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STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION
CASE 9975

EXAMINER HEARING

IN THE MATTER OF:

Application of Meridian Oil, Inc., for Fourteen
Non-Standard Gas Proration Units, San Juan County,
New Mexico

TRANSCRIPT OF PROCEEDINGS

BEFORE: DAVID R. CATANACH, EXAMINER

STATE LAND OFFICE BUILDING

SANTA FE, NEW MEXICO

June 27, 1990

ORIGINAL

A P P E A R A N C E S

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FOR THE DIVISION:

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I N D E X

Page Number

Appearances	2
Exhibits	3
ALAN ALEXANDER	
Examination by Mr. Kellahin	5
Examination by Mr. Catanach	13
JAMES D. FALCONI	
Examination by Mr. Kellahin	16
Examination by Mr. Catanach	20
Certificate of Reporter	22

* * *

E X H I B I T S

APPLICANT'S EXHIBITS:

Exhibit 1	6
Exhibit 2	6
Exhibit 3	11
Exhibit 4	17
Exhibit 5	20

* * *

1 WHEREUPON, the following proceedings were had
2 at 11:00 a.m.:

3
4 EXAMINER CATANACH: At this time we'll call
5 Case 9975.

6 MR. CARROLL: Application of Meridian Oil,
7 Inc., for fourteen nonstandard gas proration units, San
8 Juan County, New Mexico.

9 EXAMINER CATANACH: Are there appearances in
10 this case?

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

15 EXAMINER CATANACH: Any other appearances?
16 Will the witnesses please stand and be sworn
17 in?

18 (Thereupon, the witnesses were sworn.)

19 MR. KELLAHIN: My first witness is Mr.
20 Alexander, Mr. Catanach.

21 I'd like the record to reflect that Mr.
22 Alexander has previously qualified as an expert
23 petroleum landman.

24 EXAMINER CATANACH: The record shall so
25 reflect.

1 ALAN ALEXANDER,

2 the witness herein, after having been first duly sworn
3 upon his oath, was examined and testified as follows:

4 EXAMINATION

5 BY MR. KELLAHIN:

6 Q. Mr. Alexander, let me have you summarize for
7 us what you're seeking to accomplish with this
8 Application.

9 A. Meridian Oil, Inc., is attempting through
10 this Application to establish 14 nonstandard spacing
11 units for the Fruitland Coal Formation in the area of
12 32 North, 9 West, which also consists for the most part
13 of the federal unit by that same name in the San Juan
14 32-9 Federal Unit.

15 Q. What is the basis for the request that the
16 Division approve the 14 nonstandard proration units for
17 coal-gas production? What's caused the problem that
18 you've sought the nonstandard unit?

19 A. The nonstandard units that we are seeking
20 consist of irregular sections or portions of sections
21 whereby we cannot establish in most cases a full 320-
22 acre dedication that would consist of one-half
23 governmental section.

24 Q. In your opinion, will the granting of the 14
25 nonstandard units give you a comprehensive solution for

1 the Coal Gas spacing within this township?

2 A. Yes, it will.

3 Q. Let's turn now to Exhibit Number 1, have you
4 describe for us more specifically what you're seeking
5 to do.

6 A. Exhibit Number 1 is Meridian's Application to
7 the Commission asking to establish the 14 nonstandard
8 spacing units.

9 Q. The application identifies each of those
10 nonstandard units, giving the description by lot number
11 and then the total acreage per unit?

12 A. That's correct. The Application also has an
13 area map attached to it. We have that same area map
14 presented later. It's a little easier to read. In
15 fact, that is behind Exhibit Number 2.

16 Q. Let's turn to that, and go straight, then, to
17 the first display after the Exhibit Number 2 tab.

18 A. All right, the first display is an area land
19 map that gives an overall view of the 14 nonstandard
20 units that we're requesting. They're colored in blue.
21 The only difference between the dots and the full blue
22 color is simply to show the Commission where one unit
23 ends and the other begins. It has no more significance
24 than that.

