

Dockets Nos. 14-87 and 15-87 are tentatively set for May 6 and 20, 1987. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - WEDNESDAY - APRIL 22, 1987

8:15 A.M. - OIL CONSERVATION DIVISION CONFERENCE ROOM,
STATE LAND OFFICE BUILDING, SANTA FE, NEW MEXICO

The following cases will be heard before David R. Catanach, Examiner, or Michael E. Stogner, Alternate Examiner:

CASE 9119: Application of Damson Oil Corporation for pool creation and special pool rules, Lea County, New Mexico. Applicant, in the above-styled cause, seeks the creation of a new pool for Delaware production comprising the NE/4 of Section 29, Township 19 South, Range 32 East, and the promulgation of special rules therefore including a provision for 160-acre spacing and designated well locations.

CASE 9120: In the matter called by the Oil Conservation Division on its own motion to permit Viking Petroleum, Inc. and all other interested parties to appear and show cause why the Viking Petroleum, Inc. Grynberg State Well No. 1 located 330 feet from the North and East lines (Unit A) of Section 12, Township 11 South, Range 27 East, Chaves County, should not be plugged and abandoned in accordance with the Division-approved plugging program.

CASE 9116: (Continued from April 8, 1987, Examiner Hearing)

Application of Meridian Oil Inc. for an unorthodox location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks to have its Benson "3" Federal Well No. 1 located 760 feet from the North line and 280 feet from the East line (Unit B) of Section 3, Township 19 South, Range 30 East, approved as an unorthodox oil well location pursuant to the Special Rules and Regulations promulgated for the Benson-Strawn (Oil) Pool. IN THE ALTERNATIVE, the applicant seeks to have said well approved as an unorthodox gas well location if Yates Petroleum Corporation's application in Case No. 9109 to reclassify the Benson-Strawn Pool as a gas pool is granted.

CASE 9121: Application of Meridian Oil Inc. for an unorthodox gas well location and simultaneous dedication, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks approval of an unorthodox gas well location to be drilled 2315 feet from the South line and 1923 feet from the West line (Unit K) of Section 15 Township 30 North, Range 7 West, to test the Fruitland formation, the SW/4 of said Section 15 to be simultaneously dedicated to this well and to the applicant's San Juan 30-6 Unit Well No. 402 located 1455 feet from the South and West lines (Unit K) of said Section 15.

CASE 9109: (Continued from March 18, 1987, Examiner Hearing)

Application of Yates Petroleum Corporation for pool reclassification or, in the alternative, the amendment of Division Order No. R-6129-A, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks the reclassification of the Benson-Strawn (Oil) Pool to a gas pool. IN THE ALTERNATIVE, the applicant seeks to amend the Special Rules and Regulations for the Benson-Strawn Pool, as promulgated by Division Order No. R-6129-A, to provide for permanent changes in the depth bracket allowable and gas-oil ratio limitation provisions for said pool, said amendments to be made effective as of January 1, 1985.

CASE 9110: (Continued from March 18, 1987, Examiner Hearing)

Application of Meridian Oil Inc. to amend Division Order No. R-6129-A, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks to amend the special rules and regulations for the Benson-Strawn Pool as promulgated by Division Order No. R-6129-A to provide for temporary changes in the depth bracket allowable and gas-oil ratio limitation provisions for said pool.

CASE 9122: Application of Union Texas Petroleum Company for Compulsory Pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Casey Strawn Pool, underlying the W/2SW/4 of Section 34, Township 16 South Range 37 East, forming a standard 80-acre oil spacing and proration unit for said pool to be dedicated to its existing Shipp "34" Well No. 3 located at a standard oil well location 510 feet from the South line and 660 feet from the West line (Unit M) of said Section 34. Also to be considered will be the costs incurred in the drilling and completion of the well and the allocation of the costs thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 9123: Application of Curtis J. Little for a non-standard gas proration unit and for an exception to rule 5(a)2(2) of division Order No. R-8170, as amended, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval for a 160-acre non-standard gas spacing and proration unit

