

Exhibit 1

KELLAHIN AND KELLAHIN

ATTORNEYS AT LAW

EL PATIO BUILDING

117 NORTH GUADALUPE

POST OFFICE BOX 2265

SANTA FE, NEW MEXICO 87504-2265

W. THOMAS KELLAHIN\*

\*NEW MEXICO BOARD OF LEGAL SPECIALIZATION  
RECOGNIZED SPECIALIST IN THE AREA OF  
NATURAL RESOURCES-OIL AND GAS LAW

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JASON KELLAHIN (RETIRED 1991)

July 29, 1996

HAND DELIVERED

RECEIVED

JUL 30 1996

Oil Conservation Division

Mr. William J. LeMay, Director  
Oil Conservation Division  
2040 South Pacheco  
Santa Fe, New Mexico 87505

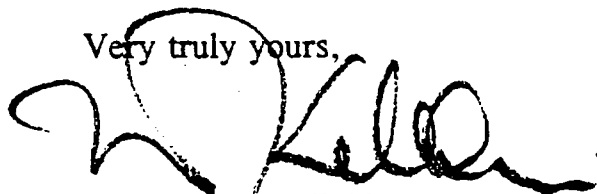
Re: San Juan 32-9 Unit  
Application of Burlington Resources  
Oil & Gas Company for the establishment  
of a Downhole Commingling Reference Case  
Pursuant to Division Rule 303.E  
San Juan County, New Mexico

Dear Mr. LeMay:

On behalf of Burlington Resources Oil & Gas Company, please find enclosed our referenced application which we request be set for hearing on the next available Examiner's docket now scheduled for August 22, 1996.

Also enclosed is our proposed advertisement of this case for the NMOCD docket.

Very truly yours,



W. Thomas Kellahin

cc: Burlington Resources Oil & Gas Company  
Attn: Mr. Alan Alexander

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JUL 30 1996

**PROPOSED ADVERTISEMENT**

Oil Conservation Division

**Case \_\_\_\_\_**: Application of Burlington Resources Oil & Gas Company for the establishment of a downhole commingling reference case pursuant to Division Rule 303E and the adoption of special administrative rules therefore, San Juan County, New Mexico. Applicant, in the above-styled cause, in accordance with Division Rule 303.E seeks to establish a downhole commingling reference case to provide for (a) marginal economic criteria, (b) pressure criteria, (c) allocation formulas, and (d) modification of notification rules on an area-wide basis authorization for downhole commingling of Dakota, Mesaverde and Pictured Cliffs gas production in the wellbores of existing or future wells drilled anywhere within the San Juan 32-9 Unit located in Township 31 North, Range 9 West, Township 31 North Range 10 West, Township 32 North Range 9 West and Township 32 North Range 10 West, NMPM, San Juan County, New Mexico, said production being portions of the Basin-Dakota Gas Pool, the Blanco-Mesaverde Gas Pool and Blanco Pictured Cliffs Gas Pool.

The center of said area is located approximately 4 miles east from Cedar Hills, New Mexico.

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:

APPLICATION OF BURLINGTON RESOURCES CASE NO. —  
OIL & GAS COMPANY FOR DOWNHOLE  
COMMINGLING REFERENCE CASE  
PURSUANT TO DIVISION RULE 303.E  
SAN JUAN COUNTY, NEW MEXICO.

