STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO

24 May 1989

EXAMINER HEARING

IN THE MATTER OF:

Application of Meridian Oil, Inc. for an unorthodox gas well location and an exception to General Rule 104.C.II (simultaneous dedication), Rio Arriba County, New Mexico. CASE 9680

BEFORE: David R. Catanach, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Division:

For Meridian Oil, Inc.: W. Thomas Kellahin
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I N D E X

E X H I B I T S

MR. CATANACH: At this time we'll call Case 9680. The application of Meridian Oil, Inc., for an unorthodox coal gas well location and exception to General Rule No. 104.C.II, simultaneous dedication, Rio Arriba County, New Mexico.

Are there appearances in this case?

MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of the Santa Fe law firm of Kellahin, Kellahin & Aubrey, appearing on behalf of the applicant.

MR. CATANACH: Any other appearances?

MR. CARR: May it please the Examiner, my name is William F. Carr, with the law firm Campbell & Black, P. A. I'm entering my appearances on behalf of Blackwood & Nichols Company, Limited.

MR. KELLAHIN: Mr. Examiner, I have two witnesses to be sworn.

MR. CATANACH: Do you have any witnesses, Mr. Carr?

MR. CARR: No, I do not.

MR. CATANACH: Will the two witnesses please stand and be sworn?

(Witnesses sworn.)

MR. KELLAHIN: Mr. Examiner, before we commence the presentation of Mr. Caldwell's testimony, I'd like you turn to the last attachment to the exhibit book, which is marked 6-A.

The area in question is the area shown on the display and specifically Section 15. Within Section 15 we're dealing with the west half of that section and we're -- the subject of discussion is the Basin Fruitland coal gas wells. The requested unorthodox location is to be a replacement well which is identified as Well 406-R, shown in the red circle and identified by the red arrow.

It is the applicant's desire to eventually end up with one producing coal gas well in the west half. You can see that there currently exist a 406 Well just to the northwest of the 406-R, and then in the southwest quarter is the 402. That circumstance occurs because the wells were permitted prior to the adoption of the 320 spacing unit.

What we ultimately seek to do is to save one of the wells for an observation well, to plug one well, and then to have one producing well.

In bringing this matter to hearing I may have inadvertently caused confusion at the Division, as well as some concern for the offset operators.

We had originally applied for two observation wells and I am told that we seek only one observation well and that is to be the 402 Well.

In addition, the docket shows that we have requested simultaneous dedication and unless I have misunderstood the Division rules, I believe that's not necessary. Our plan would be to drill the replacement well, evaluate that well and then only place a single well on coal gas production. There is a possibility the replacement well could simply be a bad well and we may have to plug that, but our plan is not to have two producing coal gas wells by which then you would simultaneously dedicate the spacing and then share an allowable, that's certainly not our purpose.

With that clarification, Mr. Examiner, I'd like to call as my first witness Mr. John Caldwell, who is a reservoir engineer with Meridian Oil Company.

JOHN W. CALDWELL,

being called as a witness and being duly sworn upon his oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q Mr. Caldwell, for the record, sir, would you please identify yourself and tell us your occupation and by whom you're employed?

A Yes, sir. My name is John W. Caldwell, III. I'm currently employed by Meridian Oil, Incorporated, Farmington, New Mexico. My job title is Regional Reservoir Engineer.

Q Mr. Caldwell, as a reservoir engineer have you on prior occasions testified before the Division?

A Yes, sir, I have.

Q And you have participated in and testified before the Division with regards specifically to Basin Fruitland coal gas wells, have you not?

A Yes, sir, I have.

Q Let me have you also continue with my opening comments by directing your attention to Exhibit Number Six-A. Do you have that before you?

A Yes, sir, I do.

Q Is this a display that was prepared or compiled under your direction and supervision?

A Yes, sir, it was.

Q Would you identify the source of the information shown on the display?

A The display in essence comprises a 9-section topographic base map, compiled, I believe, from USGS topographic surveys of the area. Superimposed on that we have compiled some data regarding the Fruitland coal wells drilled and planned to be drilled in the area.

Q When we look at the information shown, would you identify for us how to understand the code at the bottom of the display?

A Okay. We'll just start at the top of the legend and work our way down.

