

Commission
1994

MERIDIAN OIL

CASE # 10729

MAY 20, 1993

EXHIBIT 1



Akam

KELLAHIN AND KELLAHIN

ATTORNEYS AT LAW

EL PATIO BUILDING

117 NORTH GUADALUPE

POST OFFICE BOX 2265

SANTA FE, NEW MEXICO 87504-2265

TELEPHONE (505) 982-4285

TELEFAX (505) 982-2047

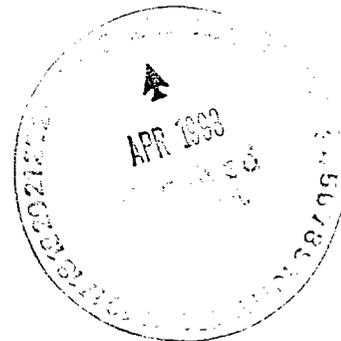
W. THOMAS KELLAHIN*

*NEW MEXICO BOARD OF LEGAL SPECIALIZATION
RECOGNIZED SPECIALIST IN THE AREA OF
NATURAL RESOURCES-OIL AND GAS LAW

JASON KELLAHIN (RETIRED 1991)

April 26, 1993

HAND DELIVERED



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

Re: Canyon Largo Unit #388 Well
Sec. 3, T25N, R6W, NMPM.
Application of MERIDIAN OIL INC.
for a High Angle/Horizontal Directional
Drilling Pilot Project, including Special
Operating Rules therefor, Special
Project Gas Allowable, and a Non-Standard
Proration and Spacing Unit,
Rio Arriba 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 May 20, 1993.

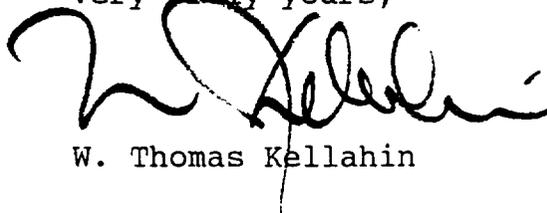
By copy of this letter and application, sent certified mail, we are notifying all interested parties offsetting the subject well and is proposed spacing and proration unit of their right to appear at the hearing and participate in this case, including the right to present evidence either in support of or in opposition to the application.

Mr. William J. LeMay
April 26, 1993
Page Two

Our proposed advertisement to be used for the OCD docket and for the newspaper publication is also enclosed.

In accordance with Division Memorandum 2-90, parties who may appear in this case are hereby requested to file a Pre-Hearing Statement with the Division, copy to the Applicant's attorney, not later than 4:00 PM on Friday, May 14, 1993.

Very truly yours,

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

W. Thomas Kellahin

WTK/mg
Enclosure

cc: Meridian Oil Inc.
Farmington, New Mexico

By Certified Mail - Return Receipt

All Parties Listed on Exhibit "C" of Application

PROPOSED ADVERTISEMENT:

CASE 107--: Application of Meridian Oil Inc. for a high angle/horizontal directional drilling pilot project, special operating rules therefore, a special project gas allowable and a non-standard proration and spacing unit, Rio Arriba County, New Mexico. Applicant seeks authority to initiate a high angle/horizontal directional drilling pilot project in the Blanco Mesaverde Gas Pool, including special operating rules, including a well location and producing window, a special project gas allowable and a non-standard 642.52 acre spacing and proration unit consisting of all of Section 3, T25N, R6W, NMPM, Rio Arriba County, New Mexico, for its Canyon Largo Unit #388 Well to be drilled at a standard surface location 2040 feet FSL and 1625 feet FWL (Unit K) of said Section 3. Applicant further seeks special rules and provision within the pilot project area including the designation of a prescribed area limiting the surface location and the horizontal displacement of the wellbore such that its surface location and producing interval be no closer than 790 feet to the outer boundaries of the non-standard spacing unit. Said project area is located approximately 18 miles south from Counselors, New Mexico.

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:

APPLICATION OF MERIDIAN OIL INC.
FOR A HIGH ANGLE/HORIZONTAL DIRECTIONAL
DRILLING PILOT PROJECT INCLUDING
SPECIAL OPERATING RULES, A SPECIAL
PROJECT GAS ALLOWABLE AND A NON-STANDARD
SPACING AND PRORATION UNIT,
RIO ARRIBA COUNTY, NEW MEXICO

A P P L I C A T I O N

Comes now MERIDIAN OIL INC., by and through its attorneys, Kellahin and Kellahin, and applies to the New Mexico Oil Conservation Division for approval for a High Angle/Horizontal Directional Drilling Pilot Project in the Blanco Mesaverde Gas Pool, including Special Operating Rules, a special project gas allowable and a non-standard 642.52 acre spacing and proration unit consisting of all of Section 3, T25N, R6W, NMPM, Rio Arriba County, New Mexico, for its Canyon Largo Unit #388 Well to be drilled at a standard surface location 2040 feet FSL and 1625 feet FWL (Unit K) of said Section 3.

Applicant further seeks special rules and provision within the pilot project area including the designation of a prescribed area limiting the surface location and the horizontal displacement of the wellbore such that its surface location and the well's producing interval be no closer than 790 feet to the outer boundaries of the non-standard spacing unit. In support the Applicant states:

(1) Applicant is the operator of the Canyon Largo Unit which includes, among other sections, all of Section 2, Section 3, Section 4 (except E/2SW/4 and NW/4SE/4), Section 9 (except NW/4NW/4), Section 10 and Section 11, T25N, R6W, NMPM, Rio Arriba County, New Mexico. See Exhibit "A" attached.

(2) Applicant proposes to drill its Canyon Largo Unit #388 Well and attempt to complete it as a high angle/horizontal directional well in the Blanco Mesaverde Gas Pool in the following unconventional manner:

drill vertically from a standard gas well location 1625 feet FWL and 2040 feet FSL (Unit K) of said Section 3 to a depth of approximately 4707 feet (plus or minus 100 feet), kick-off in an east-northeast direction, build angle up to 80-90 degrees and commence drilling horizontally a distance of approximately 3,000 feet.

