

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. 11,134

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

November 10th, 1994

Santa Fe, New Mexico

This matter came on for hearing before the Oil Conservation Division on Thursday, November 10th, 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

November 10th, 1994
 Examiner Hearing
 CASE NO. 11,134

	PAGE
APPEARANCES	3
STATEMENT BY MR. KELLAHIN	4, 5
APPLICANT'S WITNESSES:	
<u>JAY CLOSE</u>	
Direct Examination by Mr. Kellahin	6
Examination by Examiner Catanach	12
Examination by Mr. Slaughter	14
<u>DAVID DEAN PRICE</u>	
Direct Examination by Mr. Kellahin	17
Examination by Examiner Catanach	20
<u>LEONARD BIEMER</u>	
Direct Examination by Mr. Kellahin	21
Examination by Examiner Catanach	25
Further Examination by Mr. Kellahin	30
REPORTER'S CERTIFICATE	32

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E X H I B I T S

	Identified	Admitted
Exhibit 1	19	20
Exhibit 2	19	20
Exhibit 3	7	12
Exhibit 4	9	12
Exhibit 5	10	12
Exhibit 6	10	12
Exhibit 7	12	12
Exhibit 8	22	25

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A P P E A R A N C E S

FOR THE DIVISION:

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Santa Fe, New Mexico 87504

FOR THE APPLICANT:

KELLAHIN & KELLAHIN
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P.O. Box 2265
Santa Fe, New Mexico 87504-2265
By: W. THOMAS KELLAHIN

ALSO PRESENT:

ORVILLE SLAUGHTER, offset interest owner

* * *

1 WHEREUPON, the following proceedings were had at
2 8:30 a.m.:

3 EXAMINER CATANACH: At this time we'll call Case
4 11,134.

5 MR. CARROLL: Application of Meridian Oil, Inc.,
6 for downhole commingling and an unorthodox coal gas well
7 location, San Juan County, New Mexico.

8 EXAMINER CATANACH: Are there appearances in this
9 case?

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

13 EXAMINER CATANACH: Additional appearances?

14 There being none, the witness will please be
15 sworn in at this time.

16 (Thereupon, the witnesses were sworn.)

17 MR. KELLAHIN: Mr. Examiner, may the record
18 reflect that Mr. Orville Slaughter has filed a facsimile
19 entrance in this case and that Mr. Slaughter is present in
20 the hearing room. Mr. Slaughter, for the record, is an
21 offset interest owner. I think he has interest in the
22 Fruitland over in Section 35, and he is present.

23 As we represented in a prior case, we have
24 visited with Mr. Slaughter, and it's our understanding and
25 belief that he has no objection to the granting of approval

1 of this Application.

2 EXAMINER CATANACH: The record shall so reflect.

3 Mr. Slaughter, if during the hearing you have any
4 questions, you may ask the witness questions, if you will.

5 MR. SLAUGHTER: I understand.

6 MR. KELLAHIN: Mr. Examiner, we call as our first
7 witness Mr. Jay Close. Mr. Close is a petroleum geologist
8 with Meridian.

9 Mr. Examiner, the focus of our request in this
10 matter is the fact that it's before you for two items. One
11 is that under Rule 303 of the Downhole Commingling
12 Procedures, there is a difference in ownership between the
13 two spacing units. We believe that is the only exception
14 in this case. We believe we're in compliance with all the
15 other requirements by which you could have otherwise
16 administratively approved this Application.

17 In addition, this is a continuing part of
18 Marathon's plan to examine old Pictured Cliff wellbores and
19 attempt to utilize those wellbores for two purposes: one,
20 to recover remaining Pictured Cliff coal gas production
21 that might otherwise be abandoned, and to use those
22 wellbores to access Fruitland Coal gas.

23 In this particular situation in this section, the
24 available PC well happens to be in the southeast quarter,
25 and therefore in utilizing it we are in an off-pattern

1 position in the other pool. The Fruitland Coal pools would
2 show this quarter section to be off-pattern.

3 So those are the two items of interest to us in
4 this case, and Mr. Close is the geologist that has examined
5 and is part of the team that have studied this case and
6 prepared it for your consideration.