25 Q. When we look at the row of nonstandard units

1 along the northern edge of the plat, if you move beyond
2 that row of townships are we moving into the State of
3 Colorado?

4 A. That is correct.

5 Q. When we look at both ends of the row of
6 nonstandard units, have you extended the nonstandard
7 units to a point, then, where you can make a convenient
8 transition to standard-size spacing units or to spacing
9 units that have been previously approved as nonstandard
10 units?

11 A. Yes. On the eastern side of the boundary, we
12 have, by prior hearing, recently established
13 nonstandard units that would butt up to Section 12 of
14 32-9, and there are orders in effect that would
15 continue to the south on those east-half units that
16 we're depicting.

17 Q. When we look at the far western side, then,
18 of the top row of nonstandard units, I guess the first
19 section there is Section 11?

20 A. The first section would be -- Of course, the
21 sections that we're attempting to space would be 11 and
22 12.

23 Q. Yes, sir, Section 11, I'm interested in the
24 section west of Section 11.

25 A. Oh, that would be Section 10, would be the

1 first section shown there.

2 Q. All right, what is the solution for that
3 section? Do you have an approved nonstandard unit for
4 that well for crude and coal-gas production?

5 A. I do not believe that we have an approved
6 nonstandard unit at this time for those sections. I'm
7 -- Let me look here just a moment and check.

8 Yes, we should have an approved nonstandard
9 unit for that section. It contains the Stull Number
10 100 Fruitland Coal Well, so there should be an order in
11 effect for that.

12 Q. When we go vertically, then, along the
13 western boundary of Range 9 West, and you have a number
14 of west-half nonstandard units --

15 A. Yes, sir.

16 Q. -- do you see those? Two, four -- There's
17 six of them?

18 A. Yes, sir.

19 Q. You get down to the bottom in Section 7, and
20 that's not shaded in blue?

21 A. That is correct.

22 Q. Why not?

23 A. That section is not a part of the San Juan 32
24 and 9 Unit, and since it is not a part of that unit,
25 Union Texas Petroleum that owns that acreage has

1 decided to form a north-half and a south-half unit in
2 that section.

3 Q. What do you accomplish with the approval of
4 those six non-standard units along the western boundary
5 of this township? What does that give you?

6 A. Well, it -- What it does, and why we are
7 requesting that the Commission approve those as
8 nonstandard units, it would give us the ability to
9 develop the fractional part of those sections that
10 remain in the west half of each of those sections.

11 And it would also correspond with the
12 drilling units that are currently in effect for the
13 Mesa Verde or the Dakota Formation in which we have
14 established revenue patterns already in existence
15 there.

16 And it would also correspond with the
17 language that's in the San Juan 32 and 9 Federal Unit
18 Agreement that dictates that we should establish east-
19 half and west-half units only within the unit area.

20 Q. Why is it important to you as a landman to
21 maintain consistency with the spacing units that are
22 dedicated to the various kinds of production, whether
23 it's Dakota, Mesa Verde or Fruitland Coal Gas?

24 A. Well, one of the primary reasons is that we
25 have established Division Orders and revenue patterns

1 that are established for the other formations, and it
2 also keeps us in context with the Federal Unit
3 Agreement language itself.

4 Q. Let's turn now to the information shown
5 behind the first display that's folded out after
6 Exhibit 2. What have you enclosed in the exhibit book
7 at that point?

8 A. We have enclosed offset operator plats for
9 each of the requested nonstandard spacing units, and on
10 each of those plats you will see the offset operator.

11 The plats also indicate -- If we have a
12 proposed well, we will have a well name at the top of
13 the plat and its footage for that well.

