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RECOGNIZED SPECIALIST IN THE AREA OF  
NATURAL RESOURCES-OIL AND GAS LAW

JASON KELLAHIN (RETIRED 1991)

January 11, 1999

**HAND DELIVERED**

Mr. Lori Wrotenbery, Director  
Oil Conservation Division  
2040 South Pacheco  
Santa Fe, New Mexico 87505

MS.

99 JAN 11 PM 12:03

OIL CONSERVATION DIV.

**Re:            *Application of Conoco Inc. for approval of a Pilot Project including, downhole commingling, unorthodox gas well locations and an exception from Rule 2(b) of the Special Rules and Regulations for the Basin Dakota Gas Pool for purposes of establishing a program in its San Juan 28-7 Unit to determine proper well density and well location requirements for Dakota wells, Rio Arriba County, New Mexico.***

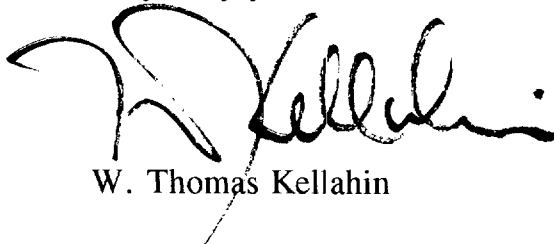
12122

Dear Ms. Wrotenbery:

On behalf of Conoco Inc., please find enclosed our referenced application which we request be set for hearing on the next available Examiner's docket now scheduled for February 4, 1999.

Also enclosed is our proposed advertisement of this case for the NMOCD docket.

Very truly yours,



W. Thomas Kellahin

cc:    Conoco Inc.  
      Attn: Mr. Jimmy Carlile

PROPOSED ADVERTISEMENT

# 12122

Case \_\_\_\_\_: Application of Conoco Inc. for downhole commingling, ~~X~~ unorthodox gas well locations and approval of a Pilot Project including an exception from Rule 2(b) of the Special Rules and Regulations for the Basin-Dakota Gas Pool for purposes of establishing a pilot infill drilling program within its San Juan 28-7 Unit, consisting of parts of T28N, R7W and T27N, R7W, whereby up to four wells may be drilled on a standard gas proration unit to determine proper well density and well location requirements for Dakota wells, Rio Arriba County, New Mexico. Applicant seeks approval for a pilot program including an exception for the San Juan 28-7 Unit from Rule 2 of the Special Rule and Regulations for the Basin-Dakota Gas Pool and authorization to drill wells at unorthodox locations anywhere in the proration unit provided such wells are located no closer than 10 feet from any section, quarter-section or quarter-quarter section line and to increase the well density from the current maximum of two (2) wells (160-acre infill) provided in Order R-8170 to a maximum of four (4) wells (80-acre infill) per gas proration and spacing unit for wells dedicated to the Basin Dakota Gas Pool within the San Juan 28-7 Unit. Applicant further seeks approval, in accordance with Order R-10476-B, to downhole commingling production in the six pilot project wells from the Blanco-Mesaverde Gas Pool and the Basin-Dakota Gas Pool. Said unit is located approximately 12 miles southwest of Gobernador, New Mexico.

**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:**

**APPLICATION OF CONOCO INC. FOR  
DOWNHOLE COMMINGLING, UNORTHODOX  
WELL LOCATIONS AND AN EXCEPTION  
FOR THE SAN JUAN 28-7 UNIT FROM  
RULE 2 OF THE SPECIAL RULES AND  
REGULATIONS FOR THE BASIN DAKOTA GAS POOL,  
RIO ARriba COUNTY, NEW MEXICO**

CASE NO. 12122  
99 JAN 11 PM 12:03  
OIL CONSERVATION DIV.

**APPLICATION**

Comes now Conoco Inc. and applies to the Division for downhole commingling, 6 unorthodox gas well locations and approval of a Pilot Project including an exception from Rule 2 of the Special Rules and Regulations for the Basin-Dakota Gas Pool for purposes of establishing a pilot infill drilling program within its San Juan 28-7 Unit whereby up to four wells may be drilled on a standard gas proration unit to determine proper well density and well location requirements for Dakota wells, Rio Arriba County, New Mexico. Applicant seeks approval for a pilot program including an exception for the San Juan 28-7 Unit from Rule 2 of the Special Rule and Regulations for the Basin-Dakota Gas Pool and authorization to drill wells at unorthodox locations anywhere in the proration unit provided such wells are located no closer than 10 feet from any section, quarter-section or quarter-quarter section line and to increase the well density from the current maximum of two (2) wells (160-acre infill) provided in Order R-8170 to a maximum of four (4) wells (80-acre infill) per gas proration and spacing unit for wells dedicated to the Basin Dakota Gas Pool within the San Juan 28-7 Unit. Applicant further seeks approval, in accordance with Order R-10476-B, to downhole commingling production in the six pilot project wells from the Blanco-Mesaverde Gas Pool and the Basin-Dakota Gas Pool.

In support of its application, Conoco Inc. states:

(1) Conoco Inc. is the current operator of the San Juan 28-7 Unit containing 31,200 acres, more or less and located in portions of Township 27 North, Range 7 West, and Township 28 North, Range 7 West NMPM. See Exhibit "A" attached.

(2) The San Juan 28-7 Unit is within the current boundaries of the Basin Dakota Gas Pool and includes 155 producing and 5 temporarily shut-in Dakota wells which are dedicated to that pool.

