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NATURAL RESOURCES-OIL AND GAS LAW

JASON KELLAHIN (RETIRED 1991)

June 11, 1997

HAND DELIVERED

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

Re: San Juan 28-7 Unit  
Application of Conoco Inc. for the establishment  
of a Downhole Commingling Reference Case  
Pursuant to Division Rule 303.E and an  
Exception to Rule 303.C.(1)(b)(ii)  
Rio Arriba County, New Mexico

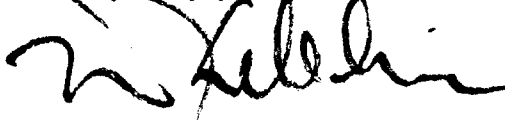
11815

Dear Mr. LeMay:

On behalf of Conoco Inc., please find enclosed our referenced application which we request be set for hearing on the Examiner's docket now scheduled for July 24, 1997.

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

Very truly yours,



W. Thomas Kellahin

cc: Conoco Inc.  
Attn: Mr. Jerry Hoover

AT 1: 357

10-1-10

PROPOSED ADVERTISEMENT

11815

Case: Application of Conoco Inc. for the establishment of a downhole commingling reference case for its San Juan 28-7 Unit pursuant to Division Rule 303.E and an exception to Rule 303C.(1)(b)(ii) therefore, Rio Arriba 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, Fruitland-Coal, Chacra and Pictured Cliffs gas production in the wellbores of existing or future wells drilled anywhere within the San Juan 28-7 Unit located in Township 28 North Range 7 West, NMPM, Rio Arriba County, New Mexico. Applicant further seeks an exception from the pressure limitation criteria set forth in Rule 303C.(1)(b) (ii) for all future "new drills" for Dakota and Mesaverde production within said unit and for four (4) specific Dakota/Mesaverde wells currently being drilled.

The center of said area is located approximately 10 miles southeast from Navajo City, 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 CONOCO INC.  
FOR DOWNHOLE COMMINGLING REFERENCE  
CASE FOR ITS SAN JUAN 28-7 UNIT  
PURSUANT TO DIVISION RULE 303.E  
AND FOR AN EXCEPTION TO RULE 303.C(1)(b)(ii)  
RIO ARriba COUNTY, NEW MEXICO.

CASE NO. 11815

**APPLICATION**

Comes now CONOCO 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 303.E for its San Juan 28-7 Unit and the adoption of special administrative rules therefore including an exception from Rule 303.C(1)(b)(ii), Rio Arriba County, New Mexico, 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, Fruitland-Coal, Chacra and Pictured Cliffs gas production in the wellbores of existing or future wells drilled anywhere within the San Juan 28-7 Unit located in Township 28 North, Range 7 West, NMPM, Rio Arriba County, New Mexico. Applicant further seeks an exception from the pressure limitation criteria set forth in Rule 303C.(1)(b) (ii) for all future "new drills" for Dakota and Mesaverde production within said unit and for four (4) specific Dakota/Mesaverde wells currently being drilled.

In support of its application, Conoco Inc. states:

(1) Conoco is the operator of the San Juan 28-7 Unit which currently includes 139 Dakota wells, 125 Mesaverde wells, 27 Chacra wells, 14 Fruitland Coal-gas wells and 100 Pictured Cliffs wells all located within an area known as the "San Juan 28-7 Unit" consisting of 31,000 acres, more or less, as shown on the plat of the unit attached as Exhibit "A".

(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 each zone to be commingled is less than the original bottom hole pressure of the lowest pressured zone,
- (c) allocation formulas,
- (d) notification in writing to each interest owner where ownership is not common in the zones to be commingled, and
- (e) notification in writing to each offset operator.

(3) **Sufficient data is now available** from existing wells in this unit so as to render it unnecessary to repeatedly provide supporting data on Form C-107-A for the downhole commingling of Dakota, Mesaverde, Fruitland-Coal, Chacra and Pictured Cliffs gas production within this unit as to the following criteria:

- (a) **economic criteria:** to support that the Dakota, Mesaverde, Pictured Cliffs, Chacra and Fruitland Coal gas zones are each marginal;
- (b) **allocation formulas:** to support that each interest owner shall receive its fair and equitable share of production by the use of either the subtraction method or the percentage method of allocation;
- (c) **elimination of unnecessary notice:** such that any future or further notice concerning downhole commingling applications or orders within this unit shall not be required to (a) any owner (including royalty, overriding royalty or working interest owners) in instances where ownership are not common or percentages are not identical in the zones to be commingled **or** to (b) each offset operator who is also an interest owner in this unit; but
- (d) **notice to offset operators:** notification to each offset operator, except as provided in paragraph (c) above, will continue to be made provided those offset operators are operators other than applicant.

