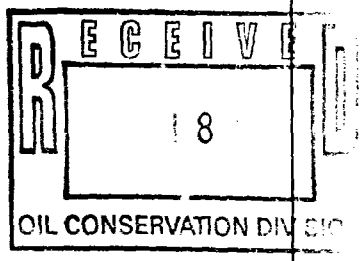
STATE OF NEW MEXICO

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:

RULE 303.C HEARING

CASE NO. 11,353

REPORTER'S TRANSCRIPT OF PROCEEDINGS

COMMISSION HEARING

ORIGINAL

BEFORE: WILLIAM J. LEMAY, CHAIRMAN
WILLIAM WEISS, COMMISSIONER
JAMI BAILEY, COMMISSIONER

August 3rd, 1995

Santa Fe, New Mexico

This matter came on for hearing before the Oil Conservation Commission on Thursday, August 3rd, 1995, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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Commission Hearing
CASE NO. 11,353

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* * *

WHEREUPON, the following proceedings were had at 1:22 p.m.:

CHAIRMAN LEMAY: Call Case Number 11,353, which is the Application of the Oil Conservation Division to amend Rule 303.C, pertaining to downhole commingling.

Appearances in Case Number 11,353?

MR. CARROLL: Yes, Mr. Chairman, my name is Rand Carroll, appearing on behalf of the Oil Conservation Division. I have one witness to be sworn.

CHAIRMAN LEMAY: Thank you, Mr. Carroll.

Additional appearances? Mr. Kellahin?

MR. KELLAHIN: Mr. Chairman, I'm Tom Kellahin of the Santa Fe law firm of Kellahin and Kellahin, appearing on behalf of the New Mexico Oil and Gas Association; Conoco, Inc.; and Meridian Oil, Inc.

I have three witnesses to present.

CHAIRMAN LEMAY: Thank you. Mr. Carr?

MR. CARR: May it please the Commission, my name is William F. Carr with the Santa Fe law firm Campbell, Carr and Berge. I'd like to enter an appearance in this case for Amoco Production Company.

We may have one witness, or we may present a statement, depending on where we are at the end of the other testimony.

CHAIRMAN LEMAY: Thank you, Mr. Carr.

Those witnesses that will be giving testimony, would you please stand and raise your right hand?

(Thereupon, the witnesses were sworn.)

CHAIRMAN LEMAY: Mr. Carroll, you may proceed.

DAVID R. CATANACH,

the witness herein, after having been first duly sworn upon his oath, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. CARROLL:

Q. Mr. Catanach, would you please state your name and your employer and your position with your employer for the record, please?

A. Yes, my name is David Catanach. I work for the New Mexico Oil Conservation Division in the Santa Fe office as a petroleum engineer and a hearing examiner.

Q. And what do your duties include as petroleum engineer and hearing examiner?

A. My duties include the review of administrative applications for exceptions to the rules and hearing some exception cases at public hearings, and that does include downhole commingling applications.

Q. And have you testified before the Oil Conservation Commission before and had your qualifications as a petroleum engineer accepted?

A. Yes, I have.

MR. CARROLL: Mr. Chairman, I offer Mr. Catanach's qualifications as a witness.

CHAIRMAN LEMAY: They are acceptable.

Q. (By Mr. Carroll) Mr. Catanach, have you prepared proposed changes to Rule 303 that concern downhole commingling?

A. Yes, Mr. Carroll, in consultation with some other Division employees I've prepared some minor changes to the 303.C Downhole Commingling Rule.

Q. And why are these changes being made?

A. Some of the changes that are being made were suggested by some industry personnel that we've had some contact with, including Meridian and Amoco.

Q. And could we go through what has been marked as OCD Exhibit Number 1, and can you tell the Commission what changes were made and why?

A. Okay, probably -- We have just a couple of major changes, and probably it would be best to go over those first.

On the first page of Exhibit Number 1, down at the bottom, is item number -- labeled number (vi), or six.

What the Division is proposing to do is to delete this requirement, and this is a requirement that in a well, within the zones to be commingled in the well, that the application is automatically set to hearing before a

Division Examiner.

And what we're proposing to do is eliminate that requirement so that even though there is diverse ownership, industry can apply for administrative approval for these applications. And that required the deletion of that item number (vi), and that was under the paragraph for wells involving oil zones.

And on the next page, under item (b) (v), was the same requirement, and that was for wells involving a gas zone. So what we did -- what we're proposing to do is just eliminate that paragraph as well, from that section (b).

The next change, the next major change, was on page 3 of that exhibit, and this is contained within paragraph number (10), which now requires that the operator who is applying for a downhole commingling permit notice the Commissioner of Public Lands for the State of New Mexico.

That was not previously contained within the Rule, and we've had some discussions with some personnel from the Commissioner of Public Lands office, and we've become aware that they do require that applicants file an application with them for downhole commingling. So we're just adding that to our rules so that the industry is aware that that's a requirement.

Paragraph (11) is something new that we're

adding, and this is a direct result of the change in the -- on page number 1, where we're now going to require that if there is diversity of ownership between the commingled zones, that we're going to require that notice be provided to working royalty and overriding royalty interest owners within both of the zones in the commingled wellbore, and that's going to be for administrative approval.

Those are the major changes that we've got proposed for this rule.

The other changes are just basically some simple language changes. I can go over those if you'd like.

Q. Yeah, if you would, just briefly.

A. On the first page, in Section C (1), we're eliminating "oil-oil, gas-gas or gas-oil zones in a well", and we're simply replacing that with "multiple producing zones", and that's kind of to reflect that the Division now is more willing to permit downhole commingling for multiple zones in a wellbore.

The next change is in paragraph (iii), about midway down the page. We're just replacing "Neither" zone -- or "Neither" -- for "No" zone, "Neither" being a reference to maybe two zones.

Page 2, we're simply -- in paragraph (vi) we're changing -- because of the deletion of paragraphs -- previous paragraph (vi), we're going to change that to new

paragraph (vi), and changing the words, the language "either" in that paragraph for "any" of the zones.

Q. Mr. Catanach, maybe we'll just skip to E on page 3 and go over that change, and that will be it for our proposed changes.

A. Okay. In paragraph E we've added the language, "from any offset operator and/or interest owner". Before, that was not in there, and we've just added that for clarification.

And in the bottom of that paragraph we've added "and [section] 11", which includes the interest owners.

And that's basically it.

There's one minor change in paragraph G, just "the" for "both".

Q. So the purpose of this rule change is to provide for administrative approval rather than having to go to hearing on downhole commingling; is that correct?

A. Right, it just gives operators more flexibility and doesn't require what we consider to be sometimes unnecessary expense that the applicants have to come up for a public hearing.

Q. But they still -- They're still required to give notice and, if objections are filed, it will go to hearing; is that correct?

A. That's correct.

Q. Is it your opinion that the approval of these proposed changes to 303 would aid the Division in its statutory mandate to prevent waste and protect correlative rights?

A. Yes, I do, and I think it would aid industry and reduce some of the operating expenses maybe industry incurs in obtaining approval for some of these wells.

Q. Mr. Catanach do you have anything to add at this time?

A. No, I do not.

MR. CARROLL: Mr. Chairman, I offer what has been marked OCD Exhibit Number 1 into the record, and that's all I have in this matter.

CHAIRMAN LEMAY: Without objection, Exhibit 1 will be entered into the record.

Questions of the witness? Come on, guys, it's your only chance to get this Examiner here. You're very nice to him.

Commissioner Weiss?

COMMISSIONER WEISS: I have no questions.

CHAIRMAN LEMAY: Commissioner Bailey?

EXAMINATION

BY COMMISSIONER BAILEY:

Q. Are there any plans to consolidate the three different types of forms that industry has to use if their

proposed commingling --

A. Well, right now, Ms. Bailey, the Division does not have a form that has to be utilized for filling these out, so I haven't had any discussions with the Land Office or the BLM concerning any forms.

COMMISSIONER BAILEY: That's all.

EXAMINATION

BY CHAIRMAN LEMAY:

Q. Mr. Catanach, any contact at all with the BLM in terms of what they think about this rule or whether they're going to be concurring with what we do in downhole commingling?

A. I have not had any discussions with any BLM personnel, Mr. Chairman, so I can't say whether or not they're in favor or against this.

CHAIRMAN LEMAY: Any other questions of the witness?

If not, he may be excused. Thank you, Mr. Catanach.

Mr. Kellahin?

MR. KELLAHIN: Mr. Chairman, on behalf of the New Mexico Oil and Gas Association, as Chairman of their Regulatory Practices Committee, we initiated an industry survey with regards to downhole commingling in much the same manner as we did for the prior case.

In addition, I called upon my clients, for whom I had presented maybe 50 or 60 downhole commingling cases before the Examiner, to utilize their expertise in broadening the scope of the rule change.

In addition, I invited Mr. Carr and his client, Amoco, and particularly Mr. Bill Hawkins, to participate.

Mr. Jerry Hoover with Conoco has taken the initiative to be the draftsman for the suggested changes we're about to show you, but they represent the consensus of NMOGA's Rule 303 Committee, and all Committee members are currently present and available to answer questions, should you have any.

And for the record, those parties that have participated and shared their talents: Mr. Hoover with Conoco; Scott Daves is an engineer with Meridian in Farmington; Alan Alexander is a landman in Farmington with Meridian; Bill Hawkins and Pam Staley, Amoco technical personnel from Denver, Colorado.

In addition, we have utilized Ruth Andrews of the Association to distribute drafts and materials, and as a result have a partial list of responses.

