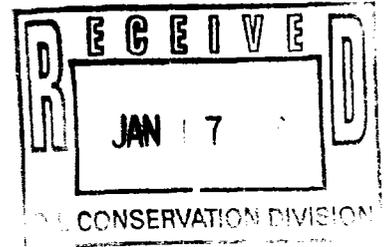


**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION COMMISSION**

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION TO AMEND RULE 303.C
PERTAINING TO DOWNHOLE COMMINGLING



CASE NO. 11353

JOINT PRE-HEARING STATEMENT

This pre-hearing statement is submitted by W. Thomas Kellahin on behalf of the New Mexico Oil & Gas Association, Conoco Inc. and Meridian Oil Inc. and by William F. Carr on behalf of Amoco Production and Enron Oil & Gas Company as required by the Oil Conservation Division.

APPEARANCE OF PARTIES

APPEARANCES

ATTORNEY

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INTERESTED PARTES

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Pre-Hearing Statement
Case No. 11353
Page 2

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STATEMENT OF THE CASE

On August 3, 1995, the Commission commenced a public hearing to consider modifications to Division General Rule 303 and received suggestions from members of the oil & gas industry.

In response to the request by the industry, the Commission entered Order R-10470 dated September 28, 1995 which amended Rule 303 (Downhole Commingling) so that the Division could process administratively application for downhole commingling even if the ownership in the subject spacing units were different.

In addition, the Commission continued this case until January 18, 1996 to provide the industry and the Division time to review and consider additional changes to Rule 303.

The continuance has provided an opportunity to NMOGA and to certain of those oil & gas industry companies who appeared and participated in that hearing to meet and review Rule 303. Our industry group includes the following:

Ruth Andrews (NMOGA-Santa Fe)
Alan Alexander and Scott Daves (Meridian Oil Inc-Farmington)
Jerry Hoover & Mark McClland (Conoco-Midland)
Bill Hawkins and Pam Staley (Amoco Production-Denver)
Randy Cate (Enron-Midland)

On October 12, 1995, representatives of NMOGA, Conoco, Meridian and Amoco met with the Division Director and staff to discuss the industry committee's proposed revisions. On December 21, 1995, the Division Director issued a letter responding to the industry's request for additional changes to Rule 303.

The following summary of issues is provided to aid the Commission in considering these changes. The notations referring to the "industry" are intended only to reflect the requests of the industry group identified above and is not intended to represent a consensus of the industry.

(1) DHC HEARINGS USUALLY UNNECESSARY:

Industry: The industry appreciates the Commission's recent action in Order R-10470 issued September 28, 1995 which granted the industry's request to allow for administrative DHC applications even if ownership in the spacing units were different. We consider this to be a first step in modernizing Rule 303. However, there are still items in Rule 303 which are undue and require unnecessary Division hearings.

Division: The Division will recommended that the Commission adopt as a matter of policy certain modifications to Rule 303 which will allow the Division to administratively process more DHC cases without the necessity of a hearing.

(2) BRIEFING ON HISTORICAL DHC:

(A) SAN JUAN BASIN: Scott Daves, a petroleum engineer with Meridian, has prepared a technical presentation including maps and data to demonstrate the current status of reservoirs in the San Juan Basin (Dakota, Mesaverde and Pictured Cliffs), the adverse impact that will occur in those reservoirs in the absence of DHC and to illustrate how DHC can substantially increase ultimate recoveries from those pools. His presentation forms the primary basis for the industry's conclusion that Rule 303 needs to be amended in order to fully realize the remaining potential in the San Juan Basin.

(B) SOUTHEASTERN NEW MEXICO: Mark McClelland, a reservoir engineer with Conoco, and Randy Cate a petroleum engineer with Enron each will address the DHC issues in Southeastern New Mexico.

(3) SCOPE OF RULE 303:

Industry: Currently, only those wells in which at least one zone is uneconomic are eligible for administratively processed DHC. Historically, DHC has been available only for "salvage" situations and was often the last course of action by an operator before abandoning a well.

Now, particularly in the pools of the San Juan Basin and the older pools in Southeastern New Mexico, DHC is the "next" major operational effort to be undertaken to prolong the productive lives of existing wells and to more economically drill new wells.

Handwritten note:
DHC is the next major operational effort to be undertaken to prolong the productive lives of existing wells and to more economically drill new wells.

(4) NEW DRILLS:

Industry: Industry desires to explore how the Division can develop an effective administrative procedure for approving the drilling of a new well for downhole commingled production in both the San Juan Basin and in Southeastern New Mexico. See Order R-10476 issued on October 6, 1995 in Case 11349 which authorized Conoco to drill 17 new drills in its San Juan 28-7 Unit.