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JUL 30 1996

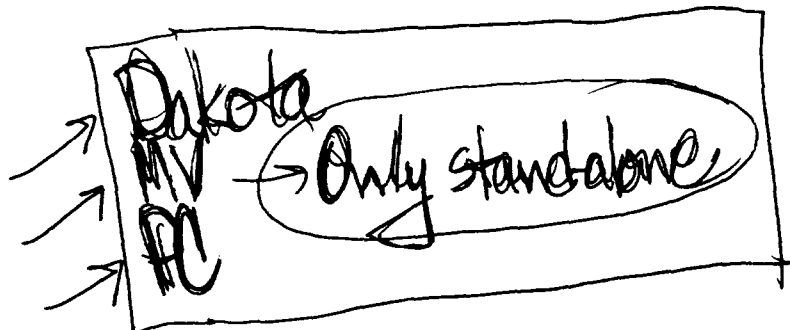
Oil Conservation Division

APPLICATION

Comes now BURLINGTON RESOURCES OIL & GAS COMPANY (formerly Meridian Oil Inc.), by and through its attorneys, Kellahin and Kellahin, and applies to the New Mexico Oil Conservation Division for the establishment of a downhole commingling reference case pursuant to Division Rule 303E. and the adoption of special administrative rules therefore, San Juan County, New Mexico. Applicant, in the above-styled cause, in accordance with Division Rule 303.E seeks to establish a downhole commingling reference case to provide for (a) marginal economic criteria, (b) pressure criteria, (c) allocation formulas, and (d) modification of notification rules on an area-wide basis authorization for downhole commingling of Dakota, Mesaverde and Pictured Cliffs gas production in the wellbores of existing or future wells drilled anywhere within the San Juan 32-9 Unit located in Township 31 North Range 9 West, Township 32 North Range 10 West, Township 32 North Range 9 West, and Township 32 North Range 10 West, NMPM, San Juan County, New Mexico, said production being portions of the Basin-Dakota Gas Pool, the Blanco-Mesaverde Gas Pool and the Blanco Pictured Cliffs Gas Pool.

In support of its application, Burlington Resources Oil & Gas Company ("Burlington"). states:

(1) Burlington is the operator of the San Juan 32-9 Unit which currently includes 2 Basin Dakota Gas Pool wells, 128 Blanco-Mesaverde Gas pool wells and 32 Blanco Pictured Cliffs Gas wells all located within an area known as the "San Juan 32-9 Unit" as identified on Exhibit "A" and consisting of 21,863.77 acres, more or less of acreage as described on Exhibit "B".



(2) In the absence of the establishment of a "reference case" as provided in Rule 303.E, Division general state-wide Rule 303.C requires that administrative applications for downhole commingling of gas production be submitted, processed and approved on a well by well basis including submittal of the following:

- (a) economic criteria to support that at least one zone to be commingled is marginal.
- (b) pressure criteria to demonstrate that the bottomhole pressure of all zones to be commingled is less than the original bottom hole pressure of the lowest pressures zone,
- (c) allocation formulas, and
- (d) notification by certified mail return receipt to each interest owner where ownership is not common in the zones to be commingled.

(3) Sufficient data is now available from existing wells in the San Juan 32-9 Unit to support the Division approving the downhole commingling of Dakota, Mesaverde and Pictured Cliffs gas production within the San Juan 32-9 Unit on an "area-wide" basis rather than on a "well-by-well basis."

(4) Sufficient data, which will be submitted at the hearing of this case, is now available from existing wells in the San Juan 32-9 Unit to support the Division adopting a "reference case" for the downhole commingling of Dakota, Mesaverde and Pictured Cliffs gas production within the San Juan 32-9 Unit as to the following criteria:

- (a) economic criteria to support that at least one zone to be commingled is marginal.
- (b) pressure criteria to demonstrate that the bottomhole pressure of all zones to be commingled is less than the original bottom hole pressure of the lowest pressures zone,
- (c) allocation formulas,
- (d) notification in this case by certified mail return receipt constitutes satisfactory notification in all subsequent cases to each interest owner where ownership is not common in the zones to be commingled; and

- (e) notification to offset operators will continue to be made provided those offset operators are operators other than applicant.

(5) Burlington seeks authorization pursuant to Division Rule 303.E that all administrative applications for the downhole commingling of Mesaverde, Dakota and/or Pictured Cliffs gas production within the San Juan 32-9 Unit submitted subsequent to the filing of the application in this case shall be authorized to refer to the order entered in this case and shall not be required to submit evidence or data for the following criteria (a) marginal economic criteria, (b) pressure criteria, (c) allocation formulas, and (d) notice to owners of any production within spacing units where the ownership is not common.

(6) Production from the Dakota and Pictured Cliffs pools is now either marginal or uneconomic from existing wells within the San Juan 32-9 Unit and the economic life of that production is extended if it is downhole commingled with Mesaverde pool production.

(7) The approval of downhole commingling of these formations in the San Juan 32-9 Unit will extend the economic life of the existing wells and thereby increase ultimate recovery from these formations.

(8) In addition, any new wells to be drilled or recompleted in the San Juan 32-9 Unit should be approved for downhole commingling because either the Dakota or the Pictured Cliffs zones is marginal based upon criteria which the applicant will submit at the hearing of this case.

(9) It is anticipated that new wells, recompleted wells or existing wellbores in the San Juan 32-9 Unit will be most economically completed if there is a summary administrative procedure by which those wells may be downhole commingled.

