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February 15, 1991

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Mr. William Lemay
New Mexico Oil Conservation Division
State Land Office Building
Santa Fe, New Mexico 87501

Re: Case No. 9420 (reopened)

Dear Mr. Lemay:

On behalf of Union Oil Company of California, attached is a list of findings and a conclusion which Unocal requests be included in the order entered in the above case. Unocal agrees with 320 acre spacing. However, it does not want to be foreclosed from seeking infill drilling for the portions of the pool in which it operates at some later date.

Unocal does not anticipate presenting witnesses at the March 21 hearing. However, in the event it does, those witnesses would be Bill Hering (petroleum engineer), Dan Seamount (geologist), and Gilbert Montoya (project engineer). The exhibits presented would be:

1. Coal isopach map for the Rincon Unit.
2. Geologic cross-section from the Rincon Unit.
3. History match of past coal production/model validation.
4. Predicted future production.
5. Coal permeability from pressure buildup analysis.
6. Predicted drainage map.
7. GRI coalbed methane study results.

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OIL CONSERVATION DIVISION

Mr. William Lemay
February 14, 1991
Page 2

The evidence, in summary, would concentrate on permeability and reservoir pressure as it affects recovery of in-place reserves.

Very truly yours,

HINKLE, COX, EATON, COFFIELD &
HENSLEY


By: James Bruce

JB:le

cc: Counsel of record

FINDING NO. _____: There are areas of the basin where combinations of reservoir properties may justify infill drilling.

FINDING NO. _____: Individual operators should be allowed, on a case by case basis, to present evidence to the Division to support infill drilling for limited areas of the basin.

RULE 4A: Individual operators may apply to the Division for permission for infill drilling for specific, limited areas of the basin.

OIL CONSERVATION DIVISION
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KELLAHIN, KELLAHIN AND AUBREY

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SANTA FE, NEW MEXICO 87504-2265

JASON KELLAHIN
OF COUNSEL

February 12, 1991

William J. LeMay
Oil Conservation Division
Post Office Box 2088
Santa Fe, New Mexico 87504

Re: Basin Fruitland Coal Gas Rule Hearing
NMOCD Case No. 9420 (Reopened)

Dear Mr. LeMay:

Our firm represents Meridian Oil Inc. in the referenced matter.

In accordance with the Pre-hearing Conference Memorandum issued by you dated February 4, 1991, I am submitting the enclosed proposed rule changes and furnishing copies to those parties showing an appearance at the hearing on January 24, 1991.

The Meridian sponsored rule changes are intended to provide improvements to administration of the current rules.

Mr. Alan Alexander, a landman with Meridian, will be my witness concerning these proposed amendments. Based on his extensive experience in dealing with the current rules, he will testify that the proposed changes will "streamline" the administrative processing of the coal gas well applications and provide needed flexibility.

I am unable to provide the exact number or identity of his exhibits, but they will generally be as follows:

- (1) A base map showing the Blanco Mesaverde and Basin Dakota NSPU solutions and how they have been used to "solve" the Coal Gas NSPU problem.

Mr. William J. LeMay
February 12, 1991
Page 2

- (2) An illustration of the Rule 5 change.
- (3) Documents illustrating the certification issue raised in the Rule 3 proposed change.

Very truly yours,

A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', written in a cursive style.

W. Thomas Kellahin

WTK/tic

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

COAL GAS RULE MAILING LIST

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BHP Petroleum Inc.
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300 W. Arrington, Suite 200
Farmington, New Mexico 87401

BASIN-FRUITLAND COAL GAS POOL RULES
PROPOSED ADMINISTRATIVE AMENDMENTS

(Amendments underlined)

RULE 3. The Division Director may require the operator of a proposed or existing Basin-Fruitland Coal Gas Well, Fruitland Sandstone Well, or Pictured Cliffs Sandstone Well, to submit certain data as described in Rule (2) above, which would otherwise not be required by Division Rules and Regulations, in order to demonstrate to the satisfaction of the Division that said well will be or is currently producing from the appropriate common source of supply. The confirmation by the Division that a well is producing exclusively from the Basin-Fruitland Coal Gas Pool shall consist of approval of Division Form C-104.

RULE 5. The Supervisor of the Aztec district office of the Division shall have the authority to approve a non-standard gas proration unit within the Basin-Fruitland Coal Gas pool without notice and hearing when the unorthodox size or shape is necessitated by a variation in the legal sub-division of the United States Public Lands Survey and the non-standard unit is not less than 70% nor more than 130% of a standard gas proration unit. The Supervisor shall also have the authority to approve a non-standard gas proration unit consisting of an entire governmental section which contains not less than 70% nor more than 130% of the acreage assigned to a standard gas proration unit. Such approval shall consist of acceptance of Division Form C-102 showing the proposed non-standard unit and the acreage contained therein.

RULE 6. The Division Director may grant an exception to the requirements of Rule (4) when the unorthodox size or shape of the gas proration unit is necessitated by a variation in the legal subdivision of the United States Public Lands Survey and the non-standard gas proration unit is less than 70% or more than 130% of a standard gas proration unit, or where the following facts exist and the following provisions are complied with:

(a) The non-standard unit consists of quarter-quarter sections or lots that are contiguous by a common bordering side.

(b) The non-standard unit lies wholly within a governmental half section, except as provided in paragraph (c) following.

