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WILLIAM K. STRATVERT, COUNSEL
PAUL W. ROBINSON, COUNSEL
RALPH WM. RICHARDS, COUNSEL

PLEASE REPLY TO SANTA FE

May 26, 1998

Case 11996

Lori Wrotenbery, Director
New Mexico Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico 87505

BY FACSIMILE

Re: Application of Pendragon Energy Partners, Inc. and J.K. Edwards Associates, Inc. to
Confirm Production From the Appropriate Common Source of Supply, San Juan County,
New Mexico.

Dear Ms. Wrotenbery:

Enclosed for filing please find a copy of the above-referenced Application to be filed on
behalf of Pendragon Energy Partners, Inc. and J.K. Edwards Associates, Inc. Thank you for
your assistance in this matter.

Sincerely,

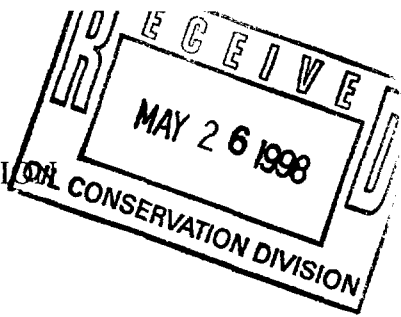
MILLER, STRATVERT & TORGERSON, P.A.

J. Scott Hall

J. Scott Hall

JSH:CMB
Enclosure

BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION



APPLICATION OF PENDRAGON ENERGY
PARTNERS, INC. and J.K. EDWARDS
ASSOCIATES, INC. TO CONFIRM PRODUCTION
FROM THE APPROPRIATE COMMON SOURCE
OF SUPPLY, SAN JUAN COUNTY, NEW MEXICO.

CASE NO. 11996

APPLICATION

Pendragon Energy Partners, Inc. ("Pendragon") and J.K. Edwards Associates, Inc. ("J. K. Edwards") through their counsel, hereby make application to the New Mexico Oil Conservation Division pursuant to Rule 3 of the Special Rules and Regulations for the Basin-Fruitland Coal Gas Pool, Order No. R-8768-A and 19 NMAC 15.N.303.A for an order confirming that certain wells completed within the vertical limits of the WAW Fruitland-Pictured Cliffs Pool and the Basin-Fruitland Coal Gas Pool, respectively, are producing from the appropriate common source of supply. In support of their application, Pendragon and J.K. Edwards state:

1. Pendragon operates the following wells completed in and producing from the WAW Fruitland-Pictured Cliffs Pool in San Juan County, New Mexico:

<u>Well Name</u>	<u>Location</u>
Chaco No. 1	NW 1/4, Section 18, T26N, R12W, N.M.P.M.
Chaco No. 2R	SW 1/4, Section 7, T26N, R12W, N.M.P.M.
Chaco No. 4	NW 1/4, Ssection 7, T26N, R12W, N.M.P.M.
Chaco No. 5	SE 1/4, Section 1, T26N, R13W, N.M.P.M.
Chaco Ltd. No. 1J	SW 1/4 Section 1, T26N, R13W, N.M.P.M.
Chaco Ltd. No. 2J	NE 1/4, Section 1, T26N, R13W, N.M.P.M.

In addition to being the designated Operator of the referenced wells, Pendragon, along

with J.K. Edwards, owns working interests in the acreage dedicated to the subject wells.

2. Whiting Petroleum Corporation (“Whiting”) is the Operator of the following wells completed within the Basin-Fruitland Coal Gas Pool:

<u>Well Name</u>	<u>Location</u>
Gallegos Federal 26-12-6 No. 2	W 1/2, Section 6, T12N, R12W, N.M.P.M.
Gallegos Federal 26-12-7 No. 1	W 1/2, Section 7, T26N, R12W, N.M.P.M.
Gallegos Federal 26-13-1 No. 1	E 1/2, Section 1, T26N, R13 W, N.M.P.M.
Gallegos Federal 26-13-1, No. 2	W 1/2, Section 1, T26N, R13W, N.M.P.M.
Gallegos Federal 26-13-12 No. 1	N 1/2 Section 12, T26N, R13W, N.M.P.M.

In addition to being the designated Operator of the referenced coal gas wells, Whiting, along with Maralex Resources, Inc., (Maralex) owns working interests in the acreage dedicated to the coal gas wells.

3. By Order No. R-8768 and R-8768-A, the Division created a new pool in all or parts of San Juan, Rio Arriba, McKinley and Sandoval Counties, New Mexico classified as a gas pool for production from the Fruitland Coal seams and designated the pool as the Basin-Fruitland Coal Gas Pool. The wells and the lands that are the subject of this application are located within the horizontal limits of the Basin-Fruitland Coal Gas Pool as defined by Order No. R-8768 and R-8768-A. The Order also established the vertical limits of the pool by reference to the stratigraphic depth interval.

4. By Order No. R-8769 entered by the New Mexico Oil Conservation Division on October 17, 1988 in Case No. 9421 and as subsequently amended by Order No. R-8760-A, *nunc pro tunc*, the Division defined the vertical limits of the WAW Fruitland-Pictured Cliffs Pool as

follows:

The vertical limits of the WAW Fruitland-Pictured Cliffs Pool in San Juan County, New Mexico are hereby contracted to include only the Pictured Cliffs formation and the sandstone interval of the Fruitland formation in said pool is hereby redesignated as the WAW Fruitland Sand-Pictured Cliffs pool.

All of the Pendragon operated wells referenced above are completed in and producing from the WAW Fruitland-Pictured Cliffs Pool.

5. Whiting and Maralex by their application, as amended, in Case No. 11921 have alleged generally, without any basis in fact, that as a result of drilling or the fracture stimulation, the Pendragon wells have become communicated with and are producing from the Basin-Fruitland Coal Gas pool. Whiting and Maralex further contend, also without any basis in fact, that the Pendragon wells “are draining reserves owned by Whiting and the other interest owners in its wells, and are impairing their correlative rights.” Pendragon and Edwards deny that the drilling or the fracture stimulation of their Pictured Cliffs wells resulted in the communication of the two pools or that they are producing from the Basin-Fruitland Coal Gas Pool through their Pictured Cliffs completions. Pendragon and Edwards generally deny all other claims and allegations set forth in the Whiting/Maralex application, as amended.

6. Rule 3 of the Special Rules and Regulations for the Basin-Coal Gas pool provide that the Division Director can require the Operator of a Basin Fruitland Coal Gas well, a Fruitland Sandstone well or a Pictured Cliffs Sandstone well to demonstrate to the satisfaction of the Division that the well is producing from the appropriate common source of supply.

7. Rule 19, NMAC 15.N.203.A of the Division’s rules and regulations requires the segregation of production from separate sources of supply. The rule provides:

Each pool shall be produced as a single common source of supply and wells therein shall be completed, cased, maintained and operated so as to prevent communication, within the well bore, within any other specific pool or horizon and the production therefrom shall at all times be actually segregated, and the commingling or confusion of such production, before marketing, with the production from any other pool or pools is strictly prohibited.”

See also, Special Rules 2 and 12, Special Rules and Regulations for the Basin-Fruitland Coal Gas pool.