See Exhibit "B" attached.

(3) The applicant further seeks:

(a) the adoption of special operating provisions and rules within the pilot project area including the designation of a prescribed area limiting the surface location and horizontal displacement of said wellbore such that the surface location and the well's producing interval shall be no closer than 790 feet from the outer boundary of the project area;

(b) the approval of a 642.52-acre non-standard spacing and proration unit ("GPU") comprising all of said Section 3; and

(c) a special project allowable calculated using the General Rules for Prorated Gas Pools of New Mexico but with an acreage factor ("AD factor") of 2.0 being utilized in the calculation.

(4) A copy of Applicant's preliminary projection of a horizontal and vertical plans for the subject well are attached as Exhibit "A."

(5) The drilling-producing window is identified as the area within Section 3 which shall be no closer than 790 feet to the outer spacing unit boundary. See Exhibit "A."

(6) The target point is defined at the actual bottom hole location at the end point of the lateral of the subject well.

(7) The proposed well is located in the southwest edge of the Blanco Mesaverde Pool with the nearest pool well being located some 1.5 miles to the northwest.

(8) The potential productive zone of the Blanco-Mesaverde Gas Pool in this area is the Point Lookout Sandstone which is characterized by relative low matrix permeability and natural fracturing. Past experience in said pool has shown that conventionally drilled (vertical) wells may not adequately develop and produce all of the recoverable reserves in a spacing unit. By drilling a horizontal wellbore, the applicant is attempting to increase the probability of encountering and producing hydrocarbon reserves which may not ultimately be produced by vertical wells, thereby preventing waste.

(9) The well is located within the Blanco Mesaverde Gas Pool and therefore is subject to the special rules and regulations for said pool as promulgated by Division Order R-8170, which among other things require:

(a) Rule 2(a): provides for 320-acre spacing and proration units;

(b) Rule 2(b): provides that wells shall not be located nearer than 790 feet from the outer boundary of the proration unit nor closer than 330 feet to a quarter-quarter section line, with optional second well ("infill well") located in another quarter section from original well.

(10) By combining what would otherwise be two separate spacing and proration units into a single 642.52-acre spacing and proration unit, then at no point in its traverse of the Mesaverde formation does the proposed highly-deviated wellbore encroach upon the 790-foot setback required by the Special Rules and Regulations for the Blanco Mesaverde Gas Pool.

(11) Correlative rights within Section 3 are protected because all interests in the section will be consolidated to receive their proportionate share of production from the well.

(12) In as much as the exact surface location and 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 select a surface location

Application of Meridian Oil Inc.

Page 6

then to drill and produce the well's said lateral
portion anywhere within the drilling-producing window.

(13) As required by Division notice rules, notice is
provided to those offsetting operators as listed on
Exhibit "C" attached.

(14) 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 May 20, 1993 before a duly appointed
Examiner of the Oil Conservation Division and, after
notice and hearing as required by law, the Division enter
its Order granting this application.

