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NATURAL RESOURCES-OIL AND GAS LAW

JASON KELLAHIN (RETIRED 1991)

July 17, 1996

HAND DELIVERED

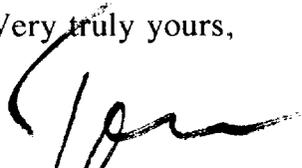
Mr. Michael E. Stogner
Hearing Examiner
Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico 87505

*Re: NMOCD Case 11565
Application of Meridian Oil Inc.
for an Unorthodox Coal-Gas Well Location
San Juan County, New Mexico*

Dear Mike:

Enclosed is a draft order for your consideration for the referenced case. Call me if you need anything else on this one.

Very truly yours,



W. Thomas Kellahin

**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:**

**CASE NO. 11565
Order No. R-_____**

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

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on July 11, 1996, at Santa Fe, New Mexico before Examiner Michael E. Stogner.

NOW, on this ____ day of July, 1996, the Division Director, having considered the testimony, the record and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

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(2) The applicant, Meridian Oil Inc, seeks approval to drill its proposed San Juan 29-7 Unit Well 505R at an unorthodox coal-gas well location ("off-pattern") 1850 feet from the South line and 940 feet from the West line (Unit 1) of Section 5, Township 29 North, Range 7 West, NMPM, Basin-Fruitland Coal Gas Pool, San Juan County, New Mexico.

(3) The applicant proposes to dedicate a standard 320-acre gas spacing unit consisting of the E/2 of said Section 5 for any and all coal gas production within the limits of the Basin Fruitland Coal Gas Pool.

(4) Meridian Oil Inc. is the proposed operator of the subject well and is the current operator of the San Juan 29-7 Unit which includes, among other acreage, the E/2 of said Section 5.

(5) The subject well is located within the Basin Fruitland Coal Gas Pool which is governed by Special Rules and Regulations as promulgated by Division Order No. R-8768, as amended, which require standard 320-acre gas spacing and proration units with wells to be located within the NE/4 or SW/4 of the section and not closer than 790 feet from any outer boundary of the spacing unit nor closer than 130 feet from any quarter section line nor closer than 10 feet from any quarter-quarter section line or subdivision inner boundary.

(6) The subject well is standard with respect to the setback requirements from the outer boundary of the proration and spacing unit but is unorthodox in that it is "off-pattern" for the Basin-Fruitland Coal Gas Pool because it is located in the SE/4 of the section rather than either the NE/4 or the SW/4 of the section.

(7) Meridian currently is the operator of the San Juan 29-7 Unit Well No. 505 (a Fruitland Coal Gas well located in the NE/4 of said Section 5) and desires to drill the subject well as a replacement for this well.

(8) In support of its request to drill the subject well, the applicant presented geologic and petroleum engineering evidence and testimony which demonstrates that:

a) An off-pattern well location in the SE/4 of this Section is requested in order to be in closer proximity to the fracture trend in the coal-gas formation in this area;

b) the contouring of the coal-gas daily gas production rates for coal-gas wells in the immediate vicinity infer a fracture trend oriented northeast to southwest across adjoining Section 4 and including the southeastern quarter of Section 5;

c) the original well in this spacing unit is the San Juan 29-7 Unit Well 505 locate in the NE/4 of Section 5 which is a poor producer and appears to be in a low permeability area;

d) the proposed location will afford the applicant an opportunity to be in closer proximity to a fracture trend which is indicative of higher permeability and therefore potentially better production from this spacing unit; and

e) the sections offsetting Section 5 have nearly been fully developed in the Basin-Fruitland Coal Gas Pool, therefore, approval of the proposed off-pattern well location will not serve to disrupt the normal spacing pattern within the pool in this area.

(6) No offset operator and/or interest owner appeared at the hearing in opposition to the proposed unorthodox coal gas well location.

(7) No correlative rights will be impaired by approving this application.

(8) Approval of the subject application will afford the applicant the opportunity to produce its just and equitable share of the gas in the affected pool, better enable the applicant to produce the gas underlying the spacing unit, will prevent the economic loss caused by the drilling of unnecessary wells, avoid the augmentation of risk arising from the drilling of an excessive number of wells and will otherwise prevent waste and protect correlative rights .

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IT IS THEREFORE ORDERED THAT:

(1) The applicant, Meridian Oil Inc, is hereby authorized to drill its proposed San Juan 29-7 Unit Well 505R at an unorthodox coal-gas well location ("off-pattern") 1850 feet from the South line and 940 feet from the West line (Unit I) of Section 5, Township 29 North, Range 7 West, NMPM, Basin-Fruitland Coal Gas Pool, San Juan County, New Mexico.

(2) The E/2 of said Section 5 shall be dedicated to the subject well thereby forming a standard 320-acre gas spacing and proration unit for said pool.

(3) Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

WILLIAM J. LEMAY
Director