

NEW MEXICO OIL CONSERVATION DIVISION

December 22, 1995

HAND DELIVERED

W. Thomas Kellahin
Kellahin & Kellahin
P. O. Box 2265
Santa Fe, New Mexico 87501

Case 11353

Re: **Revisions to Rule 303 Downhole Commingling**

Dear Mr. Kellahin:

I wish to express my appreciation to you and the members of the NMOGA's Rule 303 SubCommittee for the technical presentation made to the Division on October 12, 1995 concerning the industry's proposed revisions to Division Rule 303 pertaining to downhole commingling ("DHC") as outlined to me by your letter of October 9, 1995.

In response to your request, I am providing the following written comments to aid in your preparation on this subject to the New Mexico Oil Conservation Commission at its next hearing currently scheduled for January 18, 1996. Please recognize that my comments are being made as Director of the Division based upon staff suggestions and do not necessary reflect how the Commission may or may not decide these matters.

In addition, my comments are preliminary and based upon the presentation made to me and other Commission members on October 12, 1995. I am certainly receptive to modifying these comments based upon the evidence and arguments presented at the Commission hearing.

(1) UNNECESSARY DHC HEARINGS:

In response to industry's request and based upon the recommendation of staff, the Division will recommended that the Commission adopt as a matter of policy certain modifications to Rule 303 which will allow the Division to administratively process most DHC cases without the necessity of a hearing.

(2) ECONOMIC CRITERIA:

While I recognize that Rule 303 requires that at least one zone be uneconomic before a well is eligible for administratively processed DHC, I am not yet persuaded that Rule 303 should be expanded to allow for DHC even when zones are still economic.

I am particularly concerned that neither the industry nor the Division has a technical basis to support abandoning this requirement. However, I am convinced that "uneconomic" is too restrictive. I see no reason to exclude a marginal zone from DHC prior to becoming uneconomic. Definitions of "marginal" and "economic" can be sticky and need some refinement.

I do however, propose that Rule 303 be relaxed by substituting "marginal" for "not otherwise be economically producible".

(3) REFERENCE CASES:

In order for both the Division and the industry to be assured that an appropriate technical record has been compiled which will support granting administrative exceptions to Rule 303 and which will serve as a basis for further modification of Rule 303, I envision the Division docketing for hearing selected DHC applications as "DHC reference cases".

For example, should an operator desire to delete or modify any of the Rule 303 numerical standards for all or part of a pool or formation, then that case would be presented at an Examiner's hearing with appropriate technical justification. Then, if granted by the Division, subsequent DHC applications involving similar exceptions to Rule 303 within that reservoir and within a reasonable geographic distance from "referenced case" wells may be approved administratively by referring to the "reference case". The informal presentation on October 12, 1995 by Scott Daves of Meridian could be presented to either the Commission or an examiner to set a marginal economic criteria and justify deleting the 50% pressure differential numerical standard for the pools in the San Juan Basin.

Similar presentation can and should be developed by operators in Southeastern New Mexico who wish to commingle new zones and/or desire modification of the current numerical standards establishing a marginal economic criteria for a pool.

(4) NUMERICAL STANDARDS:

At your request, the Division has considered the following "numerical standards":

- (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.

At present, the Division believes there is reasonable regulatory basis for retaining certain numerical standards in Rule 303. We concur that certain of the specific numbers in these standards can be relaxed. The dilemma is that neither the Division nor the industry can yet scientifically support a specific numerical standard.

I suggest, as an interim solution:

- (a) to triple each of the current rates set forth on the total combined daily oil limit schedule for Rule 303(C);
- (b) correspondingly the maximum water limit will be increased because it is simply twice the combined oil limit;
- (c) retain the 50% pressure differential rule for the San Juan Basin pools until such time as the operators/Division process a referenced case which will justify its deletion;
- (d) retain the 50% pressure differential rule for the South East New Mexico pools until such time as the operators/Division process a referenced case which will justify its deletion;
- (e) substitute "marginal" criteria for "uneconomic" criteria

Please circulate a questionnaire among the industry to determine if each of these modifications to the numerical standards is acceptable and if not, then please propose a specific number with appropriate scientific support.

(5) CROSS-FLOW:

The Division proposes to relax the current requirement that "there will be no

crossflow between the zones to be commingled" by allowing crossflow provided the allocation formula is reliable, the fluids are compatible, the formation is not damaged and the cross-flowed production is ultimately recovered.

(6) FLUID COMPATIBILITY;

The Division does not recommend relaxing the standards on fluid compatibility and will continue to recommend that commingling applications that result in the formation of precipitates which might damage either reservoir be denied.

(7) AREA-WIDE DHC APPROVAL:

Industry has requested the Division consider establishing guidelines for the administrative processing of DHC to include approvals on a geographical area basis. The Division would like to address that request within the context of a series of "referenced cases" which can form the basis for establishing such guidelines.

(8) A NEW OCD DHC FORM:

We appreciate the industry taking the initiative to develop a proposed form. The Division's preliminary review indicates your proposed form is usable and efficient. We request that NMOGA circulate the proposed form among its membership to determine if any member has any concerns about the form.

(9) UNNECESSARY NOTICES:

The Division recognizes that the industry is still required to provide notice to offsetting operators around the entire spacing unit which contains the proposed DHC well.

We are receptive to deleting this requirement provided a poll of the industry demonstrates that there are no serious objections about deleting this requirement.

(10) DATA TO SUBMIT:

The Division proposes to retain a detailed checklist of exactly what the applicant must submit in a DHC. The Division will consider relaxing the current requirement of a 24-hours productivity test (C-116) and awaits a specific proposal from the industry.

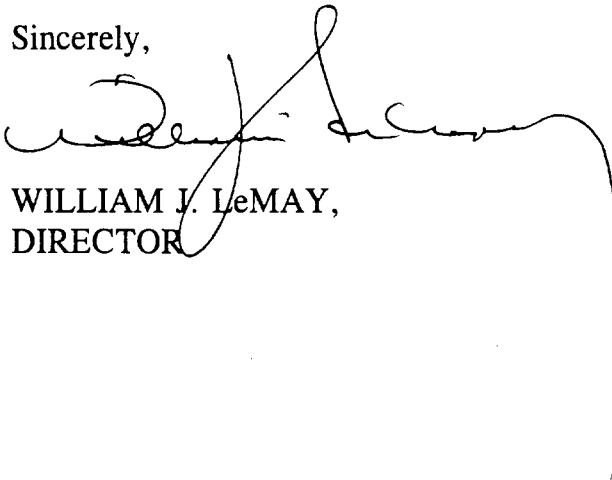
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(11) DISTRICT-SANTA FE PROCESSING:

The Division considers it necessary to retain DHC approval at the Division office in Santa Fe in order to maintain statewide regulatory continuity for such matters.

I hope my comments and suggestions will aid you and your committee members in their preparation for and presentation to the Commission hearing set for January 18, 1996.

Sincerely,

A handwritten signature in black ink, appearing to read "William J. LeMay", with a long, sweeping horizontal line extending to the right.

WILLIAM J. LeMAY,
DIRECTOR