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

IN THE MATTER OF THE HEARING)
CALLED BY THE OIL CONSERVATION)
DIVISION FOR THE PURPOSE OF)
CONSIDERING:)

CASE NOS. (10918,
10919, 10920,
10921

APPLICATION OF MERIDIAN OIL INC.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: Michael E. Stogner, Hearing Examiner

February 17, 1994

Santa Fe, New Mexico

This matter came on for hearing before the
Oil Conservation Division on February 17, 1994, at
Morgan Hall, State Land Office Building, 310 Old
Santa Fe Trail, Santa Fe, New Mexico, before Deborah
O'Bine, RPR, Certified Court Reporter No. 63, for the
State of New Mexico.

MAR 21 1994

I N D E X

February 17, 1994
 Examiner Hearing
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A P P E A R A N C E S

CUMBRE COURT REPORTING

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9 Santa Fe, New Mexico
10 BY: W. THOMAS KELLAHIN, ESQ.
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1 EXAMINER STOGNER: The hearing will come
2 to order. I'll call Case 10918, which is the
3 application of Meridian Oil Inc. for downhole
4 commingling, San Juan County, New Mexico.

5 Call for appearances?

6 MR. KELLAHIN: Mr. Examiner, I'm Tom
7 Kellahin of the Santa Fe law firm of Kellahin and
8 Kellahin, appearing on behalf of the applicant. We
9 would request permission to consolidate our
10 presentation in this case with the following three
11 cases.

12 EXAMINER STOGNER: Are there any
13 appearances in this case or the next three cases
14 other than Meridian? At this time, I'll call Cases
15 10919, which is, again, the application of Meridian;
16 this is for an unorthodox gas well location and
17 downhole commingling; Case 10920 is the application
18 of Meridian Oil Inc. for downhole commingling and an
19 unorthodox gas well location, San Juan County; and
20 Case 10921 is the application of Meridian Oil Inc.
21 for downhole commingling. All four of these cases
22 will be consolidated for purposes of testimony.

23 At this time, I'll ask your witnesses, Mr.
24 Kellahin, to stand to be sworn. How many do you
25 have?

1 MR. KELLAHIN: Three.

2 (Witnesses sworn.)

3 EXAMINER STOGNER: Mr. Kellahin?

4 MR. KELLAHIN: Thank you, Mr. Examiner.

5 Mr. Alexander has organized the presentation where
6 there are four separate exhibit books. On top of the
7 exhibit books, we have given you a large spreadsheet
8 where Mr. Alexander has attempted to identify the
9 specific relief he's seeking to have you approve for
10 each of the wells involved for all the cases.

11 In addition, separate from the hearing
12 exhibit books and from the spreadsheet is the Notice
13 to Offset Operators. Mr. Alexander and I would
14 request permission to provide a supplemental notice,
15 which has already been sent. I've simply not
16 prepared the certificate for him, but Mr. Alexander
17 has notified all those interest owners within the
18 spacing units that might be affected.

19 In each instance, we are here before you
20 because the interest between the Pictured Cliff and
21 the Fruitland Coal is not common. Had that been
22 common, we might have been able to process these
23 administratively.

24 In addition, since the time Mr. Alexander
25 and I have filed these applications before you, there

1 are a couple of changes to be made. In Case 10920,
2 we've requested permission for the C M Morris #100.
3 It's the second-to-last well on the spreadsheet. If
4 you'll delete that well at this time, we'll refile it
5 later. It's not ready to be drilled or recompleted.
6 And so it's easier for us to simply drop that from
7 Case 10920.

8 EXAMINER STOGNER: That's the C M Morris
9 Well #100?

10 MR. KELLAHIN: Yes, sir. We are still
11 seeking approval for the Huerfano Unit Com #509,
12 which is the companion well under that case number.

13 Finally, if you'll look at the spreadsheet
14 and find the second well down, the Neudecker #2, for
15 the coal, the spacing unit, as Mr. Alexander and I
16 applied, it is the east half. It has been reoriented
17 now to be the north half of that section.

18 All the interest owners to have been
19 notified are the same regardless of the orientation.
20 And so the parties that would be entitled to notice
21 in either instance have received notice. However,
22 the docket does reflect an east-half orientation as
23 opposed to a north half.

24 I don't know if it requires the formality
25 of reprinting the docket. It would appear to me that

1 it doesn't. All the parties involved, if they cared,
2 would have come anyway, regardless of the
3 orientation. And the only operator to show any
4 interest at all is Amoco, and there are no interest
5 owners that share in production that have chosen to
6 appear.

7 And that is the last change with regards
8 to the procedure.

9 EXAMINER STOGNER: At this time, I won't
10 make any kind of decision on the readvertisement.
11 Let's hear the testimony first. And after we see
12 some additional information, we will readdress that
13 issue at the closing time; so if you'll help me
14 remember it.

15 MR. KELLAHIN: We're going to attempt to
16 consolidate these and make a general presentation,
17 Mr. Examiner. You can see from the spreadsheet that
18 all except one well, we've dismissed the Morris, the
19 remaining well, the last one is a new drill,
20 everything else is a recompletion with, in each
21 instance, the original well being a Pictured Cliff
22 well, and the requested relief then is to add the
23 Fruitland Coal.

24 You'll see a note that there are
25 administrative approvals for some of these wells

1 already in terms of location. You'll find that the
2 Lodewick is off-pattern in the coal. That's an
3 additional approval that we are requesting. And then
4 you'll see, for the last well to be drilled, it is
5 nonstandard both in the PC as well as the Fruitland
6 Coal.

7 We're presenting to you the same kinds of
8 cases as we presented to you last summer where Mr.
9 Scott Daves, the reservoir engineer, has developed an
10 allocation formula for the recompletions based upon
11 historic production from the PC. And in each
12 instance then he has the calculations and the data to
13 show you the allocation as to the two pools.

14 Mr. Daves has also done the economic
15 analysis for you so that you'll be satisfied that in
16 each instance, at least one of the pools is
17 marginal. And so it's very much like those cases you
18 processed for Meridian back late this summer in July
19 and August.

20 MR. STOVALL: Mr. Kellahin, before you
21 start then, if you're through with your opening
22 remarks, is my understanding correct, that Meridian
23 has had a problem with the BLM as far as approval by
24 them on these comminglings? Is that the situation,
25 the ones you referred to, the summer cases?

