

ABOVE THIS LINE FOR DIVISION USE ONLY

NEW MEXICO OIL CONSERVATION DIVISION
 - Engineering Bureau -
 1220 South St. Francis Drive, Santa Fe, NM 87505



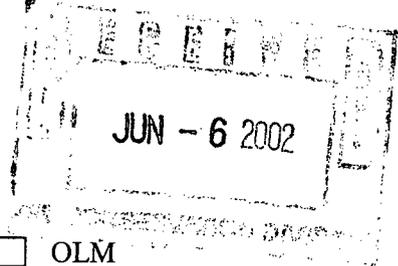
ADMINISTRATIVE APPLICATION CHECKLIST

THIS CHECKLIST IS MANDATORY FOR ALL ADMINISTRATIVE APPLICATIONS FOR EXCEPTIONS TO DIVISION RULES AND REGULATIONS WHICH REQUIRE PROCESSING AT THE DIVISION LEVEL IN SANTA FE

Application Acronyms:

- [NSL-Non-Standard Location] [NSP-Non-Standard Proration Unit] [SD-Simultaneous Dedication]
 [DHC-Downhole Commingling] [CTB-Lease Commingling] [PLC-Pool/Lease Commingling]
 [PC-Pool Commingling] [OLS - Off-Lease Storage] [OLM-Off-Lease Measurement]
 [WFX-Waterflood Expansion] [PMX-Pressure Maintenance Expansion]
 [SWD-Salt Water Disposal] [IPI-Injection Pressure Increase]
 [EOR-Qualified Enhanced Oil Recovery Certification] [PPR-Positive Production Response]

- [1] **TYPE OF APPLICATION** - Check Those Which Apply for [A]
 [A] Location - Spacing Unit - Simultaneous Dedication
 NSL NSP SD
- Check One Only for [B] or [C]
 [B] Commingling - Storage - Measurement
 DHC CTB PLC PC OLS OLM
- [C] Injection - Disposal - Pressure Increase - Enhanced Oil Recovery
 WFX PMX SWD IPI EOR PPR
- [D] Other: Specify _____



- [2] **NOTIFICATION REQUIRED TO:** - Check Those Which Apply, or Does Not Apply
- [A] Working, Royalty or Overriding Royalty Interest Owners
- [B] Offset Operators, Leaseholders or Surface Owner
- [C] Application is One Which Requires Published Legal Notice
- [D] Notification and/or Concurrent Approval by BLM or SLO
U.S. Bureau of Land Management - Commissioner of Public Lands, State Land Office
- [E] For all of the above, Proof of Notification or Publication is Attached, and/or,
- [F] Waivers are Attached

[3] **SUBMIT ACCURATE AND COMPLETE INFORMATION REQUIRED TO PROCESS THE TYPE OF APPLICATION INDICATED ABOVE.**

[4] **CERTIFICATION:** I hereby certify that the information submitted with this application for administrative approval is **accurate** and **complete** to the best of my knowledge. I also understand that **no action** will be taken on this application until the required information and notifications are submitted to the Division.

Note: Statement must be completed by an individual with managerial and/or supervisory capacity.

Eric Dahlgren
 Print or Type Name

Eric Dahlgren
 Signature

Reservoir Engineer
 Title

June 5, 2002
 Date

ewdahlg@ppco.com
 e-mail Address

District I
1625 N. French Drive, Hobbs, NM 88240

District II
811 South First Street, Artesia, NM 88210

District III
1000 Rio Brazos Road, Aztec, NM 87410

Pools
District IV
1220 S. St. Francis Dr., Santa Fe, NM 87505

State of New Mexico
Energy, Minerals and Natural Resources Department

Form C-107A
Revised May 15, 2000

Oil Conservation Division
1220 South St. Francis Dr.
Santa Fe, New Mexico 87505

APPLICATION TYPE
 Single Well
 Establish Pre-Approved

EXISTING WELLBORE
 Yes No

APPLICATION FOR DOWNHOLE COMMINGLING

PHILLIPS PETROLEUM COMPANY

5525 Hwy. 64, Farmington, NM 87401

Operator

Address

San Juan 32-7 Unit #39B Unit M, Section 23, T32N, R7W San Juan
Lease Well No. Unit Letter-Section-Township-Range County

