

DATE 6/22/01	SUPERVISOR 7/12/01	ENGINEER DC	LOGGED IN NW	TYPE DHC	APP NO. 117828387
--------------	--------------------	-------------	--------------	----------	-------------------

ABOVE THIS LINE FOR DIVISION USE ONLY

NEW MEXICO OIL CONSERVATION DIVISION

- Engineering Bureau -

1220 South St. Francis Drive, Santa Fe, NM 87505



2937

ADMINISTRATIVE APPLICATION COVERSHEET

THIS COVERSHEET IS MANDATORY FOR ALL ADMINISTRATIVE APPLICATIONS FOR EXCEPTIONS TO DIVISION RULES AND REGULATIONS WHICH REQUIRE PROCESSING AT THE DIVISION LEVEL IN SANTA FE

Application Acronyms:

[NSL-Non-Standard Location] **[NSP-Non-Standard Proration Unit]** **[SD-Simultaneous Dedication]**
[DHC-Downhole Commingling] **[CTB-Lease Commingling]** **[PLC-Pool/Lease Commingling]**
[PC-Pool Commingling] **[OLS - Off-Lease Storage]** **[OLM-Off-Lease Measurement]**
[WFX-Waterflood Expansion] **[PMX-Pressure Maintenance Expansion]**
[SWD-Salt Water Disposal] **[IPI-Injection Pressure Increase]**
[EOR-Qualified Enhanced Oil Recovery Certification] **[PPR-Positive Production Response]**

[1] TYPE OF APPLICATION - Check Those Which Apply for [A]

[A] Location - Spacing Unit - Simultaneous Dedication
☐ NSL ☐ NSP ☐ SD

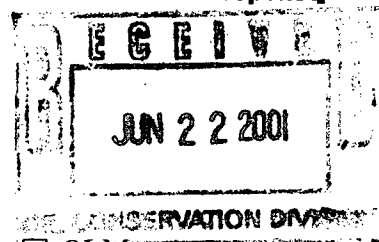
Check One Only for [B] or [C]

[B] Commingling - Storage - Measurement

☒ DHC ☐ CTB ☐ PLC ☐ PC ☐ OLS ☐ OLM

[C] Injection - Disposal - Pressure Increase - Enhanced Oil Recovery

☐ WFX ☐ PMX ☐ SWD ☐ IPI ☐ EOR ☐ PPR



[2] NOTIFICATION REQUIRED TO: - Check Those Which Apply, or Does Not Apply

[A] ☐ Working, Royalty or Overriding Royalty Interest Owners

[B] ☐ Offset Operators, Leaseholders or Surface Owner

[C] ☐ Application is One Which Requires Published Legal Notice

[D] ☐ Notification and/or Concurrent Approval by BLM or SLO

U.S. Bureau of Land Management - Commissioner of Public Lands, State Land Office

[E] ☐ For all of the above, Proof of Notification or Publication is Attached, and/or,

[F] ☐ Waivers are Attached

[3] INFORMATION / DATA SUBMITTED IS COMPLETE - Certification

I hereby certify that I, or personnel under my supervision, have reviewed the applicable Rules and Regulations of the Oil Conservation Division. Further, I assert that the attached application for administrative approval is accurate and complete to the best of my knowledge and where applicable, verify that all interest (WI, RI, ORRI) is common.

I understand that any omission of data (including API numbers, pool codes, etc.), pertinent information and any required notification is cause to have the application package returned with no action taken.

Note: Statement must be completed by an individual with managerial and/or supervisory capacity.

Eric Dahlgren

Eric Dahlgren

Reservoir Engineer

6/21/01

Print or Type Name

Signature

Title

Date

ewdahlg@ppco.com

e-mail Address

District I
1625 N. French Drive, Hobbs, NM 88240

District II
811 South First Street, Artesia, NM 88210

District III
1000 Rio Brazos Road, Aztec, NM 87410

District IV
1220 S. St. Francis Dr., Santa Fe, NM 87505

State of New Mexico
Energy, Minerals and Natural Resources Department

Form C-107A
Revised May 15, 2000

Oil Conservation Division
1220 South St. Francis Dr.
Santa Fe, New Mexico 87505

APPLICATION TYPE
☒ Single Well
☐ Establish Pre-Approved Pools
EXISTING WELLBORE
☒ Yes ☐ No

APPLICATION FOR DOWNHOLE COMMINGLING

PHILLIPS PETROLEUM COMPANY

5525 Hwy. 64, Farmington, NM 87401

Operator

Address

San Juan 32-7 Unit #10 Unit N, Section 32, T32N, R7W San Juan
Lease Well No. Unit Letter-Section-Township-Range County

OGRID No. 17654 Property Code 0009260 API No. 30-045-11106 Lease Type: Federal ☒ State ☐ Fee ☐

