

**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. 13314
ORDER NO. R-12237**

**APPLICATION OF BURLINGTON OIL AND GAS COMPANY, L.P. FOR
SURFACE COMMINGLING, RIO ARRIBA COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on August 5, 2004 before Examiner David R. Catanach, on October 21, 2004 before Examiner Michael E. Stogner, and on September 2, and November 4, 2004 before Examiner William V. Jones.

NOW, on this 29th day of November, 2004, 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) The applicant, Burlington Oil and Gas Company, L.P. ("Burlington"), as an exception to Division Rules No. 303.A. and 303.B.(4)(a), seeks authority to surface commingle oil production from the following-described wells located in Township 29 North, Range 7 West, NMPM, Rio Arriba County, New Mexico, and to allocate production to these wells on the basis of a fixed percentage ratio, this ratio to be determined using historical production data from existing wells and production test data from new wells, all in accordance with a specific procedure presented as evidence in this case:

<u>Well Name & Number</u>	<u>Well Location</u>	<u>Producing Horizons</u>
San Juan 29-7 Unit No. 191 (API No. 30-039-27474)	1855' FSL & 1755' FEL Unit J, Section 22	Basin-Fruitland Coal & Blanco-Pictured Cliffs Pools

San Juan 29-7 Unit No. 65A (API No. 30-039-21917)	1840' FSL & 1760' FEL Unit J, Section 22	Basin-Dakota & Blanco-Mesaverde Pools
San Juan 29-7 Unit No. 193 (API No. 30-039-27574)	875' FSL & 785' FEL Unit P, Section 36	South Blanco-Pictured Cliffs Pool
San Juan 29-7 Unit No. 55A (API No. 30-039-21616)	910' FSL & 790' FEL Unit P, Section 36	Blanco-Mesaverde Pool

(3) Burlington further seeks approval of its proposed method of production allocation as a "pre-approved method of allocation" as an alternative to separately metering the production prior to commingling, thereby allowing this method of allocation to be utilized in future surface commingling applications filed by operators in the San Juan Basin.

(4) This case was originally heard by Examiner David R. Catanach on August 5, 2004 and by Examiner William V. Jones on September 2, 2004. At the hearing on September 2, 2004, the case was taken under advisement. Subsequent to that time, it was discovered that the advertisement for the case incorrectly described the subject wells as being in San Juan County, New Mexico. The case was re-opened and heard on October 21 and November 4, 2004 to correct deficiencies in the advertisement and notice for this case.

(5) ConocoPhillips Company appeared at the hearing through legal counsel but presented no evidence or testimony.

(6) Division Rule No. 303.A. states that:

"In General. (1) Pool segregation required – 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 wellbore with any other pool. Oil, gas, or oil or gas produced from each pool shall at all times be segregated, and the combination commingling of production, before marketing, with production from any other pool without division approval is prohibited."

(7) Division Rule No. 303.B(4)(a) states that:

“Measurement and Allocation Methods. Where there is diversity of ownership between two or more leases, two or more pools, or between different pools and leases, the surface commingling of production therefrom shall be permitted only if production from each of such pools or leases is accurately metered, or determined by other methods specifically approved by the division, prior to such commingling.”

(8) In support of its request to surface commingle the oil production from the San Juan 29-7 Unit Wells No. 191 and 65A in a common surface facility, the applicant presented evidence that demonstrates that:

- (a) the San Juan 29-7 Unit Well No. 191 currently produces as a downhole commingled completion (approved by Division Order No. DHC-1403 AZ) in the Basin-Fruitland Coal Gas and Blanco-Pictured Cliffs Pools. This well was drilled and completed in March, 2004. Pursuant to the order authorizing downhole commingling for this well, 37% of the gas and 0% of the oil is currently allocated to the Basin-Fruitland Coal Gas Pool, and 63% of the gas and 100% of the oil is currently allocated to the Blanco-Pictured Cliffs Pool;
- (b) the San Juan 29-7 Unit No. 65A currently produces as a downhole commingled completion (approved by Division Order No. DHC-1875 dated April 9, 1998) in the Blanco-Mesaverde and Basin-Dakota Pools. The well was drilled and completed in 1979-80. Pursuant to the order authorizing downhole commingling for this well, 85% of the gas and 100% of the oil is currently allocated to the Blanco-Mesaverde Pool, and 15% of the gas and 0% of the oil is currently allocated to the Basin-Dakota Pool;