comprising the SE/4 of Section 14, Township 27 North, Range 13 West, Basin-Dakota Pool, to be dedicated to the applicant's Fairfield Well No. 1-E, located 1850 feet from the South line and 800 feet from the East line (Unit I) of said Section 14. Applicant further seeks an exception to Rule 5(a)2(2) of the General Rules for the Prorated Gas Pools of New Mexico as promulgated by Division Order No. R-8170, as amended, permitting the application of a full deliverability factor in the formula utilized in determining the allowable for said non-standard gas proration unit.

CASE 9124: Application of Rocanville Corporation, for a non-standard gas proration unit and for an exception to rule (a)2(2) of division Order No. R-8170, as amended, San Juan County, New Mexico. Applicant in the above-styled cause, seeks approval for a 160-acre non-standard gas spacing and proration unit comprising the NE/4 of Section 14, Township 17 North, Range 13 West, Basin-Dakota Pool, to be dedicated to the applicant's Fairfield Well No. 1, located 1100 feet from the North line and 990 feet from the East line (Unit A) of said Section 14. Applicant further seeks an exception to Rule 5(a)2(2) of the General Rules for the Prorated Gas Pools of New Mexico as promulgated by Division Order No. R-8170, as amended, permitting the application of a full deliverability factor in the formula utilized in determining factor in the formula utilized in determining the allowable for said non-standard gas proration unit.

CASE 9092: (Continued from April 8, 1987, Examiner Hearing)

Application of Reading & Bates for compulsory pooling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the West Lindrith Gallup-Dakota Oil Pool underlying the SE/4 of Section 22, Township 25 North, Range 3 West, to form a standard 160-acre oil spacing and proration unit to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 9094: (Continued from April 8, 1987, Examiner Hearing)

Application of Reading & Bates for compulsory pooling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Ojito Gallup-Dakota Oil Pool underlying the NE/4 NE/4, NW/4 NE/4, SE/4 NE/4 and SW/4 NE/4 of Section 12, Township 25 North, Range 3 West, to form four standard 40-acre oil spacing and proration units to be dedicated to wells to be drilled at standard oil well locations thereon. IN THE ALTERNATIVE, applicant seeks an order pooling all mineral interests in the Gallup and Dakota formations underlying the NE/4 of said Section 12, to form a standard 160-acre oil spacing and proration unit to be dedicated to a well to be drilled at a standard location thereon, both provisions to be in accordance with the Special Pool Rules which are in existence at the time said well is drilled. Also to be considered in either case will be the cost of drilling and completing said well or wells and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well or wells and a charge for risk involved in drilling that well.



STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
 OIL CONSERVATION DIVISION
 AZTEC DISTRICT OFFICE

Case File

1000 RIO BRAZOS ROAD
 AZTEC, NEW MEXICO 87410
 (505) 334-6178

OIL CONSERVATION DIVISION
 BOX 2088
 SANTA FE, NEW MEXICO 87501

DATE 3-23-87

RE: Proposed MC _____
 Proposed DHC _____
 Proposed NSL X _____
 Proposed SWD _____
 Proposed WFX _____
 Proposed PMX _____

Case 9121

Gentlemen:

I have examined the application dated 3-12-87

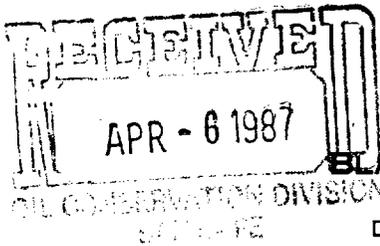
for the Meridian Oil Inc. S.T. 30-6 Unit #408 K-15-30W-7W
 Operator Lease and Well No. Unit, S-T-R

and my recommendations are as follows:

Docket for hearing

Yours truly,

[Signature]