DATA ELEMENT	UPPER ZONE	INTERMEDIATE ZONE	LOWER ZONE
	<i>Ind.</i>		
Pool Name	South Los Pinos Fruitland Sands PC		Blanco Mesaverde
Pool Code	80690		72319
Top and Bottom of Pay Section (Perforated or Open-Hole Interval)	3318' - 3500'		5406' - 5894
Method of Production (Flowing or Artificial Lift)	Flowing		Flowing
Bottomhole Pressure (Note: Pressure data will not be required if the bottom perforation in the lower zone is within 150% of the depth of the top perforation in the upper zone)	1465 psig (est.)		626 psig
Oil Gravity or Gas BTU (Degree API or Gas BTU)	1032		1012
Producing, Shut-In or New Zone	New Zone		Producing
Date and Oil/Gas/Water Rates of Last Production. (Note: For new zones with no production history, applicant shall be required to attach production estimates and supporting data.)	Date: New Zone Rates:	Date: Rates:	Date: 4/1/01 Rates: 50 mcf/d & 0.1 bwp/d
Fixed Allocation Percentage (Note: If allocation is based upon something other than current or past production, supporting data or explanation will be required.)	Oil Gas 0 % ** Estimated 63 %	Oil Gas % %	Oil Gas 0 % ** Estimated 37%

NOTE: This is an estimated fixed allocation percentage, once the rates are stabilized we will submit final percentages.

ADDITIONAL DATA

Are all working, royalty and overriding royalty interests identical in all commingled zones? Yes ☐ No ☒
If not, have all working, royalty and overriding royalty interest owners been notified by certified mail? Yes ☒ No ☐

Are all produced fluids from all commingled zones compatible with each other? Yes ☒ No ☐

Will commingling decrease the value of production? Yes ☐ No ☒

If this well is on, or communitized with, state or federal lands, has either the Commissioner of Public Lands or the United States Bureau of Land Management been notified in writing of this application? Yes ☒ No ☐

NMOCD Reference Case No. applicable to this well: R-11210

Attachments:

- C-102 for each zone to be commingled showing its spacing unit and acreage dedication.
- Production curve for each zone for at least one year. (If not available, attach explanation.)
- For zones with no production history, estimated production rates and supporting data.
- Data to support allocation method or formula.
- Notification list of working, royalty and overriding royalty interests for uncommon interest cases.
- Any additional statements, data or documents required to support commingling.

PRE-APPROVED POOLS

If application is to establish Pre-Approved Pools, the following additional information will be required:

- List of other orders approving downhole commingling within the proposed Pre-Approved Pools
- List of all operators within the proposed Pre-Approved Pools
- Proof that all operators within the proposed Pre-Approved Pools were provided notice of this application.
- Bottomhole pressure data.

I hereby certify that the information above is true and complete to the best of my knowledge and belief.

SIGNATURE *Eric Dahlgren* TITLE Reservoir Engineer DATE June 21, 2001

TYPE OR PRINT NAME Eric Dahlgren TELEPHONE NO. (505) 599-3455 e-mail- ewdahlg@ppco.com



PHILLIPS PETROLEUM COMPANY

FARMINGTON, NEW MEXICO 87401
5525 HWY. 64 NBU 3004

June 21, 2001

New Mexico Oil & Gas Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87504

Downhole Commingling Allocation Method
On the San Juan 32-7 Unit #10

Dear Sirs:

Phillips Petroleum is proposing to commingle the Mesaverde and Pictured Cliffs formations on the above mentioned well (Reference Case No. R-11210). The Mesaverde has produced erratically since the 1950s and cumed more than 1.3 BCF of gas. We are proposed to clean out and acidize the Mesaverde, isolate the Mesaverde with a bridge plug and complete the Pictured Cliffs formation and then test until a stabilized production rate is established.

A production forecast will be determined based on the stabilized production in the Pictured Cliffs. When the zones are commingled, Phillips Petroleum is proposing to utilize the subtraction method for 12 months before a ratio between the Mesaverde and the Pictured Cliffs is established.

Attached is the Mesaverde rate vs. time plot for the 32-7 #10 and an estimated Pictured Cliffs monthly production forecast based on offset data from the 32-7 #52 Pictured Cliffs. Before the Mesaverde and Pictured Cliffs are commingled, Phillips will submit a new production forecast for the Pictured Cliffs based on actual production from the 32-7 #10.