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

10 DIRECT EXAMINATION

11 BY MR. KELLAHIN:

12 Q. Mr. Close, for the record would you state your
13 name and occupation?

14 A. Jay Close, petroleum geologist with Meridian Oil
15 in Farmington, New Mexico.

16 Q. Mr. Close, on prior occasions have you qualified
17 and testified as an expert petroleum geologist before this
18 Division?

19 A. Yes, sir, I have.

20 Q. Describe for us in a general way what it is that
21 you've done concerning this case.

22 A. What we've investigated is the opportunity to
23 recomplete available Pictured Cliffs wellbores in the said
24 section and identified the well in the southeast quarter of
25 said section as the best opportunity to recomplete to the

1 Fruitland Coal, to capture reserves that would otherwise be
2 lost, should we not be able to be allowed to perform that
3 recompletion.

4 Q. Is that conclusion made by Meridian based in part
5 upon your geologic opinions?

6 A. Yes, sir, it is.

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

9 EXAMINER CATANACH: Mr. Close is so qualified.

10 Q. (By Mr. Kellahin) Let me have you turn, sir, to
11 the exhibit book. It's numbered 1 through 8. If you'll
12 look behind Exhibit Tab Number 3, let's use that locator
13 map to orient the Examiner.

14 Mr. Close, if you'll focus your attention first
15 of all on Section 35, help us identify how the Pictured
16 Cliff wells in Section 35 are identified or coded.

17 A. Within Section 35 you will see four Pictured
18 Cliffs sandstone wellbores. In the very left bottom of the
19 locator map you will see an index in which the Pictured
20 Cliffs well symbol is given. And using that code you can
21 see, then, there are four Pictured Cliffs wells in that
22 section, and the Payne Number 2 is the subject well in the
23 southeast quarter of that section.

24 Q. When you look at Section 35, are there currently
25 any wellbores dedicated for coal gas production?

1 A. No, sir, there are not, besides the Payne 2.
2 That's the well we are after to obtain a spacing unit for
3 that 320-acre portion of that section.

4 Q. Describe geologically why you've reached the
5 conclusion that -- Strike that.

6 Go back and describe for me your concept of how
7 to develop Section 35, utilizing the PC wellbores for
8 accessing the coal gas.

9 A. What we have done is look through the various
10 drilling and completion records for the Pictured Cliffs
11 wells in that section.

12 And we right away identified that the Forrest
13 Number 4 well in the southwest quarter of Section 35 is a
14 so-called slimhole well, and operationally it is very
15 difficult for us to recomple to the coal in such a
16 situation.

17 Therefore, we immediately investigated the Payne
18 Number 2 well in the southeast quarter of that Section 35
19 and discovered that it has a casing diameter of sufficient
20 size to enable us to get our tools into the wellbore, to
21 perform the recompletions that we would like to do, to
22 capture Fruitland reserves.

23 The Wood Number 2 well, which is the well in the
24 northeast quarter of Section 35, was also identified as a
25 well in which we have sufficient casing size to perform our

1 operations safely and efficiently as well as economically,
2 recompleting to the coal in that quarter section, which is a
3 standard location for the Fruitland coal, since it is in
4 the northeast.

5 And therefore with that well being a recompletion
6 candidate in the north half, then, and the Forrest 4 being
7 the slimhole in the southwest, that puts us to the Payne
8 Number 2, then, in the southeast quarter of that section,
9 meaning that is the well that we would like to perform the
10 recompletion efforts.

11 Q. The Wood well number 2 in the northeast quarter
12 of this section is the subject of Case 11,135 that the
13 Examiner has just taken under advisement?

14 A. Yes, sir.

15 Q. All right. Geologically, when you're looking for
16 the opportunity to access the coal gas, does it matter
17 within this section for that production where the wellbores
18 are located within the section?

19 A. There's probably not that much geologic variation
20 in this area. However, the coal thicknesses in the Payne
21 Number 2 are indeed very attractive.

22 And in other words, if I could refer you to the
23 geophysical log behind Exhibit Tab Number 4, highlighted
24 there, above the Pictured Cliffs sandstone in the Fruitland
25 formation, you can see there is a large cumulative net coal

1 thickness.