14 Q. To the best of your knowledge, are any of the
15 wells actually drilled for any of these nonstandard
16 units?

17 A. No, sir, they are not.

18 Q. They're not yet drilled? And to the best of
19 your knowledge, are all the proposed wells for any of
20 these spacing units to be at standard well locations?

21 A. That is correct.

22 Q. The pattern for standard well location with
23 the Fruitland Coal Gas is in which quarter-quarter
24 sections?

25 A. They should appear in the northeast quarter

1 and the southwest quarter of the sections.

2 Q. After the plats that show the offsetting
3 operators, what have you included?

4 Before we get to Exhibit 3, there is some
5 C-102's?

6 A. Yes, sir, that's correct. We have included
7 C-102 forms for each of the wells that we have staked
8 or that we have proposed, and they do not include wells
9 on each of the nonstandard proration units.

10 Q. All right, let's turn now to the information
11 behind Exhibit Number 3 and have you identify and
12 describe that.

13 A. We have included two plats behind Exhibit
14 Number 3, the first of which is a plat that depicts
15 existing Fruitland Coal wells in the area of the units
16 that we are attempting to space. To the best of our
17 knowledge, we have found all of them, and we're showing
18 the acreage dedicated to those wells.

19 Behind that plat we show another plat that
20 depicts the existing Mesa Verde and Dakota spacing in
21 the area.

22 Q. In your opinion, Mr. Alexander, will approval
23 of the 14 nonstandard proration units for the Fruitland
24 Coal Gas production provide Meridian and the various
25 other interest owners in each of these spacing units

1 with a comprehensive solution for the irregular-size
2 townships that you're dealing with here?

3 A. I believe that it will.

4 Q. In each instance, will you also have a
5 corresponding spacing unit for the balance of each of
6 those sections that would be standard --

7 A. That is correct.

8 Q. -- for those sections that, in fact, are not
9 entirely encompassed within a nonstandard unit?

10 A. Yes, sir, where we have a west-half section
11 available, there is a -- There will be a west-half
12 section that will have a well on it, or it is a
13 proposed unit for a well at the minimum.

14 Q. For example, for a west-half nonstandard unit
15 in 19, that leaves you available an east-half unit that
16 has a standard-size spacing unit within the tolerance
17 of the special rules?

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

19 Q. In no instance, then, are you stranding
20 within a section or deleting or omitting within a
21 section any acreage that might otherwise be dedicated
22 to Fruitland Coal Gas production?

23 A. No, sir, we are not.

24 MR. KELLAHIN: That concludes my examination
25 of Mr. Alexander.

1 At this point we would move the introduction
2 of Exhibits 1 through 3.

3 EXAMINER CATANACH: Exhibits 1 through 3 will
4 be admitted as evidence.

5 EXAMINATION

6 BY EXAMINER CATANACH:

7 Q. Mr. Alexander, do you know what the order
8 numbers were that approved these nonstandard units for
9 the Mesa Verde and Dakota?

10 A. We checked that, and the -- All of these
11 wells were drilled under administrative orders issued
12 by the Aztec office.

13 Q. Administrative orders. The formation of the
14 nonstandard proration units never came to hearing?

15 A. That's correct. And the reason for that,
16 from researching our files and talking with the OCD
17 people over in Aztec, during that time period there
18 were a number of these units established for the Mesa
19 Verde and Dakota, and here particularly in the 32 and 9
20 Unit, we have a Federal Unit Agreement that establishes
21 east-half and west-half as the appropriate spacing unit
22 for these wells, and of course that agreement was
23 signed by all the regulatory agencies.

24 So the thinking back in those days was, that
25 established the spacing for these wells.

1 Now, we have since come to the Commission,
2 especially in the Fruitland Coal drilling program.
3 Even though we have that language in the unit, we have
4 talked with the Commission and we felt that it was best
5 to come forward and get a specific order setting forth
6 those nonstandard units.

7 Q. I see. I show on one of the exhibits here
8 that Sections 7 and 8 are currently not developed in
9 the Dakota or Mesa Verde?