- (e) **pressure limitation:** to demonstrate that downhole commingling of newly drilled Mesaverde/Dakota wells can be approved even if the initial bottomhole pressure of the Dakota formation (the higher pressured reservoir) exceeds the original bottom hole pressure of the Mesaverde formation (the lower pressured reservoir) because a much higher pressure than the original reservoir pressure is required to fracture the Mesaverde formation and no waste, loss of reserves, or violation of correlative rights will occur.

(5) Conoco seeks authorization pursuant to Division Rule 303.E that all administrative applications for downhole commingling of Mesaverde, Dakota, Fruitland-Coal, Chacra and Pictured Cliffs gas production within this unit submitted subsequent to the filing of this application in this case shall be authorized to complete the information blanks on Division Form C-107-A but shall not be required to submit additional supporting 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 and offset operators who also own an interest in this unit.

(6) Applicant further seeks an exception from the pressure limitation criteria set forth in Rule 303C.(1)(b) (ii) for all future "new drills" for Dakota and Mesaverde production within said unit and for four (4) specific Dakota/Mesaverde wells currently being drilled described as follows:

- (a) San Juan 28-7 Unit Well No. 224M located 1450'FSL & 790'FEL Sec 28, T28NR7W
- (b) San Juan 28-7 Unit Well No. 226M located 790' FNL & 790'FWL Sec 36, T28NR7W
- (c) San Juan 28-7 Unit Well No. 227M located 1745'FSL & 1850'FEL Sec 36 T28NR7W
- (d) San Juan 28-7 Unit Well No. 232M located 2425'FSL & 500'FEL Sec 20, T28NR7W

(7) Production from the various pools ("reservoirs") in this unit are now either marginal or uneconomic from existing wells within this unit and the economic life of that production is extended if it is downhole commingled with other production in the unit.

(8) The approval of downhole commingling of these formations within this unit will extend the economic life of the existing wells and thereby increase ultimate recovery from these formations.

(9) In addition, any new wells to be drilled or recompleted in this unit should be approved for downhole commingling because either the Dakota, Fruitland Coal-gas, Mesaverde, Chacra or the Pictured Cliffs zones are marginal based upon criteria which the applicant will submit at the hearing of this case.

(10) It is anticipated that new wells, recompleted wells or existing wellbores in this unit will be most economically completed if there is a summary administrative procedure by which those wells may be downhole commingled.

(11) The processing of downhole commingling applications for this unit in the absence of adopting a reference case will be an administrative burden to the Division and to the operator.

(12) Approval of a downhole commingling reference case for this unit on an area-wide basis is in the best interest of conservation, the pretention of waste and the protection of correlative rights.

(13) Conoco requests the adoption of a summary administrative procedure with the necessary exceptions to the Division Rule 303.C so that the Supervisor of the Aztec District Office of the Division shall be authorized to approve the downhole commingling of said production within this unit.

(14) Because of the creation of participating areas within this unit, the ownership is not common among these formations within this unit.

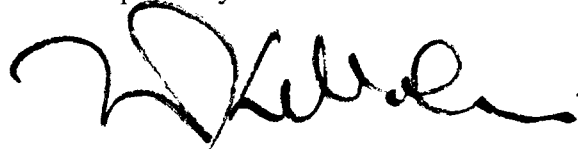
(15) Conoco will submit at hearing proposed formulas for the allocation of production to each of the commingled zones and a description of the factors or data used in determining such formulas.

(16) Applicant requests that this matter be docketed for hearing on the Division's Examiner docket now scheduled for July 24, 1997.

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

WHEREFORE Applicant requests that this matter be set for hearing on July 24, 1997 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', with a stylized, flowing script.

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KELLAHIN and KELLAHIN  
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Santa Fe, New Mexico 87504  
(505) 982-4285  
Attorneys for Applicant

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