2 And given the reservoir pressures in this area,
3 we are confident that there is indeed, with respect to a
4 significant coal thickness, a significant gas resource here
5 that would have otherwise not been able to be recaptured
6 through recompletion efforts.

7 Q. All right, sir. If you'll turn now to the
8 geologic display behind Exhibit Tab Number 5 and identify
9 that for the record.

10 A. Behind Exhibit 5 we are looking at a structure
11 map on the base of the basal coal in the Fruitland
12 formation in this area of San Juan County, in the San Juan
13 Basin.

14 Q. What's the significance of this information to
15 you for purposes of this Application?

16 A. What we are looking at here is, structurally we
17 have a very gentle north-to-northeast dip in this portion
18 of the San Juan Basin. And to our knowledge, based upon
19 this data, there are no significant faults or fault offsets
20 that affect production in this area.

21 I will also note that the Payne Number 2 well
22 signification is given in your lower left, in the arrow
23 pointing up into the southeast quarter of Section 35.

24 Q. Sir, let's turn to Exhibit Tab Number 6. If
25 you'll look at the geologic display after that tab,

1 identify and describe that display.

2 A. This is a coal isopach for the Fruitland
3 formation in the same area it was mapped in the previous
4 exhibit with respect to structure.

5 And what we have shown here -- and again, you'll
6 see the Payne Number 2 signifier in your lower left, the
7 arrow pointing up from that into the southeast quarter of
8 Section 35 -- what we are after here is to show you that
9 indeed the Fruitland Coal does achieve significant
10 thickness in this area, and therefore significant gas
11 resource in place is present in this southeast quarter of
12 Section 35.

13 Q. What do you achieve by utilizing the existing
14 Pictured Cliff wellbore, accessing the southeast quarter
15 for coal, that you can't obtain if you were to drill a new
16 coal gas well at a standard on-pattern location?

17 A. Our problem there is the economics of such a
18 play. When we have an existing wellbore that is already
19 drilled and completed and producing from the Pictured
20 Cliffs, the recompletion economics to the coal are very
21 attractive to us.

22 Since the Pictured Cliffs is marginal, we are not
23 able to drill a stand-alone well and go about our efforts
24 in that way.

25 Q. Summarize your geologic conclusions about

1 granting an exception for this well in the off-pattern coal
2 gas location.

3 A. We again think that based upon the structure
4 maps, the thickness maps, and the geophysical log
5 interpretations in this area, that there is a significant
6 gas-in-place resource in the Fruitland Coal in this area,
7 which are very attractive to us economically from the
8 reserve and production standpoint, and they are
9 particularly so if we can perform recompletion efforts in
10 existing wellbores to drill a stand-alone well, simply
11 given our economics is not an issue for us.

12 So this is why, then, from the geologic
13 perspective and the operational perspective, we have
14 focused our efforts on the Payne 2 well in the southeast
15 quarter of said Section 35.

16 MR. KELLAHIN: That concludes my examination of
17 Mr. Close, Mr. Examiner.

18 We would move the introduction of his Exhibits 3
19 through 7.

20 EXAMINER CATANACH: Exhibits 3 through 7 will be
21 admitted as evidence.

22 EXAMINATION

23 BY EXAMINER CATANACH:

24 Q. Mr. Close, is there a geologic advantage to
25 producing the southeast quarter in the coal, as opposed to

1 the southwest quarter?

2 A. There probably is not that much of a geologic
3 advantage.

4 However, again from the operational perspective,
5 the Forrest 4 being a slimhole well, it's very difficult if
6 not mechanically impossible for us to enter that wellbore
7 and perform our recompletion efforts. So that is the key
8 reason why we have focused our efforts on the Payne 2 in
9 the southeast quarter.

10 Q. Was it your testimony that the coal reserves are
11 not sufficient to justify drilling a stand-alone well?

12 A. The Pictured Cliffs.

13 Q. The Pictured Cliffs?

14 A. Yes, sir. If we do the recompletion efforts in
15 an existing wellbore, then the economics are very
16 attractive to us.

