

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

EXAMINER HEARING

IN THE MATTER OF:

Application of Meridian Oil                      Case 9871  
Inc., for an unorthodox coal  
gas well location and a  
nonstandard gas proration unit,  
San Juan County, New Mexico

TRANSCRIPT OF PROCEEDINGS

BEFORE:   MICHAEL E. STOGNER, EXAMINER

STATE LAND OFFICE BUILDING

SANTA FE, NEW MEXICO

February 21, 1990

**ORIGINAL**

CUMBRE COURT REPORTING  
(505) 984-2244

## A P P E A R A N C E S

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1                   HEARING EXAMINER: We're going to skip over  
2 the first case and go down to the third case and call  
3 Case No. 9871 at this time.

4                   MR. STOVALL: Application of Meridian Oil,  
5 Inc., for an unorthodox coal gas well location and  
6 nonstandard gas proration unit, San Juan County, New  
7 Mexico.

8                   HEARING EXAMINER: At this time I'll call  
9 for appearances.

10                  MR. KELLAHIN: Mr. Examiner, I'm Tom  
11 Kellahin of the Santa Fe law firm of Kellahin,  
12 Kellahin & Aubrey, appearing on behalf of the  
13 Applicant, and I have one witness to be sworn.

14                  HEARING EXAMINER: Are there any other  
15 appearances? Will the witness stand and be sworn at  
16 this time?

17                               ALAN ALEXANDER,  
18 the witness herein, after having been first duly sworn  
19 upon his oath, was examined and testified as follows:

20                               DIRECT EXAMINATION

21 BY MR. KELLAHIN:

22               Q.     Mr. Alexander, for the record, would you  
23 please state your name and occupation.

24               A.     My name is Alan Alexander. I'm employed as  
25 a senior land adviser for Meridian Oil, Inc., in their

1 Farmington, New Mexico, office.

2 Q. Mr. Alexander, have you on prior occasions  
3 testified before the Oil Conservation Division as a  
4 petroleum landman?

5 A. I have.

6 Q. Sir, are you familiar with the Allison Unit  
7 in San Juan County, New Mexico, that's operated by  
8 your company?

9 A. I am.

10 Q. Are you familiar with the proposed  
11 unorthodox coal gas well location and the nonstandard  
12 unit for the Allison #123 well, I believe it is?

13 A. That's correct, I am familiar with it.

14 Q. That's the subject of this application; is  
15 it not?

16 A. Yes, sir, that's correct.

17 MR. KELLAHIN: We tender Mr. Alexander as  
18 an expert petroleum landman, Mr. Examiner.

19 HEARING EXAMINER: Mr. Alexander is so  
20 qualified.

21 Q. (BY MR. KELLAHIN) Mr. Alexander, let me  
22 ask you to turn, sir, to what is marked as Exhibit 1A  
23 in the exhibit book and identify for us the  
24 nonstandard spacing unit and the well that's the  
25 subject of the application.

1           A.       Yes. As you will see on Exhibit 1A, the  
2 subject well is marked by an orange dot, and it's  
3 located in a unit that consists of all of Section 9  
4 and three lots in Section 10 of Township 32 North,  
5 Range 7 West, San Juan County, New Mexico.

6           Q.       By this application Meridian is seeking to  
7 accomplish what, Mr. Alexander?

8           A.       We are asking for an unorthodox Fruitland  
9 coal gas well location in a nonstandard gas spacing  
10 unit for this well.

11          Q.       How many acres compose the nonstandard  
12 spacing and proration unit for the well?

13          A.       The spacing unit consists of 411.44 acres.

14          Q.       Describe for us some of the background, Mr.  
15 Alexander, that necessitated the formation of a  
16 nonstandard spacing unit for the well.

