

Reasons for Revising Surface Commingle Rules

1. Gas
2. Application Process
3. Simplify and streamline procedures

BEFORE THE	
OIL CONSERVATION COMMISSION	
S. 1700 Fe, New Mexico	
oed	Exhibit No. 4
Case No.	12935

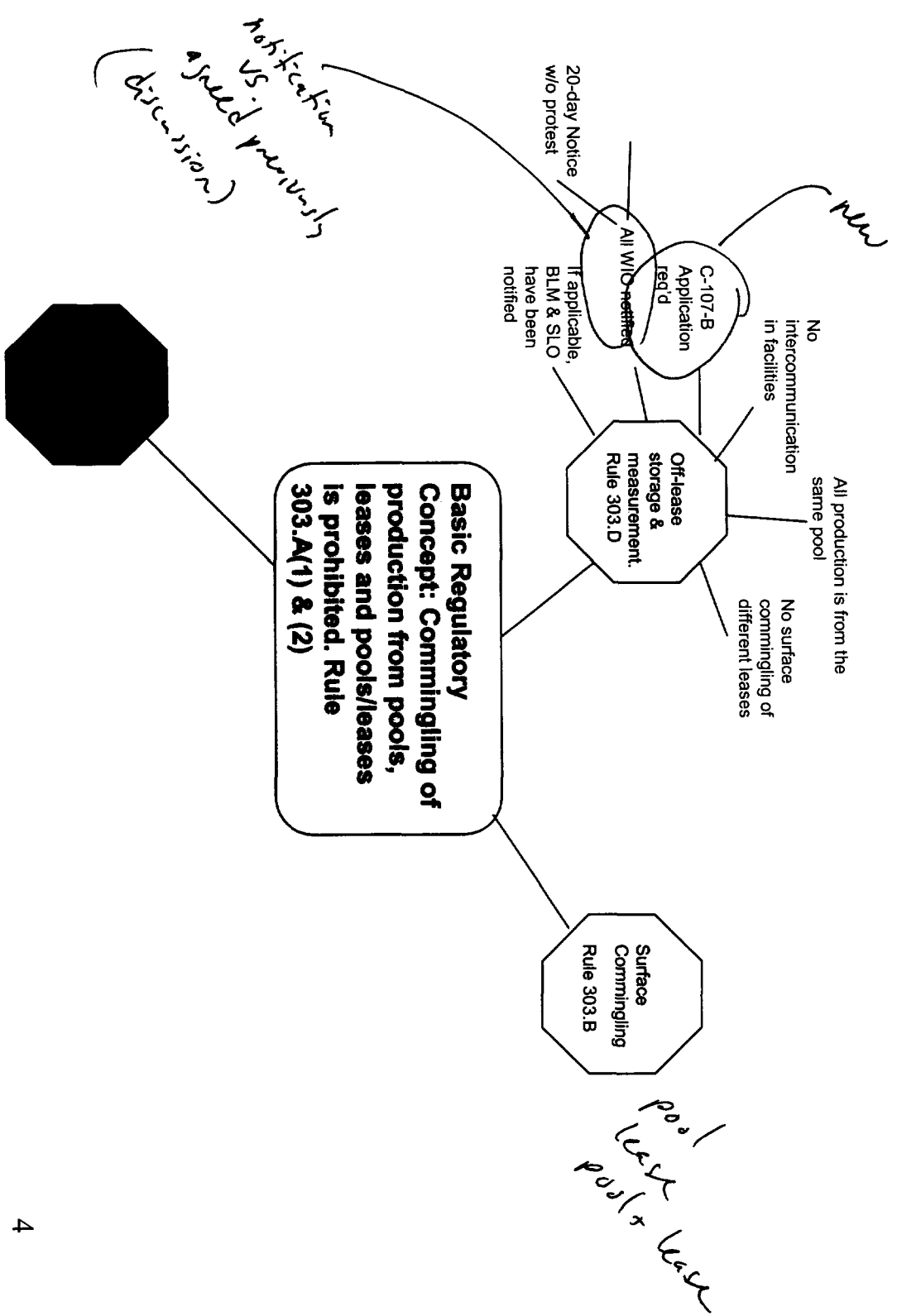
Members of the Workgroup (Revisions to Rules 303 and 309)