10 A. Yes, sir. Section 7 and 8 of 32 North, 9
11 West?

12 Q. Uh-huh.

13 A. That is correct, I'm showing that they are
14 not developed in either one of those formations.

15 Q. Do you know if they have previously been
16 developed in those pools?

17 A. No, sir, they should not have been. We
18 should have shown a dry-hole marker in there if there
19 had been any well in those.

20 Q. Has -- Meridian has operated these
21 nonstandard units in the other two formations since
22 their inception; is that correct?

23 A. There has been a change of operator in the 32
24 and 9 Unit. El Paso Natural Gas operated that at one
25 time. We gave that up through some litigation to

1 Tenneco. It was purchased by Amoco, and we have since
2 held a ballot to re-elect an operator in there, and
3 Meridian Oil, Inc., is the current operator of the 32
4 and 9 Unit.

5 Q. Has it been Meridian's experience that the
6 formation of these nonstandard units has been the best
7 way to develop these sections, the most efficient and
8 best way to develop these sections?

9 A. That's correct, and we have attempted, where
10 possible, to follow the prior formation, to cause as
11 little disruption as possible.

12 Q. Was the only offset operator Union Texas
13 Petroleum, Mr. Alexander?

14 A. No, sir, if you'll look at the Application,
15 Exhibit A to the Application which is behind Exhibit 1,
16 you will see those parties that we have notified.
17 Those same parties are also reflected as you look
18 through the individual nonstandard proration unit plats
19 -- I'm sorry, the offset operator plats. You will see
20 where those people occur, where they are.

21 Q. And you have had no objection to any -- to
22 the formation of any of these units from any of these
23 offset operators?

24 A. No, sir, we have not.

25 Q. Are the locations that you -- the well

1 locations that you've depicted, are those -- have those
2 been staked, or are those final locations or just
3 tentative?

4 A. No, sir, they have been staked, and I do not
5 know of a reason that they would change at this point.

6 Q. And those are all standard locations?

7 A. Yes, sir, to the best of my knowledge.
8 Again, we don't have wells staked on all of the
9 requested units to date. Only a portion of it.

10 EXAMINER CATANACH: I have no further
11 questions of the witness. You may be excused.

12 Anything further in this case?

13 MR. KELLAHIN: Mr. Falconi.

14 EXAMINER CATANACH: Oh, I'm sorry, you have
15 another witness, that's right.

16 MR. KELLAHIN: A few questions for Mr.
17 Falconi.

18 EXAMINER CATANACH: Okay.

19 JAMES D. FALCONI,
20 the witness herein, after having been first duly sworn
21 upon his oath, was examined and testified as follows:

22 EXAMINATION

23 BY MR. KELLAHIN:

24 Q. Mr. Falconi, for the record would you please
25 state your name and occupation?

1 A. My name is Jim Falconi, and I'm employed as a
2 senior reservoir engineer for Meridian Oil in
3 Farmington, New Mexico.

4 Q. Mr. Falconi, on prior occasions have you
5 testified on behalf of your company as a reservoir
6 engineer?

7 A. No, I haven't. As a drilling engineer.

8 Q. As a drilling engineer?

9 A. Yes.

10 Q. As a reservoir engineer, are you familiar
11 with the Coal Gas development that's taking place by
12 your company?

13 A. Yes, I am.

14 Q. And have you made an examination of the
15 request by your company for the 14 nonstandard gas
16 proration units that are on the docket for today's
17 case?

18 A. Yes, I have.

19 MR. KELLAHIN: We tender Mr. Falconi as an
20 expert reservoir engineer.

21 EXAMINER CATANACH: He is so qualified.

22 Q. (By Mr. Kellahin) Mr. Falconi, let me direct
23 your attention, sir, to Exhibit Number 4. Would you
24 turn to that display and identify it for us?

