

**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. 13842
ORDER NO. R-12724**

**APPLICATION OF BP AMERICA PRODUCTION COMPANY FOR SURFACE
COMMINGLING OF PRODUCTION FROM ALL FORMATIONS AND/OR
POOLS IN THE GALLEGOS CANYON UNIT FROM EXISTING AND
FUTURE WELLS, SAN JUAN COUNTY, NEW MEXICO**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on December 13, 2006, at Santa Fe, New Mexico, before Examiner William V. Jones.

NOW, on this 6th day of March, 2007, 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, BP America Production Company, pursuant to Division Rule 303.B, seeks an exception to the provisions of Division Rule 303.A to authorize surface commingling without additional notice or hearing of hydrocarbon production from all current or future productive formations in the Gallegos Canyon Unit ("GCU" or the "Unit") and from all existing and future wells located in the Unit Area.
- (3) BP America Production Company is the operator of the Gallegos Canyon Unit, which was approved as a Federal Exploratory Unit by Division Order No. R-68, dated April 24, 1951 and which currently encompasses 43,146.62 acres, more or less, of Federal, Indian allotted, State, and Fee lands in San Juan County, New Mexico, as described below:

Township 29 North, Range 13 West, NMPM

Section 13:	All
Sections 23 through 26:	All
Sections 34 through 36:	All

Township 29 North, Range 12 West, NMPM

Section 16:	SW/4
Sections 17 through 21:	All
Section 22:	W/2, SE/4
Section 25:	W/2, SE/4
Sections 26 through 36:	All

Township 28 North, Range 11 West, NMPM

Section 7:	All
Sections 18 and 19:	All
Section 31:	S/2

Township 28 North, Range 12 West, NMPM

Sections 7 through 36:	All
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Township 28 North, Range 13 West, NMPM

Sections 11 through 14:	All
Sections 23 through 26:	All
Sections 35 and 36:	All

Township 27 North, Range 12 West, NMPM

Sections 4 through 6:	All
Section 9:	N/2

(4) Division Order No. R-11567, dated April 26, 2001, pre-approved BP Amoco to downhole commingle production from all formations in the Gallegos Canyon Unit within existing and future wellbores within the Unit. That order allows BP to obtain a permit to downhole commingle for any well by applying to the Aztec district office of the Division on a sundry form without certified notice to all revenue interest owners within the Pools to be commingled within the wellbore.

(5) BP has provided notice of this application and of this hearing to all interest owners within the Gallegos Canyon Unit including the United States Bureau of Land Management ("BLM") and the New Mexico State Land Office.

(6) The BLM provided the Division with a letter of support for BP's application in this case, provided separate allocation meters are installed and BP files sundry notices on a site-specific basis. The BLM supports the reduction in surface facilities and surface disturbances and the increased efficiency of operation.

(7) BP had phone conversations with Mr. Carroll E. Crawford, who owns an interest in this Unit and had expressed some concerns about this application. BP provided the Division with a copy of its latest letter to Mr. Crawford summarizing the methods it intends to use in each surface commingle installation, including its intent to install separate allocation meters.

(8) Red Willow Production Company dba/Running Horse Production, LLC and Kukui Operating Company provided a letter of concurrence, provided BP installs and maintains separate allocation meters and equipment.

(9) This application was unopposed with no other parties entering an appearance.

(10) According to Division records, the Gallegos Canyon Unit currently has approximately 502 wells with 441 wells reporting production. The Dakota, Gallup, Chacra, Pictured Cliffs, Fruitland Coal, Fruitland Sand, and Farmington formations have produced to date within the Unit from the following pools: Basin-Dakota Prorated Gas (71599), Pinon-Gallup (Oil 50380), Simpson-Gallup (Oil 56600), Otero-Chacra Gas (82329), West Kutz-Pictured Cliffs Gas (79680), Basin-Fruitland Coal Gas (71629), Pinon-Fruitland Sand Gas (82880), North Pinon-Fruitland Sand Gas (82920), West Kutz-Fruitland Sand Gas (79640), and WC D3-Farmington Gas (96943).

(11) In support of its application, BP America Production Company presented evidence and testimony, which show:

(a) The interest ownership between wells in the Gallegos Canyon Unit is generally not common since the Participating Areas ("PA"s) for each formation do not necessarily cover the same areal extent. Because of this, BP is currently required to notify approximately 800 owners by certified mail every time an application for surface commingling is submitted to the Division.

(b) None of these wells are producing at top allowable or are expected to produce at top allowable. The Dakota formation has historically produced the largest volume of gas within the Unit, followed by the Pictured Cliffs formation and then the Fruitland Coal formation. The Dakota, Gallup, and Chacra formations have produced some oil, while BP reports only gas production from the other formations.

(c) BP intends to surface commingle these wells in order to decrease the number of required gas compressors and other surface facilities. BP will commingle wells located close to each other or on the same surface location and will install and maintain separate allocation meters on all commingled wells. Fuel

gas will be allocated to each well based on that well's metered gas production and its percentage of the total gas entering each compressor.

(d) Approval of this application will not reduce the value of the commingled production or otherwise adversely affect the interest owners within the Unit.

(12) The proposed commingling of production should reduce operating expenses, increase efficiency of operations, increase the amount of gas gathered and sold, lower the reservoir abandonment pressure, and increase the life of the project.

(13) Pre-approval of the notification necessary to surface commingle production from wells located in the Gallegos Canyon Unit will be in the best interest of conservation, will increase the volume of gas recovered from the unit thereby preventing waste, and will protect the correlative rights of all interest owners in the Gallegos Canyon Unit and should therefore be approved.

(14) BP should be allowed to use this Division order number in this case as a reference when applying for surface commingling within this Unit. When applying, BP should follow the instructions in Division Rule 303.B(3)(b) by submitting a Sundry form and production schematic as is required for identically owned Pool commingles, and should reference this order as proof of notice to diverse interest owners.

IT IS THEREFORE ORDERED THAT:

(1) The application of BP America Production Company for pre-approval and dispensing with notice requirements for surface commingling all current and future wells producing from all current or future pools within the 43,146.62-acre, more or less, Gallegos Canyon Unit, San Juan County, New Mexico is hereby approved.

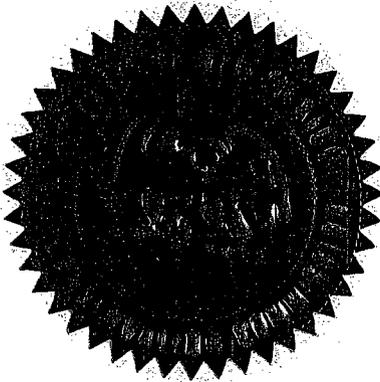
(2) Henceforth, the procedure used when applying for surface commingling within this Unit shall be as required in Division Rule 303.B(3)(b) for identically owned Pool commingles. The applicant shall submit a Sundry form and production schematic to the Division's Santa Fe office and shall reference this order as proof of notice to diverse interest owners. There shall be no mandatory suspense or waiting period prior to approving such applications.

(3) BP shall be required to install and maintain separators, tanks, and allocation meters as are necessary to separately measure oil and gas production and sales from each well to be commingled within the Unit.

(4) Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

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



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STATE OF NEW MEXICO
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A handwritten signature in black ink, appearing to read "Mark E. Fesmire".

MARK E. FESMIRE, P.E.
Director