

**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. 13150
CASE NO. 13151
ORDER NO. R-12049**

**APPLICATION OF ARCH PETROLEUM, INC. FOR APPROVAL OF SURFACE
COMMINGLING, LEA COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on September 18, 2003, at Santa Fe, New Mexico, before Examiner William V. Jones and for hearing at 8:15 a.m. on October 23, 2003, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 18th day of November, 2003, 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) In Case No. 13150, the applicant, Arch Petroleum, Inc., ("Arch") seeks approval to surface commingle Teague-Paddock Blinebry (Oil Pool 58300) oil and gas production from nine existing wells located on three fee leases collectively covering the SW/4 and W/2 SE/4 of Section 27, Township 23 South, Range 37 East, NMPM, Lea County, New Mexico, without separately metering production from each well or lease.

(3) In Case No. 13151, the applicant, Arch Petroleum, Inc., ("Arch"), seeks approval to surface commingle Teague-Simpson (Oil Pool 58900) oil and gas production from four existing wells located on three fee leases collectively covering the SW/4 and W/2 SE/4 of Section 27, Township 23 South, Range 37 East, NMPM, Lea County, New Mexico, without separately metering production from each well or lease.

(4) Both cases were combined at the hearing for purposes of testimony. During testimony on September 18, 2003, Arch stated that eleven Teague-Paddock Blinebry wells were to be commingled instead of the nine wells as stated in the application in Case No. 13150 and that Apache Corporation owned a partial working interest in the Teague-Simpson wells in Case No. 13151. Due to these new developments, previous notice to revenue interest owners was not sufficient and Arch asked for more time to provide correct notice in both cases. The remaining testimony for both cases was presented September 18, 2003, and then both cases were continued to the October 23, 2003, hearing date.

(5) Arch presented the following testimony:

(a) In both Case No. 13150 and Case No. 13151, the leases in question are the E.C. Hill "A", "B", and "C", which are all standup 80-acre leases and operated by Arch. Arch is the operator of record for all existing wells in this 240 acres consisting of the SW/4 and W/2 SE/4 of Section 27, Township 23 South, Range 37 East, NMPM, Lea County, New Mexico. The "A" lease consists of the W/2 SE/4 of Section 27. The "B" lease consists of the E/2 SW/4 of Section 27. The "C" lease consists of the W/2 SW/4 of Section 27.

(b) In Case No. 13150, the Teague-Paddock Blinebry oil wells in the application are located in all six of the 40-acre spacing and proration units covering the entire SW/4 and the W/2 SE/4 of Section 27.

(c) In Case No. 13151, the Teague-Simpson oil wells, also spaced on 40 acres, are located in the N/2 SW/4 and SW/4 SE/4 (Units K, L, N, and O) of Section 27.

(d) The three fee leases each have many revenue interest owners and different operating agreements and election options. After many years of development, the result is a tremendous variety of ownership in wells covered by the two commingling applications.

(e) In Case No. 13150, Arch proposes to construct a new tank battery for the Teague-Paddock Blinebry production. Production would be commingled through this battery and each well tested on a monthly basis. The tests would then be used to calculate production and sales from each well and from each lease.

(f) In Case No. 13151, Arch proposes to construct a new tank battery for the Teague-Simpson production. Production would be commingled through this battery and each well tested on a monthly basis. The tests would then be used to calculate production and sales from each well and from each lease.

(g) The shallower Paddock Blinebry and the deeper Simpson reservoirs produce different gravities of oil and different salinities of water. In addition, the waters are not compatible. Due to these differences and the aforesaid ownership issues, the applicant proposes to use two separate tank batteries instead of building only one battery for all production from the three leases.

(h) In both tank batteries, testing of individual wells will be accomplished in the following manner. The oil, water, and gas from each well will be processed through a separator. The gas will then be routed through orifice meter runs and measured with charts. The oil will be routed through a heater-treater and measured in one-barrel pots.

