



NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION
2040 South Pacheco Street
Santa Fe, New Mexico 87505
(505) 827-7131

November 1, 1996

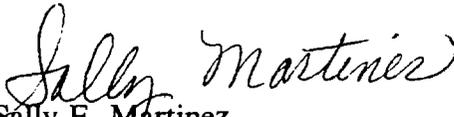
Kellahin and Kellahin
117 N. Guadalupe
P. O. Box 2265
Santa Fe, New Mexico 87504

**RE: CASE NO. 11601
ORDER NO. R-10692**

Dear Sir:

Enclosed herewith are two copies of the above-referenced Division order recently entered in the subject case.

Sincerely,


Sally E. Martinez
Administrative Secretary

cc: BLM - Farmington
OCD - Aztec
Taxation & Revenue Dept.

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

**IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:**

**CASE NO. 11601
ORDER NO. R-10692**

**APPLICATION OF BURLINGTON RESOURCES
OIL & GAS COMPANY FOR THE ESTABLISHMENT
OF A DOWNHOLE COMMINGLING "REFERENCE
CASE" PURSUANT TO DIVISION RULE 303.E. AND
THE ADOPTION OF SPECIAL ADMINISTRATIVE
RULES THEREFOR, SAN JUAN COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on August 22, 1996, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 1st day of November, 1996, the Division Director, having considered the testimony, the record and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) The applicant, Burlington Resources Oil & Gas Company (Burlington), pursuant to the provisions of Division Rule 303.E., seeks to establish a downhole commingling "reference case" to provide exceptions for (a) marginal economic criteria, (b) pressure criteria, (c) allocation formulas and (d) modification of notification rules on a unit-wide basis for downhole commingling of Dakota, Mesaverde and Pictured Cliffs gas production within existing or future drilled wells within the San Juan 32-9 Unit, San Juan County, New Mexico.

(3) Division Rule No. 303.E., amended by Order No. R-10470-A, currently states:

“If sufficient data exists on a lease, pool, formation, geographic area, etc., so as to render it unnecessary to repeatedly provide such data on Form C-107-A, an operator may except any of the various criteria required under Paragraph 303.D. of this rule by establishing a “reference case”. The Division, upon its own motion, or by application from an operator, may establish “reference cases” either administratively or by hearing. Upon Division approval of such “reference cases” for specific criteria, subsequent applications to downhole commingle (Form C-107-A) will be required only to cite the Division order number which established such exceptions and shall not be required to submit data for those criteria.”

(4) The applicant is the current operator of the San Juan 32-9 Unit which encompasses some 21,864 acres in Townships 31 and 32 North, Ranges 9 and 10 West, NMPM, San Juan County, New Mexico.

(5) Within the San Juan 32-9 Unit, the applicant currently operates two (2) Basin-Dakota Gas Pool wells, one hundred twenty-eight (128) Blanco-Mesaverde Gas Pool wells and thirty-two (32) Blanco-Pictured Cliffs Gas Pool wells.

(6) According to its evidence and testimony, Burlington seeks to:

- a) establish a “reference case” for marginal economic criteria in the Dakota and Pictured Cliffs formations whereby these formations and/or pools may be identified as “marginal” on Form C-107-A’s subsequently filed for wells within the San Juan 32-9 Unit. The applicant further proposes that the data provided in the immediate case serve as supplemental data or confirmation that these formations and/or pools should be classified as “marginal”;
- b) establish a “reference case” for pressure criteria in the Dakota and Pictured Cliffs formations whereby the Division may utilize data provided in the immediate case to verify the pressure data provided on Form C-107-A’s subsequently filed for wells within the San Juan 32-9 Unit;
- c) establish a “reference case” whereby the Division utilizes the data presented in the immediate case to endorse or approve certain methods of allocating production whereby the applicant need not submit additional data or justification when proposing a certain method of allocating production on Form C-107-A’s subsequently filed for wells within the San Juan 32-9 Unit; and,

- d) establish a “reference case” or an administrative procedure for authorizing the downhole commingling of existing or future drilled wells within the San Juan 32-9 Unit without additional notice to each affected interest owner as required by Division Rule No. 303.D.

(7) In support of its request to except marginal economic criteria, the applicant presented geologic and engineering evidence and testimony which indicates that within the San Juan 32-9 Unit:

- a) the structure and thickness of the Dakota and Pictured Cliffs formations are very consistent;
- b) the average recoverable Pictured Cliffs gas reserves underlying an undeveloped drill block are approximately 700 MMCFG.
- c) initial producing rates for newly drilled or recompleted Pictured Cliffs gas wells range from 150-600 MCFGD;
- d) the San Juan 32-9 Unit Well Nos. 113 and 114 were recently drilled to test the Dakota formation within the unit. Both wells proved non-productive in the Dakota formation; and,
- e) the estimated ultimate gas recoveries and initial producing rates from the Dakota and Pictured Cliffs formations are insufficient to justify drilling stand alone wells and/or dually completed wells to recover such gas reserves.

(8) The evidence and testimony presented by the applicant indicates that the Dakota and Pictured Cliffs formations within the San Juan 32-9 Unit should be properly classified as “marginal”.