We would very much like to do in this case what you have permitted us to do in the last case, and that is to discuss with you broadening the scope of a rule change, to address industry's concern, let us then continue this

case to the September docket, and recognize this working Committee as a group of technical people to then talk to Mr. Catanach and other Division employees, as well as BLM people if that's appropriate, so that we can come back to you in six weeks and provide to you what we think is a definitive, final consensus document for your decision.

With that introduction, then, I would like to call Mr. Jerry Hoover who will present to you the rule changes.

Mr. Alexander will discuss to you the commingling issues from a landman's perspective.

Scott Daves has done a great many of these cases as an engineer with regards to economic justifications, additional recoveries from the reservoir enhanced by commingling, and he's come up with Division-approved methodology for allocation of production among commingled zones on a fair and appropriate basis.

Mr. Hawkins provides his own expertise in those areas for his company, and he's certainly available.

I'll hand out Mr. Hoover's exhibits, but they are worked on by the whole Committee, and they represent a Committee consensus.

There are three parts to the handout. One is, Mr. Hoover has taken his handout and provided comments. The other handout is the actual rule change. And finally,

he has duplicated the current rule.

An additional point of clarification: Jim Bruce as attorney for Pogo filed a prehearing statement with some suggested rule changes. We have assimilated Pogo's comments and suggestions, and they have been incorporated into this Committee's work product, we believe, and I understand from Mr. Bruce that his client endorses the consensus work at this point, under the NMOGA Committee.

So don't let that confuse you. Their work is incorporated in ours, and they now concur with our effort at this point.

JERRY HOOVER,

the witness herein, after having been first duly sworn upon his oath, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q. Mr. Hoover, let's have you begin. If you'll give us an overview, if you will, of how the Committee approached the Rule, and give us a highlight of the major subdivisions for which you are requesting a rule change.

A. There are several concerns, one of which was the long list of required data, which was split initially in the regulations between references to oil wells and references to gas wells.

So our first attempt was -- in that section,

which is Section C of this Rule -- was to try to combine that into a single section addressing all wells and to try to hone that down to the basic conditions that should be addressed for all wells, whether oil or gas.

Q. Was there agreement among the technical members of your Committee that that could be accomplished?

A. Yes.

Q. And it could be accomplished without compromise to correlative rights or prevention of waste?

A. That's correct.

Q. What then did you do?

A. The second task, then, was to look into Section D, which was a list of the actual data or information which was required to be attached to an application.

In many cases that we've filed with the Commission and have worked with you on recently, we have discovered that many of these do not apply. In some cases, the Commission has gladly given us exception to some of them, in many cases.

So we're finding that perhaps a rigid list of data is not necessarily what we need.

We need the proper concepts and the requirement of the proper justification for downhole commingling, and that would automatically draw in whatever data and information is required in order to do that.

Q. Was there a consensus among Committee members that you could take the individual components of the current Rule and bundle the essential technical information and reduce it, then, to a couple of subdivisions in the Rule that were comprehensive, by which the operator then could make a selection of the appropriate technical data to satisfy the components of the Rule?

A. That was exactly the process which we pursued.

Q. Under the current administrative approval for downhole commingling, one of the issues that often comes to hearing by necessity is the fact that each zone has a different ownership.

Do you concur in what the Division has proposed in terms of addressing those downhole commingling applications in which there in fact is common ownership in both pools or in all multiple pools to be commingled?

A. Yes, that's correct.

Q. And how did you solve that?

A. With the common interest?

Q. Yes, sir.

A. Our proposal is that where interests are common, that approval be relegated back to the districts in this type of case, without a requirement for notification.

Q. The other components of the proposed industry revision would apply whether that application went to

Santa Fe or to the District?

A. That's correct.

Q. But if there's common ownership, it's your request to have that decision put into the District Supervisor's range of authority?

A. That's correct.

Q. If they're uncommon ownership, then that would come to Santa Fe?

A. Yes.

Q. All right. One of the major components for commingling is the predicate that at least one of the zones to be commingled must be demonstrated to be uneconomic; is that not true?

A. That is correct.

Q. In terms of that criteria, have you broadened the scope by which the agency can authorize commingling to include other items?

A. We have. And in fact, this idea has been a result of a number of cases which we've brought recently, where justifying on a basis other than a zone being uneconomical has played a large part in some of the recent cases and has been accepted by the Commission.

Q. That basis is in fact improving ultimate recoveries from the reservoir?

A. That's correct.

Q. And correspondingly, being able to do so without impairing correlative rights, disturbing equity under an allocation formula or otherwise causing waste?

A. Yes.

Q. Other components in a general, broad sense of the proposed rule changes?

A. Perhaps we could just very quickly look at the ingredients of C.

Q. All right.

A. I don't think it will take but a couple of moments to just at least point out what they are.

Q. Let's do that.

A. This is where we have condensed -- Initially, there was a C (1) (a) and C (1) (b), the first part dealing with oil, the second part dealing with gas.

These are what we feel are the five conceptual ideas that should give adequate control. And the first of these simply deals with the recovery of additional reserves and a more efficient process being as legitimate a reason for doing it as the uneconomical. We just discussed that.

The second one is a very important one, one which, as Mr. Kellahin said, bundles up a lot of the data and ideas that were contained in the current rule, and that is the discussion of crossflow, that there is no significant crossflow that will result in the loss of

reserves or a problem of allocation.

The next concept -- The next three concepts, 3, 4 and 5, are basically retained out of the current regulations. They deal with fluid-sensitive sands, incompatibilities of fluids, and possible jeopardizing of secondary recovery.

Q. Does the rule proposed in industry rule revisions for 303 include a procedure by way an operator can obtain commingling approval for a new well, as initially drilled for commingle purposes?

A. Yes.

Q. So the concept would be to continue the historic means of commingling by taking an existing well, and commingling other formations to it, and adding in the chance to drill new wells?

A. That's correct.

Q. Let's go back to your comments, which are written, and have you summarize for us what you see, particularly in northwest New Mexico, in terms of those ageing reservoirs and why it is now appropriate to have a more sophisticated, modern commingling procedures.

A. We're finding that many of these established pools are, to a great extent, mature now. We have pretty well finished primary development on most of them, but we recognize there are many gaps and holes and locations

within those units that we operate where there are still reserves underground, but they're not economical to drill under the terms that we are now required to drill them -- that is, either as single wells to a single pool or as dual completions with multiple pools.

We're leaving reserves behind that do not fit an economical basis in those categories, and we're looking for a way to recover the maximum amount of reserves from these pools.

Q. Give us a general idea of how the companies in northwestern New Mexico are going through the process of instituting downhole commingling programs.

A. We have put a lot of work and study into our drilling programs and have determined that we can extend our development a great deal if we can cut down on our costs, we can drill slimholes, small casings, and downhole commingle these wells, and we're finding development programs that were not there on another basis.

Q. Are companies seeking and obtaining Division approval to take areas and have an entire area defined and approved in which then they can initially drill wells on a commingled basis?

A. That's correct. Conoco was in an Examiner hearing just last week for such a case.

Q. In response to your efforts to consolidate and

modernize Rule 303, is there any substantial disagreement among any of the participants on the Committee as to what ultimately was proposed here, when we look at Conoco Exhibit 1?

A. I think the Committee has been almost amazed at the unanimity among the group and how close our comments were when we began to put them together, and we just have not had any problems, really, in merging our thoughts and efforts together in this document.

Q. I made reference to Pogo's suggestion which the Committee has addressed and integrated. Give us an example of how the Committee has handled those kinds of things, using the Pogo item as an example.

A. The one example that Pogo had in theirs was to provide a means for allowable control, and they suggested that we relate that to the -- in a commingled well, we relate the oil allowable to the allowable of the most shallow zone, of the upper zone in a commingle process, and that's one which we incorporated into this document.

Q. Just to give us an illustration of how the Committee went about that item, if you'll look at the current Rule 303 which you have handed out and which was in Mr. Catanach's presentation, if you'll look under Rule 303 and find sub C, under (1) (a), then, there is a system by which you come up with a combined oil rate on a daily

basis, based upon some kind of depth bracket code here. That's all removed out of your proposed rule, isn't it?

A. That's correct.

Q. How has that been substituted and with what?

A. That has been addressed in Section F, if you'll see the proposed rule which we have worked on, and we've taken Section F and simply inserted in that the suggestion that we use the depth bracket allowable for the upper zone of the commingled well as a control point for that.

This is the same paragraph that deals with the gas-oil ratio issue and other similar issues.

Q. Let's move back up to your proposed E, if you move farther up on the page.

A. Yes.

Q. Describe for us what's intended here with this subsection.

A. E was our attempt to clarify the approval process. Since we are suggesting a change in approval of some of these applications, we tried to outline what we felt like would be a reasonable approach to the approval process.

E (1), for instance, speaks to approval of commingling zones with common interest by the District Supervisor, and our suggestion is that in cases like this, that we use the Form C-103, the notice of intention, with

all the attached data that this Rule requires, as the format for applying to the District Office.

(2) then, paragraph (2) here, takes the non-common interest cases, directs them to the Division Director here in Santa Fe, it carries the language about the time of -- for objections and the receipt of waivers.

And then third, we've simply stated, as would be normal anyhow, that any of these can be bumped up to a different level. For instance, the District Supervisor, if he feels like there are extenuating circumstances or problems, he can send this to the Division Director for action, who can then set it for hearing if need be.

Q. Do either you or, to your knowledge, any members of the Committee that were involved in the process, have any knowledge of any downhole commingling case generating and having an offset operator and interest owner appear in opposition to the approval of that commingling request?

A. I've never been aware of one.

Q. Are you recommending any changes to the notice time in which objections, if any, were to be filed under the existing Rule?