(c) The non-standard unit conforms to a previously approved Blanco Mesaverde Pool or Basin Dakota Pool non-standard unit as evidenced by applicant's reference to the Division's order number creating the Mesaverde or Dakota non-standard unit.

PROPOSED ADMINISTRATIVE AMENDMENTS TO THE BASIN
FRUITLAND COAL GAS POOL RULES

RULE 6. (continued)

(d) The applicant presents written consent in the form of waivers from all offset operators or owners of undrilled tracts and from all operators owning interests in the half section in which the non-standard unit is situated and which acreage is not included in said non-standard unit.

(e) In lieu of Paragraph (d) of this rule, the applicant may furnish proof of the fact that all of the aforesaid parties were notified by registered or certified mail of his intent to form such non-standard unit. The Division Director may approve the application if no such party has entered an objection to the formation of such non-standard unit within 30 days after the Division Director has received the application.

(f) The Division Director, at his discretion, may set any application under Rule (6) for public hearing.

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SANTA FE, NEW MEXICO 87504-2265

October 9, 1990

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OCT 9 1990

OIL CONSERVATION DIVISION

Mr. William J. LeMay
Oil Conservation Division
Post Office Box 2088
Santa Fe, New Mexico 87504

HAND DELIVERED

Re: Basin Fruitland Coal Gas Rules
NMOCD Case No. 9420
Order No. R-8768

Dear Mr. LeMay:

Our firm represents Meridian Oil Inc. and participated on their behalf at the original hearing for establishment of the Basin Fruitland Coal Gas rules held in Farmington on July 6, 1988. Since then, we have continued to represent Meridian before the Commission concerning their operations in this pool.

Ordering Paragraph (8) of Order R-8768 provides that this case will be reopened at an Examiner hearing in October, 1990 at which time the operators in the subject pool may appear and present evidence and testimony relative to the determination of permanent rules and regulations for this pool.

Meridian believes that the various interests in the pool will be better served by continuing the temporary pool rules for an additional six month period.

Meridian respectfully requests that the Division set this case for hearing on the October 31, 1990 Examiner's docket for purposes of continuing the temporary rules for an additional six month period.

Meridian believes that it is premature to have the permanent pool rule hearing in October, 1990 for reasons which include the following:

Mr. William J. LeMay
October 9, 1990
Page 2

(1) That it is still uncertain if the IRS investment tax credit on methane coal gas wells will be extended beyond its current expiration date of December 31, 1990.

(2) That the bi-state committee between Colorado and New Mexico has yet to complete its report on well spacing for the coal gas development in both states.

(3) That additional time is needed to further evaluate the proper spacing for the pool.

Very truly yours,

A handwritten signature in black ink, appearing to read "W. Thomas Kellahin". The signature is fluid and cursive, with a large initial "W" and a long, sweeping underline.

W. Thomas Kellahin

WTK/tic

cc: Alan Alexander



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Amoco Production Company

Denver Region
1670 Broadway
P.O. Box 800
Denver, Colorado 80201
303-830-4040

October 8, 1990

Mr. William J. LeMay, Director
New Mexico Oil Conservation Division
P.O. Box 2088
Santa Fe, New Mexico 87504

Review of NMOCD Order No. R-8768
Basin-Fruitland Coal Gas Pool

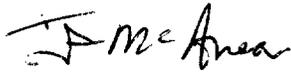
Dear Mr. LeMay,

It is the understanding of the members of the Coalbed Methane Steering Subcommittee that the above captioned matter will be continued from a scheduled October, 1990 hearing to January, 1991. This will allow for the completion and presentation of the results of the ongoing ICF Resources study. It is our opinion that the results of this study will be of assistance to the Division in determining appropriate permanent field rules.

On October 17, 1988 the New Mexico Oil Conservation Division (NMOCD) issued Order No. R-8768 creating and adopting temporary operating rules for the Basin-Fruitland Coal Gas Pool. As you are aware, Order No. R-8768 was issued in part upon the recommendation of the Fruitland Coalbed Methane Committee. In response to the need to develop evidence and testimony for presentation at the October, 1990 hearing certain members of the Fruitland Coalbed Methane Committee as well as other interested members of industry have funded, in conjunction with the Gas Research Institute (GRI), an independent study to address spacing related questions for the Basin-Fruitland Coal Gas Pool. The study is being performed by ICF Resources under the direction of the Coalbed Methane Steering Subcommittee and GRI.

In September 1990, we reviewed with the NMOCD the status of the study efforts. Due to the complexity of the study, results for all areas of the Basin-Fruitland Coal Gas Pool will not be available in time for an October hearing. However, we do expect to complete the study for all areas in time for a January 1991 hearing.

Very truly yours,



Jack F. McAnear
for Coalbed Methane Steering Committee

cc: Mr. Dennis Bicknell, Director
Colorado Oil and Gas Conservation Commission
1580 Logan Street, Suite 380
Denver, CO 80203

Mr. Ernie Busch, Deputy Oil & Gas Inspector
New Mexico Oil Conservation Division
Aztec District Office
1000 Rio Brazos Road
Aztec, NM 87410

Steering Subcommittee Members

BASIN-FRUITLAND COAL GAS POOL RULES
PROPOSED ADMINISTRATIVE AMENDMENTS

(Amendments underlined)

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