

KELLAHIN AND KELLAHIN

ATTORNEYS AT LAW

EL PATIO BUILDING

117 NORTH GUADALUPE

POST OFFICE BOX 2265

SANTA FE, NEW MEXICO 87504-2265

W. THOMAS KELLAHIN*

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

TELEPHONE (505) 982-4285
TELEFAX (505) 982-2047

JASON KELLAHIN (RETIRED 1991)

November 3, 1994

HAND DELIVERED

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

11/4/94

Re: Zachry Well No. 1, N-12-28N-10W
Application of Meridian Oil Inc.
for downhole commingling,
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 December 1, 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

NMOCD Application
Meridian Oil Inc.
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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, November 25, 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

PROPOSED ADVERTISEMENT

Case ~~11149~~ Application of Meridian Oil Inc. for downhole commingling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval to downhole commingle conventional Aztec-Pictured Cliffs Gas Pool production (134.36-acre non-standard dedication comprising Lots 3, 4 and S/2SW/4, being SW/4 equivalent) with gas production from the Basin-Fruitland Coal Gas Pool (270.11-acre standard dedication comprising Lots 1,2,3,4, and S/2S/2, being all of irregular Section 12) within the wellbore of its Zachry Well No. 1 located 990 feet from the South line and 1650 feet from the West line (Unit N) of Irregular Section 12, T28N, R10W, NMPM. Said well is located approximately 8-1/2 miles southeast of Bloomfield, New Mexico. **IN THE ABSENCE OF OBJECTION, THIS APPLICATION WILL BE TAKEN UNDER ADVISEMENT.**

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: 148

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 conventional Aztec-Pictured Cliffs Gas Pool production (134.36-acre non-standard dedication comprising Lots 3, 4 and S/2SW/4, being SW/4 equivalent) with gas production from the Basin-Fruitland Coal Gas Pool (270.11-acre standard dedication comprising Lots 1,2,3,4, and S/2S/2, being all of irregular Section 12) within the wellbore of its Zachry Well No. 1 located 990 feet from the South line and 1650 feet from the West line (Unit N) of Irregular Section 12, T28N, R10W, NMPM.

In support of its application, Meridian states:

(1) Meridian is the operator of the Zachry Well No. 1 in irregular Section 12, T28N, R10W, NMPM, San Juan County, New Mexico which currently is a single completion well within a previously approved 134.36-acre non-standard proration and spacing unit, being the SW/4 equivalent of said section in the Aztec-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) The ownership is not common for the well and its respective spacing and proration units in both pools.

(4) 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 production from this well in this well is now marginally productive and any remaining Pictured Cliffs production will have to be abandoned unless it is downhole commingled with Basin Fruitland Coal Gas production. 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.

(5) 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.

(6) 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.

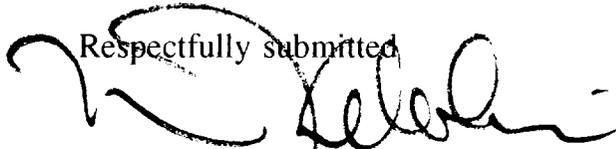
(7) Applicant requests that this matter be docketed for hearing on the Division's Examiner docket now scheduled for December 1, 1994.

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

(9) Copy of this application has been sent to all offsetting operators to the two spacing units for the well as shown on Exhibits "B" and "C".