1 MR. KELLAHIN: Yes, sir. There are some
2 of those cases this summer that were on federal
3 tracts. And if they're on federal tracts, the BLM
4 has taken the position that, separate and apart from
5 the OCD decisions on commingling, we must submit to
6 the area supervisor for the BLM the same technical
7 data so that the BLM can make an independent judgment
8 on approving the commingling process.

9 We have taken exception to that issue with
10 the BLM. We've had a state director appeal. The
11 state director has denied our appeal. And we are now
12 preparing the documents to appeal this issue to the
13 Bureau of Land Appeals.

14 MR. STOVALL: The status of those cases,
15 as far as the BLM is concerned, has the BLM denied
16 the commingling, or has it denied your request for
17 them to consider the OCD technical record as the
18 basis for their approval of the commingling?

19 MR. KELLAHIN: It's the latter.

20 MR. STOVALL: Have you had any discussion,
21 and maybe -- I realize your first witness hasn't been
22 identified and sworn in; this may be something he
23 needs to answer, but I'll ask you first -- had any
24 discussion with the BLM about their participating
25 somehow in the process with the OCD so it can be done

1 in a single process by operator? This is not without
2 precedent. We've done so in NGPA-type proceedings,
3 and I don't know why we couldn't do so here if
4 the BLM wants to take an independent look at the
5 data.

6 MR. KELLAHIN: Mr. Alexander and I both
7 presented that to the deputy state director of the
8 BLM when that appeal was heard here in Santa Fe, and
9 that is one of the options we urged them to discuss
10 and explore, and we don't know if they've taken any
11 action or initiative on that portion of our request.

12 MR. STOVALL: Have they been made aware of
13 this hearing today, and did you give them specific
14 information so that they could be here if they so
15 intended?

16 MR. KELLAHIN: I believe so, and I would
17 have to specifically check. That generally has been
18 our course of conduct is to notify them in some
19 fashion of these hearings.

20 MR. STOVALL: Something you may want to
21 address with Mr. Alexander. That's all I have.

22 MR. KELLAHIN: Okay. With that
23 introduction, Mr. Examiner, I'll call Mr. Alan
24 Alexander.

25 ALAN ALEXANDER,

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

4 EXAMINATION

5 BY MR. KELLAHIN:

6 Q. For the record, sir, would you please
7 state your name and occupation.

8 A. My name is an Alan Alexander. I'm
9 currently employed with Meridian Oil Inc. in
10 Farmington, New Mexico, as a senior land adviser.

11 Q. On prior occasions, Mr. Alexander, have
12 you testified as a petroleum land expert with regards
13 to commingling cases pursuant to Division rules where
14 we're seeking to commingle Pictured Cliff to
15 Fruitland coal production?

16 A. Yes, sir, I have.

17 Q. As part of your duties and
18 responsibilities, have you undertaken a similar
19 examination for each of the wells in these four
20 cases?

21 A. Yes, sir, I have.

22 Q. In addition, on behalf of your company,
23 have you been the representative who has appeared
24 before the Bureau of Land Management with regards to
25 issues of concern with the Bureau of Land Management

1 concerning these downhole commingling orders?

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

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

5 EXAMINER STOGNER: Mr. Alexander is so
6 qualified.

7 Q. (BY MR. KELLAHIN) We've not identified as
8 an exhibit this spreadsheet, Mr. Alexander, but I
9 think it's very useful. Let's have you start with
10 that. Describe for us in each instance the items
11 that you have identified that require the examiner's
12 action and, particularly, with identifying the code
13 at the bottom of the display.

14 A. Yes. This spreadsheet, in the spreadsheet
15 we attempted to consolidate all the cases and put a
16 logical format for the types of application, and,
17 more particularly, for any unusual feature that might
18 be in the applications.

19 You will note that the far left-hand side,
20 we have identified the case number. The next column
21 is the well that's included under that case number.
22 The next column is entitled "Spacing" for both
23 Pictured Cliffs and Fruitland Coal, and we've
24 indicated what the spacing orientation is for both
25 those reservoirs.

1 The next column is the first field that's
2 involved, or another way of phrasing it would be the
3 first pool or formation.

4 And the column next to that, we say
5 "Existing Formation." What that means is, is that
6 formation currently completed in this particular
7 wellbore, if it is an existing wellbore.

8 The Field #2 is simply the second
9 formation that we want to commingle, and it, in all
10 cases, is the Basin-Fruitland Coal Pool.

11 Next to that we have indicated that one
12 well, the Neudecker #2 well, that reservoir is
13 currently completed in that well, but there is a
14 bridge plug separating the formations at the current
15 time. And in this process we would be asking for
16 permission to remove that bridge plug and to
17 commingle the two formations.

18 We have provided you also with the
19 location of the individual wells by township, range,
20 section, and unit letter number. And we've also
21 indicated in the next column whether this is a
22 recompletion of an existing well or a new drill
23 well.

24 The column next to that we have titled it
25 Marginal Formation, and that simply represents the

1 formation that we feel is the least economic. That
2 is not an entire description of the formations. In
3 some of these cases, both of the formations are
4 actually marginal or noneconomic. We wanted to give
5 you an indication of the one we felt was the least
6 economic at this point in time.

7 The last two columns address specific
8 nonstandard proration units or nonstandard locations
9 or off-pattern locations. And we have indicated in
10 each instance if that is applicable to each well.

11 You will note at the bottom of the page
12 that we do have some further descriptions by using
13 footnotes, and they more fully describe some of the
14 abbreviations that were used in the spreadsheet, and
15 I think that they are probably self-explanatory.

16 Q. Let me address with you the topic of
17 ownership. When we look at the Huerfano Unit wells,
18 we have previously obtained from the Division, after
19 a hearing, the ability to administratively commingle
20 production within the Huerfano Unit. To what extent
21 does that approval apply to any of these cases before
22 the examiner today?

23 A. We have used that prior order to the
24 extent of simplifying our notifications to the
25 interest owners and the working interest owners that

1 are within the Huerfano Unit.

2 The reason we decided to go ahead and
3 bring these cases forward is that all of these wells
4 were developed by the asset management team as one
5 project, plus these Huerfano Unit wells are extremely
6 close and, in some instances, on the border of the
7 Huerfano Unit, and we felt that it's probably more
8 appropriate to go ahead and make notification to the
9 offset owners and to use this format so that
10 everybody was aware of what we were doing.