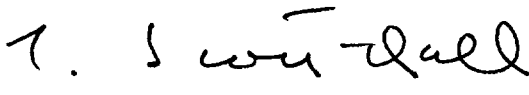
8. Under Section 70-2-6(A) of the New Mexico Oil and Gas Act (N.M. Stat. Ann. 1978, § 70-2-1, *et seq.*) the Division has primary jurisdiction and authority over all matters relating to the conservation of oil and gas and oil or gas operations in this state. In addition, the Division has specific statutory authority to prevent the escape of natural gas from one strata into other strata. N.M. Stat. Ann. 1978, § 70-2-12(B)(2).

The granting of this application is in the interests of the conservation of oil and gas resources and the prevention of waste.

WHEREFORE, Applicants request that this matter be set for hearing before the next scheduled hearing of the Oil Conservation Division and that after notice and hearing as required by law, the Division enter its order requiring the respective operators of the Fruitland Coal Gas wells and the Fruitland Pictured Cliffs sandstone wells to demonstrate are producing from the appropriate common sources of supply and providing such other and further relief as the Division deems appropriate. Applicants also request that this matter be made a part of and consolidated with Case No. 11921 presently pending before the Division.

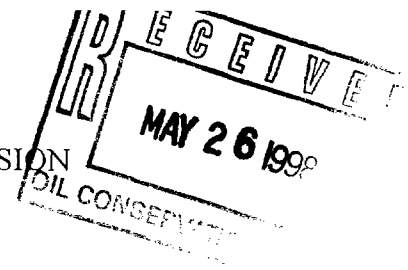
Respectfully submitted,

MILLER, STRATVERT & TORGERSON, P.A.

By 

J. Scott Hall
P.O. Box 1986
Santa Fe, New Mexico 87501-1986
(505) 989-9614
Attorneys for Pendragon Energy Partners, Inc. and
J.K. Edwards Associates, Inc.

BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION



APPLICATION OF PENDRAGON ENERGY
PARTNERS, INC. and J.K. EDWARDS
ASSOCIATES, INC. TO CONFIRM PRODUCTION
FROM THE APPROPRIATE COMMON SOURCE
OF SUPPLY, SAN JUAN COUNTY, NEW MEXICO.

CASE NO. 11996

APPLICATION

Pendragon Energy Partners, Inc. ("Pendragon") and J.K. Edwards Associates, Inc. ("J. K. Edwards") through their counsel, hereby make application to the New Mexico Oil Conservation Division pursuant to Rule 3 of the Special Rules and Regulations for the Basin-Fruitland Coal Gas Pool, Order No. R-8768-A and 19 NMAC 15.N.303.A for an order confirming that certain wells completed within the vertical limits of the WAW Fruitland-Pictured Cliffs Pool and the Basin-Fruitland Coal Gas Pool, respectively, are producing from the appropriate common source of supply. In support of their application, Pendragon and J.K. Edwards state:

1. Pendragon operates the following wells completed in and producing from the WAW Fruitland-Pictured Cliffs Pool in San Juan County, New Mexico:

<u>Well Name</u>	<u>Location</u>
Chaco No. 1 30-045-22307	NW 1/4, Section 18, T26N, R12W, N.M.P.M.
Chaco No. 2R 30-045-23691	SW 1/4, Section 7, T26N, R12W, N.M.P.M.
Chaco No. 4 30-045-22410	NW 1/4, Ssection 7, T26N, R12W, N.M.P.M.
Chaco No. 5 30-045-22411	SE 1/4, Section 1, T26N, R13W, N.M.P.M.
^{Limited} Chaco Ltd. No. 1J 30-045-25134	SW 1/4 Section 1, T26N, R13W, N.M.P.M.
^{Limited} Chaco Ltd. No. 2J 30-045-23593	NE 1/4, Section 1, T26N, R13W, N.M.P.M.

In addition to being the designated Operator of the referenced wells, Pendragon, along

with J.K. Edwards, owns working interests in the acreage dedicated to the subject wells.

2. Whiting Petroleum Corporation ("Whiting") is the Operator of the following wells completed within the Basin-Fruitland Coal Gas Pool:

<u>Well Name</u>	<u>Location</u>
Gallegos Federal ²⁶ 26-12-6 No. 2 30-045-28898	W 1/2, Section 6, T 26 ²⁶ N, R12W, N.M.P.M.
Gallegos Federal 26-12-7 No. 1 30-045-28899	W 1/2, Section 7, T26N, R12W, N.M.P.M.
Gallegos Federal 26-13-1 No. 1 30-045-28891	E 1/2, Section 1, T26N, R13 W, N.M.P.M.
Gallegos Federal 26-13-1, No. 2 30-045-28892	W 1/2, Section 1, T26N, R13W, N.M.P.M.
Gallegos Federal 26-13-12 No. 1 30-045-28903	N 1/2 Section 12, T26N, R13W, N.M.P.M.

In addition to being the designated Operator of the referenced coal gas wells, Whiting, along with Maralex Resources, Inc., (Maralex) owns working interests in the acreage dedicated to the coal gas wells.

3. By Order No. R-8768 and R-8768-A, the Division created a new pool in all or parts of San Juan, Rio Arriba, McKinley and Sandoval Counties, New Mexico classified as a gas pool for production from the Fruitland Coal seams and designated the pool as the Basin-Fruitland Coal Gas Pool. The wells and the lands that are the subject of this application are located within the horizontal limits of the Basin-Fruitland Coal Gas Pool as defined by Order No. R-8768 and R-8768-A. The Order also established the vertical limits of the pool by reference to the stratigraphic depth interval.

4. By Order No. R-8769 entered by the New Mexico Oil Conservation Division on October 17, 1988 in Case No. 9421 and as subsequently amended by Order No. R-8760-A, *nunc pro tunc*, the Division defined the vertical limits of the WAW Fruitland-Pictured Cliffs Pool as

follows:

The vertical limits of the WAW Fruitland-Pictured Cliffs Pool in San Juan County, New Mexico are hereby contracted to include only the Pictured Cliffs formation and the sandstone interval of the Fruitland formation in said pool is hereby redesignated as the WAW Fruitland Sand-Pictured Cliffs pool.

All of the Pendragon operated wells referenced above are completed in and producing from the WAW Fruitland-Pictured Cliffs Pool.

5. Whiting and Maralex by their application, as amended, in Case No. 11921 have alleged generally, without any basis in fact, that as a result of drilling or the fracture stimulation, the Pendragon wells have become communicated with and are producing from the Basin-Fruitland Coal Gas pool. Whiting and Maralex further contend, also without any basis in fact, that the Pendragon wells “are draining reserves owned by Whiting and the other interest owners in its wells, and are impairing their correlative rights.” Pendragon and Edwards deny that the drilling or the fracture stimulation of their Pictured Cliffs wells resulted in the communication of the two pools or that they are producing from the Basin-Fruitland Coal Gas Pool through their Pictured Cliffs completions. Pendragon and Edwards generally deny all other claims and allegations set forth in the Whiting/Maralex application, as amended.

6. Rule 3 of the Special Rules and Regulations for the Basin-Coal Gas pool provide that the Division Director can require the Operator of a Basin Fruitland Coal Gas well, a Fruitland Sandstone well or a Pictured Cliffs Sandstone well to demonstrate to the satisfaction of the Division that the well is producing from the appropriate common source of supply.

7. Rule 19, NMAC 15.N.203.A of the Division’s rules and regulations requires the segregation of production from separate sources of supply. The rule provides:

Each pool shall be produced as a single common source of supply and wells therein shall be completed, cased, maintained and operated so as to prevent communication, within the well bore, within any other specific pool or horizon and the production therefrom shall at all times be actually segregated, and the commingling or confusion of such production, before marketing, with the production from any other pool or pools is strictly prohibited.”

