NEW MEXICO OIL CONSERVATION DIVISION

STATE LAND OFFICE BUILDING

STATE OF NEW MEXICO

CASE NO. 10496

IN THE MATTER OF:

The Application of Southland Royalty Company for an unorthodox gas well location, downhole commingling, and to amend Division Administrative Order No. NWU-80, San Juan County, New Mexico.

BEFORE:

DAVID R. CATANACH

Hearing Examiner

State Land Office Building

JUNE 25, 1992

REPORTED BY:

DEBBIE VESTAL
Certified Shorthand Reporter
for the State of New Mexico

ORIGINAL

A P P E A R A N C E S

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EXAMINER CATANACH: Call the hearing back to order. At this time we'll call Case 10496, Application of Southland Royalty Company for an unorthodox gas well location, downhole commingling, and to amend Division Administrative Order No. NWU-80, San Juan County, New Mexico.

Are there appearances in this case?

MR. KELLAHIN: Mr. Examiner, Tom Kellahin of the Santa Fe law firm of Kellahin, Kellahin & Aubrey, appearing on behalf of the applicant, and I have three witnesses to be sworn.

EXAMINER CATANACH: Any other appearances?

Will the three witnesses, please, stand and be sworn in.

[The witnesses were duly sworn.]

MR. KELLAHIN: Mr. Examiner, here's our package of proposed exhibits. The case number is wrong, but it is the Aztec 700 well.

MR. KELLAHIN: I would like to call Mr. Alan Alexander.

ALAN ALEXANDER

Having been duly sworn upon his oath, was examined and testified as follows:

EXAMINATION

BY MR. KELLAHIN:

Q. Mr. Alexander, would you, please, state your name and occupation.

A. My name is Alan Alexander. I'm employed as a senior staff landman with Meridian Oil Company in Farmington, New Mexico.

Q. Have you testified in that capacity before the Oil Conservation Division on prior occasions for your company?

A. I have.

Q. And pursuant to your employment as a landman, have you made a study of the land issues involved in this particular application on the Aztec 700 well?

A. I have.

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

EXAMINER CATANACH: He is so qualified.

Q. (BY MR. KELLAHIN) Let me have you turn, Mr. Alexander, turn to the Meridian exhibit book. Behind tab "Exhibit 1" is the application, but let's turn to Exhibit 2. I'd like you to help summarize for the Examiner the different

requests that Meridian is making on behalf of Southland Royalty Company with regards to what we call the Aztec 700 well.

So that we don't confuse each other, let's start with the Fruitland Coal spacing for the Aztec 700 and look at the first display behind Exhibit No. 2.

A. Yes. The first display behind Exhibit No. 2 is the offset operator plat for the Aztec No. 700 well, which shows the spacing unit for the Fruitland Coal portion of the commingled and the offset operators therefor.

Q. A coal well at this proposed location in the south half of Section 14, will that be at a standard or at an unorthodox location?

A. It will be unorthodox.

Q. Why is it unorthodox?

A. It is too close to the northern boundary of the south half spacing unit.

Q. And it should be a 790-foot setback and it is not?

A. That's correct.

Q. Did Meridian attempt to locate that at a standard coal-gas location?

A. Yes, we did.

Q. Were you successful?

A. No, we were not with regards to the present application. We did on a previous occasion look at this project strictly from the Fruitland Coal Formation, and we had a location only for the Fruitland Coal that would have been standard.

Q. Why were you not able to obtain a standard location?

A. Because we changed the scope of the project to include the commingled of the Pictured Cliffs Formation to capture those remaining reserves. And that necessitated a move to the north, up in the northeast of the southwest quarter, in order to get into the Pictured Cliffs fairway.

Q. Within the -- I'm sorry. Is this federal or state or fee acreage?

A. This is federal acreage.

Q. Were you able to obtain the Bureau of Land Management's approval for a standard coal-gas location in the south half of 14?

A. No, we were not.

Q. Have they approved, at least preliminarily, the drilling at the unorthodox

location?

A. Yes, they have.

Q. So part of the application is the unorthodox location for the coal-gas; right?

A. That's correct.

Q. We'll have a south half dedication; plus you want to commingle the Fruitland Coal with the Pictured Cliffs?

A. That's correct.

Q. And this is a new drill?

A. That's correct.

Q. Let's turn now to the next display following, still within Exhibit No. 2, and have you identify for us the Pictured Cliffs proposed nonstandard proration unit.