The first item there is a red P&A, plugged and abandonment marker, indicating all wells pertinent to this discussion that have been plugged and abandoned in the 9-section area. That particular symbol applies directly to the Mesaverde Well No. 83-Y, located in the northeast quarter of Section 15, Township 30 North, 7 West.

That particular well experienced a coal blowout and the well was lost, which is why it's a pertinent point for the Fruitland coal display.

The next item on the legend is a solid red triangle indicating a Fruitland coal well that's been drilled and has either been plugged or is preparing to be plugged and there are two symbols on the display within the 9 sections.

The first one is the 413 Well, located in Section 23 in the southwest quarter; a replacement well has already been drilled and is currently being tested for that well and the 413 Well will be plugged.

The other red triangle, solid red triangle is located in the northwest quarter of Section 15, concerns the 406 Well, and that well again will also be plugged.

Moving down the legend, then, the third item is an open red triangle designating existing Fruitland coal wells currently drilled and completed either on production or waiting to be produced.

And there is, I haven't counted the number, there is a number of those red open triangles both in the San Juan 36 Unit on the south and east parts of the display, and there's a number of wells in the Northeast Blanco Unit on the north and west parts of the display.

Q How do we find the boundary of importance in this area with regards to the San Juan Unit 30-6 Unit?

A Okay, moving down to the bottom of the -- of the legend, there is a striped line indicating the boundary of the San Juan 30-6 Unit, and that line can be found traversing across the 9-section display from the southwest to the northeast and comprises the current

boundary of the 30-6 Unit, operated by Meridian.

Q Up in the northwest portion of the display there is the identification Northeast Blanco Unit.

A Yes, sir, that's correct.

Q And who operates that unit?

A I believe that's operated by Blackwood and Nichols.

Q And to the best of your knowledge what is the boundary of that unit within the vicinity of Section 15 that we're discussing?

A The boundary on the 9-section display is identical to the one that's indicated for the 30-6 Unit with one exception. The 320-acre drill block located on the east half of Section 16 is neither included in the Northeast Blanco Unit or the 30-6 Unit.

Q Let's talk about the sequence or the history of development for coal gas production of Section 15. What was the original plan of development for the section in terms of the location of the coal gas wells?

A Meridian's original plan was a 4-well pilot project in the 30-6 unit based on some indications that we had that the Fruitland coal seam might be productive.

Q When those wells were being drilled and tested as a pilot project for coal gas production what

period of time is involved there in relation to when the Commission is considering and adopting spacing and well locations for the Fruitland coal gas wells?

A The pilot project was initiated in late 1985. I participated in the consummation of the Basin Fruitland Coal Pool rules. In the summer of 1988, approximately three years later, the pool rules were formally adopted recommending 320-acre drilling and spacing units on November 1st, 1988.

Q At the time, then, you were developing on a pilot basis the exploration and production from Fruitland coal gas wells you had predated the 320-acre spacing rules.

A By approximately 3 years.

Q At that point in time, then, the spacing was 160 acres for this type of well?

A Meridian originally permitted all four of these original pilot wells under statewide Fruitland Pool rules, which were 160's.

Q Where was the location of the well to first be drilled in Section 15, or proposed to be drilled in 15?

A I believe the -- let me refer to my exhibit here quickly.

I believe the 402, located in the

southwest -- yes, sir, that's correct, the 402, located in the southwest quarter of Section 15, was the first well to be drilled on the west half 320-acre unit.

Q And that well would also conform, would it not, to the -- to the well locations now existing as well as to the particular quarter section in which wells are now required to be drilled.

A That's correct.

Q And well rules now require that within a section wells be drilled in the northeast and the southwest quarter section?

A That's correct.

Q Unless they're otherwise approved.

A That's correct.

Q And the primary footage location to be concerned with is an outer boundary distance of 790 feet?

A That's correct.

Q All right. The 402 Well is drilled. What is the next well in order of drilling in 15?

A The next well drilled was the 406 Well, located in the northwest quarter of Section 15.

Q Let's look at the east half of 15 now.

A Okay.

Q What was the sequence or the order of potential development in the east half?

A The 83-Y, which was the original Mesa-verde test, I don't believe I have the data in front of me as to what year that was drilled. I believe it was in the fifties, early sixties, was the first well drilled in the east half.

Q Have you considered whether or not it was reasonable to drill a well in the northeast quarter of Section 15 as part of a plan of development for 15?

A Yes, sir, we certainly have.