OGRID No. 17654 Property Code 0009260 API No. 30-045-30197 Lease Type: Federal State Fee

DATA ELEMENT	UPPER ZONE	INTERMEDIATE ZONE	LOWER ZONE
Pool Name	South Los Pinos Fruitland Sands PC		Blanco Mesaverde
Pool Code	80690		72319
Top and Bottom of Pay Section (Perforated or Open-Hole Interval)	3392' - 3658'		5860' - 6112'
Method of Production (Flowing or Artificial Lift)	Flowing		Flowing
Bottomhole Pressure (Note: Pressure data will not be required if the bottom perforation in the lower zone is within 150% of the depth of the top perforation in the upper zone)	1475 psig (est.)		1185 psig
Oil Gravity or Gas BTU (Degree API or Gas BTU)	1093		997
Producing, Shut-In or New Zone	Producing		SI
Date and Oil/Gas/Water Rates of Last Production. (Note: For new zones with no production history, applicant shall be required to attach production estimates and supporting data.)	Date: 4/30/02 Rates: 50 mcf/d; 1 bwpd .25 bc/d	Date: Rates:	Date: 7/31/02 Rates: 550 mcf/d & .5 bwpd
Fixed Allocation Percentage (Note: If allocation is based upon something other than current or past production, supporting data or explanation will be required.)	Oil Gas 100 % / **	Oil Gas % %	Oil Gas 0 % / **

**** NOTE: Because of the line pressure change from the MV and the PC test periods, we will be unable to give an estimate for the fixed allocation percentage (see attached letter for details).**

ADDITIONAL DATA

Are all working, royalty and overriding royalty interests identical in all commingled zones? Yes No
If not, have all working, royalty and overriding royalty interest owners been notified by certified mail? Yes No

Are all produced fluids from all commingled zones compatible with each other? Yes No

Will commingling decrease the value of production? Yes No
If this well is on, or communitized with, state or federal lands, has either the Commissioner of Public Lands or the United States Bureau of Land Management been notified in writing of this application? Yes No

NMOCD Reference Case No. applicable to this well: R-11210

Attachments:

- C-102 for each zone to be commingled showing its spacing unit and acreage dedication.
- Production curve for each zone for at least one year. (If not available, attach explanation.)
- For zones with no production history, estimated production rates and supporting data.
- Data to support allocation method or formula.
- Notification list of working, royalty and overriding royalty interests for uncommon interest cases.
- Any additional statements, data or documents required to support commingling.

PRE-APPROVED POOLS

If application is to establish Pre-Approved Pools, the following additional information will be required:

- List of other orders approving downhole commingling within the proposed Pre-Approved Pools
- List of all operators within the proposed Pre-Approved Pools
- Proof that all operators within the proposed Pre-Approved Pools were provided notice of this application.
- Bottomhole pressure data.

I hereby certify that the information above is true and complete to the best of my knowledge and belief.

SIGNATURE Eric Dahlgren TITLE Reservoir Engineer DATE June 5, 2002

TYPE OR PRINT NAME Eric Dahlgren TELEPHONE NO. (505) 599-3455 e-mail- ewdahlg@ppco.com



PHILLIPS PETROLEUM COMPANY

FARMINGTON, NEW MEXICO 87401
5525 HWY. 64 NBU 3004

June 5, 2002

New Mexico Oil & Gas Conservation Div.
1220 South St. Francis Drive
Santa Fe, New Mexico 87504

Downhole Commingle Allocation Method
On the San Juan 32-7 Unit #39B

Dear Sirs:

Phillips Petroleum is proposing to commingle the Mesaverde and Pictured Cliffs formations on the above mentioned well (Reference Case No. R-11210). The Mesaverde was tested from November 2000 through September 2001. Currently the Mesaverde is isolated with a CIBP and the Pictured Cliffs is producing independently. Pending commingle approval the Mesaverde and the Pictured Cliffs will be commingled in the summer of 2002.

