

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO

26 July 1989

EXAMINER HEARING

IN THE MATTER OF:

Application of Meridian Oil Company, Inc. CASE
for an unorthodox coal gas well location, 9707
San Juan County, New Mexico.

BEFORE: David R. Catanach, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

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ALAN ALEXANDER

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CHARLES J. DONOHUE, JR.

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1 MR. CATANACH: At this time
2 we'll call Case Number 9707.

3 MR. STOVALL: The application
4 of Meridian Oil, Inc., for an unorthodox gas well location,
5 San Juan County, New Mexico.

6 MR. CATANACH: Coal gas.

7 MR. STOVALL: An unorthodox
8 coal gas well location, San Juan County, New Mexico.

9 MR. CATANACH: Are there ap-
10 pearances in this case?

11 MR. KELLAHIN: Mr. Examiner,
12 I'm Tom Kellahin of the Santa Fe law firm of Kellahin,
13 Kellahin & Aubrey.

14 I'm appearing on behalf of the
15 applicant and I have two witnesses to be sworn.

16 MR. CATANACH: Will the wit-
17 nesses please stand and be sworn in?

18
19 (Witnesses sworn.)

20
21 ALAN ALEXANDER,
22 being called as a witness and having been duly sworn upon
23 his oath, testified as follows, to-wit:

24
25

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q Mr. Alexander, for the record would you please state your name and occupation?

A My name is Alan Alexander. I'm employed as a Senior Land Advisor for Meridian Oil, Inc., in the Farmington, New Mexico office.

Q Mr. Alexander, on prior occasions have you testified before the New Mexico Oil Conservation Division as a petroleum landman?

A I have.

Q And pursuant to your employment as a petroleum landman for Meridian Oil, Inc., have you made a study of the land title matters surrounding this application by your company for the unorthodox coal gas well location for the Heizer No. 100 Well?

A I have, both myself and through supervision of other employees.

Q Have you reviewed the information supplied to you by other Meridian employees and satisfied yourself that that information is true and correct to the best of your knowledge, information and belief?

A I have.

Q Let us take the exhibits a little out of sequence for a moment, Mr. Alexander. If you'll take the

1 exhibit book and turn to Tab 3 and look at what is marked
2 Exhibit Number Three, would you describe for us what is
3 shown on that display?

4 A This is a plat that sets forth the
5 spacing unit for the proposed well, which is the Heizer No.
6 100 Well, and its location is the east half of Section 15
7 of 32 North, 10 West, San Juan County, New Mexico.

8 This plat shows the offset operators
9 that we have contacted in anticipation of this case.

10 Q Let's also take now the last exhibit in
11 the exhibit book, which is Exhibit Number Ten. It's the
12 topography map, if you'll unfold that for a moment, let's
13 look at that display.

14 When we look at the relationship of the
15 unorthodox location within Section 15 to the closest
16 standard location, would you describe generally where we
17 would find a standard location in the northwest -- I'm
18 sorry, in the northeast quarter of Section 15?

19 A The only standard location that we could
20 find would be east of the Animas River, between the river
21 and the very steep incline that you see on the topographic
22 map to the east.

23 Q In terms of complying with the well
24 locations for the Basin Fruitland Coal Gas Wells, what is
25 the footage requirement from the outer boundary of a

1 320-acre spacing unit?

2 A The footage requirement from the outer
3 boundary is 790 feet.

4 Q And the subject unorthodox location
5 crowds, then, the western boundary of its spacing unit?

6 A That's correct.

7 Q And what is the footage location, appro-
8 ximately to that western boundary?

9 A From the well location?

10 Q Yes, sir.

11 A Approximately 252 feet, I believe.

12 Q As the well moves toward the west half
13 of Section 15 it encroaches upon whose working interest in
14 that west half?

15 A It encroaches upon leases that are oper-
16 ated by Meridian Oil, Inc.

17 Q And does Meridian Oil, Inc., have plans
18 for the drilling of a Fruitland coal gas well in the west
19 half of Section 15?

20 A We do.

21 Q Now let's go back to Exhibit Number
22 Three, Mr. Alexander, and show us how you've documented the
23 various offset operators around your spacing unit.

24 A We have contacted the offset operators
25 shown on the plat on Exhibit Number Three, the offset oper-

1 ators number 2 and number 3.

2 Offset operator number 2 is Amoco Pro-
3 duction Company and their basic interest is that they are
4 the operator of the San Juan 32-9 Unit, which is imme-
5 diately to the east of this drilling block. They're the
6 interim successor operator of that unit.

7 Q This well moves away from the Amoco
8 operated unit, does it not?

9 A Yes, sir.

10 Q A standard location would have been
11 closer to their unit.

12 A That's correct.

13 Q When we look at any other offsetting
14 operators, are there any other than Amoco and Meridian?

15 A There is one other offset operator who
16 is not being encroached upon but, as the plat shows, off-
17 set operator number 3 is Union Texas Petroleum Corporation,
18 who is at the south end of the drilling block.

19 Q Does the exhibit book contain signed
20 waivers from those two offsetting operators?

21 A Yes, sir.

22 Q And where do we find the waivers?

23 A They are behind Exhibit Number Three and
24 they are listed as Exhibit Number Four, that would be the
25 waiver from Union Texas Petroleum and, Exhibit Number Five,

1 and that would be the waiver from Amoco Production Company.

2 Q Under the Basin Fruitland coal gas well
3 rules within a section one well is required to be in the
4 northeast quarter and then the next well would be in the
5 southwest quarter of a section in order to be on pattern?

6 A That's correct.

7 Q Within the northeast quarter of Section
8 15, describe for us generally how each of those 40-acre
9 tracts is owned. Who are the mineral owners, generally,
10 for the northeast quarter of 15?

11 A The northeast quarter of Section 15 is
12 owned by the following mineral owners.

13 The east half of the northeast quarter
14 is owned by the Bureau of Land Management. It's Federal
15 acreage.

16 The -- both the northwest of the north-
17 east and the southwest of the northeast owned by fee
18 mineral owners.

19 Q In looking at the west half, then, of
20 the northeast, have you been in contact with the various
21 surface owners in order to attempt to find a location for
22 which they would find no objection?

