



NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION
2040 South Pacheco Street
Santa Fe, New Mexico 87505
(505) 827-7131

March 20, 1997

CAMPBELL, CARR & BERGE, P.A.
Attorneys At Law
Post Office Box 2208
Santa Fe, New Mexico 87504


Attn: Bill Carr

RE: CASE NO. 11644
ORDER NO. R-10783

Dear Sir:

Enclosed herewith are two copies of the above-referenced Division order recently entered in the subject case.

Sincerely,


Sally E. Martinez
Administrative Secretary

cc: BLM - Farmington
OCD - Aztec
Taxation & Revenue Dept.

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. 11644
ORDER NO. R-10783

**APPLICATION OF AMOCO PRODUCTION COMPANY FOR SURFACE
COMMINGLING, SAN JUAN COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on November 7, 1996, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 20th day of March, 1997, the Division Director, having considered 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, Amoco Production Company ("Amoco"), is the owner and operator of the Atlantic "A-LS" Well No. 9A (API No. 30-045-22492), located 1185 feet from the North line and 1575 feet from the West line (Lot 3/Unit C) of irregular Section 27, Township 31 North, Range 10 West, NMPM, San Juan County, New Mexico. Said well was drilled by El Paso Natural Gas Company in 1977 and completed in the Blanco-Mesaverde Pool. In 1981 under the authority of Division Administrative Order MC-2848, dated May 21, 1981, this well was dually completed in both the Blanco-Pictured Cliffs and Blanco-Mesaverde Pools in a conventional manner with two strings of tubing and a packer separating the two gas streams.

(3) Lots 3, 4, 5, and 6 (the NW/4 equivalent) of said Section 27, comprising an area of 163.50 acres, was dedicated to the Blanco-Pictured Cliffs Pool gas production from said well and the Blanco-Mesaverde gas production was dedicated to an existing 322.90-acre gas spacing and proration unit comprising Lots 3, 4, 5, 6, 11, 12, 13, and 14 (the W/2 equivalent) of said Section 27.

(4) By letter dated August 9, 1996 Amoco made application to the Division for administrative review pursuant to Rule 303.B of the Division's General Statewide Rules and Regulations for an exception to Division General Rule 303.A to commingle Blanco-Pictured Cliffs and Blanco-Mesaverde Pool gas production from this well in a common gas sales line.

(5) The Division responded by letter dated September 10, 1996 denying this application in that the current rates of production from this well from both the Blanco-Mesaverde and Blanco-Pictured Cliffs zones as 416 MCFPD and 276 MCFPD, respectively, were excessive. Said letter further explained the Division's policy of viewing surface commingling as a method of economically producing two or more zones which may otherwise not be economical.

(6) By application dated October 14, 1996 Amoco requested this matter be set for hearing before an Examiner.

(7) At the November 7, 1996 hearing Amoco presented evidence and testimony which indicates the following:

- (a) ownership, which includes working interests, royalty interests, and overriding royalty interests, is common for both pools;
- (b) the actual commercial value of the commingled gas stream will not be less than the sum of the values of the production from each of the common sources of supply; and,
- (c) the surface commingling will offer an economic method of production using a single train of production equipment even though the volumes from each zone are sufficient to economically justify separate metering.

(8) Amoco originally requested the following allocation formula, based on the current rates of production from each zone in this well and on the production histories of this well and wells in the immediate area, be utilized in any administrative action taken on its August 9, 1996 application:

- (a) 60% of the total commingled gas volume be attributed to the Blanco-Mesaverde Pool, the remaining 40% to the Blanco-Pictured Cliffs Pool; and,
- (b) 100% of the total liquids from this well be attributed to the Blanco-Mesaverde Pool.

At the time of the hearing Amoco requested that the well be tested annually in order to determine production from each pool.

(9) *The Division has historically attempted to obtain accurate measurements of production and has considered commingling as an option only when it was necessary to produce a "small" volume of hydrocarbons; therefore, the inaccuracy inherent in allocation would be insignificant. Furthermore, the Division has not defined or stated what a "small" or marginal volume is. No determination by the Division has ever been made as to the accuracy of the different allocation methods approved and in most instances the methods employed are theoretical. In the*

future the setting of limits for what the Division considers marginal or "small" volumes and what the tolerance of accuracy should be is something that can and should be addressed by the Division, the industry, and perhaps the royalty interest owners and those agencies, both federal and state, involved in the taxing of production.

FINDING: In the immediate case where Amoco is requesting surface commingling as a matter of convenience in cutting operating costs in a well with high production capabilities, the applicant should be required to provide for a more accurate means that will serve to reflect these higher rates of production. Amoco should therefore be required to conduct well tests on a monthly basis instead of annually.

(10) Such limited approval of this application is in the best interest of conservation, exhibits sound engineering practices, and exhibits prudent operating practices.

(11) The monthly well tests on each zone should be of sufficient duration in order to obtain stabilized producing rates. The operator is to consult with the supervisor of the Division's district office in Aztec to review the testing method proposed and obtain approval prior to commingling. In addition, the applicant should notify the supervisor of the Aztec district office of the Division prior to conducting such monthly well tests in order that such test may be witnessed.

(12) The applicant should present the results of the production tests to the supervisor of the Aztec district office of the Division in order that the results may be verified.

IT IS THEREFORE ORDERED THAT:

(1) The applicant, Amoco Production Company ("Amoco"), is hereby granted an exception to Division General Rule 303.A and is authorized to commingle Blanco-Pictured Cliffs and Blanco-Mesaverde Pool gas production from its Atlantic "A-LS" Well No. 9A (API No. 30-045-22492), located 1185 feet from the North line and 1575 feet from the West line (Lot 3/Unit C) of irregular Section 27, Township 31 North, Range 10 West, NMPM, San Juan County, New Mexico, into a common gas sales line and to determine production from each pool by monthly well tests.

(2) The monthly well tests on each zone shall be of sufficient duration in order to obtain stabilized producing rates. The operator must consult the supervisor of the Division's district office in Aztec to review the testing method proposed and obtain approval prior to commingling. In addition, the applicant shall notify the supervisor of the Aztec district office of the Division prior to conducting such monthly well tests in order that such test may be witnessed.

(3) The results of said monthly production tests shall be presented to the supervisor of the Aztec district office of the Division in order that the results may be verified.

(4) This facility shall be installed and operated in accordance with the applicable provisions of Rule 303.B of the Division Rules and Regulations and the Division "Manual for the Installation and Operation of Commingling Facilities".

(5) The applicant shall notify the supervisor of the Aztec district office of the Division prior to the installation of commingling facilities.

(6) Subsequent to completion, the applicant shall conduct a production test of sufficient duration on each of the zones in order to obtain initial stabilized producing rates. In addition, the applicant shall notify the supervisor of the Aztec district office of the Division prior to conducting such production tests, in order that such test may be witnessed.

(7) The applicant shall present the results of the production tests to the supervisor of the Aztec district office of the Division in order that the results may be verified and approved for use in its allocation formula.

(8) 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

A handwritten signature in black ink, appearing to read "William J. Lemay", written over the printed name and title.