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September 28, 2000

CERTIFIED MAIL  
RETURN RECEIPT REQUESTED

**TO AFFECTED INTEREST OWNERS IN THE GALLEGOS CANYON UNIT  
AREA**

***Re: Application of BP Amoco for establishment of a downhole commingling  
"reference case" and pre-approval of downhole commingling for formations  
and pools in the Gallegos Canyon Unit pursuant to Division Rule 303.C and  
adoption of special administrative rules therefore, San Juan County, New  
Mexico.***

Ladies and Gentlemen:

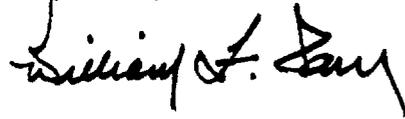
This letter is to advise you that BP Amoco has filed the enclosed application with the New Mexico Oil Conservation Division seeking the establishment of a downhole commingling reference case and pre-approval of downhole commingling for formations and pools in the Gallegos Canyon Unit and for adoption of special administrative rules therefore. The Gallegos Canyon Unit is located in portions of Townships 27, 28 and 29 North, Ranges 11, 12 and 13 West, NMPM, San Juan County, New Mexico.

This application has been set for hearing before a Division Examiner on October 19, 2000. You are not required to attend this hearing, but as an owner of an interest that may be affected by this application, you may appear and present testimony. Failure to appear at that time and become a party of record will preclude you from challenging the matter at a later date.

BP Amoco Notification Letter - Gallegos Canyon  
September 28, 2000  
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Parties appearing in cases are required by Division Rule 1208.B to file a Prehearing Statement three days in advance of a scheduled hearing. This statement must include: the names of the parties and their attorneys; a concise statement of the case; the names of all witnesses the party will call to testify at the hearing; the approximate time the party will need to present its case; and identification of any procedural matters that are to be resolved prior to the hearing.

Very truly yours,

A handwritten signature in black ink, appearing to read "William F. Carr". The signature is written in a cursive style with a large initial "W".

William F. Carr  
ATTORNEY FOR BP AMOCO

WFC/md

Enclosures

**STATE OF NEW MEXICO  
DEPARTMENT OF ENERGY, MINERALS AND NATURAL RESOURCES  
OIL CONSERVATION DIVISION**

**IN THE MATTER OF THE APPLICATION  
OF BP AMOCO FOR ESTABLISHMENT OF A  
DOWNHOLE COMMINGLING "REFERENCE CASE"  
AND PRE-APPROVAL OF DOWNHOLE  
COMMINGLING FOR FORMATIONS AND POOLS  
IN THE GALLEGOS CANYON UNIT PURSUANT  
TO DIVISION RULE 303.C AND ADOPTION  
OF SPECIAL ADMINISTRATIVE RULES  
THEREFORE, SAN JUAN COUNTY,  
NEW MEXICO.**

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OIL CONSERVATION DIV.

CASE NO. \_\_\_\_\_

**APPLICATION**

BP AMOCO, through its undersigned attorneys, hereby makes application pursuant to the provisions of Oil Conservation Division Rule 303.C (4) for the establishment of a downhole commingling "reference case" and pre-approval of downhole commingling for formations and pools in the Gallegos Canyon Unit, San Juan County, New Mexico and the adoption of special administrative rules therefore. In support of its application BP Amoco states:

1. BP Amoco is the operator of the Gallegos Canyon Unit which includes wells that produce from several formations and pools including, but is not necessarily limited to, the Fruitland Coal Gas formation (Basin-Fruitland Coal Gas Pool), Pictured Cliffs formation (West Kutz-Pictured Cliffs Gas Pool), Gallup formation (Pinon-Gallup Pool, Totah-Gallup Pool, Meadows-Gallup Pool) and Dakota formations (Basin-Dakota Gas Pool). This unit

contains 39,324 acres, more or less, of Federal, State and Fee lands, as identified on Exhibit "A" to this application.

2. In order to salvage the remaining production from this area, BP Amoco seeks pre-approval to downhole commingle production from the Fruitland Coal, Pictured Cliffs Gallup and Dakota formations in any combination of pools in all wells and the adoption of summary procedures for downhole commingling of future wells to be drilled in this area.

3. In the absence of the establishment of a downhole commingling "reference case" and pre-approval of commingling as provided in Rule 303.C (4) of the Division's General Rules and Regulations, applications for downhole commingling of gas production must be submitted, processed and approved on an individual well-by-well basis. This procedure includes providing a copy of the application (Division Form C-107) to all interest owners in the spacing unit by certified mail.

4. Sufficient data exists from wells for the pools and formations which are the subject of this application to render it unnecessary to repeatedly provide the data required by Division Rule 303.C and Form C-107 and, therefore, BP Amoco will show that the establishment of a "reference case" in the Gallegos Canyon Unit is appropriate as to the following criteria:

- A. Compatibility Criteria [Rule 303.C (1)(a)]: The fluids from each pool which are the subject of this application are compatible and combining the fluids will not result in damage to any pool.
- B. Pressure Criteria [Rule 303.C (1)(c)]: The commingling of fluids as proposed

Ex 1120

in this application will not result in shut-in or flowing wellbore pressure in excess of the fracture parting pressure of any commingled pool.

C. Cross-Flow Criteria [Rule 303.C (1)(d)]: The commingling of fluids as proposed in this application will not result in the permanent loss of reserves due to cross-flow in the wellbore. 2

D. Prorating Criteria [Rule 303.C (1)(f)]: The allocated production from each producing pool in each commingled wellbore will not exceed the top oil or gas allowable rate for a well in that pool or other rate restriction applicable to such well.

E. Value Criteria [Rule 303.C (1)(g)]: The commingling of production as proposed in this application will not result in the permanent loss of reserves due to cross-flow in the wellbore.

