

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. 10632
ORDER NO. R-9816*

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

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on December 17, 1992 at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 30th 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 Maddox Com Well No. 777 at an unorthodox coal gas well location 2270 feet from the South line and 640 feet from the East line (Unit I) of Section 17, Township 30 North, Range 8 West, NMPM, Basin-Fruitland Coal Gas Pool, San Juan County, New Mexico. In addition, the applicant seeks to dedicate the E/2 of Section 17 to the subject well forming a standard 320-acre gas spacing unit for said pool. Finally, the applicant seeks an order pooling certain working, royalty and overriding royalty interests in the subject gas spacing unit.

(3) The proposed spacing unit 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 governmental 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.

(4) At the time of the hearing the applicant requested to move the proposed well location to a position 2150 feet from the South line and 790 feet from the East line (Unit I) of said Section 17, which pursuant to said special rules is considered standard with respect to the setback requirements but is "off-pattern" with respect to the quarter section location, being in the SE/4 of said Section 17.

(5) Based upon information obtained from the drilling log analysis of drilling "kicks" in the coal seams encountered while drilling certain wells in the immediate surrounding area, the applicant contends that within Section 17 there exists a permeability transition zone within the coal seams which would cause a well drilled in the NE/4 to be a low capacity producer while a well drilled in the SE/4 would have a higher probability of being a good producer.

(6) 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, south and west of the proposed Maddox Com Well No. 777 exhibit substantially reduced producing rates while wells to the east exhibit increased producing rates.

(7) There are six coal gas wells within one mile of Section 17 which are drilled in "off pattern" locations.

(8) If drilled in the NE/4 of said Section 17, the subject well would be offset by five coal gas wells within 160 acres of its location. But if drilled in the SE/4 of said Section 17, the subject well would establish greater distances between it and existing coal gas wells.

(9) 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 capacity of the wells to produce varies greatly among the wells.

(10) While exact drainage areas have not been calculated for each well, the offsetting high capacity wells to the east of the subject spacing unit appear to have the ability to drain a portion of the E/2 of Section 17 and could thereby adversely affect the correlative rights of the owners of the affected spacing unit unless this application is approved.

(11) Applicant's evidence and testimony indicate that while its estimates of original gas in place underlying the E/2 of Section 17 of 11.7 BCF of gas are comparable to the original gas in place estimates for the adjoining spacing units, there is a great variation in productivity of the coal gas wells which can only be explained by inferring a permeability transition in this area of the pool.

(12) The technical evidence presented demonstrates that by placing the proposed well in the E/2 of said Section 17 at an "off-pattern" location in the southeast quarter, gas production that might otherwise be left behind could be produced, demonstrates good conservation practices, could serve to protect drainage and will enable Meridian to recover its just and equitable share of the gas reserves.

(13) The owners and operators offsetting the proposed well were notified of this application but did not file any objection.

(14) Included in the proposed 320-acre gas spacing unit is a fee lease which does not contain a pooling clause and which is identified as Lease NM-9586 being the north 200 feet of the S/2 SE/4 of said Section 17.

(15) As the current lessee of Lease NM-9586, Meridian, to date, has voluntarily committed all of the working interests to this spacing unit and the subject well, but because of the absence of a pooling clause in the lease, is unable to commit the royalty and overriding royalty owners.

(16) Pursuant to Section 70-2-17(c) NMSA (1978) and in order to obtain its just and equitable share of potential production underlying this spacing unit, applicant needs an order pooling these royalty and overriding royalty owners' interests involved in order to protect correlative rights and prevent waste.

(17) The effect of the pooling of these royalty and overriding royalty interests is the same as if these interests had been committed to a communitization agreement for this spacing unit and its proposed well.

(18) Pursuant to Division notice requirements, applicant has notified the following royalty and overriding interest owners of this request:

- (a) Kathlyn H. Gibson Estate,
George A. Scharhag, Personal Representative;
- (b) Elizabeth While Family Trust
Linda Payne, Trustee;

- (c) Mabel Glenn Ham Revocable Trust
Kathlyn N. Black, Trustee;
- (d) Jane Manning Pitkin;
- (e) Ethel Parnell; and,
- (f) Glenn D. Hughes.