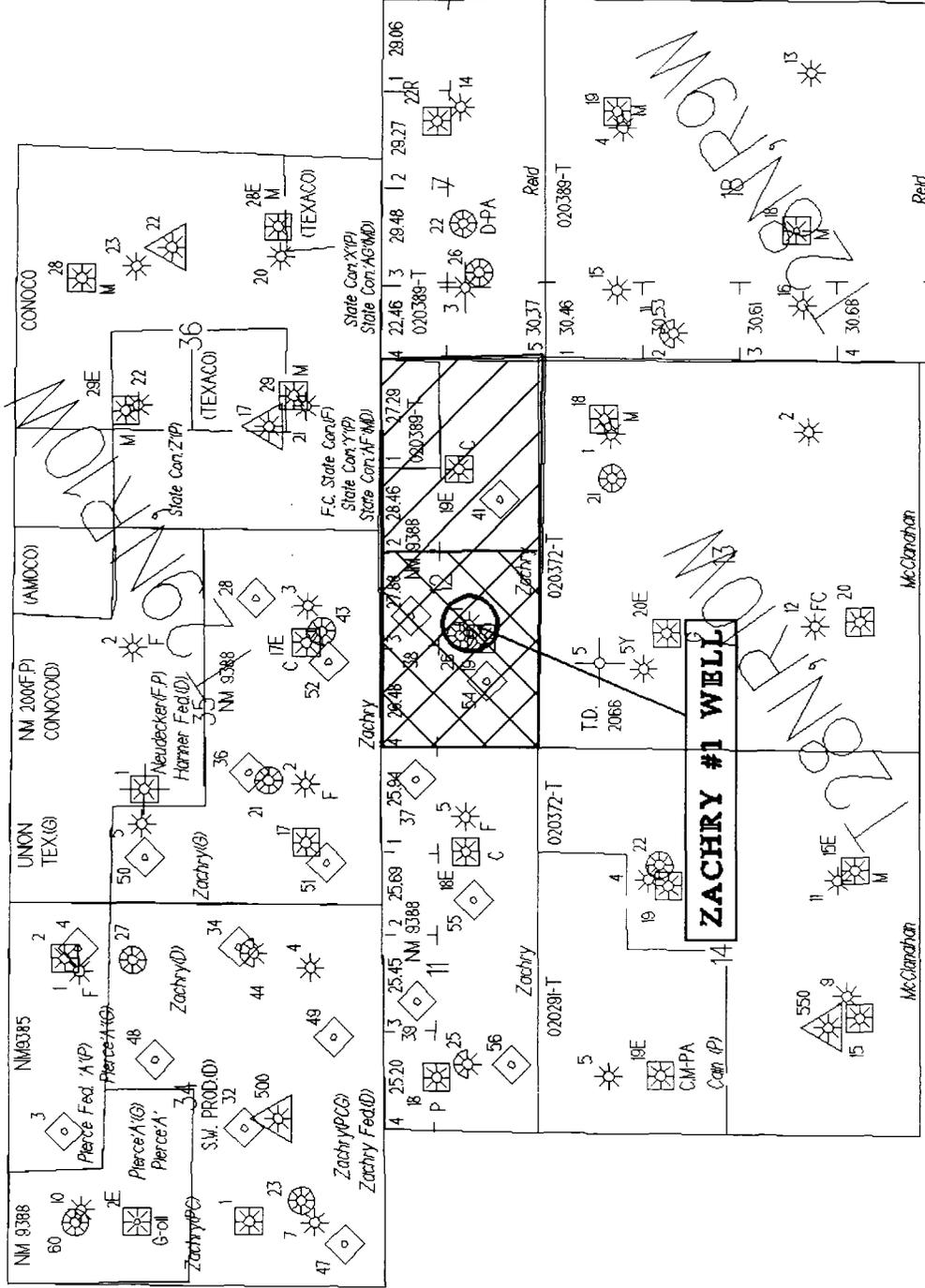
WHEREFORE Applicant requests that this matter be set for hearing on December 1, 1994 before a duly appointed Examiner of the Oil Conservation Division and that after notice and hearing as required by law, the Division enter its order granting this application.