5. Sufficient data is available from existing wells in this unit to support the Division's adoption of a "reference case" for the downhole commingling of the subject formations and pools to provide for the modification of notification rules [Rule 303.C (3) (a) (ii)] such that any future or further notice concerning downhole commingling applications or orders within this area shall not be required to any owner (including royalty, overriding royalty or working interest owners) of the commingled production including, but not limited to instances where ownership is not common or percentages are not identical in the zones to be commingled. ✓

6. BP Amoco seeks an order pursuant to Division Rule 303.C (4) which provides

that applicants in all administrative applications for downhole commingling of Fruitland Coal, Pictured Cliffs, Gallup, and Dakota formation gas production within the Gallegos Canyon Unit Area submitted subsequent to the filing of this application shall be authorized to refer to the order entered in this case and will not be required to submit evidence or data for the following criteria (a) Compatibility Criteria, (b) Pressure Criteria, (c) Cross-flow Criteria (d) Prorating Criteria, (e) Value Criteria. Further, applicant seeks an order of the Division which provides that no additional notice of downhole commingling of production from the subject formations in the Gallegos Canyon Unit Area shall be provided to owners of any interest in the commingled production.

7. BP Amoco will submit at hearing recommendations concerning formulas for the allocation of production to each of the commingled zones and a description of the factors or data which should be used in determining such formulas. BP Amoco requests that a procedure be established whereby the allocation of production in each commingled well may be approved by the Supervisor of the Division's District Office in Aztec, New Mexico by executing a Division Sundry Notice (Form C-103) which as been filed in accordance with the procedures set forth in Rule 303.C (3)(b).

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

9. It is anticipated that new wells, recompleted wells or existing wellbores in this area will be most economically completed if there is a summary administrative procedure by

*Revised  
12/1/88*

which those wells may be downhole commingled.

10. The pre-approval of downhole commingling of all formations and pools within the Gallegos Canyon Unit Area will extend the economic life of the existing wells and thereby increase the ultimate recovery from these formations and prevent waste.

11. Notice of this application will be provided to all interest owners entitled to receive production within the unit as required by Division Rule 303.

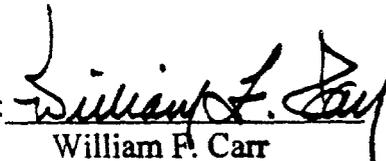
12. Approval of a downhole commingling "reference case" and pre-approval of downhole commingling for all formations and pools in the Gallegos Canyon Unit Area on an area-wide basis is in the best interest of conservation, the prevention of waste and the protection of correlative rights.

WHEREFORE, Applicant requests that this matter be set for hearing on October 19, 2000 before a duly appointed Examiner of the Oil Conservation Division and after notice and hearing as required by law, the Division enter its order granting this application.

Respectfully submitted,

CAMPBELL, CARR, BERGE  
& SHERIDAN, P. A.

By:



William F. Carr  
Post Office Box 2208  
Santa Fe, New Mexico 87501  
Telephone: (505) 988-4421

ATTORNEYS FOR BP AMOCO

**EXHIBIT A**

**APPLICATION OF BP AMOCO FOR APPROVAL OF  
A DOWNHOLE COMMINGLING"REFERENCE CASE"  
AND PRE-APPROVAL OF DOWNHOLE COMMINGLING  
FOR FORMATIONS AND POOLS IN THE GALLEGOS CANYON UNIT  
PURSUANT TO DIVISION RULE 303.C, AND ADOPTION OF SPECIAL  
ADMINISTRATIVE RULES THEREFOR,  
SAN JUAN COUNTY, NEW MEXICO.**

**GALLEGOS CANYON FEDERAL EXPLORATORY UNIT BOUNDARY**

**TOWNSHIP 29 NORTH, RANGE 13 WEST, NMPM**

Section 13: All  
Sections 23-26: All  
Sections 34-36: All

**TOWNSHIP 29 NORTH, RANGE 12 WEST, NMPM**

Section 16: SW/4  
Sections 17-21: All  
Section 22: W/2, SE/4  
✓Section 25: W/2, SE/4  
✓Sections 26-36: All

**TOWNSHIP 28 NORTH, RANGE 11 WEST, NMPM**

Section 7: All  
Sections 18 and 19: All  
Section 31: S/2

**TOWNSHIP 28 NORTH, RANGE 12 WEST, NMPM**

Sections 7-36: All  
(All Township)

**TOWNSHIP 28 NORTH, RANGE 13 WEST, NMPM**

Sections 11-14: All  
Sections 23-26: All  
Sections 35 and 36: All

**TOWNSHIP 27 NORTH, RANGE 12 WEST, NMPM**

Sections 4-6: All  
Section 9: N/2

CASE NO. \_\_\_\_\_:

**Application of BP Amoco for establishment of a downhole commingling reference case and pre-approval of downhole commingling for formations and pools in the Gallegos Canyon Unit pursuant to Division Rule 303.C (4) and the adoption of special administrative rules therefore, San Juan County, New Mexico.** Applicant, in accordance with Rule 303.C(4), seeks to establish a downhole commingling reference case to provide for (a) compatibility criteria, (b) pressure criteria, (c) cross-flow criteria, (d) prorationing criteria, (e) value criteria, and (f) a modification of notification rules on an area-wide basis authorization for downhole commingling of Fruitland Coal, Pictured Cliffs, Gallup, and Dakota gas production in the wellbores existing or future wells drilled anywhere within the Gallegos Canyon Unit Area located in Townships 27, 28 and 29 North, Ranges 11, 12 and 13 West, NMPM. The center of said area is located approximately 5 miles southeast of Farmington, New Mexico.