23 A We have.

24 Q And is the proposed unorthodox location
25 one that is accepted by the various surface owners?

1 A Yes, sir, that is correct.

2 Q Did you attempt to try to get surface
3 owner consent for crossing the Animas River, constructing a
4 bridge, and locating the well at a more orthodox location?

5 A We did attempt to reach an agreement
6 with the various surface owners in constructing a bridge.

7 Q Were you able to do so?

8 A We were not.

9 Q When we examine the east half of the
10 northeast of 15, that is all BLM surface?

11 A That's correct.

12 Q Did you contact the BLM to determine
13 whether or not there was a surface location in the east
14 half of the northeast quarter for which they would have no
15 objection?

16 A Yes, sir, we did.

17 Q And what did you find out?

18 A The northeast of the northeast quarter
19 is a very rough terrain. There would be a location avail-
20 able from a topographic standpoint; however, the road's
21 leading into that area, like I said, do cross rough terrain
22 and the BLM did not grant us access to that area because of
23 the fact that this would be a Fruitland coal well and that
24 we anticipate that we would be hauling substantial volumes
25 of water from it and the topography would not withstand

1 that, especially in the winter months.

2 Q In terms of topography and obtaining the
3 consent of surface owners for a well location, is the pro-
4 posed unorthodox well location the only site that you've
5 been able to obtain approval from the various surface
6 owners for the location of this well?

7 Q We anticipated that we could have, bar-
8 ring other problems, reached a surface agreement at a
9 standard location between the river and the steep incline,
10 but there are other problems that we chose or we would not
11 desire to build a location there, aside from the surface
12 standpoint and aside from the fact that it would require a
13 bridge to cross the river and we were not able to come to a
14 satisfactory arrangement about whose property the bridge
15 would be placed upon, what liabilities would be involved
16 and what accesses would be granted through the use of that
17 bridge.

18 Q So there is a standard well location
19 east of the river that would be large enough to build a
20 pad.

21 A We believe that there would be.

22 Q But you've been not -- you've been un-
23 able to obtain agreement from the various surface owners to
24 -- to access that location.

25 A That's correct.

1 Q And the current proposed unorthodox
2 location is one in which the various owners of the sur-
3 face have consented to.

4 A That is correct.

5 Q Exhibit Number One is simply a copy of
6 the application in this hearing, is it not, Mr. Alexander?

7 A That is correct.

8 Q And if you turn to Tab Two, what is
9 Exhibit Number Two?

10 A Exhibit Number Two is a copy of the Form
11 C-102 that is filed with the Oil Conservation Division and
12 it basically represents a plat of the location along with
13 other pertinent information.

14 Q When you look at that exhibit, let me
15 direct your attention to the southeast quarter of the
16 northeast, the words "archaeology" appear on the display.
17 What's the significance, if any, of that?

18 A The -- that particular quarter quarter
19 section is not suitable for a surface location because of
20 geologic -- archaeological artifact problems.

21 MR. KELLAHIN: That concludes
22 my examination.

23 Q Oh, I'm sorry, we've missed one exhibit,
24 Mr. Alexander. Turn to Exhibit Number Six, which is the
25 last page before we look at the Tab No. 4.

1 What is that exhibit?

2 A That exhibit is a copy of a letter from
3 Mr. Mike Heizer to Meridian Oil and it expresses his opin-
4 ion and view that we have resolved all of the issues for
5 a location on Mr. Heizer's property west of the river.

6 MR. KELLAHIN: That concludes
7 my examination of Mr. Alexander, Mr. Catanach.

8 We would move at this time the
9 introduction of Meridian Exhibits One through Six.

10 MR. CATANACH: Exhibits One
11 through Six will be admitted as evidence.

12 MR. STOVALL: If you don't
13 have any questions, I do have.

14
15 CROSS EXAMINATION

16 BY MR. STOVALL:

17 Q Just (unclear), Mr. Alexander, do you --
18 are you aware of any requirements other than surface owner
19 requirements as far as getting across the river? For ex-
20 ample, Corps of Engineers, would you have to talk to them,
21 do you know?

22 A Yes, we would.

23 Q And did you ever have any discussions
24 with them or did you not get to that point?

25 A We had some preliminary discussions with

1 the Corps of Engineers and they would have to be involved
2 in the placement of the bridge, the construction of the
3 bridge, and all of the engineering work involved in it.

4 Q What about environmental impacts? Did
5 you have to do any sort of environmental work as far as
6 constructing this bridge?

7 A We would and we have a witness that will
8 testify to the other environmental constraints that we feel
9 are pertinent when you discuss problems such as the bridge
10 and the fact that this is a Fruitland coal well.

11 Q And just mostly for my own interest,
12 what -- what -- what would be the cost of constructing a
13 bridge that would be sufficient that -- I assume it would
14 have to be big enough to take a rig across and oil trucks
15 and water trucks?

16 A Yes, sir, that's correct. We're esti-
17 mating that that cost would probably be somewhere between
18 \$110 and \$125,000 for the initial cost only and we have not
19 estimated what our liability cost, maintenance cost, and
20 other cost on through the years would -- would be on such a
21 construction project.

22 MR. STOVALL: I have no fur-
23 ther questions.

24

25

CROSS EXAMINATION

BY MR. CATANACH:

Q Mr. Alexander, the southeast of the northeast you have shown as having archaeological problems. Did you actually have an archaeological study done on that or was there already one?

A Yes, sir. I am told by our field people that there was -- we did have archaeological people out there with the BLM looking at that location.

Q And was it the opinion of BLM that there was not an acceptable location in that quarter quarter section?

A Yes, sir, that's what I am told.

MR. STOVALL: I have one question along that line, Mr. Catanach.

Would it be possible to -- for you to provide a statement from the BLM to that effect?

A I see no reason why not.

MR. STOVALL: And that -- for your information let me advise you that our -- our office is in communication with the BLM field people regarding these concerns and I believe that request would not -- would not be a surprise to them and if anybody in the Farmington area office had a difficulty they might call the state office and discuss it with them, but I would like to

1 see something, if possible, Mr. Kellahin and Mr. Alexander,
2 from the BLM regarding access to the east half of the
3 northeast quarter, a statement of some sort from the BLM.