Sincerely,

PHILLIPS PETROLEUM COMPANY

Eric Dahlgren
Reservoir Engineer

Cc: OCD – Aztec
 BLM – Farmington
 NM Commissioner of Public Lands – Santa Fe
 Unit Interest Owner – Mr. Larry Simmons

District I

1625 N. French Dr., Hobbs, NM 88240

District II

811 South First, Artesia, NM 88210

District III

1000 Rio Brazos Rd., Aztec, NM 87410

District IV

1220 S. St. Francis Dr., Santa Fe, NM 87505

State of New Mexico
Energy, Minerals & Natural Resources DepartmentForm C-10
Revised August 15, 2001**OIL CONSERVATION DIVISION**
1220 South St. Francis Dr.
Santa Fe, NM 87505Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies☐ AMENDED REPORT**WELL LOCATION AND ACREAGE DEDICATION PLAT**

1 API Number 30-045-11106		2 Pool Code 80690		3 Pool Name South Los Pinos Fruitland Sands, PC	
4 Property Code 009260		5 Property Name San Juan 32-7 Unit			6 Well Number #10
7 OGRID No. 017654		8 Operator Name Phillips Petroleum Company			9 Elevation 6538'

10 Surface Location

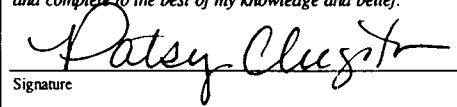
UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
N	32	32N	7W		1050	South	1750	West	San Juan

11 Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
N									

12 Dedicated Acres 160 SW/4	13 Joint or Infill	14 Consolidation Code U	15 Order No.
--------------------------------	--------------------	----------------------------	--------------

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A
NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

<div data-bbox="131 893 1104 1885"> <div data-bbox="131 893 1104 1149">16</div> <div data-bbox="131 1149 1104 1885"> <div data-bbox="131 1149 1104 1383">SECTION 32</div> <div data-bbox="131 1383 1104 1596">E-503-9</div> <div data-bbox="131 1596 1104 1885"> <div data-bbox="131 1596 1104 1808">1750'</div> <div data-bbox="131 1808 1104 1885">1050'</div> </div> </div> </div>	<div data-bbox="1104 893 1596 1383"> 17 OPERATOR CERTIFICATION I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.  Signature Patsy Clugston Printed Name Sr. Regulatory/Proration Clerk Title March 2, 2001 Date </div> <div data-bbox="1104 1383 1596 1885"> 18 SURVEYOR CERTIFICATION I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief. see original plat Date of Survey Signature and Seal of Professional Surveyor: signed by James P. Leese on 8-17-55 1463 Certificate Number </div>
---	---

Submit 3 Copies To Appropriate District Office
District I
1625 N. French Dr., Hobbs, NM 87240
District II
811 South First, Artesia, NM 87210
District III
1000 Rio Brazos Rd., Aztec, NM 87410
District IV
2040 South Pacheco, Santa Fe, NM 87505

State of New Mexico
Energy, Minerals and Natural Resources

Form C-1
Revised March 25, 1991

OIL CONSERVATION DIVISION
2040 South Pacheco
Santa Fe, NM 87505

WELL API NO. 30-045-11106
5. Indicate Type of Lease STATE <input checked="" type="checkbox"/> FEE <input type="checkbox"/>
6. State Oil & Gas Lease No. E-503-9
7. Lease Name or Unit Agreement Name: San Juan 32-7 Unit 009260
8. Well No. SJ 32-7 Unit #10
9. Pool name or Wildcat Blanco MV 72319

SUNDRY NOTICES AND REPORTS ON WELLS
(DO NOT USE THIS FORM FOR PROPOSALS TO DRILL OR TO DEEPEN OR PLUG BACK TO A DIFFERENT RESERVOIR. USE "APPLICATION FOR PERMIT" (FORM C-101) FOR SUCH PROPOSALS.)

1. Type of Well:
Oil Well ☐ Gas Well ☒ Other

2. Name of Operator
Phillips Petroleum Company

3. Address of Operator
5525 Highway 64, NBU 3004, Farmington, NM 87401

4. Well Location
Unit Letter N : 1050' feet from the South line and 1750' feet from the West li
Section 32 Township 32N Range 7W NMPM County San Juan

10. Elevation (Show whether DR, RKB, RT, GR, etc.)
6538' GL

11. Check Appropriate Box to Indicate Nature of Notice, Report, or Other Data

NOTICE OF INTENTION TO:	SUBSEQUENT REPORT OF:
PERFORM REMEDIAL WORK <input type="checkbox"/>	REMEDIAL WORK <input type="checkbox"/>
TEMPORARILY ABANDON <input type="checkbox"/>	ALTERING CASING <input type="checkbox"/>
PULL OR ALTER CASING <input type="checkbox"/>	COMMENCE DRILLING OPNS. <input type="checkbox"/>
MULTIPLE COMPLETION <input checked="" type="checkbox"/>	PLUG AND ABANDONMENT <input type="checkbox"/>
CASING TEST AND CEMENT JOB <input checked="" type="checkbox"/>	
OTHER: Add PC pay to MV & commingle production <input checked="" type="checkbox"/>	OTHER:

12. Describe Proposed or Completed Operations (Clearly state all pertinent details, and give pertinent dates, including estimated date of starting any proposed work). SEE RULE 1103. For Multiple Completions: Attach wellbore diagram of proposed completion or recompletion.