17          A.       The northern boundary of the State of New  
18 Mexico, the boundary between New Mexico and Colorado,  
19 consists of short and irregular sections. Within the  
20 Allison Unit, we have a series of these sections that  
21 have historically been spaced as nonstandard proration  
22 units for the Mesaverde and the Dakota formations. We  
23 have attempted through various hearings at the  
24 Commission to follow those spacings where we could  
25 follow them and change them where we needed to.

1           The present case this morning does follow  
2 the Dakota spacing that is established in the area.

3           Q.     And that would be the same Dakota spacing  
4 unit that you propose to dedicate to the Allison #123  
5 well?

6           A.     That is correct.

7           Q.     How did this well happen to be at an  
8 unorthodox coal gas well location?

9           A.     The well was originally permitted under the  
10 statewide rules before the adoption of the Basin  
11 Fruitland coal pool, and it was located in the  
12 southeast quarter on a 160-acre spacing unit prior to  
13 the establishment of the pool rules, and the  
14 additional considerations are that topographic  
15 features that are in the area that necessitated the  
16 location of this well in its present position.

17          Q.     Has Meridian operated other coal gas wells  
18 that have been grandfathered in to the current  
19 location and spacing rules for coal gas wells?

20          A.     We have.

21          Q.     Does this fall within that category of  
22 wells that had been permitted prior to the rule change  
23 by the Division?

24          A.     That's correct.

25          Q.     When we look at Exhibit 1A, what are we

1 seeing, Mr. Alexander?

2 A. Exhibit 1A is a land plat. It shows the  
3 Allison Unit in particular in which this well is  
4 located and a part of. It also shows the existing  
5 Mesaverde and Dakota formation proration units in the  
6 immediate area of the Allison Unit.

7 Q. When we go to Exhibit 1B, what are we  
8 looking at with that exhibit?

9 A. Exhibit 1B is the same land plat; however,  
10 it shows the current spacing units for the Fruitland  
11 coal formation in this area.

12 Q. Parts of Section 10 that we look at to the  
13 east, that is already a previously approved,  
14 nonstandard spacing unit for a coal gas well?

15 A. Yes, sir, that's correct.

16 Q. And the subject 123 well then picks up the  
17 balance of the acreage in Section 10 plus the acreage  
18 in 9 to form the spacing unit for that one?

19 A. That's correct.

20 Q. With the inclusion now of the Allison #123  
21 well, are the rest of the spacing units that are shown  
22 to be nonstandard spacing units along the Colorado  
23 boundary within New Mexico -- are those already  
24 approved by the Division?

25 A. Yes. That should complete the remainder of



1 the nonstandard spacing within the Allison Unit. This  
2 case should complete that series of spacing.

3 Q. What is the status of the 123 well?

4 A. It is currently completed and shut in. I  
5 believe it is connected to a pipeline; however, it has  
6 not been first delivered pending approval of the  
7 C-104.

8 Q. Let's turn to the tab 2, Mr. Alexander, and  
9 would you identify and describe the information shown  
10 on Exhibit 2A?

11 A. Yes. Exhibit 2A is a letter that Meridian  
12 received dated January the 29th, 1990, from Mr.  
13 Michael E. Stogner. It sets the present case for  
14 hearing on February the 21st, 1990. We had previously  
15 asked for administrative approval; however, Mr.  
16 Stogner was unable to grant it since this proration  
17 unit does cross section boundaries.

18 Q. Turn to the information behind tab 3 and  
19 identify the information that's contained behind that  
20 tab.

21 A. Tab 3 contains exhibits relating to the  
22 advertisement of this case. Exhibit 3A is a waiver  
23 from Northwest Pipeline Corporation, and it waives a  
24 nonstandard location, a nonstandard spacing unit, and  
25 also the 20-day notice period is being waived by

1 Northwest Pipeline also.

2 Q. When we look at Exhibit 1B, where is the  
3 Northwest Pipeline interest?

4 A. If you refer to Exhibit 1B, you will see on  
5 the map that the acreage located to the immediate east  
6 and the south --

7 Q. To the west, you mean?

8 A. I'm sorry, to the west and to the southwest  
9 of the proposed location is included in the San Juan  
10 32 and 7 Federal Unit. Northwest Pipeline is the  
11 operator of this federal unit. However, the acreage  
12 is owned by Meridian Oil, Inc., and there is not a  
13 coal well existing on this acreage at this time. We  
14 notified Northwest simply because they are the  
15 operator of that unit.

