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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)

April 29, 1996

HANDELIVERED

Mr. William J. LeMay, Director
Oil Conservation Division
2040 S. Pacheco
Santa Fe, New Mexico 87505

26

**Re: *Seymour Well No. 7A
E/2 Equivalent Section 23, T31N, R9W, NMPM
Application of Meridian Oil Inc. for
Compulsory Pooling and an Unorthodox Gas
Well Location, San Juan County, New Mexico***

11542

Dear Mr. LeMay:

On behalf of Meridian Oil Inc., please find enclosed our application for compulsory pooling for Mesaverde Infill Gas Well and an unorthodox gas well location which we request be set for hearing on the next available Examiner's docket now scheduled for May 30, 1996. Also enclosed is our proposed notice of publication for this case.

Very truly yours,



W. Thomas Kellahin

cc: Meridian Oil Inc.

Attn: Alan Alexander

cc: William F. Carr, Esq.

Attorney for Four Star Oil & Gas Company

cc: Michael J. Condon, Esq.

Attorney for Doyle and Margaret Hartman

PROPOSED ADVERTISEMENT FOR NMOCD DOCKET

CASE 11542: Application of Meridian Oil Inc. for compulsory pooling and an unorthodox gas well location, San Juan County, New Mexico. Applicant seeks an order pooling certain mineral interests in the Blanco Mesaverde Pool underlying Lots 1,2,7,8,9,10,15, and 16 (the E/2 equivalent) of Section 23, T31N, R9W, NMPM, San Juan County, New Mexico, forming a 313.63-acre gas spacing and proration unit. Said unit is to be dedicated to Meridian Oil Inc.'s proposed Seymour Well No. 7A which is an "Infill Blanco-Mesaverde Well" to be drilled at an unorthodox gas well location 1615 feet FSL and 2200 feet FEL of said Section 23 to test for production from the Mesaverde formation. Also to be considered will be the costs of participation in said well, including but not limited to the costs of drilling and completing, the allocation of those costs and income therefor as well as actual operating costs and charges for supervision, a charge for risk involved in drilling and completing said well and the designation of applicant as the operator of the well. Said well is located approximately 9 miles southeast of Cedar Hills, New Mexico.

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

IN THE MATTER OF THE APPLICATION
OF MERIDIAN OIL INC. FOR COMPULSORY
POOLING AND AN UNORTHODOX GAS WELL
LOCATION, SAN JUAN COUNTY, NEW MEXICO.

CASE NO. 11542

APPLICATION

Comes now MERIDIAN OIL INC., ("Meridian") by its attorneys, Kellahin & Kellahin, and applies to the New Mexico Oil Conservation Division for approval of an unorthodox gas well location and, in accordance with Section 70-2-17 NMSA (1978), for an order pooling certain mineral interests in the Blanco Mesaverde Pool underlying Lots 1,2,7,8,9,10,15, and 16 (the E/2 equivalent) of Section 23, T31N, R9W, NMPM, San Juan County, New Mexico forming a 313.63 acre gas spacing and proration unit. Said unit to be dedicated to Meridian Oil Inc.'s proposed Seymour Well No. 7A which is to be drilled at an unorthodox gas well location 1615 feet FSL and 2200 feet FEL (Unit J) of said Section 23 to test for production from the Mesaverde formation. Also to be considered will be the costs of participation in said well, including but not limited to the costs of drilling and completing, the allocation of those costs and income therefor as well

as actual operating costs and charges for supervision, a charge for risk involved in drilling and completing said well and the designation of applicant as the operator of the well.

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

1. Meridian, as a working interest owner in the E/2 equivalent of said Section 23, T31N, R9W, San Juan County, New Mexico, has proposed to the other working interest owners in this spacing unit the voluntary formation of a spacing unit consisting of the E/2 equivalent of said Section 23 to be dedicated to its proposed Mesaverde Infill Well, the Seymour Well No. 7A to be drilled at an unorthodox gas well location 1615 feet FSL and 2200 feet FEL to test for production from the Blanco Mesaverde Pool. See Exhibit "A" attached.

2. Said unit is currently dedicated to Meridian's Seymour Well No. 7 (API No. 30-045-10597), the "Original Mesaverde Well" located at a standard gas well location 1,170 feet from the north line and 970 feet from the East line (Lot1/Unit A) of said Section 23.