(10) The processing of downhole commingling applications for the San Juan 32-9 Unit in the absence of adopting a reference case will be an administrative burden to the Division and to the operator.

(11) Approval of downhole commingling reference case for the San Juan 32-9 Unit on an area-wide basis is in the best interests of conservation, the prevention of waste and the protection of correlative rights.

(12) Burlington requests the adoption of a summary administrative procedure with the necessary exceptions to Division Rule 303(C) so that the Supervisor of the Aztec District Office of the Division shall approve the downhole commingling of said production on an area-wide basis for the San Juan 32-9 Unit.

(13) The ownership is not common among these three formations within the San Juan 32-9 Unit.

(14) In accordance with Division Rule 303-C-1.(b), the Applicant states and will demonstrate at hearing:

1. That wells in the San Juan 32-9 Unit which are currently single completion in the Dakota formation or the Pictured Cliffs formation are now marginal and production cannot be economically continued nor further developed unless it is done so by downhole commingling that production.
2. That there will be no unrecovered production crossflowing between or among the three zones commingled.
3. That the value of the commingled production will not be less than the sum of the values of the individual production.
4. It is expected that the current bottom hole pressure of the highest pressure zone is not greater than the original bottom hole pressure of the lowest pressure zone adjusted to a common datum.

(15) In order to salvage the remaining Dakota and Pictured Cliffs production from the San Juan 32-9 Unit, Burlington seeks approval to downhole commingle all Dakota, Mesaverde and Pictured Cliffs production from any existing wells where mechanically feasible and the adoption of a summary procedure for the downhole commingling of future wells to be drilled in the Unit.

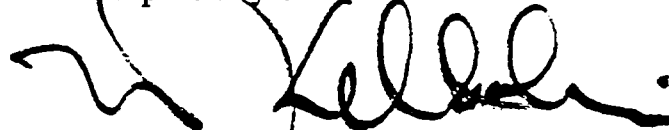
(16) Burlington will submit at the hearing, proposed formulas for the allocation of production to each of the commingled zones and a description of the factors or data used in determining such formula.

(17) Applicant requests that this matter be docketed for hearing on the Division's Examiner docket now scheduled for August 22, 1996.

(18) Notice of this application has been sent to all interest owners entitled to receive production within the unit.

WHEREFORE Applicant requests that this matter be set for hearing on August 22, 1996 before a duly appointed Examiner of the Oil Conservation Division and that after notice and hearing as required by law, the Division enter its order granting this application.