See also, Special Rules 2 and 12, Special Rules and Regulations for the Basin-Fruitland Coal Gas pool.

8. Under Section 70-2-6(A) of the New Mexico Oil and Gas Act (N.M. Stat. Ann. 1978, § 70-2-1, *et seq.*) the Division has primary jurisdiction and authority over all matters relating to the conservation of oil and gas and oil or gas operations in this state. In addition, the Division has specific statutory authority to prevent the escape of natural gas from one strata into other strata. N.M. Stat. Ann. 1978, § 70-2-12(B)(2).

The granting of this application is in the interests of the conservation of oil and gas resources and the prevention of waste.

WHEREFORE, Applicants request that this matter be set for hearing before the next scheduled hearing of the Oil Conservation Division and that after notice and hearing as required by law, the Division enter its order requiring the respective operators of the Fruitland Coal Gas wells and the Fruitland Pictured Cliffs sandstone wells to demonstrate are producing from the appropriate common sources of supply and providing such other and further relief as the Division deems appropriate. Applicants also request that this matter be made a part of and consolidated with Case No. 11921 presently pending before the Division.

Respectfully submitted,

MILLER, STRATVERT & TORGERSON, P.A.

By J. Scott Hall

J. Scott Hall

P.O. Box 1986

Santa Fe, New Mexico 87501-1986

(505) 989-9614

Attorneys for Pendragon Energy Partners, Inc. and
J.K. Edwards Associates, Inc.

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. 9421
Order No. R-8769

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION ON ITS OWN MOTION FOR
AN ORDER CONTRACTING THE VERTICAL
LIMITS AND REDESIGNATING CERTAIN
POOLS IN SAN JUAN AND RIO ARriba
COUNTIES, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:30 a.m. on July 6, 1988, at Farmington, New Mexico, before Examiner David R. Catanach.

NOW, on this 17th day of October, 1988, 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) Division Case Nos. 9421 and 9420 were consolidated at the time of the hearing for the purpose of testimony.
- (3) By Order No. R-8768, entered in companion Case No. 9420, the Division has created and defined the Basin-Fruitland Coal Gas Pool with vertical limits comprising all coal seams within the equivalent of the stratigraphic interval from a depth of approximately 2450 feet to 2880 feet as shown on the Gamma Ray/Bulk Density Log from Amoco Production Company's Schneider Gas Com "B" Well No. 1 located 1110 feet from the South line and 1185 feet from the West line of Section 28, Township 32 North, Range 10 West, NMPM, San Juan County, New Mexico.

(4) The proposed contraction of the vertical limits of the Mt. Nebo-Fruitland Pool in San Juan County, New Mexico, should be dismissed inasmuch as Division Order No. R-7588-B approved said contraction.

(5) There is need for the contraction of the vertical limits and the redesignation of the Aztec-Fruitland Pool, the North Aztec-Fruitland Pool, the Blanco-Fruitland Pool, the Conner-Fruitland Pool, the Crouch Mesa-Fruitland Pool, the Farmer-Fruitland Pool, the Flora Vista-Fruitland Pool, the Gallegos-Fruitland Pool, the South Gallegos Fruitland-Pictured Cliffs Pool, the Glades-Fruitland Pool, the Harper Hill Fruitland-Pictured Cliffs Pool, the Jasis Canyon-Fruitland Pool, the Kutz-Fruitland Pool, the West Kutz-Fruitland Pool, the North Los Pinos-Fruitland Pool, the South Los Pinos Fruitland-Pictured Cliffs Pool, the Ojo Fruitland-Pictured Cliffs Pool, the Pinon-Fruitland Pool, the North Pinon-Fruitland Pool, the Pump Mesa-Fruitland Pool, the Sedro Canyon-Fruitland Pool, the Twin Mounds Fruitland-Pictured Cliffs Pool, and the WAW Fruitland-Pictured Cliffs Pool, all in San Juan County, New Mexico, and the Cottonwood-Fruitland Pool and the La Jara-Fruitland Pool, both in Rio Arriba County, New Mexico, to include only the sandstone intervals.

IT IS THEREFORE ORDERED THAT:

(a) The vertical limits of the Aztec-Fruitland Pool in San Juan County, New Mexico, are hereby contracted to include only the sandstone interval of the Fruitland formation and said pool is hereby redesignated as the Aztec-Fruitland Sand Pool.

(b) The vertical limits of the North Aztec-Fruitland Pool in San Juan County, New Mexico, are hereby contracted to include only the sandstone interval of the Fruitland formation and said pool is hereby redesignated as the North Aztec-Fruitland Sand Pool.

(c) The vertical limits of the Blanco-Fruitland Pool in San Juan County, New Mexico, are hereby contracted to include only the sandstone interval of the Fruitland formation and said pool is hereby redesignated as the Blanco-Fruitland Sand Pool.

(d) The vertical limits of the Conner-Fruitland Pool in San Juan County, New Mexico, are hereby contracted to include only the sandstone interval of the Fruitland formation and said pool is hereby redesignated as the Conner-Fruitland Sand Pool.

(e) The vertical limits of the Cottonwood-Fruitland Pool in Rio Arriba County, New Mexico, are hereby contracted to include only the sandstone interval of the Fruitland formation and said pool is hereby redesignated as the Cottonwood-Fruitland Sand Pool.

(f) The vertical limits of the Crouch Mesa-Fruitland Pool in San Juan County, New Mexico, are hereby contracted to include only the sandstone interval of the Fruitland formation and said pool is hereby redesignated as the Crouch Mesa-Fruitland Sand Pool.

(g) The vertical limits of the Farmer-Fruitland Pool in San Juan County, New Mexico, are hereby contracted to include only the sandstone interval of the Fruitland formation and said pool is hereby redesignated as the Farmer-Fruitland Sand Pool.

(h) The vertical limits of the Flora Vista-Fruitland Pool in San Juan County, New Mexico, are hereby contracted to include only the sandstone interval of the Fruitland formation and said pool is hereby redesignated as the Flora Vista-Fruitland Sand Pool.

(i) The vertical limits of the Gallegos-Fruitland Pool in San Juan County, New Mexico, are hereby contracted to include only the sandstone interval of the Fruitland formation and said pool is hereby redesignated as the Gallegos-Fruitland Sand Pool.

(j) The vertical limits of the South Gallegos Fruitland-Pictured Cliffs Pool in San Juan County, New Mexico, are hereby contracted to include only the sandstone interval of the Fruitland formation and said pool is hereby redesignated as the South Gallegos Fruitland Sand-Pictured Cliffs Pool.

(k) The vertical limits of the Glades-Fruitland Pool in San Juan County, New Mexico, are hereby contracted to include only the sandstone interval of the Fruitland formation and said pool is hereby redesignated as the Glades-Fruitland Sand Pool.

(l) The vertical limits of the Harper Hill Fruitland-Pictured Cliffs Pool in San Juan County, New Mexico, are hereby contracted to include only the sandstone interval of the Fruitland formation and said pool is hereby redesignated as the Harper Hill Fruitland Sand-Pictured Cliffs Pool.

(m) The vertical limits of the Jasis Canyon-Fruitland Pool in San Juan County, New Mexico, are hereby contracted to include only the sandstone interval of the Fruitland formation and said pool is hereby redesignated as the Jasis Canyon-Fruitland Sand Pool.