4 MR. KELLAHIN: Be happy to
5 provide that, Mr. Examiner. We have done that in other
6 cases of this nature where either the examiner has directly
7 contacted that BLM individual or we have provided a letter
8 from them indicating they've examined it and cannot find a
9 suitable location in that quarter section.

10 Q Mr. Alexander, is this a short section?
11 You said that that well was 252 feet from the west line
12 there. That doesn't quite work out.

13 A Yes, sir, it is a short section.

14 Q It is a short section?

15 MR. KELLAHIN: I'm not sure we
16 have put in the exhibit book, Mr. Examiner, the footages
17 along the top of that section line. I will be happy to
18 give you a copy of a display that has those numbers.

19 MR. CATANACH: Okay.

20 MR. KELLAHIN: Perhaps we'll
21 mark this as an exhibit, propose it as Exhibit Number
22 Twelve, Mr. Examiner. It shows the staking of a location
23 in the northeast quarter of the section. It's one of the
24 areas that the BLM would not approve but in filling out the
25 form it does show the side dimensions of each of those

1 tracts; thereby you can calculate where this well is in
2 relationship to all of the other boundaries.

3 Mr. Alexander, let me show you
4 what I have marked as Exhibit Number Twelve and ask you if
5 you can authenticate that document?

6 A Yes, sir, it is a Form C-103, I believe,
7 and it's rather hard to read but it is a well location and
8 acreage dedication plat that is used by the New Mexico Oil
9 Conservation Commission, and it shows a location of the
10 Heizer No. 100 Well at 915 feet from the north line and 595
11 feet from the east line and it also shows the footages
12 around the perimeter of the section that's involved.

13 MR. KELLAHIN: To the best of
14 your knowledge are those dimensions shown on that display
15 true and accurate?

16 A To the best of my knowledge they are.

17 MR. KELLAHIN: Mr. Examiner, I
18 believe that's Commission Form C-102.

19 Is it 103?

20 A I believe it is.

21 MR. STOVALL: I'm inclined to
22 believe it's 102, too, Mr. Kellahin, but I think that's not
23 -- not important.

24 MR. KELLAHIN: For whatever it
25 is, there it is.

1 MR. CATANACH: At this time
2 we'll enter Exhibit Number Twelve as evidence.

3 That's all the questions that
4 we have of the witness. He may be excused.

5 MR. KELLAHIN: Mr. Examiner,
6 at this time I'd like to call Mr. Donahue. Mr. Donahue is
7 a reservoir engineer with Meridian Oil, Inc.

8
9 CHARLES J. DONAHUE, JR.,
10 being called as a witness and being duly sworn upon his
11 oath, testified as follows, to-wit:

12
13 DIRECT EXAMINATION

14 BY MR. KELLAHIN:

15 Q Mr. Donahue, would you please state your
16 name and occupation?

17 A My name is Charles Donahue. I'm a re-
18 servoir engineer with Meridian Oil in Farmington, New
19 Mexico.

20 Q Mr. Donahue, would you summarize for us
21 what has been your educational background?

22 A I'm a 1981 graduate of Penn State Uni-
23 versity.

24 Q Subsequent to graduation -- in what did
25 you obtain your degree from Penn State?

1 A In petroleum engineering.

2 Q Subsequent to graduation do you have any
3 other degrees that relate to petroleum engineering?

4 A No, I do not.

5 Q Describe for us what has been your em-
6 ployment background since graduation.

7 A I've been employed since July, 1981,
8 with formerly El Paso Exploration and now Meridian Oil; it
9 will be eight years.

10 Q And do you reside in Farmington, New
11 Mexico, Mr. Donahue?

12 A Yes, I do.

13 Q And are you also a Registered Profes-
14 sional Engineer in the State of New Mexico?

15 A Yes, I do. Yes, I am.

16 Q Describe generally what it is that you
17 have done for Meridian with regards to this particular ap-
18 plication.

19 A Well, I was the one that originally
20 picked the location and calculated the reserves and econo-
21 mics on the project.

22 MR. KELLAHIN: We tender Mr.
23 Donahue as an expert petroleum engineer.

24 MR. CATANACH: He is so qual-
25 ified.

1 Q Mr. Donahue, let's turn to Exhibit
2 Number Ten, which is the topo map.

3 What type of wells are shown on Exhibit
4 Number Ten, Mr. Donahue?

5 A They're all Fruitland coal wells.

6 Q And what are the various symbols for
7 those wells indicating?

8 A Okay. The red triangles are wells that
9 have been drilled. The two at the top, the Brown 100 and
10 the Stahl 100, are the most recent other two.

11 The orange circles are the barrels -- or
12 the wells to be drilled probably some time in the next
13 month.

14 Q In studying the issue of finding a loca-
15 tion for wells in Section 15, have you determined or
16 reached an opinion as to whether or not you can maintain s
17 pattern that allows the development in Section 15 to take
18 place whereby there will be a well in the northeast quarter
19 and a well in the southwest quarter of 15?

20 A Yes, that's correct.

21 Q So you will -- you will maintain the
22 pattern, then, for full development for Fruitland coal gas
23 wells using those quarter sections.

24 A Yes.

25 Q What are Meridian's plans for the

1 Q What is Exhibit Number Seven, Mr. Dona-
2 hue?

3 A Exhibit Number Seven is all the points
4 supporting the unorthodox location application.

5 Q They are issues that you addressed in
6 your study to determine whether or not you had a standard
7 versus an unorthodox location that was acceptable?

8 A That's correct.

9 Q Describe for us the first concern.
10 You've identified an environmental concern?

11 A Yes. This well is located right next to
12 the Animas River. If we had it on the east side of the
13 river these wells are known to produce a high amount of
14 water and gas, up to 200 barrels a day, or more, of water,
15 and we're going to have to cross the river and sometime
16 down the road we may have a chance, if something happened,
17 we wouldn't want to contaminate the Animas River.

