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

JASON KELLAHIN (RETIRED 1991)

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August 23, 1994

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AUG 1994

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Land Dept.

HAND DELIVERED

AUG 23 1994

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

Re: Hudson J. Well No. 2, P-34-30N-12W
Application of Meridian Oil Inc.
for downhole commingling and an
unorthodox coal-gas well location,
San Juan 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 September 15, 1994.

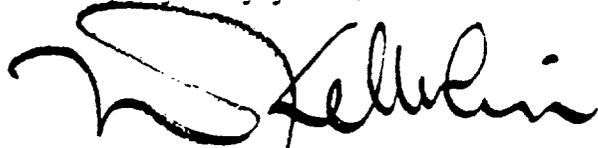
By copy of this letter and application, sent certified mail, we are notifying all interested parties of their right to appear at the hearing and participate in this case, including the right to present evidence either in support of or in opposition to the application and that failure to appear at the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

Oil Conservation Division
August 23, 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, September 9, 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 in a cursive style.

W. Thomas Kellahin

WTK/wtk
Enclosure

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

4 2 3 1994

PROPOSED ADVERTISEMENT

Case _____: Application of Meridian Oil Inc. for downhole commingling and an unorthodox coal gas well location, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval to downhole commingle Fulcher Kutz-Pictured Cliffs Gas Pool (SE/4 dedication) with the Basin-Fruitland Coal Gas Pool production (E/2 dedication) within the wellbore of its Hudson J Well No. 2 located 990 feet from the South line and 330 feet from the East line (Unit P) of Section 34, T30N, R12W, NMPM, at an unorthodox coal-gas well location. Said well is located approximately 2.5 miles southeast from Flora Vista, 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:

231001

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

CASE:

APPLICATION

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 Fulcher Kutz-Pictured Cliffs Gas Pool (SE/4 dedication) with the Basin-Fruitland Coal Gas Pool production (E/2 dedication) within the wellbore of its Hudson J Well No. 2 located 990 feet from the South line and 330 feet from the East line (Unit P) of Section 34, T30N, R12W, NMPM and for an unorthodox coal gas well location.

In support of its application, Meridian states:

(1) Meridian is the operator of the Hudson J Well No. 2 in Section 34, T30N, R12W, NMPM, San Juan County, New Mexico which currently is a single completion well in the Fulcher Kutz-Pictured Cliffs Gas Pool. See Exhibit "A" attached.

(2) The 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) In addition, Meridian has selected to recomplete its Hudson J Well No. 2 at an unorthodox coal gas well location in order to downhole commingle that production with the Pictured Cliffs production in order to recover marginal Pictured Cliffs gas reserves located in the SE/4 of Section 34.

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

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

1. the downhole commingling in this wellbore is necessary because evidence indicates that the Pictured Cliffs formation in this area of the San Juan Basin should be marginally productive and that due to the marginal production expected, it is uneconomic to drill a stand alone Pictured Cliffs Well. In addition, it is not economic to attempt to dually complete those formations in this well;

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

3. neither commingled zones exposes the other to damage by produced liquids;

4. the fluids from each zone are compatible with the other;

5. 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.

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

(6) The proposed downhole commingling is necessary in order for the applicant to economically recover Basin-Fruitland Coal Gas and Pictured Cliffs Gas Pool reserves underlying each respective proration unit.

(7) 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.

(8) Applicant requests that this matter be docketed for hearing on the Division's Examiner docket now scheduled for September 15, 1994.

(9) A copy of this application is being sent to all owners of production within the respective spacing unit for the well who may be affected by downhole commingling.

(10) Copy of this application has been sent to all offsetting operators to the two spacing units for the well.