(n) The vertical limits of the Kutz-Fruitland Pool in San Juan County, New Mexico, are hereby contracted to include only the sandstone interval of the Fruitland formation and said pool is hereby redesignated as the Kutz-Fruitland Sand Pool.

(o) The vertical limits of the West Kutz-Fruitland Pool in San Juan County, New Mexico, are hereby contracted to include only the sandstone interval of the Fruitland formation and said pool is hereby redesignated as the West Kutz-Fruitland Sand Pool.

(p) The vertical limits of the La Jara-Fruitland Pool in Rio Arriba County, New Mexico, are hereby contracted to include only the sandstone interval of the Fruitland formation and said pool is hereby redesignated as the La Jara-Fruitland Sand Pool.

(q) The vertical limits of the North Los Pinos-Fruitland Pool in San Juan County, New Mexico, are hereby contracted to include only the sandstone interval of the Fruitland formation and said pool is hereby redesignated as the North Los Pinos-Fruitland Sand Pool.

(r) The vertical limits of the South Los Pinos Fruitland-Pictured Cliffs Pool in San Juan County, New Mexico, are hereby contracted to include only the sandstone interval of the Fruitland formation and said pool is hereby redesignated as the South Los Pinos Fruitland Sand-Pictured Cliffs Pool.

(s) The proposed contraction of the vertical limits of the Mt. Nebo-Fruitland Pool in San Juan County, New Mexico, is hereby dismissed.

(t) The vertical limits of the Ojo Fruitland-Pictured Cliffs Pool in San Juan County, New Mexico, are hereby contracted to include only the sandstone interval of the Fruitland formation and said pool is hereby redesignated as the Ojo Fruitland Sand-Pictured Cliffs Pool.

(u) The vertical limits of the Pinon-Fruitland Pool in San Juan County, New Mexico, are hereby contracted to include only the sandstone interval of the Fruitland formation and said pool is hereby redesignated as the Pinon-Fruitland Sand Pool.

(v) The vertical limits of the North Pinon-Fruitland Pool in San Juan County, New Mexico, are hereby contracted to include only the sandstone interval of the Fruitland formation and said pool is hereby redesignated as the North Pinon-Fruitland Sand Pool.

(w) The vertical limits of the Pump Mesa-Fruitland Pool in San Juan County, New Mexico, are hereby contracted to include only the sandstone interval of the Fruitland formation and said pool is hereby redesignated as the Pump Mesa-Fruitland Sand Pool.

(x) The vertical limits of the Sedro Canyon-Fruitland Pool in San Juan County, New Mexico, are hereby contracted to include only the sandstone interval of the Fruitland formation and said pool is hereby redesignated as the Sedro Canyon-Fruitland Sand Pool.

(y) The vertical limits of the Twin Mounds Fruitland-Pictured Cliffs Pool in San Juan County, New Mexico, are hereby contracted to include only the sandstone interval of the Fruitland formation and said pool is hereby redesignated as the Twin Mounds Fruitland Sand-Pictured Cliffs Pool.

(z) The vertical limits of the WAW Fruitland-Pictured Cliffs Pool in San Juan County, New Mexico, are hereby contracted to include only the sandstone interval of the Fruitland formation and said pool is hereby redesignated as the WAW Fruitland Sand-Pictured Cliffs Pool.

IT IS FURTHER ORDERED THAT:

(1) The effective date of this order and all contractions of vertical limits and redesignations included herein shall be November 1, 1988.

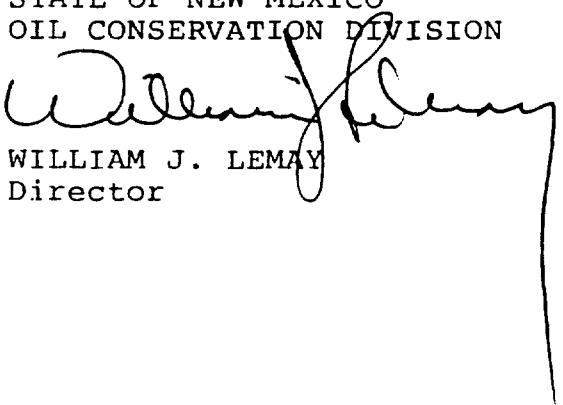
-6-

Case No. 9421

Order No. R-8769

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

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


WILLIAM J. LEMAY
Director

S E A L

fd/

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

CASE NO. 9421
ORDER NO. R-8769-A

IN THE MATTER OF THE HEARING CALLED
BY THE OIL CONSERVATION DIVISION ON
ITS OWN MOTION FOR AN ORDER CONTRACTING
THE VERTICAL LIMITS AND REDESIGNATING
CERTAIN POOLS IN SAN JUAN AND RIO ARriba
COUNTIES, NEW MEXICO.

NUNC PRO TUNC ORDER

BY THE DIVISION:

It appearing to the Division that Order No. R-8769 dated October 17, 1988,
does not correctly state the intended order of the Division,

IT IS THEREFORE ORDERED THAT:

(1) Decretory Paragraph (j) on page 3 of said Order No. R-8769 be and
the same is hereby amended to read as follows:

"(j) The vertical limits of the South Gallegos Fruitland-Pictured
Cliffs Pool in San Juan County, New Mexico, are hereby contracted
to include only the Pictured Cliffs formation and the sandstone
interval of the Fruitland formation and said pool is hereby
redesignated as the South Gallegos Fruitland Sand-Pictured Cliffs
Pool."

(2) Decretory Paragraph (l) on page 3 of said Order No. R-8769 be and
the same is hereby amended to read as follows:

"(l) The vertical limits of the Harper Hill Fruitland-Pictured Cliffs
Pool in San Juan County, New Mexico, are hereby contracted to
include only the Pictured Cliffs formation and the sandstone interval
of the Fruitland formation and said pool is hereby redesignated as the
Harper Hill Fruitland Sand-Pictured Cliffs Pool."

(3) Decretory Paragraph (r) on page 4 of said Order No. R-8769 be and the same is hereby amended to read as follows:

"(r) The vertical limits of the South Los Pinos Fruitland-Pictured Cliffs Pool in San Juan County, New Mexico, are hereby contracted to include only the Pictured Cliffs formation and the sandstone interval of the Fruitland formation and said pool is hereby redesignated as the South Los Pinos Fruitland Sand-Pictured Cliffs Pool."

(4) Decretory Paragraph (t) on page 4 of said Order No. R-8769 be and the same is hereby amended to read as follows:

"(t) The vertical limits of the Ojo Fruitland-Pictured Cliffs Pool in San Juan County, New Mexico, are hereby contracted to include only the Pictured Cliffs formation and the sandstone interval of the Fruitland formation and said pool is hereby redesignated as the Ojo Fruitland Sand-Pictured Cliffs Pool."

(5) Decretory Paragraph (y) on page 5 of said Order No. R-8769 be and the same is hereby amended to read as follows:

"(y) The vertical limits of the Twin Mounds Fruitland- Pictured Cliffs Pool in San Juan County, New Mexico, are hereby contracted to include only the Pictured Cliffs formation and the sandstone interval of the Fruitland formation and said pool is hereby redesignated as the Twin Mounds Fruitland Sand-Pictured Cliffs Pool."