BLACKWOOD & NICHOLS CO., LTD.
P.O. BOX 1237
DURANGO, COLORADO 81302-1237

(303) 247-0728

April 1, 1987

New Mexico Oil Conservation Commission
P. O. Box 2088
Santa Fe, New Mexico 87501

Meridian Oil Company
P. O. Box 4289
Farmington, New Mexico 87499-4289

Case No. 9121

Re: Unorthodox Location Request
San Juan 30-6 Unit #408
Unit K, Sec. 15, T30N, R7W
Rio Arriba County, New Mexico

Gentlemen:

On March 16, 1987 we received a copy of Meridian Oil Company's letter to the Oil Conservation Division for the referenced request. Blackwood & Nichols Company, as an offset operator, has several concerns in this matter. We are opposed to the Oil Conservation Division granting administrative approval for the referenced well unless Meridian can satisfactorily respond to our concerns outlined below.

1) **Excessive Drilling Precedent**

If the San Juan Unit Well No. 408 is drilled as proposed, then the three wells in the West 1/2 of Section 15 would be positioned in a manner which is approximately equal to an 80 acre spacing pattern. Currently undesignated Fruitland wells are drilled on 160 acre spacing. This proposed well could set a spacing precedent which may later affect Blackwood & Nichols' development plans for the Fruitland. Our preference is to initially drill on 160 acre spacing and not be required to develop more intensely unless future study of the Fruitland formation proves that well spacing of less than 160 acres is economically justified.

In support of our concern of excessive drilling, we cite the Oil Conservation Division's Case No. 8014 and the resulting Order No. R-7588. In summary, this case developed special pool rules for the Cedar Hill-Fruitland Basal Coal Pool and specified 320 acre spacing at the request of the operator who provided significant evidence of interference between wells on 160 acre spacing.

*located in
T31+32N, R10W*

2) **Area Production Problems**

El Paso Natural Gas Company operates the gathering system which the proposed well would produce into. Upstream of Meridian's two Fruitland producing wells, San Juan 30-6 Unit Nos. 402 and 406, on El Paso Natural Gas's pipeline lateral A-31, Blackwood & Nichols has 8 Northeast Blanco Unit wells. In addition, we operate 24 wells on laterals A-1, A-43 and A-44 and all four of these lateral pipelines produce into El Paso Natural Gas's Trunk A and/or A-Loop. Note that Meridian has a total of four Fruitland Coal wells and many other wells in this area also.

From October, 1986 thru March, 1987, the gathering system described above has experienced abnormally high pressures which are in part due to liquid and coal fines in the gathering system. Liquids in the pipelines causing increased operating pressures is not a new experience; however, we believe the problems have been more severe this past winter and that Meridian's coal wells played a significant role.

We request assurances from Meridian that they will operate their existing and future coal wells in a manner which does not adversely affect Northeast Blanco Unit wells in the area.

3) **Excessive Deliverability**

Through telephone conversation with Meridian's personnel, we understand that the proposed well is a research and development project. Also Meridian plans to produce this well and not use it only to "monitor the cluster effect of water drainage of a coal bed to improve deliverability" as their March 12, 1987 letter states.

Both Meridian's wells in the West 1/2 of Section 15 are good producers. During February, 1987, average production from the San Juan 30-6 Unit Number 402 was 2,059 MCFD and Number 406 was 1,320 MCFD.

Considering that the W 1/2 of Section 15 is on the boundary of the San Juan 30-6 Unit, is another well clearly needed to realize the reserves in this area?

In summary, Blackwood and Nichols opposes the referenced well unless Meridian is willing to specifically express: 1) their intentions regarding a future development pattern of less than 160 acres per well; 2) assurances to mitigate area production problems which relate to their operations and have adverse

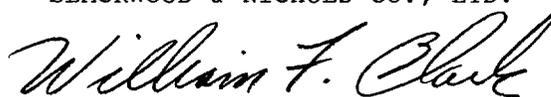
Mew Mexico Oil Conservation Commission
April 1, 1987
Page 3

effect on Northeast Blanco Unit wells; and 3) the justification for the increased deliverability. We are hopeful that a hearing can be avoided; however, we are willing to present the issue discussed above if necessary.