Q And what happened?

A We originally permitted the 465 Well located currently in the southeast quarter of Section 15. In the northeast quarter of Section 15 approximately 450-to-500 feet from the -- I'm sorry, approximately 200 feet from the 83-Y location, as close as we could get to that location as was possible.

Q Were you able to obtain the necessary administrative approvals from the various regulatory and jurisdictional agencies for the drilling of the well at that location?

A I believe we consummated virtually all of the regulatory approvals with the exception of the New Mexico Oil and Gas Commission.

Q When we look at the topography map on which this information is superimposed, are we looking at a

river or a portion of a river in the Section 15?

A We are looking at the Navajo Lake Recreation Area. As indicated by the topographic contours, there's a very steep precipitous slope going down from the 83-Y to the water level indicated by stippling.

Q Why was the 465 Well then not drilled somewhere in the northeast quarter of Section 15?

A Among other problems, the 465 were originally staked -- was staked several hundred feet away from an eagle's nest that was underneath one of the ledges to the north and east of the 83-Y location. Operationally we would have had to lay approximately 450 to 500 feet of flow line up the hill to behind -- as you can see indicated on the topo map -- a little knob, a little hill. We would have had to place our tank batteries an facilities behind that hill.

We anticipated drilling a highly productive, prolific Fruitland coal well that would have had 500-to-1500 barrels of water per day, perhaps; rates of gas from a million to 10-million cubic feet of gas per day, perhaps, and operationally we were concerned about having that type of distance away from the wellbore where we have our facilities and possibly having operational problems keeping that flow line clean and clear.

Additionally, the BLM would have given

us authority to go and drill the well but not access authority subsequent to that. We would not have been able to approach the wellhead on a regular basis.

Q Therefore where did you in fact drill the 465 Well?

A We -- we chose for operational reasons then to move the well back to where it was more easily accessible in periods of well testing in winter conditions to where the current location is right off the indicated road in the northwest of the southeast of Section 15.

Q Let's go to the exhibit book, if you will, Mr. Caldwell, and look at the information compiled after Exhibit Number Six in the book, and have you describe for us your engineering opinions with regards to why you cannot now continue to utilize the 402 Well as the producing well in the west half of 15.

Q Our plans for development of the west half of Section 15 started with the 402. Exhibit B, the first page behind Tab 6 is brief recap of our operations in drilling the 402 Well.

We spud the well in March of '86, 1986, and drilled to a total depth of 3160 and cemented a 7-inch casing string.

We perforated and acidized the well and collapsed the 7-inch casing.

At that time we took the gauge indicated at 91 MCF of gas per day. We had initiated subsequent operations where we milled through the casing and gauged the well at approximately 6.2-million cubic feet of gas a day open hole, and whereupon we killed the well with 11 pounds per gallon mud and there's no volume recorded but I understand it was 500-to-1500 barrels of mud.

We then ran a 5-1/2 inch liner uncemented in the hole, perforated it, and first delivered the well at approximately 2.2-million cubic feet of gas a day.

Exhibit Six-C, which directly follows the next page in the section, is a more detailed rate/time plot of the 30-6 Unit No. 402 Well. The scale on the Y axis is production in MCF of gas per day versus time on the X axis. The red line indicates gas production on a daily basis and the blue line indicates water production on a daily basis.

What you can see from that performance is a rather marked decline from the date of first delivery at 2 to 2-1/2 million cubic feet of gas per day down to a low point there of approximately 5-to-600 MCF of gas per day.

That is atypical in our experience of Fruitland coal gas wells in this area. Typically coal gas wells show increasing rate with time. This well has ex-

perienced a severe decrease in rate with time, indicating upon extensive study that severe wellbore damage exists in the well. That conclusion has drawn us to our ultimate conclusion, I guess, why we're here today. We would like to re-drill another well for the 320-acre drilling and spacing unit and convert this well to a pressure observation well.

Q Is it reasonable to expect that you could re-enter the 402 Well and do something to that well that would repair the damage and allow you then to continue to utilize that well to produce the remaining reserves in that spacing unit?

A Well, we've already done it once and to the best of our experience I don't think the second or third time would -- would help us. The wellbore is irretrievably damaged and I think--

Q When we look at the 406 Well, describe for us why you're seeking to replace that well as opposed as continue to use that as the producing well in the spacing unit.