A production forecast has been determined from stabilized Pictured Cliffs production. When the zones are commingled, Phillips Petroleum is proposing to utilize the subtraction method for 12 months before a ratio between the Mesaverde and Pictured Cliffs is established. The Pictured Cliffs production was chosen to forecast from because the gathering system pressure increased from ~150 psig to +400 psig at the end of the Mesaverde test. Both zones will be commingled in the +400 psig gathering system.

Attached is the Mesaverde & Pictured Cliffs rate vs. time plot for the 32-7 #39B, a 24 month Pictured Cliffs forecast, and a current wellbore schematic.

Sincerely,

PHILLIPS PETROLEUM COMPANY

Eric Dahlgren
Reservoir Engineer

cc: OCD – Aztec
BLM – Farmington
NM Commissioner of Public Lands – Santa Fe
Unit Interest Owner – Larry Simmons

District I
 PO Box 1980, Hobbs, NM 88241-1980
 District II
 PO Drawer DD, Artesia, NM 88211-0719
 District III
 1000 Rio Brazos Rd., Aztec, NM 87416
 District IV
 PO Box 2088, Santa Fe, NM 87504-2088

State of New Mexico
 Energy, Minerals & Natural Resources Department

OIL CONSERVATION DIVISION
 PO Box 2088
 Santa Fe, NM 87504-2088

Form C-102
 Revised February 21, 1994
 Instructions on back
 Submit to Appropriate District Office
 State Lease - 4 Copies
 Fee Lease - 3 Copies

AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

API Number		Pool Code	Pool Name
		80690	South Los Pinos Fruitland Sands PC
Property Code	Property Name		Well Number
009260	SAN JUAN 32-7 UNIT		39B
GRID No.	Operator Name		Elevation
017654	PHILLIPS PETROLEUM COMPANY		6601'

10 Surface Location

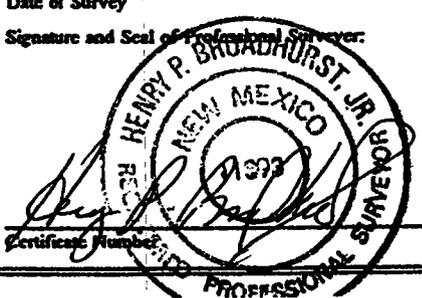
UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
M	23	32N	7W		1110'	SOUTH	660'	WEST	SAN JUAN

11 Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
M									

Dedicated Acres	Joint or Infill	Consolidation Code	Order No.
160 SW/4	I	U	

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

16 5161.20' N01°09'E 660' 1110' S89°52'W 5351.94' SF-078472 1360 acres Section 23	S89°36'W 5279.34'	17 OPERATOR CERTIFICATION <i>I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief</i>  Signature Patsy Clugston Printed Name Sr. Regulatory Clerk Title June 2, 2000 Date	
	5189.58' N00°21'E		18 SURVEYOR CERTIFICATION <i>I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.</i> 05/23/2000 Date of Survey Signature and Seal of Professional Surveyor:  Certificate Number:

District I
 PO Box 1988, Hobbs, NM 88241-1988
 District II
 PO Drawer DD, Artesia, NM 88211-0719
 District III
 1000 Rio Brazos Rd., Aztec, NM 87410
 District IV
 PO Box 2088, Santa Fe, NM 87504-2088

State of New Mexico
 Energy, Minerals & Natural Resources Department

OIL CONSERVATION DIVISION
 PO Box 2088
 Santa Fe, NM 87504-2088

Form C-102
 Revised February 21, 1994
 Instructions on back
 Submit to Appropriate District Office
 State Lease - 4 Copies
 Fee Lease - 3 Copies

AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

1 AFI Number		2 Pool Code		3 Pool Name	
		72319		Blanco Mesaverde	
4 Property Code		5 Property Name			6 Well Number
009260		SAN JUAN 32-7 UNIT			39B
7 OGRID No.		8 Operator Name			9 Elevation
017654		PHILLIPS PETROLEUM COMPANY			6601'

