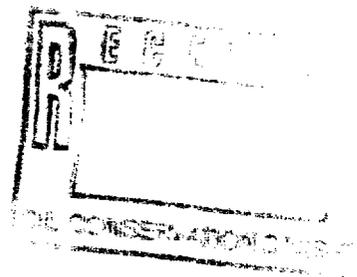


STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING)
CALLED BY THE OIL CONSERVATION)
DIVISION FOR THE PURPOSE OF)
CONSIDERING:)
)
APPLICATION OF MERIDIAN OIL, INC.)
_____)

CASE NO. 11,119

ORIGINAL



REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: JIM MORROW, Hearing Examiner

October 13th, 1994

Santa Fe, New Mexico

This matter came on for hearing before the Oil Conservation Division on Thursday, October 13th, 1994, at Morgan Hall, State Land Office Building, 310 Old Santa Fe Trail, Santa Fe, New Mexico, before Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

STEVEN T. BRENNER, CCR
(505) 989-9317

I N D E X

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 Examiner Hearing
 CASE NO. 11,119

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* * *

A P P E A R A N C E S

FOR THE APPLICANT:

KELLAHIN & KELLAHIN

117 N. Guadalupe

P.O. Box 2265

Santa Fe, New Mexico 87504-2265

By: W. THOMAS KELLAHIN

* * *

1 WHEREUPON, the following proceedings were had at
2 12:37 p.m.:

3 EXAMINER MORROW: Call Case 11,119, which is the
4 Application of Meridian Oil, Inc., for downhole commingling
5 and an unorthodox gas well location, San Juan County, New
6 Mexico.

7 Call for appearances.

8 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of
9 the Santa Fe law firm of Kellahin and Kellahin, appearing
10 on behalf of the Applicant.

11 I'd like the record to reflect that my two
12 witnesses are Mr. Price and Mr. Biemer. They're both under
13 oath and continue to be qualified as expert witnesses.

14 This case takes a little explanation, Mr.
15 Examiner.

16 The case has been processed administratively
17 under the belief that the ownership was common between the
18 coal gas and the PC, and so an administrative application
19 for downhole commingling was processed and approved. I'm
20 going to give you that administrative order, but it's
21 Administrative Order Number DHC-1023.

22 EXAMINER MORROW: What's that order, again?

23 MR. KELLAHIN: Yes, sir, DHC-1023.

24 Thereafter, it came to Meridian's attention in
25 subsequent title examinations that in fact there is a

1 difference in ownership between the PC and the Fruitland
2 Coal.

3 And rather than rely upon the administrative
4 order, which had been obtained in the mistaken belief of
5 common ownership, we have refiled this case and, in doing
6 so, have sent notification to all those parties that would
7 share in this production, because it is sometimes of
8 significance to them, particularly if their ownership
9 interest in the two pools is not common.

10 So that's why we're back.

11 After filing the case, it came to my attention
12 that the Division has already approved the well for its
13 nonstandard location. And so we would request that you
14 dismiss that portion of this case which deals with the
15 nonstandard location, because it's already approved. And
16 that approval is by Administrative Order NSL-3417, issued
17 on August 11th, and I have copies of both of those orders
18 for you.

19 EXAMINER MORROW: Good, thanks.

20 MR. KELLAHIN: We are asking for no changes in
21 the downhole commingling process, procedure or the
22 allocation formula.

23 We're simply here to revalidate that
24 administrative application and to correct what may be a
25 technical flaw because of our knowledge now that the

1 ownership is slightly different.

2 DEAN PRICE,

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

5 DIRECT EXAMINATION

6 BY MR. KELLAHIN:

7 Q. Mr. Price, would you please state your name and
8 occupation?

9 A. David Dean Price, senior landman with Meridian
10 Oil, Inc.

11 Q. With regards to the allocation of production in
12 the Morris 100 well, in order to have that well's
13 production commingled between the Fulcher Kutz-PC gas and
14 the Basin-Fruitland Coal gas, have you made a study of that
15 ownership?

16 A. Yes, I have.

17 Q. What is your current information and belief about
18 the differences, if any, between ownership between the PC
19 and the coal gas pool?

