

Before the Oil Conservation Division
Exhibit No. 3
Burlington Resources Oil & Gas Company LP
ORDER R-10707, OCD CASE 11708
Initial Hearing: September 30, 2010

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. 11708
ORDER NO. R-10770

APPLICATION OF PHILLIPS
PETROLEUM COMPANY FOR THE
ESTABLISHMENT OF A DOWNHOLE
COMMINGLING "REFERENCE CASE"
FOR ITS SAN JUAN 29-5 UNIT PUR-
SUANT TO DIVISION RULE 303.E. AND
THE ADOPTION OF SPECIAL
ADMINISTRATIVE RULES
THEREFOR, RIO ARRIBA COUNTY,
NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on January 23 and February 20, 1997, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 21st day of February, 1997, 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) 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) modification of notification rules on a unit-wide basis for downhole commingling of Dakota, Mesaverde, Pictured Cliffs and Fruitland Coal gas production within existing or future drilled wells within the San Juan 29-5 Unit, Rio Arriba County, New Mexico.

(3) Division Rule No. 303.E., amended by Order No. R-10470-A, 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."

(4) The applicant is the current operator of the San Juan 29-5 Unit which encompasses some 17,700 acres, more or less, in portions of Township 29 North, Range 5 West, NMPM, Rio Arriba County, New Mexico.

(5) Within the San Juan 29-5 Unit, the applicant currently operates thirty (30) Basin-Dakota Gas Pool wells, seventy-two (72) Blanco-Mesaverde Gas Pool wells, fifteen (15) Gobernador-Pictured Cliffs Gas Pool wells, and sixteen (16) Basin-Fruitland Coal Gas Pool wells.

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

- a) establish a "reference case" for marginal economic criteria in the Dakota and Mesaverde formations whereby these formations and/or pools may be identified as "marginal" on Form C-107-A's subsequently filed for wells within the San Juan 29-5 Unit. The applicant further proposes that the data provided in the immediate case serve as supplemental data or confirmation that these formations and/or pools should be classified as "marginal";
- b) establish a "reference case" for pressure criteria in the Dakota and Mesaverde formations whereby the Division may utilize data provided in the immediate case to verify the pressure data provided on Form C-107-A's subsequently filed for wells within the San Juan 29-5 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 Form C-107-A's subsequently filed for wells within the San Juan 29-5 Unit; and,
- d) establish a "reference case" or an administrative procedure for authorizing the downhole commingling of existing or future drilled wells within the San Juan 29-5 Unit without additional notice to each affected interest owner as required by Division Rule No. 303.D.

(7) In support of its request to except marginal economic criteria, the applicant presented engineering evidence and testimony which indicates that within the San Juan 29-5 Unit:

- a) the average estimated Mesaverde and Dakota ultimate recoverable gas reserves within the San Juan 29-5 Unit are approximately 1.6 BCFG and 1.48 BCFG, respectively;
- b) the average initial producing rate for a newly drilled or recompleted Mesaverde and Dakota gas well are approximately 444 MCFGD and 403 MCFGD, respectively; and,
- c) the estimated ultimate gas recoveries and initial producing rates from the Mesaverde and Dakota formations are insufficient to justify drilling stand alone wells and/or dually completed wells to recover such gas reserves.

(8) The evidence and testimony presented by the applicant indicates that the Mesaverde and Dakota formations within the San Juan 29-5 Unit should be properly classified as "marginal".

(9) In support of its request to except pressure criteria within the Mesaverde and Dakota formations within the San Juan 29-5 Unit, the applicant presented engineering evidence and testimony which indicates that:

- a) the average shut-in bottomhole pressure within the Mesaverde and Dakota formations at the time of initial development were approximately 1,234 psi and 2,981 psi, respectively; and,

- b) the average current shut-in bottomhole pressure within the Mesaverde and Dakota formations are approximately 843 psi and 1,224 psi, respectively.

(10) There is sufficient pressure data available within the San Juan 29-5 Unit so as to except pressure criteria as proposed by the applicant.

(11) The applicant testified that various allocation methods will be utilized for downhole commingled wells within the San Juan 29-5 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 this 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 two to four weeks or until a stabilized rate is obtained. Subsequent to that time, a stabilized rate from both commingled zones within the well will be obtained. A fixed allocation of production will then be determined utilizing the data obtained from the flow tests.

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

(13) In support of its request to establish a "reference case" or administrative procedure for providing notice within the San Juan 29-5 Unit the applicant presented evidence and testimony which indicates that:

- a) the interest ownership between two zones within a given wellbore in the San Juan 29-5 Unit is generally not common;
- b) pursuant to Division Rule No. 303.D., applicant is currently required to notify all interest owners within the San Juan 29-5 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) providing notice to each interest owner within the San Juan 29-5 Unit of subsequent downhole comminglings is unnecessary and is an excessive burden on the applicant;

- d) the downhole commingling of wells within the San Juan 29-5 Unit Area will benefit working, royalty, and overriding royalty interest owners. In addition, the downhole commingling of wells within the San Juan 29-5 Unit should not violate the correlative rights of any interest owner;
- e) no interest owner appeared at the hearing in opposition to the establishment of a "reference case" or administrative procedure for notice.

(14) An administrative procedure should be established within the San Juan 29-5 Unit for obtaining approval for subsequently downhole commingled wells without notice to Unit interest owners, provided however that, all other provisions contained within Division Rule No. 303.C. are complied with.

(15) Approval of the proposed "reference cases" for marginal economic criteria, pressure criteria, allocation formulas and notice will lessen the burden on the applicant insofar as providing the data required pursuant to Division Rule No. 303.D. and Form C-107-A, will provide the applicant a streamlined method for obtaining downhole commingling approvals within the San Juan 29-5 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 and (b) pressure criteria within the Mesaverde and Dakota formations, (c) allocation formulas and (d) modification of notification rules on a unit-wide basis for downhole commingling of Dakota, Mesaverde, Fruitland Coal and Pictured Cliffs gas production within existing or future drilled wells within the San Juan 29-5 Unit, Rio Arriba County, New Mexico, is hereby approved.

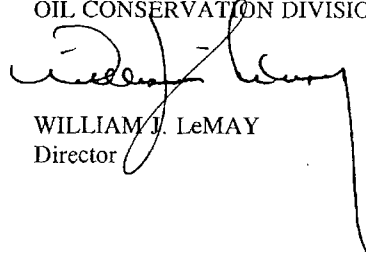
(2) Upon filing of Division Form No. C-107-A's for wells subsequently downhole commingled within the San Juan 29-5 Unit Area, the applicant shall not be required to submit supporting data to justify the classification of the Mesaverde and Dakota formations as "marginal", supporting data to verify the Mesaverde and Dakota pressure information provided, 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.

(3) In order to obtain Division authorization to downhole commingle wells within the San Juan 29-5 Unit, the applicant shall file a Form C-107-A with the Santa Fe and Aztec Offices of the Division. Such application shall contain all the information required under Rule No. 303.C. of the Division Rules and Regulations, provided however that the applicant shall not be required to provide notice to all interest owners within the San Juan 29-5 Unit of such proposed commingling.

(4) 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

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