A. The exhibit following the first exhibit under Exhibit No. 2 is again an off-set operator plat, but it depicts the Pictured Cliffs spacing unit in this area. It's an historical spacing unit that was established many years ago, consisting of the west half of the northwest quarter and the north half of the southwest quarter.

Q. Where is the existing well to which the nonstandard PC spacing unit is currently

dedicated?

A. That would be the Aztec No. 3 well, and it's located in the southwest quarter of the northwest quarter.

Q. As part of this application, do you seek then to replace that well with the Aztec 700 and maintain and continue on then the existing nonstandard proration unit in the Pictured Cliffs?

A. Yes, sir, that's correct.

Q. Will this location be standard or unorthodox for Pictured Cliffs production?

A. It will again be unorthodox for Pictured Cliffs production because again it is too close to the lease boundary line.

Q. You're seeking then to amend the administrative order that approved the PC nonstandard proration unit to substitute a new well which will be at an unorthodox location?

A. That's correct.

Q. And then to dedicate that well in that production with the Fruitland Coal in a commingled wellbore?

A. That is correct.

Q. Let's turn to Exhibit 3 and look

further at the Pictured Cliffs and how the spacing units within Section 14 have been developed. That display is a little complicated. If you'll take a minute and help us identify the current nonstandard proration units that now exist within that section for the PC wells.

A. Yes. If you will focus on Section 14 of 28 North, 11 West, you will see the L-shaped tract that we just described in the offset operator plat being the west half of the northwest quarter and the north half of the southwest quarter.

You'll see an identical L-shaped tract that covers acreage over in the eastern half of the unit. You'll also notice that the south half of the south half is dedicated to the Pictured Cliffs well being the Aztec No. 6 well. And there's an 80-acre, being the west half of the northeast quarter that is dedicated to the No. 5 well.

And then if you look, offsetting Section 14 you will see that there are several other, in many instances, nonstandard proration units that have been historically dedicated to

the Pictured Cliffs Formation in this area.

Q. When we are looking at the ownership of production in the Pictured Cliffs and the Fruitland Coal, do we have common ownership if we dedicate those two productive formations to this well?

A. Yes, we do.

Q. The ownership in the south half of 14 is going to be the same as the ownership in the proposed nonstandard proration unit for the Pictured Cliffs?

A. That's correct.

Q. The 80-acre tract, which is the east half of what appears to be the northwest quarter, that's acreage that is not yet dedicated to a Pictured Cliffs well?

A. That is correct.

Q. Do the owners in that area currently participate in any of the Pictured Cliffs wells in the section?

A. Yes, they do. They participate in the No. 5 well that's located up in the northwest quarter of the northeast quarter.

Q. Okay. Who is the operator of the 80-acre tract I've just described?

A. Southland Royalty Company is the operator.

Q. When you're trying to examine and locate from a land perspective the drilling window, if you will, that will allow you to drill for Pictured Cliffs and Fruitland and to have common ownership, will that exist in the northeast of the southwest where the well is to be located?

A. Yes. The drilling window actually extends in the north half of the southwest quarter. When you take in the combination of the needs for the Fruitland Coal and the Pictured Cliffs Formation, that is the limitation of your drilling window.

Q. From a land perspective then, we have an 80-acre tract that would have common ownership for which the engineers and geologists can determine the best location?

A. That's correct.

Q. When we go back to Exhibit No. 2 and the two displays, have you satisfied yourself that you have identified the appropriate parties to receive notice of this application?

A. Yes, sir, we have.

Q. Has notice of this application been provided to those people?

A. It has.

Q. And have you received to your knowledge any objection from any of those parties notified?

A. We have not received any objection per se. We did have on the party that you'll see on page 1 of the exhibit for the offset operator for the Fruitland Coal, there is an entity which would currently show as Chaparral Oil & Gas, Inc. In our prior applications we had misidentified that corporation as Chaparral Resources, which is another corporation.

And we have since obtained a waiver of our notice period from Chaparral Oil & Gas, which you have, Mr. Kellahin.