18 Q How does the proposed unorthodox loca-
19 tion avoid that environmental concern?

20 A It puts it on the east side. It's a lot
21 easier. There's a road to the -- or puts it on the west
22 side, excuse me. There's a road to the west of that and we
23 can haul water until later one we may be able to tie it in-
24 to a disposal well.

25 Q Are you able to access the east side of

1 the river without the construction of a bridge?

2 A No, we are not.

3 Q The next point you've listed on the
4 display is operational problems. What does that mean?

5 A Yes. That's in the same thing. Because
6 of the high water and gas rates we would have to go and
7 look at the well more often and just at the so called low
8 water porosity and there have been several instances we've
9 had to workover these wells and it could happen at any
10 time.

11 Q The next issue you've addressed is the
12 drainage pattern in the area. What does that mean, sir?

13 A That means these are 320-acre -- calcu-
14 lated on 320-acre drainage and, as you can see on the
15 Exhibit Ten, that every well in the area is on the same
16 northeast/southwest pattern.

17 Q In examining the drainage patterns do
18 you see a material difference between the closest standard
19 location, which would be 790 from the western boundary of
20 that spacing unit, versus the unorthodox location which is
21 252 feet from that same boundary?

22 A I do not.

23 Q There is no material difference in your
24 analysis between the drainage patterns between those two
25 locations?

1 A No.

2 Q The next point is equivalent reservoir
3 properties. What does that mean, sir?

4 A Oh, yes, basically the desorption rate
5 of the gas, (not clearly understood) of gas is the same.
6 The thicknesses are the same and all the properties in-
7 volving coal are -- are equal on either side of the river.

8 Q The next issue you've examined is to see
9 whether or not there were offset operators that objected
10 to the location?

11 A Yes. As Alan stated, we have the
12 waivers from Amoco and Union Texas Petroleum.

13 Q You said you've been -- examined econ-
14 omics. What is it that you've done and what did you con-
15 clude?

16 A Well, we examined, if we can see Exhibit
17 Eight --

18 Q Okay, let's turn to Exhibit Eight.

19 First of all, before you explain your
20 conclusion, tell us how to read the display.

21 A Okay. Exhibit Eight is an economic sum-
22 mary of the Heizer 100 and its capital cost, rate of re-
23 turn, profit to investment ratio and a net present value,
24 for a desired unorthodox location and a deviated wellbore.

25 Q All right, you -- you examined the pos-

1 sibility of taking the unorthodox surface location and then
2 directionally drilling to a standard bottom hole location?

3 A That's correct.

4 Q And in terms of -- of the cost and asso-
5 ciated risk, how have you analyzed that?

6 A Okay, the deviated wellbore, of course,
7 would be a lot riskier as in any directionally drilled hole
8 is always riskier than a straight hole.

9 The capital cost is, as you can see,
10 approximately \$100,000 more than it would be for -- for a
11 straight hole.

12 We're going to pressure core this well
13 and consider it very valuable information that we're going
14 to retrieve from this well and it just makes it that much
15 more risky to run any kind of core barrel in a deviated
16 hole.

17 Q What does your summary with regards to
18 that economic analysis show you in terms of net present
19 value?

20 A Well, you can see the net present value
21 is less than half of the -- in the deviated wellbore as the
22 unorthodox location vertical well.

23 Q Mr. Donahue, have you also examined the
24 economics of constructing a bridge across the Animas River
25 to get you at as standard well location?

1 A Yes, we have. We've also done that and
2 it shows a little bit better economics. The risk factor
3 involved is the same as the unorthodox location; probabilit-
4 ity of success is the same, but the cost is higher and the
5 economics aren't as good as the unorthodox location.

6 Q Setting aside the -- the environmental
7 and operational problems with constructing the bridge and
8 operating across the bridge, what are simply the costs
9 involved in the initial investment for building the bridge?

10 A Oh, it's anywhere from \$110,000 to
11 \$125,000. That's just the purchase of the bridge itself,
12 you know, and then it just goes up from there for the cost
13 of construction of it (unclear); depends on who we have do
14 it.

15 Q Let's turn to Exhibit Number Nine, Mr.
16 Donahue, and have you identify that exhibit.

17 A Yes, this is the production history of
18 the Brown 100 Well. It's the closest producing well to the
19 Heizer 100.

20 When we look at Exhibit Number Ten,
21 where is the Brown 100 Well in relation to the Heizer 100?

22 A It is in Section 9, which is up in the
23 northwest corner of the map.

24 Q Okay. What's the purpose of showing the
25 production history for the Brown 100 Well?

1 A Well, it just -- it shows the high gas
2 and water rates that we have with this well and why we
3 would not want to cross the river with those kind of rates.

4 Q In examining the information that you've
5 collected and analyzed for determining whether or not you
6 can recommend an unorthodox location, do you have now an
7 ultimate opinion with regards to that location?

8 A Excuse me?

9 Q Yes, sir, what -- what is your opinion
10 with regards to the unorthodox location versus the closest
11 standard location?

12 A All things considered, I consider that
13 the best location possible for the whole quarter section.

14 Q In your opinion will approval of the
15 unorthodox location allow you to prevent waste in the re-
16 servoir and to produce gas that might not otherwise be re-
17 covered?

18 A That's correct.

19 Q In your opinion do you see any oppor-
20 tunity to violate the correlative rights of any of the off-
21 setting owners with the well located as you propose?

22 A No.

23 Q Were Exhibits Seven through Ten prepared
24 by you or compiled under your direction and supervision?

25 A Yes, they were.

1 MR. KELLAHIN: That concludes
2 my examination of Mr. Donahue.

3 We'd move the introduction of
4 Exhibits Six through Ten.

5 MR. CATANACH: Exhibits Six
6 through Ten will be admitted as evidence.

7

8 CROSS EXAMINATION

9 BY MR. CATANACH:

10 Q Mr. Donahue, has this well been drilled?

11 A No, it has not.

12 Q Okay, you had it -- you show it as ex-
13 isting on my map.

14 A Well, actually it's an open triangle and
15 that's --

16 Q Okay.

17 A -- the subject well.

18 Q I see. Has Meridian drilled any
19 deviated wells, any coal gas wells?

20 A Yes, we've made several -- well, three
21 attempts, and none of them have been very successful. None
22 of them have proven to be economic. In fact we could have
23 gotten at least the same rate out of a vertical well.