- (c) the San Juan 29-7 Unit Wells No. 191 and 65A are located on the same drilling pad within the NW/4 SE/4 of Section 22. The San Juan 29-7 Unit Well No. 191 produces oil from the Blanco-Pictured Cliffs Pool, and the San Juan 29-7 Unit Well No. 65A produces oil from the Blanco-Mesaverde Pool; and
- (d) oil production from the San Juan 29-7 Unit Wells No. 191 and 65A is proposed to be surface commingled at a centralized tank battery located within the NW/4 SE/4 of Section 22.

(9) In support of its request to surface commingle the oil production from the San Juan 29-7 Unit Wells No. 193 and 55A in a common surface facility, the applicant presented further evidence that demonstrates that:

- (a) the San Juan 29-7 Unit Well No. 193 was drilled and completed in May, 2004 and currently produces as a single completion within the South Blanco-Pictured Cliffs Pool. The San Juan 29-7 Unit No. 55A was drilled and completed in 1978 and currently produces as a single completion in the Blanco-Mesaverde Pool;
- (b) the San Juan 29-7 Unit Wells No. 193 and 55A are located on the same drilling pad within the SE/4 SE/4 of Section 36;
- (c) both the San Juan 29-7 Unit Wells No. 193 and 55A produce oil, respectively, from the South Blanco-Pictured Cliffs and Blanco-Mesaverde Pools; and
- (d) oil production from the San Juan 29-7 Unit Wells No. 193 and 55A is proposed to be surface commingled at a centralized tank battery within the SE/4 SE/4 of Section 36.

(10) Burlington testified that the San Juan 29-7 Unit Wells No. 191 and 65A and the San Juan 29-7 Unit Wells No. 193 and 55A are currently equipped with their own oil tank and separation facilities.

(11) Production data shows that the San Juan 29-7 Unit Well No. 191 currently produces approximately 1.2 barrels of oil per day from the Blanco-Pictured Cliffs Pool, and that the San Juan 29-7 Unit Well No. 65A currently produces approximately 1 barrel of oil per day from the Blanco-Mesaverde Pool. The applicant presented no production data for the San Juan 29-7 Unit Wells No. 193 and 55A.

(12) The evidence presented by Burlington demonstrates that approval of the proposed surface commingling for the San Juan 29-7 Unit Wells No. 193 and 55A, and the San Juan 29-7 Unit Wells No. 191 and 65A will allow Burlington to: i) reduce the surface equipment (i.e. tanks, separators) on each of these twin well locations, thereby reducing operating costs and extending the economic life of the wells; and ii) minimize the surface and environmental impact on each of the production pads due to the reduction in surface equipment.

(13) Burlington further testified that there will be no reduction in the value of the oil as a result of surface commingling.

(14) Burlington provided notice of its application to all working, royalty and overriding interest owners within the San Juan 29-7 Unit. No interest owner appeared at the hearing in opposition to the application.

(15) For the San Juan 29-7 Unit Wells No. 193 and 55A, (i.e. that instance where a new well is drilled on the same location as an existing well with historic production data), Burlington proposes to allocate production based upon the following procedure:

- (a) determine a daily oil rate (using the last 12 months of production) from the existing well;
- (b) produce the new well for 90 days, (stabilization period);
- (c) during the stabilization period, the oil production will be allocated based upon the subtraction method;

- (d) the historical production will be subtracted from the total production of both wells; and
- (e) future oil allocation will be calculated utilizing above (d) test data creating a percentage ratio for each well.