Q. All right. That was executed by Jerry Sandel on behalf of his company?

A. That is correct.

Q. Any other changes or corrections with regards to notification?

A. No, sir, there are not.

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

EXAMINATION

BY EXAMINER CATANACH:

Q. Mr. Alexander, you stated that you could not drill a standard coal-gas well location?

A. Not with the change of the scope of the project to capture the remaining Pictured Cliffs reserves in the commingled. If we were simply going to drill a Fruitland Coal well, we can obtain a standard location for that alone.

Q. I thought you mentioned that the BLM may not have even approved the standard coal-gas well location.

A. Not with the current project with it being commingled in a PC.

Q. I see.

MR. KELLAHIN: Mr. Examiner, there's a display, I think, that will help answer that question. If you would turn behind tab Exhibit 5, there's a topo map.

EXAMINER CATANACH: Uh-huh.

MR. KELLAHIN: And there's the triangle that shows the current unorthodox location?

THE WITNESS: That's correct.

MR. KELLAHIN: Did the BLM require you to move to that current location for this

particular well?

THE WITNESS: Yes, sir, they did.

Mr. Examiner, if you will look just south of that triangle, you will see a ridge that runs on the topographic map. We attempted to locate the well on top of that ridge, which would have been a standard location for both stated purposes. And for endangered species reasons we were not allowed to locate the well on top of that ridge. And we had to move it down off that ridge into a wash, and that's why the well is currently located where it is today.

Q. (BY EXAMINER CATANACH) Okay. If you could have, you would have drilled a standard location for both formations?

A. Yes, sir.

Q. But the topography didn't allow you to do that?

A. That is correct.

Q. Okay. So that's the main consideration in the unorthodox location?

A. Yes, sir.

MR. STOVALL: When you go over to the west of that ridge, what is that like? Do you see where I'm talking about where your lines get

further apart again? It looks like it's flatter.

THE WITNESS: It is flatter over in that area. However, we're again moving away from the Pictured Cliffs fairway when we move to the west. And it would severely limit the project and its ability to capture any remaining Pictured Cliffs reserves in this area.

Q. (BY EXAMINER CATANACH) So geology does have a part in this, or it's not simply topography, there's some reservoir considerations?

A. Yes, sir, there is.

Q. What's the current status of the Aztec No. 3, Mr. Alexander?

A. I believe that it's currently shut-in and hasn't produced for some time period.

Q. Do you know what Southland plans to do with the well?

A. Yes, sir. We plan on plugging and abandoning that well.

Q. That nonstandard PC unit was established back in 1955?

A. I don't recall the date right off the top of my head.

Q. Was that approved by NWU-80?
A. Yes, sir, that's correct.
Q. Okay. Mr. Alexander, who owns the east half of the northwest quarter?
A. The east half of the northwest quarter is -- the working interest is owned by Southland Royalty Company, and it is a federal leasehold.
Q. Does Southland have any plans to develop that acreage?
A. That depends upon the current project, Mr. Examiner.
Q. The interest ownership in the various proration units is common?
A. It is common between the Pictured Cliffs and the Fruitland Coal Formation spacing units for this particular well, if I understand your question correctly.
Q. So those interest owners have the same percentage in production?
A. Yes, sir, they do.
Q. Okay. Who are those interest owners, Mr. Alexander?
A. Well, both of those are federal leases. The working interest is owned by Southland Royalty Company, and there's a half

percent override owned by an individual.

Q. On both of the proration units?

A. Yes, sir. It's a common lease. It's the same lease.

EXAMINER CATANACH: I see. That's all I have of the witness.

Bob?

MR. STOVALL: No.

EXAMINER CATANACH: You had your chance.

MR. STOVALL: I'll get another shot at Mr. Alexander before the day is over.

SCOTT DAVES

Having been duly sworn upon his oath, was examined and testified as follows:

EXAMINATION

BY MR. KELLAHIN:

Q. Would you, please, state your name and occupation?

A. My name is Scott Daves. I'm currently a reservoir engineer with Meridian Oil. I've been with Meridian since 1987. Before that I graduated from Colorado School of Mines.

MR. KELLAHIN: Mr. Daves spells his last name D-a-v-e-s.

THE WITNESS: Right.