16 Q. Did you provide notice to any of the other  
17 interested owners in the area?

18 A. Yes, we did. We provided notice and  
19 received a waiver of the nonstandard proration unit,  
20 the nonstandard spacing, and the 20-day notice period  
21 from Amerada Hess.

22 Q. What interest do they have in this area?

23 A. If you refer again back to Exhibit 1B, in  
24 the State of Colorado, in Section 23, to the northwest  
25 of the location, Amerada Hess owns the acreage that is

1 not included within the Allison Unit boundary.

2 Q. What is shown on the balance of the  
3 information, Exhibits 3C through 3F?

4 A. That information consists of our  
5 notification to Mr. LeMay of our request for  
6 administrative approval of this location and the  
7 spacing unit, as well as an offset operator plat, as  
8 well as our most recent filing with the Oil  
9 Conservation Division, showing the proposed location  
10 and spacing unit, along with certified receipt copies  
11 of the letters that were sent to the offset operators.

12 Q. Turn now to tab 4 and describe for the  
13 Examiner the information contained on Exhibits 4A  
14 through 4G.

15 A. Exhibit 4 consists of our sundry notices  
16 that we have filed with the regulatory agencies,  
17 consisting of the Bureau of Land Management and the  
18 New Mexico Oil Conservation Division.

19 4A is our sundry notice to the Bureau of  
20 Land Management revising the dedication for this  
21 well.

22 4B is a plat that accompanied that sundry  
23 notice, showing the proposed spacing unit.

24 4C is the Form 3160, which is the well  
25 completion report for the Allison #123 well.

1           4B is attachment to that sundry notice.

2           4E is, likewise, a Form 3160 notice, or  
3 it's the APD to application permit to drill for this  
4 proposed well -- not a proposed well, it is a  
5 completed well. And there is also attached as Exhibit  
6 4F the original plat that was filed on 160-acre  
7 spacing, consisting of the southeast quarter for this  
8 well.

9           4G is a topographic plat showing the  
10 Section 9 where the well is located, and it shows the  
11 features in the surrounding land and area.

12          Q.     As a petroleum landman, Mr. Alexander, can  
13 you see any other configuration for the nonstandard  
14 proration unit or acreage that could be dedicated to  
15 the 123 well?

16          A.     I do not see an appropriate configuration,  
17 especially when you consider the prior spacing units  
18 that have been established in the area. This does  
19 fill in the void, the last remaining spacing unit, and  
20 I believe it to be appropriate for that reason.

21               MR. KELLAHIN: That concludes my  
22 examination, Mr. Stogner, of Mr. Alexander. We would  
23 move the introduction of his exhibit package. They're  
24 identified as Exhibits 1 through 4, and their  
25 counterparts.

1 HEARING EXAMINER: Exhibits 1 through 4  
2 will be admitted into evidence.

3 CROSS-EXAMINATION

4 BY HEARING EXAMINER:

5 Q. Mr. Alexander, I'd like to refer back to  
6 Exhibit 1A. Of the nonstandard proration units, and I  
7 guess that would be, for our concerns, the ones that  
8 are south of the Colorado-New Mexico State line, how  
9 many of these have been approved, nonstandard  
10 proration units for the Basin-Fruitland Coal Gas pool  
11 at this time, do you know?

12 A. Well, Mr. Examiner, if you would look at  
13 Exhibit 1B, you'll get a better picture of that. They  
14 depict those nonstandard spacing units that have been  
15 approved, and they are outlined on Exhibit 1B, and it  
16 is that tier of sections commencing with Section 12  
17 through -- rather, commencing with Section 9 through  
18 Section 12 would be the approved nonstandard spacing  
19 units for the Fruitland coal.