11 Q. With regards to offset ownership, not only
12 to the PC well but to the Fruitland Coal well, do you
13 have maps and information in the exhibit book as to
14 all the wells to identify who those interest owners
15 are and where they are located in relation to the
16 spacing unit?

17 A. Yes, sir, we do.

18 Q. As a result of that notification, have
19 there been any operators that have registered an
20 objection with you concerning any well?

21 A. We have one operator, Mr. Tom Dugan, that
22 initially registered an objection, and that was on
23 the Zachry #11 well, and we have since that time
24 worked out our differences with Mr. Dugan. And in
25 that process, the end result of that is that we will

1 purchase Mr. Dugan's interest in the Pictured Cliffs
2 formation. He only owned an interest in the Pictured
3 Cliffs formation and had some concerns; so we have
4 alleviated that problem, and he no longer has an
5 objection to that application.

6 Q. Apart from Mr. Dugan and Amoco's interest
7 in the project -- they've entered an appearance --
8 have any of the other offseting operators or interest
9 owners objected?

10 A. Not in the applications that we want to go
11 forward with today. I will inform you that on the
12 C M Morris #100 well, the well that we want to
13 dismiss today, we will bring that up later, we have
14 been informed that one of the interest owners in that
15 drill block to the Fruitland Coal, Quintana, has a
16 wellbore only interest in an existing well that we
17 want to plug, and it's making it very difficult for
18 them to join in this process because a new well, they
19 would be eliminated from the ownership.

20 So we are continuing to work that problem
21 with them. We're confident we'll work it out, and we
22 will bring back that well probably around mid-year.

23 Q. As part of your notification process, have
24 you identified those interest owners that would share
25 in production but be different between the two pools?

1 A. Yes, sir, we have.

2 MR. KELLAHIN: Mr. Examiner, I have not
3 yet provided that to you in the form of a
4 certificate, but at this point I would like to submit
5 to you photocopies of the notice, and then I will
6 substitute after the hearing an organized certificate
7 that more specifically confirms the notification of
8 the interest owners.

9 Q. Let's pursue that subject. Are there
10 instances between the PC and the Fruitland Coal where
11 there are interest owners that are either not common,
12 or if they are common, they have a different
13 percentage between the two pools?

14 A. Yes, sir. In every instance that is true,
15 that the interests are different between the two
16 formations, basically because we're dealing with
17 drill blocks that involve multiple leaseholds. We're
18 not dealing with one single leasehold in these
19 particular wells.

20 Q. Does the notice list I provided Mr.
21 Stovall include all those individuals that would be
22 entitled to notice under that process?

23 A. Yes, sir, of course, again, with the
24 exception of the Huerfano Unit people that we're
25 relying on our prior order to take care of those

1 notifications.

2 Q. As regards to that category where they
3 have a different interest or ownership, have any of
4 those individuals contacted you to object other than
5 Mr. Dugan?

6 A. No, sir, and other than Quintana and the
7 C M Morris, which, of course, we are deleting from
8 consideration today.

9 Q. All right, sir. Let's turn to the exhibit
10 book 10918. Are all the exhibit books for the other
11 three cases organized in the same way?

12 A. Yes, sir, they are.

13 Q. Let's start with Exhibit 1 in Case 10918
14 and have you describe for us the exhibits as we turn
15 through the book.

16 A. Behind exhibit tab No. 1 we have provided
17 the examiner with a copy of our application, and
18 attached to the application are the exhibits that
19 were mailed to each of the parties that we notified
20 in these proceedings.

21 Q. All right, sir, Exhibit 2.

22 A. Behind Exhibit 2, we have included, the
23 first map behind Exhibit No. 2, is a more localized
24 reference map. On that map you will see each of the
25 wells that we are talking about this morning.

1 You will also see the green symbols,
2 although they are quite small, represent existing
3 Fruitland Coal wells, and the red symbols
4 representing existing Pictured Cliff wells in this
5 immediate area.

6 Immediately behind that locator map, we
7 have provided basically nine section land plats that
8 give a greater detail around each of the proposed
9 wells. These plats show the orientation of both the
10 Fruitland Coal and the Pictured Cliffs formations
11 that we are proposing. They also show existing wells
12 within the nine section areas.

13 Q. Do you have a plat for the Neudecker 2
14 well? Followed by that is what, Zachry 11?

15 A. Yes, sir, Zachry 11, and followed behind
16 that is the Pierce Federal A #1 well.

17 Q. When we look at Exhibit 3 in each of the
18 books, starting with this exhibit book, what do we
19 find?

20 A. Behind Exhibit No. 3 we have provided the
21 offset operator owner plats. And on these plats we
22 have indicated the well locations, the orientation of
23 the spacing unit for the Pictured Cliffs and the
24 Fruitland Coal formation, as well as numerically
25 indicated the location and who the offset

1 owner/operator would be in each instance. And we
2 have separate plats for each of these three wells
3 behind Exhibit No. 3.

4 Also behind Exhibit No. 3, the last
5 exhibit there for the wells that it is applicable
6 for, we have provided an address, name and address
7 list for the owners that are within the drill blocks
8 that would own an ownership in production. It
9 includes both the royalties and overrides or other
10 burdens.

11 Q. Are the rest of the exhibit books
12 organized in the same fashion?

13 A. Yes, sir, they are.

14 Q. Let's turn to the exhibit, exhibit book in
15 10919, and let's go back to the plats following
16 exhibit tab No. 2 and look at the specific locator
17 map.

18 A. Yes. Again, this locator map is
19 identical, and you will see an identical locator map
20 in each of the packets for each case, but behind the
21 locator map, again, we have the specific nine-section
22 land plat that would be pertinent to the well that's
23 included in that case. In this case under Case
24 10919, we have the Lodewick #1 well.

25 Q. For each of these recompletions, then, as

1 the examiner finds the well in the exhibit book, we
2 are taking an existing Pictured Cliff well and going
3 to utilize that well to add to it the Fruitland Coal
4 gas?

5 A. Yes, in each recompletion well, that is
6 true.

7 Q. Let's show him an example of the one new
8 drill. If you'll turn to Case 10920, look behind
9 Exhibit No. 2, the regional map, and then turn to the
10 proposed location for the Huerfano Unit 509 well.
11 Are you with me?