Q. (BY MR. KELLAHIN) Have you on prior occasions testified before the Division?

A. No, sir. This is my first time.

Q. Summarize again your educational background.

A. I have a degree in petroleum engineering from Colorado School of Mines, and I've since graduated and worked for Meridian Oil as either a drilling engineer or a reservoir engineer.

Q. Have you been part of the technical team that has worked on the various aspects for the Aztec 700?

A. Yes, sir, since the beginning of it.

Q. Tell us generally the areas of your responsibility.

A. As a reservoir engineer, one of my primary functions is to develop those open drill blocks of Fruitland Coal or the various different formations that we have.

Q. In addition have you developed and have a recommendation for the Examiner on an allocation of production between the Fruitland Coal and the Pictured Cliffs?

A. Yes, sir, I do.

MR. KELLAHIN: We tender Mr. Daves as an expert reservoir engineer.

EXAMINER CATANACH: He is so qualified.

Q. (BY MR. KELLAHIN) Let's deal with the allocation issue first, if you don't mind.

A. Sure.

Q. Let's turn to Exhibit 6. In approaching a solution or a recommendation for an allocation formula, did you utilize any other wells that your company operates that have a similar issue in terms of Pictured Cliffs-Fruitland Coal allocation in a downhole commingled well?

A. Yes, I did. The well we used principally for this was the Gordon 5, which is a downhole commingled recompletion.

Q. Refresh the Examiner's memory about the general mechanics of how that allocation formula is utilized for the No. 5, the Gordon 5.

A. Basically, if I'm not mistaken, the formula sums the total production between the two wells and then allocates the Pictured Cliffs and the Fruitland Coal gas due to one of the two

reservoir performances. And in this case it is the Pictured Cliffs because you do have a strong historical performance that you can base your Pictured Cliffs' forecast on.

Q. With that background and information, what did you ultimately decide to recommend for an allocation formula for the Aztec 700?

A. A method similar -- basically exact to that where we based the production for the Pictured Cliffs off of historical production in the general area. We could not do that on the specific well because it hasn't been drilled yet, but you can look at the offset performance and analogize to come up with a model that you could allocate production for the Pictured Cliffs.

Q. Take us through your formula.

A. Okay. The way the formula is stated here the general equation is the total production is equal to Fruitland Coal production plus Pictured Cliffs' production. And then basically I rearranged the equation to solve for Fruitland Coal production, which would be equal to the total production, minus the Pictured Cliffs' production.

And then here the real trick you will

know what your total production is from your sales, but the Pictured Cliffs' production is based off of field analogy. And what I basically came up with here is an exponential decline similar to what was in the Gordon 5, but it's based on offset production for the general area of the subject well.

Q. Are you satisfied that that will give you a reliable means by which to determine the production attributable to the Pictured Cliffs?

A. Yes, I'm fairly confident in that.

Q. Then what do you do?

A. What you would do at that point is the production for the Pictured Cliffs would be based on this exponential decline, which is historical. And from that you would subtract it off of the total production to allocate the Fruitland Coal production.

Q. When we turn to Exhibit 7, what does that tell us?

A. What that is is the determination of the initial ratio with which you will apply the exponential formula. And what it basically states is the Pictured Cliffs' portion, the initial Pictured Cliffs' production will be the

ratio of the total production -- or the Pictured Cliffs' production divided by the total production on the initial flow test for each formation. I can walk you through that if you need.

Q. It's not necessary. Is that your recommendation to the Examiner for an allocation formula to attribute production to each of the two fields?

A. Yes, sir, it is.

Q. Let me address with you the objectives that Meridian and Southland are attempting to accomplish with this wellbore. What is the reason you're proposing a commingled Pictured Cliffs and Fruitland well in this particular area?

A. Primarily the Fruitland Coal itself would be, from a drill standpoint, marginally economic. It would be something that you could go out and do, but it wouldn't be a great project. It would just be a marginal project.

However, there are Pictured Cliffs' reserves we've identified in the subject drill block that are still there. However, the wellbore that's there cannot produce them.

Mechanically it has failed.

So therefore we saw an opportunity to change the scope of this from a basic Fruitland Coal well to a commingled and then produce what remaining Pictured Cliffs' reserves are there and also the Fruitland Coal reserves.