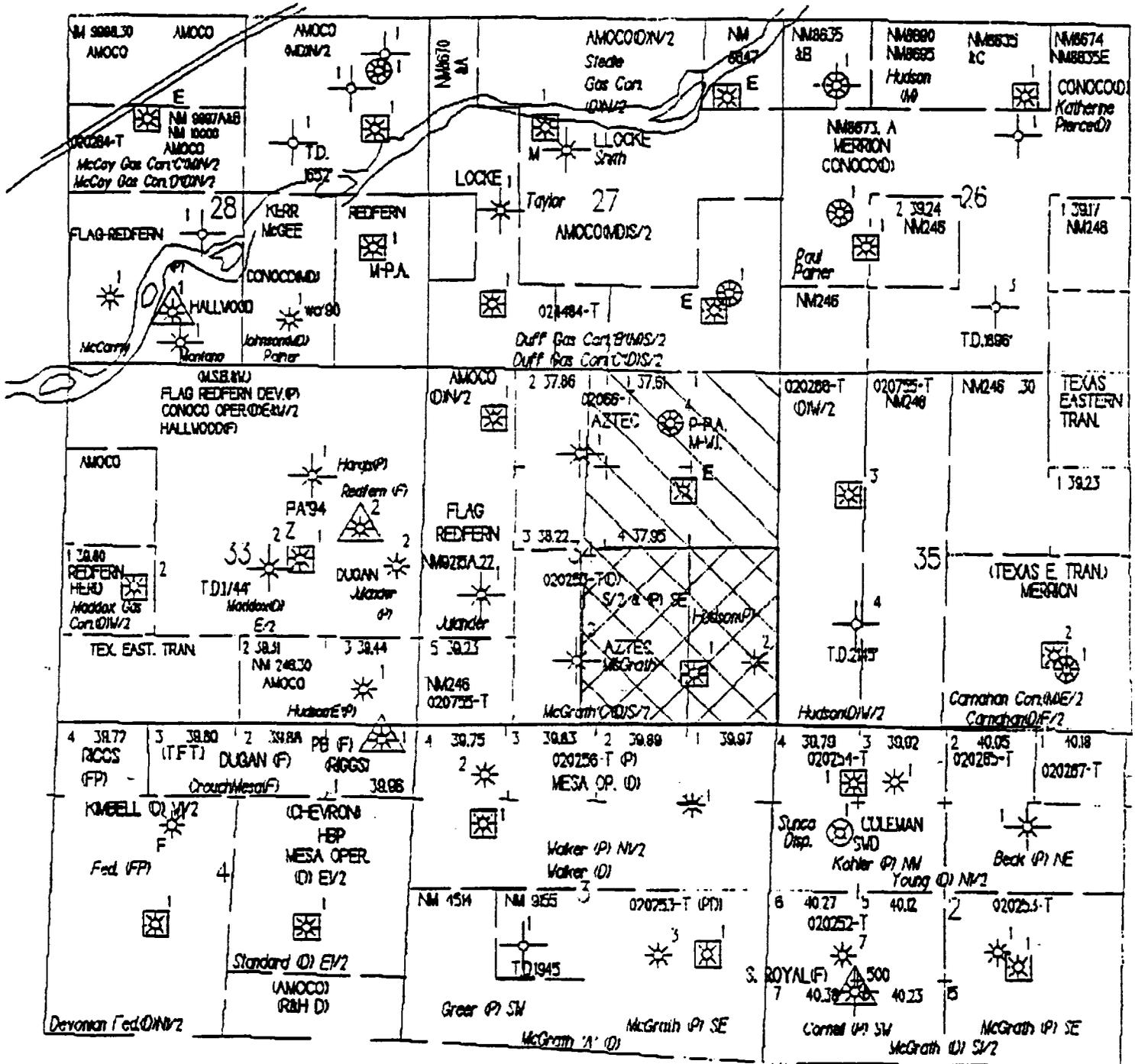
WHEREFORE Applicant requests that this matter be set for hearing on September 15, 1994 before a duly appointed Examiner of the Oil Conservation Division and that after notice and hearing as required by law, the Division enter its order granting this application.