12 A. Yes, sir.

13 Q. When we look at Section 30, the spacing
14 unit for the PC is proposed to be the northwest
15 quarter?

16 A. That is correct.

17 Q. Were there any previous wells drilled for
18 the Pictured Cliff formation?

19 A. No, sir, I don't believe so, in the
20 northwest quarter.

21 Q. I'm looking at a dry hole symbol just to
22 the south and west of the No. 220?

23 A. Yes, sir.

24 Q. What does that represent?

25 A. I don't know the answer to that question.

1 I believe Mr. Daves would know the answer to that
2 question, if we could bring that up at that point in
3 time.

4 Q. Okay. So as it currently now exists,
5 there is no PC well in the northwest quarter?

6 A. That is correct.

7 Q. Do we have a PC well in any of the other
8 quarter sections of Section 30?

9 A. Yes, sir, we do. You'll notice that there
10 is a Pictured Cliffs well in the northeast quarter
11 and the southwest quarter. I do know that, from
12 discussion with the asset management team, that the
13 dry hole symbol down in the southeast quarter, the
14 old Huerfano Unit 377 well, if I remember correctly,
15 was a Pictured Cliffs well that was plugged and
16 abandoned.

17 Q. This is the one remaining case that
18 involves nonstandard locations both in the PC as well
19 as the Coal?

20 A. Yes, sir, that is true.

21 Q. And we're off-pattern in the Coal, are we
22 not?

23 A. That's true.

24 Q. Turn to the next display behind what we're
25 just looking at, and help us understand what the

1 basis is for seeking the unorthodox location.

2 A. For the Huerfano Unit Com 3509 well, we
3 worked quite a while with the Bureau of Land
4 Management trying to find a suitable location that
5 would at least -- would not at least be NSL because
6 of footage.

7 Let me explain this map to you and the
8 rationale that went on in coming to the current
9 location. You'll see on that map a series of dotted
10 lines commencing in the northwest quarter and running
11 almost due south. That is an existing road. You
12 will see a green line that has a hatched pattern in
13 segments of that line on the map, and that's an
14 existing power line.

15 You will also note that I have outlined a
16 line in red that extends basically from the northwest
17 quarter, approximately center of the northwest
18 quarter to the north, and that is an existing
19 pipeline.

20 We have indicated the windows up in that
21 northwest quarter that we would have preferred to use
22 and that would have been legal locations except that
23 the coal well still would have been off-pattern.

24 The two square windows located to the
25 west, as you can see, run into interference from the

1 pipelines, from the power lines, and they're down in
2 the wash. And we were unable to locate a well on
3 those two windows because of that.

4 The two windows to the east are located up
5 on the hill, the clay hills of the Badlands. They
6 are very unstable clays and would not be good
7 locations to build locations, and the Bureau of Land
8 Management would not allow us to build in that area.

9 Q. The Lodewick #1 is off-pattern in the
10 Coal, but it is a standard location in the PC?
11 That's back up in Case 10919.

12 A. Yes, sir, that is correct.

13 Q. Why is the proposed location off-pattern
14 for the Coal?

15 A. Because we are utilizing existing Pictured
16 Cliffs wellbore is the primary reason for that.

17 Q. And the preference from the technical
18 people was to utilize the PC well up in the northwest
19 quarter?

20 A. Yes, sir, that is correct.

21 Q. Anything else, Mr. Alexander? Oh, yes,
22 the locator map we have not identified by exhibit
23 number, Mr. Examiner, but there is a map on the
24 display board to give you a reference point, and I'm
25 going to let Mr. Alexander explain the code so you

1 can see where you have processed past cases and where
2 he's now asking you to look at these additional six
3 wells.

4 A. You will notice on this area display map,
5 it's a good portion of the San Juan Basin. The
6 circles, the stars, and the gas well symbols that are
7 in the dark blue are previous hearings that the
8 examiner -- some of which the examiner has heard and
9 approved.

10 You will notice over on the western
11 portion of the map, there are seven red stars located
12 on that map. Those are the wells that we are here to
13 discuss today.

14 And we just wanted to kind of give you a
15 reference and a feel for the proximity of these wells
16 with regard to the commingled applications that you
17 have heard and approved in the past.

18 Q. As part of the project for Meridian to
19 look at downhole commingling of Fruitland Coal and
20 Pictured Cliff wells, do you have future plans for
21 additional projects like this?

22 A. Yes, sir, we will. We've had success in
23 the projects to date, and we think it is a very
24 viable alternative to capturing reserves that are
25 otherwise going to be lost. Probably, we would like

1 to entertain perhaps ten projects a year. We're
2 estimating that at this point in time.

3 MR. KELLAHIN: That concludes my
4 examination of Mr. Alexander. We move the
5 introduction of his Exhibits 1 through 4 -- I'm sorry
6 -- 1 through 3 in each of the exhibit books.

7 EXAMINER STOGNER: Exhibits 1 through 3 in
8 each of the four exhibit books will be admitted into
9 evidence at this time.

10 The spreadsheet and the map that you
11 referred to, that's just for informational purposes?

12 MR. KELLAHIN: Yes, sir.

13 EXAMINER STOGNER: And not an exhibit; is
14 that correct?

15 MR. KELLAHIN: I don't think they need to
16 be exhibits, Mr. Examiner.

17 EXAMINATION

18 BY EXAMINER STOGNER:

19 Q. In referring to Case 918, the #2 well,
20 Neudecker #2 well, this is the one which you
21 requested the east half of Section 35 to be the
22 320-acre proration unit and are now changing it to
23 the 320, in looking at that map, are any of the
24 parties or all of the parties that were contacted,
25 are they represented here?

1 A. Yes, sir, that's correct. You'll notice
2 that we basically have three leases within that
3 section. The northeast quarter of the northeast
4 quarter are leaseholds, and there may be more than
5 one leasehold that Amoco owns in that quarter
6 quarter. We're preparing the title opinions on that,
7 and I did not bring those opinions to tell you how
8 many leaseholds are in that quarter quarter, but the
9 rest of the section is basically divided between two
10 different leaseholds.

