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April 9, 1998

HAND-DELIVERED

Mr. Michael E. Stogner, Hearing Examiner
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
2040 South Pacheco Street
Santa Fe, New Mexico 87505

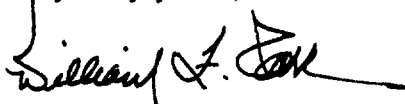
Re: ***Oil Conservation Division Case No. 11948:
Application of Sonat Exploration Company for an Exception to Division
Rule 309A for Blanket Lease Commingling of Production and to Division
Rule 309B (5) (b) for an Exception to the Requirement of Separate Metering
of Commingled Production, Eddy and Lea Counties, New Mexico***

Dear Mr. Stogner:

Pursuant to your request, enclosed for your consideration is Sonat Exploration Company's proposed Order pertaining to the March 19, 1998 Examiner hearing in the above-referenced case.

If you need anything further from Sonat to proceed with your consideration of this matter, please advise.

Very truly yours,



WILLIAM F. CARR
WFC:mlh
Enclosure
cc: Chad R. Shaw

**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. 11948
ORDER NO. R-_____

APPLICATION OF SONAT EXPLORATION
COMPANY FOR AN EXCEPTION TO
DIVISION RULE 309A FOR BLANKET
LEASE COMMINGLING OF PRODUCTION
AND TO DIVISION RULE 309B (5) (b) FOR
AN EXCEPTION TO THE REQUIREMENT
OF SEPARATE METERING OF COMMINGLED
PRODUCTION, EDDY AND LEA COUNTIES,
NEW MEXICO.

SONAT EXPLORATION COMPANY'S
PROPOSED ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on March 19, 1998, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this ____ day of April, 1998, the Division Director, having considered the testimony, the record, and the recommendation 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, Sonat Exploration Company ("Sonat"), seeks an exception to the provisions of Division Rule 309A for authority for blanket lease commingling of production from the Delaware formation, Poker Lake Area, for all existing wells and all wells to be drilled on certain federal lands in Eddy and Lea Counties, New Mexico and also seeks an exception to the requirement of Rule 309B to permit the allocation of production to each well without separate metering.

(3) Sonat is the lessee of ten Federal Oil and Gas Leases and owns interest in and operates wells in the following described portions of these leases located in Eddy and Lea Counties, New Mexico (hereinafter referred to as the "Project Area"):

Township 24 South, Range 31 East, NMPM

(Eddy County, New Mexico)

Section 1: Lots 1&3; SW/4 NW/4; SW/4 NE/4
NE/4 SW/4; NE/4 SE/4; SW/4 SW/4; SW/4 SE/4
Section 8: NW/4 NW/4; SE/4 NW/4; NW/4 SW/4; SE/4 SW/4
Section 9: E/2
Section 10: NE/4 SW/4; NE/4; E/2 SE/4; SW/4 SE/4
Section 11: E/2 SW/4; SW/4 SW/4; E/2
Section 12: NW/4; NE/4 NE/4; SW/4 NE/4; NE/4 SE/4; SW/4 SE/4
Section 15: W/2; E/2 E/2; SW/4 SE/4

Township 24 South, Range 32 East, NMPM

(Lea County, New Mexico)

Section 18: NW/4

(4) Lease commingling has been previously approved by the Division for leases in Sections 11 and 12 (Order No. CTB 426) and Section 9 (Order No. CTB 417) of Township 24 South, Range 31 East, NMPM.

(5) At the time of the hearing on this application, Sonat operated 14 wells within the Project Area which produce oil from the Brushy Canyon and Cherry Canyon members of the Delaware formation, which is defined by the Division as a common source of supply, and is currently engaged in a development program whereby additional wells are being drilled to the Delaware formation within the Project Area.

- (6) At the hearing, Sonat presented testimony which demonstrated that:
- A. commingling of production from the Cherry Canyon and the Brushy Canyon members of the Delaware formation can be done without compatibility problems;
 - B. currently the Project Area is served by three tank batteries and approval of lease commingling will avoid the purchase, installation and operation of additional surface facilities;
 - C. at all times Sonat will construct and/or maintain such facilities as are necessary for the proposed lease commingling and will maintain adequate storage tank capacity for 18 hours of production above the Project Area's normal high operating level; and
 - D. each well will be tested at least once each month through the test vessel and production allocated to the individual wells in the Project Area pursuant to the following formula:

$$Z'1 = \frac{(Z1 \times R) \times A}{\sum (Z's \times R's)}$$

- Z'1 = Adjusted production chargeable to the well
- Z1 = Well tests, BPD or MCFPD
- R = Number of Days well has produced in the month
- $\sum (Z's \times R's)$ = Summation of chargeable production for all wells producing to the facility
- A = Volume facility sold for month, BPD or MCFPD

(7) The method which Sonat will utilize will accurately allocate commingled production to the individual wells in the Project Area and an exception to Division Rule 309B to authorize the use of this method of well testing and production allocation should be granted.

- (8) The ownership of the production to be commingled is not common throughout

the Project Area but that all working interest owners, royalty interest owners and overriding royalty owners have been notified of this application and none have objected to this application.

(9) All purchasers of production from the Project Area have been notified of this application and none have objected to this application.

(10) Sonat has reviewed this proposed lease commingling with the Bureau of Land Management and the BLM has no objection to Sonat's application.

(11) Approval of lease commingling for the Project Area will reduce the capital outlay for this Poker Lake Delaware project and result in other savings which will enable Sonat to drill or recomplete additional wells in the Project Area. Furthermore, commingling of production will increase oil storage at a common point which will justify the installation of a vapor recovery unit that will result in the recovery of oil which otherwise would be lost thereby preventing waste.

(12) The application of Sonat for an exception to Division Rule 309A to authorize lease commingling in the Project Area will prevent waste, protect correlative rights and should be granted.

IT IS THEREFORE ORDERED

(1) The application of Sonat Exploration Company for an exception to the provisions of Rule 309A for authority for blanket lease commingling of production from the Delaware formation, Poker Lake Area, for all existing wells and all wells to be drilled and an exception to the requirement of Rule 309B to permit the allocation of production to each well without separate metering is hereby granted for a Project Area comprised of the following described portions of ten federal leases located in Eddy and Lea Counties, New Mexico:

Township 24 South, Range 31 East, NMPM
(Eddy County, New Mexico)

- Section 1: Lots 1&3; SW/4 NW/4; SW/4 NE/4
NE/4 SW/4; NE/4 SE/4; SW/4 SW/4; SW/4 SE/4
Section 8: NW/4 NW/4; SE/4 NW/4; NW/4 SW/4; SE/4 SW/4
Section 9: E/2
Section 10: NE/4 SW/4; NE/4; E/2 SE/4; SW/4 SE/4
Section 11: E/2 SW/4; SW/4 SW/4; E/2
Section 12: NW/4; NE/4 NE/4; SW/4 NE/4; NE/4 SE/4; SW/4 SE/4
Section 15: W/2; E/2 E/2; SW/4 SE/4

Township 24 South, Range 32 East, NMPM
(Lea County, New Mexico)

- Section 18: NW/4

(2) 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

LORI WROTENBERY
Director

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