

**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. 12137
Order No. R-11210*

**APPLICATION OF PHILLIPS PETROLEUM COMPANY FOR THE
ESTABLISHMENT OF A DOWNHOLE COMMINGLING REFERENCE CASE
FOR ITS SAN JUAN 32-7 UNIT PURSUANT TO DIVISION RULE 303.E. AND
THE ADOPTION OF SPECIAL ADMINISTRATIVE RULES THEREFOR,
SAN JUAN COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on March 18, 1999, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 21st day of June, 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) Cases No. 12136, 12137, 12138 and 12139 were consolidated at the time of the hearing for the purpose of testimony.

(3) The applicant, Phillips Petroleum Company (Phillips), pursuant to the provisions of Division Rule 303.E., seeks to establish a downhole commingling "reference case" to provide exceptions for (a) marginal economic criteria, (b) pressure criteria, (c) allocation formulas, and (d) notice rules on a unit-wide basis for downhole commingling of Dakota, Mesaverde, Fruitland Coal and Pictured Cliffs gas production within existing or future wells within the San Juan 32-7 Unit located in Townships 31 and 32 North, Range 7 West, NMPM, San Juan County, New Mexico.

(4) Division Rule 303.E. currently states:

"If sufficient data exists on a lease, pool, formation, geographic area, etc., so as to render it unnecessary to repeatedly provide such data on Form C-107-A, an operator may except any of the various criteria required under Paragraph 303.D. of this rule by establishing a "reference case". The Division, upon its own motion or by application from an operator, may establish "reference cases" either administratively or by hearing. Upon Division approval of such "reference cases"

for specific criteria, subsequent applications to downhole commingle (Form C-107-A) will be required only to cite the Division order number which established such exceptions and shall not be required to submit data for those criteria.”

(5) The applicant is the current operator of the San Juan 32-7 Unit, which encompasses some 17,829 acres, more or less, in Townships 31 and 32 North, Range 7 West, NMPM, San Juan County, New Mexico.

(6) Within the San Juan 32-7 Unit, the applicant currently operates eighteen (18) Basin-Dakota Gas Pool wells, forty-seven (47) Blanco-Mesaverde Gas Pool wells, twenty-nine (29) Basin-Fruitland Coal Gas Pool wells, and nineteen (19) South Los Pinos Fruitland Sand-Pictured Cliffs Gas Pool wells.

(7) According to its evidence and testimony, Phillips seeks to:

- a) establish a “reference case” for marginal economic criteria in the Basin-Dakota and Blanco-Mesaverde Gas Pools whereby these pools may be identified as “marginal” on Forms C-107-A subsequently filed for wells within the San Juan 32-7 Unit. The applicant further proposes that the data provided in the immediate case serve as supplemental data or confirmation that these pools should be classified as “marginal”;
- b) establish a “reference case” for pressure criteria in the Basin-Dakota and Blanco-Mesaverde Gas Pools whereby the Division may utilize the data provided in the immediate case to verify the pressure data provided on Forms C-107-A subsequently filed for wells within the San Juan 32-7 Unit;
- c) establish a “reference case” whereby the Division utilizes the data presented in the immediate case to endorse or approve certain methods of allocating production whereby the applicant need not submit additional data or justification when proposing a certain method of allocating production on Forms C-107-A subsequently filed for wells within the San Juan 32-7 Unit; and
- d) establish a “reference case” or an administrative procedure for authorizing the downhole commingling of existing or future wells within the San Juan 32-7 Unit without additional notice to each affected interest owner as required by Rule No. 303.D.

(8) In support of its request to except marginal economic criteria, the applicant presented engineering evidence and testimony indicating that within the San Juan 32-7 Unit:

- a) the average estimated Mesaverde and Dakota ultimate recoverable gas reserves within the San Juan 32-7 Unit on a per well basis are approximately .61 BCFG and .83 BCFG, respectively;
- b) the average initial producing rate for a Mesaverde and Dakota gas well (either newly drilled or recompleted) is approximately 204 MCFGD and 243 MCFGD, respectively; and
- c) the estimated ultimate gas recoveries and initial producing rates from the Mesaverde and Dakota formations within the San Juan 32-7 Unit are insufficient to justify drilling stand-alone wells and/or dually completed wells to recover such gas reserves.

(9) The evidence and testimony presented by the applicant indicates that the Blanco-Mesaverde and Basin-Dakota Gas Pools within the San Juan 32-7 Unit should be properly classified as “marginal.”

(10) In support of its request to except pressure criteria within the Mesaverde and Dakota formations within the San Juan 32-7 Unit, the applicant presented engineering evidence and testimony indicating that:

- a) the average shut-in bottomhole pressure within the Mesaverde and Dakota formations at the time of initial development was approximately 1,360 psi and 3,190 psi, respectively; and
- b) the average current shut-in bottomhole pressure within the Mesaverde and Dakota formations is approximately 578 psi and 906 psi, respectively.

(11) Testimony by the applicant indicates that the pressure data described above was obtained from three (3) Mesaverde and two (2) Dakota wells within the San Juan 32-7 Unit.

(12) The applicant presented insufficient pressure data within the San Juan 32-7 Unit area to except pressure criteria.

