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JASON KELLAHIN (RETIRED 1991)

April 28, 1999

HAND DELIVERED

Mr. Michael E. Stogner
Hearing Examiner
Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico 87505



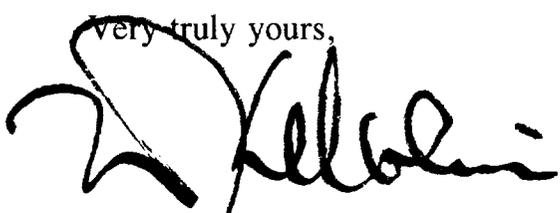
Re: NMOCD Case 12120
Application of Universal Resources Corporation
for surface commingling

Dear Mr. Stogner:

In accordance with your directions at the hearing of the referenced case held on April 15, 1999, please find enclosed a proposed order submitted on behalf of Universal Resources Company.

Please note that while the case was advertised to include Rio Arriba County, this project is located only in San Juan and Sandoval Counties.

Very truly yours,



W. Thomas Kellahin

cc: Universal Resources Company
Attn: Dennis Beccue

6-7

**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-_____

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

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on April 15, 1999, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this ___ day of May, 1999, the Division Director, having considered the testimony, 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, Universal Resources Corporation ("URC") seeks approval for the 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 on 6 federal and 2 State of New Mexico oil & gas leases.

(3) URC evidence demonstrated 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. 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.

(d) The oil wells also produce gas and associated gas liquids which is gathered "off lease" at URC's South Lybrook Compressor in Unit (F) of Section 26, T23N, R7W and is sold at its EPNG Sales point in Unit (E) of Section 25, T23N, R7W.

(4) 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 wells' 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 BLM and the Commissioner of Public Lands for the State of New Mexico have approved this request and have agreed with URC that measurement at a central delivery point is necessary to operate the wells effectively and prevent premature abandonment of these low volume wells due to excessive operating costs.

(7) URC seeks appropriate exceptions to the applicable portions of Division Rule 303.A, 309.A and 403.A to permit surface commingling of the gas and associated gas liquids production from the following leases: Federal Leases NMNM6681, NMNM

6682, NMNM 16586, NMNM58878 NMNM10087, NMNM048989A, and State Leases 00016172 and 00016174 covering parts of Sections 21,22,23,27,28,31,32,33,34 T23S, R7W; Section 2 T22N, R8W, and Section 36, T23N, R8W.

(8) The Division Rules applicable to this activity are:

(a) Division Rule 303.A which 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;

(c) Division Rule 403.A requires all natural gas production to be metered at the wellhead unless other methods are approved by the Division.

(9) Pursuant to Division notice rules, URC has notified all interest owners and no affected party has filed an objection.

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

(11) 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.

(12) The allocation methods proposed by the applicant are 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.

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

(14) 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.

(15) Approval of this application is in the best interest of conservation, the prevention of waste and the protection of correlative rights.

IT IS THEREFORE ORDERED THAT:

(1) The applicant, Universal Resources Corporation ("URC") 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 on 6 federal and 2 State of New Mexico oil & gas leases.

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 subject 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 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

LORI WROTENBERY
Director.