3. By New Mexico Oil Conservation Commission ("Commission") Order No. R-799, dated February 25, 1949, the Blanco-Mesaverde Pool was created, defined and 320-acre spacing was established. By Order No. R-128-C, issued December 16, 1954, the Commission instituted gas prorationing in the Blanco-Mesaverde Pool to be made effective March 1, 1955.

4. The E/2 equivalent of said Section 23 consists of two separate Federal oil and gas leases, each dated May 1, 1948, with Tract 1 comprising the NE/4 equivalent of said Section 23 issued to John C. Dawson and Tract 2 comprising the SE/4 equivalent of said Section 23 issued to Claude A. Teel.

5. On March 30, 1953, a communitization agreement ("The 1953 Communitization Agreement") was signed for the E/2 equivalent of said Section 23 between Southern Union Gas Company, Meridian's predecessor in interest, and operator of the Seymour Well No. 7 and Skelly Oil Company, Four Star's predecessor in interest.

6. The 1953 Communitization Agreement, among other things, provides for the consolidation of these two federal oil and gas leases "in conformity with the well-spacing program established for the field or area in which said lands are located..."

7. On April 10, 1953, the working interest owners entered into an operating agreement ("The 1953 Operating Agreement") which:

(a) contained a plan for the spacing of only a one Mesaverde gas well within the 320-acre spacing and proration unit consisting of the E/2 equivalent of Section 23:

(b) provided for the drilling of the Seymour Well No. 7 in Unit "A" of said Section 23, being the "original well";

(c) designated Southern Union Gas Company as operator of the unit;

(d) governed operations for the Seymour Well No. 7 in the Mesaverde formation in the E/2 equivalent of said Section 23; and,

(e) binds the successor and assigns of the original parties.

8. The 1953 Operating Agreement is subject to the 1953 Communitization Agreement.

9. When these 1953 Agreements were signed, the established well spacing program for the Mesaverde formation in the Blanco Mesaverde Pool, including the E/2 equivalent of Section 23, was one single well per 320-acre spacing unit.

10. On November 10, 1953, Southern Union Gas Company, as operator, spudded the Seymour No. 7 Well in Unit A of said Section 23 and completed it as a producing Mesaverde gas well to which the E/2 equivalent of Section 23 was dedicated.

11. Subsequently, this spacing unit has been resurveyed and determined to contain 313.63 acres, more or less.

12. By Order No. R-1670-T, dated November 14, 1974, the rules governing the Blanco-Mesaverde Pool were amended to permit the optional "infill drilling" of an additional well on each 320-acre gas spacing and proration unit within the Blanco Mesaverde Pool.

13. Since January 27, 1993, as a result of assignments from the original working interest owners who were subject to the 1953 Agreements, the working interest owners in this spacing unit are as follows:

(a) Meridian	37.5 %
(b) Four Star Oil & Gas Company	41.0 %
(c) Doyle and Margaret Hartman	12.5 %
(c) William Production Company	9.0 %

14. By letters dated January 27, 1993 and April 12, 1993, Meridian advised all working interest owners within this spacing unit that the 1953 Operating Agreement did not contain any subsequent well provisions and therefore proposed a new Joint Operating Agreement for the drilling of an "infill" Blanco-Mesaverde well in the SE/4 equivalent of said Section 23

15. Meridian, by letter dated October 31, 1995, renewed its request for a voluntary agreement of the working interest owners for the drilling of a proposed infill well.

16. Meridian, by letter dated January 25, 1996, again asked Hartman to voluntarily join in the drilling of the Seymour 7A well by signing a new Joint Operating Agreement. See Exhibit "C" attached.

17. Meridian, by letter dated March 8, 1996, again asked Hartman to voluntarily join in the drilling of the Seymour 7A well by signing a new Joint Operating Agreement. See Exhibit "D" attached.

18. Pursuant to Section 70-2-17.C and 70-2-17.E NMSA 1978, the Division has authority to issue a compulsory pooling order for a Mesaverde Infill well thereby modifying the original parties 1953 plan of development as contained in the 1953 Operating Agreement so that this spacing unit can now be developed in conformity with the current well spacing program for the Blanco Mesaverde Pool as authorized by Commission Order R-1670-T.

19. However, despite its good faith efforts and with the exception of Williams Production Company, Meridian has been unable to obtain a written voluntary agreement from those working interest owners as identified on Exhibit "B" attached hereto.

20. Pursuant to Section 70-2-17.C NMSA (1978) and in order to obtain its just and equitable share of past and future production from the subject well and this spacing unit, Meridian needs an order of the Division pooling the identified and described mineral interests involved in order to protect correlative rights and prevent waste.

