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October 9, 1995

HAND DELIVERED

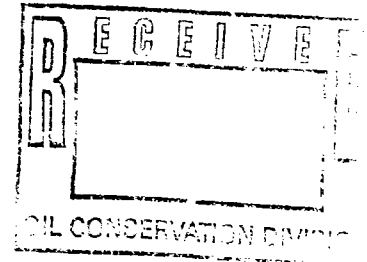
Mr. William J. LeMay, Director
Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico 87501

Re: Revisions to Rule 303
Downhole Commingling

Dear Bill:

As you know, at the Commission hearing held on August 3, 1995, we presented comments and suggestions from the New Mexico Oil & Gas Association, Meridian Oil Inc., Conoco Inc. and Amoco Production Company concerning the "industry" proposed revisions to the Division General Rule 303 pertaining to downhole commingling ("DHC"). Further hearing of that matter was continued to the October 12, 1995 Commission hearing.

Because this is a rule making procedure, I consider it appropriate and essential for the Division and the industry to informally discuss this matter prior to proceeding with the formal and rigid structure of presenting this to the Commission. Therefore, I requested that the Commission case be continued to the November 9, 1995 docket and I made an appointment with you starting at 1:30 PM on Thursday, October 12, 1995. My purpose is to provide an opportunity for you as Director, along with David Catanach and Ben Stone of the Division staff, to meet informally with our industry group, so that the Division and the industry could exchange ideas and discuss the purpose, scope, and content of Rule 303.



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I anticipate having the following individuals with me for our meeting with you: Alan Alexander and Scott Daves of Meridian, Jerry Hoover and Mark McClelland of Conoco, Bill Hawkins and Pam Staley of Amoco. I have outlined the items we would like to discuss:

(1) DHC HEARINGS USUALLY UNNECESSARY:

The industry appreciates the Commission's recent action in Order R-10470 issued September 23, 1995 which granted the industry's request to allow for administrative DHC applications even if ownership in the spacing units were different. We consider this to be a first step in modernizing Rule 303. However, there are still items in Rule 303 which are undue and require unnecessary Division hearings.

(2) BRIEFING ON HISTORICAL DHC

(A) SAN JUAN BASIN: Scott Daves, a petroleum engineer with Meridian, has prepared a technical presentation including maps and data to demonstrate the current status of reservoirs in the San Juan Basin (Dakota, Mesaverde and Pictured Cliffs), the adverse impact that will occur in those reservoirs in the absence of DHC and to illustrate how DHC can substantially increase ultimate recoveries from those pools. His presentation forms the primary basis for the industry's conclusion that Rule 303 needs to be amended in order to fully realize the remaining potential in the San Juan Basin.

(B) SOUTHEASTERN NEW MEXICO: Mark McClelland, a reservoir engineer with Conoco, will address the DHC issues in Southeastern New Mexico.

(3) SCOPE OF RULE 303:

Currently, only those wells in which at least one zone is uneconomic are eligible for administratively processed DHC. Historically, DHC has been available only for "salvage" situations and was often the last course of action by an operator before abandoning a well.

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Industry has concluded that the current Rule 303 is unduly limited in scope and should be expanded to allow for DHC even when no zone is uneconomic. Industry will request the Division to consider making DHC available for any well (even where all potential DHC zones are still economic) provided it is demonstrated that DHC can be accomplished without waste or violation of correlative rights.

Now, particularly in the pools of the San Juan Basin and the older pools in Southeastern New Mexico, DHC is the "next" major operational effort to be undertaken to prolong the productive lives of existing wells and to more economically drill new wells.

(4) NEW DRILLS:

Industry desires to explore how the Division can develop an effective administrative procedure for approving the drilling of a new well for downhole commingled production in both the San Juan Basin and in Southeastern New Mexico. See Order R-10476 issued on October 6, 1995 in Case 11349 which authorized Conoco to drill 17 new drills in its San Juan 28-7 Unit.

(5) NUMERICAL STANDARDS:

Our Committee has reviewed all available Commission transcripts for the prior hearings on this Rule and has concluded that Rule 303 uses numerical standards which are arbitrary and not based upon any scientific data.

If the Division has data and evidence to support the currently numerical standards, we would appreciate having copies to review.

Industry wishes the Division to consider:

- (a) increasing the oil limit which industry considers too low,
- (b) eliminating any water limit or increasing the water-cut,
- (c) eliminating the 50% pressure differential rule, and
- (d) deleting the "uneconomic" criteria

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(6) CROSS-FLOW:

Industry considers that Rule 303 incorrectly deals with the issue of "cross-flows". This issue is addressed in other Division rules and is not a concern unless it results in formation damage or fluid incompatibilities. Industry contends that because cross-flow seldom occurs or results in reservoir damage it should not be a regulatory concern within the context of Rule 303 provided the allocation formula is reliable, the fluids are compatible, the formation is not damaged and the cross-flowed production is ultimately recovered.

(7) AREA-WIDE DHC APPROVAL:

Industry request the Division consider establishing guidelines for the administrative processing of DHC to include approvals on a geographical area basis.

(8) PROCESSING AND NOTIFICATION:

Industry would like the Division to consider amending Rule 303 to address the following processing and notification issues:

- (A) A NEW FORMAT:** Industry would like the Division to consider "reformatting" Rule 303 including the adoption of an approved Division form which creates one composite list of requirements for all Administrative DHC wells. Industry believes revisions to Rule 303 can be made in order to make it more efficient and still fulfill any statutory obligations.
- (B) A NEW OCD FORM:** Industry has developed a sample form for consideration by the Division so that administrative DHC cases can be more efficiently filed by industry and processed by the Division.

- (C) **UNNECESSARY NOTICES:** We are still required to provide notice to offsetting operators around the entire spacing unit which contains the proposed DHC well. As discussed at the Commission hearing, none of us can recall a single DHC application being objected to by an offset operator. We consider that notice unnecessary and request its deletion from Rule 303.
- (D) **DATA TO SUBMIT:** Currently, Rule 303 uses a detailed checklist of exactly what the applicant must submit in a DHC. That checklist requires pressure data, decline curves and a 24-hour productivity test. Industry requests the Division consider relaxing the current requirement of a 24-hours productivity test (C-116). That current productivity test is based upon the historical background of dealing with the current requirement that at least one zone be uneconomic.
- (E) **PROCESSING TIME:** Industry suggests that Rule 303 specifically provide Division staff with a minimum number of days after receipt of an administrative DHC to process these cases. Currently, Staff receives about 15-20 administrative DHC per month. It is inappropriate for an applicant to file for an Administrative DHC and then pester staff for immediate attention. Staff is entitled to a time "buffer" to process these cases.
- (F) **DISTRICT-SANTA FE PROCESSING:** Industry request the Division consider delegating with appropriate guidance some of the more routine DHC matters to the District.

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It is our hope that by discussing this rule informally we may collectively find means to modernized Rule 303 for the benefit of the industry while fulfilling the statutory obligations of the Division to prevent waste and protect correlative rights.

We look forward to meeting with you on Thursday.

Regards,



W. Thomas Kellahin

cc: NMOGA (Ruth Andrews)
Conoco, Inc. (Hoover)
Meridian Inc (Alexander)
Amoco (Hawkins)