Respectfully submitted

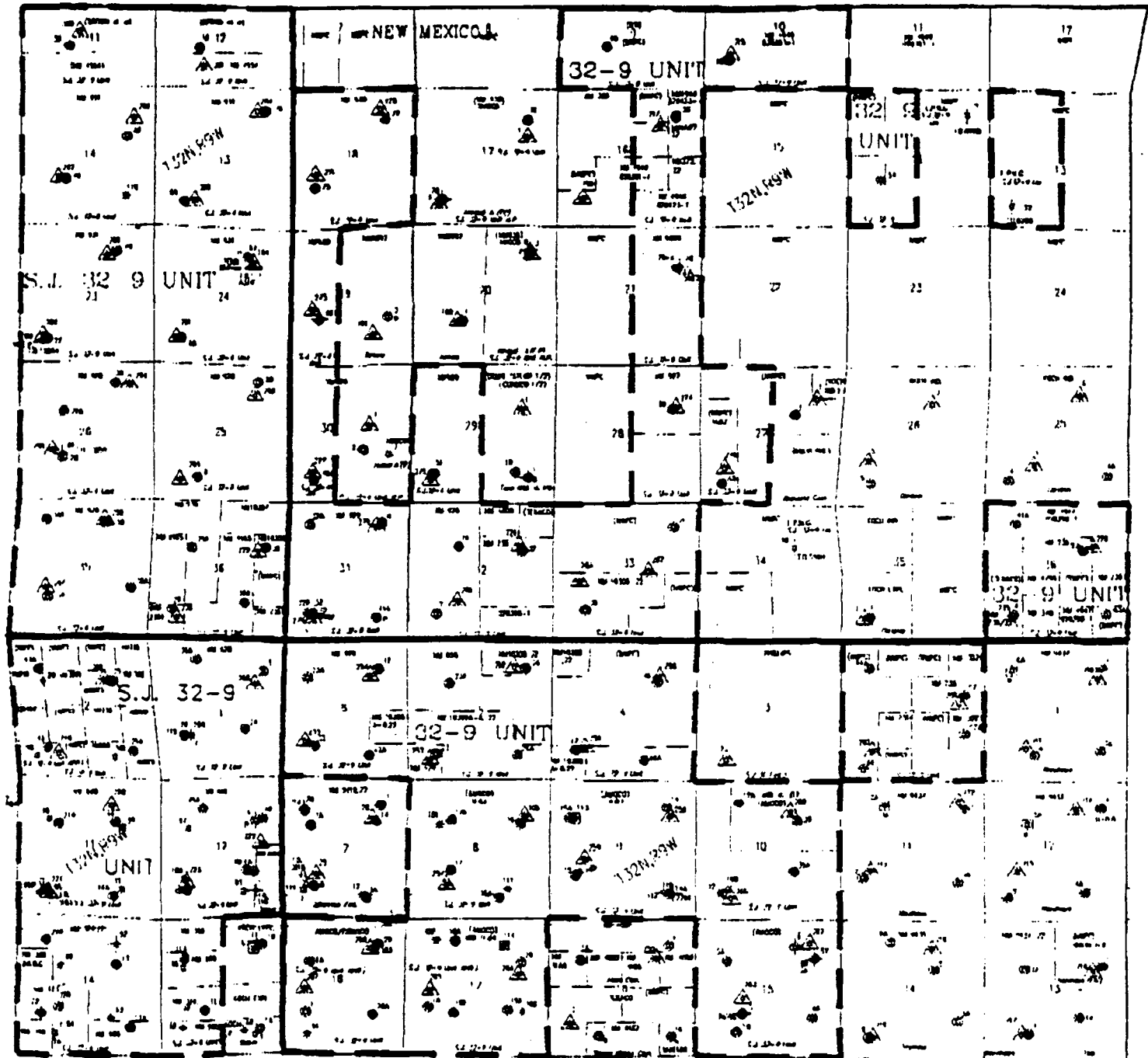
A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', written over a horizontal line.

W. Thomas Kellahin  
KELLAHIN and KELLAHIN  
P. O. Box 2265  
Santa Fe, New Mexico 87501  
(505) 982-4285  
Attorneys for Applicant



# EXHIBIT A

## San Juan 32-9 Unit San Juan Co., New Mexico



V FOUNTAIN ADD.    MOUNTAIN  
 A FOUNTAIN CREEK    MOUNTAIN  
 D FOUNTAIN CREEK    MOUNTAIN

RECAPITULATION

SAW JUAN 32-9 UNIT AREA  
DESCRIPTION OF NON-COMMITTED LANDS

DESCRIPTION OF COMMITTED LANDS

TOWNSHIP 031N , RANGE 009N	
SECTION 02 : S/2 NE, NE/SW	
SECTION 02 : LOTS 2 & 4,	S/2 NW,
SECTION 02 : ...W/2 SW,	SE/SE, W/2 SE
SECTION 02 : LOT 3	
SECTION 02 : SE/4 SW/4	
SECTION 02 : LOT 1, NE/SE	
SECTION 04 : SW/4 SW/4	
SECTION 04 : LOT 4	
SECTION 04 : SE/SW, S/2 SE	
SECTION 04 : LOTS 1 - 3,	S/2 W/2, W/2 S/2
SECTION 05 : LOTS 3 & 4,	S/2 W/2, SW/SW, NE/SE
SECTION 05 : LOTS 1, 2	
SECTION 05 : SE/SE, NW/SW,	E/2 SW, W/2 SE
SECTION 06 : NE/4 SE/4	
SECTION 06 : LOTS 1 - 7,	S/2 NE, E/2 SW,
SECTION 06 : ...W/2 SE,	SE/NW, SE/SE
SECTION 08 : ALL	
SECTION 09 : ALL	
SECTION 10 : NE/4, E/2 NW	
SECTION 10 : S/2, W/2 NW/4	
SECTION 15 : ALL	
SECTION 17 : ALL	
SECTION 18 : LOTS 1-4, E/2,	E/2 W/2 (ALL)
TOWNSHIP 031N , RANGE 010N	
SECTION 01 : LOTS 1-4, S/2,	S/2 W/2 (ALL)
SECTION 02 : LOT 1, NW/SE,	SW/NW
SECTION 02 : NE/4 SE/4	
SECTION 02 : NE/4 SW/4	
SECTION 02 : LOT 4	
SECTION 02 : LOT 2	
SECTION 02 : SE/4 SE/4	
SECTION 02 : SW/NE, S/2 SW	
SECTION 02 : LOT 3	
SECTION 02 : SE/NE, SE/NW	
SECTION 02 : SW/4 SE/4	
SECTION 02 : NW/SW	
SECTION 11 : ALL	
SECTION 12 : W/2, SW/4,	W/2 SE/4
SECTION 12 : E/2 SE/4	
SECTION 13 : S/2 SW/4	
SECTION 13 : W/2 SW/4	
SECTION 13 : W/2 NW/4	
SECTION 14 : SW/4 SW/4	
SECTION 14 : S/2 SE/4	
SECTION 14 : W/2 NW, NE/4,	SE/NW, W/2 SE
SECTION 14 : SW/4 NW/4	
SECTION 14 : E/2 SW/4	
SECTION 14 : NW/4 SW/4	
TOWNSHIP 032N , RANGE 009N	

