DHC-1173

United States Department of the Interior

BUREAU OF LAND MANAGEMENT
Farmington District Office
1235 La Plata Highway
Farmington, New Mexico 87401

OIL CONSERVATION DIVISION
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IN REPLY REFER TO:
SF-078046(WC)
3162.3-2 (07327)

November 27, 1995

Ms. Pamela W. Staley
Amoco Production
1670 Broadway P.O. Box 800
Denver, Colorado 80201

Dear Ms. Staley:

We have completed our review of your application to downhole commingle Mesaverde and Pictured Cliffs production in the following well located on Federal lease No. SF-078046 :

HUGHS B #7A, 1450' FNL - 1750' FWL
SECTION 29F, T-29N, R-8W
SAN JUAN COUNTY, NEW MEXICO

Allocation factors submitted with the application were based on current daily averages from the Mesaverde formation converted to a percentage of total volume produced. The Mesaverde formation has been on compression since late 1994 while the Pictured Cliffs formation has been producing against line pressure without the aid of compression. Compressed Mesaverde production has been declining at the rate of 33.604% since the installation of the compressor. Uncompressed Pictured Cliffs production has been somewhat erratic, but appears to be declining at less than 2% per year. Future allocations based on a one time percentage factor derived from current Mesaverde production do not compensate for the 33% decline rate and would result in too much of the future gas production allocated to the Mesaverde formation.

We feel that a more equitable allocation would be based on average monthly Mesaverde production for each year subtracted from total monthly volume to determine Pictured Cliffs production for the same period. Average monthly Mesaverde volumes could be calculated by applying the known decline rate of the formation to the last full month of production and extrapolating volumes until mid year. This mid-year rate is also the monthly average for the entire year and could be converted to percentage factors for accounting purposes. Using this method, Mesaverde percentages would be reduced each year to compensate for declining production rates. The following example is based on calculated mid year (1996) average of 447 MCF per month using a 33% decline rate for the Mesaverde formation

EXAMPLE

The well produces 2780 MCF in 27 days during the month of April 1996:

$$\text{Mesaverde production for April} = \frac{\text{average monthly volume (447 MCF)}}{\text{thirty}} * \text{number of days produced during the month}$$

$$402 = \frac{447}{30} * 27$$

Allocated gas production would be 402 MCF to the Mesaverde and the remaining 2378 MCF to the Pictured Cliffs (14% MV, 86% PC). Based on historical liquid production, 50% to each formation is a fair allocation.

As we stated in the meeting of November 7, 1995, one time percentage calculations are only acceptable if it can be established that both formations will decline at equal percentage rates.

You must notify this office via Sundry Notice of the relevant percentage factors no later than January 31, 1996.

Your application, revised to allocate production based on the formula outlined above is hereby approved effective November 21, 1995.

Under provisions of 43 CFR 3165.3, you may request an Administrative Review of the order(s) described above. Such request, including all supporting documents, must be filed in writing within 20 business days of receipt of this notice and must be filed with the State Director, Bureau of Land Management, P. O. Box 27115, Santa Fe, New Mexico 87502-0115. Such request shall not result in a suspension of the order(s) unless the reviewing official so determines. Procedures governing appeals from instructions, orders or decisions are contained in 43 CFR 3165.4 and 43 CFR 4.400 ***et seq.***

If you have any questions regarding this correspondence, please contact Ray Hager at (505) 599-6366.

Sincerely,

Joe Hewitt

FW Duane Spencer
Team Lead, Petroleum Management

cc:
NMOCD, Santa FE
NMOCD, Aztec