24 Q So the extra cost in drilling the well
25 just made it uneconomic.

1 A Yes.

2 Q Do you think a well at this location
3 will effectively drain that east half?

4 A Yes, I do. Based on other production
5 rates that we have I feel strongly that it will.

6 MR. CATANACH: That's all the
7 questions I have.

8

9

CROSS EXAMINATION

10 BY MR. STOVALL:

11 Q One question. Have you identified a
12 tentative location for your west half well?

13 A No, we have not yet. It's -- we're
14 currently doing a budget processing so it's in the -- the
15 projects to be run economically, but we haven't identified
16 footages, no.

17 Q So you don't -- at this point you don't
18 have any firm idea whether you'd be able to do the west
19 half well in an orthodox location or not.

20 A No, not -- not firm, but looking at the
21 map here it doesn't look like we'll have any problem like
22 the west half -- or like the east half, excuse me.

23 MR. STOVALL: Nothing further.

24 MR. CATANACH: Mr. Kellahin,
25 I've got one follow-up question for Mr. Alexander, if I

1 may.

2 MR. KELLAHIN: Certainly.

3 MR. ALEXANDER: Can I answer
4 it here?

5 MR. KELLAHIN: Just speak up
6 where you're sitting.

7 MR. CATANACH: Mr. Alexander,
8 Mr. Donahue mentioned something about you had -- or Meri-
9 dian had just acquired the majority interest in the west
10 half of Section 15?

11 MR. ALEXANDER; We have just
12 acquired some mineral rights that we purchased which would
13 increase our interest, which gives us approximately 57
14 percent interest in that west half drill block at this
15 point in time.

16 MR. CATANACH: Okay, but you
17 own -- you've got a lease for the west? Is that leased?

18 MR. ALEXANDER: No, sir, all
19 of the --

20 MR. CATANACH: Are there other
21 operators -- are there other working interest owners
22 involved in that west half?

23 MR. ALEXANDER: Yes, sir,
24 there are. Right.

25 MR. CATANACH: Specifically in

1 what quarter section are they located?

2 MR. ALEXANDER: Leases are --
3 it's a little bit split up, but generally the northwest
4 quarter of the northwest quarter is an unleased tract that
5 has unleased mineral owners that have joined in our pre-
6 vious Mesaverde wells in there and Northwest Pipeline Com-
7 pany is the lessee of the southwest of the northwest and a
8 portion of, most of the southwest of the southwest.

9 MR. CATANACH: So I take it
10 the west half has not at this point been communitized for
11 drilling, is that correct?

12 MR. ALEXANDER: For Fruitland
13 coal, you're inquiring about that?

14 MR. CATANACH: Yes.

15 MR. ALEXANDER: No, sir, it has
16 not at this point, unless the Mesaverde well that you see
17 -- well, I don't know that you see it, but there is a Mesa-
18 verde well that is located in approximately the southwest
19 quarter of the southwest quarter and many times those com-
20 munitizations will go from the surface through the Mesa-
21 verde, and I would have to look at that unitization agree-
22 ment to fully answer your question.

23 MR. CATANACH: I see. Are
24 there any working interest owners that -- well, I guess
25 Meridian didn't feel that there were any affected interest

1 owners in the west half that they had to notify.

2 MR. ALEXANDER: Over in the
3 west half of the west half?

4 MR. CATANACH: Well --

5 MR. ALEXANDER: Yes, sir.

6 MR. CATANACH: -- the east
7 half of the west half, is that all Meridian's acreage?

8 MR. ALEXANDER: Yes, sir,
9 Meridian operates all that acreage.

10 That is some of the same
11 common acreage that is also in the west half of the east
12 half. It crosses that boundary.

13 MR. CATANACH: I see, but
14 there is some acreage in the west half of the west half
15 that is not Meridian's, is not leased by Meridian.

16 MR. ALEXANDER: Yes, sir, that
17 is correct.

18 MR. STOVALL: And those people
19 were not notified of this -- this hearing?

20 MR. ALEXANDER: No, sir, we
21 just notified the offsetting property owners, operators or
22 owners around the spacing unit.

23 MR. STOVALL: Mr. Alexander,
24 would it be your understanding that any of the other miner-
25 al owners, unleased mineral owners or lessees, could in

1 fact drill a well, Fruitland well, in the south -- in the
2 west half? I mean is it necessarily would it be Meridian
3 just because -- at this point?

4 MR. ALEXANDER: We believe
5 that it would be Meridian. We do operate that property for
6 the Mesaverde well and we have those accounting records set
7 up for doing the division of interest on it, so we feel
8 strongly, yes, that it would be Meridian, would be the
9 operator on this west half well.

10 MR. STOVALL: But you do not
11 know, in fact, that the com (sic) agreement covers the
12 (unclear) at this time, is that correct?

13 MR. ALEXANDER: No, sir, I do
14 not.

15 MR. STOVALL: And, in fact, if
16 it does not, it would be possible for one of the other
17 interest owners to come in and drill -- drill a well.

18 MR. ALEXANDER: It would be
19 possible but we would request operations in that block even
20 if another owner came in and proposed operations of it.

21 MR. CATANACH; Have you talked
22 to Northwest Pipeline at all about drilling a well in the
23 west half?

24 MR. ALEXANDER: I don't be-
25 lieve that we've contacted any of the owners. We've just

1 finished the acquisition of the property that I mentioned
2 to you before and we are now at that point of finalizing
3 the budgeting process and we will be going to all these
4 working interest owners and contacting them.

5 MR. STOVALL: Mr. Kellahin, I
6 think being as I know the facts at this point, I think
7 we've got some concern as to why Northwest and any other
8 interest owners were not notified of the hearing. Do you
9 have a response to that or do (not clearly understood)?

10 MR. KELLAHIN: I thought
11 Meridian as the majority owner with control of the spacing
12 unit, they had budgeted a well to offset the encroaching
13 well. It did not occur to us that there would be a minor-
14 ity working interest owner that would object. I don't have
15 any problem in contacting Northwest and asking them if
16 that's the desire of the Division, but we didn't believe it
17 was necessary.