21. In accordance with the Division's notice requirements, a copy of this application has been sent to all interest owners as shown on Exhibit "B" attached.

22. The unorthodox gas well location is necessary because of topographical reasons.

23. Meridian is the only offset operator towards which the subject well encroaches as shown on Exhibit "E" attached.

24. Meridian requests that this matter be set for a hearing before the Division on the next available Examiner's docket now scheduled for May 30, 1996.

WHEREFORE, Meridian, as applicant, requests that this application be set for hearing on May 30, 1996 before the Division's duly appointed examiner, and that after notice and hearing as required by law, the Division enter its order approving the unorthodox gas well location and pooling the mineral interest described in this spacing unit for the drilling, completing and operating the subject well at an unorthodox gas well location upon terms and conditions which include:

- (1) Meridian Oil Inc. be named operator;
- (2) provisions for each working interest owner to participate in any Blanco Mesaverde Gas Pool production by reimbursing the applicant for the costs of drilling, completing, equipping and operating said well;
- (3) In the event a working interest owner fails to elect to participate, then provisions be made to recover out of production, reimbursement to the applicant for the costs of drilling, completing, equipping and operating the well, including a risk factor penalty of 200%;

(4) Provision for overhead rates of \$4321.50 per month drilling and \$474.12 per month operating and a provision providing for an adjustment method of the overhead rates as provided by COPAS; and

(5) For such other and further relief as may be proper.

RESPECTFULLY SUBMITTED:

A handwritten signature in black ink, appearing to read "W. Thomas Kellahin". The signature is fluid and cursive, with a large initial "W" and a long, sweeping underline.

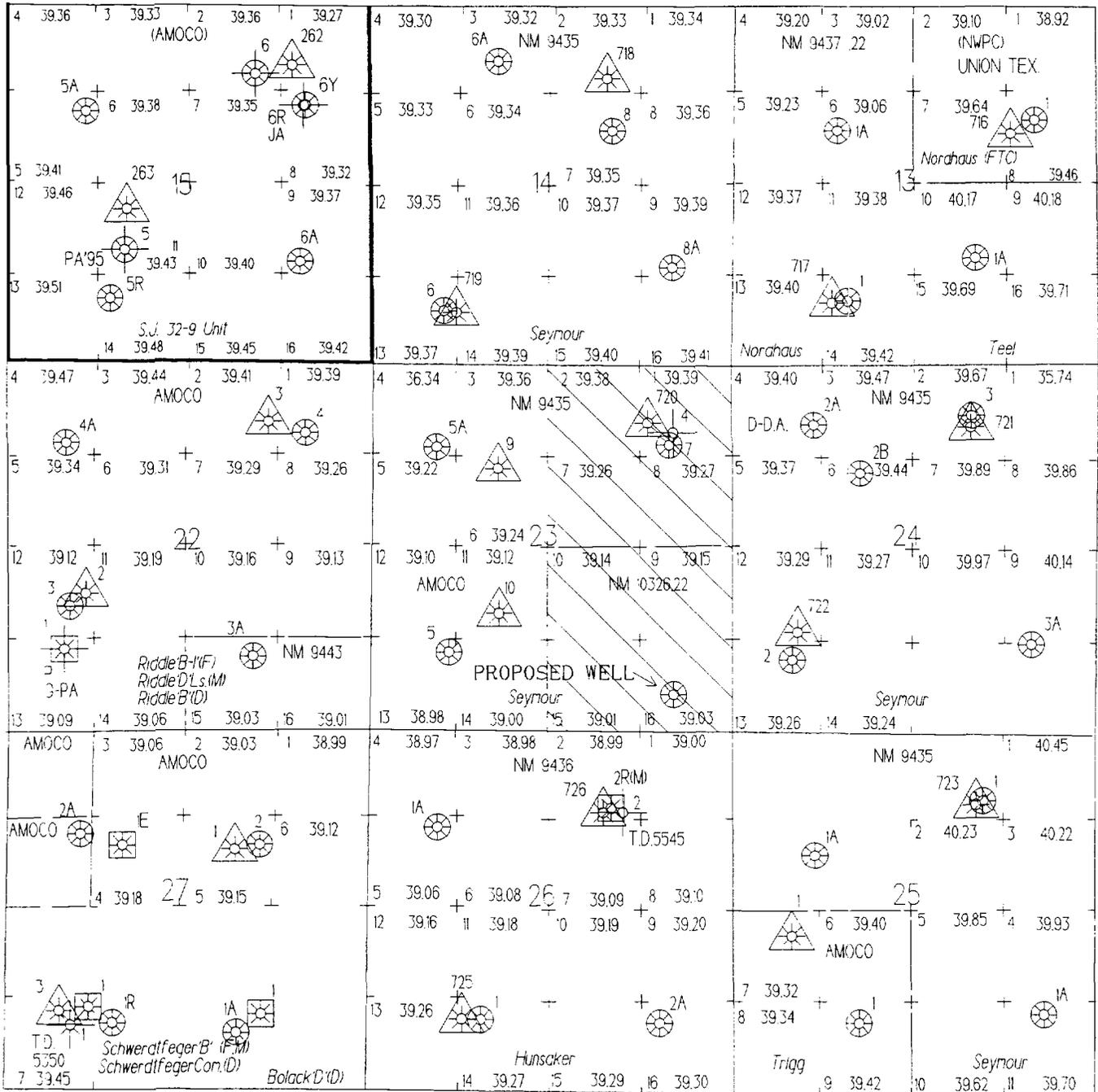
W. THOMAS KELLAHIN
KELLAHIN & KELLAHIN
P. O. Box 2265
Santa Fe, New Mexico 87501
(505) 982-4285
ATTORNEYS FOR APPLICANT

