexico, said production being portions of the Basin-Dakota Gas Pool, the Blanco-Mesaverde Gas Pool and Undesignated Gallup production.

In support of its application, Meridian Oil Inc. states:

(1) Meridian Oil Inc. is the operator of 19 Basin Dakota Gas Pool wells, 7 Blanco-Mesaverde Gas pool wells, 1 Undesignated Gallup Gas well, and 1 Mesaverde-Dakota dually completed well all located within an area known as the "Klein/Vaughn Area" as identified on Exhibit "A" and consisting of the following described acreage:

TOWNSHIP 26 NORTH, RANGE 6 WEST, NMPM
Sections 26-30: All
Sections 33-34: All
Section 35: S/2

(2) In the absence of special circumstances, Division general state-wide Rule 303(C) requires that administrative applications for downhole commingling of gas production be submitted, processed and approved on a well by well basis.

(3) Sufficient data is now available from existing wells in the Klein/Vaughn Area to support the Division approving the downhole commingling of Dakota, Mesaverde and Gallup gas production within the Klein/Vaughn Area on an "area-wide" basis rather than on a "well-by-well basis."

(4) Production from the Dakota and Gallup pools is now either marginal or uneconomic from existing wells within the Klein/Vaughn Area and the economic life of that production is extended if it is downhole commingled with Mesaverde pool production.

(5) The approval of downhole commingling of these formations in the Klein/Vaughn Area will extend the economic life of the existing wells and thereby increase ultimate recovery from these formations.

(6) In addition, any new wells to be drilled in the Klein/Vaughn Area should be approved for downhole commingling upon submittal to the NMOCD-Aztec of production data demonstrating that only one of the zones is economic based upon criteria which the applicant will submit at the hearing of this case.

(7) The processing of downhole commingling applications for the Klein/Vaughn Area on a "well-by-well" basis will be an administrative burden to the Division and to the operator.

(8) Approval of downhole commingling on an area-wide basis for the Klein/Vaughn Area is in the best interests of conservation, the prevention of waste and the protection of correlative rights.

(9) Meridian Oil Inc. requests the adoption of a summary administrative procedure with the necessary exceptions to Division Rule 303(C) so that the Supervisor of the Aztec District Office of the Division shall approve the downhole commingling of said production on an area-wide basis for the Klein/Vaughn Area.

(10) The ownership is common among these three formations within the Klein/Vaughn Area.

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

1. The wells in the Klein/Vaughn Area which are currently single completions in the Dakota formation, the Mesaverde formation or the Gallup formation cannot be dually completed because of mechanical condition and therefore downhole commingling is necessary to economically produce in all three formations.

2. The well in the Klein/Vaughn Area which is currently dually completed in the Dakota and Mesaverde formations cannot be produced with the Gallup formation because of

mechanical conditions and therefore Gallup production will be wasted unless it is produced by downhole commingling.

3. Any new well to be drilled in the Klein/Vaughn Area that is determined to be economic only in the Mesaverde formation will require downhole commingling in order to maximize recoveries from either the Gallup or Dakota formations.

4. That there will be no crossflow between the three zones commingled.

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

6. 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.

(12) In order to salvage the remaining Dakota and Gallup production from the Klein/Vaughn Area, Meridian Oil Inc. seeks approval to downhole commingle all Dakota, Mesaverde and Gallup production from any existing wells and any new wells where the Gallup and Dakota are determined to be uneconomic.

(13) Meridian Oil Inc. will submit at the hearing, its proposed formula for the allocation of production to each of the commingled zones and a description of the factors or data used in determining such formula.

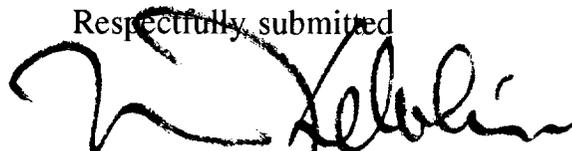
(14) Applicant requests that this matter be docketed for hearing on the Division's Examiner docket now scheduled for July 21, 1994.