Q. Have you been able to conclude that the approval of the downhole commingling of these two formations at this location will prevent waste?

A. Yes, absolutely. The reserves that were associated with the Aztec 3 are now no longer producible.

Q. Can it be done in a way that protects correlative rights?

A. Yes, sir.

Q. Give me some of the economics. What does a straight-up vertical well for the Fruitland Coal cost?

A. Approximately $240,000. Drilled, completed, and with facilities.

Q. For Fruitland Coal?

A. Right.

Q. What about the PC, straight-up vertical by itself?

A. Approximately $200,000.

Q. What do you save, if anything, if you try to drill these as a dual completion?

A. As a dual completion you would be required to have two strings of tubing, a larger casing size, dual facilities on the surface. Therefore, you're almost going back with the exception of the drilling costs to a two-well completion because you would end up with -- the primary costs would be the facilities and the tubulars.

Q. What do you achieve in an economic savings if you have approval for downhole commingling?

A. You would basically save approximately $170,000 over completing both wells separately.

Q. And that's simply looking at the costs of the wells involved?

A. Right. Right.

Q. Will the remaining producible reserves in the Pictured Cliffs justify a stand-alone well for that formation?

A. No, sir.

Q. The only way you can capture those remaining reserves is to do it the way you've proposed?

A. Right.
Q. Are you familiar with the Division Rule 303 and the commingling procedures they set forth?
A. Yes, sir.
Q. When you look at those items, have you found any instances of information that would cause to you conclude that you cannot safely commingle production from these two pools?
A. No, sir, I haven't.
Q. Fluids are compatible?
A. Yes, sir.
Q. Do either of these formations produce water that give you a problem?
A. No, sir.
Q. The coal is a dry coal here?
A. Right. This whole area is a dry coal.
Q. What about any pressure differentials? What do you find on pressure?
A. The pressures are within 5 percent of one another in general within the entire area.
Q. No problem with downhole commingling that you can find?
A. No, sir.
Q. Is there a display that you can use in

here for reference to show us from an engineering aspect how we end up in this particular location, recognizing the constraints that Mr. Alexander has imposed upon him in finding a drill block, if you will, that has common ownership? And he's shown you the north half of the southwest quarter; right?

A. Right.

Q. As an engineer when you're trying to pick the best possible location within that 80-acre tract, how did you come to find the location that you're proposing for the Aztec 700?

A. There were two considerations that we were looking at. The first one was we wanted to move away from the old wellbore, the Aztec 3, and also to move closer into the Pictured Cliffs to ensure that we did have economic reserves. And the combination of the two things would ensure what we felt would be economic reserves for a commingled.

Q. Mr. Catanach asked Mr. Alexander about Meridian or Southland's plans on the open 80-acre tract. Tell us what you understand those plans to be.

A. Should this well be a success, the

obvious choice, if it was a successful commingled, would be to move up into that undrilled 80-acre drill block and pursue a well similar to this one.

Q. Is there any advantage that you see to those owners within that undrilled tract to have this application approved?

A. Absolutely. That proves up their acreage essentially.

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

EXAMINATION

BY EXAMINER CATANACH:

Q. Mr. Daves, you stated that it was to their advantage, is it also not correct that the proposed well might drain some of that acreage?

A. Yes, sir.

Q. Have you calculated the remaining PC reserves?

A. For the associated drill block, approximately 200 million cubic feet.

Q. Is that recoverable?

A. Yes, sir.

Q. How much reserves would you need for a stand-alone PC well to justify the --

A. It would be similar to a Fruitland Coal well, being the depths are the same and the completion techniques are the same. Approximately 1.2 to 1.5 Bcf.

Q. In your allocation formula, you said you utilized offset PC production. Are those all in the same Pictured Cliffs' pool?

A. Yes, sir. They're the direct offsets.

Q. Okay. And were the individual wells that you analyzed, were they pretty close to what you came out with for an average?

A. Yes.

Q. I assume you averaged them?

A. Yes, sir.

Q. They were all within --

A. -- a reasonable range.

Q. Okay. Mr. Daves, do you know what type of completion is utilized for coal wells?

A. In this area the typical completion would consist of a hydraulic fracture with prop sand.

Q. Now, the PC is right above the coal; is that correct?

A. Right below.

Q. Below, I'm sorry. Has Southland or

Meridian ever had any problem with fracturing the coal into the PC?