If there are any questions, please advise.

Sincerely,

BLACKWOOD & NICHOLS CO., LTD.

A handwritten signature in cursive script that reads "William F. Clark". The signature is written in black ink and is positioned above the typed name and title.

William F. Clark
Operations Manager

WFC:ew

Enclosures

MERIDIAN OIL

March 12, 1987

Mr. William J. LeMay
New Mexico Oil Conservation Division
Post Office Box 2088
Santa Fe, New Mexico 87501

Dear Mr. LeMay:

This is a request for administrative approval for an unorthodox gas well location in the Undesignated Fruitland Pool.

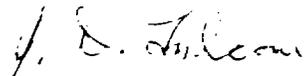
It is intended to locate the Meridian Oil Inc.'s San Juan 30-6 Unit #408 at 2315 feet from the South line and 1923 feet from the West line of Section 15, T-30-N, R-7-W, Rio Arriba County, New Mexico.

This well has been staked in an unorthodox location in the Southwest Quarter of Section 15 at a point midway between the Meridian Oil Inc. San Juan 30-6 Unit #402 and San Juan 30-6 Unit #406. The purpose of requesting such a location is to use this well for testing to monitor the cluster effect of water drainage of a coal bed to improve deliverability.

A copy of this application is being submitted to all offset operators by certified mail with a request that they furnish your Santa Fe office with a Waiver of Objection, and return one copy to this office.

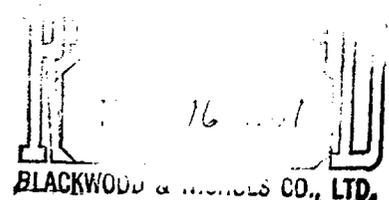
Plats showing the proposed well location and the terrain in Section 15, along with an ownership plat, are attached.

Sincerely yours,



J. D. Falconi
Project Drilling Engineer

encl.