Richard Ezeanyim	Oil Conservation Division
David K. Brooks	Oil Conservation Division
Rick Foppiano	Oxy
Bill Carr	Campbell, Carr, Berge and Sheridan
Walter Dueease	Marathon Oil Company
John Roe	Dugan Production Corporation
Larry Sanders	Phillips Petroleum Company
Darrell Atkins	Yates Petroleum Corporation
Jim Giuliani	Conoco, Inc.
Craig E. Moody	Conoco, Inc.
Ed Hasely	Burlington Resources
Bobby Hill	Texaco Exploration and Production
Mark Kelly	U.S. Bureau of Land Management
Roy Wheeler	Amerada Hess Corporation

Workgroup Recommendation

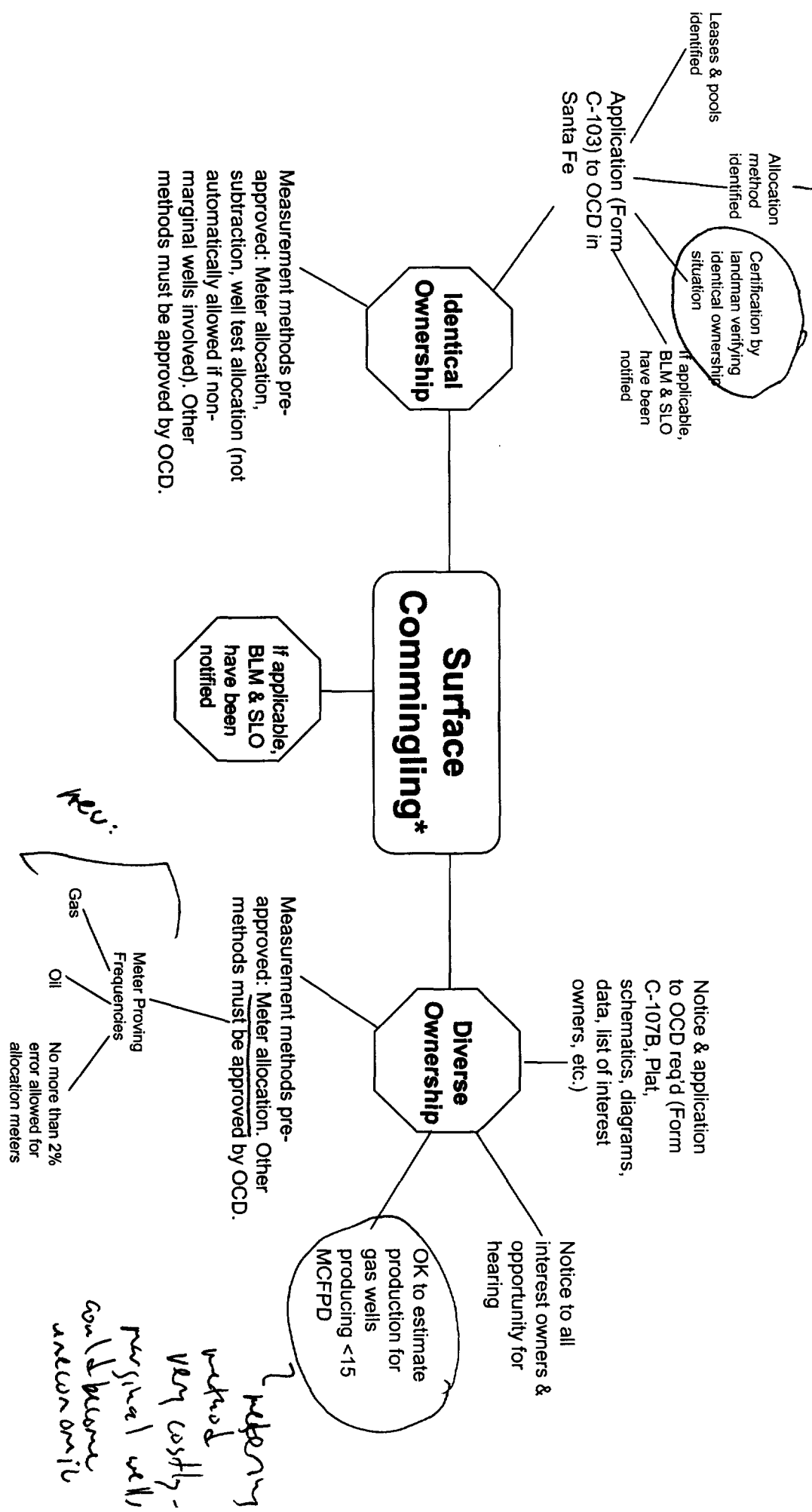
REPEAL CURRENT RULES 303.B, 309.B AND 309.C AND
ADOPT AMENDMENTS TO RULES 303 AND 309.

