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RECOGNIZED SPECIALIST IN THE AREA OF
NATURAL RESOURCES-OIL AND GAS LAW

JASON KELLAHIN (RETIRED 1991)

October 29, 1993

State Director
United States Department
of the Interior
Bureau of Land Management
New Mexico State Office
1474 Rodeo Road
Santa Fe, New Mexico 87504

HAND DELIVERED

RECEIVED
BUREAU OF LAND MANAGEMENT
93 OCT 29 PM 1:50
STATE OFFICE
SANTA FE, NEW MEXICO

Re: Request for State Director Review of
BLM Decision Letter dated October 8, 1993
Meridian Oil Inc.
Denial of Downhole Commingling
for certain wells in the San Juan 28-5 Unit
for certain wells in the San Juan 28-4 Unit,
for certain wells in the San Juan 29-4 Unit
Rio Arriba County, New Mexico

Dear Sir:

Pursuant to 43 C.F.R. Sec. 3165.3(b), Meridian Oil Inc. hereby requests an administrative review of the above referenced decision(s) issued by Duane W. Spencer, Chief, Branch of Reservoir Management, Farmington District Office ("BLM-Farmington").

The BLM-Farmington approved Meridian Oil Inc.'s Notices of Intent to downhole commingle production from the Pictured Cliffs Pool and the Basin Fruitland Coal Gas Pool in various wells as follows:

<u>WELL</u>	<u>BLM APPROVAL DATE</u>
San Juan 28-4 Unit Well No 226	7-20-93
San Juan 29-4 Unit Well No 200	7-20-93
San Juan 28-5 Unit Well No 227	7-07-93
San Juan 28-5 Unit Well No 228	7-22-93
San Juan 28-5 Unit Well No 200	6-04-93
San Juan 28-5 Unit Well No 232	6-15-93
San Juan 28-5 Unit Well No 229	6-10-93

On September 21, 1993 for the San Juan 28-5 Unit Well No 229 and on August 31, 1993 for the remaining wells, and in accordance with the NMOCD notice rules, Meridian Oil Inc. sent notifications to the BLM-Farmington of Meridian Oil Inc.'s applications to the New Mexico Oil Conservation Division ("NMOCD") for approval to downhole commingle production in these wells.

On September 28, 1993, Meridian Oil Inc. furnished notification to the BLM-Farmington that the NMOCD had issued or would issue orders authorizing the downhole commingling of production from the Pictured Cliffs formation with production from the Basin Fruitland Coal Gas formation, said orders being as follows:

- (1) Administrative Order DHC-936
approving downhole commingling for
San Juan Unit 28-4 Unit Well 226
Unit K, Section 17, T28N, R4W, NMPM
Rio Arriba County, New Mexico
- (2) Administrative Order DHC-933,
approving downhole commingling for
San Juan 28-5 Unit Well No. 200,
Unit H, Section 14, T28N, R5W, NMPM,
Rio Arriba County, New Mexico.
- (3) Administrative Order DHC-932,
approving downhole commingling for
San Juan 28-5 Unit Well No. 227,
Unit M, Section 11, T28N, R5W, NMPM,
Rio Arriba County, New Mexico.
- (4) Administrative Order DHC-937,
approving downhole commingling for
San Juan 29-4 Unit Well No. 200,
Unit K, Section 30, T29N, R4W, NMPM,
Rio Arriba County, New Mexico.
- (5) Administrative Order DHC-934,
approving downhole commingling for
San Juan 28-5 Unit Well No. 228,
Unit B, Section 24, T28N, R5W, NMPM,
Rio Arriba County, New Mexico.

- (6) Administrative Order DHC-935,
approving downhole commingling for
San Juan 28-5 Unit Well No. 232,
Unit L, Section 24, T28N, R5W, NMPM,
Rio Arriba County, New Mexico.
- (7) Administrative Order DHC-939,
approving downhole commingling for
San Juan 28-5 Unit Well No. 229,
Unit M, Section 27, T28N, R5W, NMPM,
Rio Arriba County, New Mexico.

However, as a result of the NMOCD notification, the BLM-Farmington by letter dated October 8, 1993 advised Meridian that: "in order for a downhole commingling application to be approved, technical data including a wellbore diagram, production tests, gas analysis, pressure data corrected to a common datum, and proposed allocation factors must be submitted with the application."

Meridian Oil Inc. hereby requests an administrative review before the State Director, with oral presentation, of the BLM-Farmington's letter of October 8, 1993 (copy enclosed as Exhibit "A").

Meridian Oil Inc. contests this October 8, 1993 decision for the following reasons:

1. BLM-Farmington's action constitutes a federal preemption of the State of New Mexico's regulations of certain aspects of federal oil and gas lessee operations allowed under the Mineral Leasing Act of 1920 as amended (30 USC 187 (1982))

2. The State of New Mexico routinely regulates development and production of oil and gas for the prevention of waste and the protection of correlative rights.

