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NATURAL RESOURCES-OIL AND GAS LAW

JASON KELLAHIN (RETIRED 1991)

December 8, 1992

Michael E. Stogner
Hearing Examiner
Oil Conservation Division
310 Old Santa Fe Trail
Room 219
Santa Fe, New Mexico 87501

HAND DELIVERED


RE: Application of Meridian Oil Inc.
for an unorthodox coal gas well
location, San Juan County,
New Mexico/NMOCD Case No. 10606

Dear Mr. Stogner:

On behalf of Meridian Oil, Inc. please find
enclosed our Proposed Order of the Division for the
above-referenced case. We have also enclosed a floppy
disk with this order on it for your use.

If you have questions or require anything else
with regard to this matter, please call.

Very truly yours,



W. Thomas Kellahin

WTK/jcl

Enclosures

xc: Alan Alexander (w/encl.)
Meridian Oil Inc.

lrr1208.330

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 NO. 10606
ORDER NO. R-_____

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

MERIDIAN OIL INC.'S
PROPOSED
ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on November 19, 1992 at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this ____ day of December, 1992, 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 proposed Johnston Federal Well No. 270 at an unorthodox coal gas well location 790 feet from the North and West lines (Unit D) of Section 12, Township 30 North, Range 9 West, NMPM, Basin-Fruitland Coal Gas Pool, San Juan County, New Mexico. In addition, the applicant seeks to dedicate the W/2 of

Section 12 to the subject well forming a standard 320-acre gas spacing unit for said pool.

(3) The subject well is proposed to be a replacement well for the Johnston Federal Well 27 located in the SW/4 of Section 12 at a standard coal gas well location 1250 feet from the South line and 1010 feet from the West line (Unit M) of said Section 12.

(4) The subject well is located within the Basin-Fruitland Coal Gas Pool and is therefore subject to the Special Rules and Regulations for said pool as promulgated by Division Order No. R-8768, as amended, which require that wells be located in either the NE/4 or SW/4 of a single government section no closer than 790 feet from any outer boundary of the proration 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.

(5) All of Section 12 has been initially developed with wells located "on-pattern" but each of those two wells has not been commercially successful.

(6) The location of the proposed Johnston Federal 270 Well is standard with respect to the setback requirements but is "off-pattern" with respect to the quarter section location.

(7) On December 20, 1990, the Johnston Federal 27 Well was drilled by Union Texas Petroleum Inc. and was completed in the Basin-Fruitland Coal Gas Pool at an initial producing rate of only 30 MCF gas per day and is currently shut-in.

(8) The applicant attributes the low producing rate of the Johnston Federal Well No. 27 to low permeability within the coal seams within the immediate area of the well.

(9) The applicant further contends that within Section 12 there exists a permeability transition zone within the coal seams.

(10) Although the applicant's geologic evidence does not conclusively establish the existence of a permeability transition zone, further evidence presented does indicate that wells generally to the north and west of the Johnston Federal Well No. 27 exhibit substantially greater producing rates while wells to the south and east exhibit greatly reduced producing rates.

(11) The Johnston Federal Well No. 27 is located in an area of the Pool which was drilled prior to the adoption of the Basin Fruitland Coal Gas Pool Rules on November 1, 1988.

(12) There are some eight wells within two miles of Section 12 which are drilled in "off pattern" locations.

(13) The wells offsetting the W/2 of Section 12 located in the SW/4 of Section 1, the SE/4 of Section 2, and the NE/4 of Section 11 currently produce at rates of 800 MCFPD, 6280 MCFPD and 1010 MCFPD, respectively.

(14) The E/2 of Section 12 is currently dedicated to the Johnston Federal Well No. 24 located in the NE/4, a low capacity producer.

(15) Although the measured geologic parameters of coal thickness, structural position and formation continuity are all similar between the high capacity wells and the low capacity wells in this area, the Johnston Federal Well No. 27 does not have the ability to protect its spacing unit from drainage by the offsetting wells and therefore needs to be replaced.

(16) While exact drainage areas cannot be calculated for each well, the offsetting high capacity wells to the north and west of the subject spacing unit

do have the ability to drain a portion of the W/2 of Section 12 and thereby will adversely affect the correlative rights of the owners of the affected spacing unit unless this application is approved.

(17) The "no-flow" boundary which will be established between the offsetting wells located in the high permeability area to the north and west and the Johnston Federal Well No. 270 is such that the drainage area for the Johnston Federal Well No. 270 should not extend into those offsetting spacing units.

(18) The area of the pool immediately to the east and south of the Johnston Federal Well No. 270 is in a poor permeability portion of the pool and should not be drained or adversely affected by the granting of this application.

(19) Applicant's evidence and testimony indicates that its gas reserves underlying the W/2 of Section 12 which it has estimated to be 17.4 BCF, are currently being drained and will continue to be drained by offsetting wells if its application is not approved.

(20) The evidence in this case does demonstrate that the applicant cannot recover its just and equitable share of the gas reserves underlying the W/2 of Section 12 by producing its Johnston Federal 27 which is estimated to be able to recovery only 160,000 MCF of gas.

(21) The acreage in Section 2, to the northwest of the subject spacing unit, was drilled prior to the establishment of the Basin Fruitland Coal Gas Pool Rules with a well located in what now would be the wrong quarter section.

(22) Because of the existing "off-pattern" wells in this area and the fact that the area is almost fully developed with existing wells, approval of the application will not serve to further disrupt on-pattern development in the Basin-Fruitland Coal Gas Pool.

(23) Amoco Production Company, the owner of the offsetting well in Section 1, T31N, R8W, was notified on this application but did not file any objection.

(24) No other offset operator and/or interest owner appeared at the hearing in opposition to the application.

(25) At the hearing, the applicant testified that if its application is approved, it proposes to utilize the Johnston Federal 27 as an observation well in the Basin-Fruitland Coal Gas Pool.

(26) In order to allow the applicant the opportunity to produce its just and equitable share of the gas reserves in the Basin-Fruitland Coal Gas Pool underlying the W/2 of Section 12, thereby protecting its correlative rights, the application should be approved.

IT IS THEREFORE ORDERED THAT:

(1) The applicant, Meridian Oil Inc., is hereby authorized to drill its Johnston Federal Well No. 270 at an unorthodox coal gas well location 790 feet from the North line and West lines (Unit D) of Section 12, Township 31 North, Range 9 West, NMPM, Basin-Fruitland Coal Gas Pool, San Juan County, New Mexico.

(2) The W/2 of Section 12 shall be dedicated to the above-described well forming a standard 320-acre gas spacing unit for said pool.

(3) Subsequent to the drilling and completing of the Johnston Federal Well No. 270 and if such well is determined to be a commercial producer, the applicant shall not utilize the Johnston Federal Well No. 27 as a producing well in the Basin-Fruitland Coal Gas Pool.

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

NMOCD Case No. 10606
Order No. R- _____
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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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