RULE MAP FOR SURFACE COMMINGLING PROPOSAL



RULE MAP FOR RULE 303.B

metering for surface production methods



* Surface commingling refers to commingling of production from different leases, from different pools, and combinations of pools and leases

New Form C-107B

Basic Regulatory Concept

Segregation of production from pools and leases

- (1) Pool Segregation Required – Each pool shall be produced as a single common source of supply. . . .
- (2) Lease Segregation Required – Oil, gas, or oil and gas, shall not be transported from a lease until it has been accurately measured or determined by other methods acceptable to the division. The production from each lease shall at all times be segregated. . . .

Exceptions

Exceptions . . . may be permitted for surface commingling, down-hole commingling and off-lease storage and/or measurement . . .

Surface Commingling Oil, Gas, or Oil and Gas

Exceptions granted provided that:

- a) The method used to allocate the production to the various leases and/or pools to be commingled is approved by the division,
- (b) if federal, indian or state lands are involved, the United States bureau of land management or the commissioner of public lands for the State of New Mexico (as applicable) has been notified of the proposed commingling, and
- (c) all other applicable requirements set out in this subsection are met.

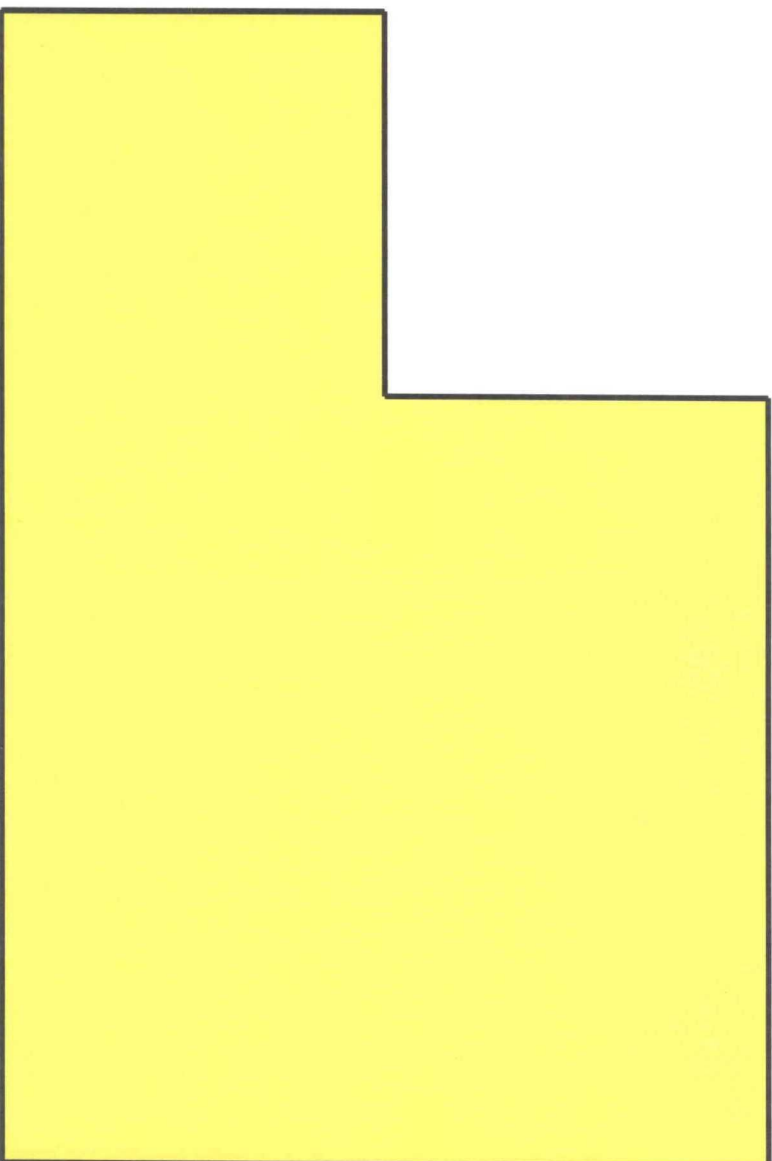
Lease Definitions (for this Purpose)

Lease: *Area of common ownership.*

A contiguous geographical area of identical ownership overlying a pool or a portion of a pool.

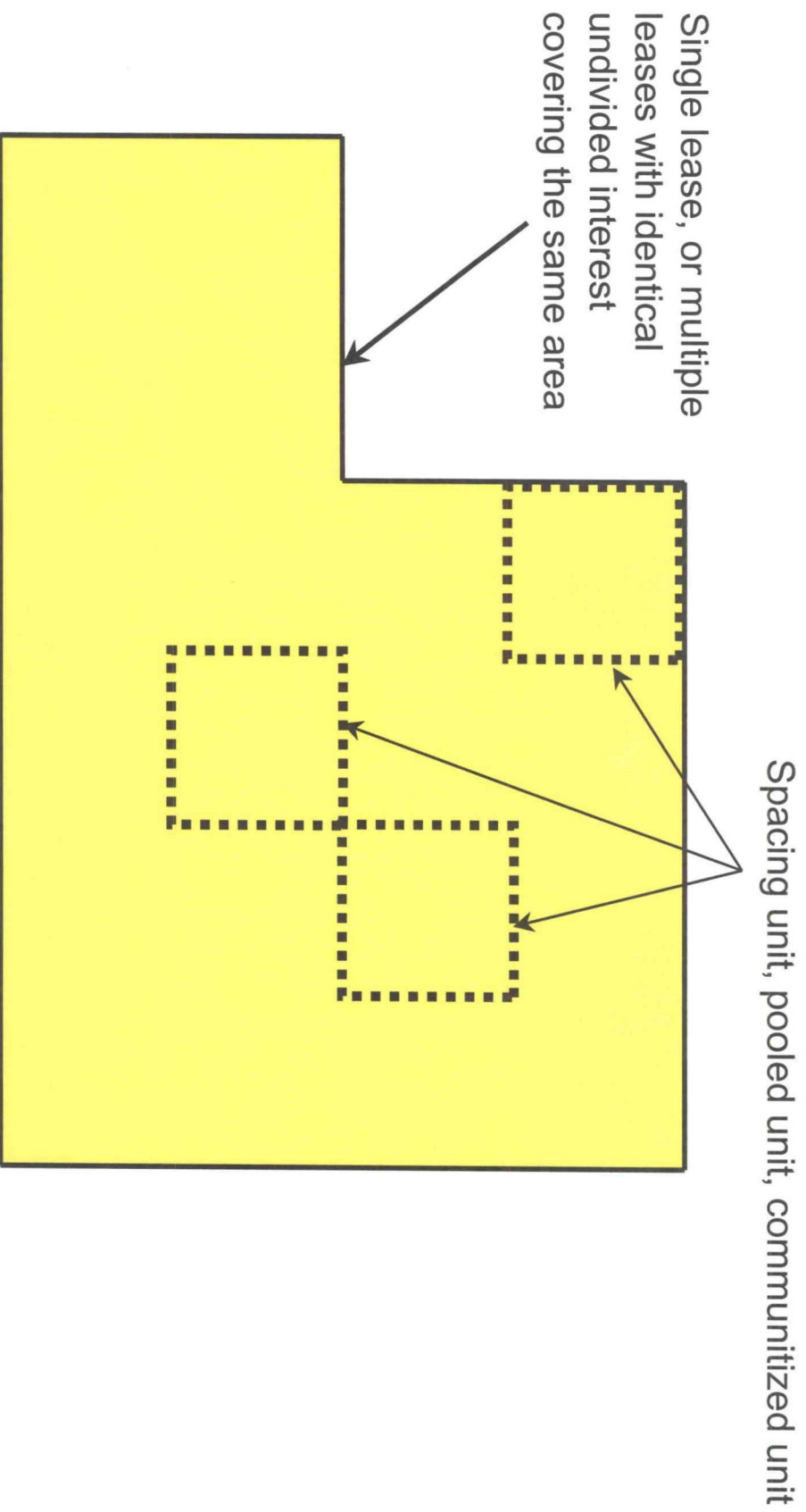
If there is any diversity of ownership between different pools, or between different zones or strata, then each such pool, zone or stratum having such diverse ownership shall be considered a separate lease.