20 Q. So all of them have been approved at this  
21 time?

22 A. Yes, sir, with the exception of the present  
23 case.

24 Q. The one that we're talking about today?

25 A. Yes, sir.

1           Q.       Do all of them have Basin-Fruitland Coal  
2 Gas wells at this time?

3           A.       All of the nonstandard spacing units do.  
4 You will see where we rearranged the spacing in  
5 Sections 7, 8, and 9 to be stand-up, 320-acre. Now,  
6 those are not nonstandard, but you will see there is  
7 not a coal well in a couple of those spacing units up  
8 there, but the rest of the nonstandard spacing units  
9 do have coal wells located on them.

10                   For your information there so that you can  
11 understand the plat a little better, the well symbols  
12 that show a triangle with the well sign in the middle  
13 of them are Fruitland coal symbols.

14           Q.       It would appear that all of your  
15 nonstandard proration units that are going to be  
16 necessary in your Allison Unit are taken care of after  
17 today's hearing if this is approved; is that correct?

18           A.       I believe that to be the case, yes, sir.

19           Q.       And the property to the west is Northwest  
20 Pipeline; is that correct?

21           A.       Well, Northwest Pipeline operates the  
22 federal unit; however, the property, the leaseholds  
23 are actually Meridian leaseholds, and they do not have  
24 coal wells located on them as of this date.

25           Q.       Will Meridian be operating them if there

1 are some coal wells to be drilled to the west of this  
2 area?

3 A. There's a possibility that we will probably  
4 drill the wells; however, ultimately -- we'll probably  
5 drill them under a designation of agent, but  
6 ultimately we expect that we will turn those wells  
7 over to Northwest Pipeline for them to operate for the  
8 future.

9 Q. Are there any Mesaverde or Basin Dakota  
10 producing wells to the west?

11 A. Yes, sir, there are.

12 Q. And those probably have some nonstandard  
13 proration units since there is a little bit of Section  
14 9 not being included or being left out, I should say,  
15 of an existing Blanco-Mesaverde or Basin Dakota  
16 proration unit; isn't that correct?

17 A. No, sir. All of Section 9 -- you'll see  
18 the heavy dashed line on Exhibit 1B is the Allison  
19 Unit boundary. It is on top of the section line there  
20 for Section -- no, I believe you're right, and I'm  
21 wrong. The Section 9 does extend further to the west,  
22 and the next proration unit would take in a portion of  
23 Section 9; you are correct.

24 Q. Does Meridian operate those Basin Dakota  
25 and Blanco-Mesaverde wells to the west?

1           A.       No, sir. They should be located in the San  
2 Juan 32 and 7 unit that is operated by Northwest  
3 Pipeline.

4           Q.       Are you aware, if there are some  
5 nonstandard proration units, that it's for the Basin  
6 Dakota and Blanco-Mesaverde that border the  
7 Colorado-New Mexico State line that are set up a lot  
8 like what your wells are in this particular area also?

9           A.       Yes, sir. I didn't bring that particular  
10 order with me, but I believe they do extend further to  
11 the west, since those are unorthodox -- they're  
12 nonstandard acreage dedicated to those sections.

13          Q.       Do you see if that Basin Fruitland  
14 development extends to the west, that it would  
15 probably overlap those existing proration units?

16          A.       Yes, sir, that would be my recommendation  
17 if I were to file those cases. And I believe  
18 Northwest in the past has tried to follow suit in that  
19 manner.

20                   HEARING EXAMINER: Are there any other  
21 questions of Mr. Alexander?

22                   MR. STOVALL: Just a couple.

23                   CROSS-EXAMINATION

24 BY MR. STOVALL:

25          Q.       How is the participation in production and



1 cost in the Allison Unit? Is that on a unit basis or  
2 tract basis?

