

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. 12120
ORDER NO. R-11185

APPLICATION OF UNIVERSAL RESOURCES CORPORATION FOR SURFACE
COMMINGLING, SANDOVAL AND SAN JUAN COUNTIES, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on April 15, 1999 and on May 13, 1999 at Santa Fe, New Mexico, before Examiners Michael E. Stogner and David R. Catanach, respectively.

NOW, on this 25th day of May, 1999, the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given and the Division has jurisdiction of this case and its subject matter.

(2) The applicant, Universal Resources Corporation ("URC") seeks approval for surface commingling, off-lease measurement, and storage for its South Lybrook Gathering System which includes some 38 wells in Sandoval and San Juan Counties, New Mexico located within Federal Leases NM-06681, NM-06682, NM-016586, NM-058878, NM-10087, NM-048989-A, and State Leases 00016172 and 00016174 covering parts of Sections 21, 22, 23, 27, 28, 31, 32, 33, and 34, Township 23 South, Range 7 West, NMPM, Section 2, Township 22 North, Range 8 West, NMPM, and Section 36, Township 23 North, Range 8 West, NMPM.

(3) URC's testimony indicates that:

- (a) From April 17, 1990 to October 1994, this gathering system was operated in its current configuration by BCO, Inc.;
- (b) In October, 1994 it was acquired by URC, the current operator;
- (c) The wells are all marginal oil wells producing from either the Lybrook Gallup Pool or the Alamito Gallup Pool;
- (d) All the oil production from wells on individual leases is being produced, measured and sold "on lease" and is not commingled among leases or between the two pools; and
- (e) The oil wells also produce gas and associated gas liquids which is gathered "off lease" at URC's South Lybrook Compressor located in Unit "F" of Section 26, Township 23 North, Range 7 West, NMPM, Sandoval County, New Mexico and is sold at its El Paso Natural Gas sales point located in Unit "E" of Section 25, Township 23 North, Range 7 West, NMPM, Sandoval County, New Mexico.

(4) The applicant also testified that a majority of the wells produce with a gas lift (plunger) system, which maximizes recovery through a more cost-effective operation, thus extending the economic life of the wells. However, gas lift operations can create inaccuracies in volumes measured on charts on conventional gas flow measurement equipment. To obtain more reliable daily gas volumes, URC uses a formula, which calculates the volume of gas produced during each cycling of the plunger lift. This formula is based on the individual well's tubing volume and tubing pressure.

(5) The daily gas volumes are then used to determine each well's share of the total gas sales to El Paso Natural Gas Company. The liquids associated with gas production which are captured at the gas sales point are also sold and allocated to each well based upon these same daily gas volumes.

(6) Both the United States Bureau of Land Management and Commissioner of Public Lands for the State of New Mexico have approved URC's proposed plan of operation.

(7) URC seeks appropriate exceptions to the following applicable portions of Division Rules 303.A, 309.A, and 403.A to permit surface commingling of the gas and associated gas liquids production from the eight above-described leases:

- (a) Division Rule 303.A prohibits oil and/or gas production from separate common sources of supply, or pools, to be commingled or confused before marketing;
- (b) Division Rule 309.A disallows the commingling of oil production from two or more separate leases in a common facility; and
- (c) Division Rule 403.A requires all natural gas production to be metered at the wellhead unless other methods are approved by the Division.

(8) URC has complied with the applicable notice provisions and no notified party has filed an objection.

(9) The proposed surface commingling and off-lease measurement method will maximize royalties paid and will protect the rights of all interest owners.

(10) The evidence and testimony presented by the applicant demonstrates that commingling can be continued without causing waste and therefore an exception from the limitations set forth in Rule 303.A, 309.A, and 403.A should be granted.

(11) The applicant's allocation method is routinely utilized by the industry and approved by the Division and therefore the proposal to establish these allocation methods for this facility should be approved.

(12) The commingling of wells in this facility will not violate the correlative rights of any interest owner.

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

(14) Approval of this application is in the best interest of conservation and serves to prevent waste and protect correlative rights.

IT IS THEREFORE ORDERED THAT:

(1) The applicant, Universal Resources Corporation, is hereby authorized to commingle gas and associated gas liquids production from the Lybrook Gallup Pool and the Alamito Gallup Pool for its South Lybrook Gathering System which includes some 38 wells in Sandoval and San Juan Counties, New Mexico located within Federal Leases NM-06681, NM-06682, NM-016586, NM-058878, NM-10087, NM-048989-A, and State Leases 00016172 and 00016174 covering parts of Sections 21, 22, 23, 27, 28, 31, 32, 33, and 34, Township 23 South, Range 7 West, NMPM, Section 2, Township 22 North, Range 8 West, NMPM, and Section 36, Township 23 North, Range 8 West, NMPM.

PROVIDED HOWEVER THAT, the facilities for the commingling of production shall be installed and maintained in a manner that will permit a determination of the producing capacity of each of the wells on the leases at least once a month.

PROVIDED HOWEVER THAT the facilities shall be operated in accordance with Division Rule 303 and the Division's "Manual for the Installation and Operation of Commingling Facilities".

(2) Jurisdiction of this case 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

LORI WROTENBERY
Director

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