Plans are to add the Pictured Cliff interval to the existing Mesaverde well and then commingle production from both zones per Order R11210. The individual DHC application sundry detailing the MV forecast will be filed and approved before actual commingle occurs. Brief details of the procedure we will use are as follow:

MIRU. COOH w/production tubing. Isolate existing Mesaverde interval with a bridge plug. Pressure test the casing and remediate if casing fails pressure test. Run GR/CCL/CBL and remediate with cement if the interval completing isn't adequately covered. Perforate and stimulate the Pictured Cliffs. Remove bridge plug and return well to production with the Mesaverde and Pictured Cliffs commingled.

I hereby certify that the information above is true and complete to the best of my knowledge and belief.

SIGNATURE Patsy Clugston TITLE Sr. Regulatory/Proration Clerk DATE 3/2/01

Type or print name Patsy Clugston Telephone No. 505-599-345

(This space for State use)

APPROVED BY DEPUTY OIL & GAS INSPECTOR, DIST. 3 TITLE DEPUTY OIL & GAS INSPECTOR, DIST. 3 DATE JAN - 6 2001

Conditions of approval, if any:

32-7 #10

Pictured Cliffs Monthly Forecast

MSCF/D

MSCF/M

85	2587	07/01/2001
83	2534	08/01/2001
82	2483	09/01/2001
80	2434	10/01/2001
78	2388	11/01/2001
77	2343	12/01/2001
76	2299	01/01/2002
74	2257	02/01/2002
73	2217	03/01/2002
72	2178	04/01/2002
70	2141	05/01/2002
69	2104	06/01/2002
67	2035	07/01/2002
66	2002	08/01/2002
65	1971	09/01/2002
64	1940	10/01/2002
63	1910	11/01/2002
62	1881	12/01/2002
61	1853	01/01/2003
60	1826	02/01/2003
59	1799	03/01/2003
58	1774	04/01/2003
57	1749	05/01/2003
57	1724	06/01/2003

1/59-4/1

5/1-LIFE

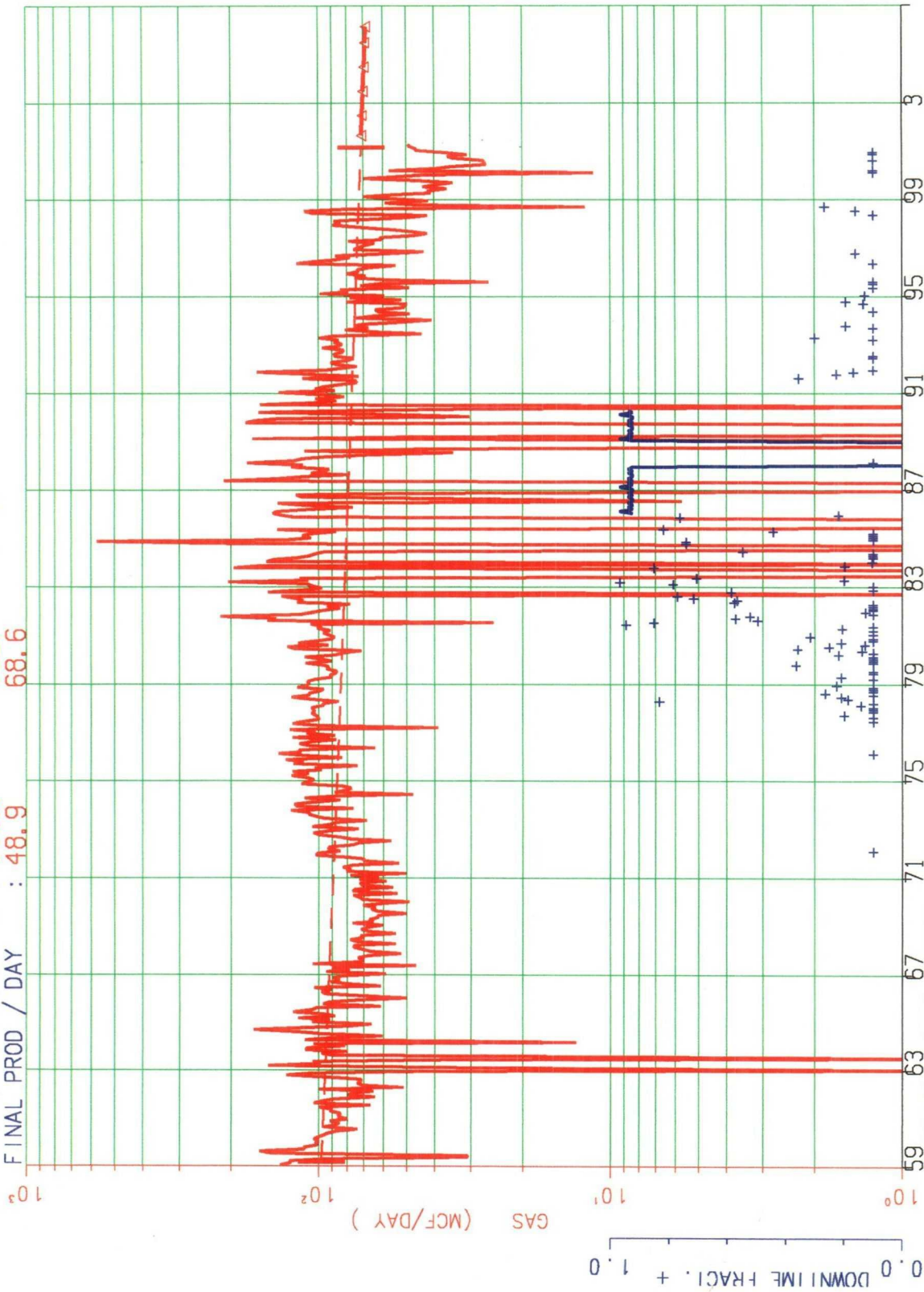
ASSOC.