3 A. Yes, sir. It is, of course, all unitized,  
4 and we have two different styles of participation.  
5 The working interest owners are fixed throughout the  
6 unit. Any well that's drilled in there, they have a  
7 fixed percentage of interest in. The burden and  
8 royalty owners participate according to the tract, and  
9 then further according to the participating area as it  
10 expands.

11 Q. Is that for each of the -- I assume that  
12 the Allison is unitized for the service at least  
13 through the Dakota; is that correct?

14 A. That's correct.

15 Q. And the coal gas will be part of the unit  
16 operations?

17 A. Yes, sir, that's correct.

18 Q. Is there a participating area for the coal  
19 right now?

20 A. Not as of this date.

21 Q. Are you familiar with the 32-7 enough to  
22 answer the same questions with respect to that unit?

23 A. I do not believe that there is a  
24 participating area for the coal established in 32 and  
25 7 yet.

1           Q.       What about the participation in the  
2 Mesaverde and the Dakota? Is that in the same fashion  
3 as the Allison, do you know?

4           A.       Yes. And there are participating areas for  
5 the Dakota and Mesaverde wells that are located in  
6 both the Allison Unit and the San Juan 32 and 7.

7           Q.       So it is your opinion then as a landman for  
8 Meridian that it would be much easier to administer  
9 the allocation of revenues, particularly to the  
10 royalty and overrides and the burdens that are on a  
11 tract basis if it continues in the same fashion as the  
12 Mesaverde and Dakota; is that correct?

13          A.       Yes, sir, initially on the tract basis  
14 because these are preexisting units that have been set  
15 up, division orders have been cut, and parties are  
16 used to receiving revenues initially on the tract  
17 basis before they're brought into the participating  
18 areas.

19          Q.       Do you know if the ownership is the same of  
20 the tracts in the unit? Does the ownership change  
21 with the formation?

22          A.       In the Allison unit, they are constant. In  
23 the San Juan 32 and 7 unit, I am not sure.

24                   MR. STOVALL: I have nothing further.

25                   HEARING EXAMINER: I have one other

1 question.

2 FURTHER EXAMINATION

3 BY HEARING EXAMINER:

4 Q. On your Exhibits 1A and 1B, you show lot  
5 numbers with acreages. What did you base this map on?

6 A. It's based upon the most recent dependent  
7 resurvey of the G.O.L. plats, the Cadastral surveys.

8 Q. Do you know when that latest survey was  
9 taken, estimated?

10 A. No, sir. I can get that information for  
11 you, but I did not bring it with me.

12 HEARING EXAMINER: What I'm leading up to,  
13 and I don't have that particular date either, but I  
14 want to clarify something on the record. Order No.  
15 R-2046 authorized the Blanco-Mesaverde nonstandard  
16 proration unit overlapping the same area, but it shows  
17 376.88 acres, but that order was written in 1961; so  
18 somewhere between then and now there has been a  
19 dependent resurvey, and the acreage has changed, and  
20 that particular acreage now consists of 411.44 acres.  
21 I just wanted that on the record, Mr. Alexander.

22 THE WITNESS: Yes, sir.

23 HEARING EXAMINER: If there's no other  
24 questions of this witness, he may be excused.

25 Does anybody else have anything further in

1 Case No. 9871?

2 MR. KELLAHIN: No, sir.

3 HEARING EXAMINER: This case will be taken  
4 under advisement.

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CERTIFICATE OF REPORTER

STATE OF NEW MEXICO )  
 ) ss.  
COUNTY OF SANTA FE )

I, Deborah O'Bine, Certified Shorthand Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I caused my notes to be transcribed under my personal supervision; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL February 22, 1989.

*Deborah O'Bine*  
DEBORAH O'BINE  
CSR No. 127

My commission expires: August 10, 1990

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 9871, heard by me on 21 February 1990.

*Michael J. [Signature]*  
Examiner  
Oil Conservation Division