## RECAPITULATION

SAN JUAN 32-9 UNIT AREA  
DESCRIPTION OF NON-COMMITTED LANDS

## DESCRIPTION OF COMMITTED LANDS

SECTION 09	: LOTS 1 - 4	
SECTION 09	: S/2	
SECTION 10	: LOTS 1 - 4,	S/2 (ALL)
SECTION 13	: W/2	
SECTION 14	: NE/4 NW, SE/SW,	W/2 SW
SECTION 14	: W/2 NW/4,	SE/NW, NE/SW
SECTION 16	: SW/4 NE/4	
SECTION 16	: SE/4 NE/4	
SECTION 16	: NW/4 SE/4	
SECTION 16	: NW/4 NE/4	
SECTION 16	: NE/4 SE/4	
SECTION 16	: NE/NE, S/2 SE	
SECTION 18	: LOTS 1-4, E/2,	E/2 W/2 (ALL)
SECTION 19	: LOTS 1-4,	E/2 W/2
SECTION 21	: E/2	
SECTION 27	: SW/NW, W/2 SW	
SECTION 27	: SE/4 SW/4	
SECTION 27	: W/2 NW/4,	SE/NW, NE/SW
SECTION 28	: SE/4	
SECTION 28	: NE/4	
SECTION 29	: W/2	
SECTION 30	: LOTS 1-4,	E/2 W/2 (W/2)
SECTION 31	: LOTS 1-4, E/2,	E/2 W/2 (ALL)
SECTION 32	: W/2	
SECTION 32	: S/2 NE, W/2 SE	
SECTION 32	: S/2 SE/4	
SECTION 32	: NW/4 NE/4	
SECTION 32	: NE/4 NE/4	
SECTION 33	: NW/SE, SW/4	
SECTION 33	: W/2	
SECTION 33	: E/2 SE, SW/SE	
SECTION 34	: SW/NE, SE/NW,	NE/SE, SW/SW
SECTION 36	: W/2 W/2, SE/NE,	SW/NW, SW/SE
SECTION 36	: NW/4 SW/4	
SECTION 36	: SE/3/4	
SECTION 36	: NE/4 SW/4	
SECTION 36	: NW/SE, SE/SE	
TOWNSHIP 032N,	RANGE 010W	
SECTION 11	: LOTS 1-4	
SECTION 11	: S/2 S/2	
SECTION 12	: LOTS 1-4	
SECTION 12	: S/2 S/2	
SECTION 13	: ALL	
SECTION 14	: ALL	
SECTION 23	: ALL	
SECTION 24	: ALL	
SECTION 25	: ALL	
SECTION 26	: ALL	
SECTION 35	: ALL	
SECTION 36	: SE/SE, SE/NW, W/2 NW, NE/SW, SW/SW	
SECTION 36	: W/2 NE/4	

RECAPITULATION

SAN JUAN 32-9 UNIT AREA  
DESCRIPTION OF NON-COMMITTED LANDS

DESCRIPTION OF COMMITTED LANDS

SECTION 36 : NE/4 SE/4  
SECTION 36 : SE/4 NE/4  
SECTION 36 : SW/NE, SW/NW, W/2 SE, SE/SW, NW/SW  
TOTAL COMMITTED: 21,643.77

TOTAL ACRES NON-COMMITTED: 220.00

TOTAL NUMBER OF ACRES 21,863.77