20 A. The -- originally, the ownership of the -- well,
21 I was just thinking, the -- We originally believed that the
22 wellbore of the C.M. Morris Number 1 well was owned by a
23 company called McKenzie Methane, just the wellbore, that we
24 believed that we owned the entire quarter section, and all
25 they owned was an assignment of borehole.

1 And so --

2 EXAMINER MORROW: What was the company?

3 THE WITNESS: McKenzie Methane.

4 EXAMINER MORROW: Okay.

5 THE WITNESS: And they subsequently have gone and
6 declared bankruptcy. And so we were working -- delaying
7 and working with the trustee to accomplish payment and
8 plugging costs of the C.M. Morris Number 1 wellbore. And
9 at that point, then, we would re-propose the drilling of
10 the C.M. Morris 100 well.

11 And the title opinion came back -- Well, the
12 title opinion that we were basing that upon missed an
13 assignment of leases. And so that then assigned also the
14 leasehold interest into McKenzie Methane.

15 And subsequently, McKenzie Methane has assigned
16 out their interests to a number -- approximately 15
17 additional working interest owners. And so we found those,
18 and that's why we wanted to make this notification.

19 So that acreage in the northeast quarter is not
20 owned 100 percent by Meridian. We own the southeast
21 quarter 100 percent.

22 Q. (By Mr. Kellahin) What's the relationship
23 between the subject C.M. Morris Well 100 and the original
24 C.M. Morris Well Number 1?

25 A. The C.M. Morris 100 will be a replacement well

1 for the C.M. Morris Number 1.

2 Q. All right, and why has that become necessary?

3 A. My understanding, there was a casing failure in
4 the C.M. Morris Number 1.

5 Q. When we look at the locator map behind Exhibit
6 Tab Number 3 and look at Section 10 --

7 A. Yes.

8 Q. -- identify for us which of these well symbols
9 represents the proposed location for the C.M. Morris 100.

10 A. The C.M. Morris Number 100 is indicated by the
11 little red circle with the arrow pointing to it.

12 Q. Okay. And what well symbol, if any, would
13 describe the C.M. Morris Well Number 1?

14 A. That would be the triangle with the dryhole
15 symbol on it. And it's also denoted by the -- down here in
16 the legend, Fruitland Coal well.

17 Q. All right. Just to the south and west of the red
18 dot?

19 A. Yes, to the south and west of the dot.

20 Q. What is the proposed spacing unit, first of all
21 for the PC, and then for the Fruitland Coal Gas?

22 A. It would be 160 acres for the Pictured Cliffs
23 formation. That would be the northeast quarter of Section
24 10.

25 And it would be the east half for the Fruitland

1 Coal formation. That would be 320 acres.

2 Q. Have you notified the interest owners that would
3 share in production from these two pools of your proposed
4 Application?

5 A. Yes, we have.

6 Q. And how is that evidenced in the exhibit book?

7 A. I've shown a copy of the little green cards for
8 the return mailing, and also a list of the interest owners
9 in Exhibit 2, behind the offset operators plat. We have a
10 list of the interest owners and their interests broken down
11 as to which type of interest they own, and then a copy of
12 the green cards that they've returned.

13 All parties were notified.

14 Q. Has anyone raised any objection, Mr. Price, to
15 the best of your knowledge, concerning this Application?

16 A. No.

17 EXAMINER MORROW: Where is the ownership, sir? I
18 didn't pick up on that.

19 THE WITNESS: It's right behind the offset
20 ownership plats. They're the first two pages. It would be
21 the third page.

22 EXAMINER MORROW: Under what tab?

23 THE WITNESS: Under -- Excuse me, under tab,
24 Exhibit Number 2. So it would be the third page in, and
25 Exhibit Number 2.

1 EXAMINER MORROW: Okay. Are these working
2 interest owners or --

3 THE WITNESS: Yes, all the --

4 EXAMINER MORROW: Oh, you didn't -- you
5 identified them, okay.

6 MR. KELLAHIN: All kinds of owners.

7 THE WITNESS: Yes.

8 EXAMINER MORROW: Okay.

9 THE WITNESS: They're -- Both leases are federal
10 leases.

11 Q. (By Mr. Kellahin) Behind Exhibit Tab 1 is simply
12 the Application, Exhibit Tab 2 you've described, and 3 is
13 the locator map?