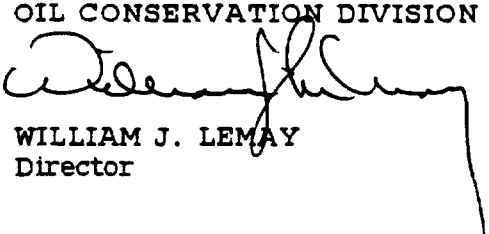
(6) Decretory Paragraph (z) on page 5 of said Order No. R-8769 be and the same is hereby amended to read as follows:

"(z) The vertical limits of the WAW Fruitland-Pictured Cliffs Pool in San Juan County, New Mexico, are hereby contracted to include only the Pictured Cliffs formation and the sandstone interval of the Fruitland formation and said pool is hereby redesignated as the WAW Fruitland Sand-Pictured Cliffs Pool."

(7) The corrections set forth in this order be entered nunc pro tunc as of October 17, 1988.

(8) DONE at Santa Fe, New Mexico, on this 11th day of April, 1989.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


WILLIAM J. LEMAY
Director

S E A L

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. 9420
Order No. R-8768

IN THE MATTER OF THE HEARING CALLED BY
THE OIL CONSERVATION DIVISION (OCD) ON
ITS OWN MOTION FOR POOL CREATION AND
SPECIAL POOL RULES, SAN JUAN, RIO ARRIBA,
MCKINLEY AND SANDOVAL COUNTIES, NEW MEXICO

*See Also Order
No. R-8768-A*

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:30 a.m. on July 6, 1988, at Farmington, New Mexico, before Examiner David R. Catanach.

NOW, on this 17th day of October, 1988, 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) Division Case Nos. 9420 and 9421 were consolidated at the time of the hearing for the purpose of testimony.

(3) The Oil Conservation Division, hereinafter referred to as the "Division", on the recommendations of the Fruitland Coalbed Methane Committee, hereinafter referred to as the "Committee", seeks the creation of a new pool for the production of gas from coal seams within the Fruitland formation underlying the following described area in San Juan, Rio Arriba, McKinley, and Sandoval Counties, New Mexico:

Township 19 North, Ranges 1 West through 6 West;
Township 20 North, Ranges 1 West through 8 West;
Township 21 North, Ranges 1 West through 9 West;
Township 22 North, Ranges 1 West through 11 West;
Township 23 North, Ranges 1 West through 14 West;
Township 24 North, Ranges 1 East through 16 West;
Township 25 North, Ranges 1 East through 16 West;
Township 26 North, Ranges 1 East through 16 West;
Township 27 North, Ranges 1 West through 16 West;
Township 28 North, Ranges 1 West through 16 West;
Township 29 North, Ranges 1 West through 15 West;
Township 30 North, Ranges 1 West through 15 West;
Township 31 North, Ranges 1 West through 15 West;
Township 32 North, Ranges 1 West through 13 West;

(4) The Division further seeks, also upon the recommendations of the Committee, the promulgation of special pool rules, regulations, and operating procedures for said pool including, but not limited to, provisions for 320-acre spacing and proration units, designated well locations, well density, horizontal wellbore and deviated drilling procedures, venting and flaring rules, downhole commingling, and gas well testing requirements.

(5) In companion Case No. 9421, the Division seeks to contract the vertical limits of twenty-six existing Fruitland and/or Fruitland-Pictured Cliffs Gas Pools to include only the Pictured Cliffs sandstone and/or Fruitland sandstone intervals.

(6) The Committee, which included representatives of the oil and gas industry, New Mexico Oil Conservation Division, Colorado Oil and Gas Conservation Commission, Bureau of Land Management, and Southern Ute Indian Tribe, was originally formed in 1986 for the purpose of studying and making recommendations to the Division as to the most orderly and efficient methods of developing coal seam gas within the Fruitland formation.

(7) Geologic evidence presented by the Committee indicates that the Fruitland formation, which is found within the geographic area described above, is composed of alternating layers of shales, sandstones, and coal seams.

(8) The evidence at this time further indicates that the coal seams within the Fruitland formation are potentially productive of natural gas in substantial quantities.

(9) The gas originating from the coal seams within the Fruitland formation is composed predominantly of methane and carbon dioxide and varies significantly from the composition of the gas currently being produced from the sandstone intervals, and as such, represents a separate common source of supply.

(10) A new pool for gas production from coal seams within the Fruitland formation should be created and designated the Basin-Fruitland Coal Gas Pool with vertical limits comprising all coal seams within the equivalent of the stratigraphic interval from a depth of approximately 2450 feet to 2880 feet as shown on the Gamma Ray/Bulk Density log from Amoco Production Company's Schneider Gas Com "B" Well No. 1 located 1110 feet from the South line and 1185 feet from the West line of Section 28, Township 32 North, Range 10 West, NMPM, San Juan County, New Mexico.

(11) The proposed horizontal pool boundary, which represents the geographic area encompassed by the Fruitland formation, contains within it, an area previously defined as the Cedar Hill-Fruitland Basal Coal Gas Pool (created by Division Order No. R-7588 effective February 1, 1984); said area currently comprises Sections 3 through 6 of Township 31 North, Range 10 West, and Sections 19 through 22 and 27 through 34 of Township 32 North, Range 10 West, NMPM, San Juan County, New Mexico.

(12) The proposed horizontal boundary of the Basin-Fruitland Coal Gas Pool should be amended to exclude that acreage currently defined as the Cedar Hill-Fruitland Coal Gas Pool described in Finding No. (11) above.

(13) The Committee has recommended the promulgation of special rules and regulations for the Basin-Fruitland Coal Gas Pool including a provision for 320-acre spacing and proration units, and in support thereof presented pressure

interference data obtained from producing and pressure observation wells located within the Cedar Hill-Fruitland Coal Gas Pool, which indicates definite pressure communication between wells located 2,180 feet apart (radius of drainage of a 320-acre proration unit = 2,106 feet).

(14) Further testimony and evidence indicates that due to the unique producing characteristics of coal seams (i.e. initial inclining production rates), engineering methods such as decline curve analysis and volumetric calculations traditionally used to aid in the determination of proper well spacing, cannot be utilized.

(15) The Committee further recommended the adoption of a provision in the proposed pool rules allowing for the drilling of a second well on a standard 320-acre proration unit in order to give an operator flexibility when addressing regional geologic trends.

(16) Dugan Production Corporation, Merrion Oil and Gas Corporation, Hixon Development Company, Robert L. Bayless, and Jerome P. McHugh and Associates, hereinafter referred to as the "Dugan Group", appeared at the hearing and presented geologic and engineering evidence and testimony in support of a proposal which includes the following:

1. Establishment of an area within the Southern portion of the Basin-Fruitland Coal Gas Pool to be developed on 160-acre spacing and proration units.
2. Creation of a demarcation line and buffer zone separating the 320-acre spacing portion of the pool and the proposed 160-acre spacing portion of the pool.

(17) The Dugan Group owns oil and gas leasehold operating rights in the Fruitland formation in various areas of the San Juan Basin, and currently operates numerous wells producing from coal seam and sandstone intervals within the Fruitland formation.

(18) The Dugan Group has defined the location of the proposed demarcation line and 160-acre spacing area by utilizing a preponderance of geologic factors such as coal rank, depth of burial, thermal maturation, thickness of coal, and amount of gas in place.

(19) In support of the proposed 160-acre spacing area for the subject pool, the Dugan Group presented production data obtained from four producing wells, the Nassau Well Nos. 5, 6, 7, and 8 located in Section 36, Township 27 North, Range 12 West, NMPM, San Juan County, New Mexico, which indicates that the production rate from said Nassau Well No. 5 was unaffected by initiation of 160-acre offset production in said Nassau Well Nos. 6, 7, and 8.