17 Q. Do you have any information as to the orientation
18 of the major permeability system within the coal in this
19 section?

20 A. In this area, the face cleat or the so-called
21 primary permeability system, is typically north to
22 northeast; and the butt-cleat area, the secondary
23 permeability, is typically perpendicular to that, and that
24 would be west northwest in this area.

25 Q. Given those directions, do you have an opinion as

1 to whether a well in the southeast quarter will effectively
2 -- whether two wells in the east half will effectively help
3 to drain the west half of that section?

4 A. I think that given what we know of the reservoir
5 in this area, which in many respects is not that much
6 compared to many other areas of the Fruitland play, based
7 on what we think at this point, it will drain reserves in
8 the southwest -- or rather the west half of that section.
9 We think there's sufficient deliverability that can come
10 out of those coals to adequately drain those areas.

11 EXAMINER CATANACH: I have nothing further, Mr.
12 Kellahin.

13 Mr. Slaughter, did you have any questions?

14 MR. SLAUGHTER: I would just like to explore one
15 thing.

16 EXAMINATION

17 BY MR. SLAUGHTER:

18 Q. In your professional opinion, do you feel that
19 the existing sands, the existing Fruitland sands, in
20 conjunction with the coal seam, there's a rejuvenation from
21 the coal seam to the sand, extracting from the sand, coal
22 seam rejuvenating it? Have you subscribed to any
23 rejuvenation between the coal seam and a productive sand?

24 A. So what you're saying, sir, is if we're completed
25 in the Fruitland sand, for the sake of argument, is there a

1 recharge from the Fruitland coal if those coals are in
2 contact with that sand?

3 Q. Yes.

4 A. It is possible. However, we don't have technical
5 data to prove or disprove that hypothesis either way.

6 Q. I'm not prepared at this time, but I have read
7 studies from the Colorado School of Mines that have done
8 considerable work on this. They subscribe to the
9 recharging of the Fruitland sands from the coal seam
10 itself.

11 But I'm not pressing that issue right at this
12 moment; I just wanted to know your professional opinion.

13 A. I think that what they're after -- I've read a
14 lot of their literature, certainly not all of it. But over
15 geologic time, the coal seams may have served as a source
16 for gas that is now in that Fruitland sand; as opposed to
17 in the current day, rejuvenation, there's a number of
18 reasons, probably, why that is not too much of an issue.
19 But again, we don't have the hard technical data to prove
20 or disprove that possibility.

21 Q. Would you think, in your professional opinion,
22 that since your wellbore, your casing -- I would just
23 assume -- let's say it's an 8- to 10-inch casing going down
24 to the Pictured Cliff, and then coming uphole and
25 perforating into the Fruitland sand -- would you think you

1 would have an unfair advantage to people that have done a
2 slimhole to the Fruitland sand, versus your capability of
3 extracting both the Pictured Cliff and the Fruitland sand
4 from larger compressors?

5 Do you see a differential between the small
6 operator and the large operator drawing the gas from the
7 Fruitland sand? Do you see a disparity there?

8 A. No, sir, I do not. All -- The other thing I
9 would say, we are targeting the coal quite specifically, as
10 opposed to the Fruitland sand.

11 So based upon the geophysical logs that we have,
12 the open-hole logs as well as the cased-hole logs we will
13 run prior to performing the fracture-stimulation efforts,
14 we will identify and be sure that we are indeed perforating
15 and fracture-stimulating the coals only.

16 And we're just like any other operator: We have
17 to put compression, typically in these cases, on our wells.
18 And many operators that are larger or smaller than Meridian
19 Oil do indeed perform the same kind of operation, have
20 compression on location. So I don't see an unfair
21 advantage either way there.

22 Q. What would you estimate the -- since now we
23 recognize that we can deplete these areas -- For instance,
24 the Pictured Cliff 40 years ago was just a fantastic gas --
25 We thought we'd never exhaust it. Now we're looking at the

1 possibility and the reality that we are exhausting these
2 fields.