Current Cums

INITIAL PROD / DAY : 98.2
 REMAINING LIFE : 42.33
 HYPR(0.33) DECL % : 0.84
 CUM PRODUCTN-MUNITS : 1188.
 FINAL PROD / DAY : 48.9

71.1
 5.00
 0.76
 122.
 68.6

0.0
 1188. MMCF GAS
 0.
 1040. BBL WTR



AVERAGE ONTIME = 0.955

LEASE- 650116 : SAN JUAN 32-7 MESA VERDE
 RESVR- 002 : BLANCO
 WELL - 000010 CUM MMCF= 1342.

M656501
 ZONE-650116002000010 M656501
 API-30045111060000 THRU 2/01

2 CYC 4 CYC
 TIME SCALE
 XCUM YCART
 CHG CURVES

CONTINUE
 SAVE META

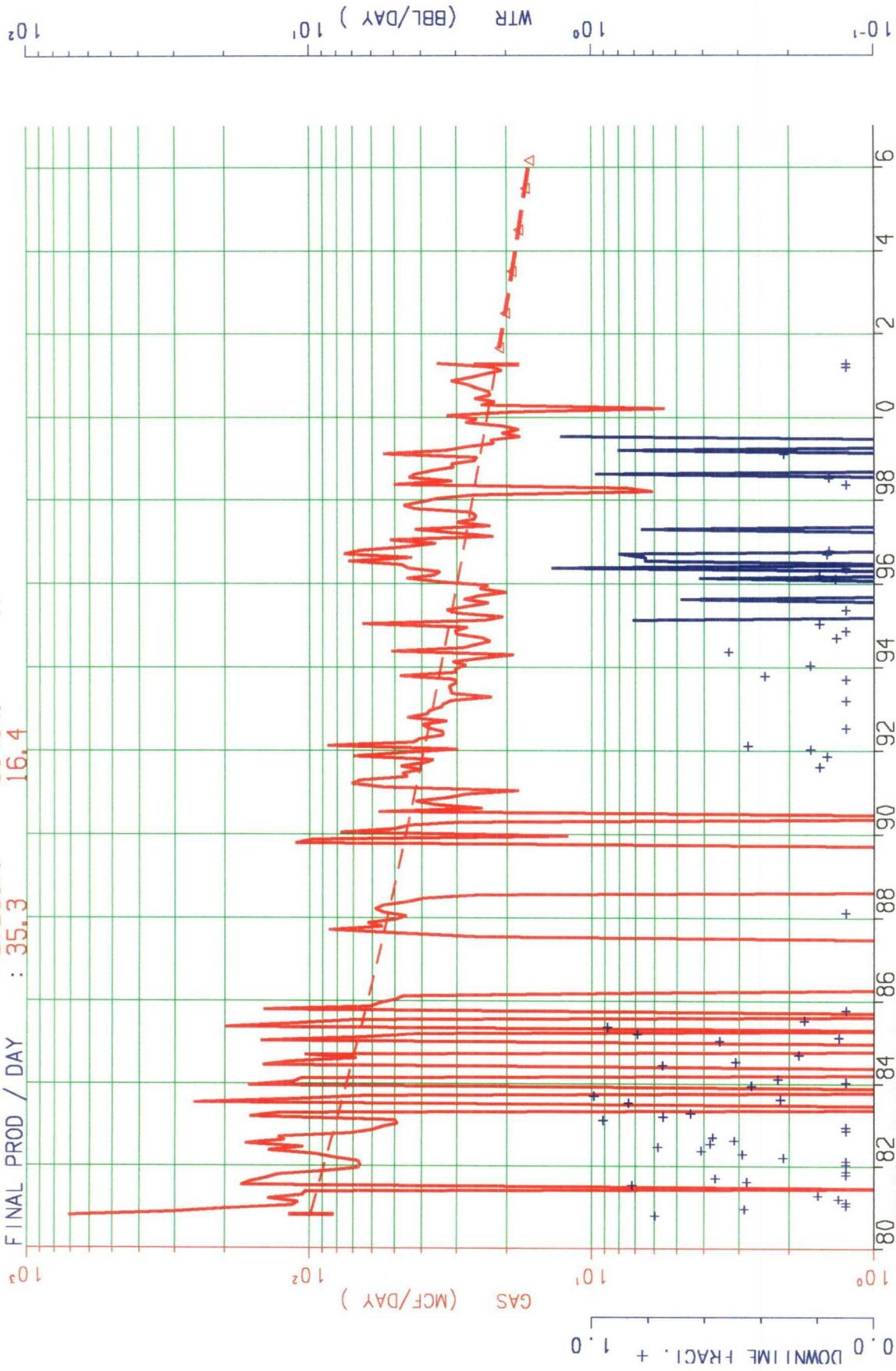
LOG-LOG
 SEMILOG
 P / Z BACKP
 4 IN ONE
 NEXT WELL
 EXIT