EXAMPLE OF A “LEASE”



Single lease, or multiple leases with identical undivided interest covering the same area

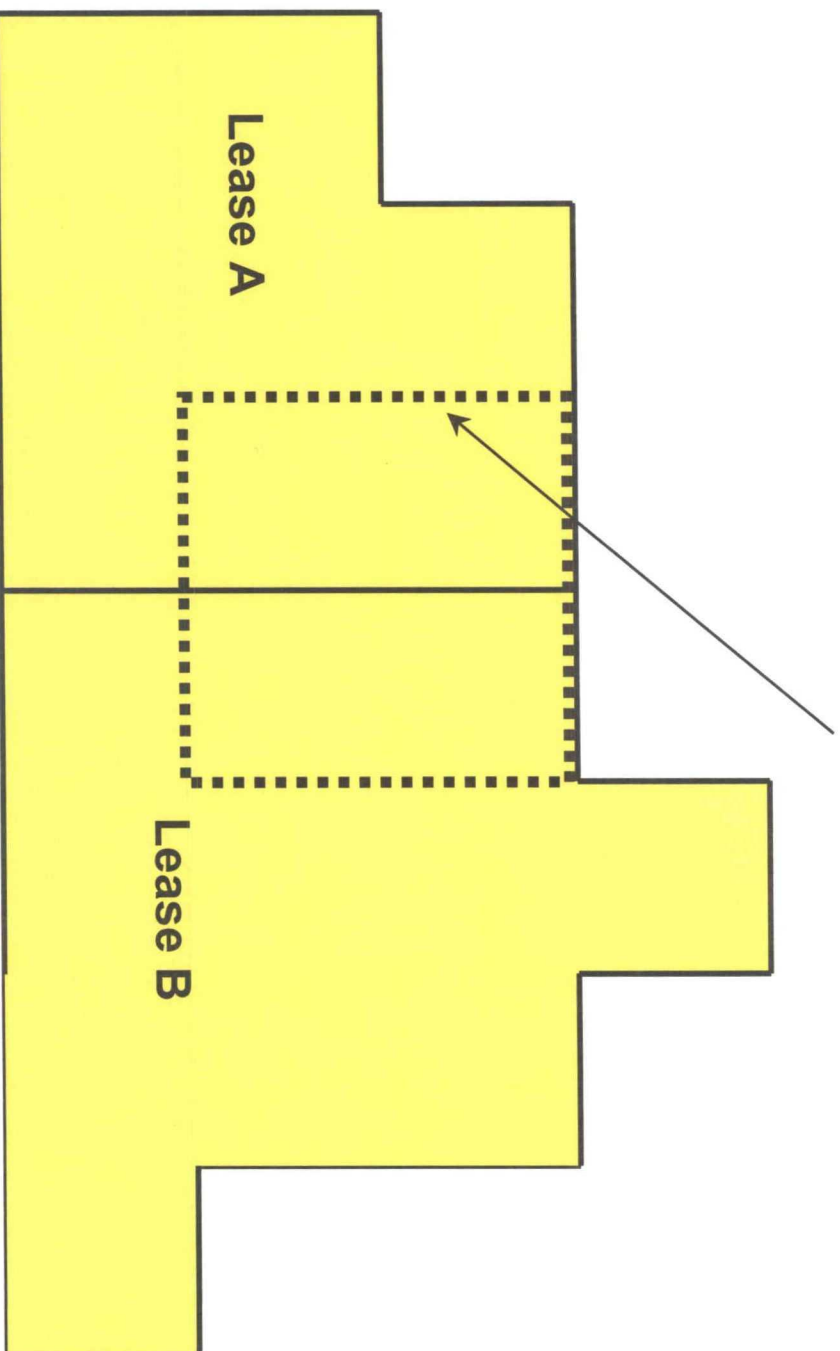
EXAMPLE OF A “LEASE”



Since the “lease” area is larger than the units, commingling