3 What do you think, in your professional opinion,
4 would be the lifespan of the Fruitland formation? Now we
5 know what we've done to the Pictured Cliff; now what about
6 the Fruitland formation over time? Let's say the next five
7 to ten years. Do you see an exhaustion of that?

8 A. I see opportunities in the Fruitland Coal every
9 day that the industry has bypassed, and I think that the
10 longevity of the play is well into the next century.

11 MR. SLAUGHTER: All right, thank you.

12 EXAMINER CATANACH: Thank you, Mr. Slaughter.
13 Anything further, Mr. Kellahin?

14 MR. KELLAHIN: No, sir.

15 EXAMINER CATANACH: The witness may be excused.

16 MR. KELLAHIN: Mr. Examiner, we would call Mr.
17 Dean Price at this time. Mr. Price is a petroleum landman.

18 DAVID DEAN PRICE,
19 the witness herein, after having been first duly sworn upon
20 his oath, was examined and testified as follows:

21 DIRECT EXAMINATION

22 BY MR. KELLAHIN:

23 Q. Mr. Price, for the record please state your name
24 and occupation.

25 A. David Dean Price, senior landman at Meridian Oil.

1 Q. And you reside in Farmington, do you, sir?

2 A. Yes.

3 Q. On prior occasions, you've testified before the
4 Division and qualified as an expert petroleum landman?

5 A. Yes.

6 Q. What's been your responsibilities as a landman in
7 this case?

8 A. We mailed out the copies of the Application and
9 notice to offset owner/operators, and also to all the
10 interest owners within the south half and the southeast of
11 Section 35, the lands in question.

12 Q. Have you made yourself knowledgeable about not
13 only the ownership within the two spacing units but also
14 the reported ownership within the areas adjoining each of
15 these spacing units?

16 A. Yes, sir.

17 MR. KELLAHIN: We tender Mr. Price as an expert
18 witness.

19 EXAMINER CATANACH: Mr. Price is so qualified.

20 Q. (By Mr. Kellahin) Mr. Price, let's look at
21 Exhibit Tab Number 3, if you'll turn to the locator map.
22 Within the south half of 35 for the coal gas spacing unit,
23 have you identified and provided notices of hearing in this
24 case to all those interest owners?

25 A. Yes, sir, we have.

1 Q. And in the spacing unit for the Pictured Cliff,
2 the southeast quarter of 35, have you done the same thing?

3 A. Yes, we have. Copies of those are presented in
4 Exhibit Number 2.

5 Q. Is there anything on Exhibit Number 3 that would
6 give us the location of what you understand to be Mr.
7 Slaughter's interest in this area?

8 A. Yes, there's -- On the map, the interest owners
9 are also noted in the dark-blue type, print. And I
10 understand Mr. Slaughter's interest is located in Section
11 34 in an adjacent tract, in the west half of Section 34.

12 On the offset owner's plat in Exhibit Number 2 --
13 excuse me, in the back -- Excuse me, in Exhibit Number 1,
14 on the back, on the last two pages, we indicate there's --
15 There are two maps which indicate the offset owners. His
16 interest is so indicated in Section 34, in the north half.

17 Q. Did you prepare or have the exhibits prepared
18 that are attached as plats to the Application shown in
19 Exhibit 1?

20 A. Yes.

21 Q. And did you cause notification of this hearing to
22 be sent to all those interested owners offsetting these
23 spacing units?

24 A. Yes.

25 Q. Other than communication from Mr. Slaughter, are

1 you aware of any other interests displayed to you by any of
2 these interest owners?

3 A. No.

4 MR. KELLAHIN: That concludes my examination of
5 Mr. Price.

6 We move the introduction of Exhibits 1 and 2.

7 EXAMINER CATANACH: Exhibits 1 and 2 will be
8 admitted as evidence.

9 EXAMINATION

10 BY EXAMINER CATANACH:

11 Q. Mr. Price, the south half of Section 35, you
12 intend to dedicate in the Fruitland Coal formation?

13 A. South half of 35?

14 Q. Right.

15 A. Yes.

16 Q. Is that a single lease or is it --

17 A. It's made up of three leases. We have three
18 separate leasehold interests, and the variance between the
19 ownership in this case was overriding royalty interest
20 owners.