Respectfully submitted,

KELLAHIN and KELLAHIN

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

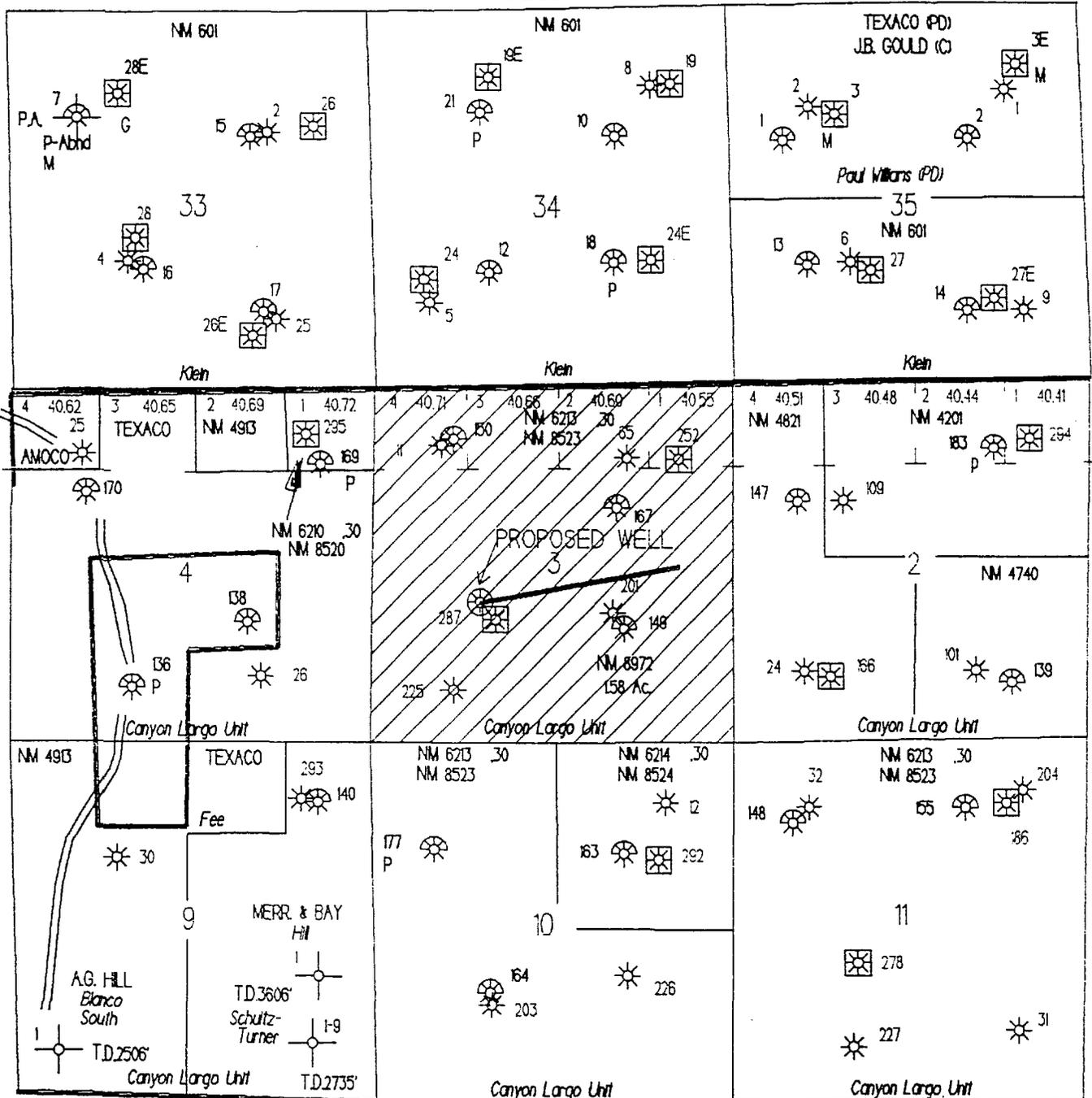
Attorneys for Applicant

App426.331

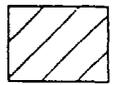
ILLEGIBLE

EXHIBIT A
 CANYON LARGO UNIT # 388 WELL
 1625'FWL, 2040'FSL
 SECTION 3-25N-6W

T26N



- PICTURED CLIFFS WELL
- CHACRA WELL
- MESAVERDE WELL
- DAKOTA WELL



T25N
 SPACING UNIT

MERIDIAN OIL

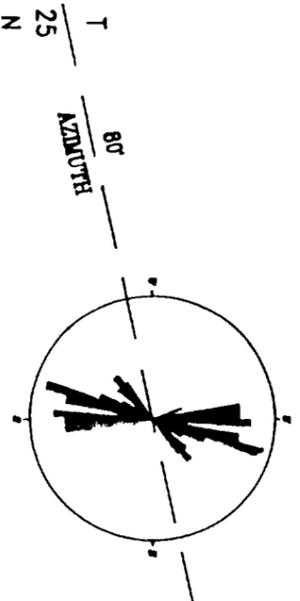
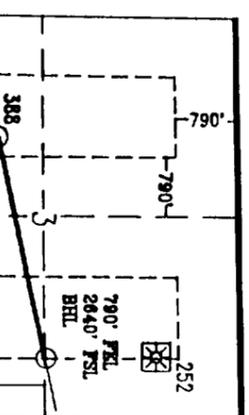
MERIDIAN

Exhibit B

CANYON LARGO UNIT #388
 HORIZONTAL POINT LOOKOUT WELL
 Rio Arriba Co., New Mexico

AREA 3 TEAM

DUGI, C. GROTH
 3/29/93



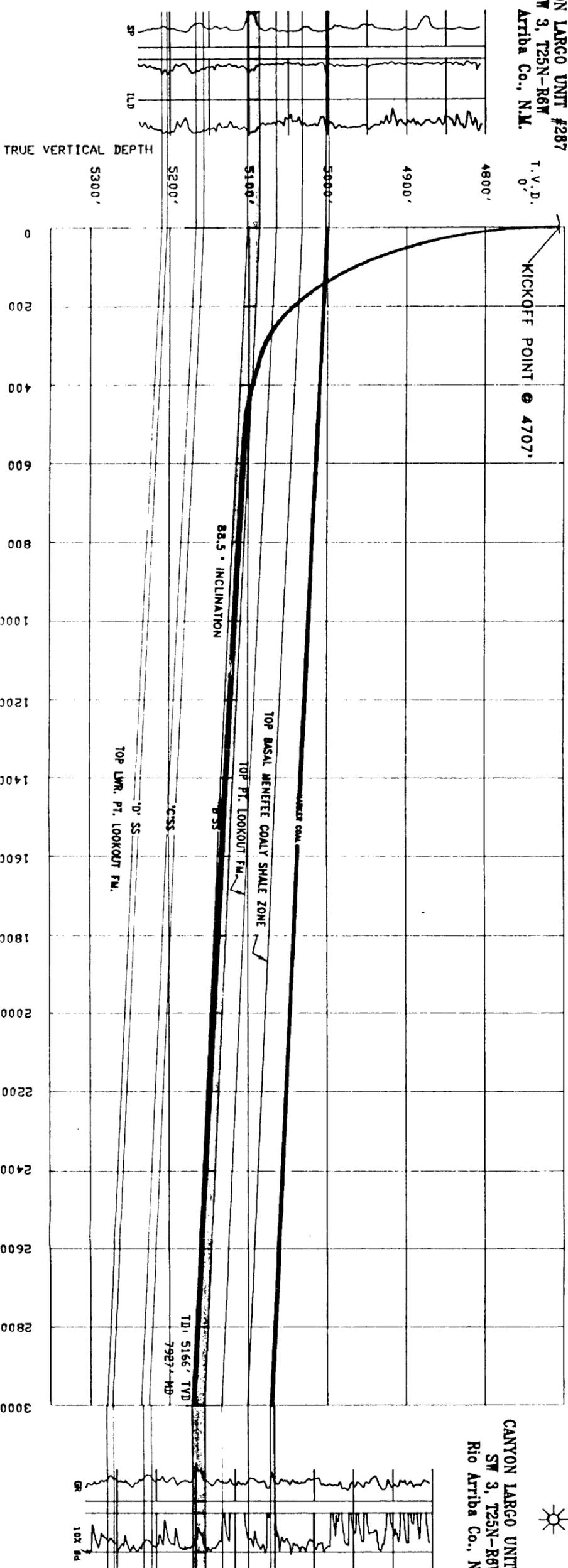
WEST



CANYON LARGO UNIT #287
 SW 3, T25N-R6W
 Rio Arriba Co., N.M.