11 We originally oriented this well on the
12 east half, and, of course, it involved Amoco, but as
13 we were continuing the study of our projects, we have
14 identified a candidate, the Zachry #2 Pictured Cliffs
15 well located down in the southwest quarter, and
16 you'll see it indicated as a brown gas well symbol.
17 We have submitted that well administratively, and it
18 has been approved by the Commission for a commingle.
19 And so that step we have taken.

20 We have also gone back with Amoco, and
21 we've been working on reorienting that wellbore, if
22 they had no objections, and they have since agreed to
23 reorient the wellbore so that they will be involved
24 in a north-half dedication.

25 That would allow us to develop that Zachry

1 #2 commingle in the south half on one common
2 leasehold, which we think is a much better approach.
3 And we've been working towards that goal, and we
4 believe we are now at that point if the Commission
5 agrees that the reorientation is appropriate.

6 Q. I'm looking at my diagram here. You have
7 the Zachry taken in that south half. I assume that's
8 the Zachry lease for Meridian; is that correct?

9 A. Yes, sir, that's true. It includes all of
10 the south half, and you'll notice that it goes north
11 into the southwest of the northwest quarter also.

12 Q. So, if anything, you're diminishing
13 Meridian's interest somewhat? That's the way it
14 looks to me.

15 A. No, sir. Actually, the interests remain
16 the same because Amoco is really the only other
17 outside party, and their 40 interest, you know, it's
18 fixed. Since it's in the northeast of the northeast,
19 it's going to be in there one way or the other; so we
20 wind up with that percentage of ownership between
21 Meridian, and Amoco remains basically the same.

22 Q. I see Union and Conoco's name appearing in
23 the upper portion of that section.

24 A. Yes, sir. We purchased leasehold in
25 there, the Union of Texas leasehold up in there, and

1 Conoco did not have an interest in the Pictured
2 Cliffs nor the Fruitland formation.

3 Q. Regardless, this is the first Fruitland
4 Coal well in that section; correct?

5 A. That is correct, yes, sir.

6 Q. And it's still a standard location
7 regardless if it's a stand-up or a lay-down?

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

9 EXAMINER STOGNER: I don't see any reason
10 to readvertise, Mr. Kellahin. That's what I was
11 trying to get to on that.

12 As far as any questions of this witness, I
13 have no others at this time.

14 MR. KELLAHIN: All right, sir. Thank you,
15 Alan.

16 EXAMINER STOGNER: Mr. Kellahin.

17 MR. KELLAHIN: Call at this time Mr. Scott
18 Daves.

19 SCOTT DAVES,
20 the witness herein, after having been first duly
21 sworn upon his oath, was examined and testified as
22 follows:

23 EXAMINATION

24 BY MR. KELLAHIN:

25 Q. Mr. Daves, would you please state your

1 name and occupation.

2 A. My name is Scott Daves. I'm a petroleum
3 engineer. I'm currently employed with Meridian Oil
4 in Farmington, New Mexico.

5 Q. On prior occasions have you testified as a
6 petroleum engineer before the Division examiners, and
7 particularly have you testified in prior downhole
8 commingling cases with regards to two of these two
9 pools?

10 A. Yes, I have.

11 Q. As part of your duties, have you continued
12 to examine the opportunity to downhole commingle the
13 Pictured Cliff with the Fruitland Coal gas, and have
14 you identified candidates that you're seeking to have
15 approval for that process?

16 A. Yes, I have.

17 Q. Do the wells that are before the examiner
18 today represent wells for which you've done
19 engineering work?

20 A. Yes, they do.

21 MR. KELLAHIN: We tender Mr. Daves as an
22 expert petroleum engineer.

23 EXAMINER STOGNER: Mr. Daves is so
24 qualified.

25 Q. (BY MR. KELLAHIN) Let me have you

1 summarize what you see to be the purpose and
2 objective and to identify, perhaps, we'll start with
3 the recompletions first.

4 A. Okay.

5 Q. And then we'll deal with the new drill as
6 a separate topic.

7 A. Okay.

8 Q. But give us a quick summary of what you're
9 trying to do.

10 A. Typically, if you go down the list here,
11 what you see are Pictured Cliff wells that are
12 40-plus years old. They have approximately 200 psi,
13 reservoir pressure. They're attempting to overcome
14 line pressures that are very near reservoir pressure;
15 so they may or may not produce on a given day.
16 Several of the wells, the Neudecker 2, the Huerfano
17 Unit 18 have actually been blind plated by the
18 various gas companies.

19 What we're attempting to do here is
20 upgrade the wellbore and also reach and complete new
21 reserves and then commingle the two.

22 Q. Have you looked at each of the PC wells
23 involved to see if there was anything else short of
24 commingling that would add additional ability of
25 those wells to produce Pictured Cliff production?

1 A. Yes, we have. And the opportunities to do
2 anything with the wellbore as they currently exist
3 are not economic.

4 Q. In each instance, has the well been
5 sufficiently perforated that the entire Pictured
6 Cliff formation has had an opportunity to add
7 production to that well from that formation?

8 A. Yes, they have.

9 Q. When we look at the individual wells, is
10 there any particular reason to select these Pictured
11 Cliff wells within the section as opposed to one of
12 the other existing PC wells?

13 A. Typically, we try to stay on pattern with
14 the Fruitland Coal spacing is our first look. The
15 other thing that we're looking at is a wellbore that
16 we feel has the integrity to add reserves through and
17 utilize that wellbore that way.

18 Q. Let's look at the one example which you
19 couldn't find a PC well that would give you a
20 Fruitland Coal on-pattern location. It's the
21 Lodewick #1 well, I believe.

22 A. Right.

23 Q. If you'll turn to the exhibit book in
24 10919, let's find us a locator map. If you'll turn
25 to 919 and look at the last display behind Exhibit 2,

1 I think this will perhaps serve the purpose. When
2 we're looking at Section 18, what is there about
3 Section 18 that caused you to select the well in the
4 northwest quarter as opposed to one of the other
5 existing PC wells?

6 A. It is a well that is currently operated by
7 Meridian Oil. And if you look in the southeast
8 quarter, there's already a plugged-back well to a
9 Fruitland Coal well there. So our options were the
10 southwest and the northwest, and we chose the
11 northwest because that's the course actually we
12 operate.

13 Q. Okay. For each of the recompletions, have
14 you examined prior historical production information
15 for the PC and determined what, in your opinion, is a
16 forecast of future reserves for those wells?