(19) This application should be approved by pooling all uncommitted royalty and/or overriding royalty interests in said designated Lease NM-9586 to form a standard 320-acre gas spacing unit in the Basin-Fruitland Coal Gas Pool consisting of the E/2 of said Section 17, and designating the applicant as the operator of the subject well and unit.

(20) All proceeds from production from the subject well which are not distributed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(21) Should all parties to this compulsory pooling reach voluntary agreement subsequent to entry of this order, then the portion of this order dealing with compulsory pooling shall be of no further effect.

(22) The operator of the well and unit shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the compulsory pooling provisions of this order.

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

(24) The application as stated above should therefore be approved.

IT IS THEREFORE ORDERED THAT:

(1) The applicant, Meridian Oil Inc., is hereby authorized to drill its Maddox Com Well No. 777 at an unorthodox coal gas well location 2150 feet from the South line and 790 feet from the East line (Unit I) of Section 17, Township 30 North, Range 8 West, NMPM, Basin-Fruitland Coal Gas Pool, San Juan County, New Mexico.

(2) The E/2 of Section 17 shall be dedicated to the above-described well forming a standard 320-acre gas spacing unit for said pool.

(3) The following royalty interest and/or overriding royalty interest owners, or their successors, in the Basin Fruitland Coal Gas Pool underlying the E/2 of Section 17, Township 30 North, Range 8 West, NMPM, San Juan County, New Mexico are hereby pooled to form a standard 320-acre gas spacing unit to be dedicated to the Maddox Com Well No. 777 to be drilled and located as provided above:

- (a) Kathlyn H. Gibson Estate,
George A. Scharhag, Personal Representative;
- (b) Elizabeth While Family Trust
Linda Payne, Trustee;
- (c) Mabel Glenn Ham Revocable Trust
Kathlyn N. Black, Trustee;
- (d) Jane Manning Pitkin;
- (e) Ethel Parnell; and,
- (f) Glenn D. Hughes.

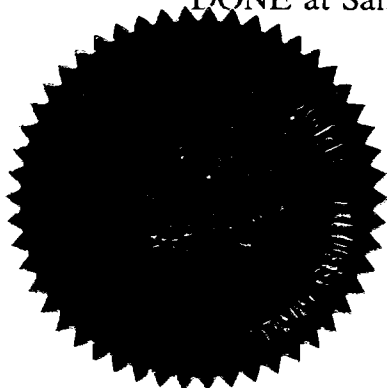
(4) Meridian Oil Inc. is hereby designated the operator of the subject well and unit.

(5) All proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in San Juan County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; the operator shall notify the Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

(6) Should all parties to this compulsory pooling order reach voluntary agreement subsequent to the entry of this order, that portion of the order dealing with compulsory pooling shall thereafter be of no further effect.

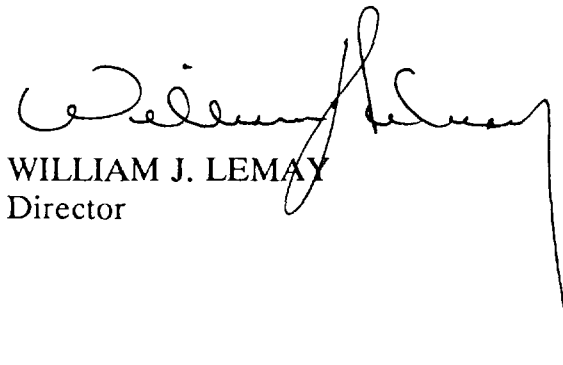
(7) Jurisdiction is hereby retained for the entry of such further orders as the Division may deem necessary.

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



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STATE OF NEW MEXICO
OIL CONSERVATION DIVISION



WILLIAM J. LEMAY
Director