18 MR. CATANACH: Is that the
19 only interest owner who might be affected, would be North-
20 west Pipeline?

21 MR. ALEXANDER: No, sir, there
22 would be the unleased mineral owners that are in the north-
23 west northwest who we will be contacting to join them in
24 the drilling well.

25 MR. STOVALL: What's your time

1 frame for drilling this well, if you know?

2 MR. ALEXANDER: In the west
3 half?

4 MR. STOVALL: In the east
5 half.

6 MR. ALEXANDER: In the east
7 half, we're -- we're ready now to go ahead with that if you
8 grant the nonstandard location.

9 MR. STOVALL: I'm a little bit
10 concerned about the lack of notification to those people.
11 They do have the right, if not the practical power, to --
12 you may be able to overwhelm them with your majority inter-
13 est, so to speak, and I am concerned about the notices.
14 You need to notify them, get some consent, or give me an
15 explanation as to why you think that's unnecessary.

16 MR. KELLAHIN: You've heard
17 the best explanation we have, Mr. Stovall. If it's not
18 adequate, then, we'll do as the Division directs. If you
19 want additional notifications to these people we'll cer-
20 tainly provide it.

21 MR. STOVALL: My -- my only
22 other comment would be if perhaps a com agreement does
23 cover this horizon that might satisfy that operatorship
24 issue if that incorporates in the control of that acreage,
25 and that might be an alternative (not clearly audible).

1 Either notify -- my recommendation is to either notify the
2 other interest owners who could potentially operate or
3 identify a com agreement as having -- covering that -- that
4 horizon, putting Meridian in a formal operatorship posi-
5 tion.

6 MR. CATANACH: Shall we leave
7 the record open in this case?

8 MR. STOVALL: Can we do that
9 for a relatively short period, do you think?

10 MR. KELLAHIN: I would think
11 so. I would expect --

12 MR. STOVALL: I don't want to
13 hold you up an unreasonable time. I'd like to get it done
14 as quickly as possible and get you an order, if it's going
15 to be issued, approving your application and do it as
16 quickly as possible so you can get on with your plans.

17 MR. ALEXANDER: I would anti-
18 cipate no problems with any of that group.

19 MR. KELLAHIN: How soon do you
20 think you could determine whether or not there's a notice
21 issue, Mr. Alexander?

22 MR. ALEXANDER: Probably with-
23 in -- hopefully, within two weeks.

24 MR. KELLAHIN: Let's leave it
25 open until the August 9th docket, if that's all right.

1 That will be a two week time frame and then if we have
2 anything additional to present we can do it at that
3 hearing and maybe we can satisfy it with a written waiver
4 before that and then you can simply close out the case, if
5 that's all right.

6 MR. CATANACH: That would be
7 fine, Mr. Kellahin.

8 With that, we'll leave the
9 record open in this case until August 9th.

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11 (Hearing concluded.)

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1 STATE OF NEW MEXICO
2 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
3 OIL CONSERVATION DIVISION
4 STATE LAND OFFICE BUILDING
5 SANTA FE, NEW MEXICO

6 23 August 1989

7 EXAMINER HEARING

8 IN THE MATTER OF:

9 Application of Meridian Oil, Inc. for an CASE
10 unorthodox coal gas well location, San 9707
11 Juan County, New Mexico.

12 BEFORE: David R. Catanach, Examiner
13
14

15 TRANSCRIPT OF HEARING

16 A P P E A R A N C E S
17

18 For the Division:

19 For Meridian Oil, Inc.:
20 W. Thomas Kellahin
21 Attorney at Law
22 KELLAHIN, KELLAHIN & AUBREY
23 P. O. Box 2265
24 Santa Fe, New Mexico 87504
25

I N D E X

STATEMENT BY MR. KELLAHIN

ALAN ALEXANDER

Direct Examination by Mr. Kellahin 5

E X H I B I T S

Exhibits one through eleven previopusly admitted.

Meridian Exhibit Twelve, Notice 4

Meridian Exhibit Thirteen, Return Receipt Cards
and Letters 5

1 MR. CATANACH; At this time
2 we'll call Case 9707. Application of Meridian Oil, Inc.,
3 for an unorthodox coal gas well location, San Juan County,
4 New Mexico.

5 Are there appearances in this
6 case?

7 MR. KELLAHIN: Mr. Examiner,
8 I'm Tom Kellahin of the Santa Fe law firm of Kellahin,
9 Kellahin & Aubrey. I'm appearing on behalf of Meridian
10 Oil, Inc., and I have one witness to be sworn.

11 MR. CATANACH: Are there any
12 other appearances?

13 Will the witness please stand
14 and be sworn in?

15
16 (Witness sworn.)

17
18 MR. KELLAHIN: Mr. Examiner,
19 the technical presentation of this case was made to you at
20 the hearing held on July 26th. At that hearing there was
21 two questions remaining unanswered, one of which was the
22 status of the Bureau of Land Management's management of the
23 topography of the surface in the northeast quarter of Sec-
24 tion 15 and you desired us to obtain written confirmation
25 from the BLM that in fact our surface location was the only

1 location that they would approve.

2 Mr. Alexander, through his office, has
3 obtained that letter and it's marked for introduction as
4 Meridian Exhibit Number Twelve.

5 The second issue that was left for de-
6 termination today was additional notification of the
7 working interest owners in the west half of Section 15.
8 You may remember that Meridian Oil, Inc., is the majority
9 working interest owner in that spacing unit but at your
10 request we have had Mr. Alexander search for, locate, and
11 then serve with notice all other working interest owners
12 in the west half of Section 15 and we propose to have him
13 testify this morning on his efforts to -- to comply with
14 those notice requirements of the Examiner.

15 I'd like the record to reflect that Mr.
16 Alexander has already qualified as an expert petroleum
17 landman and that he has been qualified and is now under
18 oath.