A Okay, the third well drilled in our pilot program was the 406 Well. Again moving to the third page behind Tab B we have Exhibit Six-D, which is a one page recapitulation of our operational events on that particular well.

We spud that 406 Well in April of 1986 and set 7-inch casing on top of the coal, cemented it back to surface.

At that point we tried our open hole completion techniques where we drilled to a total depth of 3105, using 11.3 pounds a gallon mud to control the well.

We displaced the mud, ran a 5-1/2 inch liner and cemented it and first delivered the well May 31st at approximately 9:00 o'clock in the evening at over 13-million cubic feet of gas per day.

Three hours later we collapsed the pipe, collapsed the liner; the rate had dropped to 4-million cubic feet a day.

An hour later the deliverability dropped to less than 2-million a day and 12 to 16 hours later we were down to less a million and a half cubic feet of gas a day.

At that point we initiated some remedial operations at trying to clean up the well with nitrogen and unload it through tubing and we tried to pull the tubing and found out that the pipe was collapsed. So we killed the well and lost it again, approximately 1000 barrels of mud.

We milled through the liner, cleaned out and (unclear) the liner and recovered 100 feet. We milled

and drilled to a new total depth of 3110, a little bit deeper than what we'd originally drilled the well. We ran a second liner uncemented to 3104 and landed the tubing again.

On subsequent operations of trying to clean up the well and unload it to produce, we collapsed the liner again. We jarred and tried to recover some tubing. We could not jar the liner loose. We cut it off. We recovered 9 joints and milled out the rest of it to 2898 whereupon we could not retrieve the rest of the -- of the second liner, so we redrilled the hole to a new total depth and ran a third liner to 3112, about 2 foot deeper than the second attempt, whereupon, we again unloaded the hole and landed the tubing.

The well was first delivered approximately four months later; from the first time of delivery at 356 MCF gas per day and 320 barrels of water a day.

I think the key points from that synopsis is we went in a period of four months time production rates of a few days, from 15-million cubic feet of gas a day to less than -- less than half -- less than half a million cubic feet of gas a day. In our mind that indicated severe extensive wellbore damage introduced by the 11.3 pound mud that we killed the well with several times; our milling and drilling operations in controlling it with

mud; and the three, finally successful, attempts to run liners in the well.

Q In your opinion can further work on this well restore it to a producing rate that's acceptable for unit operations for production of coal gas from the Basin Coal Pool?

A We've tried in this well three times and we're convinced that the fourth time would even damage it further.

Q The location of the 406 Well in terms of its outer boundaries from the north spacing unit and the west spacing unit are in fact in excess of the minimum distance required for those lines, are they not?

A That's correct.

Q The replacement well that you're proposing is located at a footage 2610 from the west line and 2560 from the north line?

A Yes, sir. It's a little hard to read but I believe those are the numbers.

Q What's the basis for proposing to redrill the producing well for the west half of 15 at that location?

A We have several options in front of us that we've investigated. As indicated on Exhibit Six-A, the topography in this area is very rugged. I'm not sure

that there's not any more eagles' nests around there; I don't think there are, but our options are to drill the well within 50 to 150 feet of the current 406 location, which we feel has experienced severe damage and would not be advantageous for us to locate the well there.

Another option would be to locate it on the bluff to the south side of the lake, still in the northwest quarter. It's my understanding that -- that we cannot get a good location there due to the considerations on the slope of the cliff.

We could conceivably drill it on the north half of the northwest quarter on that cliff. Operationally there would be some problems, I think, in building a pad there, as well, besides the fact that we'd be moving reasonably close to the common border between Northeast Blanco Unit and 30-6 boundary.

Our decision, based on some geologic and reservoir engineering factors, the 406-R location where it was finally picked optimizes the operational considerations, flow line considerations, the wellbore productivity considerations, the damage considerations, and still protects our interest in that 320 acres dedicated to the west half.

Q You've indicated that there's a certain minimum distance you want to move away from the 406 to get

out of the influence of wellbore damage?

A Yes, sir.

Q And what is that distance?

A In our best experience it would be 150 to 200 feet.

Q Do you have an example down in Section23 of a similar situation where you've had to redrill a well?

A Yes, sir, in the southwest quarter of Section 23 we recently, within the last several weeks, re-drilled the 413 Well as the 413-R.