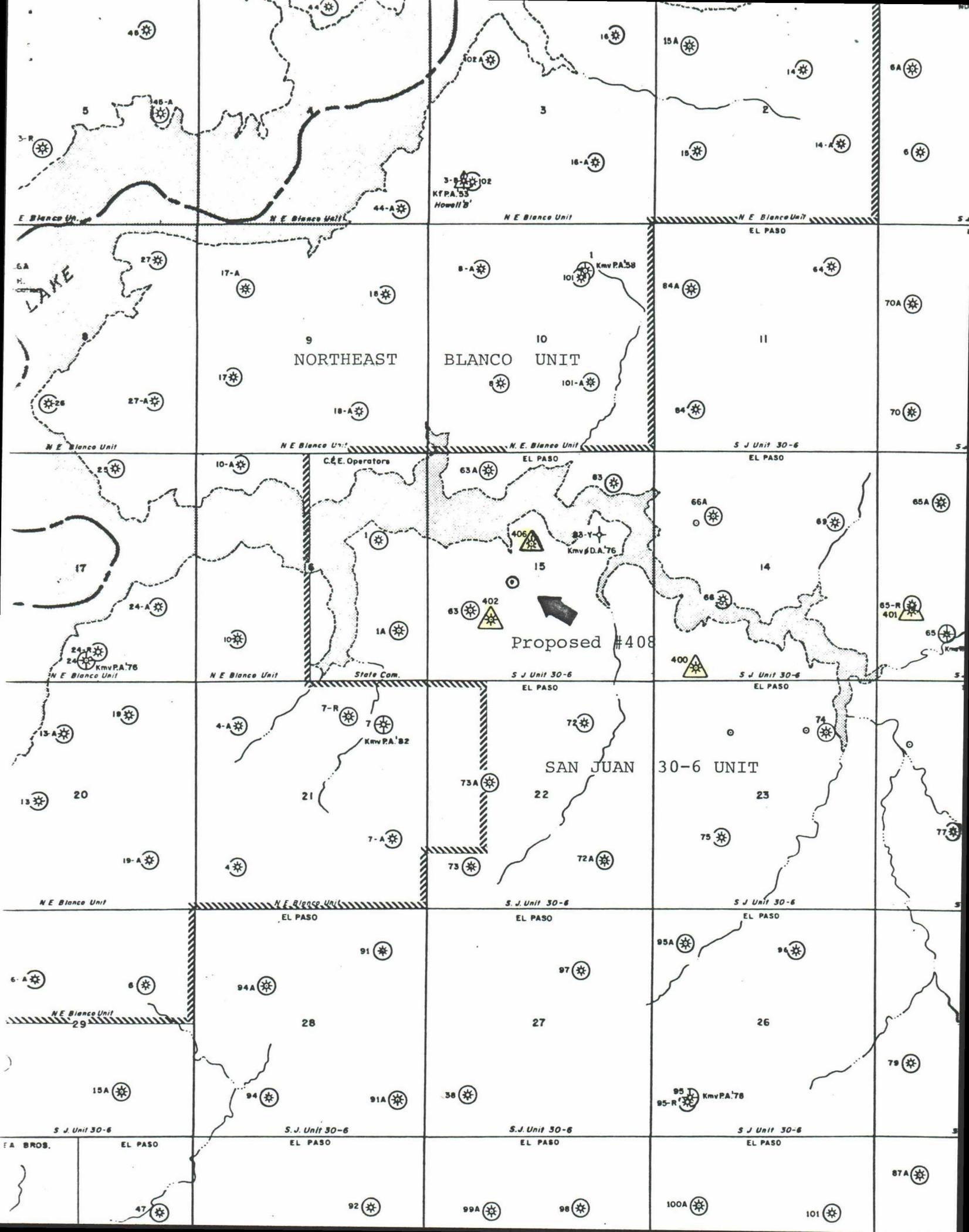
WAIVER

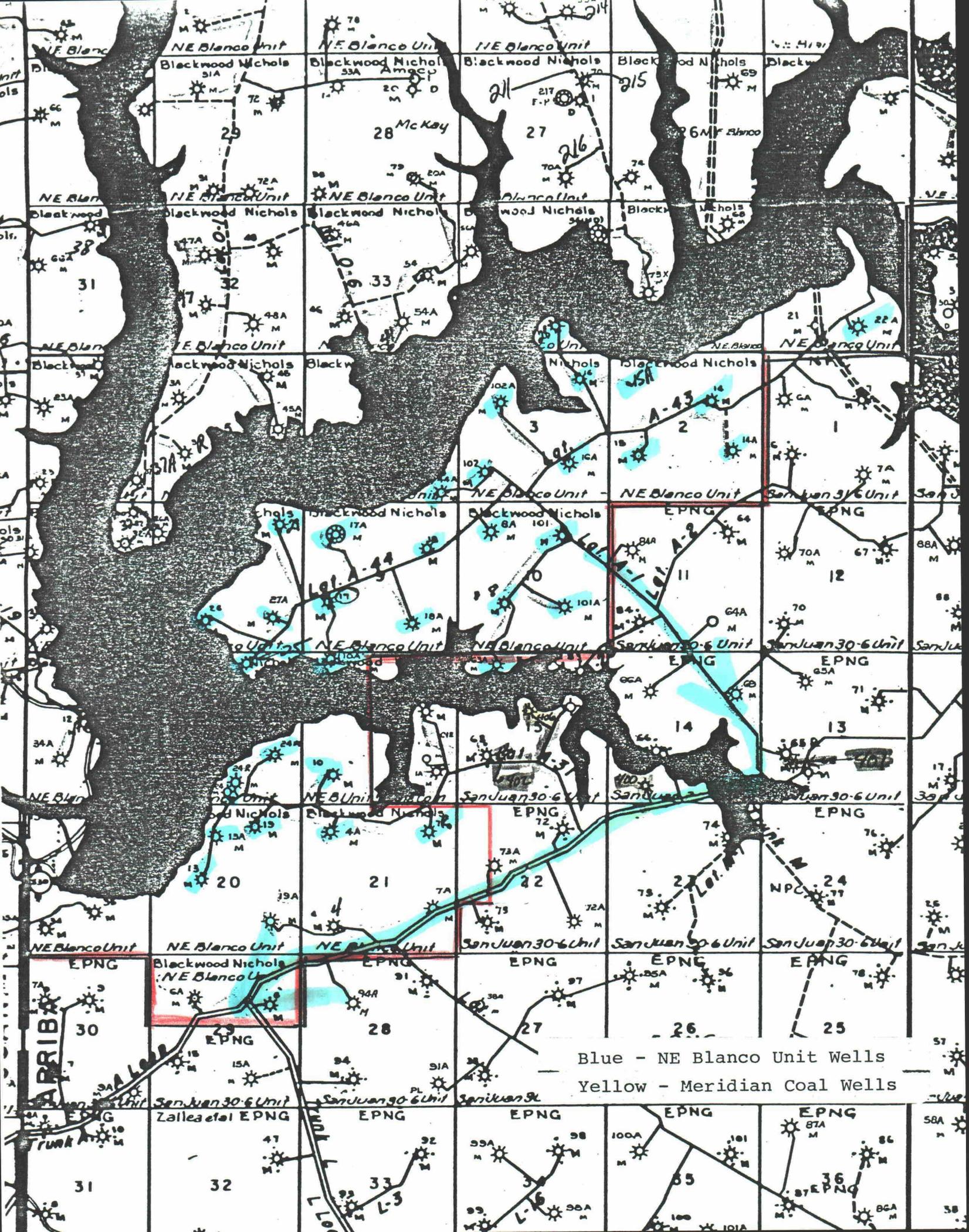
_____ hereby waives objection to Meridian Oil Inc.'s application for an unorthodox location for their San Juan 30-6 Unit #408 as proposed above.

By: _____

Date: _____

cc: Blackwood & Nichols
C & E Operators





Blue - NE Blanco Unit Wells
Yellow - Meridian Coal Wells

MERIDIAN OIL

April 9, 1987

*Received By
NMOCD
4/14/87*

New Mexico Oil Conservation
Commission
P.O. Box 2088
Santa Fe, New Mexico 87501

*Case No.
9/21*

Gentlemen:

Meridian Oil recently filed a request for approval for an unorthodox location for our proposed San Juan 30-6 Unit #408 Fruitland Coal well in Section 15 of T30N, R7W. Blackwood and Nichols has prepared a response (a copy of which is attached) in which they object to the granting of administrative approval for the location of the subject well. Meridian believes that several of the points addressed in Blackwood and Nichols' letter are not only misleading but also simply are not applicable to our request.

In that light, we would like to respond to each of the points brought forward by Blackwood and Nichols in their April 1, 1987 letter.

1. Excessive Drilling Precedent - Blackwood and Nichols implies that if any of our acreage is drilled on 80 acre spacing, that this might set a precedent which may later affect their plans for developing the Fruitland on 160 acre spacing. They cite as a precedent the Division's Order No. R-7588 establishing 320 acre spacing for Amoco's Cedar Hill pool.

It should be pointed out that this case was decided on the merits for a situation 20 miles removed from the subject application. Drilling the #408 well will allow Meridian to evaluate the development of our coal degasification project under various spacing scenarios. At the present time there is not enough data in existence to determine the proper spacing for Fruitland Coal wells. We feel that spacing requirements in a unitized situation have to be determined on the basis of optimizing ultimate recovery at an acceptable rate of return. This is something that will have to be determined by each operator and could change drastically by location. In fact, we believe it may be impossible to establish San Juan Basin wide spacing requirements but rather each pool will have to be evaluated on its own merits. Along this line, Meridian is not trying to set a spacing precedent for the Fruitland Coal, but is rather trying to determine the optimum way to develop our property.