10/80-4/1 5/1-LIFE

INITIAL PROD / DAY : 99.9
 REMAINING LIFE : 21.6
 HYPR(0.34) DECL % : 5.00
 CUM PRODUCTION : 10.69
 FINAL PROD / DAY : 272657.
 : 35.3

ASSOC. 0.0
 0.

Current Cums
 272657. MCF GAS
 260. BBL WTR



AVERAGE ON TIME = 0.914

LEASE- 650107 : SAN JUAN 32-7 FRUIT/PIC CLIFFS
 RESVR- 006 : LOS PINOS SOUTH FRUITLAND PC
 WELL - 000052 CUM MCF = 273343.

M659201
 ZONE-650107006000052 M659201
 API-30045235370000 THRU 2/01

KELLAHIN AND KELLAHIN

ATTORNEYS AT LAW

EL PATIO BUILDING

117 NORTH GUADALUPE

POST OFFICE BOX 2266

SANTA FE, NEW MEXICO 87504-2266

TELEPHONE (505) 982-4288

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)

FACSIMILE COVER SHEET

DATE: June 23, 1999

NUMBER OF PAGES: -7-
(including cover sheet)

TIME: 12:15 PM

TO: Scott Prather
OF: Phillips Petroleum Corporation
FAX NO: (505) 599-3442

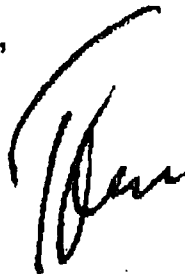
FROM: W. THOMAS KELLAHIN, Esq.

REF: Downhole Commingling reference case for
San Juan 32-7 Unit, Rio Arriba and San Juan Counties, New Mexico

Dear Scott:

Attached is a copy of Division Order R-11210 entered in Case 12137 which approves Phillips downhole commingling reference case for this unit but requires that you continue to send notice to Larry Simmons. Please call me if you have any questions.

Regards,



This information contained in this Facsimile Message and Transmission is ATTORNEY PRIVILEGED AND CONFIDENTIAL information intended only for the use of the individual or entity named above. If the reader of this message is not the intended recipient, or the employee or agent responsible to deliver it to the intended recipient, you are hereby notified that any dissemination, distribution, or copying of this communication is strictly prohibited. If you have received this Facsimile in error, please immediately notify us by telephone and return the original message to us at the above address via the U.S. Postal Service. Thank you.

**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. 12137
Order No. R-11210*

**APPLICATION OF PHILLIPS PETROLEUM COMPANY FOR THE
ESTABLISHMENT OF A DOWNHOLE COMMINGLING REFERENCE CASE
FOR ITS SAN JUAN 32-7 UNIT PURSUANT TO DIVISION RULE 303.E. AND
THE ADOPTION OF SPECIAL ADMINISTRATIVE RULES THEREFOR,
SAN JUAN COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on March 18, 1999, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 21st day of June, 1999, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner,

FINDS THAT:

- (1) Due public notice has been given and the Division has jurisdiction of this case and its subject matter.
- (2) Cases No. 12136, 12137, 12138 and 12139 were consolidated at the time of the hearing for the purpose of testimony.
- (3) The applicant, Phillips Petroleum Company (Phillips), pursuant to the provisions of Division Rule 303.E., seeks to establish a downhole commingling "reference case" to provide exceptions for (a) marginal economic criteria, (b) pressure criteria, (c) allocation formulas, and (d) notice rules on a unit-wide basis for downhole commingling of Dakota, Mesaverde, Fruitland Coal and Pictured Cliffs gas production within existing or future wells within the San Juan 32-7 Unit located in Townships 31 and 32 North, Range 7 West, NMPM, San Juan County, New Mexico.
- (4) Division Rule 303.E. currently states:

"If sufficient data exists on a lease, pool, formation, geographic area, etc., so as to render it unnecessary to repeatedly provide such data on Form C-107-A, an operator may except any of the various criteria required under Paragraph 303.D. of this rule by establishing a "reference case". The Division, upon its own motion or by application from an operator, may establish "reference cases" either administratively or by hearing. Upon Division approval of such "reference cases"

for specific criteria, subsequent applications to downhole commingle (Form C-107-A) will be required only to cite the Division order number which established such exceptions and shall not be required to submit data for those criteria."