SEYMOUR # 7A WELL

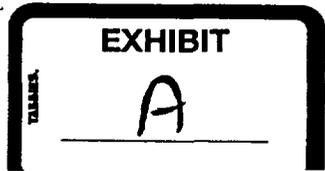
SECTION 23, T31N, R9W

425' FSL, 790' FEL

SAN JUAN CO., NEW MEXICO



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



 SPACING UNIT

EXHIBIT "B"

LIST OF PARTIES TO BE POOLED

Four Star Oil & Gas Company
P. O. Box 46555
Denver, Colorado 80201-6555

Doyle Hartman Oil Operator
P. O. Box 10426
Midland, Texas 79702

via Certified Mail

January 25, 1996

Mr. Doyle Hartman
3811 Turtle Creek Blvd., Ste. 730
Dallas, TX 75219

**RE: Infill Mesaverde Well Proposal
Seymour #7A Well
E/2 Sec. 23, T31N, R9W
San Juan County, New Mexico**

Dear Mr. Hartman:

On behalf of Meridian Oil Inc., and in accordance with the decision made on January 12, 1996, by Examiner Michael E. Stogner of the New Mexico Oil Conservation Division in Case 11434, I wish to provide you with an additional opportunity to participate on a voluntary basis (either join or non-consent) in the Mesaverde Infill Well for the referenced spacing unit which was proposed by my letter to you dated October 31, 1995.

As your attorney may have told you, the Division rejected your argument that the 1953 Operating Agreement precluded the Division from exercising compulsory pooling authority but accepted your argument that you had not been provided sufficient time to accept Meridian's October 31, 1995 proposal. Examiner Stogner has directed that the parties shall have until March 11, 1996 to reach a voluntary agreement and if not, then the Division will resolve this matter pursuant to its compulsory pooling authority.

If you now agree with our proposal, please execute the JOA submitted by letter dated October 31, 1995 and return to my attention two (2) executed signature pages with acknowledgments, along with your signature on our proposed AFE.

In the alternative, if you disagree with our proposal, we would appreciate receiving your complete response no later than February 15, 1996 so that we will have sufficient time to study your response and to reply before the March 11, 1996 deadline. Your attorney advised the Division that he intended to call Mrs. Dana Delventhal as an expert witness on your behalf concerning Meridian's proposal AFE and the risk involved in this well. While we provided your attorney with a copy of all of our proposed exhibits, we were not provided with any of yours. Accordingly, we would appreciate you providing us with a copy of your proposed exhibits including those of Mrs. Delventhal, so that we may consider and reply to any objections you have to our well proposal.

If you have any questions, please do not hesitate to call me at (505) 326-9757.