10 Surface Location

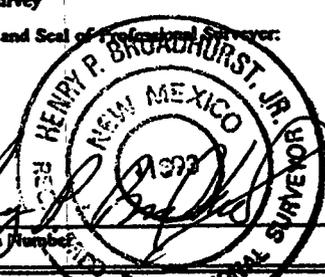
UL or lot no.	Section	Township	Range	Lot Ida	Feet from the	North/South line	Feet from the	East/West line	County
M	23	32N	7W		1110'	SOUTH	660'	WEST	SAN JUAN

11 Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot Ida	Feet from the	North/South line	Feet from the	East/West line	County
M									

12 Dedicated Acres	13 Joint or Infill	14 Consolidation Code	15 Order No.
320 W/2	I	U	

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

16 5161.20' N01°09'E 660' 1110'	S89°36'W 5279.34'	Section 23 SF-078472 1360 acres S89°52'W 5351.94'	5189.58' N00°21'E	17 OPERATOR CERTIFICATION <i>I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief</i>  Signature Patsy Clugston Printed Name Sr. Regulatory Clerk Title June 2, 2000 Date
	18 SURVEYOR CERTIFICATION <i>I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.</i> 05/23/2000 Date of Survey			
	Signature and Seal of Professional Surveyor:  Certificate Number:			

SAN JUAN 32-7 #39B Pictured Cliffs

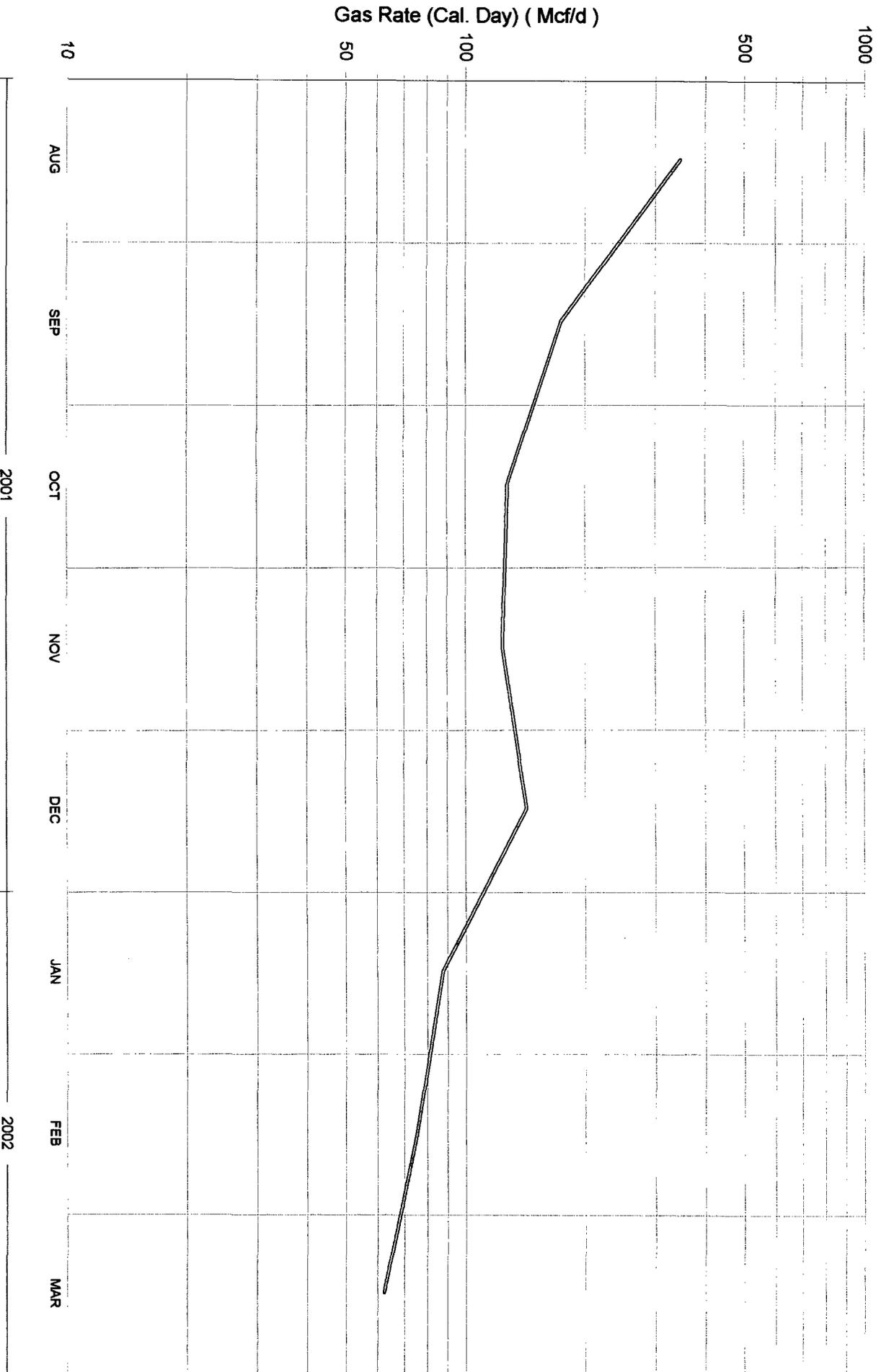
Gatherer = WILLIAMS, Trunk = N, Lateral = N-35