17 A. Yes, I have.

18 Q. Where do we find that in one of these
19 exhibit books?

20 A. Exhibit 6, a graphical representation. It
21 is a rate:time curve.

22 Q. Will the examiner find that information in
23 each of the exhibit books at the same point behind
24 Exhibit 6?

25 A. Yes.

1 Q. Let's use this as an example, the Lodewick
2 well. What does it show you?

3 A. What it shows on the Y axis is gas in a
4 monthly production. What you have down in the bottom
5 left-hand corner is the shut-in wellhead pressure
6 versus cumulative production EUR. You have
7 cumulative production right below that, and then you
8 have the calculated remaining reserves right below
9 that.

10 What you also show is the historical
11 production. In the top you show the well name, the
12 current field that it is in, the location, the
13 county, the major product, and the reservoir. And
14 that actual reservoir is the Pictured Cliffs there.

15 Q. Have you utilized past historical
16 productions to derive at an allocation formula so
17 that you can allocate future gas production between
18 the PC and the Fruitland Coal gas?

19 A. Yes, I have.

20 Q. Let's turn to Exhibit 5. You've testified
21 in prior cases, Mr. Daves, about the methodology you
22 have recommended to the examiner for this allocation
23 formula?

24 A. Yes.

25 Q. Is this consistent with the method used by

1 you in past cases and approved by the Division?

2 A. Yes, it is.

3 Q. Describe for us what you've done for this
4 well.

5 A. What we have for this specific well, we
6 are basically saying that the total production is
7 equal to the sum of the Fruitland Coal production and
8 the Pictured Cliffs production. We've basically
9 rearranged the formula to solve for Fruitland coal
10 production, which is equal to the total production
11 minus the allocated Pictured Cliffs production.

12 And then below that we derive how we are
13 determining the Pictured Cliffs production. And
14 then, finally, how we will solve for Fruitland Coal
15 production in an equation form. And that equation,
16 the $Dpc = .00102$, that is the actual monthly decline
17 that is shown on this decline curve in Exhibit 6.

18 Q. Have you used this formula for each of
19 the, I guess it's the other five recompletions?

20 A. Yes, I have.

21 Q. Have you substituted in the formula what
22 in your opinion is the appropriate value based upon
23 actual decline curves for each of those wells?

24 A. Yes, I have.

25 Q. Once that's established in the formula,

1 then the remaining portion of the production is
2 attributable to the Fruitland Coal gas?

3 A. That's correct.

4 Q. Let's turn now to the new drill. Let's
5 look at exhibit book 10920. Let's deal with the
6 unorthodox location first, and perhaps if you'll turn
7 to Exhibit 2 and look at the second plat -- there's
8 three plats, if you'll look at the middle plat --
9 describe for us why we've chosen to position this
10 well in the northwest quarter as opposed to one of
11 the other quarter sections.

12 A. The primary reason that we've proposed the
13 well in the northwest quarter section is we are
14 attempting to drill for the Pictured Cliff reserves
15 that will be in that quarter section, as opposed to
16 drilling a Fruitland Coal well in the northeast
17 quarter section that would only be a Fruitland Coal.

18 Q. Is there an opportunity to recomplete an
19 existing PC well in Section 30 and to utilize that
20 well then as a downhole commingled well?

21 A. No, there is not.

22 Q. So you can't create the same situation as
23 you did for the others?

24 A. Right.

25 Q. Let's turn now to the allocation portion

1 of the presentation with regards to your methods to
2 derive an allocation formula on a well that has not
3 yet been drilled. Where do we find that information?

4 A. That is in Exhibit 6.

5 Q. Is this a method that you have presented
6 to the Division in prior cases and which has been
7 approved by the Division?

8 A. Yes it has, and I have presented it.

9 Q. Let's look at the formula and describe for
10 us in summary fashion what it is and how to make it
11 work.

12 A. The beginning part is identical to the
13 previous equations. Where the difference lies is
14 we're determining as a function of reservoir pressure
15 for the Pictured Cliffs what the actual remaining
16 reserves are. And then from there, using the initial
17 rate, we are calculating a decline curve for the
18 Pictured Cliffs. And then from there we are
19 allocating production similar to the previously
20 presented cases.

21 Q. Have you utilized this method of
22 allocation successfully with any of the wells that
23 have already been approved by the Division?

24 A. Yes, we have.

25 Q. Is it working all right?

1 A. It is.

2 Q. It's not too cumbersome, too intricate,
3 too involved?

4 A. No, no. It's fairly simple. It's a
5 matter of programming the equations in a computer
6 program and then entering the monthly production, and
7 then it calculates the production from that point.

8 Q. Let's turn now to the question of
9 economics. One of the criteria for downhole
10 commingling is that one of the zones must be
11 marginal?

12 A. Correct.

13 Q. How have you forecasted and reached an
14 engineering conclusion that one of these two pools is
15 going to be marginal in the Huerfano Unit Com 509?

16 A. What we have done is we have estimated,
17 using offset pressures, what we feel is remaining
18 reserves for the Pictured Cliffs. And the
19 calculations show that there's approximately 125
20 million cubic feet of reserves. And that, on
21 Exhibit, I believe, 8, on the Y axis is reserves, and
22 on the X axis is initial rate.

23 You can see if you move up to the 125
24 million point that, even as a commingle, it is
25 uneconomic and at any rate.

1 Q. Is this the same method that was approved
2 by the Division for determining the criteria for new
3 drill, marginal PC wells and/or Fruitland Coal?

4 A. Yes, it is.

5 Q. The values that went into the economic
6 valuation for the curves, have they been made
7 specific for this particular area?

8 A. They are a function of the various wells
9 in that area so that I did not skew the data. I took
10 the average costs for all of these type of wells in
11 this specific area.

12 Q. And your recommendation to the examiner is
13 to do what with this curve then?

14 A. To utilize it as a reference point to
15 determine whether the Pictured Cliffs is uneconomic
16 or not.

17 Q. And it will be the result of reading the
18 graph and looking at a combination of initial rate
19 versus the calculated estimate ultimate gas recovery?

20 A. That's correct.

21 Q. Have we yet had an opportunity to see how
22 well that curve is working with any of the other
23 projects that you've worked on?

24 A. Yes, we have.

25 Q. With what results?

1 A. What we have shown is that typical
2 Pictured Cliff wells that we have utilized have an
3 initial reservoir pressure of approximately 200 psi,
4 which would give them in the neighborhood of 150 to
5 300 million remaining and an initial rate of about
6 100 Mcf a day.