of production from wells located on the units and producing from the same pool **DOES NOT** require an exception to Rule 303.

EXAMPLE OF A “LEASE”

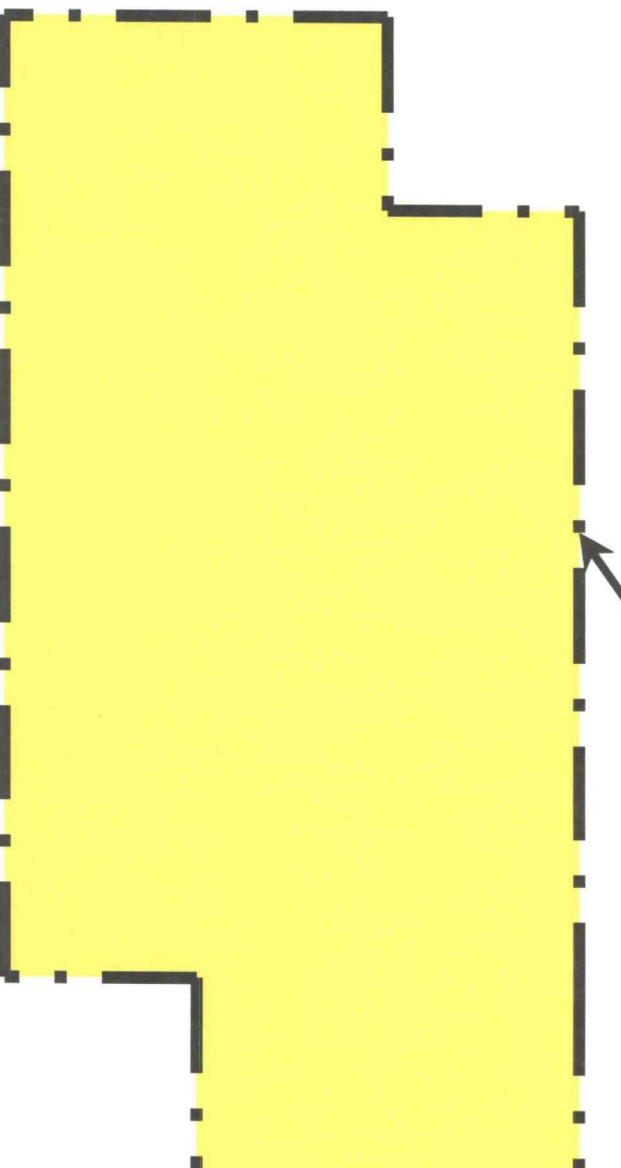
Spacing unit, pooled unit, communitized unit