(15) Notice of this application has been sent to all offsetting operators/owners adjacent to the Klein/Vaughn Area who may be affected by downhole commingling and who are identified as follows:

Dakota plat and notice list:	Exhibit "B" and "C"
Mesaverde plat and notice list:	Exhibit "D" and "E"
Gallup plat and notice list:	Exhibit "F" and "G"

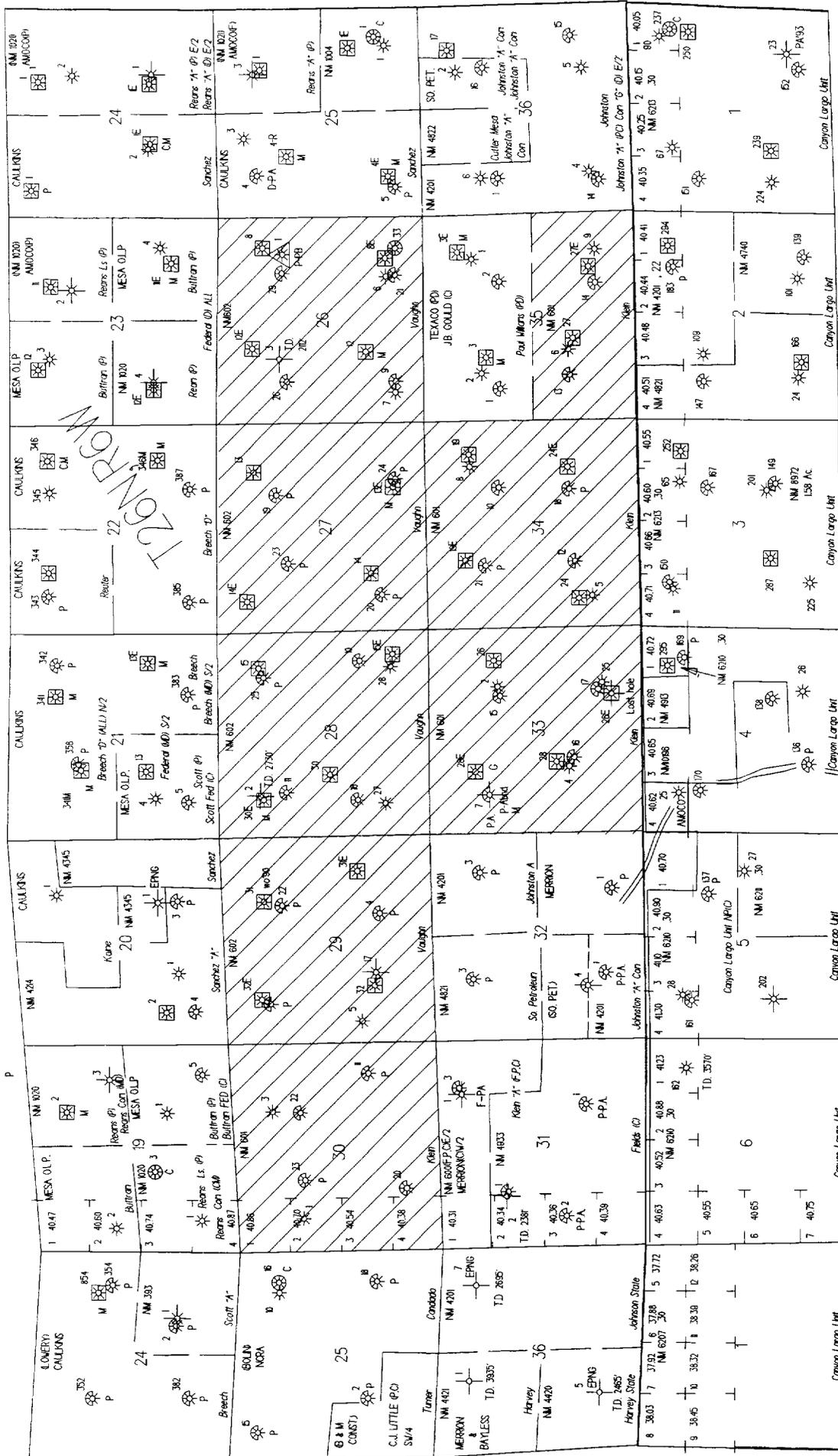
WHEREFORE Applicant requests that this matter be set for hearing on July 21, 1994 before a duly appointed Examiner of the Oil Conservation Division and that after notice and hearing as required by law, the Division enter its order granting this application.