(9) In support of its request to except pressure criteria within the Dakota and Pictured Cliffs formations within the San Juan 32-9 Unit, the applicant presented engineering evidence and testimony which indicates that:

- a) the average shut-in pressure within the Pictured Cliffs formation at the time of initial development was approximately 562 psi; and,

- b) the average current shut-in pressure within the Pictured Cliffs formation is approximately 349 psi.

(10) The applicant did not present sufficient bottomhole pressure data within the Dakota and Pictured Cliffs formations within the San Juan 32-9 Unit so as to justify the establishment of a “reference case” for pressure criteria.

(11) The applicant testified that various allocation methods will be utilized for downhole commingled wells within the San Juan 32-9 Unit depending on the circumstances. Some of the methods and circumstances are described as follows:

- a) the subtraction method will likely be utilized in those instances where a zone with a well established decline rate is commingled with a newly completed zone; and,
- b) a fixed allocation formula will be utilized in those instances where production history for both zones is available, or in those instances where newly completed zones are tested and stabilized flow rates obtained.

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

(13) In support of its request to establish a “reference case” or administrative procedure for providing notice within the San Juan 32-9 Unit the applicant presented evidence and testimony which indicates that:

- a) the interest ownership between two zones within a given wellbore in the San Juan 32-9 Unit is generally not common;
- b) pursuant to Division Rule No. 303.D., applicant is currently required to notify all interest owners within the San Juan 32-9 Unit every time a Form C-107-A is submitted to the Division. There are a considerable number of such interest owners within the unit;
- c) providing notice to each interest owner within the San Juan 32-9 Unit of subsequent downhole comminglings is unnecessary and is an excessive burden on the applicant;

- d) the downhole commingling of wells within the San Juan 32-9 Unit Area will benefit working, royalty, and overriding royalty interest owners. In addition, the downhole commingling of wells within the San Juan 32-9 Unit should not violate the correlative rights of any interest owner;
- e) no interest owner appeared at the hearing in opposition to the establishment of a “reference case” or administrative procedure for notice.

(14) An administrative procedure should be established within the San Juan 32-9 Unit for obtaining approval for subsequently downhole commingled wells without notice to Unit interest owners, provided however that, all other provisions contained within Division Rule No. 303.C. are complied with.

(15) Approval of the proposed “reference cases” for marginal economic criteria, allocation formulas and notice will lessen the burden on the applicant insofar as providing the data required pursuant to Division Rule No. 303.D. and Form C-107-A, will provide the applicant a streamlined method for obtaining downhole commingling approvals within the San Juan 32-9 Unit, and will not violate correlative rights.

IT IS THEREFORE ORDERED THAT:

(1) The application of Burlington Resources Oil & Gas Company to establish a “reference case” for (a) marginal economic criteria, (b) allocation formulas and (c) modification of notification rules on a unit-wide basis for downhole commingling of Dakota, Mesaverde and Pictured Cliffs gas production within existing or future drilled wells within the San Juan 32-9 Unit, San Juan County, New Mexico, is hereby approved.

(2) The application of Burlington Resources Oil & Gas Company to establish a “reference case” for pressure criteria in the Dakota and Pictured Cliffs formation within the San Juan 32-9 Unit is hereby denied.

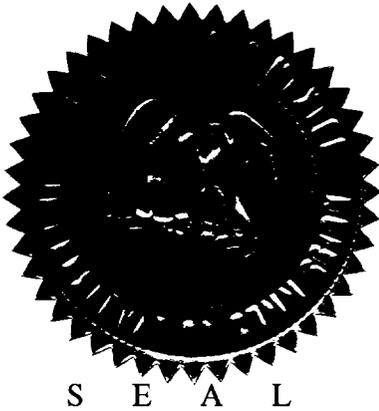
(3) Upon filing of Division Form No. C-107-A’s for wells subsequently downhole commingled within the San Juan 32-9 Unit Area, the applicant shall not be required to submit supporting data to justify the classification of the Pictured Cliffs and Dakota formations as “marginal” and support or justification for utilizing a given method or formula for allocation of production, provided however, in the event any of the data described above appearing on Form C-107-A appears to be beyond the data range provided in this case, the Division may require the submittal of additional supporting data.

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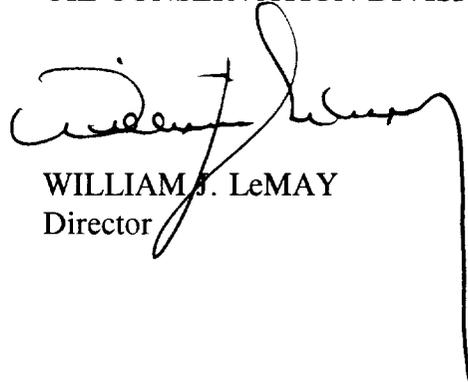
(4) In order to obtain Division authorization to downhole commingle wells within the San Juan 32-9 Unit, the applicant shall file a Form C-107-A with the Santa Fe and Aztec Offices of the Division. Such application shall contain all the information required under Rule No. 303.C. of the Division Rules and Regulations, provided however that the applicant shall not be required to provide notice to all interest owners within the San Juan 32-9 Unit of such proposed commingling.

(5) Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION



WILLIAM J. LeMAY
Director