(13) The applicant testified that various allocation methods would be utilized for downhole commingled wells within the San Juan 32-7 Unit depending on the circumstances. Some of the methods and circumstances are described as follows:

- a) in those instances where a newly completed zone is commingled with an existing producing interval with an established decline, the subtraction method will be utilized for a period of +/- 12 months. Subsequent to that time, and assuming that the production rate has stabilized, a fixed allocation will be determined and utilized; and,

- b) in those instances where a well is newly drilled, the lower zone will be production tested for a period of several weeks to several months, whatever time period is necessary to establish a stabilized production rate. A production forecast will then be obtained from the lower zone based upon the stabilized production rate. The upper zone will be completed and the subtraction method will be utilized for a period of +/- 12 months. Once the production rate has stabilized, a fixed allocation will be determined and utilized.

(14) The allocation methods proposed by the applicant are routinely utilized by industry and approved by the Division and therefore the proposal to except allocation methods should be approved.

(15) In support of its request to establish a "reference case" or administrative procedure whereby additional notice of Form C-107-A within the San Juan 32-7 Unit need not be given to interest owners, the applicant presented evidence and testimony indicating that:

- a) the interest ownership between zones within a given wellbore in the San Juan 32-7 Unit is generally not common;
- b) pursuant to Rule No. 303.D., it is currently required to notify all interest owners within the San Juan 32-7 Unit every time a Form C-107-A is submitted to the Division. There are a considerable number of such interest owners within the unit;
- c) the downhole commingling of wells within the San Juan 32-7 Unit will benefit working, royalty, and overriding royalty interest owners. In addition, the downhole commingling of wells within the San Juan 32-7 Unit should not violate the correlative rights of any interest owner;
- d) Mr. Larry Simmons, an interest owner within the San Juan 32-7 Unit, appeared at the hearing through legal counsel and cross-examined Phillip's witnesses. Mr. Simmons did not state an objection to the application at the hearing; and
- e) no other interest owner appeared at the hearing in opposition to the establishment of a "reference case" or administrative procedure for notice.

(16) Mr. Larry Simmons requested that Phillips be required to furnish him notice of all downhole commingling applications filed within the San Juan 32-7 Unit.

(17) Mr. Simmons' request is reasonable and should be granted.

(18) Subsequent to the establishment of a fixed allocation of production for each downhole commingled well within the San Juan 32-7 Unit pursuant to the procedures proposed in Finding (13) above, Phillips should be further required to furnish Mr. Larry Simmons notice of such production allocation.

(19) An administrative procedure should be established within the San Juan 32-7 Unit for obtaining approval for subsequently downhole commingled wells without notice to unit interest owners (with the exception of Mr. Larry Simmons), provided however that the applicant shall comply with all other provisions contained within Division Rule 303.C.

(20) Approval of the proposed "reference case" for marginal economic criteria, allocation formulas and notice will lessen the burden on the applicant insofar as providing the data required pursuant to Division Rule 303.D. and Form C-107-A, will provide the applicant a streamlined method for obtaining downhole commingling approval within the San Juan 32-7 Unit, and will not violate correlative rights.

IT IS THEREFORE ORDERED THAT:

(1) The application of Phillips Petroleum Company to establish a "reference case" for a) marginal economic criteria within the Blanco-Mesaverde and Basin-Dakota Gas Pools, b) allocation formulas, and c) notice rules on a unit-wide basis for downhole commingling of Dakota, Mesaverde, Fruitland Coal and Pictured Cliffs gas production within existing or future wells within the San Juan 32-7 Unit, San Juan County, New Mexico, is hereby approved.

(2) The application of Phillips Petroleum Company to establish a "reference case" for pressure criteria on a unit-wide basis for downhole commingling of Blanco-Mesaverde and Basin-Dakota Gas Pools within the San Juan 32-7 Unit is hereby denied.

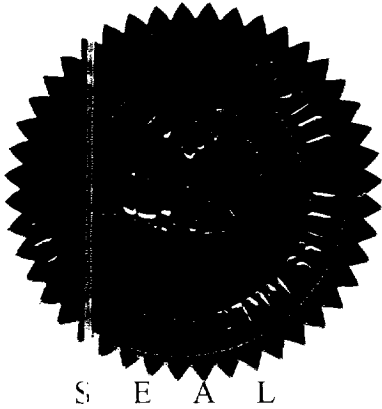
(3) Upon filing of Forms C-107-A for wells subsequently downhole commingled within the San Juan 32-7 Unit, the applicant shall not be required to submit supporting data to justify the classification of the Blanco-Mesaverde and Basin-Dakota Gas Pools as "marginal" and support or justification for utilizing a given method or formula for allocation of production, provided however, in the event any of the data described above appearing on Form C-107-A appears to be beyond the data range provided in this case, the Division may require the submittal of additional supporting data.

(4) In order to obtain Division authorization to downhole commingle wells within the San Juan 32-7 Unit, the applicant shall file Form C-107-A with the Santa Fe and Aztec Offices of the Division. Such application shall contain all the information required under Division Rule 303.C., provided however that the applicant shall not be required to provide notice to all interest owners within the San Juan 32-7 Unit of such proposed commingling. The applicant shall, however, provide Mr. Larry Simmons the following described information:

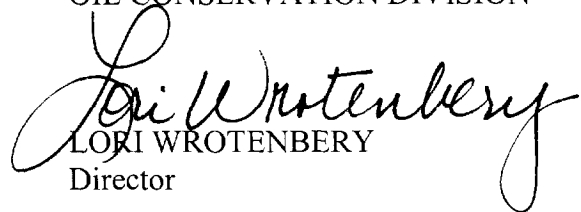
- a) notice of all downhole commingling applications filed within the San Juan 32-7 Unit ; and
- b) notice of fixed production allocations for each well downhole commingled within the San Juan 32-7 Unit subsequent to the establishment of such allocation formulas.

(5) Jurisdiction is hereby 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