Respectfully submitted



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

HUDSON #2 WELL SECTION, TN, RW CO., NEW MEXICO



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

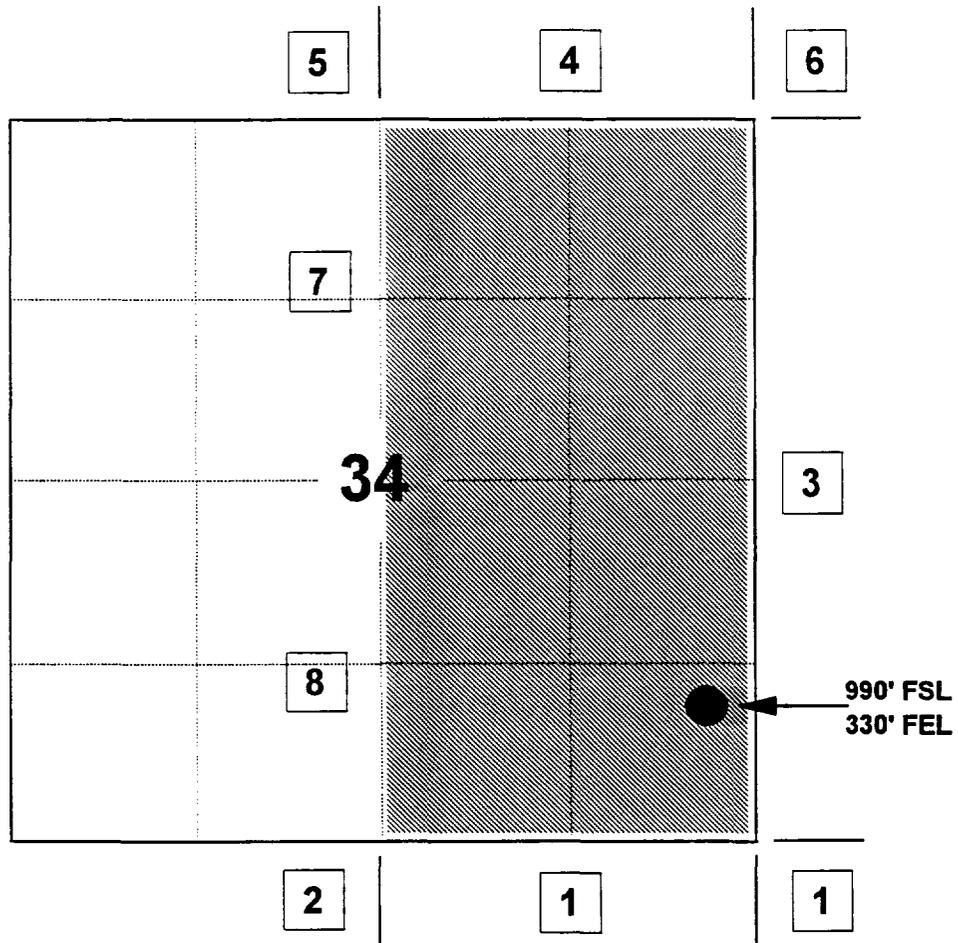
MERIDIAN OIL INC

HUDSON J #2

OFFSET OPERATOR \ OWNER PLAT

Unorthodox Fruitland Coal Well Location

Township 30 North, Range 12 West



See Attached Owner / Address List

HUDSON J #2 WELL
T30N, R12W, Sec. 34
San Juan County, New Mexico
INTEREST OWNERS

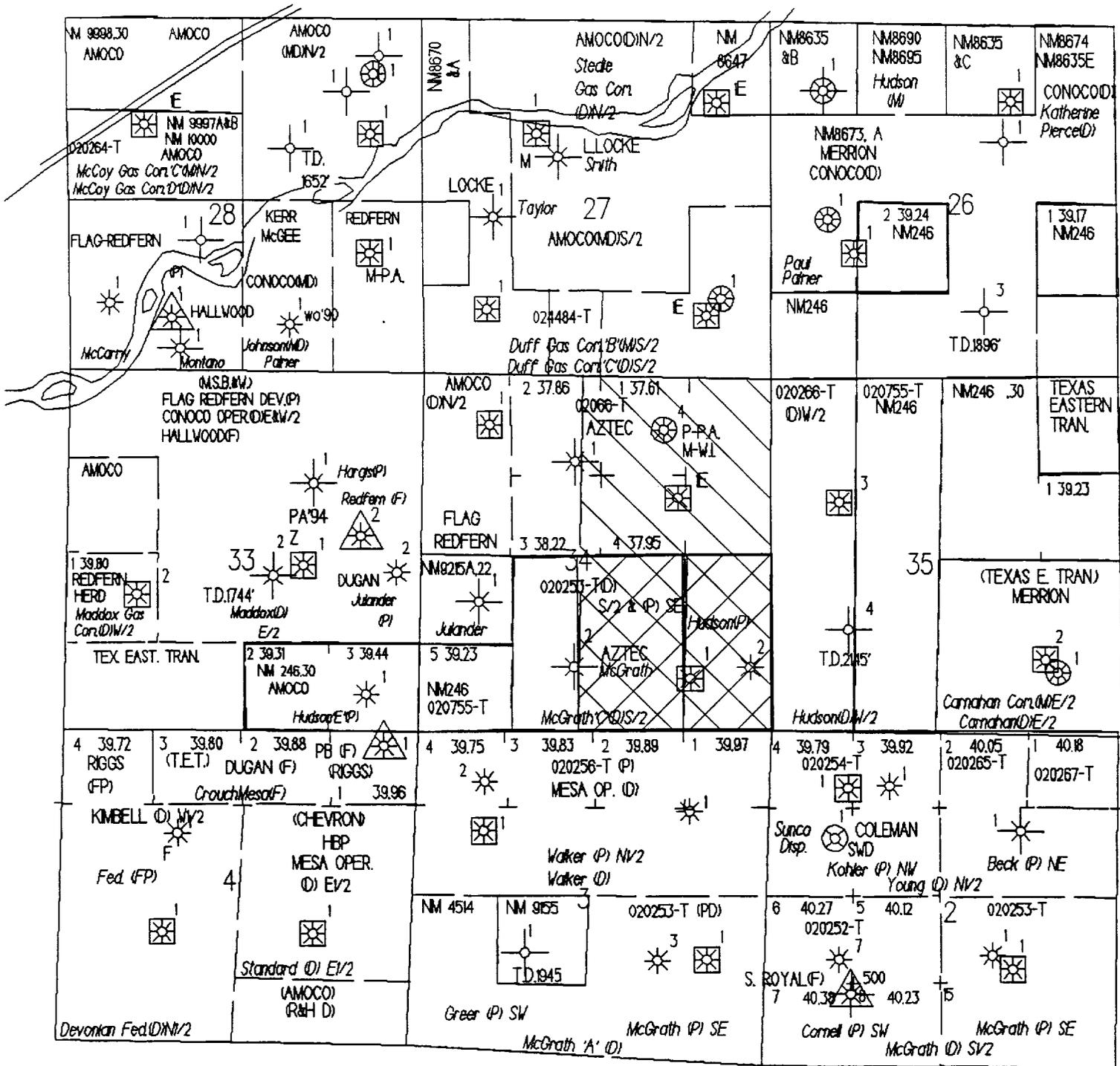
| | |
|------------------------------|------|
| Albright, Paul & Laura | ORRI |
| Baugh, Etheleen Est. | RI |
| Bowles, Linda S. | RI |
| Clayton, Constance | ORRI |
| Cornell, Craig A. | ORRI |
| Cornell, Jill E. | ORRI |
| Cornell, Christopher | ORRI |
| Cornell, D. E., IV | ORRI |
| Derr, Sue Ann | RI |
| Dunkle Trust | RI |
| Forro, Mary | RI |
| Giomi, Marcello & Iola | ORRI |
| Julander, Weldon C. | ORRI |
| McGrath, Frank | RI |
| McGrath, Edward | RI |
| Meridian Oil Production Inc. | RI |
| Minerals Management | RI |
| Poroda, Helen C. | RI |
| Rogers, Earl A. | ORRI |
| Ross, Catherine | ORRI |
| Sabine Royalty Trust | ORRI |
| Southland Royalty Company | NWI |
| Tingley, Ronald D. | ORRI |
| Verity, George L. | ORRI |

*** See attached sheet for addresses.**

HUDSON J #2 WELL

SECTION 34, T30N, R12W

SAN JUAN CO., NEW MEXICO



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

 **NOTICE** 

This is to inform you that in the enclosed New Mexico Oil Conservation Division Docket Notice for the scheduled September 15, 1994 Hearing that where the name Meridian Oil Inc. appears the name Southland Royalty Company should appear.