

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

**IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION FOR THE PURPOSE OF
CONSIDERING:**

**CASE NO. 11353
Order R-10470**

**APPLICATION OF THE NEW MEXICO OIL
CONSERVATION DIVISION TO AMEND
RULE NO. 303(C) OF ITS GENERAL
RULES AND REGULATIONS PERTAINING
TO DOWNHOLE COMMINGLING.**

INTERIM ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9:00 am on August 3, 1995, at Santa Fe, New Mexico before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 28th day of September, 1995, the Commission, a quorum being present, having considered the testimony presented and the exhibits received at said hearing, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.

(2) The Oil Conservation Division (Division) appeared and presented evidence and testimony with regards to the following recommended changes to Rule No. 303(C) of its General Rules and Regulations, said rule pertaining to downhole commingling of production within wellbores:

- a) deletion of the requirement that the oil and/or gas zones within the wellbore have common ownership (including working, royalty and overriding royalty interest) in order to qualify for administrative review and approval;

- b) a new requirement that the applicant, in cases where there is diversity of ownership between the zone(s) to be commingled, notify in writing all interest owners of the proposed commingling;
- c) a new requirement that the applicant notify the Commissioner of Public Lands for the State of New Mexico of any proposed downhole commingling of wells located on State Lands;
- d) amendment of the provision which provides offset operators the opportunity to object to any proposed downhole commingling. The provision is proposed to be amended to allow interest owners within the wellbore as well as offset operators the opportunity to object within the 20-day waiting period.
- e) various language changes within Rule No. 303(C) to reflect that the Division will consider administrative approval of the commingling of multiple zones within a wellbore.

(3) The oil & gas industry of New Mexico, represented by appearances on behalf of the New Mexico Oil & Gas Association, Meridian Oil Inc., Conoco Inc, and Amoco Production Company (collectively the "Committee"), supported the Division's proposed rules changes.

(4) Amendment of Rule No. 303(C) as proposed by the Division will benefit the oil and gas industry in New Mexico by relaxing the current requirement that if ownership is not common within zones to be commingled, the application must be set for hearing before a Division examiner.

(5) In addition, the proposed amendment will assure that the correlative rights of non-common interest owners within a well to be commingled are protected by requiring notification to such interest owners by the applicant and providing the opportunity for such interest owners to object to the proposed downhole commingling.

(6) The proposed changes to Rule No. 303(C) are in the best interest of conservation, prevention of waste and protection of correlative rights.

(7) A representative of the Committee testified at the hearing and presented several proposed revisions to Rule No. 303(C) in addition to those proposed by the Division.

(8) The changes proposed by the Committee are very comprehensive and are deemed by the Commission to require further discussion and deliberation between the Division, the Committee and industry.

(9) The most expeditious manner to address all these issues and possible rule changes is to enter an interim order adopting the Division's proposed changes and continue until the Commission hearing now set for October 12, 1995 all other issues for further discussion and consideration at that time.

IT IS THEREFORE ORDERED THAT:

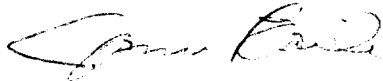
(1) Division Rule No. 303(C) of the Oil Conservation Division Rules and Regulations is hereby amended to read as shown on Exhibit "A" attached hereto and made a part of this order.

(2) The Commission shall continue this case until the Commission hearing currently set for October 12, 1995, at which time the Commission will entertain further testimony by the Committee on additional proposed changes to Rule 303(C).

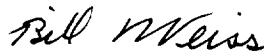
(3) Jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

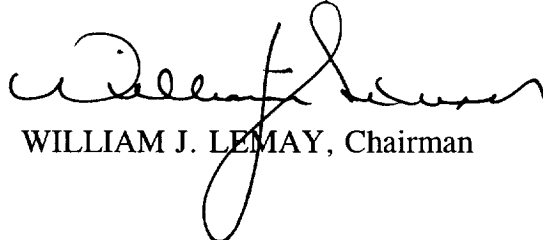
STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION



JAMI BAILEY, Member



WILLIAM W. WEISS, Member



WILLIAM J. LEMAY, Chairman

S E A L

EXHIBIT "A"
CASE NO. 11353
ORDER NO. R-10470
RULE 303.