[65' dip (1.1') over 3000 ft. vertical section]



CANYON LARGO UNIT #287
 SW 3, T25N-R6W
 Rio Arriba Co., N.M.

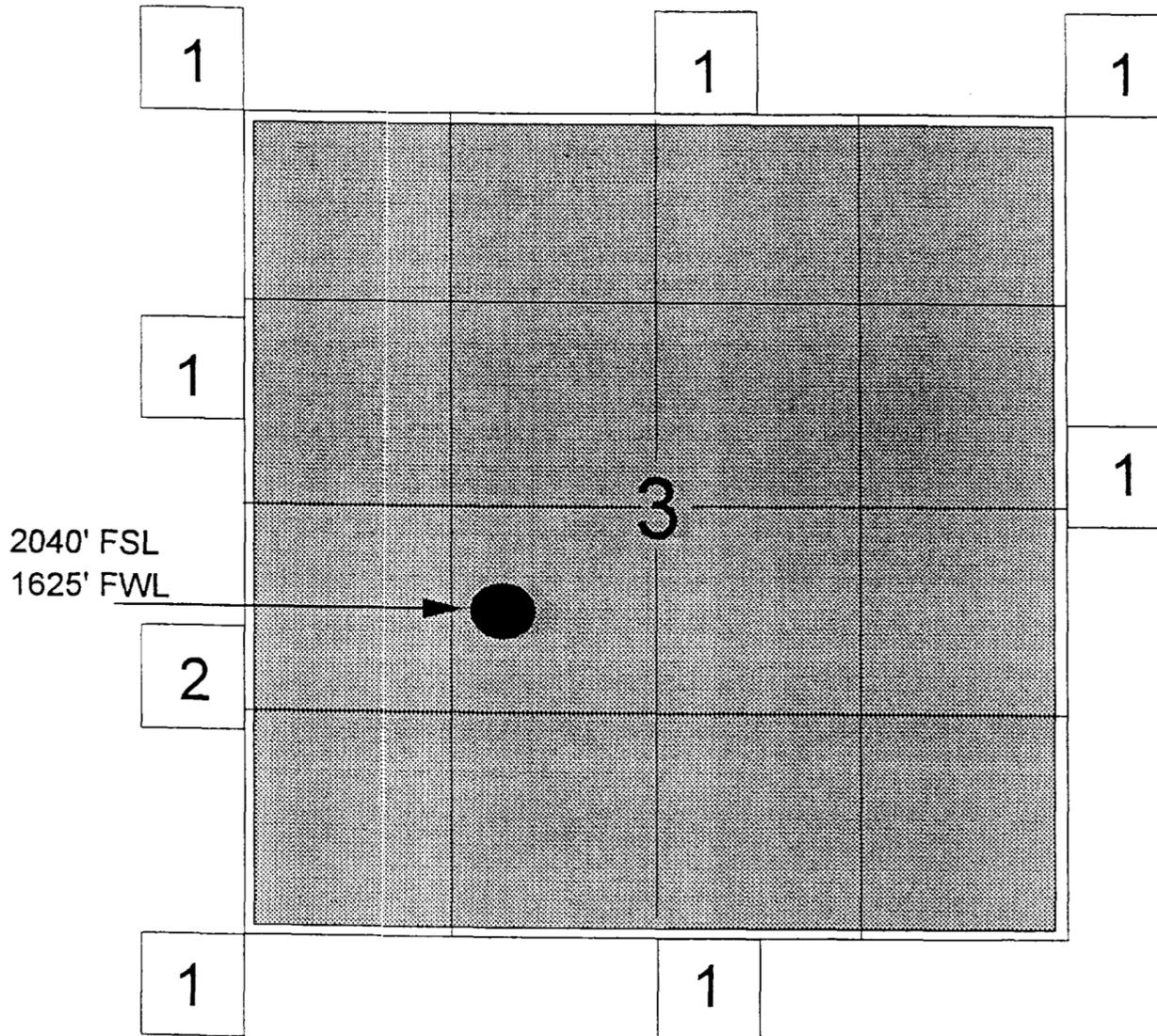


EAST

VERTICAL SECTION

MERIDIAN OIL INC.

OFFSET OPERATOR/OWNER PLAT
Canyon Largo Unit #388
Mesaverde High Angle Well
Township 25 North, Range 6 West



