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JASON KELLAHIN (RETIRED 1991)

▲
MAY 1992
received
TELEPHONE (505) 982-4285
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May 19, 1992

Mr. William J. LeMay
Oil Conservation Division
State Land Office Building
310 Old Santa Fe Trail, 2nd Floor
Santa Fe, New Mexico 87501

HAND DELIVERED

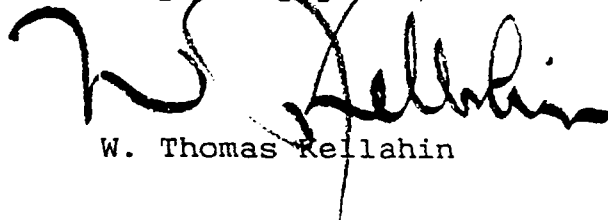
Re: USA #2 Well
Application of Meridian Oil Inc.
for a High Angle/Horizontal Direction
Drilling Pilot Project, Special
Operating Rules Therefor, including
A Non-Standard Oil Proration Unit,
and An Unorthodox Oil Well Location,
a Special Gas Oil Ratio, and A Special Project
Allowable, San Juan County, New Mexico

Dear Mr. LeMay:

On behalf of Meridian Oil Inc., please find enclosed our Application for a High Angle/Horizontal Direction Drilling Pilot Project as referenced above, which we request be set for hearing on the next available Examiner's docket now scheduled for June 11, 1992.

By copy of this letter and application, sent certified mail, we are notifying all interested parties within a 1/2 mile radius of the subject well of their right to appear at the hearing and participate in this case, including the right to present evidence either in support of or in opposition to the application.

Very truly yours,



W. Thomas Kellahin

Mr. William J. LeMay
May 19, 1992
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WTK/jcl
Enclosure

cc: Mr. Alan Alexander
Meridian Oil Inc.
Post Office Box 4289
Farmington, New Mexico 87499-4289

By Certified Mail - Return Receipt
All Parties Listed on Exhibit "D" of Application

1988/appt518a.330

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: 10488

APPLICATION OF MERIDIAN OIL INC.
FOR A HIGH ANGLE/HORIZONTAL DIRECTION
DRILLING PILOT PROJECT, SPECIAL
OPERATING RULES THEREFOR, INCLUDING
A NON-STANDARD OIL PRORATION UNIT,
AN UNORTHODOX OIL WELL LOCATION,
AND A SPECIAL PROJECT ALLOWABLE,
SAN JUAN COUNTY, NEW MEXICO

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OIL CONSERVATION DIVISION

A P P L I C A T I O N

Comes now Meridian Oil Inc., by and through its attorneys, Kellahin, Kellahin & Aubrey, and applies to the New Mexico Oil Conservation Division for approval for a High Angle/Horizontal Direction Drilling Pilot Project, special operating rules therefor, including a non-standard oil proration unit, and an unorthodox oil well location and a special project allowable for its USA #2 Well to be recompleted from the Dakota formation into the Undesignated Gallup formation underlying the

SW/2 of Section 24, T32N, R13W, San Juan County, New Mexico and in support thereof states:

(1) Applicant is the operator of the SW/2 of Section 24, T32N, R13W, N.M.P.M., San Juan County, New Mexico.

(2) Applicant proposes to re-enter its USA #2 Well, located at an unorthodox well location in the SW/4SW/4 of Section 24, being 930 feet FSL and 1050 feet FWL of said Section 24 and recomplete it from the Dakota formation into the Gallup formation by squeezing the Dakota formation, milling a section from 5660 feet to 5720 feet, setting a cement kickoff plug from 5660 feet to 5750 feet and drilling to the kickoff point at 5700 feet (+ or - 70 feet) at which point the applicant will kickoff the well in a Northeasterly direction building an angle of 17° per 100 feet to approximately 80° and penetrate the top of the Niobrara member of the Gallup formation at an estimated total vertical depth of 6160 feet and then to hold an 80° angle and continuing to drill a lateral distance of approximately 1,250 feet and no closer than 330 feet to the outer

boundaries of the 160-acre spacing and proration unit.
See Exhibits "A," "B," and "C."

(3) Applicant proposes that this project be
subject to Special Rules and Regulations as follows:

(a) Pool Name: Undesignated Gallup Oil Pool,

(b) Spacing/Proration Unit: 160 acres being
a non-standard unit consisting of SW/2 of said Section
24, and

(c) Special Allowable of 4 times the
statewide depth bracket oil allowable.

(4) The Niobrara interval of the Gallup is
believed to be the potential productive zone at this
location in this Undesignated Gallup Oil Pool. This
interval is characterized by a tight, low permeability
reservoir, interconnected by a high capacity fracture
system.

(5) Past experience in the Niobrara formation has
shown that unless a conventionally drilled (vertical)
well intersects natural fractures, the chance of
obtaining commercial production is severely curtailed.

(6) By drilling a high angle/horizontal wellbore,
the applicant is attempting to increase the probability

of encountering several of these fractures, which may ultimately result in the recovery of a greater amount of gas and oil, thereby preventing waste.

(7) In as much as the exact distance and direction of the lateral portion of the wellbore is not known at this time, the Applicant seeks approval to be allowed to drill and produce said lateral portion anywhere within an area designated a target window as follows: commencing at a distance not closer than 330 feet from any of the side boundaries of the proposed spacing unit so that within the drilling window no portion of the wellbore open for production shall be closer than 330 feet to the outer boundary of the spacing unit.

(8) As required, notice is provided to those offsetting operators as listed on Exhibit "D."

(9) The granting of this Application will be in the best interest of conservation, the prevention of waste and the protection of correlative rights.

WHEREFORE, Applicant requests that this matter be set for hearing on June 11, 1992 before a duly appointed Examiner of the Oil Conservation Division

Application of Meridian Oil Inc.
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and, after notice and hearing as required by law, the
Division enter its Order granting this application.

Respectfully submitted,

KELLAHIN, KELLAHIN & AUBREY

A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', written over a horizontal line.

By:
W. Thomas Kellahin
Post Office Box 2265
Santa Fe, New Mexico 87504
(505) 982-4285
Attorneys for Applicant