C. DOWNHOLE COMMINGLING

(1) The Director of the Division shall have the authority to grant an exception to Rule 303-A to permit the commingling in the well bore of multiple producing zones when the following facts exist and the following conditions are met:

(a) For Wells Involving Oil Zones:

- (i) The total combined daily oil production from oil zones before commingling (as determined in accordance with Section D, paragraphs (4) and (5) below) does not exceed the following:

Bottom perforation, lowermost pool Bbls/day oil

| | |
|--------------------------|----|
| Less than 4,999 feet | 20 |
| 5,000 feet to 5,999 feet | 30 |
| 6,000 feet to 6,999 feet | 40 |
| 7,000 feet to 7,999 feet | 50 |
| 8,000 feet to 8,999 feet | 60 |
| 9,000 feet to 9,999 feet | 70 |
| More than 10,000 feet | 80 |

- (ii) Oil zones require artificial lift, or, both zones are capable of flowing. (Special consideration may be given to an exception to this latter requirement in the case in which a particular well's characteristics may justify same; however, the commingled production must be artificially lifted if either zone required artificial lift prior to commingling.)
- (iii) No zone produces more water than the combined oil limit as determined in paragraph (i) above.
- (iv) The fluids from each zone are compatible with the fluids from the other, and combining the fluids will not result in the formation of precipitates which might damage either reservoir.
- (v) The total value of the crude will not be reduced by commingling.

- (vi) The commingling will not jeopardize the efficiency of present or future secondary recovery operations in any of the zones to be commingled.

(b) For Wells Involving A Gas Zone:

- (i) That the commingling is necessary to permit a zone or zones to be produced which would not otherwise be economically producible.
- (ii) That there will be no crossflow between the zones to be commingled.
- (iii) That any zone which is producing from fluid-sensitive sands, which may be subject to damage from water or other produced liquids, is protected from contact from such liquids produced from other zones in the well.
- (iii) The fluids from each zone are compatible with the fluids from the other(s), and combining the fluids will not result in the formation of precipitates which might damage any of the reservoirs.
- (iv) The bottomhole 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.

D. To obtain approval for downhole commingling, the operator of the well shall submit the following in DUPLICATE to the Division Director plus one copy to the appropriate District Office of the Division.

- (1) Name, address, and OGRID of the operator.
- (2) Lease name, well number, API number, well location, property code, pool codes, name of the pools to be commingled.
- (3) A plat of the area showing the acreage dedicated to the well and the ownership of all offsetting leases.
- (4) A current (within 30 days) 24-hour productivity test on Division Form C-116 showing the amount of oil, gas, and water produced from each zone.

(5) A production decline curve for all zones showing that for a period of at least one year a steady rate of decline has been established for each zone which will permit a reasonable allocation of the commingled production to each zone for statistical purposes. (This requirement may be dispensed with in the case of a newly completed or recently completed well which has little or no production history. However, a complete resume of the well's completion history including description of treating, testing, etc., of each zone, and a prognostication of future production from each zone shall be submitted.)

(6) Estimated bottomhole pressure for each artificially lifted zone. A current (within 30 days) measured bottomhole pressure for each zone capable of flowing.

(7) A description of the fluid characteristics of each zone showing that the fluids will not be incompatible in the well-bore.

(8) A computation showing that the value of the commingled production will not be less than the sum of the values of the individual streams.

(9) A formula for the allocation of production to each of the commingled zones and a description of the factors or data used in determining such formula.

(10) A statement that all offset operators and, in the case of a well on or communitized on state or federal lands, the Commissioner of Public Lands for the State of New Mexico or the United States Bureau of Land Management, have been notified in writing of the proposed commingling.

(11) In a case where there is diversity of ownership between the zones to be commingled (including working, royalty, or overriding royalty interest), the applicant shall submit a statement that all such interest owners have been notified in writing of the proposed commingling.

E. The Division Director may approve the proposed downhole commingling in the absence of a valid objection from any offset operator and/or interest owner within 20 days after the receipt of the application if, in his opinion, there is no disqualifying disparity of bottomhole pressures or other reservoir characteristics, waste will not result thereby, and correlative rights will not be violated. The 20-day waiting period may be dispensed with upon receipt of waivers of objection from all parties mentioned in Section D, paragraphs 10 and 11.

F. Upon such approval, the well shall be operated in accordance with the provisions of the administrative order which authorized the commingling, and allocation of the commingled production from the well to each of the producing zones shall be in accordance with the allocation formula set forth in the order. The production from a well with commingled oil zones shall be subject to the lower of the daily gas-oil ratio limitations applicable to the reservoirs. The production attributable to an oil zone commingled with a gas zone shall be subject to the daily gas-oil ratio limitation applicable to such oil zone or pool. Wells shall be tested on a commingled basis annually, except that a well penalized for a high gas-oil ratio shall be tested semi-annually.

G. The Division Director may rescind authority to commingle production in the wellbore and require the zones to be produced separately, if, in his opinion, waste or reservoir damage is resulting thereby or the efficiency of any secondary recovery project is being impaired, or if any change of conditions renders the installation no longer eligible for downhole commingling under the provision of Section (1)(a) or (1)(b).