To give you little history of that well, the 413 was probably the most prolific coal gas producing well in the world. At one point last summer it was making 10-1/2 to 11-million cubic feet a gas a day. It experiences a corrosion problem in the casing and we had to kill the well and run a tieback string.

At that time when we brought the well back on production the well had dropped 10-1/2 to 11 million cubic feet a day to approximately a million cubic feet a day and it's declined ever since.

We have since redrilled the well approximately 250 feet to the southwest of the 413. Our initial completion we achieved, gauges 3-to-400 MCF per day. It made large quantities of mud.

In the process of cleaning the wellbore

out over a period of about a week, we were able to gauge that well in excess of 5-million cubic feet a day, indicating that we had gotten through what we perceived as a (unclear) damage from mud, killing operations of the 413 (unclear).

Q Have you examined the possibility of taking a surface location such as where you propose to drill the 406-R well and directionally drilling that well to a bottom hole location elsewhere?

A Yes, sir, we have.

Q Do you have a display that shows your analysis of that?

A Yes, sir. If you'll flip a few pages to Exhibit Six-H.

Q That would be the very last page in this --

A The very last page in the booklet.

Q All right.

A We have run some scenarios, if you will, on a vertical completion and a horizontal completion in a highly deviated (unclear) well and that is presented in this exhibit.

The first line is our estimated -- our best guess cost of drilling, completion and facility for a vertical completion of $458,000; a horizontal well of

$1,091,000.

Compared to the gross initial deliverability for both scenarios at 2-1/2 million cubic feet of gas per day and 250 barrels of water per day indicated on the second line. Our internal economics program generates an after tax rate of return of 99 percent for the vertical completion and 36 percent for the horizontal completion.

Q In your opinion as an engineer is it operationally and economically justified to attempt to drill a well horizontally or directionally to a standard well location?

A No. There are some factors that Meridian has tried to optimize in vertical completions that we cannot and have not been able to duplicate in our horizontal completions. In a highly prolific fractured area with a (unclear) well of 1259 foot of deviation, it would virtually impossible to optimize an open hole completion technique and maintain a successful well.

My notes at the bottom indicate that all other factors being equal, we would exhibit, we feel, a significantly higher mechanical risk drilling a horizontal well in this area and we have a much higher possibility of a lower rate completion in the horizontal -- horizontal well.

Q Describe for the Examiner why you pro-

pose to utilize the 402 as an observation well.

A We chose to use the 402 observation well due to the strategic location of that well in relation to the Northeast Blanco Unit No. 407, the 30-6 Unit No. 465, the 30-6 Unit No. 466, the 30-6 Unit No. 406-R.

One of the options that we looked at and dismissed was converting the 406 to a pressure observation well and we decided against that primarily for several reasons.

First of all, the strategic location doesn't tell us as much about as many wells in as nicely centered a pattern as the 402 Well does.

And secondly, the 406 Well has exhibited perhaps a lot more damage than the 402. The pressure transients that we would expect to be seeing would take considerably longer to work their way through that.

Q Does the existence of the replacement well as you propose it to be located, the 406-R Well, still give you adequate distance among and between your wells so that you can effectively and efficiently develop the Basin coal gas reserves underlying Section 15 with then two producing wells?

A Yes, sir.

Q Was the information presented by you behind Tab 6 and marked Six-B, I believe it is, through Six

-- I'm sorry, Six-A through Six-H, was that compiled under your direction and supervision?

A Yes, sir, it was.

MR. KELLAHIN: That concludes my examination of Mr. Caldwell.

We would move the introduction of his Exhibits Six-A through Six-H.

MR. CATANACH: Exhibit Six-A through Six-H will be admitted as evidence.

Mr. Carr?

MR. CARR: I have just a couple of questions, Mr. Catanach.

CROSS EXAMINATION

BY MR. CARR:

Q Mr. Caldwell, on Exhibit Six-G, the bottom paragraph there, you indicate that the 402 Well will be shut-in and operations, I guess, observation, operating that well as an observation well, will begin following the establishment of commercial production from the San Juan 36 Unit 406-R?

A That's correct.

Q My question is, it isn't Meridian's intention, is it, if I understand Mr. Kellahin's statement, to at any time have more than one well in the west half of

Section 15 producing from the Basin Fruitland Coal Gas Pool?

A No, sir, it's not our intention at all.