Respectfully submitted



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

KLEIN/VAUGHN AREA
T26N.R6W
Sec 26, 27, 28, 29, 30, 33, 34 S/2 35
RIO ARRIBA COUNTY, NEW MEXICO



- FRUITLAND SAND WELL
- FRUITLAND COAL WELL
- PICTURED CLIFFS WELL
- MESAVERDE WELL
- DAKOTA WELL
- GALLUP WELL

EXHIBIT "A"

MERIDIAN OIL INC

KLEIN / VAUGHN DAKOTA / GALLUP / MESAVERDE COMMINGLE APPLICATION

TOWNSHIP 26 NORTH, RANGE 6 WEST
RIO ARRIBA COUNTY, NEW MEXICO

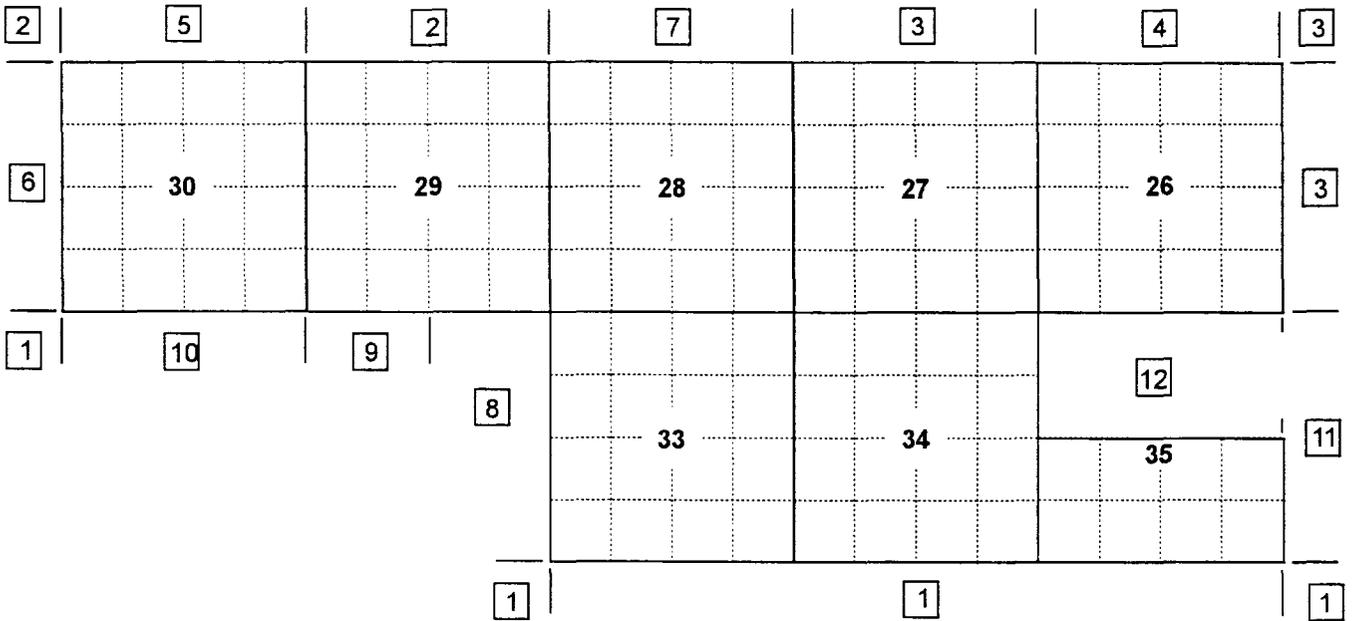


EXHIBIT "B"

DAKOTA FORMATION

**KLEIN/VAUGHN
DAKOTA FORMATION**

1. Meridian Oil Inc.
2. Meridian Oil Inc. and Caulkins Oil Co.
2100 Colorado Bank Building,
Denver, Colorado 80202
3. Caulkins Oil Co.
4. Conoco Inc.
10 Desta Drive, Suite 100W,
Midland, Texas 79705
5. Amoco Production Co.
Post Office Box 800
Denver, Colorado 80201
6. Central Resouces Inc.
1776 Lincoln St., Suite 1010
Denver, Colorado 80203
7. Caulkins Oil Co. and Conoco, Inc.
8. Meridian Oil Inc. and Merrion Oil and Gas Corp.
Post Office Box 840
Farmington, New Mexico 87109
9. Meridian Oil Inc. and The Wiser Oil Co.
8115 Preston Road, Suite 400
Dallas, Texas 75225
10. Meridian Oil Inc., Merrion Oil and Gas Corp. and AG Hill
5000 Thanksgiving Tower
Dallas, Texas 75201
11. Meridan Oil Inc., The Wiser Co. and ARCO Oil and Gas
P.O. Box 1610
Midland, Texas 79702
12. Texaco Exploration and Production Inc.
Post Office Box 2100
Denver, Colorado 80237

EXHIBIT "C"