7 Q. For those wells that have actually been
8 tested under the formula, we have found that our
9 judgment on the curve is correct; that those wells,
10 in fact, are marginal to the extent that the only way
11 we can recover the additional gas is by downhole
12 commingling?

13 A. That is correct.

14 MR. KELLAHIN: I believe that covers your
15 presentation, Mr. Daves.

16 Mr. Examiner, we would move the
17 introduction of Mr. Daves' exhibits. They are found
18 behind exhibit tabs 5 and 6 in Case 921, 919, and
19 918. He has an additional display with reference to
20 the new drill well, and that was found behind Exhibit
21 tab No. 8. So we move the introduction of his
22 appropriate exhibits.

23 EXAMINER STOGNER: Mr. Kellahin, that was
24 Exhibits 5 and 6 in Cases 918, 919, and 921. There's
25 an Exhibit No. 7 in 920. Is that right?

1 MR. KELLAHIN: I'm sorry, I misspoke. In
2 Case 920, he's going to have Exhibits 6, 7, and 8.

3 EXAMINER STOGNER: Exhibits 6, 7, and 8 in
4 Case 920 will be accepted at this time.

5 MR. KELLAHIN: That concludes my
6 presentation of Mr. Daves.

7 EXAMINATION

8 BY EXAMINER STOGNER:

9 Q. My memory doesn't serve me. The past
10 cases that we've talked about this morning, how many
11 of those were recompletions, and how many of those
12 were new drill, or percentage, if you remember?

13 A. About 30 percent were recompletions, and
14 about 70 percent were new drills.

15 Q. So the difference today is you only have
16 one new drill and the rest are recompletions?

17 A. That is correct.

18 Q. Exhibit No. 8 in Case 10920, that curve,
19 is that the same curve that was utilized in the
20 others, or is there a difference in each one?

21 A. They are the same, and the reason for that
22 is I prefer to use an average cost in each of the
23 general areas.

24 Q. So this curve is still applicable -- or
25 that curve utilized in those cases is still

1 applicable in this matter?

2 A. Yes, sir.

3 Q. And looking at Exhibit No. 6 in Case 920,
4 let's look at the first page. There are some
5 constants, in this particular instance. The constant
6 comes down, I believe, where we're talking about the
7 estimated ultimate recovery for the Pictured Cliffs.
8 And under that formula, there is a 0.62. Is that a
9 constant that has changed throughout, or is that one
10 that remains consistent?

11 A. That's a constant that is a function of
12 that spacing unit for the Pictured Cliffs,
13 specifically for that spacing unit.

14 Q. So it was different in the other cases?

15 A. Yes, sir.

16 Q. If I remember right, that was a point of
17 considerable discussion in the other cases; right?

18 A. That's correct.

19 EXAMINER STOGNER: Mr. Kellahin, I don't
20 have any other questions.

21 MR. KELLAHIN: Okay.

22 EXAMINER STOGNER: Of this witness.

23 MR. KELLAHIN: The last witness is a
24 geologist, Mr. Jay Close.

25 EXAMINER STOGNER: I'm sorry, what was his

1 last name?

2 MR. KELLAHIN: C-L-O-S-E, Close.

3 JAY CLOSE,

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

7 EXAMINATION

8 BY MR. KELLAHIN:

9 Q. Would you please state your name and
10 occupation.

11 A. My name is Jay Close, and I work as a
12 petroleum geologist for Meridian Oil Inc. in
13 Farmington, New Mexico.

14 Q. Mr. Close, on prior occasions have you
15 testified before the Division as a geologist?

16 A. No, sir, I have not.

17 Q. Summarize for us your education.

18 A. I received a bachelor's in geology from
19 Wittenberg University in Springfield, Ohio, in the
20 summer of '83, a master's in geology from Miami
21 University in Ohio in the summer of 1985, and a
22 doctorate in geology from Southern Illinois
23 University in October of 1988.

24 Q. Summarize for us what particular work you
25 have performed in this area where we're concerned

1 about the Pictured Cliff and the Fruitland Coal gas.

2 A. I've been involved in detailed evaluation
3 of subsurface geophysical log information to get an
4 idea as to the depths, geometries, and log for
5 reservoir properties for both the Coal and the
6 Pictured Cliffs formation.

7 MR. KELLAHIN: We tender Mr. Close as an
8 expert petroleum geologist.

9 EXAMINER STOGNER: Dr. Close is so
10 qualified. I'm assuming that's your title?

11 THE WITNESS: Yes, sir.

12 Q. (BY MR. KELLAHIN) Let's find the geologic
13 displays, and I'll leave it to you to find an exhibit
14 book that illustrates the geology. We have been
15 using 918. Does that work?

16 A. That would be quite fine.

17 Q. Let's turn to the information behind
18 Exhibit tab No. 4. I misspoke. I thought there was
19 a pull-out here somewhere. No, I'm right, Exhibit
20 4. What are we looking at in each of the exhibit
21 books when we turn to the geologic information?

22 A. You are looking at a type log for each of
23 the subject wells. You are looking at the depths
24 with respect to the rock types. The Pictured Cliffs
25 formation and the Fruitland formation are labeled

1 with respect to depth, and the Coal is also
2 specifically marked with respect to each of those
3 type logs for each well.

4 Q. As to the recompletions, we're dealing
5 with existing PC wells, do you see, as a geologist,
6 any additional opportunity in those PC wells to add
7 PC reserves other than what currently exists?

8 A. No, sir.

9 Q. The opportunity for the Fruitland Coal for
10 each of the recompletions, is this the best method
11 and the location within each section to add the
12 Fruitland Coal to these wells?

13 A. Yes, it is.

14 Q. Geologically, what's your sense of the
15 project? Why are we doing this from a geologic point
16 of view?

17 A. You are trying to access reserves that
18 otherwise would not be able to be produced
19 economically out of the Fruitland Coal formation.

20 Q. Are we located at the point in Pictured
21 Cliff depletion that these particular sections alone
22 are not going to support additional PC wells?