Q And so you wouldn't have the 402 continuing to produce while you're trying to get BLM or whoever to concur that commercial production is not being obtained from the 406. So what you're planning to do, plug the 406 --

A That's correct.

Q -- convert the 402 to observation --

A That's correct.

Q -- drill the 406-R --

A That's correct.

Q -- and produce one well in the west half of Section 15.

A That's correct.

MR. CARR: That's all I have.

CROSS EXAMINATION

BY MR. KELLAHIN:

Q Mr. Caldwell, are there -- you said you weren't sure if you could move the location further west of your proposed location?

A From the 406-R?

Q Yes, the 406-R, you don't know if you

can move that location to the west?

A Not and stay within the northwest quarter.

Q The well's only going to be 30 feet off that -- off that lease line, or off that --

A I think we've got a landman here that can tell you about the common ownership in the unit participating area.

Q Okay, but that's the only feasible location, I mean you can't go any further west of that location.

A No. No.

Q Due to topographic reasons.

A I haven't seen where the stake actually is but there are some serious topographical problems there.

Q I think our procedure, and we don't have our location man with us here today, is he tells the BLM where we'd like to drill it and the BLM tells us where it's going to be drilled.

A Do you know -- do you guys have any drift in these wells?

Q Very little. There's very little bed dip which would cause problems. Our deviations, now I'm not familiar with these particular wells, but it's typically less than 2 degrees.

Q What direction would you say it would drift in if it were to drift?

A Oh, I'm not prepared to tell you. It's a pretty busted up area.

Q And the reason you're not drilling in the other location is due to other considerations. you've said by BLM and operational problems.

A That's correct.

Q If you have a well at that location will it drain this west half?

A Yes, sir, I believe it will, if we can -- if we can achieve what we feel is a good completion without any damage.

MR. CATANACH: I have no further questions.

MR. KELLAHIN: Mr. Examiner, we call at this time Mr. Alan Alexander.

ALAN E. ALEXANDER,

being called as a witness and being duly sworn upon his oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q Mr. Alexander, for the record would you

please state your name and occupation?

A My name is Alan E. Alexander. I'm a Senior Land Advisor with Meridian Oil in the Farmington office.

Q Mr. Alexander, have you on prior occasions testified before the Division as a petroleum landman?

A Yes, I have.

Q And pursuant to your employment by your company have you been involved with and tabulated land title information with regards to the subject well that's involved in this application?

A Yes, I have. That information has been tabulated under my supervision.

Q Are you familiar with the working interest ownership and the participation areas in the San Juan 30-6 Unit?

A Yes, sir.

MR. KELLAHIN: We tender Mr. Alexander as an expert petroleum landman.

MR. CATANACH: He is so qualified.

Q Let me direct your attention first of all to the exhibit book.

Exhibit One is simply a copy of the application that was utilized for today's hearing?

A Yes, sir, that's correct.

Q Let's turn to the last page of information behind Tab 1 and there's a list of parties, the caption of which says San Juan 30-6 Unit 406-R Well, and there's a list of names and addresses.

A Yes.

Q Did you cause that list to be prepared?

A Yes, sir, I did.

Q And what does that represent, sir?

A That would represent the operators or the owners of the offsetting acreage to the location where we intend to drill the 406-R.

Q All right, so we go to the information in Tab 2, or Exhibit Two, and what have you included behind that tab, sir?

A This is a waiver letter whereby we intended to inquire of the offset owners and/or operators as to either their opposition or their support of our application to redrill the 406-R Well.

Q In summary what operators or offset owners have submitted waivers to you, Mr. Alexander?

A To date we have received a waiver from the Crossed Timbers group of companies and also Mr. W. P. Carr has executed a waiver letter.

Q Do you have a plat or other information

by which you can identify where these various owners have their specific interests?

A Yes, sir, we do. The plat that we would need to refer to would be behind Exhibit Two and is a reduced copy of the map that you have currently looked at.

Q Help us use the -- help us use the -- let's use that map and help us identify where these various interest owners have -- have their interest.

A All right. The interest owners that we were showing on the exhibit behind Tab 1, Blackwood & Nichols Company, Limited, would be the operator of the Northeast Blanco Unit and have previously described where that unit lies in relation to the hatched line. That line is also indicated on the map that we're looking at currently behind the Tab 2. The only difference would be that we have gone ahead and shown that the east half of Section 16 is not committed to the Northeast Blanco Unit.