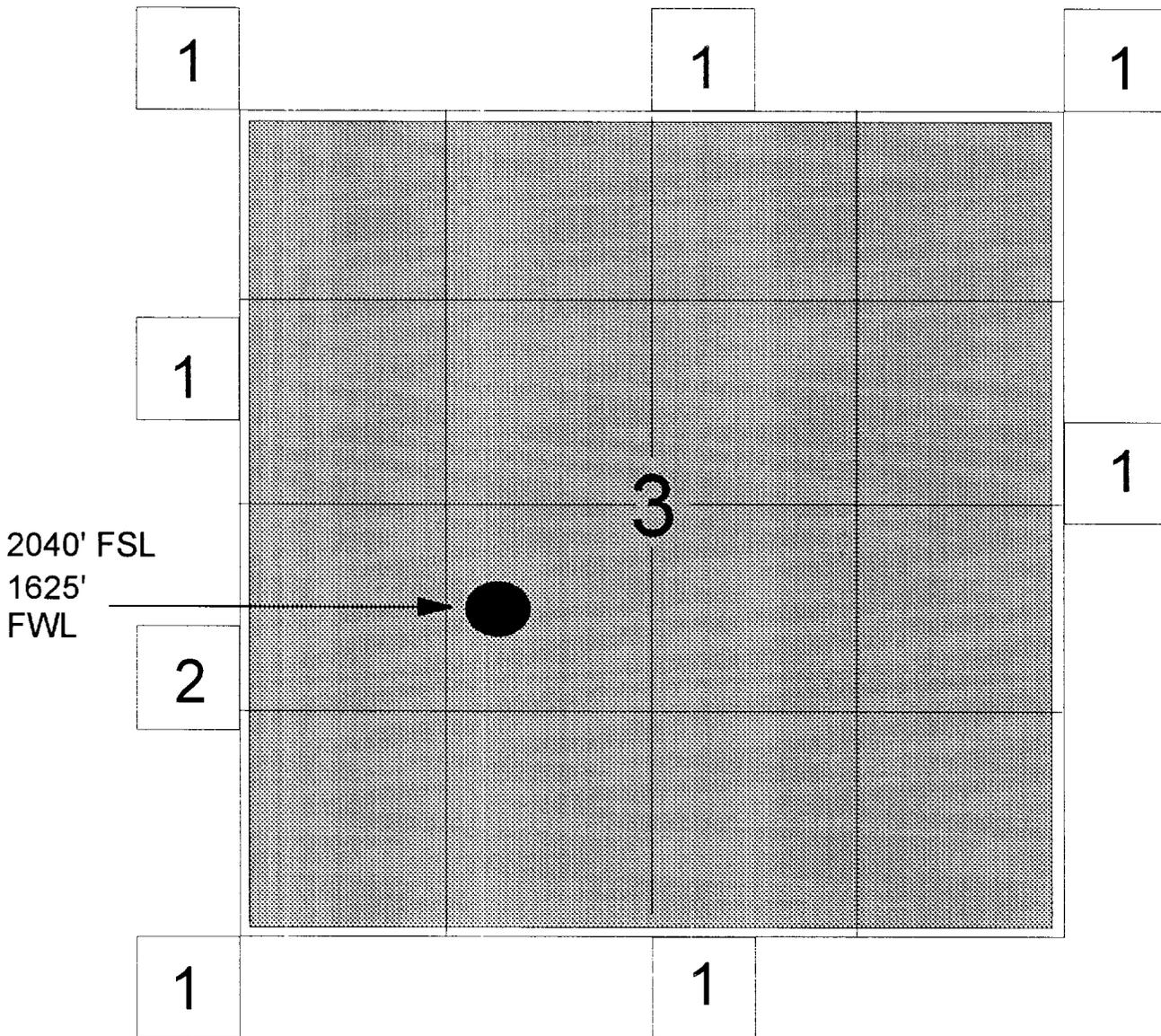
- 1) Meridian Oil Inc., 3535 East 30th St., P.O. Box 4289, Farmington, New Mexico 87499-4289
- 2) Merrion Oil & Gas Corp., P. O. Box 840, 610 Reilly Ave., Farmington, New Mexico 87499
Robert Bayless, P.O. Box 168, 368 NM Highway 170, Farmington, NM 87499

EXHIBIT 2

MERIDIAN OIL INC.

OFFSET OPERATOR/OWNER PLAT

Canyon Largo Unit #388
Mesaverde High Angle Well
Township 25 North, Range 6 West



1) Meridian Oil Inc., 3535 East 30th St., P.O. Box 4289, Farmington, New Mexico 87499-4289

2) Merrion Oil & Gas Corp., P. O. Box 840, 610 Reilly Ave., Farmington, New Mexico 87499
Robert Bayless, P.O. Box 168, 368 NM Highway 170, Farmington, NM 87499