25 A. Exhibit number 4 is a Fruitland Coal net

1 isopach map of the subject acreage, and this map
2 depicts the net clean coal thickness of the Fruitland
3 Coal.

4 Q. Is the net clean coal thickness one of the
5 criteria that Meridian uses to help determine the
6 location of Fruitland Coal Gas wells?

7 A. No, it is not.

8 Q. There are a series of criteria or geologic or
9 engineering components, then, to picking wells?

10 A. No, we pick locations based on Basin
11 Fruitland Coal Pool rules and try to fit them within
12 the orthodox windows.

13 Q. Within the criteria of the rules, there are
14 certain geologic and engineering factors or components
15 that go into picking a well, are there not?

16 A. No, we pick our locations to fit within the
17 orthodox locations if we can.

18 Q. When we look at the examination of the
19 nonstandard units in terms of well locations and the
20 orientations of those units, have you made an
21 examination to determine whether or not the approval of
22 any of these nonstandard units precludes you from fully
23 developing the section?

24 A. We have reviewed that, and we have not found
25 that the locations that we have picked will eliminate

1 locations.

2 Q. Okay. The approval of the nonstandard units,
3 then, will not require you to change any of your
4 proposed locations for those wells already picked in
5 terms of a well location?

6 A. That is correct.

7 Q. The orientation of the unit, that's not a
8 significant criterion for you in picking a well
9 location, is it?

10 A. No.

11 Q. The rules require that the wells be drilled
12 if at all possible in the northeast or the southwest
13 quarter section of a section?

14 A. That's correct.

15 Q. Will approval of any of these nonstandard
16 units cause you not to be able to do that?

17 A. No, approval of the locations as they're laid
18 out will not eliminate a well location.

19 Q. Do you as a reservoir engineer see any reason
20 that the Division should not approve any of these
21 nonstandard units?

22 A. After review of the acreage, I don't see a
23 reason why they should not approve it.

24 MR. KELLAHIN: That concludes my examination
25 of Mr. Falconi. We would move the introduction of

1 Exhibit Number 4.

2 EXAMINER CATANACH: Exhibit Number 4 will be
3 admitted as evidence.

4 EXAMINATION

5 BY EXAMINER CATANACH:

6 Q. Mr. Falconi, is it your opinion that the
7 proposed nonstandard proration units can be efficiently
8 and effectively drained by the wells you've staked in
9 those units?

10 A. Yes.

11 EXAMINER CATANACH: I have no further
12 questions of the witness. You may be excused.

13 MR. KELLAHIN: We would also tender, Mr.
14 Examiner, Exhibit Number 5, which is the certificate of
15 notice. Here's the original, and I think we've given
16 you additional photocopies showing we've notified the
17 -- any potential offsetting operator of any of the
18 offsetting nonstandard proration units of this
19 Application, and to the best of my knowledge, we have
20 received no objection from any of those parties.

21 EXAMINER CATANACH: Okay, Exhibit 5 will be
22 admitted as evidence.

23 Anything further?

24 MR. KELLAHIN: No, sir.

25 EXAMINER CATANACH: If not, Case 9975 will be

1 taken under advisement.

2 (Thereupon, these proceedings were concluded
3 at 11:22 a.m.)

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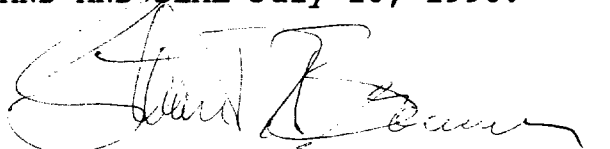
CERTIFICATE OF REPORTER

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

I, Steven T. Brenner, 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 transcribed my notes; 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 July 10, 1990.



STEVEN T. BRENNER
 CSR No. 106

My commission expires: October 14, 1990

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 9975, heard by me on June 27 1990.

David R. Cotamb, Examiner
 Oil Conservation Division