A. I don't know if there's a change in the timing.

Q. It would be consistent with the --

A. I think it's consistent.

Q. -- typical 20-day notice period --

A. Yes, that's correct.

Q. -- that we're currently using?

All right. Would you like to summarize for us what you're seeking to do and how you would like to go about doing it?

A. Yes, I would. We talked about the basic concepts in Section C.

I'd like to just very quickly summarize what we're suggesting as the required attachments or data input in Section D, which we have not covered in detail.

Skipping past the (1) and (2), which are our usual information, number (3) was a concern for us, and it shows up in other paragraphs, and it deals with this offset operatorship that Mr. Kellahin just brought up. We do not feel that that is necessary, or at least we don't understand why it's necessary.

So we would suggest not requiring that in downhole commingling, which of course changes some of the format of the other issues.

(3) dealt with a plat that was required, which required all the offset operators to be included on it. We're suggesting that we only send a Form C-102, the acreage dedication plat, showing the acreage to be dedicated to the well.

(4), we concur -- In number (4) there, we concur

with the Division that in these cases, all of the interest owners -- working, royalty, override -- must be involved in this process. We have consistently done that, even without it being required.

(5) is a statement about fluid compatibility. We feel like that in most of the pools in our state, once we've done compatibility tests between pools, they should be consistent for the most part and that this is not necessarily needed with every Application. Once it's been documented, that should be sufficient.

There may be some exceptions to that, and we've provided in the language here that if there are exceptions, that can be dealt with.

Number (6) is really the heart of the whole thing. You're going -- If you compare this to the other rule, you may be amazed at how much of the specific requirements we did not include.

But we feel like item (6) here, which calls for a formula of allocation and a description of the factors or data used, draws in any of that data or information which the Division or the industry is going to have to use in order to arrive at a formula. But instead of having a rigid list that may or may not apply in every case, this simply says we're going to have to furnish enough data in order to convince everybody that it's -- the case is

needed. So we feel like this item right here really covers most of that.

Then simply in (7) a statement about the value or the added reserves that we hope to recover.

And then (8) is the notification which also added the Commissioner of Public Lands to it.

I think we've covered most of the other items.

Q. All right. How would you like to proceed, then, with regards to providing the Commission with a finished consensus document on a proposed rule change?

A. We would like the opportunity to -- Although we've had about four companies involved with this directly, and some others indirectly, we would like the opportunity to get further input from the industry as well as the Division on our basic document, and come back hopefully with a finished document at the next hearing.

MR. KELLAHIN: That concludes my questions of Mr. Hoover.

We move the introduction of his Exhibits 1, 2 and 3.

CHAIRMAN LEMAY: Without objection, Exhibits 1, 2 and 3 will be admitted into the record.

Questions of Mr. Hoover?

Commissioner Weiss?

COMMISSIONER WEISS: I have a couple.

EXAMINATION

BY COMMISSIONER WEISS:

Q. I'm not familiar with how the industry currently documents crossflow between zones, such as number (2) in your C (2) here.

A. It has been rather legalistically controlled by a pressure limitation.

The current Rule says that there may not be more than a 50-percent variation in the pressures. Sometimes that controls the situation, sometimes that's not really all that significant.

And particularly in the northwest, in all these tight-sand reservoirs, commingling -- I mean crossflow, is not a big issue unless you're going to shut in a well for a year or an extremely long period of time, which we're not allowed to do anyhow, without some action.

So we feel like it's not generally a big issue. It's one we need to speak to and we need to address and convince everybody that it's not a problem. But we've done it in a different way than saying this one parameter is the key control of that, because it's not always the entire issue.

Q. But there's no measurements required?

A. Not up front. We still have to satisfy these concepts dealing with crossflow, which we've put in here,

and it may take some measurements in some cases to do that.

Let the case determine what data is needed, is the way we're looking at it.

Q. And then in number (5), how is that handled? How do you physically present evidence that says that you're not going to jeopardize future secondary recovery operations?

A. That's difficult to answer without a specific case. I mean, it's likely to be different --

Q. Can you give me an example of a specific case?

A. I don't know that I can, off the top of my head.

Q. Well, my point is, I wonder why we have these things in there. Nobody pays any attention to them. We don't measure anything. Why do it?

A. Well, I think it's something that -- I do think it needs to be in there, and I think it is a concern. I just don't happen to have a case on the top of my head right now that I can present to you.

COMMISSIONER WEISS: That's my only comments. Thank you.

CHAIRMAN LEMAY: Commissioner Bailey?

EXAMINATION

BY COMMISSIONER BAILEY:

Q. You reference Form C-103, Application --

A. Yes.

Q. -- notice of intention --

A. That's the sundry notice.

Q. To what?

A. That's the sundry notice.

Q. Oh, okay. that's all.

A. The one we use so much with the District.

EXAMINATION

BY CHAIRMAN LEMAY:

Q. Mr. Hoover, I guess I have some of the same concerns that Commissioner Weiss has.

The C item, following conditions are met, and yet there's no reference to the 50 barrels a day max fluid, no reference to the crossflows being controlled by one zone having no more than 50-percent pressure differential from the other zone, and I'm reading this as saying that there are no standards that you want us to have in the rules to be met, that you will somehow meet some nondefinable standards.

I mean, if we can't set those standards up somehow as a default standard that you can argue with, I don't see any standard in there that you're presenting that would be a regulatory standard at all. It's just kind of, Hey, trust us, I think we'll -- we won't crossflow zones. But --

A. No, I think if there's a question about

crossflow, you know, we may have to present some modeling, we may have to present some data. You can require that under this regulation, depending on what the circumstances in the case are.

We have found in many of our recent commingling cases that we've brought to the Division, that a lot of these, what have been absolute standards in the past, are not holding. And the Division has in many cases agreed with us that even though we cannot meet some of those standards, that it still was legitimate to downhole commingle.

We're finding that they have not, in this day, been the absolute standards that they may have been at one time.

And so we're saying if they don't apply in all cases, then why don't we consider each case on its own merits and its own problems?

Q. Well, maybe we're getting -- trying to get -- There are different ways. What you're saying is -- what we've said too, or at least the Division said, Let's move this to the administrative approval method, which means if certain conditions are met we'll get that real quick.

Then you're coming back and saying, Yes, but why don't we take each individual case as a unique situation? And that would almost say that's still available -- if you

don't have the standards met, you can always come and have a hearing.

And we've had those cases at the Commission level, and I remember one specific case in the San Juan Basin where the pressure standards weren't met, but the reservoirs were tight enough, offset operators didn't object, and you had yourself a case where that was granted.

I have a problem with trying to create a unique situation on every administrative application, because we're not talking about any standards, as I see it.

A. Well, we feel like the concepts expressed here -- they may sound rather bare at first, but we feel like they're fairly broad in their concepts, and they do provide a lot of control.

It just doesn't tell us specifically in every case what should be the determining factor.

Q. But what control? I don't see a standard in here on C. I see broad language that says certain conditions will be met. What conditions? No significant crossflow will occur. How do you know it? What condition has to be satisfied so that no crossflow will be met? We don't have that here.

A. We're going to have to satisfy you that there will be no crossflow which will result in a loss of reserves or --

Q. Well, let's take it one step further. How do you satisfy us?

A. It may -- You know, we do a lot of -- a lot of easy, quick modeling, which gives us a good picture of what's going to happen in the wellbore. That's easy for us to present. That's one way of doing it.

Q. Do you have an example?

A. We presented examples last week in our hearing, when we came, of that exact thing, and spoke about the crossflow. And yes, there was a little crossflow. We showed how it was really not significant and that we would not -- felt like we would not lose reserves. In fact, we're going to gain reserves through the process. That was our main argument last week in here.

Q. But isn't that the place for arguments like that, if you do it on an area basis, a regional basis? You have one hearing and you show characteristics of the reservoir, among two reservoirs or three, that even with significant pressure differential you won't get crossflow, you won't lose reserves. Then you have your case there for one large area. But you present it to a hearing examiner, the evidence for that.

This other way, as I take it, you're asking an administrative approval at the District level for something that might be fairly involved scientifically.

A. That's right, and we would expect to present that data along with the application if it's required.

Q. Well, you can see our concerns. You're --

A. Yes.

Q. -- it's like you're saying -- We're trying to simplify the process, say, if certain conditions are met, you can come to the District Office up here, get quick approval.

But then on the other hand you're saying, Yeah, but we've got a unique situation. We'd sure like quick approval, we'd like it easy. But each condition is unique, so it may require some study and some information. We don't have any standards at hand, we don't have any default position. We'll just look at each case as a unique situation.

A. There are going to be a few cases where, yes, it's going to take a lot of work. But we hope that this process set up like this is going to release all those very simple cases which there probably would hardly be an questions about, should not be quite so involved.

Q. Well, if there's something in the record -- Let me give you a hypothetical example.

If in an area you've come to at least the Division level, presented evidence before Examiners and gotten approval to commingle Pictured Cliff and Mesaverde

gas in a wellbore, or, what's more common, maybe Fruitland and --

A. I see.

Q. -- and coal seam gas, I mean the PC and Fruitland Coal seam -- There's been a lot of record established on that, and possibly a reference to that record might be sufficient for administrative cases.

But if each case kind of has to stand on its own without a reference, without some body of evidence and certain conditions met, it becomes almost too arbitrary. I don't see how we can work within a system like that.

A. Well, you know, we feel like this provides the mechanism whereby, if a case does not fit some routine situation that it, obviously very quickly be passed on up to the Division and probably to a hearing, and full disclosure of lots of data would be forthcoming in that case.

But we're having so many now that are truly routine. I mean, you know, we've done hundreds of the same type of thing. And this certainly will help, not to have to provide such a long laundry list of information and data for those types, and we feel like there's adequate safeguard here to separate those and the concepts that are presented in the Rule.