Handwritten note:
See Order R-10476 issued on October 6, 1995 in Case 11349 which authorized Conoco to drill 17 new drills in its San Juan 28-7 Unit.

(5) ECONOMIC CRITERIA

Industry: Industry has concluded that the current Rule 303 is unduly limited in scope and should be expanded to allow for DHC even when no zone is uneconomic. Industry will request the Division to consider making DHC available for any well (even where all potential DHC zones are still economic) provided it is demonstrated that DHC can be accomplished without waste or violation of correlative rights.

Division: While the Division recognize that Rule 303 requires that at least one zone be uneconomic before a well is eligible for administratively processed DHC, the Division is not yet persuaded that Rule 303 should be expanded to allow for DHC even when no zone is uneconomic. The Division is particularly concerned that neither the industry nor the Division has a technical basis to support abandoning this requirement. However, the Division is convinced that "uneconomic" is too restrictive and sees no reason to exclude a marginal zone from DHC until it becomes uneconomic. The Division proposes that Rule 303 be relaxed by substituting "marginal" for "not otherwise be economically producible".

(6) REFERENCE CASES:

Division: In order for both the Division and the industry to be assured that an appropriate technical record has been compiled which will support granting administrative exceptions to Rule 303 and which will serve as a basis for further modification of Rule 303, the Division proposes that the Division shall docket for hearing selected DHC applications as "DHC reference cases".

For example, should an operator desire to delete or modify any of the Rule 303 numerical standards for all or part of a pool or formation, then that case would be presented at an Examiner's hearing with appropriate technical justification. Then, if granted by the Division, any subsequent DHC applications involving similar exceptions to Rule 303 within that reservoir or similar reservoir may be approved administratively by referring to the "reference case".

John P. ...

Meridian: Scott Daves of Meridian will present to the Commission a "reference case" for the Dakota, Mesaverde and Picture Cliffs formations in the San Juan Basin to set a marginal economic criteria and justify deleting the 50% pressure differential numerical standard for those pools in the San Juan Basin.

(7) NUMERICAL STANDARDS:

Industry: Industry has reviewed all available Commission transcripts for the prior hearings on this Rule and has concluded that Rule 303 uses numerical standards which are arbitrary and not based upon any scientific data.

Industry requested that the Division consider:

- ✓ (a) increasing the oil limit which industry considers too low,
- (b) eliminating any water limit or increasing the water-cut,
- ✓ (c) eliminating the 50% pressure differential rule, and
- ✓ (d) deleting the "uneconomic" criteria

Division: the Division believes there are reasonable regulatory basis for retaining certain numerical standards in Rule 303, but concurs that certain of the specific numbers in these standards can be relaxed. The dilemma is that neither the Division nor the industry can yet scientifically support a specific numerical standard.

The Division suggested, as an interim solution:

- (a) to triple each of the current rates set forth on the total combined daily oil limit schedule for Rule 303(C);
- (b) correspondingly the maximum water limit will be increased because it is simply twice the combined oil limit;
- (c) retain the 50% pressure differential rule for the San Juan Basin pools until such time as the operators/Division process a referenced case which will justify its deletion;

Pre-Hearing Statement

Case No. 11353

Page 7

(d) retain the 50 % pressure differential rule for the South East New Mexico pools until such time as the operators/Division process a referenced case which will justify its deletion; and

(e) substitute "marginal" criteria for "uneconomic" criteria

(8) CROSS-FLOW:

Industry: Industry considers that Rule 303 incorrectly deals with the issue of "cross-flows". This issue is addressed in other Division rules and is not a concern unless it results in formation damage or fluid incompatibilities. Industry contends that because cross-flow seldom occurs or results in reservoir damage it should not be a regulatory concern within the context of Rule 303 provided the allocation formula is reliable, the fluids are compatible, the formation is not damaged and the cross-flowed production is ultimately recovered.

Division: The Division proposes to relax the current requirement that "there will be no crossflow between the zones to be commingled" by allowing crossflow provided the allocation formula is reliable, the fluids are compatible, the formation is not damaged and the cross-flowed production is ultimately recovered.

(9) FLUID COMPATIBILITY:

Industry: considers fluid compatibility to be a necessary criteria for determining if downhole commingling should be approved by the Division.

Division: The Division does not recommend relaxing the standards on fluid compatibility and will continue to recommend that commingling application that result in the formations of precipitates which might damage either reservoir be denied.

