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SANTA FE, NEW MEXICO 87504-2265

JASON KELLAHIN (RETIRED 1991)

February 11, 1992

Mr. Michael E. Stogner
Hearing Examiner
Oil Conservation Division
310 Old Santa Fe Trail, Room 206
State Land Office Building
Santa Fe, New Mexico 87501

HAND DELIVERED

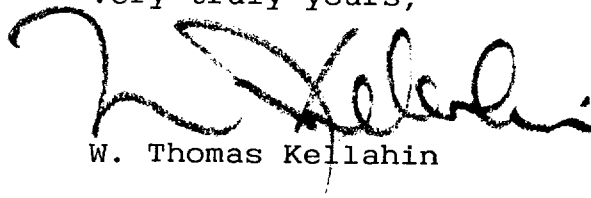
Re: Application of Citation Oil
& Gas Corporation for
Downhole Commingling,
McKinley County, New Mexico
NMOCD Case 10424

Dear Mr. Stogner:

On behalf of Citation Oil and Gas Corporation,
please find enclosed for your consideration, a draft
order for entry in this case. I have enclosed a floppy
disk with this document on it for your convenience.

Please let me know if there is anything I can do
to assist you in expediting the processing of this
case.

Very truly yours,



W. Thomas Kellahin

WTK/jcl
Enclosure
cc: Mr. Dan Kelly (Citation)

1trt211.358

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. 10424
Order No. R-

APPLICATION OF CITATION OIL & GAS
CORPORATION FOR DOWNHOLE COMMINGLING,
MCKINLEY COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 AM on
December 19, 1991, at Santa Fe, New Mexico, before
Examiner Michael E. Stogner.

NOW, on this ____ day of February, 1992, 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) That the applicant, Citation Oil & Gas
Corporation ("Citation"), is the working interest owner
and operator of the wells to be affected by this order.

(3) Citation seeks approval to downhole commingle oil production from the South Hospah Upper Sand Oil Pool and the South Hospah Lower Sand Oil Pool within the wellbores described on Exhibit A and Exhibit B attached and located in the N/2 of Section 12, T17N, R9W, N.M.P.M., McKinley County, New Mexico.

(4) Citation is 100% working interest owner of the production described in paragraph (1), above.

(5) Citation's operations in the South Hospah Upper Sand Oil Pool consists of a waterflood project of unitized federal leases while the Citation operations in the South Hospah Lower Sand Oil Pool consists of a similar waterflood project but conducted on a single federal lease.

(6) As of October, 1991, the South Hospah Upper Sand Oil Pool average total production from 14 producers was approximately 41 BOPD and 2300 BWPD and the South Hospah Lower Sand Oil Pool average total production from 22 producers was approximately 132 BOPD and 16,400 BWPD. Neither pool produces any measurable amounts of gas.

(7) The subject wells are capable of only relatively low rates of production.

(8) Authorization of downhole commingling will extend the economic life of the project an estimated three additional years and will allow for the recovery of an additional 128,200 barrels of oil that may otherwise be abandoned thereby preventing waste of recoverable hydrocarbons.

(9) Although the royalty ownership is not identical between the two pools, Citation has proposed an allocation formula for the equitable distribution of commingled production so that the correlative rights of all owners will be protected.

(10) Citation recommended allocating production on a monthly basis using a ratio of remaining recoverable reserves which results in 79.9% of the total estimated remaining reserves being attributed to the Lower Hospah and 20.1% to the Upper Hospah.

(11) The reservoir characteristics of each of the two pools are such that underground waste would not be caused by the proposed commingling of production.

(12) In addition, at the time of the hearing, the applicant presented adequate testimony and evidence to show:

(a) there will be no crossflow between the two commingled pools;

(b) neither commingled zone exposes the other to damage by produced liquids;

(c) the fluids from each zone are compatible with the other;

(d) the bottom-hole pressure of the lower pressure zone is not less than 50 percent of the bottom hole pressure of the higher pressure zone adjusted to a common datum; and

(e) the value of the commingled production is not less than the sum of the values of the individual production.

(13) Proper notice was provided to all parties affected by this case and no party appeared in opposition to this application.

(14) The operator should be responsible for reporting the monthly gas production from the subject wells by utilizing the proposed allocation formula.

(15) An annual report should be submitted by the operator to both the Aztec District Office of the Division and to the Santa Fe Office showing the complete computation for each month.

(16) That this application should be approved and an allocation adopted as proposed by the applicant.

IT IS THEREFORE ORDERED THAT:

(1) The applicant, Citation Oil & Gas Corporation, is hereby authorized to commingle South Hospah Upper Sand Oil Pool production with South Hospah Lower Sand Oil Pool production for each producing well listed on Exhibit A and Exhibit B attached hereto all being located within the N/2 and N/2S/2 of Section 12, T17N, R9W, NMPM, McKinley County, New Mexico.

(2) The allocation of production from both pools shall be subject to the monthly allocation formula hereby adopted for these wells so that 79.9% of the production is allocated to the South Hospah Lower Sand Oil Pool and 20.1% of the production is allocated to the South Hospah Upper Sand Oil Pool.

(3) The operator is responsible for reporting the monthly production from the subject wells to the Division by utilizing the allocation formula herein adopted. An annual report shall be submitted by the operator to both the Aztec District Office and the Santa Fe Office of the Division showing the complete computation for the previous twelve month period. Said annual report must be submitted no later than April 1, 1993 and annually thereafter.