Q. Well, how many of those do not meet the current

requirements? I mean, all those hundreds you're referring to, most of them -- What? 80, 90 percent meet the qualifications of --

A. They probably do. That's why it seems --

Q. -- of the pressure and fluid --

A. -- redundant, you know, to just keep filing stacks of paper.

Q. I -- Yeah, I would maybe tend to -- If they meet those standards.

A. Yeah, most of them do.

CHAIRMAN LEMAY: Commissioner Weiss?

FURTHER EXAMINATION

BY COMMISSIONER WEISS:

Q. You know, as I look at this and listen to you, the only meaningful condition here is number (1), and the rest is all stuff that somebody's going to -- can argue over.

I fail to see how you can argue over whether you're going to shut a well in because it only makes 25 MCF per day or whether you can keep it going if there's another zone that, mixed in, you can get 35, or whatever the number is.

If whoever the regulatory person is says, well, wait a minute --

A. We felt like the critical issues here were the

crossflow and the ultimate-recovery-of-reserves issue. The fluid compatibility thing is a critical barrier that, you know, we certainly can't get rid of, we need to deal with. And those concepts, in our minds, seem to cover the most -- the major concerns.

Q. Well, I guess if I wanted to cut down the paperwork, I'd only have number (1) and let the regulatory person ask the questions, and then be prepared to answer them. And if the regulatory person has seen the same thing a hundred times in a row, it's unlikely he's going to ask about crossflow.

A. Well, possibly not. But I think we certainly need to volunteer justification on some of those.

COMMISSIONER WEISS: Just a comment. That's all I had.

FURTHER EXAMINATION

BY CHAIRMAN LEMAY:

Q. Nothing in here addressed the shut-in. What happens when you shut a well in that's commingled? For how long a period of time? Where's the correlative-rights issue? The waste issue, basically?

A. Are you talking about in a well in which there may be crossflow? Is that what you're referring to?

Q. Well, I don't think you can say there won't be crossflow, will you? I mean, can you actually -- When you

have an application can you come before us and say, There won't be any crossflow between those zones?

A. Typically in the gas zones northwest, there's going to be some small amount of it, that's true. But they are so tight that you're going to have to shut in for an extremely long period of time, and by that time we're going to have to respond to the State and everybody else about why it's shut in and do something about it.

Q. Well, we're talking in long-time with some small -- We have no numbers, no times. You know, that's what we're trying to do with our rules, is say 50 barrels a day, 50-percent crossflow -- a week? Is that too long? Two days too long?

A. It may take you a year or two to see reservoir pressure in some of those pools, to see true reservoir pressure.

Q. But see where I'm getting at? If you have numerical standards, you can vary from those standards by showing the exception will not cause waste, will not violate correlative rights.

When you come and say, Well, we will not have any significant crossflow, we won't leave the well shut in for any prolonged period of time, doesn't that take it from a refutable default position to, Hey, we'll kind of do the right thing out there because we've got some wishy-washy

language that we won't hurt anyone?

A. No, I think we're obligated to show you why that won't happen, technically.

Q. But you just said you can't say how much crossflow will or will not occur? You just said a little bit of crossflow probably will occur.

A. Oh, I think we can show that.

Q. Isn't it more defensible from your position to say, We've complied with the numerical standards of a regulatory agency, than coming, if you have a case, whatever it may be, correlative rights, waste, and say, Well, we kind of did the right thing there, we -- you know, they kind of told us it was okay because the chances are, there wouldn't be any crossflow, or very little?

A. I think we've committed to try and satisfy your concerns on the crossflow issue.

Q. Our concerns are numerical standards; that's what I'm trying to say. And there's no numerical standards, no numbers in this thing at all.

There's a difference, and I think when you look at regulatory -- good regulatory anything, laws, rules, regulations, if you end up with something that's too loose or too wishy-washy, you really don't have anything. Then you get two people arguing, Well, I think, you know, there'll be crossflow. No, I don't think there will be.

You have to satisfy me. Well, that District Supervisor down there was a hard-nosed guy, and he wasn't satisfied, but go to the guy in Aztec, you'll satisfy him easier, or vice-versa.

You see? If you have a numerical standard you say, We meet the numerical standard. Or we come before the Commission to show that by exceeding the numerical standard we will not cause crossflow. Do you see the difference?

A. Yeah, those are obviously technical questions that we're going to answer for ourselves, and we're going to have to provide that justification to you too.

Q. Can you provide them in the suggested rules?

A. Then you draw in those other 80 or 90 percent of the applications which that's not even an issue. They all have to meet a certain standard. And then you end up in hearing with all of it.

Q. No, I'm saying that if you have these numerical standards, how many times are you looking for an exception to the numerical standards that you'd like to see commingling granted?

A. Well, it's becoming a more increasing issue than it has been in the past.

Q. But then don't you do it once on an areawide hearing? Like you said, you went in and -- Hey, we don't have any -- we've proved no crossover between these two

zones over three townships. Any well in those three townships, you've got automatic commingling authority? You do it once with the record?

A. We're looking those directions. We don't have many orders back from the Commission showing that that's always going to work.

Q. Is that a possibility?

A. I would hope it is.

Q. So then you could still work with numerical standards here, with areawide commingling authority, and have a record to justify that areawide commingling authority, rather than being a successful negotiator with the District Supervisor?

A. Possibly so.

CHAIRMAN LEMAY: That's the only questions I have.

Any additional questions?

Mr. Carroll?

MR. CARROLL: Yes, the Division has a few additional follow-up questions.

EXAMINATION

BY MR. CARROLL:

Q. The first one is a follow-up to a question Mr. Weiss had, and I'm referring to C (1) and the alternative conditions contained in C (1), particularly the second

added alternative condition.

Now, the first condition necessary to permit a zone or zones to be produced, which would not otherwise be economically producible, that's pretty much a current standard?

A. That's correct.

Q. And then you're adding, "or result in the recovery of additional reserves through more efficient and economical operation"?

A. That's correct.

Q. Now, by the nature of downhole commingling operations, operating expenses are reduced, thereby extending the economic life of the well, thereby increasing ultimate recovery.

Under that standard, couldn't -- or under your proposed language, couldn't any well drilled or existing in the state qualify for downhole commingling?

A. I don't know that I would make that broad a statement.

Q. But you could -- It seems like you could read it that way?

A. This was aimed to deal particularly with a lot of undrilled locations that simply cannot be justified any other way, and we cannot say, absolutely in every case, that we can declare it uneconomical.

But we can say, with a lot of fact, that we will cover a much larger volume of reserves if we can operate initially this --

Q. Do you agree that that alternative condition is open to a great deal of interpretation as to exactly what it means and what it could mean?

A. It really had not occurred to me that you could take that broad of an interpretation.

Q. In the top paragraph, in the paragraph C, how do you address allocation of production in proposed wellbores?

A. Well, of course that allocation has to be done after the drilling of the wells and after they're tested. And our proposals to the Division in such cases has been, once we have -- as we've completed each zone, we'll test it and we'll get together with the Division or the District Office, whichever has been designated, and we will agree on an allocation formula for it.

Q. And the last question we have is, what is the basis for using the depth bracket allowable for the upper zone as the allowable for the commingled well?

A. Well, it was the more conservative of the choices, to use the upper zone as opposed to the lower zone, which might be a larger allowable.

MR. CARROLL: That's all the questions I have, Mr. LeMay.

CHAIRMAN LEMAY: Just one more.

FURTHER EXAMINATION

BY CHAIRMAN LEMAY:

Q. If you had two zones, and I can think of a couple fields in southeast New Mexico -- Bagley is one, but up in the Tatum Basin we have Pennsylvanian and Devonian oil, Pennsylvanian 10,000, Devonian 12,000 feet -- under your scenario you could commingle those zones and get the Pennsylvanian allowable of 200 barrels a day, 300?

A. Yes, the lesser of the two.

Q. Which certainly exceeds the 50 barrels a day.

A. Yes, it does, and that is one of our problems.

This is really one thing we're concerned about, because we're finding, just as our discussion about this number (1), that many of these wells, we're going to be able to anticipate the recovery of many more of the reserves and to be much more efficient in our recovery if we can get to those wells sooner than what this allows, to where we're down -- you know, the wellbores are getting older, they're getting more problems, we're going to lose more of the wellbores if we always have to wait till the very end of the life of the well.

So we're finding this may be a more efficient approach, is to get to them a little earlier in the life of the wells, when they're still in good condition.

Q. I guess I could visualize that in the San Juan Basin, with long-life gas production.

How about short-life Bough C production and Devonian water-drive production?

A. I'm not familiar with that particular pool.

Q. Well, according to the way these rules are -- That's why I asked the question.

You could commingle Pennsylvanian gas solution, Devonian water drive, have 200 barrels a day allowable, and call that a commingling operation that would be -- protect correlative rights and prevent waste.

A. I'm not familiar with those two, so I really can't speak to that.

Q. Well, I'm just looking for applications of your proposed rules and how they would apply both in the northwest and southeast. Your example certainly fits gas reservoirs.

A. And it fits many of our oilfields in the southeast too, which go on 20, 30, 40 years, some of them, especially --

CHAIRMAN LEMAY: Any other questions of the witness?

MR. KELLAHIN: Couple of follow-up questions, Mr. Chairman.

CHAIRMAN LEMAY: Mr. Kellahin?

FURTHER EXAMINATION

BY MR. KELLAHIN:

Q. Was the Committee able to ascertain the scientific basis by which the current Rule's numeric standards are in the book?

A. No, we're not aware of what precipitated these particular standards or why they are the standards.

Q. Are you or, to your knowledge, any of the engineers on the study committee, aware of whether there is a rational scientific basis for the existing numerical standards in the Rule?