(16) For the San Juan 29-7 Unit Wells No. 191 and 65A, the production allocation will also be determined in accordance with the procedure described in Finding No. (15) above.

(17) Burlington's proposed method of production allocation for the San Juan 29-7 Unit Wells No. 191, 193, 55A, and 65A is fair, reasonable and should therefore be approved.

(18) Approval of the proposed surface commingling of the San Juan 29-7 Unit Wells No. 191 and 65A, and the San Juan 29-7 Unit Wells No. 193 and 55A and method of production allocation will allow Burlington to recover additional oil reserves from these wells that may otherwise not be recovered, thereby preventing waste, will benefit the interest owners in these wells, will reduce the environmental impact on these twin well locations, and will not violate correlative rights.

(19) With regards to that portion of the application seeking to establish a "pre-approved" allocation and measurement method, Burlington presented the following evidence to establish the procedure it envisions to obtain approval for future surface commingling applications of this type:

- (a) the proposed surface commingling and "pre-approved" method of production allocation would only apply to oil production;
- (b) only those wells whose average annual production is less than 10 barrels of oil per day would qualify for this type of production allocation and procedure;
- (c) this procedure would apply to any operator, anywhere within the San Juan Basin;

- (d) a request to surface commingle this type of production would be made to the Aztec District Office of the Division on Form C-103 (Sundry Notices and Report on Wells); and
- (e) notice would be provided to all interest owners in the wells to be surface commingled.

(20) Burlington has also devised similar methods of production allocation in those instances where: i) two new wells are drilled on a location with no existing well; ii) a new well is drilled on a location that contains multiple existing producing wells; and iii) multiple new wells are drilled on a location with an existing well. A complete description of these allocation methods is attached to this order as Exhibit "A".

(21) Division Rule No. 303.B(4)(a) provides sufficient latitude for the Division to approve Burlington's proposed alternate method of production allocation for this type of surface commingling.

(22) The evidence demonstrates that all of Burlington's various allocation methods are fair, reasonable and should be adopted for this type of surface commingling.

(23) Burlington testified that over the next several years, it has identified approximately 250 twin well projects that are potential candidates for this type of surface commingling.

(24) Burlington's proposal to change the method by which this type of surface commingling is processed and approved or denied by the Division constitutes a major revision to the procedures set forth by Division Rule No. 303.B(4)(d), is beyond the call and notice of this application, does not provide the opportunity for comment or objection by interest owners that may be affected, and should therefore be denied.

IT IS THEREFORE ORDERED THAT:

(1) The applicant, Burlington Oil and Gas Company, L.P., is hereby authorized to surface commingle liquids production originating from the Blanco-Pictured Cliffs Pool within the San Juan 29-7 Unit Well No. 191 located 1855 feet from the South line and 1755 feet from the East line (Unit J), and originating from the Blanco-Mesaverde Pool within the San Juan 29-7 Unit Well No. 65A located 1840 feet from the South line and 1760 feet from the East line (Unit J), both in Section 22, Township 29 North Range 7

West, NMPM, Rio Arriba County, New Mexico. Oil production from each of these wells shall be allocated on the basis of a fixed percentage to be determined in accordance with the procedure set forth in Exhibit "A" attached to this order. The centralized tank battery shall be located at the twin well location within the NW/4 SE/4 of Section 22.

(2) The applicant, Burlington Oil and Gas Company, L.P., is hereby further authorized to surface commingle liquids production originating from the South Blanco-Pictured Cliffs Pool within the San Juan 29-7 Unit Well No. 193 located 875 feet from the South line and 785 feet from the East line (Unit P), and originating from the Blanco-Mesaverde Pool within the San Juan 29-7 Unit Well No. 55A located 910 feet from the South line and 790 feet from the East line (Unit P), both in Section 36, Township 29 North Range 7 West, NMPM, Rio Arriba County, New Mexico. Oil production from each of these wells shall be allocated on the basis of a fixed percentage to be determined in accordance with the procedure set forth in Exhibit "A" attached to this order. The centralized tank battery shall be located at the twin well location within the SE/4 SE/4 of Section 36.