(10) AREA-WIDE DHC APPROVAL:

Industry: Industry request the Division consider establishing guidelines for the administrative processing of DHC to include approvals on a geographical area basis.

Division: The Division would like to address that request within the context of a series of "referenced cases" which can form the basis for establishing such guidelines.

(11) PROCESSING AND NOTIFICATION:

Industry: requested the Division consider amending Rule 303 to address the following processing and notification issues:

(A) **A NEW FORMAT:** Industry would like the Division to consider "reformatting" Rule 303 including the adoption of an approved Division form which creates one composite list of requirements for all Administrative DHC wells. Industry believes revisions to Rule 303 can be made in order to make it more efficient and still fulfill any statutory obligations.

(B) **A NEW OCD FORM:** Industry has developed a sample form for consideration by the Division so that administrative DHC cases can be more efficiently filed by industry and processed by the Division a copy of which is attached.

Division: The Division's preliminary review indicates your proposed form is efficient.

(C) **NOTICES:** Industry is still required to provide notice to offsetting operators around the entire spacing unit which contains the proposed DHC well. As discussed at the Commission hearing, none of us can recall a single DHC application being objected to by an offset operator.

(1) **Industry members in San Juan Basin:** Amoco, Conoco and Meridian consider that there is no offset operator concern about correlative rights or waste and therefore notice is unnecessary and request its deletion from Rule 303.

(2) **Industry members in SE New Mexico:** Enron, Bass and Santa Fe Energy consider DHC "new" for certain pools in SE New Mexico and like the notice as a means to know when and where DHC is taking place.

Division: Is receptive to deleting this requirement provided a poll of the industry demonstrates that there are no serious objections about deleting this requirement.

(D) **DATA TO SUBMIT:** Currently, Rule 303 uses a detailed checklist of exactly what the applicant must submit in a DHC. That checklist requires pressure data, decline curves and a 24-hour productivity test. Industry requests the Division consider relaxing the current requirement of a 24-hours productivity test (C-116). That current productivity test is based upon the historical background of dealing with the current requirement that at least one zone be uneconomic.

Division: The Division proposes to retain a detailed checklist of exactly what the applicant must submit in a DHC. The Division will consider relaxing the current requirement of a 24-hours productivity test (C-116) and awaits a specific proposal from the industry.

(E) **PROCESSING TIME:** Industry suggests that Rule 303 specifically provide Division staff with a minimum number of days after receipt of an administrative DHC to process these cases. Currently, Staff receives about 15-20 administrative DHC per month. It is inappropriate for an applicant to file for an Administrative DHC and then pester staff for immediate attention. Staff is entitled to a time "buffer" to process these cases.

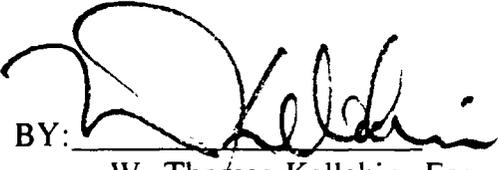
(F) **DISTRICT-SANTA FE PROCESSING:** Industry request the Division consider delegating with appropriate guidance some of the more routine DHC matters to the District.

Division: The Division considers it necessary to retain DHC approval at the Division office in Santa Fe in order to maintain statewide regulatory continuity for such matters.

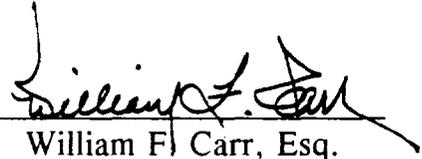
PROPOSED EVIDENCE

WITNESSES	EST. TIME	EXHIBITS
Scott Daves (PE) Meridian Oil Inc.	45-60 Min.	est. 1
Pam Staley Hawkins (PE) Amoco Production Company	15-30 Min.	est. 10
Mark McClelland (PE) Conoco, INC.	15-30 Min.	est. 6
Randy Cate (PE) Enron Oil & Gas	15-30 Min.	est. 5

KELLAHIN AND KELLAHIN

BY: 
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 DISTRICT III
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State of New Mexico
 Energy, Minerals and Natural Resources Department

Form C-107-A
 New 1-18-96

OIL CONSERVATION DIVISION

2040 S. Pacheco
 Santa Fe, New Mexico 87504-2088

APPROVAL PROCESS:
 Administrative Hearing

EXISTING WELLBORE
 YES NO

APPLICATION FOR DOWNHOLE COMMINGLING

Operator _____ Address _____

Lease _____ Well No. _____ Unit Ltr. - Sec - Twp - Rge _____ County _____

Spacing Unit Lease Types: (check 1 or more)