(5) The applicant is the current operator of the San Juan 32-7 Unit, which encompasses some 17,829 acres, more or less, in Townships 31 and 32 North, Range 7 West, NMPM, San Juan County, New Mexico.

(6) Within the San Juan 32-7 Unit, the applicant currently operates eighteen (18) Basin-Dakota Gas Pool wells, forty-seven (47) Blanco-Mesaverde Gas Pool wells, twenty-nine (29) Basin-Fruitland Coal Gas Pool wells, and nineteen (19) South Los Pinos Fruitland Sand-Pictured Cliffs Gas Pool wells.

(7) According to its evidence and testimony, Phillips seeks to:

- a) establish a "reference case" for marginal economic criteria in the Basin-Dakota and Blanco-Mesaverde Gas Pools whereby these pools may be identified as "marginal" on Forms C-107-A subsequently filed for wells within the San Juan 32-7 Unit. The applicant further proposes that the data provided in the immediate case serve as supplemental data or confirmation that these pools should be classified as "marginal";
- b) establish a "reference case" for pressure criteria in the Basin-Dakota and Blanco-Mesaverde Gas Pools whereby the Division may utilize the data provided in the immediate case to verify the pressure data provided on Forms C-107-A subsequently filed for wells within the San Juan 32-7 Unit;
- c) establish a "reference case" whereby the Division utilizes the data presented in the immediate case to endorse or approve certain methods of allocating production whereby the applicant need not submit additional data or justification when proposing a certain method of allocating production on Forms C-107-A subsequently filed for wells within the San Juan 32-7 Unit; and
- d) establish a "reference case" or an administrative procedure for authorizing the downhole commingling of existing or future wells within the San Juan 32-7 Unit without additional notice to each affected interest owner as required by Rule No. 303.D.

(8) In support of its request to except marginal economic criteria, the applicant presented engineering evidence and testimony indicating that within the San Juan 32-7 Unit:

- a) the average estimated Mesaverde and Dakota ultimate recoverable gas reserves within the San Juan 32-7 Unit on a per well basis are approximately .61 BCFG and .83 BCFG, respectively;
- b) the average initial producing rate for a Mesaverde and Dakota gas well (either newly drilled or recompleted) is approximately 204 MCFGD and 243 MCFGD, respectively; and
- c) the estimated ultimate gas recoveries and initial producing rates from the Mesaverde and Dakota formations within the San Juan 32-7 Unit are insufficient to justify drilling stand-alone wells and/or dually completed wells to recover such gas reserves.

(9) The evidence and testimony presented by the applicant indicates that the Blanco-Mesaverde and Basin-Dakota Gas Pools within the San Juan 32-7 Unit should be properly classified as "marginal."

(10) In support of its request to except pressure criteria within the Mesaverde and Dakota formations within the San Juan 32-7 Unit, the applicant presented engineering evidence and testimony indicating that:

- a) the average shut-in bottomhole pressure within the Mesaverde and Dakota formations at the time of initial development was approximately 1,360 psi and 3,190 psi, respectively; and
- b) the average current shut-in bottomhole pressure within the Mesaverde and Dakota formations is approximately 578 psi and 906 psi, respectively.

(11) Testimony by the applicant indicates that the pressure data described above was obtained from three (3) Mesaverde and two (2) Dakota wells within the San Juan 32-7 Unit.

(12) The applicant presented insufficient pressure data within the San Juan 32-7 Unit area to except pressure criteria.

(13) The applicant testified that various allocation methods would be utilized for downhole commingled wells within the San Juan 32-7 Unit depending on the circumstances. Some of the methods and circumstances are described as follows:

- a) in those instances where a newly completed zone is commingled with an existing producing interval with an established decline, the subtraction method will be utilized for a period of +/- 12 months. Subsequent to that time, and assuming that the production rate has stabilized, a fixed allocation will be determined and utilized; and,

- b) in those instances where a well is newly drilled, the lower zone will be production tested for a period of several weeks to several months, whatever time period is necessary to establish a stabilized production rate. A production forecast will then be obtained from the lower zone based upon the stabilized production rate. The upper zone will be completed and the subtraction method will be utilized for a period of +/- 12 months. Once the production rate has stabilized, a fixed allocation will be determined and utilized.

(14) The allocation methods proposed by the applicant are routinely utilized by industry and approved by the Division and therefore the proposal to except allocation methods should be approved.