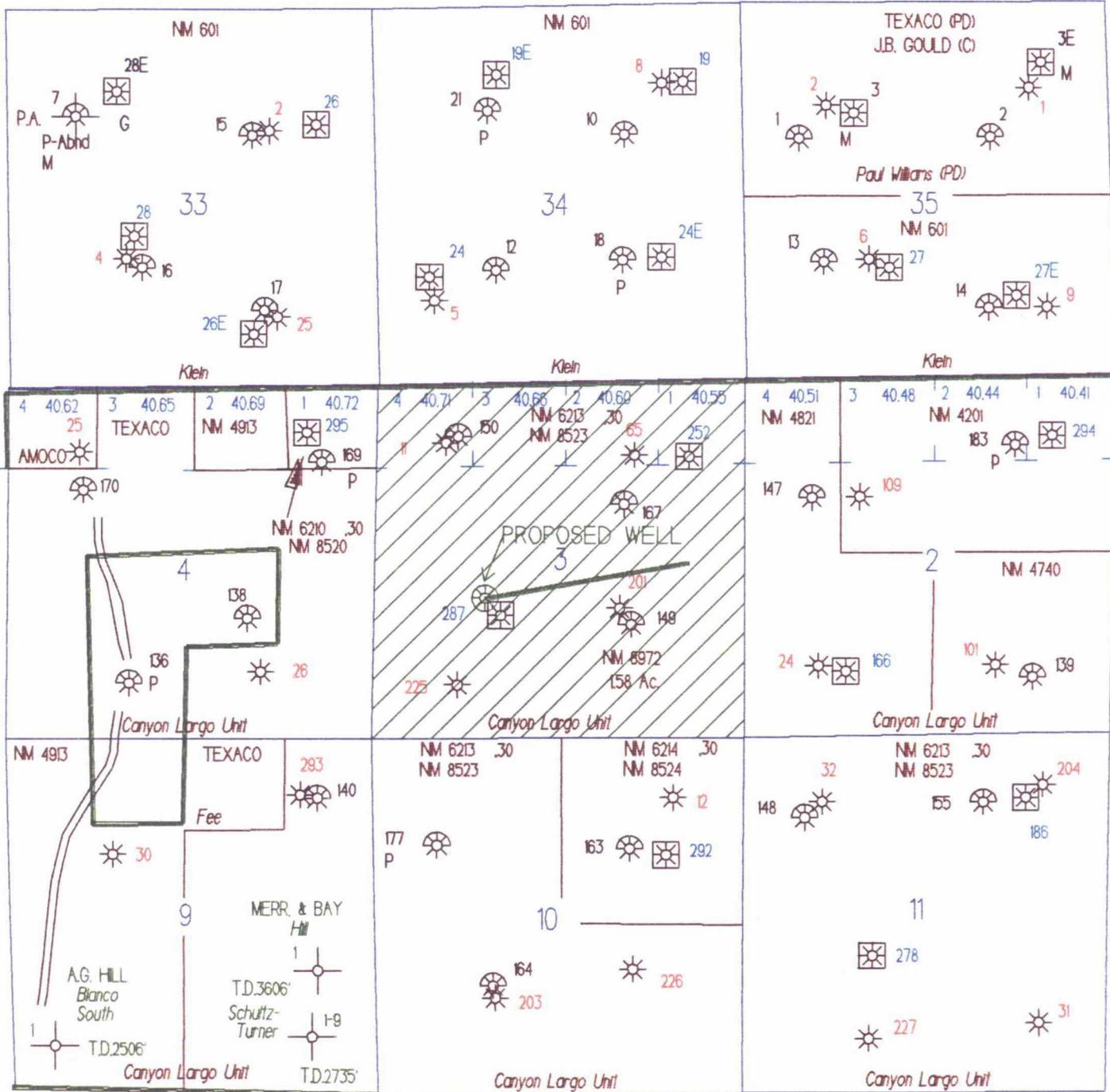
EXHIBIT 3

CANYON LARGO UNIT # 388 WELL

1625'FWL, 2040'FSL

SECTION 3-26N-5W

T26N



T25N

-  PICTURED CLIFFS WELL
-  CHACRA WELL
-  MESAVERDE WELL
-  DAKOTA WELL



SPACING UNIT

MERIDIAN OIL

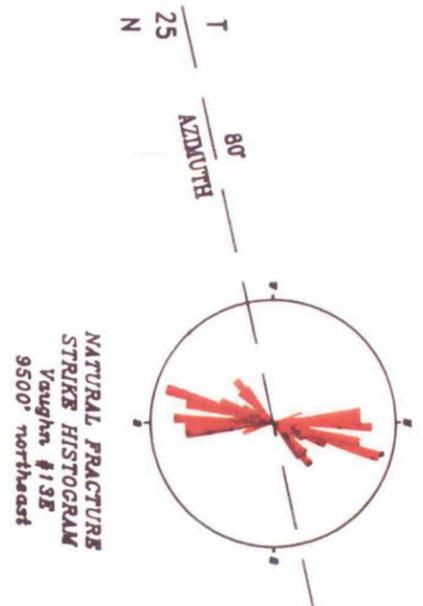
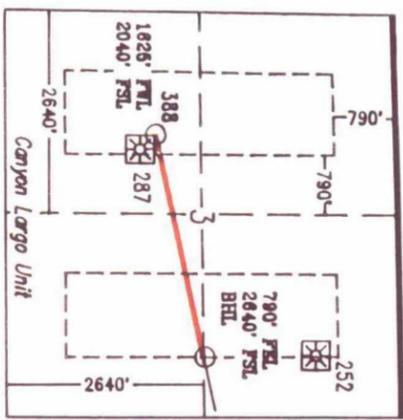
EXHIBIT 4

MERIDIAN OIL

CANYON LARGO UNIT #388
 HORIZONTAL POINT LOOKOUT WELL
 Rio Arriba Co., New Mexico