Since portions of each lease are part of a pooled spacing unit, the pooled spacing unit is considered a lease, and the area not included in the pooled spacing unit is considered a separate lease. Commingling of production from wells located in the unit with wells outside the unit DOES require an exception to Rule 303.

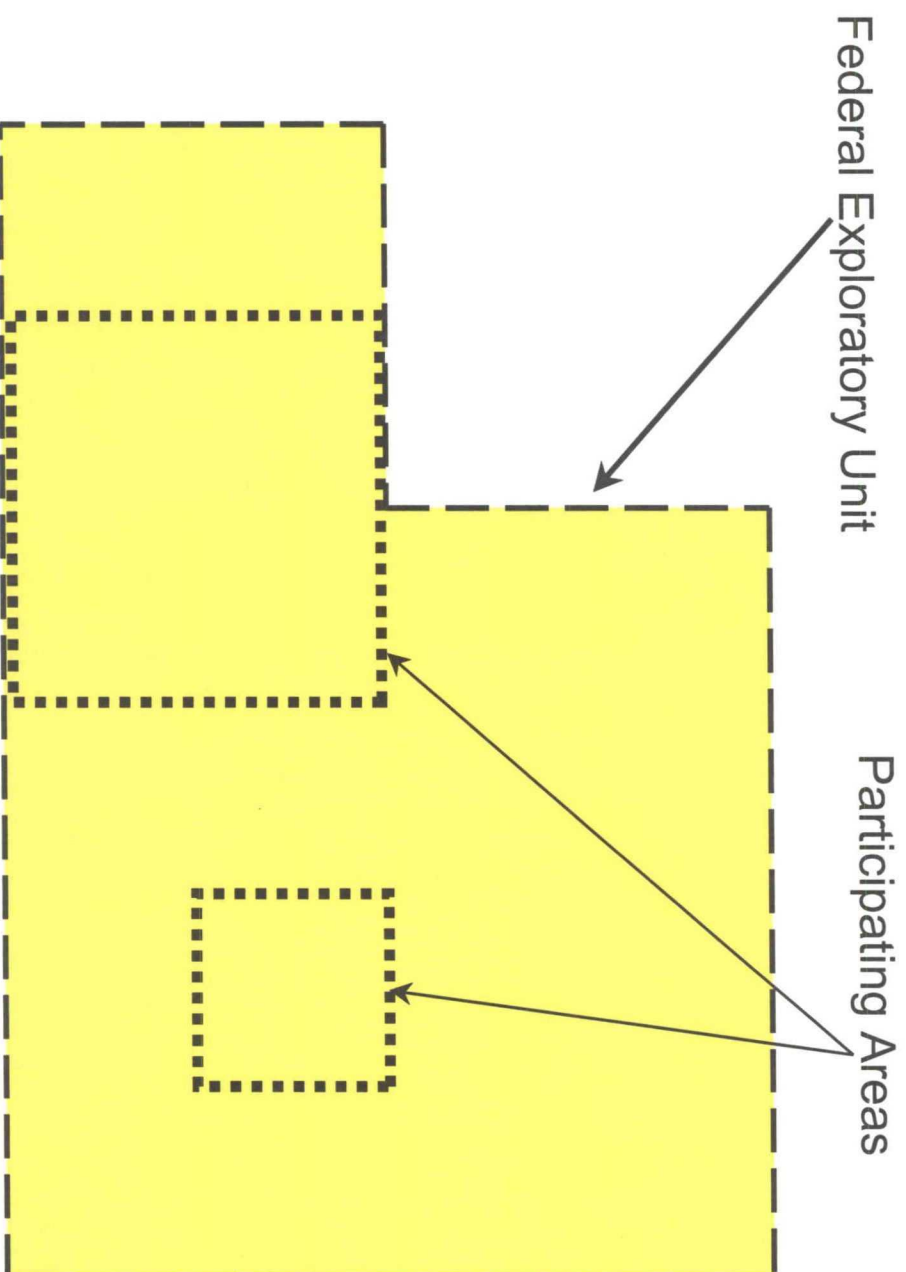
EXAMPLE OF A “LEASE”