Now in that east half of Section 16 we have an operator of the Fruitland Coal, which is Amoco Production Company.

We also decided to go ahead and notify Mr. Carr and the Cross Timbers partners, Mr. Mizell and Mr. McIlvain, who have an interest in that half section, although Amoco was the designated operator at the time we made this application. I might add that we have subse-

quently negotiated with Amoco and Meridian will be taking over as operator of that half section.

Q Let's turn to the information available behind Tab 3 and have you identify and describe that information.

A The information behind Tab 3 represents our efforts to secure regulatory approval as well as working interest owner approval for those partners that are in the San Juan 30-6 Unit.

We originally proposed the 406 redrill in 1988, on the 1988 program. We have carried that forward into the 1989 drilling program. We have received the necessary majority approval and we have also received the regulatory agency approvals necessary to drill this well.

Q When we go to Exhibit Four would you identify and describe that information for us?

A Yes, sir. Exhibit Four is a listing of the Fruitland -- the current Fruitland participating area in the San Juan 30-6 Unit and the percentages that each party owns in that participating area.

Q And let's look at the map, then, which is Exhibit Five. What does that show?

A Exhibit Five is a map of the current Fruitland participating area for the San Juan 30-6 Unit.

Q When we look specifically, then, at

Section 15, do we have parties participating, either different individuals or percentages between the east half and the west half of 15?

A No, sir, they are the same parties.

Q From examining the title documents and the land information available for the San Juan 30-6 Unit, do you see any opportunity for the correlative rights of any of the owners in property towards whom the well is encroaching to have their correlative rights impaired?

A No, sir. Since the well is encroaching in fact upon the 30-6 ownership and since that ownership is consistent through the participating area, I do not see an opportunity for us to violate correlative rights in any manner.

Q Are we dealing with the same base title? Is this Federal or State properties?

A In the participating area as a whole?

Q Yes, within Section 15.

A In Section 15?

Q Uh-huh.

A I believe that it is Federal mineral ownership. I didn't bring a breakdown of the lease ownership with me today.

Q I think if you'll look at Exhibit Number Five, although it's very difficult to read, it appears that

those are Federal numbers with regards to 15?

A Yes.

Q It would appear that you have a section that's composed of Federal royalties as opposed to a combination of fee and state ownership.

A I believe that's correct. That could be verified but I just didn't have the information here today.

MR. KELLAHIN: That concludes my examination of Mr. Alexander, Mr. Catanach.

We would move the introduction of his Exhibits One through Five.

MR. CATANACH: Exhibits One through Five will be admitted as evidence.

Any questions, Mr. Carr?

MR. CARR: No questions.

MR. CATANACH: I have no questions of the witness.

MR. KELLAHIN: To complete our presentation, Mr. Catanach, I have a certificate of mailing showing that we have provided notice to various parties towards whom we're encroaching of our application, and that's shown as Exhibit Number Seven.

MR. CATANACH: Exhibit Number Seven will be admitted as evidence.

MR. KELLAHIN: That concludes

our presentation.

MR. CATANACH: Anything further?

MR. CARR: I just have a very brief statement.

I'd like on the record to state that Blackwood & Nichols Company, Limited, does not oppose what Meridian stated today is the sequence, and that is plugging the 406, converting the 402 to observation, and drilling the 406-R.

Our concerns stem from two things. One, based on the application compared to the notice and the docket in this case. We were unsure as to what was being sought.

We would oppose simultaneous dedication or the production of multiple wells in the west half of Section 15. It would contrary to the pool rules. It would increase the density of wells in the area and we think that could result in an advantage to Meridian over the offsetting operators.

But what they propose is consistent with the pool rules and we do not object to that.

MR. CATANACH: Thank you, Mr. Carr.

Anything further, Mr.

Kellahin?

MR. KELLAHIN: No, sir.

MR. CATANACH: If not, this case will be taken under advisement.

(Hearing concluded.)

C E R T I F I C A T E

I, SALLY W. BOYD, C. S. R. DO HEREBY CERTIFY that the foregoing Transcript of Hearing before the Oil Conservation Division (Commission) was reported by me; that the said transcript is a full, true and correct record of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 9680, heard by me on May 21 1985.

David Catanach, Examiner
Oil Conservation Division