A. We're really not aware of those.

Q. Is there any particular scientific basis or understanding about the limitation of production in a commingled fashion, as identified in the current rule? For example, if you're at less than 5000 feet, it's 20 barrels of oil a day?

A. I don't know whether that was an arbitrary thing. I suspect initially it was an attempt simply to draw in those wells very late in their life, to keep them from being shut in, you know, and to be able to extend that late-life production.

But we're finding more and more with our technical study that we feel like we can maximize our recoveries from these pools more if we can come in earlier

than that.

MR. KELLAHIN: Okay, I have nothing else. Thank you.

CHAIRMAN LEMAY: I have one follow-up to your follow-up, Counsel.

FURTHER EXAMINATION

BY CHAIRMAN LEMAY:

Q. Would you say that a rebuttable standard should be what's in the current rules, even though -- It may be arbitrary, but wouldn't any other number that came up that was not defendable be more arbitrary because -- I mean, where are we here? We have numbers, and don't we have to assume those numbers are the best available until proven otherwise, rather than have to defend those numbers versus other arbitrary numbers?

A. May I ask for a clarification? "The numbers" we keep talking about, are we --

Q. Fifty barrels a day, that's what we're talking about.

A. Okay, we're talking about the 50 barrels a day and the pressure --

Q. Yeah.

A. -- those two numbers?

Q. Okay.

A. I certainly feel there's adequate justification

for doing something with the oil. Pressure may take some more negotiation and thought on our part.

Q. My point is, shall we throw out 50 barrels a day because it could have been arbitrary? I mean, attacking the 50 barrels a day without having another number that's scientifically defensible?

I've been here a long time. I don't know when it came on.

A. Yeah, I don't --

Q. Somewhere back there, someone gave some kind of a presentation, 50 barrels a day is a good number. And then what I'm hearing now is, well, 50 barrels a day -- I mean, throw it out because it's probably arbitrary.

But what number are you going to put in its place? Don't you have to defend that number you put in its place? Or have no number?

A. I don't know. You know, we have given a number. It's obviously higher than the one before, we talked about an allowable.

Q. Right.

A. Perhaps this needs some further study.

I think we definitely need something higher than the bracket that was in the original rule.

Q. Why?

A. Because we've got to wait for these wells to

almost, you know, deteriorate on us before we can get to them.

And besides, when you commingle at that point, we're not going to recover near as many of the reserves, or have near as efficient a recovery if we wait that late in the life of many of these wells. So --

Q. I guess when we're getting up to the allowable, you're leaving reserves in the ground for two wells that will make the allowable on the uppermost zone?

You have 80 barrels a day, let's take that as an example. That's our top -- That's the number that replaced 50, as I take it, for shallow commingling.

A. Okay.

Q. So you're adding 30 barrels a day to the number. And that's just oil. We're not talking about water now. We're talking about before 50 barrels of fluid.

A. Uh-huh.

Q. You could technically have, I guess, according to this, 80 barrels of oil and 200 barrels of water, and that would qualify for commingled -- or any amount of water. There's no -- Water's not addressed in here. Total fluid isn't addressed, is it?

A. No.

Q. Do you see the problems that we're talking about here? We're talking about a number that may be very, very

high. We don't even define it. We define the oil, we define it as a top allowable, and we're saying it should be higher, but -- Why should it be higher? Because there may be reserves left.

How many wells do you know of that 80 barrels a day from one zone is wasteful because you have to produce it separately from a shallow aquifer?

A. Well, of course the 80 barrels would cover all -- would cover the combined --

Q. -- all commingled zones?

A. Yeah, all commingled zones.

Q. Okay. Yeah. I mean, you might have three or four or five zones making 80 barrels a day.

A. We just feel like there are going to be many -- there are many cases where we can be more efficient in our recovery if we can start earlier in the life.

Q. The majority of cases you bring before us, what percentage exceed 50 barrels a day of fluid that we have -- that you want commingling authority on?

A. I don't know that I can give you a percentage. They're increasing in number, I do know that. I don't have an exact number to give you.

CHAIRMAN LEMAY: Thank you, that's all I have.

MR. KELLAHIN: I'd like to continue the discussion on this topic with a reservoir engineer who has

dealt with this extensively, Mr. Scott Daves with Meridian.

CHAIRMAN LEMAY: All right.

MR. KELLAHIN: He resides in Farmington. We'll call him at this time.

CHAIRMAN LEMAY: Thank you.

SCOTT B. DAVES,

the witness herein, after having been first duly sworn upon his oath, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q. Mr. Daves, for the record would you please state your name and occupation?

A. My name is Scott Daves. I'm a senior engineer with Meridian Oil, and --

Q. And where do you reside?

A. In Farmington, New Mexico.

Q. When and where did you obtain your degree in engineering?

A. I graduated from Colorado School of Mines with a degree in petroleum engineering in 1987.

Q. Within the current context of your duties at Meridian, have you been involved in a personal way on a professional level with commingling applications by your company in the San Juan Basin?

A. Yes, I have.

Q. As part of that effort, have you made presentations to the Division Examiners on numerous occasions that dealt with that topic?

A. Yes, I have.

Q. And as a result of your efforts, has the Division Examiner accepted allocation formulas that dealt with combining Pictured Cliff with Fruitland Coal sands -- coal seam gas and Fruitland regular sand production?

A. Yes, I have.

Q. In fact, you've been involved in a great many cases where you've examined the issues of pressure differentials, allocations of productions and the various topics that we're talking about now?

A. Yes, I have.

MR. KELLAHIN: We tender Mr. Daves as an expert reservoir engineer.

CHAIRMAN LEMAY: His qualifications are acceptable.

Q. (By Mr. Kellahin) Let's deal with the concept. The existing rule has got some default limits in it --

A. Uh-huh.

Q. -- for which apparently no one knows why they're there and whether there's a scientific basis for those numbers; is that a fair characterization?

A. Yes.

Q. All right. Was it the intent of the engineers on the Committee to remove default arbitrary rules in the existing commingling procedures and to substitute a regulatory criteria whereby the applicant would be required to submit definitive proof, in whichever engineering and scientific discipline was most appropriate, to satisfy the ultimate conservation criteria of prevention of waste and protection of correlative rights?

A. That's correct.

Q. That's where you were headed, right?

A. Right.

Q. Let's talk, for example, of what it means when you as a reservoir engineer are filing an application and you are addressing the issue of crossflow.

Is it of significance to you that 50 percent is a benchmark in the Rule now, in terms of --

A. Not necessarily, no.

Q. Forty percent?

A. It's typically going to depend on the reservoirs that we're discussing, the situations with the reservoirs and why 50 percent or any number would be important, primarily because there are ways to allocate production to address crossflow issues, straightforward, either through simulation, material balance methods, decline curve analysis.

I mean, the tools are out there to where crossflow is probably not an issue.

Q. If the engineer on staff at the Division, the regulator --

A. Uh-huh.

Q. -- if his ultimate responsibility is to minimize crossflow --

A. Uh-huh.

Q. -- or accept crossflow so long as equity is not disturbed, if he achieves by approval increasing ultimate recovery from the reservoir --

A. Uh-huh.

Q. -- then the criteria by which he makes that decision should be based upon the best available science the applicant provides?

A. Correct.

Q. And when we look at a particular reservoir, what would you as a reservoir engineer submit to the regulator upon which to provide definitive proof that those issues were addressed properly and correlative rights were not compromised?

A. That's -- That was the spirit of item D (6), is that a formula for the allocation of production, to each of the commingled zones -- Okay, we've presented this at numerous hearings, that piece, and a description and

everything that we follow along there with, and this -- It is broad, but it does cover whatever reservoir we're talking about, or reservoirs, a description of the factors or data in determining such a formula.

Like I say, you could default back to reservoir simulation. It could be something as simple as material balance in a gas well. It depends on the set of reservoirs and the set of circumstances as to exactly what you're talking about.

Q. All right, let's go through an example. You and I have done a bunch of these.

When we look at the economic criteria of the current rule --

A. Uh-huh.

Q. -- and you're coming in and you've got a Dakota well, an existing Dakota wellbore, which you want to add on a commingle basis the Mesaverde --

A. Right.

Q. -- what do you do to satisfy the Hearing Examiner about the economic criteria that at least one of those zones must be uneconomic? What do you plot and how do you do it?

A. We describe the costs that are involved with most likely either a dual completion or a single well. In this case you would be drilling a new Mesaverde well. You would

assess what the reserves are, primarily off offset data, which in the San Juan Basin is fairly sound. And then you would make that determination, is that -- given all the circumstances, is that proposal economic?

And then if it isn't, then you're faced with how else -- what other alternatives can I do, and are they sound? Is that a right approach, or do you just default and move on to the next project?

But if the other criteria that are out there are the fluid-sensitivity issues, are they addressed, that's probably, in our opinion, a more important issue in that, would you damage a reservoir by doing something like that?

And if you said to yourself that you could prove through technical studies and water-compatibility studies and what have you that it is all right, that you can commingle that, that the fluids produced would not damage one another, then you go about looking at the Dakota formation in this case, and you would have proration data, you would have pressure data, you would have the data you would need to either simulate or do material-balance work to identify exactly what those Dakota reserves are within reasonable certainty.

And from that point on you could, in fact, allocate out exactly what the Dakota would be every month through the life of the well, all the way through the life

of the well, until the Dakota zone is actually technically abandoned. And whether crossflow occurred or not through the Dakota, you have actually, using technical standards, allocated those reserves properly.

Q. And in fact, that's what we've often done in presentations before the Hearing Examiner for which those applications have been approved?