Very truly yours,



Alan Alexander
Senior Land Advisor

AA/cj
NM-9435



Certified Mail-Return Receipt Requested

March 8, 1996

Mr. Doyle Hartman
3811 Turtle Creek Blvd., Ste. 730
Dallas, TX 75219

**RE: Infill Mesaverde Well Proposal
Seymour #7A Well
E/2 Sec. 23, T31N, R9W
San Juan County, New Mexico**

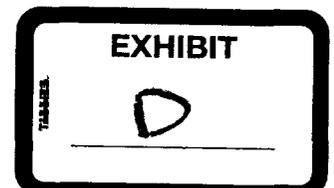
Dear Mr. Hartman:

On behalf of Meridian Oil Inc., I am responding to your letter dated March 4, 1996. You have advised us as to the following matters:

- 1) You do not want to voluntarily join Meridian in drilling this infill well by signing our proposed Joint Operating Agreement;
- 2) You do not want to go non-consent under the terms of our proposed Joint Operating Agreement;
- 3) You do not want to farmout your interest; and
- 4) You made a non-specific exchange proposal.

In addition, you again requested Meridian's economic data and we are again advising you that we have previously provided you with our exhibits which contained the requested information from which you may make your own evaluation concerning whether you desire to voluntarily participate in this well. If I have not correctly stated your position in this matter, please advise accordingly.

Finally, should you desire to identify a specific property for exchange, we will be happy to review it. However, I wish you to know that such discussions would not obligate us to further delay our plans for this well. At this point, unless we receive two (2) executed signature pages with acknowledgments along with your signature on our proposed AFE by March 15, 1996, you have left us with no alternative but to file a compulsory pooling application with the Division on March 18, 1996.



Mr. Doyle Hartman
March 8, 1996
Page 2

Please re-consider your position and join with us in the proposal made to you by my letter dated October 31, 1995.

Very truly yours,

A handwritten signature in cursive script that reads "Alan Alexander".

Alan Alexander
Senior Land Advisor

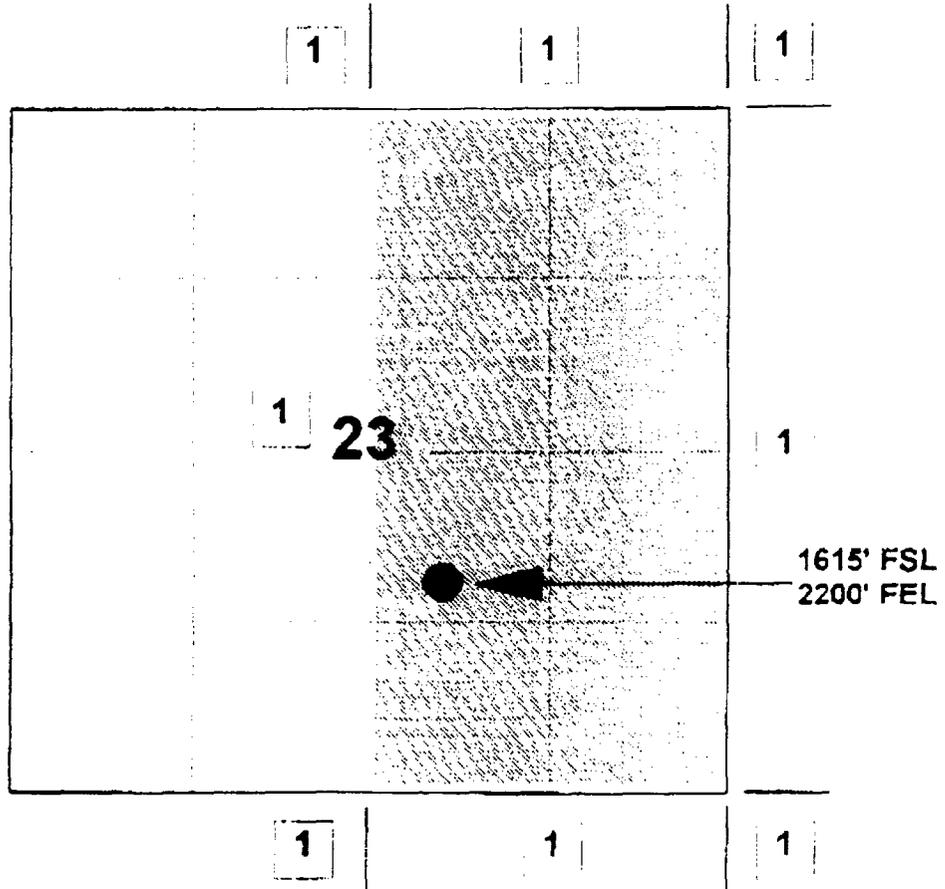
AA/cj
NM-9435

MERIDIAN OIL INC

SEYMOUR #7A

OFFSET OPERATOR \ OWNER PLAT
Unorthodox Mesaverde Well Location

Township 31 North, Range 09 West



1) Meridian Oil Inc

EXHIBIT
E