(i) Building the two new batteries as proposed will enable Arch to abandon the existing battery, clean up the site, and effectively deal with the environmental issues pending in this area. Cleanup has been a concern of the surface owner and also has been mandated by the Environmental Bureau of the Oil Conservation Division.

(8) No other party appeared at either of these hearings in opposition or otherwise opposed these applications.

(11) The proposed method of measurement and allocation of production between the subject wells is reasonable and sufficiently reliable to protect the correlative rights of owners of separate interests in the production from the wells.

(12) Approval of these applications will enable Arch to protect the environment, will not violate correlative rights, and will prevent waste by recovering additional oil and gas reserves from these wells that may otherwise not be recovered.

IT IS THEREFORE ORDERED THAT:

(1) In Case No. 13150, the applicant, Arch Petroleum, Inc., is hereby authorized to surface commingle, and measure and store off lease, Teague-Paddock Blinebry (Oil Pool 58300) oil, water, and gas production from all wells located now or in the future in the SW/4 and W/2 SE/4 of Section 27, Township 23 South, Range 37 East, NMPM, Lea County, New Mexico. The following eleven wells are currently located on this acreage and producing from the Paddock Blinebry:

E.C. Hill "A" Well No. 2 (API 30-025-10851) in Unit J
E.C. Hill "A" Well No. 5 (API 30-025-33449) in Unit J
E.C. Hill "B" Well No. 3 (API 30-025-22372) in Unit K
E.C. Hill "B" Well No. 6 (API 30-025-33448) in Unit K
E.C. Hill "C" Well No. 2 (API 30-025-22560) in Unit L
E.C. Hill "C" Well No. 1 (API 30-025-22547) in Unit M
E.C. Hill "C" Well No. 4 (API 30-025-36240) in Unit M
E.C. Hill "B" Well No. 2 (API 30-025-22337) in Unit N
E.C. Hill "B" Well No. 5 (API 30-025-33323) in Unit N
E.C. Hill "A" Well No. 3 (API 30-025-10852) in Unit O
E.C. Hill "A" Well No. 6 (API 30-025-33324) in Unit O

(2) In Case No. 13151, the applicant, Arch Petroleum, Inc., is hereby authorized to surface commingle Teague-Simpson (Oil Pool 58900) oil, water, and gas production from wells located in the N/2 SW/4 and SW/4 SE/4 (Units K, L, N, and O) of Section 27, Township 23 South, Range 37 East, NMPM, Lea County, New Mexico. The following wells are currently producing from the Simpson, located on this acreage, and included in this commingling permit:

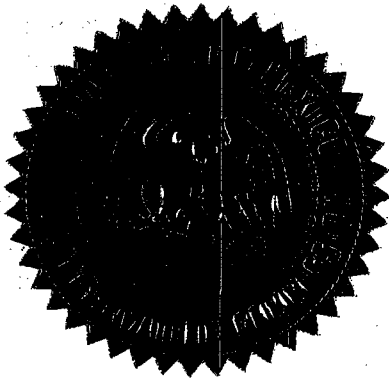
E.C. Hill "A" Well No. 7 (API 30-025-35012) in Unit O
E.C. Hill "B" Well No. 1 (API 30-025-10850) in Unit K
E.C. Hill "B" Well No. 7 (API 30-025-35013) in Unit N
E.C. Hill "C" Well No. 3 (API 30-025-35365) in Unit L

(3) Allocation of production to each of the wells covered by this order shall be determined by periodic well tests.

(4) Future additions of wells or producing pools to any one of the two tank batteries covered by this surface commingling permit requires proper notice to interest owners and formal application to the Division. Such proper notice shall consist of notice provided to all working, royalty, and overriding royalty interest owners of record in the wells to be added. No notice of any such application for additional wells shall be required to be provided to those interest owners in wells already approved for commingling under this order who own no interest in the wells to be added.

(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.



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

Lori Wrotenbery
LORI WROTENBERY
Director