23 A. Yes, sir, we are.

24 Q. So we need to find a way to prolong the
25 life of the existing PC wells?

1 A. That is correct.

2 Q. The opportunity to do that is best
3 achieved by adding the Fruitland Coal gas?

4 A. That is correct.

5 Q. Let's turn now to the geology with regards
6 to the new drill, slightly different concern and
7 questions there. Let's look at 920, exhibit tab 4.
8 We've got a Fruitland Coal isopach or at least a
9 portion of one. Are you with me?

10 A. Yes, sir.

11 Q. Describe for us what this shows you
12 insofar as the specifics of Section 27 are
13 concerned.

14 A. Don't you mean Section 30?

15 Q. I'm sorry, it's Township 27, Section 30.

16 A. You are looking at a map of the Coal that
17 can be identified throughout the entire Fruitland
18 formation and we have so plotted that data with
19 respect to location on this map, which is reproduced
20 from a regional map of the Fruitland Coal play in
21 this area of the San Juan Basin.

22 Q. Is there sufficient coal thickness, in
23 your opinion, to cause a well to be drilled as a
24 recompletion in the northwest quarter of that
25 section?

1 A. Yes, sir, there are.

2 Q. We have coal present there, and therefore
3 I believe it to contain gas that might be produced in
4 this fashion?

5 A. That is correct.

6 Q. Describe for us geologically why Meridian
7 has chosen the northwest quarter of Section 30 as
8 opposed to one of the other quarter sections.

9 A. One of the key reasons is such that you
10 have the subsurface control in which the coal can be
11 identified with respect to depth and thickness.

12 For example, as is shown in the type log
13 behind Exhibit 5, the second page, one can identify
14 two main benches of coal in the Fruitland formation
15 above the top of the Pictured Cliff sandstone.

16 Q. As a geologist, do you concur with the
17 ultimate conclusion that in each of these instances,
18 the best opportunity to recover additional gas that
19 might not otherwise be produced is the approval of
20 these particular projects?

21 A. Yes, sir, I do.

22 MR. KELLAHIN: That concludes my
23 examination of Mr. Close for exhibit book 918, 919,
24 and 921. His exhibits are found behind tab No. 4 in
25 exhibit book 920, his exhibits are found behind 4 and

1 5. We move the introduction of those exhibits.

2 EXAMINER STOGNER: All the previously
3 mentioned exhibits will be admitted into evidence at
4 this time.

5 EXAMINATION

6 BY EXAMINER STOGNER:

7 Q. In referring to or looking at Exhibit No.
8 4 in Case 920, I'm looking at the first map. I want
9 to make sure I get this straight, the location up
10 there in the northwest quarter, and it looks like it
11 is at the edge of a small pond that is up in the
12 upper section to the north.

13 Do you want to kind of help me through
14 with what I'm looking at here? Is that additional
15 coal? Is it thicker coal or more permeable coal?

16 A. You're looking only at coal thickness
17 here. And the data you see there within that pod,
18 that circle, so to speak, the coal thickness is
19 believed to increase as a function of log
20 interpretation. So, therefore, that's why you see a
21 bull's eye of increasing coal thickness with respect
22 to that location.

23 Q. So that's a factor in this location?

24 A. Yes, such that we have the subsurface
25 control to believe that we do have additional coal

1 thickness, that is correct.

2 Q. Is there a coal gas well in that upper
3 section to the north?

4 A. I do not recall. I would have to look.

5 Q. I can do that. I just --

6 A. No, there is not.

7 Q. But you use a log interpretation from the
8 deeper Pictured Cliff wells, are utilized to come up
9 with that thickness; is that correct?

10 A. That is correct. There is a coal well in
11 the northeast portion of the section just to the
12 north there, but that is correct. Typically, the
13 electric logs will be measured over the shallower
14 formations, such as the Fruitland and Pictured
15 Cliffs, and those are where the data came or were
16 obtained from.

17 Q. On the recompletions, I'm assuming that
18 the coal in each instance has casing behind it at
19 this point?

20 A. That's correct.

21 Q. And will just the coal seams or are they
22 indicated in your different exhibits, is that where
23 the perforations are to be located?

24 A. That is correct.

25 Q. So as far as the Fruitland sand intervals

1 that lie in between, if that be the adequate
2 description of the matrix between the coals, will
3 that be left unperforated, or will those be explored
4 also?

5 A. In these particular cases, the Fruitland
6 sand is not of interest. It is not believed to be,
7 based upon log interpretation, productive in this
8 area and will not be perforated. In many cases, it
9 is not even present within the coal packages of
10 interest in these wells.

11 Q. I'll ask this question to you, and if it's
12 not your area, we can defer it to the engineer. Will
13 the Fruitland Coal intervals or perforations, will
14 they be treated in any way for stimulation?

15 A. They may -- in terms of some type of fluid
16 that may be used to break down the perforations?

17 Q. Yes. Fractures, or whatever the case may
18 be?.

19 A. Acid may be used to break down the
20 perforations, yes.

21 EXAMINER STOGNER: With that, Mr.
22 Kellahin, I have no other questions at this time.

23 MR. KELLAHIN: That concludes our
24 presentation, Mr. Examiner.

25 EXAMINER STOGNER: Do you have anything

1 further in this matter or these matters?

2 MR. KELLAHIN: No, sir.

3 EXAMINER STOGNER: Does anyone else have
4 anything further in these four cases? With that,
5 I'll take Case Nos. 10918 through 10921 under
6 advisement at this time, and we'll recess until
7 1:20.

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CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)

) ss.

COUNTY OF SANTA FE)

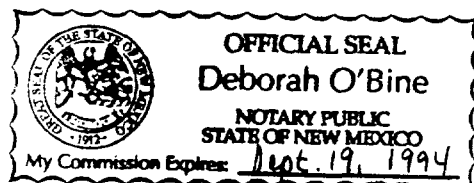
I, Deborah O'Bine, Certified Shorthand Reporter and Notary Public, HEREBY CERTIFY that I caused my notes to be transcribed under my personal supervision, and that the foregoing transcript is a true and accurate record of the proceedings of said hearing.

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

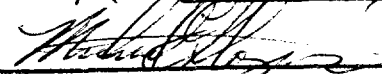
WITNESS MY HAND AND SEAL, February 28, 1994.



DEBORAH O'BINE
CCR No. 63



I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case Nos. 10418, 10419, 10420, 10421 heard by me on 27 February 1994.

 Examiner
Oil Conservation Division

CUMBRE COURT REPORTING

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