2. Area Production Problems - The concerns expressed by Blackwood and Nichols relating to high line pressures do not relate to spacing. However this problem is of great importance to Meridian also. The operational problems associated with produced liquids and fines from the coal wells in the referenced area have been alleviated. Meridian installed gas filtration at the beginning of the project to remove coal fines in the gas stream. Dehydration units were installed and gas entering the pipeline from the #400, #402 and #406 meets or exceeds El Paso Natural Gas Co. requirements for liquid volumes. Any additional wells drilled in the area will also meet these requirements. In any event, Meridian does not have any influence over EL Paso Natural Gas in regards to how they choose to operate their pipeline system.

3. Excess Deliverability - Blackwood and Nichols implies that our application was written to mislead you with the statement that the well was to be used "to monitor the cluster effect of water drainage of a coal bed to improve deliverability". Blackwood and Nichols acts as though they were shocked to learn that we planned to produce this well. Obviously if we plan to analyze the effect that creating a larger pressure sink would have on deliverability - the only way to do this is to increase withdrawals from the reservoir by adding another wellbore. Our application does not state that we have no intentions of producing the #408 well. The San Juan 30-6 Undesignated Fruitland Coal is considered a research and development project. It is the intention of this project to determine the proper deliverability for the area.

Blackwood and Nichols states "Considering that the W 1/2 of Section 15 is on the boundary of the San Juan 30-6 Unit, is another well clearly needed to realize the reserves in this area?". The implication is that we are drilling an unnecessary well. First it should be pointed out that the west offset to Section 15 (E 1/2 of Section 16) is not in either the San Juan 30-6 or Northeast Blanco Units and that the parties in the E 1/2 of Section 16 have approved the non-standard location. As mentioned before, nobody fully understands the proper spacing requirements or the techniques for optimizing deliverability from the Fruitland Coal. The profitability of Fruitland Coal development is questionable at best given today's economic conditions. Meridian is actively investigating ways to improve the economics including the idea of trying to improve deliverability by creating a larger pressure sink by drilling on denser spacing. It is in the best interest of the State of New Mexico and (we would think) Blackwood and Nichols to develop this technology.

One final point concerning this issue is that Meridian has had numerous phone calls with Blackwood and Nichols. It is interesting to note that they have indicated a willingness to approve our application if we would share data with them which we consider proprietary. Meridian has dedicated a great deal of manpower and

NMOCD/D. Read
April 9, 1987
Page Three

capital in this project. While we realize that many parties are interested in learning of the technology we have developed, very few operators including Blackwood and Nichols are investing the amount of capital which Meridian is in this project. The bottom line is that Blackwood and Nichols has no legitimate objection which can be backed with technical data. It appears that they would rather attempt to coerce the data from Meridian as opposed to spending the capital necessary to develop their own technology.

Sincerely,

A handwritten signature in black ink that reads "Donald R. Read". The signature is written in a cursive style with a large, looped initial "D".

D. R. Read
Regional Operations Manager

RLL:DRH:jf

Attachments

cc: Blackwood and Nichols

ENERGY AND MINERALS DEPARTMENT

OIL CONSERVATION DIVISION



GARREY CARRUTHERS
GOVERNOR

April 28, 1987

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87501
(505) 827-5800

Mr. J. D. Falconi
Project Drilling Engineer
Meridian Oil Inc.
P. O. Box 4289
Farmington, New Mexico 87499-4289

Re: CASE NO. 9121
ORDER NO. R-3433

Applicant:
Meridian Oil Inc.

Dear Sir:

Enclosed herewith are two copies of the above-referenced Division order recently entered in the subject case.

Sincerely,

Florene Davidson

FLORENE DAVIDSON
OC Staff Specialist

Copy of order also sent to:

Hobbs: OCD x
Artesia: OCD x
Aztec: OCD x

Other Blackwood & Nichols