

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION COMMISSION**

**IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION FOR THE PURPOSE OF
CONSIDERING:**

**CASE NO. 11353
Order R-_____**

**APPLICATION OF THE NEW MEXICO
OIL CONSERVATION DIVISION TO
AMEND RULE 303.C OF ITS GENERAL
RULES AND REGULATIONS PERTAINING
TO DOWNHOLE COMMINGLING.**

ORDER OF THE COMMISSION

BY THE COMMISSION:

**This cause came on for hearing at 9:00 AM on August 3, 1995,
at Santa Fe, New Mexico before the Oil Conservation Commission of
New Mexico, hereinafter referred to as the "Commission."**

**NOW, on this ____ day of September, 1995, the Commission, a
quorum being present, having considered the testimony presented and
exhibits received at said hearing, and being fully advised in the
premises,**

FINDS THAT:

**(1) Due public notice having been given as required by law, the
Commission has jurisdiction of this cause, the parties and the subject
matter thereof.**

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(2) The Division recommends certain changes to the current statewide downhole commingling rules to simplify the administrative processing of those types of cases while still adequately assuring the prevention of waste and the protection of correlative rights.

(3) The oil & gas industry of New Mexico represented by appearances on behalf of the New Mexico Oil & Gas Association, Meridian Oil Inc., Conoco Inc, and Amoco Production Company, supported the Division's proposed rules changes and in addition proposed further changes to the downhole commingling rules.

(4) There is a consensus among the industry and the Division that there is a need for revisions of Rule 303.C to provide for more efficient administrative approval for downhole commingling application which should include the following:

(a) broaden the scope of the administrative processing of downhole commingling application to include the ownership of multiple zones in which the ownership is not common;

(b) to delete the current requirement of notice to offset operators for administrative downhole commingling applications;

(c) clarify Rule 303.C by authorizing the Director to approve commingling in the wellbore of more than two zones;

(d) assure the protection of correlative rights by requiring all interest owners of production to be commingled to be notified by certified mail return receipt of such an application;

(e) clarify Rule 303.C to require State Land Office or BLM concurrence in downhole commingling as the case may be.

(5) In addition, the New Mexico Oil & Gas Association joined by Meridian, Amoco and Conoco has requested additional changes to Rule 303 which include deleting and modifying many of the provisions of Rule 303 which the industry considers unnecessary and burdensome.

(6) The Commission finds that the most expeditious manner to address all these issues and possible rule changes is to enter an interim order adopting those changes with which both the industry and the Division are in agreement and to continue until the Commission hearing now set for October 12, 1995 all other issues for further discussion and consideration at that time.

(7) The Commission further finds that changes as described in Finding 4(a) through (e) should be adopted because:

(a) it is an unnecessary regulatory burden on the Division and the Industry to require a hearing before processing application for downhole commingling of production involving different ownership provided all affected parties are provided adequate notice and an opportunity to require a hearing in cases where there is opposition;

(b) of the hundreds of downhole commingling cases set for hearing, no offset operator has appeared and objected and therefore that category of party is unaffected by downhole commingling and notice to offset operators is an unnecessary burden which can be deleted;

(c) clarification of the rules is necessary to specifically authorize downhole commingling of multiple zones, clarify the water limit and to coordinate approvals with the other regulatory agencies.

(d) the adoption of these proposed changes to Rule 303 will be in the best interest of conservation, the prevention of waste and the protection of correlative rights.

IT IS THEREFORE ORDERED THAT:

(1) Division Rule 303 be amended as follows with the deleted language indicated by "strike-out" and the adopted language indicated by the "red-line" as follows:

C.(1) The Director of the Division shall have the authority to grant an exception to Rule 303(A) to permit the commingling in the wellbore of ~~oil-oil, gas-gas, or gas-oil~~ **multiple producing** zones in a well when the following facts exist and the following conditions are met:

C.(1)(a)(iii) ~~Neither~~ **No** zone produces more water than the combines oil limits are determined in paragraph (i) above.

D.(10) A statement that all ~~offset operators interest owners~~ **of production if that ownership is diversified** and, in the case of a well on state or federal lands, the **Commissioner of Public Lands for the State of New Mexico or the United States Bureau of Land Management**, have been notified in writing of the proposed commingling.

E. The Division Director may approve the proposed downhole commingling in the absence of a valid objection ~~from any interest owner~~ **from any interest owner** within 20 days after the receipt of the of the application if, in his opinion there is no disqualifying disparity of bottomhole pressures or other reservoir characteristics, waste will not result thereby and correlative rights will not be violated. The 20-day waiting period may be dispensed with upon receipt of waivers of objection from all parties mention in Section D, paragraph (10)

(2) Division Rule 303.C should be further amended by:

deleting in its entirety subparagraph
C(1)(a)(vi) and renumbering C(1)(a) (vii) to
(vi);

deleting in its entirety subparagraph
C(1)(b)(v) and renumbering C(1)(b) (vi) to
(v);

(3) Division Rule 303.C should be further amended by adopting
the following new provisions:

D.(11) In a case where there is diversity of ownership between or among the zones to be commingled (including working, royalty and/or overriding royalty interest), the applicant shall submit a statement attesting that applicant, on or before the same date the application was submitted to the Division has sent notification to all those parties by submitting a copy of the application to them by certified mail return receipt and advising them that if they have an objection it must be filed in writing within twenty days of the date notice was sent.

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

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

JAMIE BAILEY, Member

WILLIAM W. WEISS, Member

WILLIAM J. LEMAY, Chairman