A. Exactly.

Q. Okay. And what you're talking about is taking that information, writing a summary --

A. Uh-huh.

Q. -- attaching the calculations, the plots of economics --

A. Right.

Q. -- showing the decline curves, putting that in an envelope and moving it towards an administrative approval process?

A. That's correct.

Q. All right. When we look at how to allocate production and/or achieve an economic threshold, we often plot items of cumulative gas production --

A. Uh-huh.

Q. -- in addition to rate?

A. Right.

Q. Describe for the Commission in a summary fashion

how we address that issue. For example, we may have zones separately tested --

A. Uh-huh.

Q. -- each of which would have an initial rate that was well above what might be characterized to be uneconomic?

A. Uh-huh.

Q. And yet you as a reservoir engineer can calculate over time that despite the high rate, in a very short period you're going to have a small cumulative gas production recovery from that wellbore?

A. That's correct.

Q. And using those two components as criteria for approval, you've achieved approval, have you not?

A. That's correct.

Q. All right.

A. In fact, we've testified in those types of cases.

Q. Isn't that a better way to go about achieving commingling approval than to simply go down by rote and check off an arbitrary sheet on what is supposed to be sent in, in terms of pressure or rate?

A. That's correct.

Q. Describe for us how you go about the allocation process, then. I think a quick example might be conventional PC commingled with coal gas. Show us how you

do that one.

A. Typically, what we have testified to in the past is -- the basic formula is the total production minus the known production over the allocated production, in the case of the Pictured Cliffs or Dakota, minus that amount gives you the production from the other zone, and that's worked quite well with the Fruitland Coal.

It would work equally well with the Mesaverde or the Gallup or any of those formations within the San Juan Basin, with known standards.

Q. When we talk about adding an additional method for approval, which is to allow the approval to increase ultimate recovery, even though both zones may have not reached an uneconomic threshold, that is your proposal within this Committee for inclusion for approval?

A. That's correct.

Q. Describe for us what you're thinking.

A. Typically, given pipeline pressures in the San Juan Basin, the reservoirs would deplete at a certain rate, and then as they near the pipeline -- as the reservoir pressure nears the pipeline pressure, you're going to run into production problems that will basically at some point render the well uneconomic.

By being able to commingle and capture the additional production, you're typically faced with a new

set of production levels that would allow you to compress the well. That's a typical example of where you would be able to extend the life out considerably over dealing with pipeline pressures.

And where that really becomes an issue is in cases where your wellbore integrity is going to become a problem further on. That gives you the economic incentive to maintain those wellbores considerably longer than you would otherwise.

Q. Are there examples that have been presented where each zone is still economic but one or both zones produces sufficient liquids to give the operator difficulty in unloading the well and producing the liquids and the gas?

A. Yes.

Q. That would be a situation where you can't achieve commingling approval in the administrative process, isn't it?

A. That's correct.

Q. And yet to have it denied or have it go to a hearing compromises ultimate recovery, doesn't it?

A. That's correct.

Q. Describe for us what you achieve in a wellbore that's exposed to a liquid-loading problem that you can remedy if you're allowed to commingle and then lift the combined stream of hydrocarbons and fluids.

A. That follows very much along the same lines that I was talking about by allowing yourself an additional lift.

Another example would be a Dakota-Gallup commingle where there's no economic way you could -- or there might be an economic way where you could pump off a Gallup well, yet you're producing fluids from the Dakota, so you're faced with a dual completion in which the physics of that wellbore would not allow you to adequately lift both fluid columns.

So by leaving a single string of tubing and putting the well on compression or on a pumping unit, you're actually able to do that, whereas otherwise in a dual configuration there's no possible way you could do that.

Q. Within the regular course of doing your business, as well as other reservoir engineers for their company, isn't it a matter of rather routine engineering to develop the summaries, the narratives and the displays, as well as the data to support approval for downhole commingling?

A. Yes.

Q. Do you see any reason to come to a hearing to accomplish that when you could simply submit it in writing in an administrative application?

A. No, I -- No, I think that the Division people and

the District people are very sophisticated in how they look at these, they've seen enough examples to where they understand what's going on, and they know what data is out there and what data is required, and that that doesn't preclude them from asking additional questions as in a hearing setting or asking for additional data as in a hearing setting. It just eliminates the hearing setting itself.

Q. Under the proposed industry rule, then, the regulator always has the prerogative to set the matter for hearing?

A. That's correct. I think we stated that through items E (1), (2) and (3), to where if it just cannot be resolved, if the data -- if it appears to the Division or the District Supervisor it's not adequate, that you can call the hearing and default that out.

Q. Under this proposed industry rule, can the regulator ask for more information?

A. Yes.

Q. Can the regulator simply deny the application?

A. Yes, if he feels that the issues that are out there -- and probably the key issues still are a statement of fluids that are involved -- would create a damage situation within the reservoirs, then he has that option to deny it.

Q. If the flexibility of the procedure allows the applicant and the agency to handle these kind of issues in an administrative way, is that not more efficient for you as well as the agency?

A. Considerably.

MR. KELLAHIN: I have no further questions of Mr. Daves.

CHAIRMAN LEMAY: Questions of the witness?

Commissioner Weiss?

COMMISSIONER WEISS: Yes, I have a couple of questions.

EXAMINATION

BY COMMISSIONER WEISS:

Q. Typically, how does Meridian address this issue? Do you use simulation, material balance, or do you use decline curve analysis?

A. We approach it, depending on the set of circumstances, with any of those or all of those.

Q. Okay, typically?

A. Typically, material balance is the preferred method, and then decline curve analysis.

Q. Okay, so you might say that's one and two, huh?

A. Uh-huh.

Q. And then typically, what's the recovery factor when you come in for a commingling permit? How much -- Are

you late in the life of the reservoir?

A. Yes, typically these are -- while not, quote, salvage, they're near-salvage operations.

Q. So you've made 90 percent of the production or something?

A. Typically, right.

Q. Well, bearing that in mind, material balance, which is fine, or decline curve, which, as I suspect, a lot of people would use --

A. Uh-huh.

Q. -- why not write that in here for C, under (1), show a decline curve, then your typical recovery factor, and then, you know, a blind man with a stick could see that -- So what? You know, whether you did or not, it's not going to hurt much. For engineering purposes, if a person's worrying about future reserves, well, if you've already covered 90 percent of them --

A. That would probably be a good example of one that -- a formula for the -- going back here to D (6), a formula for the allocation, yeah, that would be your decline curve, and you would describe those pieces that are involved.

Now, if you come up with a decline curve and you're using more than just decline curve analysis, then you would address those issues in there.

Q. I think that might answer some of the

Commission's concerns about specific -- you know, 50 barrels or 50 pounds or something.

A. Uh-huh.

Q. If there's something -- This, to me, is all touchy-feely, frankly, and -- I don't know, you can say what you want.

A. Uh-huh.

Q. But what you're saying is real, and I think that perhaps should be included in the Rule.

A. There may be cases on a new drill proposed type well where we've testified in these before, where that decline curve that you would put out there -- I mean, what is the basis for putting a decline curve on a new drill well where you have no idea --

Q. I don't see how you could ask for commingling on a well before you drill it, especially up there.

A. A typical case would be where, say, a Pictured Cliffs initial 160 was abandoned, okay, either through the life of a well, or they drilled it, they tested it and they walked away from it. We've done all of those cases.

Okay, now you have a general feel for what the reservoir pressure is in the Pictured cliffs, true. So then with that -- Or you can test that directly and find out what the reservoir pressure is within that 160-acre proration unit, drill block, what have you. So you have a

good feel for what those reservoir parameters are, what those reserves are.

Okay, now, you have no idea with the Fruitland Coal that you would propose to commingle it with. So what you do have is, you have some data, you have offset data, you have other pieces that you can test and allocate an initial production point from.

But to go in and give a straight-out decline curve without that data actually testing the reservoir, looking at the log characteristics, the reservoir pressures, those kinds of things, you have no idea what those reservoir conditions are until you've actually tested that reservoir --

Q. That's a good point. As I recall, I remember --

A. -- we've testified on that.

Q. -- Meridian coming in here and requesting permission to drill deviated wells to get these abnormal pressure pockets 300 or 400 feet away --

A. Uh-huh.

Q. -- which is certainly within the area that you're talking.

A. Right.

Q. So let's just say that you forecast an IP of 250 MCF a day for your commingling exercise --

A. Okay, for the Pictured Cliffs?

Q. For whatever --

A. Okay.

Q. -- and it comes in at a million.

A. Right. Then what you would be dealt with there is, yeah, you have a million-a-day rate -- and we've testified on this too -- initially. But what you would ultimately have is a very steep decline within that reservoir, because if the reservoir pressure is only 200 pounds --

Q. Let's say that after the end of a year that steep decline is typically not there. I think that's a tough call. If you can sell it to them, great. But you'd have trouble selling it to me.

A. How else would you account for the reserves on a small reservoir, tight or moderately tight or normal sand-type conditions, that only has a small -- I mean, the physics and the numbers that would go into calculating those reserves are going to make it small simply because of the reservoir pressure.

How else could that reservoir have any more gas than what you've calculated it to be on that 160-acre drill block?

Q. Well, maybe the answer is, you know, if the well comes in at a million, you don't commingle it.

A. But your reserves are going to show you that it's

still uneconomic to produce it that way.

Q. Well, then when it gets down to where it's at that point, commingle it. Come in after that, in this administrative procedure. Is that not in the ballpark? Is that hard to do?

A. You're --

Q. I'm saying just complete the one zone, produce it, you get that, okay --

A. Well, then it would be economic, so you would have not really -- if you had enough reserves to make that well economic -- Do you see what I'm trying to say?