OGRID NO. _____ Property Code _____ API NO. _____ Federal _____ State _____ (and/or) Fee _____

The following facts are submitted in support of downhole commingling:	Upper Zone	Intermediate Zones	Lower Zone
1. Name of Pool and Pool Code			
2. Top and Bottom of Pay Section (Perforations)			
3. Type of production (Oil or Gas)			
4. Method of Production (Flowing or Artificial Lift)			
5. Estimated S.I. BHP (measured or calculated?)			
6. Oil gravity (°API) or gas BTU content if applicable			
7. Currently Producing or Shut-In? If Shut-In, give date and oil/gas/water rates of last production If Producing, give date and oil/gas/water rates of recent test (within 60 days)			
8. Fixed Percentage Allocation Formula by zone (total of %'s to equal 100%)			

9. Allocation Method, if other than "Fixed Percentage" (i.e. Changing percentages, subtraction, etc.)
 Submit attachments identifying and/or explaining method and providing rate projections or other required data.
10. Are all Working, Overriding, and Royalty Interests identical in all commingled zones? Yes No
 If not, have all Working, Overriding, and Royalty Interests been notified by certified mail? Yes No
11. Will cross-flow occur? Yes No If yes, are fluids compatible, will the formations not be damaged, will any cross-flowed production be recovered, and will the allocation formula be reliable. Yes No (explain No answer)
12. Are all produced fluids from all commingled zones compatible with each other? Yes No
 Submit compatibility tests or reference orders that have documented compatibility for these commingled zones. ORDER NO(S). _____
13. Will the value of production be decreased by commingling? Yes No If Yes, attach explanation
14. If this well is on state or federal lands, either the Commissioner of Public Lands or the United States Bureau of Land Management has been notified in writing of this application. Yes No
15. Division Reference Cases for Rule 303.C Exceptions: ORDER NO(S). _____
16. ATTACHMENTS: * C-102 for each zone to be commingled showing its spacing unit and acreage dedication.
 * Production curve for each zone for at least one year. (if not available, explain why)
 * Notification list of Working, Overriding, and Royalty Interests for uncommon interest cases.
 * Any additional statements, data, or documents required to support commingling.

I hereby certify that the information above is true and complete to the best of my knowledge and belief.

SIGNATURE _____ TITLE _____ DATE _____

TYPE OR PRINT NAME _____ TELEPHONE NO. _____

(This space for State Use)

APPROVED BY _____ TITLE _____ DATE _____

Handwritten notes:
 1-18-96
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 1-18-96

RESPONSE TO NMOGA QUESTIONNAIRE
NMOCD proposed Rule 303 Changes (January 18, 1996 Hearing)

To: Regulatory Practices Committee
Fax to: (505) 986-1094 (deadline: February 10, 1996)

1. oil allowables:

Currently, DHC oil rates are limited to the total combined daily rate of 20 BOPD to 5000 feet and then increased by 10 bbls per thousand feet:

- Maintain current rule or
- Support triple the current rates or
- Support rate equal to the top allowable for the shallowest pool commingled; or
- OTHER: _____

2. economics:

Currently, DHC requires evidence that at least one zone is "uneconomic"

- Maintain current rule or
- Support substituting "marginal" for "uneconomic" or
- Support deleting "economic" requirement in its entirety; or
- OTHER: _____

3. water limit:

Currently, DHC limits water production to twice the applicable combined oil rate:

- Maintain current rule or
- Support deleting the current rule in its entirety or
- Support rate equal to twice the top allowable for the shallowest pool commingled; or
- OTHER: _____

4. 50% pressure differential ("cross-flow"):

Currently, DHC of gas pools limits the pressure differential to not more than twice the pressure of the lower pressured zone:

- Maintain current rule or
- Support deletion of current rule or
- Support relaxing rule to allow cross-flow provided allocation formula is reliable, fluids compatible, nor formation damage and cross-flowed production is ultimately recovered; or
- OTHER: _____

5. Notice to Offsetting parties:

Currently, Rule 303 provides that applicants for Administrative DHC shall notify all offsetting operators of units around the entire spacing unit containing the proposed DHC. NMOGA seeks to have notice limited to the working, royalty and ORR interest owners in the DHC spacing unit.

- Support Oppose: NMOGA's proposal to eliminate notice to offset operators.
- Support Oppose: Maintain current rule
- OTHER notice rule changes: (describe)

COMPANY NAME: _____

address: _____

signature: _____

print name _____
phone number _____
fax number _____