MERIDIAN OIL INC

KLEIN / VAUGHN DAKOTA / GALLUP / MESAVERDE COMMINGLE APPLICATION

TOWNSHIP 26 NORTH, RANGE 6 WEST
RIO ARRIBA COUNTY, NEW MEXICO

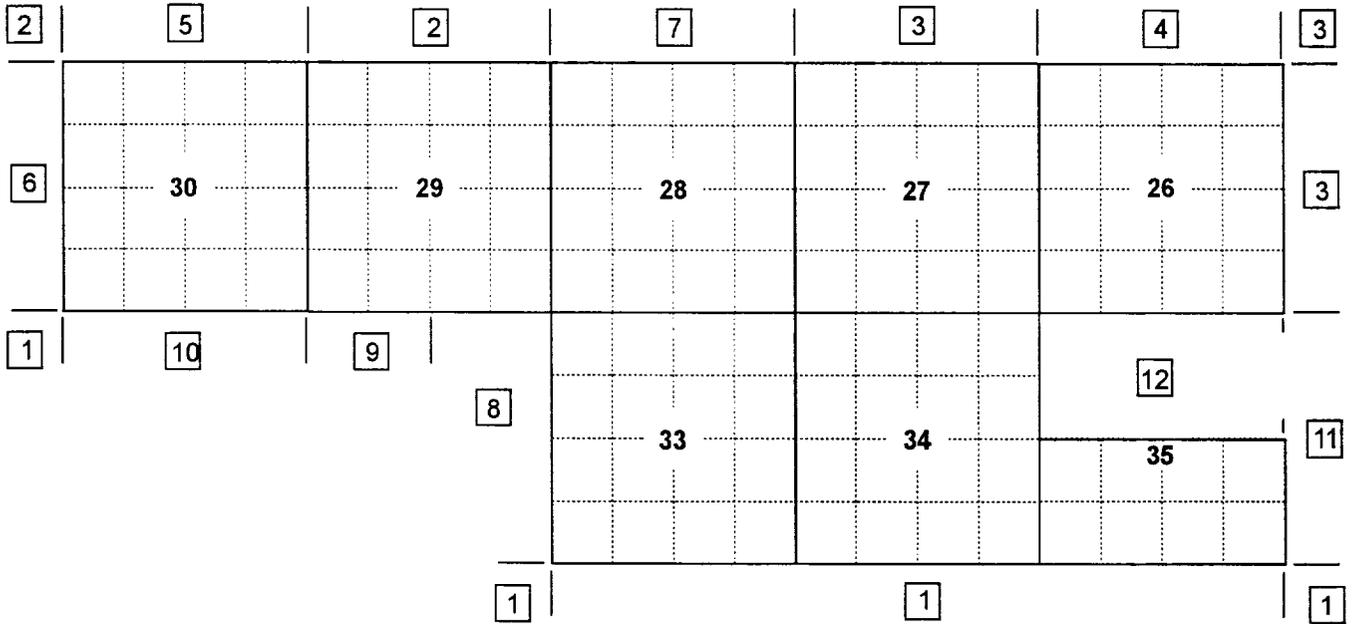


EXHIBIT "D"

MESAVERDE FORMATION

KLEIN/VAUGHN
MESAVERDE FORMATION

1. Meridian Oil Inc.
2. Meridian Oil Inc. and Caulkins Oil Co.
2100 Colorado Bank Building,
Denver, Colorado 80202
3. Caulkins Oil Co.
4. Conoco Inc.
10 Desta Drive, Suite 100W,
Midland, Texas 79705
5. Amoco Production Co.
Post Office Box 800
Denver, Colorado 80201
6. Central Resouces Inc.
1776 Lincoln St., Suite 1010
Denver, Colorado 80203
7. Caulkins Oil Co. and Conoco, Inc.
8. Meridian Oil Inc. and Merrion Oil and Gas Corp.
Post Office Box 840
Farmington, New Mexico 87109
9. Meridian Oil Inc. and The Wiser Oil Co.
8115 Preston Road, Suite 400
Dallas, Texas 75225
10. Meridian Oil Inc., Merrion Oil and Gas Corp. and AG Hill
5000 Thanksgiving Tower
Dallas, Texas 75201
11. Meridan Oil Inc., The Wiser Co. and ARCO Oil and Gas
P.O. Box 1610
Midland, Texas 79702
12. Texaco Exploration and Production Inc.
Post Office Box 2100
Denver, Colorado 80237

EXHIBIT "E"

