

MERIDIAN OIL

February 25, 1992

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

VIA FACSIMILE
(505) 827-5741

Re: Application of Southland
Royalty Company for
Approval of an Unorthodox Well
Location, and Downhole
Commingling, San Juan County,
New Mexico.

Case 10455

RECEIVED

FEB 25 1992

OIL CONSERVATION DIVISION

Dear Mr. LeMay:

On behalf of Southland Royalty Company, please find enclosed our application for a hearing for the Aztec #700 Well. We request that this case be set for hearing on March 19, 1992.

Very truly yours,

Alan Alexander

Alan Alexander
Senior Land Advisor

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

IN THE MATTER OF THE APPLICATION
OF SOUTHLAND ROYALTY COMPANY FOR
APPROVAL OF AN UNORTHODOX
GAS WELL LOCATION AND DOWNHOLE
COMMINGLING, SAN JUAN COUNTY,
NEW MEXICO.

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OIL CONSERVATION DIVISION

Case 10455

APPLICATION

Comes now SOUTHLAND ROYALTY COMPANY, by and through its attorneys, Kellahin Kellahin & Aubrey, and applies to the New Mexico Oil Conservation Division for approval to drill its proposed Southland Royalty Company's Aztec #700 Well as follows:

(1) at an unorthodox well location 2280 feet FSL and 1500 feet FWL of Section 14, T28N, R11W, NMPM, San Juan County, New Mexico;

(2) to downhole commingle production from the Fulcher Kutz Pictured Cliffs Gas Pool and the Basin Fruitland Coal Gas Pool, said well being located in the NW/4SW/4 of said Section 14;

(3) with the dedication of a standard spacing unit containing 320 acres and consisting of the S/2 of said Section 14 for production from the Basin Fruitland Coal Gas Pool; and

(4) the dedication of a standard proration and spacing unit containing 160 acres and consisting of the SW/4 of said Section 14 for production from the Fulcher-Kutz Pictured Cliff Pool.

and in support thereof states:

1. Southland Royalty Company ("Southland") is the proposed operator of the subject well and is a working interest owner in both proposed spacing units in the Basin Fruitland Coal Gas Pool and the Fulcher Kutz Pictured Cliff Pool.

2. Southland proposed the subject well at a standard location in Unit M at 810 feet FSL and 790 feet FWL but its request was denied by the Bureau of Land Management because of visual impairment.

3. In compliance with Bureau of Land Management requirements, Southland now proposes the subject well be drilled at an unorthodox location 1500 feet FWL and 2280 feet FSL to a depth sufficient to test both the Fulcher Kutz Pictured Cliffs Gas Pool and the Basin Fruitland Coal Gas Pool.

4. The proposed unorthodox location is an acceptable location within the section from which to test for production in both the Pictured Cliffs Pool and the Basin Fruitland Coal Gas Pool.

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

(a) that the commingling is necessary to permit the Pictured Cliffs Pool to be produced because it is not otherwise economic to attempt to drill a separate well for each of the two pools involved;

(b) that there will be no crossflow between the two commingled pools;

(c) that neither commingled zone exposes the other commingled zone to damage by produced liquids;

(d) that the fluids, if any, from each zone are expected to be compatible with the other zone;

(e) that ownership is common between the two pools and no correlative rights violations will occur;

(f) that the bottomhole pressure of the lower pressure zone is not anticipated to be less than 50 percent of the bottom hole pressure of the higher pressure zone when adjusted to a common datum;

(g) that the value of the commingled production is not less than the sum of the values of the individual production.

7. Southland seeks the approval of an allocation formula for the equitable distribution of production between the two pools based upon individual pool production tests to be conducted on the well during its drilling and completion.

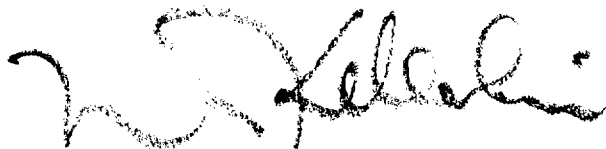
8. The ownership between the two pools is identical.

9. Southland request that this matter be docketed for hearing on the Division's Examiner docket now scheduled for March 19, 1992.

10. A copy of this application has been sent to all offsetting operators and to the owners of interest in the affected production within the two spacing units as set forth on Exhibits A and B.

WHEREFORE, Southland requests that this matter be set for hearing on March 19, 1992 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 dark ink, appearing to read 'W. Thomas Kellahin', with a stylized flourish at the end.