32N07W23

Cum. Gas Production : 34.8 MMcf

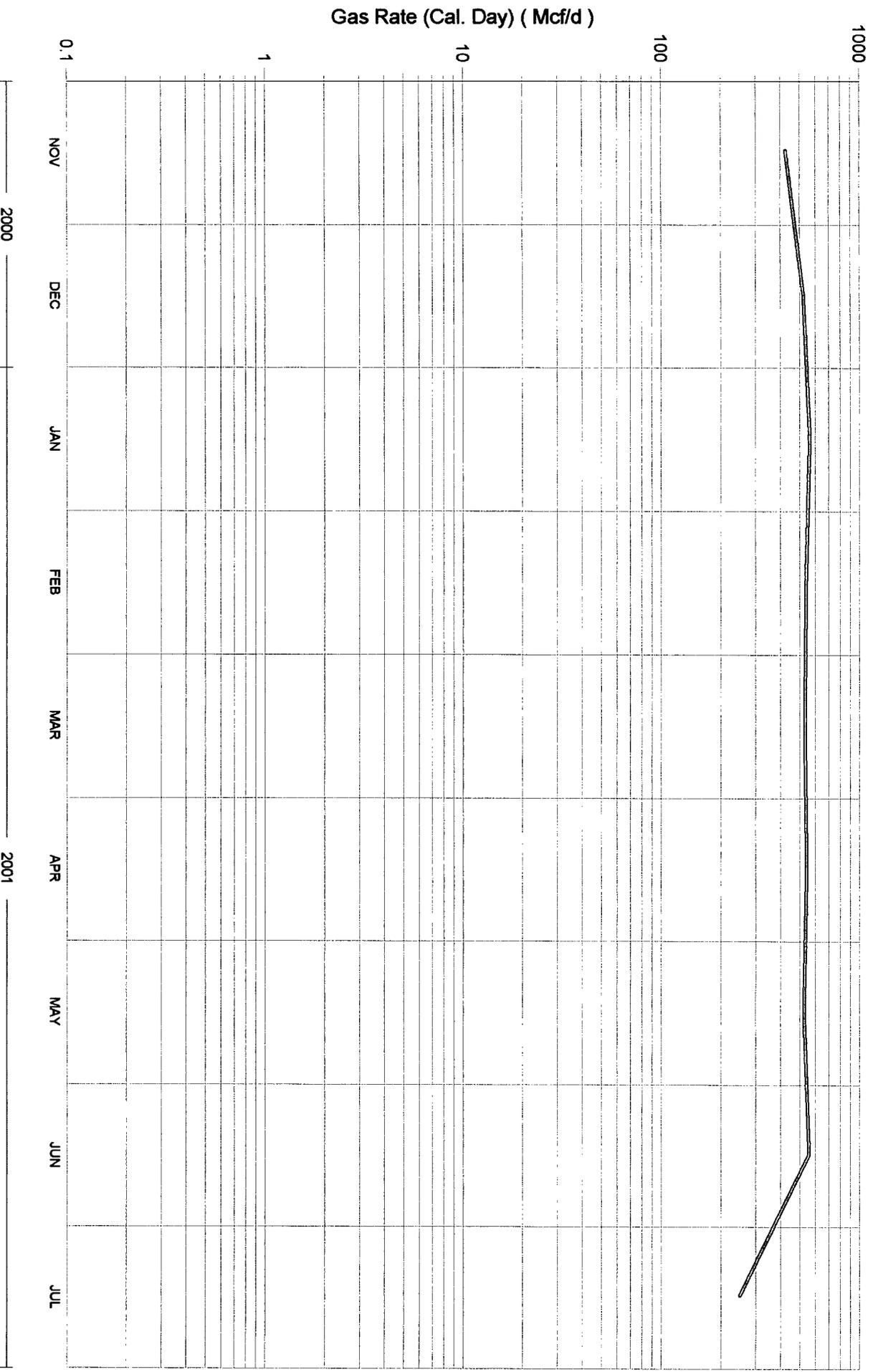
Cum. Oil Production : 0.0 Mbbl

API - 3004530197



SAN JUAN 32-7 #39B Mesaverde
Gatherer = WILLIAMS, Trunk = N, Lateral = N-1
32N07W23

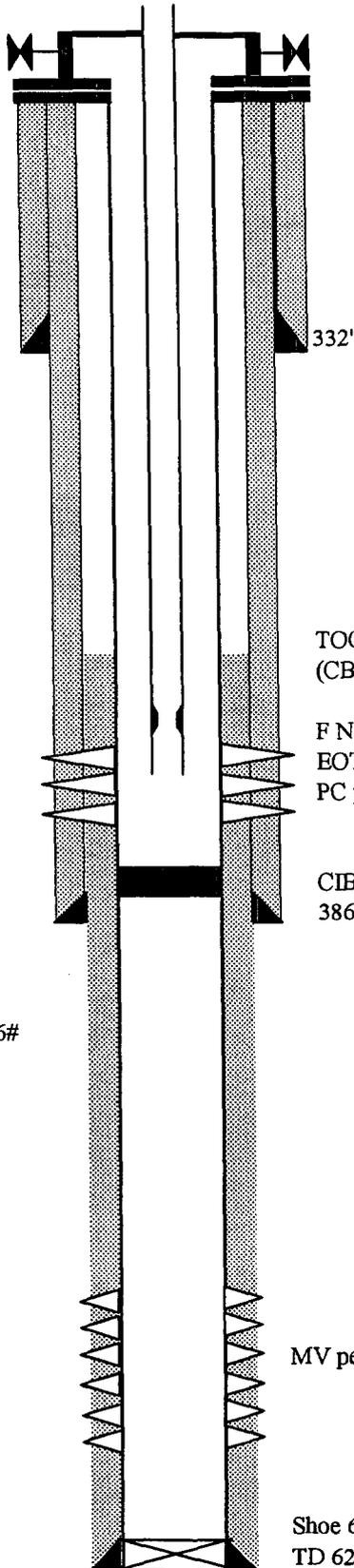
Cum. Gas Production : 150.9 MMcf
Cum. Oil Production : 0.0 Mbbl
API - 3004530197



**32-7 #39B Pictured Cliffs Forecast
Estimated Pore Pressure = 1475 psi
PC Perfs: 3392' – 3658'**

DATE	Average Rate Mscf/d	Monthly Volume Mscf
2002/ 5	62	1930
2002/ 6	58	1750
2002/ 7	55	1700
2002/ 8	52	1610
2002/ 9	49	1480
2002/10	47	1460
2002/11	45	1350
2002/12	43	1340
2003/ 1	42	1290
2003/ 2	40	1120
2003/ 3	39	1200
2003/ 4	38	1130
2003/ 5	36	1130
2003/ 6	35	1060
2003/ 7	34	1060
2003/ 8	33	1030
2003/ 9	32	970
2003/10	32	980
2003/11	31	930
2003/12	30	940
2004/ 1	29	910
2004/ 2	29	840
2004/ 3	28	880
2004/ 4	28	830

**32-7 #39B Mesaverde Estimated Pore Pressure = 1100 psig
MV Perfs: 5860' – 6112'**



**CURRENT WELLBORE
SCHEMATIC
San Juan 32-7 Unit #39B**

**API #
30-045-30197
Gathering System:
Williams Field Services**

Spud: 8/8/00
RKB = GL + 16"
GL = 6601'

9-5/8" 36# K-55 ST&C csg. 7 jts. (314.51') cemented @ 332'.