21 Q. So are those federal leases?

22 A. Yes, they are. The federal government is the
23 royalty owner in all three leases.

24 We'll file communitization agreements on both the
25 Fruitland Coal and Pictured Cliffs. If they're -- Well,

1 they're already in existence on the Pictured Cliffs.

2 EXAMINER CATANACH: I don't have anything
3 further.

4 Mr. Slaughter, do you have any questions of this
5 witness?

6 MR. SLAUGHTER: No, not at this time, thank you.

7 MR. KELLAHIN: Mr. Examiner, we would call
8 Leonard Biemer. Mr. Biemer is a staff engineer with
9 Meridian in Farmington, New Mexico.

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

13 DIRECT EXAMINATION

14 BY MR. KELLAHIN:

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

16 A. Leonard Biemer. I'm a senior staff production
17 engineer with Meridian Oil in Farmington, New Mexico.

18 Q. On prior occasions, Mr. Biemer, have you
19 testified in that capacity before this Division and
20 qualified as an expert witness?

21 A. Yes, I have.

22 Q. Summarize for us what has been your
23 responsibilities concerning this case.

24 A. I'm in charge of the production existing and the
25 continual development in the oil and gas in that area.

1 Q. Was it your engineering conclusions that led to
2 the filing of this Application seeking to utilize this
3 existing PC wellbore to downhole commingle with the
4 Fruitland Coal gas?

5 A. Yes, it is.

6 MR. KELLAHIN: We tender Mr. Biemer as an expert
7 witness.

8 EXAMINER CATANACH: Mr. Biemer is so qualified.

9 Q. (By Mr. Kellahin) As part of your studies, did
10 you determine the remaining Pictured Cliff reserves
11 available in this well?

12 A. Yes, I did. If you'll turn to Exhibit Number 8,
13 the last tab in your pamphlet --

14 Q. All right, sir, and we'll look to the very last
15 portion of that exhibit; there's a production plot?

16 A. Yes, sir.

17 Q. All right, let's look at that and have you
18 identify and describe it for us.

19 A. On that last page, you'll see to the right is the
20 existing production in a monthly basis, year by year. Off
21 to your right, you'll see a decline starting in 1 of 1995.

22 The reserves were determined by matching the
23 rate-time with the pressure cum data, and by doing that we
24 came up with the remaining reserves in the Pictured Cliff
25 formations of 161 M squared.

1 Q. What current gas rate do you have on a daily
2 basis for this well?

3 A. 22 MCF a day we'll have.

4 Q. At what point in the productive life are we with
5 this well?

6 A. We're at the economic limit, as a Pictured Cliff
7 by itself.

8 Q. Do you have an opportunity to prolong the
9 productive life of the wellbore to recover additional
10 Pictured Cliff gas reserves that may remain by commingling
11 this production with Fruitland Coal?

12 A. Yes, sir, we do.

13 Q. Describe for us how you reach that conclusion.

14 A. By commingling these wells, we'll be able to
15 produce them in a more economic fashion, thus extending the
16 life of the well.

17 Q. As part of your engineering study, did you
18 examine allocation formulas previously presented by your
19 company to the Division by which you have commingled
20 Pictured Cliff and Fruitland Coal gas?

21 A. Yes, we have. If you turn back one page, there
22 is the allocation formula. This formula basically states
23 that the total gas produced once the well is commingled is
24 the total of the Fruitland Coal plus the Pictured Cliff.

25 If you re-arrange that formula, we're slipping in

1 the soft -- The one known we have right now is the existing
2 Pictured Cliff production. That's the total months. What
3 the current PC is will give us the Fruitland Coal
4 production for the remaining life of this well.

5 Q. Is it good engineering technique or practice to
6 utilize the existing known production and then to determine
7 what that remaining production is so that that production
8 in excess of the existing can be allocated to the other
9 pool?

10 A. Absolutely.

11 Q. There's no way to forecast what the coal gas pool
12 will do at this point, is there?

13 A. No, sir.

14 Q. All right. Is this method consistent with what
15 you have prepared in the other cases that the Examiner took
16 under advisement this morning?