(15) In support of its request to establish a "reference case" or administrative procedure whereby additional notice of Form C-107-A within the San Juan 32-7 Unit need not be given to interest owners, the applicant presented evidence and testimony indicating that:

- a) the interest ownership between zones within a given wellbore in the San Juan 32-7 Unit is generally not common;
- b) pursuant to Rule No. 303.D., it is currently required to notify all interest owners within the San Juan 32-7 Unit every time a Form C-107-A is submitted to the Division. There are a considerable number of such interest owners within the unit;
- c) the downhole commingling of wells within the San Juan 32-7 Unit will benefit working, royalty, and overriding royalty interest owners. In addition, the downhole commingling of wells within the San Juan 32-7 Unit should not violate the correlative rights of any interest owner;
- d) Mr. Larry Simmons, an interest owner within the San Juan 32-7 Unit, appeared at the hearing through legal counsel and cross-examined Phillip's witnesses. Mr. Simmons did not state an objection to the application at the hearing; and
- e) no other interest owner appeared at the hearing in opposition to the establishment of a "reference case" or administrative procedure for notice.

(16) Mr. Larry Simmons requested that Phillips be required to furnish him notice of all downhole commingling applications filed within the San Juan 32-7 Unit.

(17) Mr. Simmons' request is reasonable and should be granted.

(18) Subsequent to the establishment of a fixed allocation of production for each downhole commingled well within the San Juan 32-7 Unit pursuant to the procedures proposed in Finding (13) above, Phillips should be further required to furnish Mr. Larry Simmons notice of such production allocation.

(19) An administrative procedure should be established within the San Juan 32-7 Unit for obtaining approval for subsequently downhole commingled wells without notice to unit interest owners (with the exception of Mr. Larry Simmons), provided however that the applicant shall comply with all other provisions contained within Division Rule 303.C.

(20) Approval of the proposed "reference case" for marginal economic criteria, allocation formulas and notice will lessen the burden on the applicant insofar as providing the data required pursuant to Division Rule 303.D. and Form C-107-A, will provide the applicant a streamlined method for obtaining downhole commingling approval within the San Juan 32-7 Unit, and will not violate correlative rights.

IT IS THEREFORE ORDERED THAT:

(1) The application of Phillips Petroleum Company to establish a "reference case" for a) marginal economic criteria within the Blanco-Mesaverde and Basin-Dakota Gas Pools, b) allocation formulas, and c) notice rules on a unit-wide basis for downhole commingling of Dakota, Mesaverde, Fruitland Coal and Pictured Cliffs gas production within existing or future wells within the San Juan 32-7 Unit, San Juan County, New Mexico, is hereby approved.

(2) The application of Phillips Petroleum Company to establish a "reference case" for pressure criteria on a unit-wide basis for downhole commingling of Blanco-Mesaverde and Basin-Dakota Gas Pools within the San Juan 32-7 Unit is hereby denied.

(3) Upon filing of Forms C-107-A for wells subsequently downhole commingled within the San Juan 32-7 Unit, the applicant shall not be required to submit supporting data to justify the classification of the Blanco-Mesaverde and Basin-Dakota Gas Pools as "marginal" and support or justification for utilizing a given method or formula for allocation of production, provided however, in the event any of the data described above appearing on Form C-107-A appears to be beyond the data range provided in this case, the Division may require the submittal of additional supporting data.

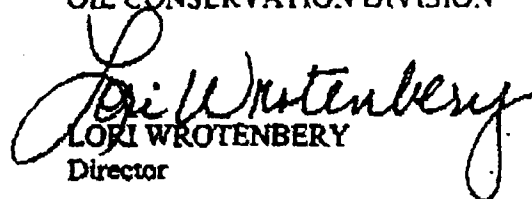
(4) In order to obtain Division authorization to downhole commingle wells within the San Juan 32-7 Unit, the applicant shall file Form C-107-A with the Santa Fe and Aztec Offices of the Division. Such application shall contain all the information required under Division Rule 303.C., provided however that the applicant shall not be required to provide notice to all interest owners within the San Juan 32-7 Unit of such proposed commingling. The applicant shall, however, provide Mr. Larry Simmons the following described information:

- a) notice of all downhole commingling applications filed within the San Juan 32-7 Unit ; and
- b) notice of fixed production allocations for each well downhole commingled within the San Juan 32-7 Unit subsequent to the establishment of such allocation formulas.

(5) 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


LORI WROTENBERY
Director

S E A L



PHILLIPS PETROLEUM COMPANY

FARMINGTON, NEW MEXICO 87401
5525 HWY. 64 NBU 3004

June 21, 2001

Certified Mail # 7099 3400 0020 0911 7987

Mr. Larry Simmons
2815 Main
Durango, CO 81301

Downhole Commingling Order R-11210
San Juan 32-7 Unit, San Juan County, NM

Dear Mr. Simmons:

Please find attached a copy of our downhole commingling application made for the San Juan 32-7 Unit #10 well. As per item #16 on the DHC Order No. R-11210, Phillips was asked to send you a copy of any application for downhole commingling applications filed within the San Juan 32-7 Unit.

Sincerely,

PHILLIPS PETROLEUM COMPANY

A handwritten signature in cursive script that reads "Patsy Clugston".

Patsy Clugston
Regulatory Assistant
505-599-3454