MERIDIAN OIL INC

KLEIN / VAUGHN DAKOTA / GALLUP / MESAVERDE COMMINGLE APPLICATION

TOWNSHIP 26 NORTH, RANGE 6 WEST
RIO ARRIBA COUNTY, NEW MEXICO

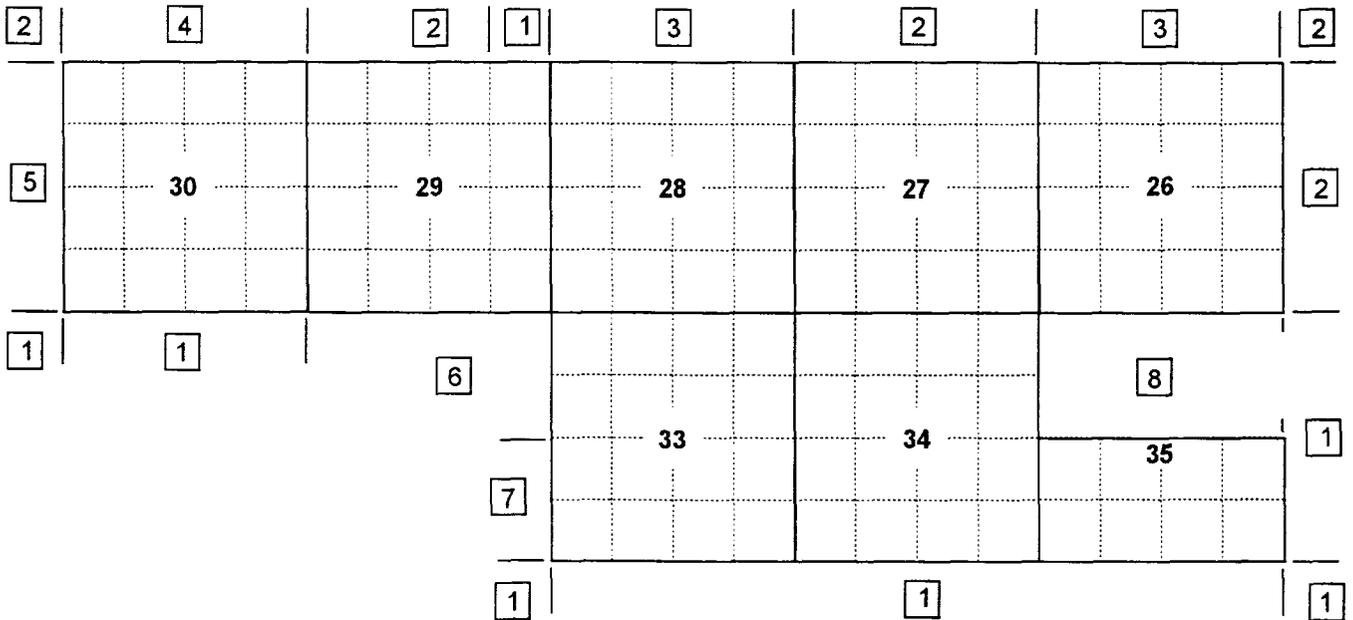


EXHIBIT "F"

GALLUP FORMATION

**KLEIN/VAUGHN
GALLUP FORMATION**

1. Meridian Oil Inc.
2. Caulkins Oil Co.
2100 Colorado Bank Building,
Denver, Colorado 80202
3. Conoco Inc.
10 Desta Drive, Suite 100W,
Midland, Texas 79705
4. Amoco Production Co.
Post Office Box 800
Denver, Colorado 80201
5. Central Resouces Inc.
1776 Lincoln St., Suite 1010
Denver, Colorado 80203
6. Meridian Oil Inc. and The Beamon Group
Tom L. Hail, Trustee
James Robert Beamon, Trustee
Cathryn Beamon
Claudia Marcia Lundell Gilmer
Linda Jeanne Lundell Lindsey
Carolyn Beamon Tilley
Robert Walter Lundell
James Robert Beamon
c/o Pattie Beamon Lundell
1616 S. Voss, #870
Houston, Texas 77057
c/o Robert Beamon, Trustee
Three Riverway, Suite 470
Houston, Texas 77056
c/o Randall T. Johnson, Trustee
Sheryl A. Lundell, Revocable Trust
430 Meadow Ridge Drive
Kerrville, Texas 78028-3825
7. Merrion Oil and Gas Corp.
Post Office Box 840
Farmington, New Mexico 87109
8. Texaco Exploration and Production Inc.
Post Office Box 2100
Denver, Colorado 80237

COUNTY

POOL

TOWNSHIP

RANGE

6 WEST

NMPM

RIO ARriba COUNTY

26
NORTH

6	5	4	3	2	1
7	8	9	10	11	12
18	17	16	15	14	13
19	20	21	22	23	24
30	29	28	27	26	25
31	32	33	34	35	36

NM-602

VAUGHN

NM-601

BLEIN