Q. Well, regardless of the reserves, just on the rate.

A. No --

Q. You can't --

A. -- we've been down this path before. You cannot have an economic wellbore just off an initial rate. A tight gas sand, a tight dolomite, will give you a tremendous rate initially, and then it goes on a rapid decline.

And yet you -- In order to do what you're talking about, you maybe only have 200 MMCF of total reserves left in that reservoir, so now what you're asking me to do is to come back out in a year and add that other zone where it really wasn't economic to stop at that point.

Q. You're saying that my scenario, where I want you to get a completion rig out there and do it again, is not justified if the reserves of the one zone is --

A. Correct.

Q. -- 200 million?

A. Correct. And we've testified on where those economic limits are.

And then you would go ahead -- Under the circumstances that I was talking about, you would go ahead and add the zone during your initial completion process. So you save yourself the rig moves and all the problems --

Q. Yeah, I guess you could sell that.

But no matter what, I like your examples and the way you present things much better than I -- I followed what you said.

A. Right. But you're leaving a lot of it -- And I understand, Mr. LeMay's concerns about standards, but how many reservoirs do we really have within this state? We have numerous reservoirs, numerous conditions, numerous fluids.

You've got to give some level of discretion to those people that make the decisions. One, the engineers that would propose it, you know, hopefully they're technically astute enough they're not going to want to go do something that doesn't make sense.

And the issues as far as fluid compatibilities, that's probably more of an issue, in my opinion as a reservoir engineer, than is the crossflow issue. The crossflow issue, there's technology out there to address those issues and to allocate fairly and to defend that as needed. But, you know, if I was to look at one of these cases and I recognize right away the fluid compatibility was not right, that's when I stop.

Q. Right, a prudent person would.

A. Right, and I think we all assume that.

So what we're saying is that the Division people and the District people are astute enough to recognize these issues too and to ask the right questions on the right reservoirs and the right combinations of reservoirs, rather than have a set of standards that really don't fit anything, per se.

You know, I mean, you're either forced with defining limits for every single reservoir out there, or you're leaving it to industry and the OCD and the District and the Division people to define those criteria, per case, you know, when we've gone through all these issues where we've defined them for specific examples, and those become very clear and then every single one after that is almost cookie-cutter in a sense, provided you meet those initial criteria of fluid compatibilities.

COMMISSIONER WEISS: Thank you.

CHAIRMAN LEMAY: Commissioner Bailey?

EXAMINATION

BY COMMISSIONER BAILEY:

Q. With the increase in primary recovery from the wells --

A. Uh-huh.

Q. -- through allowance of this commingling, what impact would you see on the formation of secondary recovery units? Would they be delayed to the point where there would not be enough reserves to make it economical?

I'm trying to make an extension. You know, what --

A. Right.

Q. -- impact is this going to have on these units?

A. Typically in a secondary recovery set of circumstances, given a sand or whatever, you're faced with several decisions. One -- And in some senses, they're economic decisions. Is it more prudent for me to forego commingling and go through a secondary recovery and model that accordingly? Are you with me on that?

Q. Yes --

A. Okay.

Q. -- you're --

A. Now, the other case that you have is, rather than

go through a secondary recovery flood and all of those type issues, what you're faced with is, could I as an alternative be able to commingle to allow additional lift or additional reserves that way?

You have two choices, or several choices, there. And really, you're going to look for -- and it's going to be in the State's best interest and really the operator's best interest to pick the right choice.

And you're not going to want to go do one over the other unless it really makes sense. I don't know if that answers your question or not.

But you may be set up with two different reservoirs that you could commingle and flood at the same time also. I mean, there's a myriad of choices that you could be faced with.

COMMISSIONER BAILEY: Thanks.

EXAMINATION

BY CHAIRMAN LEMAY:

Q. Mr. Daves, I have some questions here concerning some of the previous witnesses' comments, and I just --

A. Uh-huh.

Q. -- wondered, you mentioned -- there are some known standards -- Let's talk about the San Juan Basin --

A. Okay.

Q. -- because I think your experience there is more

than in the Permian Basin, isn't it?

A. Yes.

Q. Given that you -- Could you model some standards for various reservoirs in the San Juan Basin?

Agreed, if we have one default standard for all the State, that certainly doesn't fit each unique circumstance.

But if there's a case before the Commission and we have certain parameters, fluid compatibility between the Dakota and Gallup or whatever --

A. Uh-huh.

Q. -- and it's shown to be compatible, can you extend that, those standards, throughout the Basin or to a large area?

A. We addressed that -- I'm glad you asked that. We addressed that issue early in our discussions. And in looking at a Permian Basin-type pool, it's a small pool. It may be several hundred acres or several thousand acres.

When you look at the Basin Dakota or the Fruitland Coal Pool, they're enormous. They cover dozens and dozens of townships of land. And as you look at those reservoirs, and in Meridian's opinion, what we've done is, we've made studies where we know it makes sense to make that study, and we've stepped out gradually, looking at the boundaries.

So I think in here we talked about that, and that's part of those factors that would determine an allocation and whether it makes sense. I think we --

MR. KELLAHIN: It's in (5), isn't it, Scott?

THE WITNESS: Yeah, section (5) here. Because we were concerned about that as well. We didn't want pool -- wide-open rules for the San Juan Basin. That's insane.

MR. KELLAHIN: You're looking at --

THE WITNESS: Yeah.

MR. KELLAHIN: -- the second page, it's under D (5) --

THE WITNESS: Right, I think the part here --

MR. KELLAHIN: -- the top of the page.

THE WITNESS: -- that makes sense -- "Documented proof of compatibility is only involved in the first well requesting the commingling of the same combination of pools" -- this would be for southeast New Mexico, typically -- "provided that the characteristics of or the conditions in each of the reservoirs to be commingled are substantially the same as the documented compatibility."

I may be three sections away, but I'm referring back to the specific data where I tested it, and I'm confident that the reservoirs are continuous and the same issues are there.

Now, if I move 20 miles away before I did any of

that, I would want to know those cases, and then I would want to present the documentation as needed.

Q. (By Chairman LeMay) Well, we're talking about an administrative process for commingling --

A. Uh-huh.

Q. -- I don't think we're talking about something else --

A. Right.

Q. -- where we're trying to get some clarification as Commission members --

A. Right.

Q. -- as what cases can be approved administratively, and then referring to what standards for approval.

A. Uh-huh.

Q. I mean -- And if you have a standard in the record that says in these townships Gallup and Dakota fluids are compatible, wouldn't that be something that could be referred to in a commingling application, so you don't have to present all that again?

A. Exactly.

Q. In other words, establishing standards, reservoir standards?

A. Right.

Q. And those reservoir standards, how far they can

be projected -- You just said it varies, I guess. But at least testimony, I would assume, could incorporate how far you could project those standards?

A. Right. Would it necessarily need to be testimony, or could it be part of the data in an application, the first time?

Q. Well, the first time -- The advantage of a hearing the first time is, you do have the back and forth, you have a lot of experts, you have a lot of testimony --

A. Right.

Q. -- there's a lot of information that can be gained in the hearing process that can't be obtained in some kind of a -- I'd call it a negotiated settlement --

A. Right.

Q. -- with the District Supervisor.

But, you know, understand what I mean. That's a one-on-one discussion there that other people don't benefit by.

A. We recognize that, and part of the spirit of what we put in here in this E (1) through (3) is, let's say Frank Chavez -- we approached him with a commingle that we wanted to do, and he recognizes there's a lot of technical questions.

Well, he could defer it to the Division Director directly, right away, and then if the Division Director

isn't comfortable with it, then we do bring it to the hearing.

So we're allowing that process to occur, and I think it should occur. As we gain further and further understanding of the reservoir, that knowledge needs to be spread so that we don't make mistakes like that.

Q. Could you think of, as a reservoir engineer familiar with the San Juan Basin, a number of cases, four, five, six, that would combine most of the commingling possibilities that you would like to undertake in the San Juan Basin?

A. There's probably in the neighborhood of eight to ten.

Q. Eight to ten cases?

A. Yes.

Q. And that would probably cover all cases in the San Juan Basin?

A. Possibly.

Q. If you had eight to ten hearings and established that kind of criteria, then your administrative process, wouldn't it be easier than you're even suggesting here?

A. Uh-huh, yes.

Q. And you have a matter of record --

A. Right.

Q. -- and you could refer to the cases.

A. Yes, provided that case fit that criteria.

Q. Yeah. And then how would you know if the case fit that criteria?

A. That's a good question. From an engineering standpoint, you would look at the proximity initially, what that is, what your fluids are that you're looking at commingling, do they meet back to the same standards that were presented in the hearing prior to that?

Q. Would that necessarily be available at the District level, or would that be more in tune with what the engineers here in Santa Fe have?

A. I'm not sure how we store records within the State.

Q. Well, no, what I meant is, in terms of -- as operational procedure --

A. Right.

Q. -- I know your recommendation is to have this approved at the District level.

A. Right.

Q. But with test cases, a lot of that information is available here. It's not available at the District.

A. Right, okay.

Q. That was all.

A. Uh-huh.

Q. I mean, that's where I was coming from in that

question.

A. And there again, you know, maybe this isn't as clear as it could be, but what we're recommending here is that in those cases, that the District Supervisor is confronted with one of those cases, that he default that and we do bring it to hearing.

If he feels that the data's not there and that he's not comfortable with it, then that's probably a really good idea to bring it, either in the San Juan Basin or in the southeast part of the state.