14 A. Yes.

15 Q. And the rest of it is the geologic information
16 and the allocation formula?

17 A. Yes, sir.

18 MR. KELLAHIN: All right, sir. At this time, Mr.
19 Examiner, we move the introduction of Exhibits 1, 2 and 3.

20 EXAMINER MORROW: 1, 2 and 3 are admitted.

21 MR. KELLAHIN: That concludes my examination of
22 Mr. Price.

23 EXAMINATION

24 BY EXAMINER MORROW:

25 Q. On the plat behind Exhibit Tab 3, the Number 1

1 well, is that the only triangle in that northeast quarter?

2 A. Yes, sir.

3 Q. I couldn't find a dryhole symbol there.

4 A. Well, that could be my -- It looks to me like a
5 dryhole symbol.

6 Q. But that well is a casing collapse or --

7 A. Yes, sir, it was drilled in 1949.

8 Q. Is it your well, you operate the well?

9 A. Yes, it is, it's our well.

10 Q. Okay. Do you plan to plug it, or have you
11 plugged it?

12 A. We plan to plug it. We have authorization to
13 plug it.

14 Q. Now, initially did you say you planned to re-
15 enter that well and do this work? Was that the --

16 A. I believe that was the plan, yes.

17 Q. But you got in there and found out --

18 A. Yes --

19 Q. -- it couldn't be used.

20 A. -- from a historical perspective.

21 Q. So is this well a standard location for the
22 Fruitland Coal?

23 A. Yes, sir, it is.

24 Q. It is standard for the Fruitland Coal?

25 A. Yes, sir.

1 Q. It's really in the northeast this time?

2 A. Yes, sir, it's a full section.

3 EXAMINER MORROW: Right.

4 Okay. Thank you, Mr. Price.

5 THE WITNESS: Thank you.

6 MR. KELLAHIN: Call at this time Mr. Leonard

7 Biemer.

8 LEONARD J. BIEMER, JR,

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

11 DIRECT EXAMINATION

12 BY MR. KELLAHIN:

13 Q. Mr. Biemer, when we look at the C.M. Morris
14 Number 1, the original well that you were trying to re-
15 enter, describe for the Examiner in a summary fashion what
16 the plan was.

17 A. The C.M. Morris was a PC well. We planned to go
18 up and recomplete in the Fruitland Coal. When we tried to
19 pressure-test the casing it would not hold pressure.

20 At that point, we would go in there and squeeze
21 cement, push cement behind the pipe and clean it out.
22 We've tried that on several attempts, each time just
23 creating more holes. It was just -- We call it Swiss
24 cheese. It would not hold pressure.

25 At that point, we gave up operations as to try to

1 commingle the Pictured Cliffs and the Fruitland Coal.

2 Q. All right. When we look at the Morris Number 1
3 well, it was an existing PC well that had been abandoned,
4 had it not?

5 A. Yes.

6 Q. Or virtually abandoned?

7 A. Yes, it had basically been abandoned.

8 Q. It was down to perhaps being fully depleted?
9 I've forgotten what you told me.

10 A. Yeah, it had -- We had it producing about 50 MCF
11 a day.

12 Q. About 50 MCF a day for that well at that time?

13 A. Right.

14 Q. All right. And you have approval, then, to
15 attempt to utilize that wellbore to commingle with the coal
16 gas?

17 A. That is correct.

18 Q. All right. Using the same spacing units, the
19 west half and then the northwest quarter of the section?

20 A. Yes, sir.

21 Q. So the replacement well, the C.M. Morris 100, is
22 to give you a replacement opportunity to do the same thing?

23 A. That's right, we're trying to go back in there,
24 drill a Fruitland Coal well, and to recover the remaining
25 PC gas that was in there.

1 Q. Okay. Do you have a recommendation to the
2 Examiner as to an allocation formula --

3 A. Yes, I --

4 Q. -- by which we can allocate production between
5 the PC and the Fruitland Coal?

6 A. Yes, I do. If you look behind Exhibit 6, the
7 last tab in your booklet.

8 Q. Okay.

9 A. First, if you turn to the second page there,
10 you'll see the actual decline curve of the original C.M.
11 Morris Number 1 well.