19
20 ALAN ALEXANDER,
21 being called as a witness and being previously sworn and
22 remaining under oath, testified as follows, to-wit:

23

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DIRECT EXAMINATION

BY MR. KELLAHIN:

Q Mr. Alexander, let me direct your attention, sir, to the package of documents that's attached as Exhibit Number Thirteen, but before we go through that package of information, would you tell us whether or not you have been able to identify the working interest owners in the west half of the subject Section 15?

A We have.

Q And how did you go about accomplishing that, Mr. Alexander?

A Basically through our Division Order Department in Ft. Worth, Texas. They are the same people that are on pay for a Mesaverde well in that west half spacing unit and we'd also asked the parties that we contacted to confirm their working interest. We set forth their working interest which we felt they had in the coal in the letter itself.

So we've done it through two means.

Q Having identified the working interest owners in the Basin Fruitland coal gas formation were you satisfied that that list was complete?

A Yes, I am.

Q Having satisfied yourself the list was complete, then, did you send notification to those various

1 working interest owners of Meridian's application in this
2 case for the unorthodox well location?

3 A Yes, I did.

4 Q And how did you do that?

5 A I did that by certified letter dated
6 July 31st, 1989.

7 Q When we go through the first portion of
8 Exhibit Thirteen and we see return receipt cards, what are
9 those for?

10 A Those are the return receipts for each
11 of the parties, for each of the letters that we've sent
12 out, evidencing the date that those letters were received
13 by the individual parties.

14 Q Without going through each of the indi-
15 vidual letters, were all the letters written in the same
16 manner?

17 A That's correct.

18 Q They contained the same information with
19 the only change being the name and address of the party and
20 a description of what you thought to be their interest in
21 the spacing unit?

22 A That's correct.

23 Q Let's look at the letter dated July 31st
24 for Northwest Pipeline. Is this typical of all the notice
25 letters?

1 A It is.

2 Q You provided to those parties an indi-
3 cation that Case 9707 was pending for consideration by the
4 Division?

5 A That's correct.

6 Q And you told them the well location?

7 A Yes, sir.

8 Q And you gave them a 20-day period in
9 which to object to the unorthodox well location.

10 A That's correct.

11 Q Did you receive any written objections
12 from any of those working interest owners to your applica-
13 tion?

14 A I did not.

15 Q Did you receive any waivers?

16 A I did receive one waiver from Northwest
17 Pipeline Corporation.

18 Q Of all the parties that you attempted to
19 contact, were there any of the parties that despite your
20 efforts you were unable to locate?

21 A Yes. We have not been able to locate
22 Mr. Dave Clark. Mr. Clark is also in suspense within Meri-
23 dian's records for the proceeds out of the Mesaverde well.
24 We have not been able to locate him for some time and we
25 did check the records since the last known address and

1 there is nothing on record that would give us a more
2 current address for him.

3 We sent a letter to the last known
4 address and, of course, did receive it back.

5 Q And you're referring to your letter of
6 July 31st that was sent to Mr. Clark at a Winslow, Arizona
7 address?

8 A That's correct.

9 Q And that was the best information Meri-
10 dian had concerning the location of that individual?

11 A That's correct.

12 Q In your opinion has there been a good
13 faith and diligent effort to locate Mr. Clark?

14 A Yes, sir, that's correct.

15 Q All right.

16 MR. KELLAHIN: That concludes
17 my examination of Mr. Alexander, Mr. Catanach.

18 We would move the introduction
19 of Exhibits Twelve and Thirteen to this hearing.

20 MR. CATANACH: Exhibits Twelve
21 and Thirteen will be admitted as evidence in this case.

22 And I have no further ques-
23 tions of the witness. He may be excused.

24 Being nothing further in Case
25 Number 9707, it will be taken under advisement.

C E R T I F I C A T E

I, SALLY W. BOYD, C. S. R. DO HEREBY
CERTIFY that the foregoing Transcript of Hearing before the
Oil Conservation Division (Commission) was reported by me;
that the said transcript is a full, true and correct record
of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 9707,
heard by me on August 23 1958 :
David R. Calvert, Examiner
Oil Conservation Division

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO

9 August 1989

EXAMINER HEARING

IN THE MATTER OF:

In the matter of cases called on this	CASES
date and continued or dismissed with-	9712
out testimony presented.	9713
	9698
	9700
	9714
	9703
	9716
	9718
	9709
	9719
	9721
	9722
	8668
	8769
	9707

BEFORE: Michael E. Stogner, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Division:	Robert G. Stovall
	Attorney at Law
	Legal Counsel to the Division
	State Land Office Building
	Santa Fe, New Mexico

I N D E X

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3	CASE 9712	3
4	CASE 9713	4
5	CASE 9698	5
6	CASE 9700	6
7	CASE 9714	7
8	CASE 9703	8
9	CASE 9716	9
10	CASE 9718	10
11	CASE 9709	11
12	CASE 9719	12
13	CASE 9721	13
14	CASE 9722	14
15	CASE 8668	15
16	CASE 8769	16
17	CASE 9707	17
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1 MR. STOGNER: This hearing
2 will come to order for Docket No. 23-89. I'm Michael E.
3 Stogner, appointed hearing officer today, August 9th, 1989.

4 I'll call the continued and
5 dismissed cases first.

6 I'll call first Case No. 9712,
7 which is in the matter of the hearing called by the Oil
8 Conservation Division on its own motion to permit Tom L.
9 Ingram, American Employers Insurance Company, and all other
10 interested parties to appear and show cause why a certain
11 well in San Miguel County, New Mexico, should not be pro-
12 perly plugged and abandoned.

13 This case will be continued to
14 the Examiner Hearing scheduled for September 6th, 1989.

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16 (Hearing concluded.)
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1 MR. STOGNER: I'll call next
2 Case Number 9713, which is also in the matter of the
3 hearing called by the Oil Conservation Division to permit
4 Tom L. Ingram, American Employers Insurance Company, and
5 all other interested parties to appear and show cause why
6 a certain well in San Miguel County, New Mexico, should not
7 be plugged and abandoned.

8 This case will also be con-
9 tinued to the Examiner Hearing scheduled for September 6th.

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11 (Hearing concluded.)
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1 MR. STOGNER: I'll call next
2 Case Number 9698.