(20) The evidence presented by the Dugan Group further indicates however, that the Nassau Well Nos. 5, 6, 7, and 8 are producing from commingled coal seam and sandstone intervals within the Fruitland formation, and as such, do not conclusively demonstrate 160-acre non-interference exclusively within the coal seams.

(21) Insufficient evidence exists at the current time to justify the creation of a 160-acre spacing area and demarcation line within the Basin-Fruitland Coal Gas Pool.

(22) The best technical evidence available at this time indicates that 320-acre well spacing is the optimum spacing for the entire Basin-Fruitland Coal Gas Pool.

(23) In order to prevent the economic loss caused by the drilling of unnecessary wells, avoid the augmentation of risk arising from the drilling of an excessive number of wells, prevent reduced recovery which might result from the drilling of too few wells, and to otherwise protect correlative rights, special rules and regulations providing for 320-acre spacing units should be promulgated for the Basin-Fruitland Coal Gas Pool.

(24) The special rules and regulations should also provide for restrictive well locations in order to assure orderly development of the subject pool and protect correlative rights.

(25) Due to the relatively large area encompassed by the Basin-Fruitland Coal Gas Pool, and the relatively small amount of reservoir data currently available, the special rules and regulations should be promulgated for a temporary period of two years in order to allow the operators in the subject pool the opportunity to gather additional reservoir data relative to the determination of permanent spacing rules for the subject pool and/or specific areas within the pool.

(26) The evidence and testimony presented at the hearing is insufficient to approve at the present time, the proposed provision allowing for the drilling of a second well on a standard 320-acre proration unit.

(27) The Committee further recommended the adoption of a provision in the Special Rules and Regulations allowing the venting or flaring of gas from a Basin-Fruitland Coal Gas Well during initial testing in an amount not to exceed a cumulative volume of 50 MMCF or a period not to exceed 30 days.

(28) The evidence presented does not justify the establishment of a specific permissible volume of gas to be vented or flared from Basin-Fruitland Coal Gas Wells at this time, however, the supervisor of the Aztec district office of the Division should have the authority to allow such venting or flaring of gas from a well upon a demonstration such flaring or venting is justified and upon written application from the operator.

(29) Evidence and testimony presented at the hearing indicates that the gas well testing requirements as contained in Division Order No. R-333-I may cause damage to a Basin Fruitland Coal Gas Well, and that special testing procedures should be established.

(30) The special rules and regulations promulgated herein should include operating procedures for determination and classification of Basin-Fruitland Coal Gas Wells, horizontal wellbore and deviated drilling procedures, and procedures and guidelines for downhole commingling.

(31) This case should be reopened at an examiner hearing in October, 1990, at which time the operators in the subject pool should be prepared to appear and present evidence and testimony relative to the determination of permanent rules and regulations for the Basin-Fruitland Coal Gas Pool.

IT IS THEREFORE ORDERED THAT:

(1) Effective November 1, 1988, a new pool in all or parts of San Juan, Rio Arriba, McKinley, and Sandoval Counties, New Mexico, classified as a gas pool for production from Fruitland coal seams, is hereby created and designated the Basin-Fruitland Coal Gas Pool, with vertical limits comprising all coal seams within the equivalent of the stratigraphic interval from a depth of approximately 2450 feet to 2880 feet as shown on the Gamma Ray/Bulk Density log from Amoco Production Company's Schneider Gas Com "B" Well No. 1 located 1110 feet from the South line and 1185 feet from the West line of Section 28, Township 32 North, Range 10 West, NMPM, San Juan County, New Mexico.

(2) The horizontal limits of the Basin-Fruitland Coal Gas Pool shall comprise the following described area in all or portions of San Juan, Rio Arriba, McKinley, and Sandoval Counties, New Mexico, with the exception of Section 3 through 6 of Township 31 North, Range 10 West, and Section 19 through 22, and 27 through 34 of Township 32 North, Range 10 West, San Juan County, New Mexico, which said acreage currently comprises the Cedar Hill-Fruitland Basal Coal Gas Pool:

Township 19 North, Ranges 1 West through 6 West;
Township 20 North, Ranges 1 West through 8 West;
Township 21 North, Ranges 1 West through 9 West;
Township 22 North, Ranges 1 West through 11 West;
Township 23 North, Ranges 1 West through 14 West;
Township 24 North, Ranges 1 East through 16 West;
Township 25 North, Ranges 1 East through 16 West;
Township 26 North, Ranges 1 East through 16 West;
Township 27 North, Ranges 1 West through 16 West;
Township 28 North, Ranges 1 West through 16 West;

Township 29 North, Ranges 1 West through 15 West;
Township 30 North, Ranges 1 West through 15 West;
Township 31 North, Ranges 1 West through 15 West;
Township 32 North, Ranges 1 West through 13 West;

(3) Temporary Special Rules and Regulations for the Basin-Fruitland Coal Gas Pool are hereby promulgated as follows:

SPECIAL RULES AND REGULATIONS
FOR THE
BASIN-FRUITLAND COAL GAS POOL

RULE 1. Each well completed or recompleted in the Basin-Fruitland Coal Gas Pool shall be spaced, drilled, operated, and produced in accordance with the Special Rules and Regulations hereinafter set forth.

RULE 2. A gas well within the Basin-Fruitland Coal Gas Pool shall be defined by the Division Director as a well that is producing from the Fruitland coal seams as demonstrated by a preponderance of data which could include the following:

- a. Electric Log Data
- b. Drilling Time
- c. Drill Cuttings or Log Cores
- d. Mud Logs
- e. Completion Data
- f. Gas Analysis
- g. Water Analysis
- h. Reservoir Performance
- i. Other evidence which may be utilized in making such determination.

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.

RULE 4. Each well completed or recompleted in the Basin-Fruitland Coal Gas Pool shall be located on a standard unit containing 320-acres, more or less, comprising any two contiguous quarter sections of a single governmental section, being a legal subdivision of the United States Public Lands Survey.

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 subdivision of the United States Public Lands Survey and the non-standard unit is not less than 75% nor more than 125% of 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 75% or more than 125% 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.

(c) 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.

160 NSP Policy (pursuant to staff meeting 2/22/89)

allow
- if well is existing
- different leases involved

set for hearing it:
- new well
- a 320 can be farmed
covering one lease

Simultaneous Policy can
be ignored:
- if the two wells to be
dedicated to the unit
were existing at the time
of this order pursuant
to # 4 of this order.

(d) In lieu of Paragraph (c) 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.

RULE 7. The first well drilled or recompleted on every standard or non-standard unit in the Basin-Fruitland Coal Gas Pool shall be located in the NE/4 or SW/4 of a single governmental section and shall be located no closer than 790 feet to any outer boundary of the proration unit nor closer than 130 feet to any quarter section line nor closer than 10 feet to any quarter-quarter section line or subdivision inner boundary.

RULE 8. The Division Director may grant an exception to the requirements of Rule (7) without hearing when an application has been filed for an unorthodox location necessitated by topographical conditions, the recompletion of a well previously drilled to a deeper horizon, provided, said well was drilled at an orthodox or approved unorthodox location for such original horizon, or the drilling of an intentionally deviated horizontal wellbore. All operators or owners of undrilled tracts offsetting the proposed location shall be notified of the application by registered or certified mail, and the application shall state that such notice has been furnished. The Director may approve the application upon receipt of written waivers from all parties described above or if no objection to the unorthodox location has been entered within 20 days after the Director has received the application.