12 What I've simply done is taken a decline off of
13 what the well was producing at last time and decline it to
14 10 MCF a day, with that decline, and what that gives you is
15 remaining reserves of some 436 M squared.

16 What we plan to do is, based off that decline and
17 that initial rate, we'll allocate the production of the new
18 well. Thus, anything above basically 50 MCF a day, on the
19 C.M. Morris Number 100 well, that gas will be allocated to
20 the Fruitland Coal.

21 Q. And that methodology conforms to what Meridian
22 has done in other PC-Fruitland Coal allocation cases that
23 the Division has processed and approved?

24 A. Yes, sir.

25 Q. In other words, that --

1 A. This is nothing new.

2 Q. Yeah, we take the known decline on the PC, and
3 anything above that is allocated to the coal gas?

4 A. That is correct. If you look back on page 1,
5 it's simply the total gas that's going to be produced out
6 of the C.M. Morris Number 100 well, minus what we know that
7 the PC should make, is the gas that the Fruitland Coal will
8 make.

9 Q. And this is the same formula we have submitted to
10 the Division Examiner in prior cases, and you have simply
11 taken the formula, gone through the calculation that's
12 specific for the Morris Number 1, and come out with the
13 remaining projected reserves of the PC portion of the well?

14 A. Yes, sir.

15 Q. In your opinion, is that a fair and reasonable
16 method by which to allocate production between the interest
17 owners in both pools for production from this well?

18 A. Yes, sir, it is.

19 MR. KELLAHIN: That concludes my examination of
20 Mr. Biemer, Mr. Examiner. We move the introduction of his
21 exhibits behind Exhibit Tab Number 6.

22 EXAMINER MORROW: Exhibit 6 is admitted.

23 EXAMINATION

24 BY EXAMINER MORROW:

25 Q. Mr. Biemer, this page 2 of your Exhibit 6 there,

1 the second page, that's the production from Well Number 1;
2 is that correct? That you have extrapolated?

3 A. Yes, sir.

4 Q. You assume the 100 will recover essentially
5 what --

6 A. Right, these are just -- This is an offset, and
7 it's very close, so the gas in that area would be recovered
8 now by the 100.

9 Q. Is that the same curve you used when you applied
10 for and received the administrative approval for downhole
11 commingling?

12 A. I wasn't here, I don't know. I would assume that
13 it would be.

14 MR. KELLAHIN: We would have to look and verify,
15 Mr. Examiner, because he doesn't know.

16 EXAMINER MORROW: It was not -- This refers to an
17 attachment, which I'm sure we have upstairs, but I didn't
18 have --

19 MR. KELLAHIN: It didn't get as far as me, Mr.
20 Examiner, but I'd be happy to check it for you.

21 EXAMINER MORROW: Okay. All right, well, if
22 you'd among you check out that allocation procedure that
23 was authorized by this administrative order and advise me
24 if -- whether or not that's exactly what you'd like to have
25 on this one --

1 MR. KELLAHIN: Yes, sir.

2 EXAMINER MORROW: -- I assume it would be,
3 because it's the same well.

4 MR. KELLAHIN: We'll verify it and make sure
5 there's no mistake.

6 EXAMINER MORROW: You've got a different
7 administrative department, I guess, than your people that
8 come to hearings, no doubt.

9 MR. KELLAHIN: Yes, sir.

10 EXAMINER MORROW: Okay, thank you.

11 THE WITNESS: Thank you.

12 MR. KELLAHIN: That concludes our presentation in
13 that case.

14 EXAMINER MORROW: Case 11,119 will be taken under
15 advisement.

16 And I believe that's the last case on the docket,
17 so this hearing is adjourned.

18 (Thereupon, these proceedings were concluded at
19 12:54 p.m.)

20 * * *

21

22

23

24

25

CERTIFICATE OF REPORTER

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

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; 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 October 17th, 1994.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 1998

I do hereby certify that the foregoing is a complete and true transcript of the proceedings in the Examiner's hearing on Case No. _____ heard by me on _____ 19__

_____, Examiner
Oil Conservation Division