3 MR. STOVALL: Application of
4 Yates Petroleum Corporation for an unorthodox gas well
5 location, Chaves County, New Mexico.

6 Applicant requests this case
7 be continued to August 23rd, 1989 docket.

8 MR. STOGNER: Case Number 9698
9 will be so continued.

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11 (Hearing concluded.)

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1 MR. STOGNER: Call next Case
2 9700.

3 MR. STOVALL: Application of
4 Yates Petroleum Corporation for a compulsory pooling, Eddy
5 County, New Mexico.

6 Applicant requests this case
7 be continued to the August 23rd, 1989 docket.

8 MR. STOGNER: Case Number 9700
9 will also be continued.

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11 (Hearing concluded.)

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1 MR. STOGNER: Call next Case
2 Number 9714.

3 MR. STOVALL: Application of
4 Union Oil Company of California for compulsory pooling, Lea
5 County, New Mexico.

6 Applicant requests this case
7 be continued to August 23rd.

8 MR. STOGNER: Case Number 9714
9 will be so continued.

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11 (Hearing concluded.)

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1 MR. STOGNER: Call next Case
2 Number 9703.

3 MR. STOVALL: Application of
4 Meridian Oil, Inc., for exemption from the Natural -- New
5 Mexico Natural Gas Pricing Act, San Juan County, New
6 Mexico.

7 Applicant requests this case
8 be continued to August 23rd, 1989.

9 MR. STOGNER: Case Number 9703
10 will be continued as such.

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12 (Hearing concluded.)

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1 MR. STOGNER: Call next Case
2 Number 9716.

3 MR. STOVALL: Application of
4 ORYX Energy Company for an unorthodox gas well location,
5 Lea County, New Mexico.

6 Applicant requests this case
7 be dismissed.

8 MR. STOGNER: Case Number 9716
9 will be dismissed.

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11 (Hearing concluded.)

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1 MR. STOGNER: Call next Case
2 Number 9718.

3 MR. STOVALL: Application of
4 Meridian Oil, Inc., for the vertical contraction and rede-
5 signation of an existing Delaware oil pool and for a new
6 pool creation, Eddy County, New Mexico.

7 Applicant requests this case
8 be continued to August 23rd, 1989.

9 MR. STOGNER: Case Number 9718
10 will be so continued.

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12 (Hearing concluded.)

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1 MR. STOGNER: Call next Case
2 Number 9709.

3 MR. STOVALL: Application of
4 Pacific Enterprises Oil Company for compulsory pooling, Lea
5 County, New Mexico.

6 Applicant requests this case
7 be dismissed.

8 MR. STOGNER: Case Number 9709
9 is hereby dismissed.

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11 (Hearing concluded.)

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1 MR. STOGNER: Call next Case
2 Number 9719.

3 MR. STOVALL: Application of
4 Mallon Oil Company for salt water disposal, Eddy County,
5 New Mexico.

6 As advertised, this -- the
7 applicant requests this case be dismissed.

8 MR. STOGNER: Case Number 9719
9 is hereby dismissed.

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11 (Hearing concluded.)
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1 MR. STOGNER: Call next Case
2 Number 9721.

3 MR. STOVALL: Application of
4 Marathon Oil Company for downhole commingling, Rio Arriba
5 County, New Mexico.

6 Applicant requests this case
7 be continued to August 23rd, 1989.

8 MR. STOGNER: Case Number 9721
9 will be so continued.

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(Hearing concluded.)

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1 MR. STOGNER: Call next Case
2 Number 9722.

3 MR. STOVALL: Application of
4 Marathon Oil Company for downhole commingling, Rio Arriba
5 County, New Mexico.

6 Applicant requests this case
7 be continued to August 23rd.

8 MR. STOGNER: Case Number 9722
9 will be so continued.

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11 (Hearing concluded.)

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1 MR. STOGNER: Call next Case
2 Number 9668.

3 MR. STOVALL: 8668?

4 MR. STOGNER: I'm sorry, 8668.

5 MR. STOVALL: In the matter of
6 Case Number 8668 being reopened upon application of Howard
7 Olsen to reconsider provisions of Division Order Number
8 R-8031 regarding compulsory pooling of interests in Eddy
9 County, New Mexico.

10 Applicant requests this case
11 be continued to September 6th, 1989.

12 MR. STOGNER: That's Lea
13 County.

14 MR. STOVALL: Is that Lea
15 County? Applicant still requests this case be continued to
16 September 6th, 1989.

17 MR. STOGNER: Case Number 8668
18 will be continued to the Examiner Hearing scheduled for
19 September 6th, 1989.

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21 (Hearing concluded.)

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1 MR. STOGNER: Call next Case
2 Number 8769.

3 MR. STOVALL: Also in the
4 matter -- this is the matter of Case 8769 being reopened
5 upon the application of Howard Olsen to reconsider the
6 provisions of Division Order No. R-8091, regarding the
7 application of Doyle Hartman for compulsory pooling of
8 certain interests in Lea County, New Mexico.

9 Applicant requests this case
10 be continued to September 6th, 1989.

11 MR. STOGNER: Case Number 8769
12 is hereby continued to the Examiner Hearing scheduled for
13 September 6th, 1989.

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15 (Hearing concluded.)
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1 MR. STOGNER: Call next Case
2 9707.

3 MR. STOVALL: The application
4 of Meridian Oil, Inc., for an unorthodox coal gas well
5 location, San Juan County, New Mexico.

6 Applicant requests this case
7 be continued to August 23rd, 1989.

8 MR. STOGNER: Case 9707 is so
9 continued.

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11 (Hearing concluded.)

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C E R T I F I C A T E

I, SALLY W. BOYD, C. S. R. DO HEREBY
CERTIFY that the foregoing Transcript of Hearing before the
Oil Conservation Division (Commission) was reported by me;
that the said transcript is a full, true and correct record
of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case Nos. 9712, 9713, 9718, 9760, 9714,
heard by me on 9 August 19 89. 9703, 9716, 9718,
Michael J. [Signature], Examiner 9709, 9719, 9721,
Oil Conservation Division 9722, 8767, 9707