RULE 9(A). The Division Director shall have the authority to administratively approve an intentionally deviated well in the Basin-Fruitland Coal Gas Pool for the purpose of penetrating the coalbed seams by means of a wellbore drilled horizontally, provided the following conditions are complied with:

(1) The surface location of the proposed well is a standard location or the applicant has obtained approval of an unorthodox surface location as provided for in Rule (8) above.

(2) The bore hole shall not enter or exit the coalbed seams outside of a drilling window which is in accordance with the setback requirements of Rule (7), provided however, that the 10 foot setback distance requirement from the quarter-quarter section line or subdivision inner boundary shall not apply to horizontally drilled wells.

(B). To obtain administrative approval to drill an intentionally deviated horizontal wellbore, the applicant shall file such application with the Santa Fe and Aztec offices of the Division and shall further provide a copy of such application to all operators or owners of undrilled tracts offsetting the proposed gas proration unit for said well by registered or certified mail, and the application shall state that such notice has been furnished. The application shall further include the following information:

- (1) A copy of Division Form C-102 identifying the proposed proration unit to be dedicated to the well.
- (2) Schematic drawings of the proposed well which fully describe the casing, tubing, perforated or open hole interval, kick-off point, and proposed trajectory of the drainhole section.

The Director may approve the application upon receipt of written waivers from all parties described above or if no objection to the intentionally deviated horizontal wellbore has been entered within 20 days after the Director has received the application. If any objection to the proposed intentionally deviated horizontal well is received within the prescribed time limit as described above, the Director shall, at the applicant's request, set said application for public hearing.

(C). During or upon completion of drilling operations the operator shall further be required to conduct a directional survey on the vertical and lateral portions of the wellbore and shall submit a copy of said survey to the Santa Fe and Aztec offices of the Division.

(D). The Division Director, at his discretion, may set any application for intentionally deviated horizontal wellbores for public hearing.

RULE 10. Notwithstanding the provisions of Division Rule No. 404, the Supervisor of the Aztec district office of the Division shall have the authority to approve the venting or flaring of gas from a Basin-Fruitland Coal Gas Well upon a determination that said venting or flaring is necessary during completion operations, to obtain necessary well test information, or to maintain the producibility of said well. Application to flare or vent gas shall be made in writing to the Aztec district office of the Division.

RULE 11. Testing requirements for a Basin-Fruitland Coal Gas well hereinafter set forth may be used in lieu of the testing requirements contained in Division Order No. R-333-I. The test shall consist of a minimum twenty-four hour shut-in period, and a three hour production test. The Division Director shall have the authority to modify the testing requirements contained herein upon a showing of need for such modification. The following information from this initial production test must be reported:

1. The surface shut-in tubing and/or casing pressure and date these pressures were recorded.
2. The length of the shut-in period.
3. The final flowing casing and flowing tubing pressures and the duration and date of the flow period.

4. The individual fluid flow rate of gas, water, and oil which must be determined by the use of a separator and measurement facilities approved by the Supervisor of the Aztec district office of the Division; and
5. The method of production, e.g. flowing, pumping, etc. and disposition of gas.

RULE 12. The Division Director shall have the authority to approve the commingling within the wellbore of gas produced from coal seams and sandstone intervals within the Fruitland and/or Pictured Cliffs formations where a finding has been made that a well is not producing entirely from either coal seams or sandstone intervals as determined by the Division. All such applications shall be submitted to the Santa Fe office of the Division and shall contain all the necessary information as described in General Rule 303 (C) of the Division Rules and Regulation, and shall meet the prerequisites described in 303 (C)(1)(b). In addition, the Division Director may require the submittal of additional well data as may be required to process such application.

RULE 13. The Division Director may approve the commingling within the wellbore of gas produced from coal seams and sandstone intervals within the Fruitland and/or Pictured Cliffs formations where a well does not meet the prerequisites as described in General Rule 303 (C)(1)(b) provided that such commingling had been accomplished prior to July 1, 1988, and provided further that the application is filed as described in Rule (12).

IT IS FURTHER ORDERED THAT:

(4) The locations of all wells presently drilling to, completed in, commingled in, or having an approved APD for the Basin-Fruitland Coal Gas Pool are hereby approved; the operator of any well having an unorthodox location shall notify the Aztec district office of the Division in writing of the name and location of the well within 30 days from the date of this order.

(5) Pursuant to Paragraph A. of Section 70-2-18, N.M.S.A. 1978, Comp., contained in Laws of 1969, Chapter 271, existing gas wells in the Basin-Fruitland Coal Gas Pool shall have dedicated thereto 320 acres in accordance with the foregoing pool rules; or, pursuant to Paragraph C. of said Section 70-2-18, existing wells may have non-standard spacing and proration units established by the Division and dedicated thereto.

(6) In accordance with (5) above, the operator shall file a new Form C-102 dedicating 320 acres to the well or shall obtain a non-standard unit approved by the Division. The operator shall also file a new C-104 with the Aztec district office of the Division.

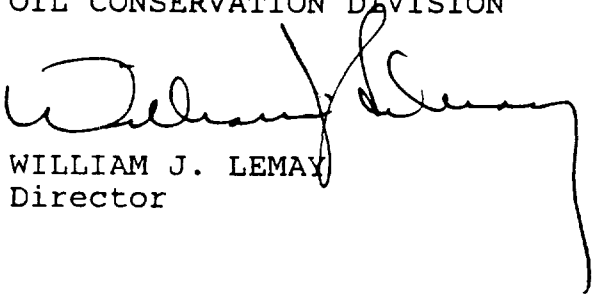
(7) Failure to comply with Paragraphs (5) and (6) above within 60 days of the date of this order shall subject the well to a shut-in order until such requirements have been met.

(8) This case shall 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 the Basin-Fruitland Coal Gas Pool.

(9) Jurisdiction of this cause is 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.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


WILLIAM J. LEMAY
Director

S E A L

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. 9420 (Reopened)
Order No. R-8768-A

IN THE MATTER OF CASE 9420 BEING REOPENED
PURSUANT TO THE PROVISIONS OF DIVISION
ORDER NO. R-8768, WHICH ORDER CREATED THE
BASIN-FRUITLAND COAL GAS POOL IN SAN JUAN,
RIO ARRIBA, MCKINLEY AND SANDOVAL COUNTIES
AND PROMULGATED TEMPORARY SPECIAL RULES AND
REGULATIONS THEREFOR.

*See Also Order
No. R-8768*

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on February 22, 1991, at Santa Fe, New Mexico, and at 8:15 a.m. on April 4, 1991, at Farmington, New Mexico before Examiner David R. Catanach.

NOW, on this 16th day of July, 1991, 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) By Order No. R-8768 dated October 17, 1988, issued in Case No. 9420, the Division created, defined, and promulgated temporary special rules and regulations for the Basin-Fruitland Coal Gas Pool, including provisions for 320-acre gas spacing and proration units and designated well locations.

CASE NO. 9420 (Reopened)

Order No. R-8768-A

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(3) Pursuant to the provisions of said Order No. R-8768, this case was reopened to allow the operators in the subject pool to appear and present evidence and testimony relative to the determination of permanent rules and regulations for the Basin-Fruitland Coal Gas Pool.

(4) The subject pool currently comprises a substantial portion of the San Juan Basin in San Juan, Rio Arriba, McKinley and Sandoval Counties, New Mexico, and currently contains approximately 1,158 wells, either completed or producing, operated by 32 different operators.