3. The BLM has acquiesced for decades to the State of New Mexico's exercise of jurisdiction through the Oil Conservation Division over matters on federal lands relating to well location, spacing, allowables,

establishment of spacing unit, downhole commingling, special pool rules and other matters and has until now cooperated to allow the State of New Mexico regulatory objectives to be met.

4. The BLM acquiescence to the State of New Mexico makes possible the state's regulation of a single common source of supply ("pool") so that regardless of whether the tracts are fee, federal, indian or state, the owners will abide by the same set of operational regulations to prevent waste and protect correlative rights.

5. Without the BLM acquiescence and cooperation, the state's ability to use its police powers to uniformly regulate a pool will be frustrated.

6. BLM-Farmington's decision unduly interferes with the State of New Mexico's proper exercise of state police powers over oil & gas operations.

7. In these cases, the BLM exercise of jurisdiction over downhole commingling (a historic state oil and gas operational issue) can result in conflicting regulatory decisions based upon the same data. For example, should the BLM deny an application or require a different allocation formula for downhole commingling than that already approved by the NMOCD, then there will exist inconsistent and conflicting regulatory decisions for the same common source of supply.

8. The State of New Mexico's regulation of this aspect of the oil & gas operations also serves to protect the interests of the federal leases and provides the appropriate forum for an administrative hearing. There is no reason for the BLM to create a new and conflicting regulatory scheme for this operation.

9. The NMOCD routinely furnishes copies of its orders to BLM-Farmington to be incorporated into BLM-Farmington files. The NMOCD orders should be accepted by BLM-Farmington and relied upon for regulatory purposes. (For example, See NMOCD Order DHC-936, attached as Exhibit "B").

Bureau of Land Management
October 29, 1993
Page 5

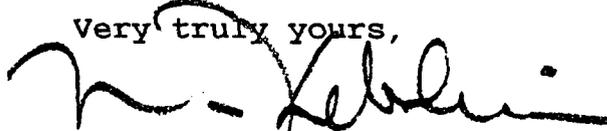
10. The NMOCD regulations require that the BLM-Farmington receives notice of administrative orders or examiner's hearings and thereby BLM-Farmington is afforded its opportunity to participate.

Meridian Oil Inc. requests that the State Director take such action as is necessary to re-establish the long existing practice of accepting the NMOCD regulatory decision covering matters of downhole commingling.

Meridian Oil Inc. seeks an oral presentation before the State Director.

Meridian Oil Inc. requests a thirty (30) day extension in which to submit its supporting documentation and affidavits from its witnesses and experts. That extension is based upon the current unavailability of its expert witnesses to prepare and sign the affidavits of support for this request. Those experts will be available and will complete their statements within thirty days.

Very truly yours,



W. Thomas Kellahin
ATTORNEYS FOR MERIDIAN OIL INC.

cc: Meridian Oil Inc.

cc: Duane W. Spencer
Chief, Branch of Reservoir Management
Bureau of Land Management
Farmington, New Mexico

cc: William J. LeMay
Director
Oil Conservation Division
State of New Mexico



United States Department of the Interior

BUREAU OF LAND MANAGEMENT

Farmington District Office
1235 L. Plaza Highway
Farmington, New Mexico 87401



IN REPLY REFER TO:

San Juan 28-4 Unit et al. (GC)
3162.3-2 (07327)

001 0 1003

Mr. Kurt Shipley
Meridian Oil Incorporated
P. O. Box 4289
Farmington, NM 87499-4289

Dear Mr. Shipley:

You recently submitted a number of downhole commingling applications for the San Juan 28-5 Unit, one for the San Juan 28-4 Unit and one for the San Juan 29-4 Unit. We are returning these applications as unapproved.

In order for a downhole commingling application to be approved, technical data including a wellbore diagram, production tests, gas analysis, pressure data corrected to a common datum, and proposed allocation factors must be submitted with the application.

Under provisions of 43 CFR 3165.3, you may request an Administrative Review of the order described above. Such request, including all supporting documents, must be filed in writing within 20 business days of receipt of this notice and must be filed with the State Director, Bureau of Land Management, P. O. Box 27115, Santa Fe, New Mexico 87502-0115. Such request shall not result in a suspension of the order unless the reviewing official so determines. Procedures governing appeals from instructions, orders or decisions are contained in 43 CFR 3165.4 and 43 CFR 4.400 *et seq.*

If you have any questions concerning this matter, please call Duane Spencer at (505) 599-6350.

Sincerely,

Duane W. Spencer
Chief, Branch of Reservoir Management

7 Enclosures

1 - Returned Applications