Q. Okay.

A. I guess in a sense we're placing a lot of responsibility on the District Offices.

Q. That tends to be a concern that I would have, because a lot of that expertise is here.

A. Right.

Q. The case history is here.

A. Uh-huh.

Q. The experience with the Examiners is here. Unfortunately, the District Supervisors don't hear these kinds of cases.

A. Right.

Q. I'm not saying that they're excluded from that knowledge, but --

A. Right.

Q. -- you know.

A. Uh-huh.

CHAIRMAN LEMAY: Any other questions of the witness?

If not, he may be excused. Thank you very much.

MR. KELLAHIN: May I have just a moment, Mr. Chairman?

CHAIRMAN LEMAY: Do you want to take a quick break?

MR. KELLAHIN: No, sir, I think I can handle this --

(Off the record)

MR. KELLAHIN: Maybe we'd better have a five-minute break, Mr. Chairman.

CHAIRMAN LEMAY: Let's take ten.

(Thereupon, a recess was taken at 2:56 p.m.)

(The following proceedings had at 3:12 p.m.)

CHAIRMAN LEMAY: We're back with Case 11,353. Mr. Kellahin?

MR. KELLAHIN: Mr. Chairman, during the break I have discussed with members of our Rule 303 Committee their desires on suggesting to the Commission a method and a procedure for processing our request.

We very much appreciate the opportunity to have you consider additional rule changes within the context of

Rule 303.

And here's what we would propose: That the Commission take action to grant relief under certain conditions of the existing Rule whereby, if an applicant satisfies all the other conditions of the current rule but is required to come to a hearing because of a difference in ownership in the spacing units for the combined production, that he be permitted to file those types of cases administratively for approval, and that in addition you order a change in the notice rules whereby notice is no longer required to offset operators, and that notice is made to all interest owners, including royalty, overrides and working interest, within the spacing units for which they would share in the costs or the production from that wellbore.

In addition, we would seek to have you authorize this NMOGA Rule 303 Committee to meet with the appropriate Division personnel, representatives of the State Land Office, the Bureau of Land Management, and that we would report back to you at the September hearing with what we hope are a more definitive rule change, suggestion to you, whereby we have documented and supported for the Commission's review the documentation to satisfy these various issues.

I was incomplete in the notice. The notice goes

to the internal spacing unit owners only if the ownership is uncommon. It really wouldn't matter if there's common ownership, quite frankly, and so I wasn't clear in expressing to you the fact that notice needs to be in cases where within the spacing unit there is no common ownership in the two pools to be commingled.

That's our request, Mr. Chairman.

CHAIRMAN LEMAY: Fine. Commissioner Weiss?

COMMISSIONER WEISS: I have no comments.

CHAIRMAN LEMAY: Do you have any comments, any --

COMMISSIONER BAILEY: No.

CHAIRMAN LEMAY: I'd just like to suggest two things. I think the Commission will honor your request. But let's bring it back in October, and let's bring in some independents to -- It sounds to me like the group being NMOGA is fine, they have independents in there too, and I'd like to get that input as long as we're looking at some, I think, significant changes in some of the standards. And by the time you contact BLM and discuss it with staff, I think you'll need till October to get that thing ironed out. So --

MR. KELLAHIN: Those members of our Association would have been contacted and consulted with anyway, Mr. Chairman.

CHAIRMAN LEMAY: I recognize that, but in the

drafting stage, I think it's important that you have some representation there from the independents.

MR. KELLAHIN: Thank you.

CHAIRMAN LEMAY: So -- And as I understand it, you have no problem -- In fact, you're recommending that we implement parts of this as soon as possible, so take under consideration the testimony that we have to date, to issue partial rulings in this case.

MR. KELLAHIN: Yes, Mr. Chairman, that's correct.

CHAIRMAN LEMAY: Anything else? Anyone else have anything to say concerning this case?

Mr. Carroll?

MR. CARROLL: Yes, Mr. Chairman. If it would aid the Commission, I would -- There's been some question as to where the numbers in current Rule 303.C -- how they came about. I would ask the Commission to take administrative notice of Case Number 4104.

MR. KELLAHIN: That was before you were born?

MR. CARROLL: Close. And that's Order Number R-3845. There's about 30 to 40 pages of transcript in that case that sets up the scientific basis for the current numbers that are in Rule 303.C.

CHAIRMAN LEMAY: Thank you. I would pass that notice on to the NMOGA Committee that --

MR. KELLAHIN: We've got that transcript, Mr.

Chairman, chiseled in stone, and the tablets were too heavy to bring.

CHAIRMAN LEMAY: Well, please use it. Thank you.

Mr. Bruce?

MR. BRUCE: Mr. Chairman, I'm here today on behalf of Pogo Producing Company. I'd like to make a quick handout and a brief statement.

Mr. Chairman, last Friday Pogo submitted the proposal I just handed out, making some incremental changes, or proposed incremental changes, in Rule 303. At the time, we were unaware of NMOGA's effort and so we were kind of operating in a vacuum.

Most of what -- I think all of what we submitted was encompassed within the changes Mr. Hoover discussed.

As I said, although we were proposing incremental changes and NMOGA was proposing a comprehensive rule change, I think both proposals have common aims. It's, one, make it easier to file for administrative approval of downhole commingling and, number two, allow it earlier in the life of a well.

Pogo believes these proposals will reduce operating costs, making operations in New Mexico more economical.

Pogo's proposals were based primarily on its activity in the Delaware Basin in southeast New Mexico, in

artificially lifted oil wells. In many of those pools you have good Delaware pools underlain by relatively poor Bone Spring pools, and frankly we have been looking at doing this on a poolwide basis in a couple of pools.

For instance, in some of these areas you'll have Bone Spring pools, reserves, of 30,000-plus barrels in a well. Producing rates are about 25 barrels of oil per day. Frankly, no one would really drill to the Bone Spring alone.

And what we are looking at would be allowing downhole commingling of the Delaware and Bone Spring, early in the life of a well, to expedite recovery from those wells and add incentives for operators to drill in those areas in New Mexico.

We've sat here and listened to the Commission mention several concerns. Number one, you mentioned crossflow. Obviously, if we have artificially lifted wells, oil wells, we don't think that's a problem. And that's one of our proposals. And we would require the operators to show that they had the capacity to lift the additional, not only oil, but additional water that would be produced.

You mentioned doing this on a case-by-case or a pool-by-pool basis, and we may do that, and you may see a case from us pretty soon.

Now, one thing in the Delaware is, you often have the Delaware formation continuous across wide areas, and there may be three or four Delaware pools in an area, but they're really producing from the same interval, different operators and different pools. So if you're doing it for one, it really would be more applicable not only for that one particular Delaware pool, but perhaps three or four Delaware pools in an area.

The problem with that is, of course, if you're just coming in for one pool but you require three or four pools to be joined together to do that downhole commingling, I mean, you're asking one operator basically to do the work for all the other operators in the area, and that's why we're looking for a statewide change.

Now, as far as increasing the commingled allowable, I think there's one reason -- Before, it was only two zones. Now you're allowing commingling for three or more zones, and we think just on that basis alone, perhaps, the commingled depth bracket allowable should be increased.

Secondly, we concur with NMOGA's statement that the commingled allowable should be the depth bracket allowable for the uppermost zones. We do not believe any waste will occur as a result of the increased allowable, the increased oil allowable. And again, the aim is to make

it easier and more economical for the operator to commingle, so long as there is no reservoir damage. And we believe that under the current requirements of the Rule, you know, we're required to prove that and can prove that.

The other change we've proposed is that we don't -- Currently, the rule requires a 24-hour productivity test within 30 days of the application. In many of these areas, or many of these pools, Pogo will test the lower zone for 30 or 60 days, or one zone, or maybe longer. We believe that should be sufficient, rather than going back in, spending the extra money to do that extra productivity test. It's really an economic matter.

As I said, Pogo thinks the rule changes proposed by NMOGA contain good ideas, and we agree that it should be referred to a committee of the OCD and of the operators to work out standards acceptable to the Commission.

The main thing we urge is to make additional changes, in addition to those that have been proposed by Division staff, in order to make it easier to apply for and obtain downhole commingling approval administratively.

If -- As Mr. Kellahin suggested, if there are areas that parties agree on, we ought to make those incremental changes to the rules as soon as possible, to benefit operators in the State and then move on to look at perhaps a comprehensive change to the Rule.

Thank you.

CHAIRMAN LEMAY: Thank you, Mr. Bruce.

Additional statements in the case?

MR. HAWKINS: Bill Hawkins with Amoco.

CHAIRMAN LEMAY: Yes, Mr. Hawkins?

MR. HAWKINS: We've had a lot of discussion today on the merits of downhole commingling and changing the rules, and I didn't want to spend a lot of time with you, but I would like to share a few comments.

We participated in the NMOGA task force to propose some changes to you on the commingling rules. Amoco is undergoing a significant commingling and recompletion program this year, and we expect to continue to do that, given the number of wellbores that we have in the San Juan Basin.

I think the filing application process has been more significant this year than it's been in the last five or ten years combined, and it looks to me like that there's a significant improvement that can be made in the filing process and the data that needs to be filed.

We've looked at states in the Rocky Mountain area that have similar pools to the San Juan Basin. Filing requirements for commingling are much simpler than in New Mexico.

So I think what we want to tell you is that we

want to be a part of the process. We strongly encourage the Commission to look at streamlining and simplifying this process and hopefully helping all of the operators in the State to be able to improve the ultimate recovery of the reservoirs they're developing.

And that's it.

CHAIRMAN LEMAY: Thank you, Mr. Hawkins.

Additional statements, comments in the case?

We shall take this case under advisement and continue it until the October hearing.

Thank you.

(Thereupon, these proceedings were concluded at 3:25 p.m.)

* * *

CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Commission was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL August 15th, 1995.

STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 1998