7" 20# J-55 ST&C csg. 90 jts. (3862') cemented @ 3862.35'.

TOC 2815'
(CBL)

4-1/2" 11.6# I-80 LT&C 151 jts. csg. cemented @ 6282.69'.

F Nipple 3113'
EOT 3646'
PC perms: 3392' - 3658'

CIBP, PBTB 3850'
3862'

Tubing: 2-3/8" 4.7# J-55 EUE 8rd 117 jts. (3634.15') set @ 3646.15'
w/ 1.81" F nipple @ 3113'.

Perforated MV: 6111-12', 6060-61', 5794-95', 5775-76', 5760-61',
5719-20', 5663-64', 5969-70', 5931-32', 5910-11', 5882-83',
5870-71', 5860-61' w/ 1 SPF for 26 holes.

Perforated Pictured Cliffs: 3658', 3656', 3654', 3586', 3584', 3576', 3572',
3570', 3566', 3410', 3408', 3406', 3404', 3402', 3400', 3398', 3396', 3394',
3392' w/ 1 SPF for 19 holes.

4-1/2" 11.6#
I-80 csg.

MV perms: 5860' - 6112'

Shoe 6283'
TD 6284'

**PHILLIPS PETROLEUM
COMPANY
San Juan Area**

San Juan 32-7 Unit #39B
Unit M, 1110' FSL & 660' FWL
Sec. 23, T 32 N, R 7 W
San Juan County N.M.
Lat: 36° 57' 42" Lon: 107° 32' 33"

Frac'd Mesaverde 10/2/00 w/ 70Q N2 x-linked foam at 60 BPM w/ 208,000 lb.
20/40 Brady sand, 882 BBL total fluid, 1,740.7 mscf N2.
Frac'd Pictured Cliffs 7/24/01 w/ 74,192 gal 65Q linear gel foam at 19.6 BPM w/ 120,340 lb.
20/40 Brady sand.

Monica D. Rodahl 5/22/02



PHILLIPS PETROLEUM COMPANY

FARMINGTON, NEW MEXICO 87401
5525 HWY. 64 NBU 3004

June 4, 2002

Certified Mail # 7001 0320 0004 8670 6013

Mr. Larry Simmons
633 N. Pagosa Blvd. Ste B-3
Pagosa Springs, CO 81147

Downhole Commingling Order R-11210
San Juan 32-7 Unit, San Juan County, NM

Dear Mr. Simmons:

Please find attached a copy of our downhole commingling application made for the San Juan 32-7 Unit #39B well. As per item #16 on the DHC Order No. R-11210, Phillips was asked to send you a copy of any application for downhole commingling applications filed within the San Juan 32-7 Unit.

Sincerely,

PHILLIPS PETROLEUM COMPANY

A handwritten signature in cursive script that reads "Patsy Clugston".

Patsy Clugston
Sr. Regulatory Clerk
505-599-3454

**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.

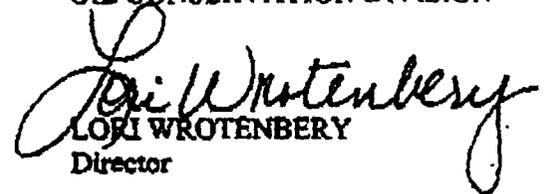
(4) In order to obtain Division authorization to downhole commingle wells within the San Juan 32-7 Unit, the applicant shall file Form C-107-A with the Santa Fe and Aztec Offices of the Division. Such application shall contain all the information required under Division Rule 303.C., provided however 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

S E A L