A. Not to my knowledge. I haven't really studied that aspect of it.

EXAMINER CATANACH: That's all I have.

MR. KELLAHIN: I'd like to call Kaye Stewart-Hicks. She's a geologist with Meridian.

KAYE STEWART-HICKS

Having been duly sworn upon her oath, was examined and testified as follows:

EXAMINATION

BY MR. KELLAHIN:

Q. Would you, please, state your name and occupation?

A. My name is Kaye Stewart-Hicks. I'm a geologist with Meridian Oil.

Q. On prior occasions have you testified before the Division?

A. Not this Division, but up in Montana I testified before the Montana State Commission.

Q. Would you summarize for the Examiner your education?

A. I graduated from Montana State in 1978. In 1979 I went to work for Burlington Northern, which has subsequently become Meridian

Oil. I've worked for them since 1979.

Q. As part of your duties, have you made a study of the geology involved for the Aztec 700?

A. Yes, I have.

MR. KELLAHIN: We tender Ms. Stewart-Hicks as an expert petroleum geologist.

EXAMINER CATANACH: Ms. Hicks is so qualified.

Q. (BY MR. KELLAHIN) Let me direct your attention to the geologic display found behind the exhibit tab No. 4. Does this represent your work?

A. Yes, it does.

Q. In addition at the tail end of the exhibit book, there's a cross-section, is there not?

A. That's correct.

Q. Let's go with the structure map first. Would you identify that?

A. This is a structure map with the datum on the base of the Fruitland Coal. The contour interval is 20 feet. On the map you can see the Aztec 700 in the southwest quarter of Section 14. You can see that it strikes northwest to southeast with a gentle dip to the northeast at

approximately 50 feet per mile. So it's really pretty flat.

Q. Have you examined any other of the geologic aspects involved with the Fruitland Coal?

A. Yes, I have.

Q. What did you do?

A. That brings you to the second page behind Exhibit No. 4 where you see a net clean coal isopach. That net clean coal isopach represents the total net clean coal within the Fruitland Formation. Again you can see the Aztec 700 identified in the southwest quarter of Section 14.

Q. With the south half of 14 being utilized as the coal spacing unit and for a standard well, you need to be located in the southwest quarter?

A. That is correct.

Q. And your setbacks would be 790 then --

A. That's correct.

Q. -- around the outer boundary of the spacing unit?

A. That's correct.

Q. Within that drilling window do you see

any geologic information that would cause you to believe that one location was better than another?

A. No, I do not. It all looks like it should be similar thickness.

Q. Let's turn now to the PC and have you describe for us what that shows you.

A. This third map is a Pictured Cliffs net pay isopach. Net pay was defined as resistivity greater than a shale baseline and porosity greater than 6 percent. Contour interval on this map is 10 foot, and it's been colored for ease with the thicker pay, net pay of greater than 60 feet colored yellow; net pay 40 to 60, kind of an ocher color; and net pay greater than 20 to 40 is orange.

And on that map you can see that the net pay fairway that we've talked about briefly is trending in a northwest-southeast trend with the thicker net pay to the northeast.

Q. Do you use net pay isopachs in Pictured Cliffs to help you pick the best possible location within a spacing unit?

A. Yes, we do.

Q. Is there a direct correlation between

pay thickness in the Pictured Cliffs and the productivity of those wells?

A. Yes. With thicker pay you get more reserves.

Q. Let's look at the cross-section. You've prepared a stratigraphic cross-section?

A. That is correct.

Q. What does this tell you with regards to the specific Aztec 700 proposal?

A. Okay. This cross-section was hung on the base of the coal, which is a laterally continuous marker bed in this area. If you look at the Fruitland Coal, Fruitland Coals are colored green. You can see that the basal coal is laterally continuous, consists of two to three seams. And generally you can see that the thickness between the two wells on either side of the Aztec 700 are fairly close.

If you look at the Pictured Cliffs Formation, which is colored yellow, you can see that the southwest portion of the cross-section, you have a thin Pictured Cliffs net pay. As you're going to northeast, it gets thicker.