(5) The Fruitland Coalbed Methane Committee, hereinafter referred to as the "Committee", has commissioned ICF Resources (ICF) and Gas Research Institute (GRI) to conduct a reservoir engineering study designed to aid in the determination of permanent well spacing for the subject pool.

(6) According to evidence presented by ICF and GRI, traditional engineering methods such as decline curve analysis, volumetric calculations and material balance which are usually utilized to determine drainage areas are inapplicable to the Basin-Fruitland Coal Gas Pool due to the unique producing characteristics of coal seams.

(7) The evidence presented indicates that the best method currently available to evaluate drainage characteristics in coal seam reservoirs is reservoir simulation.

(8) Representatives of both ICF and GRI testified at the hearing and presented extensive geologic and engineering evidence and results of a reservoir simulation study conducted on the subject pool.

(9) The results of the reservoir simulation study generally establish that one well in the subject pool can efficiently drain and develop 320 acres.

(10) The results of the study further indicate however that there may be certain areas within the basin where reservoir parameters such as porosity, permeability, coal thickness, pressure, gas content, sorption isotherm and initial gas/water saturation may exist in certain combinations such that infill drilling may be required to increase gas recovery.

(11) The hearing was attended by numerous operators in the pool and various other interested parties who generally agreed with and endorsed the findings of the reservoir simulation study.

CASE NO. 9420 (Reopened)

Order No. R-8768-A

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(12) The special rules and regulations promulgated by Order No. R-8768 have afforded and will afford the owner of each property in the Basin-Fruitland Coal Gas Pool the opportunity to produce his just and equitable share of the gas in the pool.

(13) Based on the evidence presented, Rule No. (4) of the Special Rules and Regulations for the Basin-Fruitland Coal Gas Pool should be amended to provide the opportunity for operators to appear before a Division Examiner and present evidence and testimony to support the drilling of a second well on standard 320-acre proration units or approved non-standard proration units for limited, defined areas of the pool.

(14) In addition, special notice procedures should be incorporated into the special rules and regulations inasmuch as notice procedures for this type of case are not contained within Division General Rule No. 1207.

(15) Meridian Oil Inc., (Meridian), proposed that Rule No. (3) be amended by adding language to provide that confirmation that a well is producing exclusively from the Basin-Fruitland Coal Gas Pool shall consist of approval of Division Form C-104.

(16) Rule No. (3) should be amended as proposed provided, however, that such approval of Division Form C-104 should be for Division purposes only, and should not preclude any other governmental jurisdictional agency from making its own determination of production origination utilizing its own criteria.

(17) Meridian further proposed that Rule No. (5) be amended to expand the current authority of the Division's district supervisor to approve non-standard gas spacing and proration units without notice and hearing when the unorthodox size or shape is necessitated by a variation in the legal subdivision of the United States Public Lands Survey and/or consists of an entire governmental section which contains not less than 70% nor more than 130% of a standard gas proration unit.

(18) Meridian further proposed the amendment of Rule No. (6) to provide additional authority for the Division to administratively approve a non-standard gas spacing and proration unit which does not lie wholly within a governmental half section and which consists of less than 70% or more than 130% of a standard gas proration unit provided that said unit has previously been approved by the Division for use in developing Blanco-Mesaverde or Basin-Dakota Gas Pool reserves. The proposed amendment further provides that the Division Director, at his discretion, may set any application under Rule (6) for public hearing.

CASE NO. 9420 (Reopened)

Order No. R-8768-A

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(19) Meridian testified that it has sought approval of numerous non-standard gas spacing and proration units within the pool and has been required by the current rules to appear before a Division Examiner. Virtually all of the applications were unopposed and were subsequently approved by the Division.

(20) According to testimony presented by Meridian, the proposed amendments to Rule Nos. (5) and (6) will streamline the administrative process by which non-standard gas spacing and proration units are reviewed and approved, and will relieve operators of the unnecessary expense of appearing and presenting evidence and testimony before a Division Examiner.

(21) Rule Nos. (5) and (6) should be amended as proposed.

(22) The special rules and regulations promulgated by Division Order No. R-8768, with the inclusion of the proposed amendments, have afforded and will afford the owner of each property in the subject pool the opportunity to produce its just and equitable share of the gas in the pool.

(23) In order to prevent the economic loss caused by the drilling of an excessive number of wells, to avoid the augmentation of risk arising from the drilling of an excessive number of wells, to prevent reduced recovery which might result from the drilling of too few wells and to otherwise prevent waste and protect correlative rights, the Special Rules and Regulations for the Basin-Fruitland Coal Gas Pool as promulgated by Division Order No. R-8768, and as amended by this order, should be continued in full force and effect until further notice of the Division.

IT IS THEREFORE ORDERED THAT:

(1) Rule Nos. (3), (4), (5), and (6) of the Special Rules and Regulations for the Basin-Fruitland Coal Gas Pool, San Juan, Rio Arriba, McKinley and Sandoval Counties, New Mexico, as promulgated by Division Order No. R-8768, are hereby amended in their entirety to read as follows:

"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 not otherwise 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 that a well is producing exclusively from the Basin-Fruitland Coal Gas Pool shall consist of approval of Division Form C-104, provided however that such approval shall be for Division purposes only, and shall not preclude any other governmental jurisdictional agency from making its own determination of production origination utilizing its own criteria.

RULE 4. Each well completed or recompleted in the Basin-Fruitland Coal Gas Pool shall be located on a standard unit containing 320 acres, more or less, comprising any two contiguous quarter sections of a single governmental section, being a legal subdivision of the United States Public Lands Survey.

Individual operators may apply to the Division for an exception to the requirements of Rule No. (4) to allow the drilling of a second well on standard 320-acre units or on approved non-standard units in specifically defined areas of the pool provided that:

- (a) Any such application shall be set for hearing before a Division Examiner;
- (b) Actual notice of such application shall be given to operators of Basin-Fruitland Coal Gas Pool wells, working interest owners of undrilled leases, and unleased mineral owners within the boundaries of the area for which the infill provision is requested, and to all operators of Basin-Fruitland Coal Gas Pool wells within one mile of such area, provided however any operator in the pool or other interested party may appear and participate in such hearing.

Such notice shall be sent certified or registered mail or by overnight express with certificate of delivery and shall be given at least 20 days prior to the date of the hearing.

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 subdivision of the United States Public Lands Survey and/or consists of an entire governmental section and the non-standard unit is not less than 70% nor more than 130% of 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 or Basin-Dakota Gas Pool non-standard unit as evidenced by applicant's reference to the Division's order number creating said unit.
- (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 certified or registered mail or overnight express mail with certificate of delivery 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.

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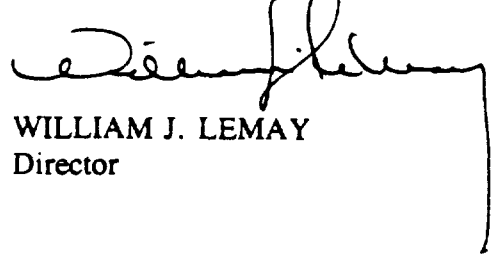
(f) The Division Director, at his discretion, may set any application under Rule (6) for public hearing."

(2) All other provisions contained within Division Order No. R-8768 shall remain in full force and effect until further order of the Division.

(3) 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.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION



WILLIAM J. LEMAY
Director

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