AREA 3 TEAM
 DVG: C. GROTH
 3/29/93

EAST

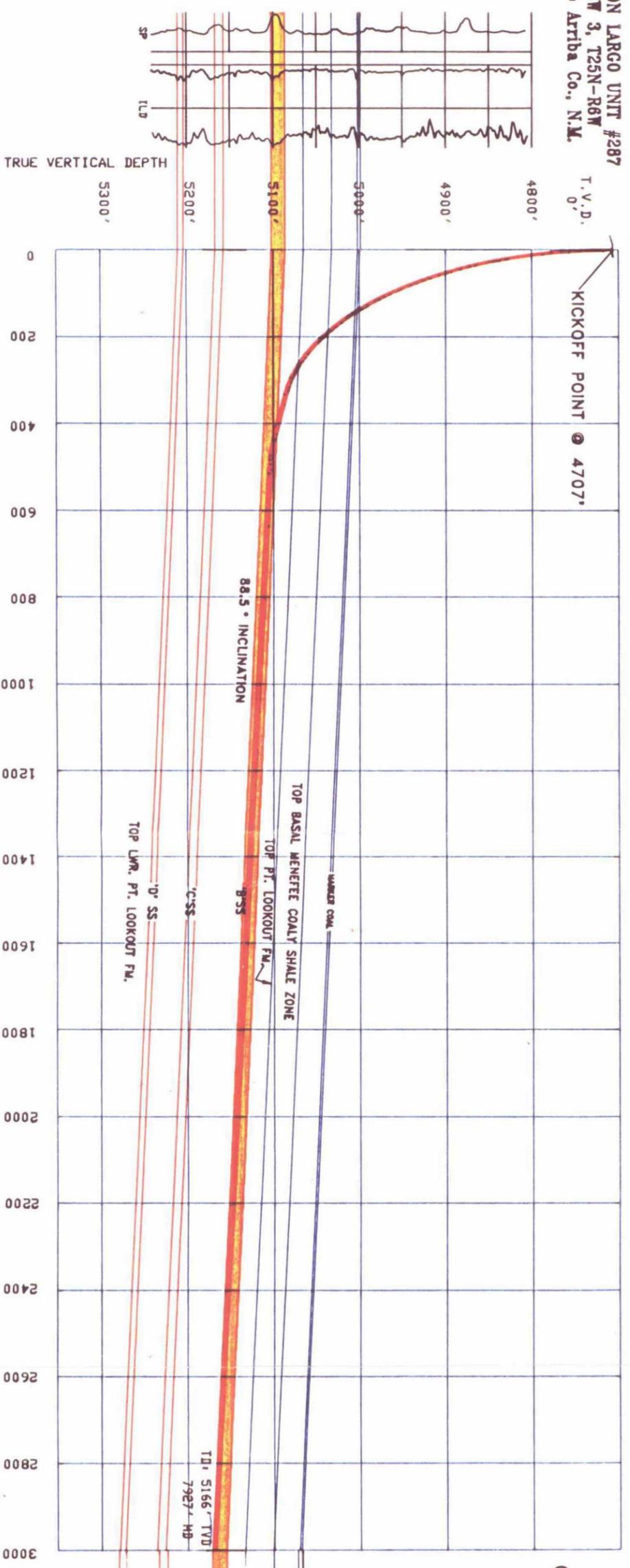


WEST

CANYON LARGO UNIT #287
 SW 3, T25N-R6W
 Rio Arriba Co., N.M.



[65' dip (1.1') over 3000 ft. vertical section]

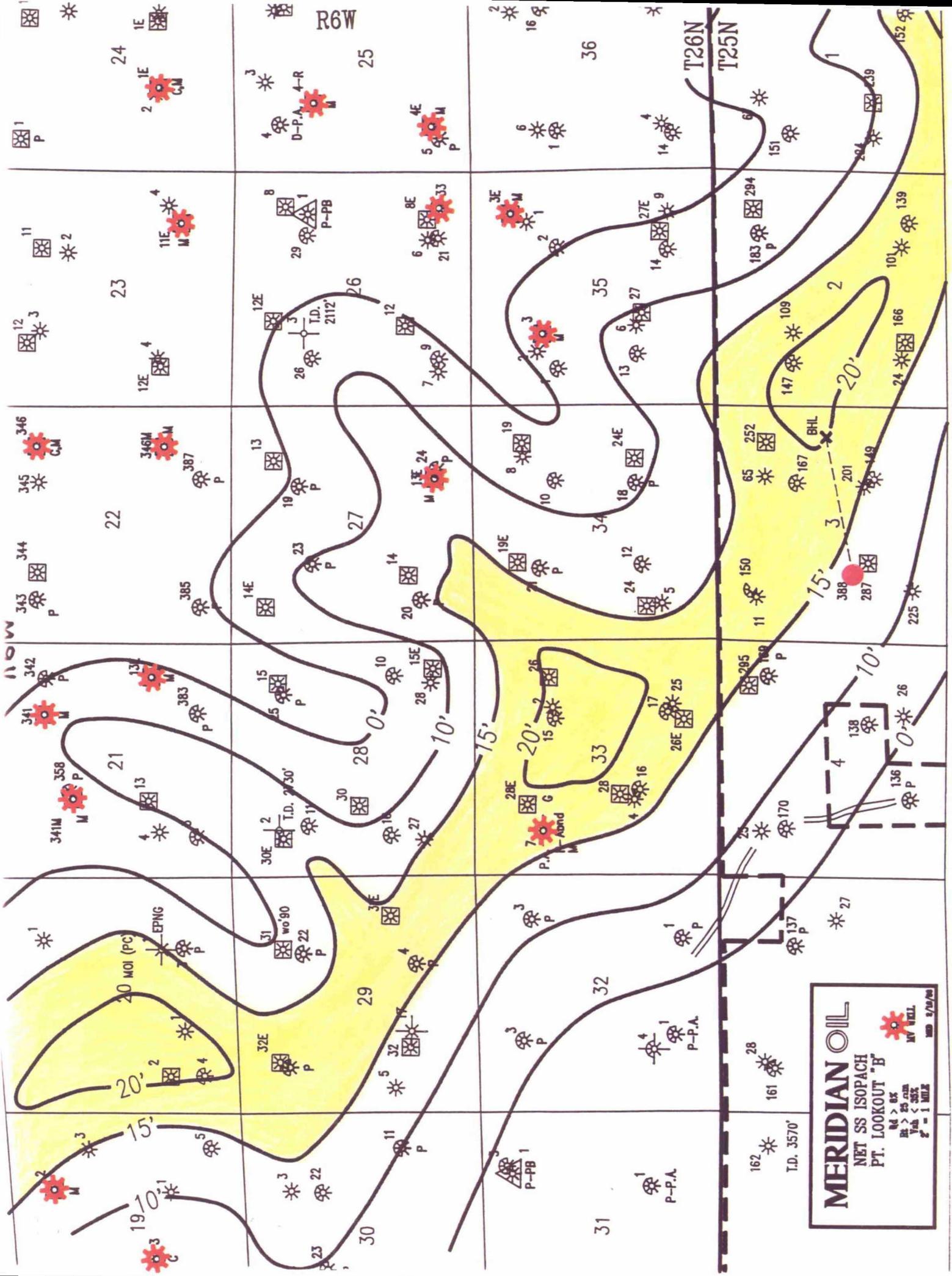


CANYON LARGO UNIT #287
 SW 3, T25N-R6W
 Rio Arriba Co., N.M.



VERTICAL SECTION

EXHIBIT 5



MERIDIAN OIL
 NET SS ISOPACH
 PT. LOOKOUT "B"
 M & W
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 W
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10' > 8X
 15' > 25' 200'
 20' < 300'
 25' - 1 MILE

T26N
T25N

R6W

110W

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EXHIBIT 6

EXHIBIT 7

Meridian Oil Inc.
Canyon Largo Unit #388
2040'FSL, 1625'FWL,
Sec.3, T25N, R6W, NMPM,
Rio Arriba County, New Mexico.