Between the two wells, the Aztec 7-E and the Aztec No. 8-E, which is where we're

trying to drill the 700, you can see that we're seeing a change in the thickness. We hope to capitalize on the increasing thickness at the proposed location.

Q. Does the proposed location represent to you the optimum location within that drill block to test for both the Pictured Cliffs and the Fruitland Coal?

A. Yes, it does.

Q. And the basic reason for that is proximity to the thickness of the Pictured Cliffs pay?

A. That is correct.

Q. And as you move back to the south and west, you move away form the thicker pay section?

A. That's correct.

MR. KELLAHIN: That concludes my examination of Ms. Stewart-Hicks. At this point, Mr. Examiner, we tender Meridian's Exhibits 1, No. 8 would be the Certificate of Mailing, and I believe that would include all the exhibits, so it's 1 through 8, Mr. Examiner.

EXAMINER CATANACH: Exhibits 1 through 8 will be admitted as evidence. I have no questions.

MR. KELLAHIN: Mr. Examiner, I have misplaced Mr. Sandel's waiver on behalf of Chaparral. If I may submit that to you after the hearing, I would appreciate the opportunity to do so.

EXAMINER CATANACH: You may do so.

MR. STOVALL: Let me clarify something again with Mr. Alexander if I could to make sure I understood you. You did send a notice to Chaparral Resources thinking that that was the company?

MR. ALEXANDER: Yes, sir, that is correct.

MR. STOVALL: And so its appearance here is only because you sent the notice, not because it is actually an offset on this affidavit?

MR. ALEXANDER: That is correct. Chaparral Resources notified us that they did not own an interest in this area. And then we again looked at the title work that we had done and noticed that there was two almost similar companies, but the other one was oil and gas and we located with Mr. Sandel and obtained a waiver.

MR. STOVALL: But the timing of that was such it wasn't the 20 days, so you would have to have the waiver in order to get by today's hearing date; is that correct?

MR. ALEXANDER: That is correct.

MR. KELLAHIN: Here is the waiver form. I would have to find the signed copy, but that is the language that Mr. Sandel approved.

MR. STOVALL: That's all I have. I just wanted to make sure because when I saw the card I questioned whether I heard you correctly, but I did, so that's it.

EXAMINER CATANACH: Mr. Alexander, briefly explain the association between Southland and Meridian.

MR. ALEXANDER: Southland Royalty Company is a wholly-owned legal entity under Burlington Resources, as is Meridian Oil Company. They're sister companies.

MR. STOVALL: Southland actually still exists as a company then?

MR. ALEXANDER: As a legal entity they do.

MR. STOVALL: So Burlington holds the stock for Southland?

MR. ALEXANDER: That's correct.

MR. STOVALL: Somewhere I thought Meridian had absorbed that, but I guess not.

MR. ALEXANDER: There is no stock on the market for Southland Royalty Company.

MR. STOVALL: It's all wholly-owned?

MR. ALEXANDER: Yes.

MR. STOVALL: Right.

MR. ALEXANDER: But the entity has not been dissolved. It is still a legal entity.

EXAMINER CATANACH: Is there anything further?

MR. STOVALL: Let me go ahead -- and this really has nothing to do with this case. But as long as I've got you here, I'll ask you.

You're saying that under the Burlington umbrella, the two companies exist and when the organizational chart comes down and they both exist separately splits, it's not a subsidiary of Meridian, but is a subsidiary of Burlington?

MR. ALEXANDER: Yes, sir, that's correct. They are two separate legal entities, sister companies, if you could categorize them as that.

MR. STOVALL: But all the employees are

actually Meridian employees who do work for the Southland Company; is that correct?

MR. ALEXANDER: That is correct.

MR. STOVALL: Okay. That answers that question.

EXAMINER CATANACH: There being nothing further in this case, Case 10496 will be taken under advisement.

[And the proceedings were concluded.]

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 10496, heard by me on June 25 1988.

David R. Catanach, Examiner
Oil Conservation Division

CERTIFICATE OF REPORTER

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

I, Debbie Vestal, 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 JULY 6, 1992.

Debbie Vestal

DEBBIE VESTAL, RPR
NEW MEXICO CSR NO. 3