17 A. Yes, sir, this is exactly what we've done in all
18 cases.

19 Q. In fact, you were the engineer that did the
20 calculations in Case 11,133, the present case, -34, as well
21 as -35 and -36?

22 A. Yes, sir.

23 Q. Okay. And they're all done in the same method?

24 A. Yes, sir, they're all done in the same manner and
25 consistent with what we have done in the past.

1 Q. In your opinion, will this afford an opportunity
2 to all the interest owners to have their correlative rights
3 protected by sharing in their appropriate share of this
4 production?

5 | A. Yes, sir.

6 MR. KELLAHIN: We move the introduction of
7 Exhibit Number 8.

8 And that concludes my examination.

9 EXAMINER CATANACH: Exhibit Number 8 will be
10 admitted as evidence.

11	EXAMINATION
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12 BY EXAMINER CATANACH:

13 Q. Mr. Biemer, can you explain to me the current
14 completion of the Forrest Well Number 4, why it -- why that
15 completion precludes downhole commingling?

16 A. Well, the Forrest Number 4 is a 2 7/8 slimhole.
17 Operationally, it's -- it's really tough to go in there and
18 complete and frac. In fact, we -- It's not feasible.

19 In the Payne Number 2, we have 5-1/2-inch casing.
20 The 5 1/2 casing, we can go in there and set bridge plugs
21 and work through 2-7/8 or 3-1/2-inch frac strings to better
22 complete the well.

23 In the 2 7/8 slimhole, it's just -- You can't
24 work inside of it.

25 Q. Have you estimated the gas reserves in the

1 Fruitland Coal formation in Section 35?

2 A. Yes, sir, I have. We're estimating them right at
3 a BCF.

4 Q. In the whole section, or is that --

5 A. Oh, for the -- No, that's for that 320-acre
6 spacing.

7 Q. The south half?

8 A. The south half, yes, sir.

9 Q. One BCF?

10 A. One BCF. Actually it's 955.

11 Q. Did you say the current production in the PC in
12 the subject well is -- What, did you say?

13 A. Well, currently it's at zero because it's shut
14 in. But once we bring it back on line, we estimate it to
15 be right at 22 MCF a day. That's basic- -- That is where
16 it was when it was shut in.

17 Q. Uneconomic to produce?

18 A. It's right there at the economic limit, yes, sir.

19 Q. Is that why it's shut in?

20 A. I'm not sure exactly why this one is shut in, but
21 -- I'm not sure.

22 Q. Mr. Biemer, do you have an engineering opinion as
23 to whether this well will drain the west half or the
24 southwest quarter of the section in the Fruitland Coal?

25 A. I believe it will drain the south half, yes, sir.

1 Q. Let me ask you about current offset development
2 in the coal in this area. Are you familiar with that?

3 A. Yes, sir.

4 Q. Do you have wells drilled to the Fruitland Coal
5 in your offsetting sections?

6 A. Currently, no, there is no producing offsets, in
7 the direct offset.

8 There's some wells a couple miles south. That
9 would be the 1-R. And then there's some Conoco wells
10 several miles to the northwest, the SE State Com 16. To
11 the west there's the Bloom Federal 3; it's also a couple
12 miles away. And a couple miles to the east is the Nye 290
13 and 292.

14 So there's surrounding wells, but they're all
15 within two or three miles away.

16 Q. Is Meridian the operator of any of the offsetting
17 proration units to Section 35?

18 A. Yes, sir, we are the operator to several
19 sections.

20 Q. In your opinion is --

21 A. Directly to the north- --

22 Q. Go ahead.

23 A. To the northeast is the -- is a section. Well, I
24 don't know whether we operate.

25 Q. Approving an off-pattern coal location, do you

1 have an opinion as to what that will do in the immediate
2 area as a result of approving an off-pattern location?

3 Is it your opinion that we might get some other
4 applications, you might throw everything off in this area
5 by doing an off-pattern location?

6 A. I don't know. I know directly south of our well,
7 one mile south of there, is that Lloyd "B" 600, and that's
8 our well. I'm not sure how much it would throw everybody
9 else off.