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

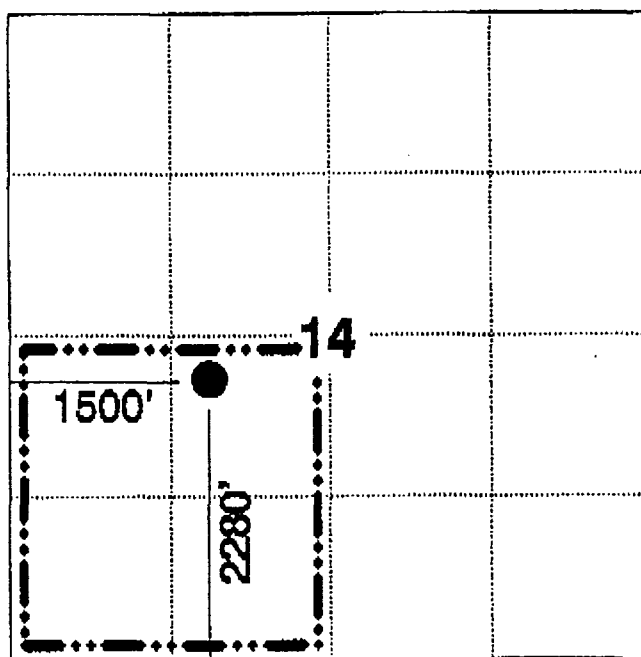
AZTEC #700

OFFSET OPERATOR PLAT

Plotted Cliffs \Fruitland Coal Co-Mingle
and Unorthodox Location

Fruitland Coal Ownership

Township 28 North, Range 11 West
San Juan County, New Mexico



Southland Royalty Company

Marathon Oil Company

PO Box 552, Midland, TX 79702

Mesa Limited Partnership

PO Box 2009, Amarillo, TX 79189

Petrocorp Inc. 16600 Greensport Park Dr, Ste 300 N Atrium, Houston, TX 77060

W M Galloway

3005 Northridge Dr., Suite 1, Farmington, NM 87401

EXHIBIT "A"

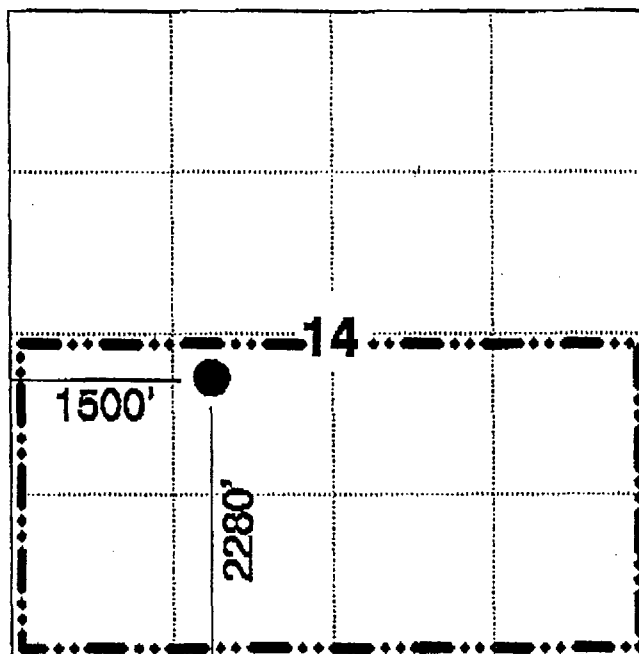
AZTEC #700 OFFSET OPERATOR PLAT

Pictured Cliffs \Fruitland Coal Co-Mingle

Fruitland Coal Ownership

Township 28 North, Range 11 West

San Juan County, New Mexico



Southland Royalty Company

Marathon Oil Company

PO Box 552, Midland, TX 79702

Joe C Salmon

1535 Highway 84, Bloomfield, NM 87413

Mesa Limited Partnership

PO Box 2009, Amarillo, TX 79169

Chaparral Resources

821 17th St, Suite 1301, Denver, CO 80293

Petrocorp Inc.

16800 Greensport Park Dr, Ste 300 N Atrium, Houston, TX 77060

W M Galloway

3005 Northridge Dr., Suite 1, Farmington, NM 87401

EXHIBIT "B"

OWNERS OF PRODUCTION
AZTEC # 700 WELL

RONALD S. DAVIS M.D.
1100 E. LAKE SUITE 140
TYLER, TX. 75701

MINERALS MANAGEMENT SERVICE
ROYALTY MANAGEMENT PROGRAM
P.O. BOX 5810
DENVER, CO. 80217

SOUTHLAND ROYALTY COMPANY
P.O. BOX 4289
FARMINGTON, NM. 87499-4289