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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 NO. 11536
Order No. R-10616

APPLICATION OF MERIDIAN OIL INC.
FOR AN UNORTHODOX COAL GAS WELL
LOCATION, SAN JUAN COUNTY, NEW
MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on May 16, 1996, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 24th day of June, 1996, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) The applicant, Meridian Oil Inc., seeks approval to drill its Allison Unit Com Well No. 146 at an unorthodox coal gas well location 1000 feet from the North line and 1265 feet from the West line (Unit D) of Section 23, Township 32 North, Range 7 West, NMPM, Basin-Fruitland Coal Gas Pool, San Juan County, New Mexico.

(3) The applicant proposes to dedicate the W/2 of Section 23 to the subject well thereby forming a standard 320-acre gas spacing and proration unit for said pool.

(4) The subject well is located within the Basin-Fruitland Coal Gas Pool which is governed by Special Rules and Regulations as promulgated by Division Order No. R-8768, as amended, which require standard 320-acre gas spacing and proration units with wells to be located within the NE/4 or SW/4 of the section no closer than 790 feet from any outer boundary of the spacing unit nor closer than 130 feet from any quarter section line nor closer than 10 feet from any quarter-quarter section line or subdivision inner boundary.

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(5) The subject well is standard with respect to the setback requirements from the outer boundary of the proration unit but is unorthodox with respect to the interior quarter-quarter section line setback requirements and with respect to the quarter section location requirement.

(6) The evidence presented indicates that the NW/4 of Section 23 is within the Allison Unit, a federal exploratory unit currently operated by the applicant, and the SW/4 of Section 23 is located within the San Juan 32-7 Unit, a federal exploratory unit currently operated by Phillips Petroleum Company.

(7) Applicant testified that it is currently negotiating with Phillips Petroleum Company in an attempt to establish a communitization agreement for the W/2 of Section 23, being the proposed gas proration unit for the Allison Unit Com Well No. 146.

(8) The evidence presented indicates that there is an existing Basin-Fruitland Coal Gas Pool producing well within Section 23, this being the Allison Unit Well No. 108, located at an "off pattern" coal gas well location within the SE/4. Testimony by the applicant indicates that this well was drilled prior to the promulgation of the Special Rules and Regulations for the Basin-Fruitland Coal Gas Pool and was therefore "grandfathered in" as an unorthodox location.

(9) The E/2 of Section 23 is currently dedicated to the aforesaid Allison Unit Well No. 108.

(10) In support of its request to drill the proposed Allison Unit Com Well No. 146 at the proposed unorthodox location, the applicant presented geologic and engineering evidence and testimony which indicates that:

- a) geologic factors, including coal thickness and structure, are not primary considerations in necessitating the proposed unorthodox location;
- b) a well drilled at the proposed unorthodox location within the NW/4 of Section 23 should encounter less water saturation within the Basin-Fruitland Coal Gas Pool than a well drilled at a standard coal gas well location within the SW/4;

- c) there is a direct correlation between water saturation and producing rates. Applicant testified that a well drilled within the SW/4 of Section 23 would likely produce at uneconomic rates due to higher water saturations within the reservoir;
- d) the de-watered nature of the reservoir within the NW/4 of Section 23 will allow a more effective completion (open-hole cavitation) of the Allison Unit Com Well No. 146, thereby increasing the productive capability of the well; and,
- e) a well at the proposed unorthodox location should effectively and efficiently drain and develop the gas reserves within the Basin-Fruitland Coal Gas Pool underlying the W/2 of Section 23.

(10) The sections offsetting Section 23 have nearly been fully developed in the Basin-Fruitland Coal Gas Pool, therefore, approval of the proposed off-pattern well location will not serve to disrupt the normal spacing pattern within the pool in this area.

(11) No offset operator and/or interest owner appeared at the hearing in opposition to the proposed unorthodox coal gas well location.

(12) Approval of the subject application will afford the applicant the opportunity to produce its just and equitable share of the gas in the affected pool, will prevent the economic loss caused by the drilling of unnecessary wells, avoid the augmentation of risk arising from the drilling of an excessive number of wells and will otherwise prevent waste and protect correlative rights.

(13) Approval of the proposed unorthodox location should be contingent upon the applicant consolidating the interests within the W/2 of Section 23, either by voluntary agreement or forced pooling procedures.

IT IS THEREFORE ORDERED THAT:

(1) The applicant, Meridian Oil Inc., is hereby authorized to drill its Allison Unit Com Well No. 146 at an unorthodox coal gas well location 1000 feet from the North line and 1265 feet from the West line (Unit D) of Section 23, Township 32 North, Range 7 West, NMPM, Basin-Fruitland Coal Gas Pool, San Juan County, New Mexico.

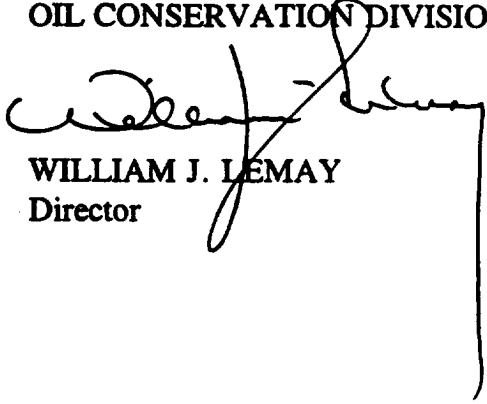
(2) The W/2 of Section 23 shall be dedicated to the subject well thereby forming a standard 320-acre gas spacing and proration unit for said pool.

(3) The unorthodox location approval granted herein shall be contingent upon the applicant consolidating the interests within the W/2 of Section 23, either by voluntary agreement or forced pooling procedures.

(4) Jurisdiction is hereby retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


WILLIAM J. LEMAY
Director

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