Respectfully submitted



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

ZACHRY #1 WELL
 UNIT N, SECTION 12, T28N, R10W
 SAN JUAN CO., NEW MEXICO



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

PICTURED CLIFFS PRORATION UNIT

FRUITLAND COAL PRORATION UNIT

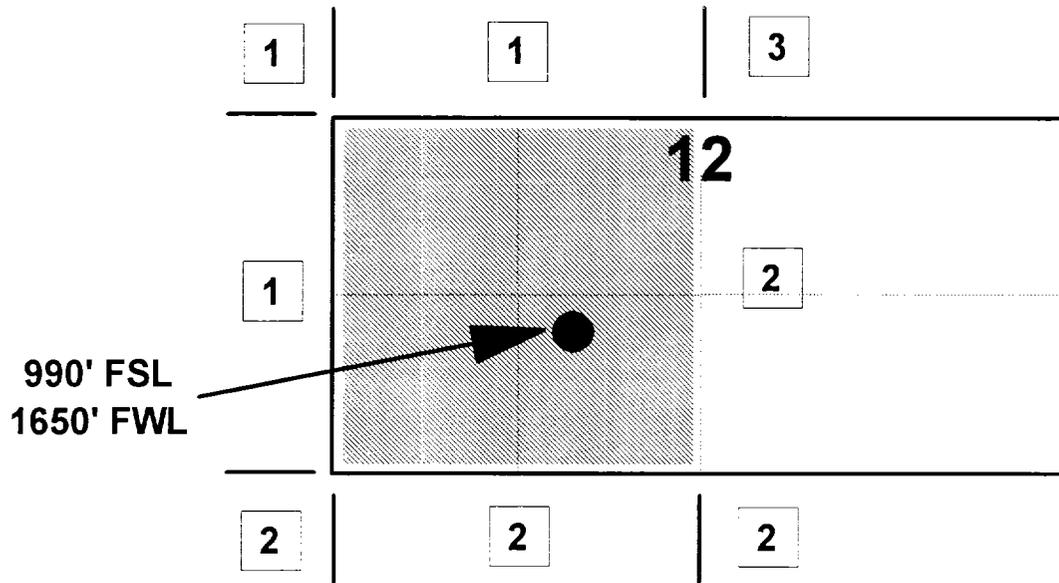
MERIDIAN OIL INC

ZACHERY #1

OFFSET OPERATOR \ OWNER PLAT

Fruitland Coal / Pictured Cliffs Commingle Well

Township 28 North, Range 10 West



1) Meridian Oil Inc

2) Southland Royalty Company

3) Conoco, Inc. 10 Desta Drive, Suite 100W, Midland, TX 79705-4500

Pictured Cliffs Formation

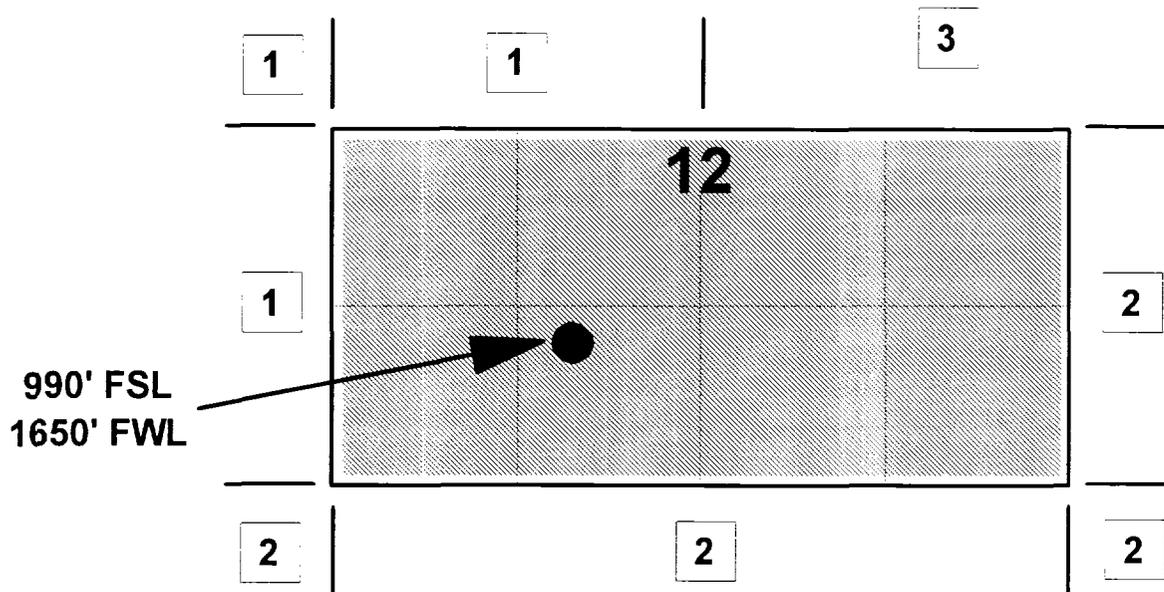
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Fruitland Coal Formation