(3) Subsequent to determining the fixed allocation percentages for each of the subject well pairs, the applicant shall provide this information to the Division and to each party owning an interest in the production to be commingled.

(4) Pursuant to the provisions of Division Rule No. 303.B(4)(a), the applicant's request to establish an alternate method of production allocation for the commingling of oil production within the San Juan Basin, all as shown on Exhibit "A" attached to this order, is hereby approved.

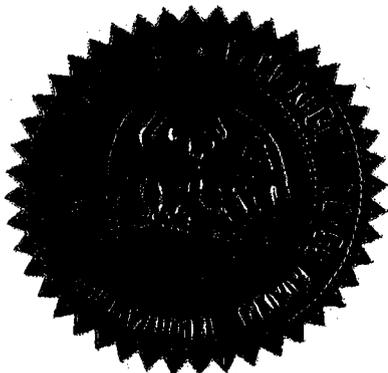
(5) Any operator filing a Form C-107-B (Application for Surface Commingling - Diverse Ownership) and requesting approval to surface commingle oil production within the San Juan Basin may cite this Division order to request an alternate method of production allocation. The Division, upon review of the application, may approve the proposed alternate method of production allocation in lieu of requiring that the production be separately metered prior to commingling.

(6) The applicant's request to establish an approval process for the surface commingling of oil production within the San Juan Basin that would allow the filing of a Division Form C-103 (Sundry Notices and Reports on Wells) instead of a Form C-107-B, is hereby denied.

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(7) 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.



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in black ink, appearing to read "Mark E. Fesmire".

MARK E. FESMIRE, PE
Director

Exhibit "A" Case No. 13314
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Two new wells (no existing well) on a location:

1. Produce the new wells for 90 days, (stabilization period)
2. During the stabilization period, oil production will be allocated to each well equally if both zones are anticipated to produce oil, otherwise all the oil will be allocated only to zone which is anticipated to produce oil.
3. Direct measurement for one well for a 24 hour period.
4. Subtract the tested direct measurement from the total oil production of both wells.
5. Future oil allocation will be calculated utilizing above #4 test data creating a percentage ratio for each well.

Existing well with the addition of one new well on location:

1. Determine a daily oil rate (using the last 12 months of production) from the existing well.
2. Produce the new well for 90 days, (stabilization period)
3. During the stabilization period, the oil production will be allocated based upon the subtraction method.
4. The historical production will be subtracted from the total production of both wells.
5. Future oil allocation will be calculated utilizing above #4 test data creating a percentage

Existing multiple wells with the addition of a new well on location:

1. Determine a daily oil rate (using the last 12 months of production) from the existing well.
2. Produce the new well for 90 days (stabilization period)
3. During the stabilization period, oil production will be allocated to the new well based upon the subtraction of the historical oil production from existing wells.
4. The historical production from existing wells will be subtracted from the total production of all wells.
5. Future oil allocation will be calculated utilizing above #4 test data creating a percentage ratio for each well.

Existing well with the addition of multiple new wells on location:

1. Determine a daily oil rate (using the last 12 months of production) from the existing well.

2. Produce the new well for 90 days, (stabilization period).
3. During the stabilization period, oil production will be allocated to each new well equally based upon the subtraction of the historical oil production from existing well if each new well is anticipated to produce oil, otherwise all the oil will be allocated equally only to the new well(s) which are anticipated to produce oil.
4. Direct measurement for each new well for a 24 hour period.
5. Subtract the tested direct measurement from the total oil production from all wells.
6. Future oil allocation will be calculated utilizing above #4 test data creating a percentage ratio for each well.

Note: All allocations for surface commingling of oil production will be in addition to downhole commingling allocations if applicable.