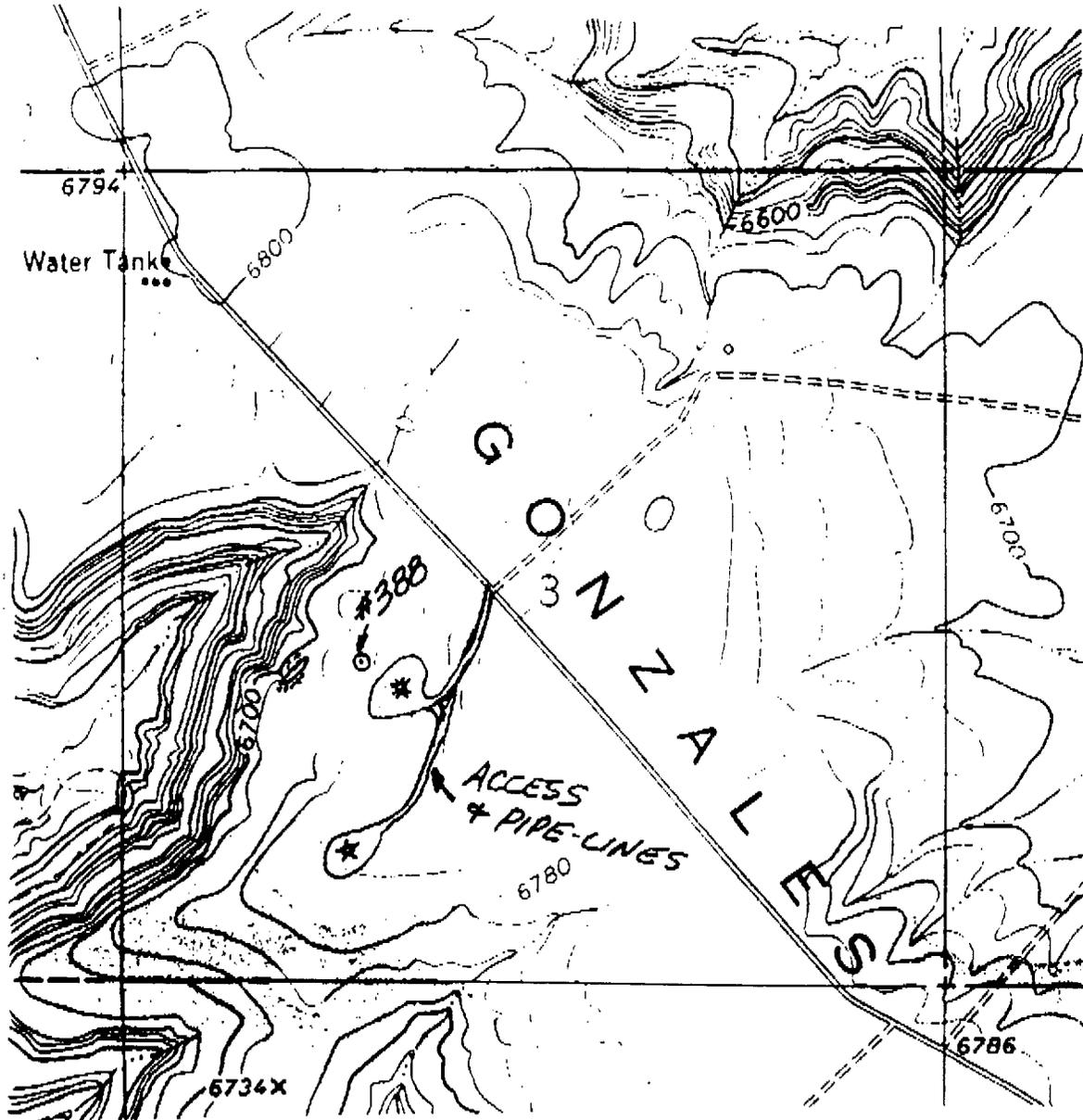


EXHIBIT 8

Is your RETURN ADDRESS completed on the reverse side?

SENDER:

- Complete items 1 and/or 2 for additional services.
- Complete items 3, and 4a & b.
- Print your name and address on the reverse of this form so that we can return this card to you.
- Attach this form to the front of the mailpiece, or on the back if space does not permit.
- Write "Return Receipt Requested" on the mailpiece below the article number.
- The Return Receipt will show to whom the article was delivered and the date delivered.

I also wish to receive the following services (for an extra fee):

- Addressee's Address
- Restricted Delivery

Consult postmaster for fee.

3. Article Addressed to:

Robert Bayless
P.O. Box 168
~~369 NM Highway 170~~
Farmington, NM 87499

4a. Article Number
670 689 571

4b. Service Type

Registered Insured
 Certified COD
 Express Mail Return Receipt for Merchandise

7. Date of Delivery
4-27-93

5. Signature (Addressee)

6. Signature (Agent)
Tom McKeen

8. Addressee's Address (Only if requested and fee is paid)

PS Form 3811, December 1991 U.S. GPO: 1992-323-402

DOMESTIC RETURN RECEIPT

Thank you for using Return Receipt Service.

Is your RETURN ADDRESS completed on the reverse side?

SENDER:

- Complete items 1 and/or 2 for additional services.
- Complete items 3, and 4a & b.
- Print your name and address on the reverse of this form so that we can return this card to you.
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I also wish to receive the following services (for an extra fee):

- Addressee's Address
- Restricted Delivery

Consult postmaster for fee.

3. Article Addressed to:

Merrion Oil & Gas Corp
P.O. Box 840
610 Reilly Avenue
Farmington, New Mexico
87499

4a. Article Number
670 689 572

4b. Service Type

Registered Insured
 Certified COD
 Express Mail Return Receipt for Merchandise

7. Date of Delivery

5. Signature (Addressee)

6. Signature (Agent)
Pamela Mason

8. Addressee's Address (Only if requested and fee is paid)

PS Form 3811, December 1991 U.S. GPO: 1992-323-402

DOMESTIC RETURN RECEIPT

Thank you for using Return Receipt Service.