(4) That 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

Seal

SOUTH HOSPAH UNIT (Upper Sand)
 SOUTH HOSPAH UPPER SAND POOL
 McKINLEY COUNTY, NEW MEXICO

WELL SUMMARY

Well No.	STATUS	TYPE	WELL LOCATION	
1X	Act	Oil	1980 FNL 2062 FEL	S12, T17N, R9W
2	Act	Oil	2310 FNL 2310 FWL	S12, T17N, R9W
4	Act	Oil	990 FNL 2310 FWL	S12, T17N, R9W
5	Act	WIW	990 FNL 2712 FEL	S12, T17N, R9W
13	Act	WIW	2280 FNL 1620 FWL	S12, T17N, R9W
15	Act	Oil	2500 FNL 330 FWL	S12, T17N, R9W
16	Act	Oil	1755 FNL 2330 FWL	S12, T17N, R9W
17	Act	WIW	2250 FNL 3000 FWL	S12, T17N, R9W
18	Act	WIW	1475 FNL 3055 FWL	S12, T17N, R9W
19	Act	Oil	2310 FSL 2712 FEL	S12, T17N, R9W
21	Act	Oil	2310 FSL 2310 FWL	S12, T17N, R9W
22	Act	Oil	2210 FSL 990 FWL	S12, T17N, R9W
26	Act	Oil	330 FNL 380 FEL	S12, T17N, R9W
27	T/A	Oil	1570 FNL 330 FEL	S12, T17N, R9W
28	Act	Oil	933 FNL 1485 FEL	S12, T17N, R9W
29	Act	Oil	410 FNL 1870 FEL	S12, T17N, R9W
30	Act	Oil	950 FNL 1980 FEL	S12, T17N, R9W
31	Act	Oil	330 FNL 2800 FEL	S12, T17N, R9W
34	T/A	Oil	1820 FNL 1700 FWL	S12, T17N, R9W
37X	T/A	Oil	1280 FNL 1280 FWL	S12, T17N, R9W
40	T/A	Oil	2420 FNL 1650 FEL	S12, T17N, R9W
48	Act	Oil	1485 FNL 2817 FEL	S12, T17N, R9W
51	Act	WIW	1775 FNL 620 FWL	S12, T17N, R9W
52	Act	WIW	720 FNL 1850 FWL	S12, T17N, R9W
55	T/A	Oil	1750 FNL 1550 FEL	S12, T17N, R9W
58	Act	WIW	2580 FNL 1640 FWL	S12, T17N, R9W
59	Act	WIW	2340 FNL 2500 FEL	S12, T17N, R9W
65	T/A	Oil	1418 FNL 2769 FEL	S12, T17N, R9W
66	T/A	Oil	1646 FNL 2667 FEL	S12, T17N, R9W

EXHIBIT "B"

HOSPAH LEASE (Lower Sand)
 SOUTH HOSPAH LOWER SAND POOL
 MCKINLEY COUNTY, NEW MEXICO

WELL SUMMARY

WELL NO.	STATUS	TYPE	WELL LOCATION
3	Act	Oil	1650 FNL 1392 FEL S12, T17N, R9W
6	Act	Oil	330 FNL 330 FEL S12, T17N, R9W
7	Act	Oil	1650 FNL 330 FEL S12, T17N, R9W
8	Act	Oil	1650 FNL 2051 FEL S12, T17N, R9W
9	Act	Oil	330 FNL 2051 FEL S12, T17N, R9W
10	Act	Oil	990 FNL 2300 FWL S12, T17N, R9W
11	Act	Oil	1650 FNL 2310 FWL S12, T17N, R9W
12	Act	Oil	2160 FNL 990 FWL S12, T17N, R9W
14	Act	Oil	1700 FNL 1300 FWL S12, T17N, R9W
24	Act	Oil	330 FNL 2650 FEL S12, T17N, R9W
25	Act	Oil	330 FNL 1505 FEL S12, T17N, R9W
32	Act	Oil	550 FNL 2370 FWL S12, T17N, R9W
33	Act	WTW	1340 FNL 1710 FWL S12, T17N, R9W
34	T/A	Oil	1820 FNL 1700 FWL S12, T17N, R9W
35	Act	Oil	330 FNL 850 FEL S12, T17N, R9W
36	Act	WTW	900 FNL 2630 FEL S12, T17N, R9W
37X	Act	Oil	1280 FNL 1280 FWL S12, T17N, R9W
38	Act	Oil	660 FNL 660 FEL S12, T17N, R9W
39	Act	WTW	2180 FNL 660 FEL S12, T17N, R9W
46	Act	Oil	1700 FNL 700 FWL S12, T17N, R9W
47	Act	Oil	785 FNL 1775 FWL S12, T17N, R9W
49	Act	Oil	885 FNL 2117 FEL S12, T17N, R9W
50	Act	Oil	950 FNL 900 FEL S12, T17N, R9W
53	T/A	Oil	950 FNL 330 FEL S12, T17N, R9W
54	Act	WTW	1319 FNL 5 FEL S12, T17N, R9W
57	Act	WTW	2290 FNL 110 FWL S12, T17N, R9W
58	Act	WTW	2580 FNL 1640 FWL S12, T17N, R9W
59	Act	WTW	2340 FNL 2500 FEL S12, T17N, R9W
60	Act	WTW	2210 FNL 1300 FEL S12, T17N, R9W
61	Act	Oil	1120 FNL 2510 FEL S12, T17N, R9W
62	Act	Oil	650 FNL 1770 FEL S12, T17N, R9W
63	Act	WTW	710 FNL 1325 FEL S12, T17N, R9W
64	Act	Oil	1360 FNL 900 FEL S12, T17N, R9W