10 Q. In your opinion, is it -- What I'm asking is, is
11 it likely, say, in Section 36 for that operator to come in
12 and ask for a southeast quarter well, as opposed to a
13 southwest, simply because you have a southeast?

14 A. If you notice directly one mile south, that is
15 the Lloyd "B" 600.

16 Q. Uh-huh.

17 A. That's the well that we operate that we're just
18 now getting on line. You'd have to ask -- I don't know if
19 we own these -- There in the east half of Section 1, I'm
20 not sure who owns that.

21 Do you know, David?

22 MR. PRICE: What's that? 36?

23 THE WITNESS: In Section 1?

24 MR. PRICE: That's not us.

25 THE WITNESS: That's not us?

1 MR. PRICE: It's in the west half of 36, I
2 believe --

3 THE WITNESS: Is that us?

4 EXAMINER CATANACH: Let's just -- Let's just go
5 ahead and proceed.

6 Q. (By Examiner Catanach) Mr. Biemer, with those
7 kind of reserves in the Fruitland Coal, is it uneconomic to
8 drill a stand-alone well in the southwest quarter?

9 A. It's not uneconomical. It is very marginal to
10 drill a new well.

11 Q. You wouldn't recommend to management drilling a
12 well in the southwest quarter?

13 A. No, sir, I would not.

14 EXAMINER CATANACH: I have no further questions
15 of the witness.

16 Mr. Slaughter, do you have any questions of this
17 witness?

18 MR. SLAUGHTER: No, sir, I have no objections or
19 questions.

20 I'd just like to reflect on the year 2020. I
21 plan to still be living then. I'd like for Meridian to
22 turn those wells over to me before they plug and abandon
23 them. That's the only thought I have.

24 MR. KELLAHIN: If we're still alive, we'll give
25 you a call.

1 MR. SLAUGHTER: Thank you.

2 MR. KELLAHIN: A couple of questions for Mr.
3 Biemer.

4 FURTHER EXAMINATION

5 BY MR. KELLAHIN:

6 Q. To follow up on the Examiner's question, if you
7 can't utilize the Payne 2 well for the downhole
8 commingling, have you quantified the remaining Pictured
9 Cliff gas reserves that are at risk if you have to abandon
10 the Payne 2 well?

11 A. Yes, sir, that would be that 161 number.

12 Q. It's gone?

13 A. It's gone, right.

14 Q. Okay. When we look at whether you're effectively
15 disrupting the coal gas spacing by being off-pattern with
16 this exception, look up in 25 and tell me what you're doing
17 in Section 25.

18 A. In Section 25 we are on-pattern for the Albright
19 "A" 1, which is in the northeast corner, the Murphy "B"
20 Number 1 is in the southwest corner, and those are also two
21 of the wells that we've -- seeking for administrative
22 approval. Those things are on-pattern.

23 Q. Those are cases 11,133 and 11,136 that the
24 Examiner has on this docket?

25 A. Yes, sir.

1 Q. All right. Is it your custom, practice and
2 procedure to always try to find a PC well that is on-
3 pattern in the coal as your first opportunity to keep on-
4 pattern?

5 A. Yes, sir. As you'll see here, three of the four
6 wells that we have -- we're hearing today, are on-pattern.
7 The Payne 2 is the only well that is off-pattern.

8 We always attempt to be on-pattern. Due to the
9 mechanical configurations of the Forrest 4, it was not
10 feasible.

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

12 THE WITNESS: It was also more economical too.

13 MR. KELLAHIN: All right, sir. That's all the
14 questions I have.

15 EXAMINER CATANACH: Anything further?

16 MR. KELLAHIN: No, sir.

17 EXAMINER CATANACH: There being nothing further,
18 Case 11,134 will be taken under advisement.

19 (Thereupon, these proceedings were concluded at
20 9:09 a.m.)

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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 November 11th, 1994.

Steven T. Brenner
 STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 1998

I do hereby certify that the foregoing is
 a true and accurate transcript of the proceedings in
 the case of *11/36*
 heard by me on *November 10* 199*4*.
David R. Ceballos, Examiner
 Oil Conservation Division