Secondary or enhanced recovery unit



A secondary or tertiary project can be considered a lease. If such a project covers more than one pool, however, an exception to Rule 303 will be required in order to commingle production from the different pools.

EXAMPLE OF A “LEASE”



Within an exploratory unit, each PA can be considered a separate lease if the ownership is different within the PA. If this is the case, commingling of production from wells located within the unit boundaries but in separate PA's DOES require an exception to Rule 303.

Ownership Definitions (for this Purpose)

Identical Ownership:

Exists if leases or pools have all the same working, royalty and overriding royalty owners in exactly the same percentages.

Diverse Ownership:

Exists if leases or pools have any different working, royalty or overriding royalty interest owners or any different ownership percentages of the same working, royalty or overriding royalty interest owners.

Requirements and Approval Process

Identical Ownership

- a) Send notice to OCD in Santa Fe on Form C-103.
- b) Such notice shall include:
 - 1) List of leases and pools to be commingled;
 - 2) Identification of the allocation method that will be used (must be an approved method);
 - 3) Certification of Identical Ownership; and
 - 4) Evidence of notice to SLO or BLM, if required.

*Comments: digital file
economic diagram
schedule
specific grants
etc.*

Requirements and Approval Process

Diverse Ownership

- a) Send C-107B with attachments to all interest owners and OCD in Santa Fe.
- b) Such notice shall include:
 - 1) List of leases and pools to be commingled;
 - 2) Data about production to be commingled;
 - 3) Schematic diagram of facility;
 - 4) Identification of the allocation method that will be used (must be an approved method); and
 - 5) Evidence of notice to SLO or BLM, if required.

Requirements for Commingling

Diverse Ownership

- a) Production from individual leases and pools must be accurately metered, or determined by another approved method.
- b) Meters used for oil and gas allocation must be proved for accuracy on a frequency based on throughput
- c) If meter proving tests reveal more than a 2% error in measuring equipment, volumes must be corrected.
- d) Application can be approved administratively if no one objects within 20 days of notice.
- e) Notice by publication is allowed when necessary.
- f) The order may authorize additional pools or leases to be added under certain conditions.

DHC and OLS/OILM

Down Hole Commingling – No Changes.

Off-Lease Storage and/or Off-Lease Measurement

Changed requirement from:

Consent of BLM/SLO to

Notice to BLM/SLO.

**Rule 309 - Automatic Custody Transfer
Equipment – Amend Language as**

follows:

19.15.5.309 AUTOMATIC CUSTODY TRANSFER EQUIPMENT

Oil shall be received and measured in a facility of an approved design.

Such facilities shall permit the testing of each well at reasonable intervals and may be comprised of manually gauged, closed stock tanks for which proper strapping tables have been prepared, or of automatic custody transfer (ACT) equipment. The use of such automatic custody transfer equipment shall be permitted only after compliance with the following:

(1) through (12) unchanged.

309.B Repealed

309.C Repealed