(3) On May 22, 1979, the New Mexico Oil Conservation Commission ("Commission") issued Order R-1670-V which adopted "infill drilling" for the Basin Dakota Gas Pool by permitting in Rule 2 for the drilling of a second well within a 320-acre gas proration and spacing unit ("GPU") providing this **one optional** "infill well" to be located on the opposite 160-acres from the 160-acres containing the original well ("the initial well") **and** further providing that these infill wells were not closer than 790 feet (but subject to a 200 foot topographical allowance) to the outerboundary of a quarter section and no closer than 130 feet to any quarter-quarter section line or subdivision inner boundary and that no infill well could be drilled nearer than 920 feet to an existing Dakota well in the same GPU.

(4) On March 28, 1986, the Commission issued Order R-8170 which, among other things, promulgated the Rules and Regulations for the Prorated Gas Pools, including "reformatting" Rule 2 of the Rules and Regulations for the Basin Dakota Gas Pool which currently provides:

#### "A. WELL ACREAGE AND LOCATION REQUIREMENTS

RULE 2(a). **Standard GPU (Gas proration Unit)** in the Basin-Dakota Gas Pool shall be 320 acres.

#### RULE 2(b) **Well Location:**

1. THE INITIAL WELL drilled on a GPU shall be located not closer than 790 feet to any outer boundary of the quarter section on which the well is located and not closer than 130 feet to any quarter-quarter section line or subdivision inner boundary.

2. THE INFILL WELL drilled on a GPU shall be located in the quarter section of the GPU not containing a Dakota well, and shall be located with respect to the GPU boundaries as described in the preceding paragraph. No Dakota infill well shall be drilled nearer than 920 feet to an existing Dakota well on the same GPU.

(5) Based upon a study of the geological and reservoir engineering data, Conoco Inc. has concluded that in order to increase ultimate recovery of gas from this pool within the San Juan 28-7 Unit there is a need to drill more wells per GPU than is currently permitted by Rule 2(b) of the pool rules.

(6) Accordingly, Conoco Inc. desires to initiate a pilot program for the drilling of additional Basin-Dakota Gas Pool wells in the San Juan 28-7 Unit to provide data for reservoir engineering and geologic studies for the purposes of determining the proper well density not to exceed a maximum of four (4) wells per GPU ("80-acre infill") **and** for determining the well location requirements for said wells.

(7) The initial six (6) pilot project wells, four of which are to be located at the following unorthodox gas well locations in an attempt to locate them in undrained portions of the reservoir:

**Standard well locations:**

- (a) San Juan 28-7 Unit Well No. 234-M  
1015 feet FSL and 895 feet FEL Section 15, T28N, R7W
- (b) San Juan 28-7 Unit Well No. 135-E  
1270 feet FNL and 850 feet FWL Section 27, T28N, R7W

**Unorthodox well locations:**

- (c) San Juan 28-7 Unit Well No. 231-M  
1320 feet FSL and 10 feet FWL Section 16, T28N, R7W
- (d) San Juan 28-7 Unit Well No. 219-M  
690 feet FWL and 1365 feet FSL Section 20, T28N, R7W
- (e) San Juan 28-7 Unit Well No. 225-E  
1340 feet FSL and 2020 feet FEL Section 34, T28N, R7W
- (f) San Juan 28-7 Unit Well No. 226-E  
1500 feet FNL and 2400 feet FWL Section 36, T28N, R7W

(8) On October 6, 1995, the Division entered Order R-10476 in Case 11349 which approved downhole commingling of Blanco-Mesaverde Gas Pool production with Basin-Dakota Gas Pool production in some 17 wells in this unit. (See also Order R-10476-B)

(9) Downhole commingling of this production has resulted in substantial economic savings which prolongs the lives of these wells thus preventing waste.

(10) Conoco Inc. seeks to continue this practice by having the Division authorize downhole commingling in the six (6) pilot project wells described above.

(11) The approval of a pilot program which increases the density of Basin Dakota Gas Pool wells at unorthodox well locations within the San Juan 28-7 Unit will not violate correlative rights because the San Juan 28-7 Unit Agreement has established an equitable method for the allocation of production of Basin-Dakota Gas Pool production to all interest owners within the unit regardless of the number of wells drilled or where those wells are located.

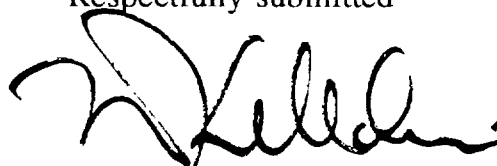
(12) In order to protect the correlative rights of any owners adjacent to the outer boundary of this unit, Conoco Inc. proposes that the well density for each 160-acres within the unit along its outer boundary shall be limited to the current well density of not more than one (1) well per 160-acres with the proposed infill wells to be located anywhere within the proration unit provided that such wells are located no closer than 10 feet from any section, quarter-section or quarter-quarter section line nor located closer than 790 feet to the outer boundary of the San Juan 28-7 Unit.

(13) Copies of this application have been sent to all appropriate parties as required by the Division notice rules.

(14) Approval of this application is in the best interests of conservation, the prevention of waste and the protection of correlative rights.

WHEREFORE Applicant requests that this matter be set for hearing on December 19, 1997 before a duly appointed Examiner of the Oil Conservation Division and that after notice and hearing as required by law. the Division enter its order granting this application.

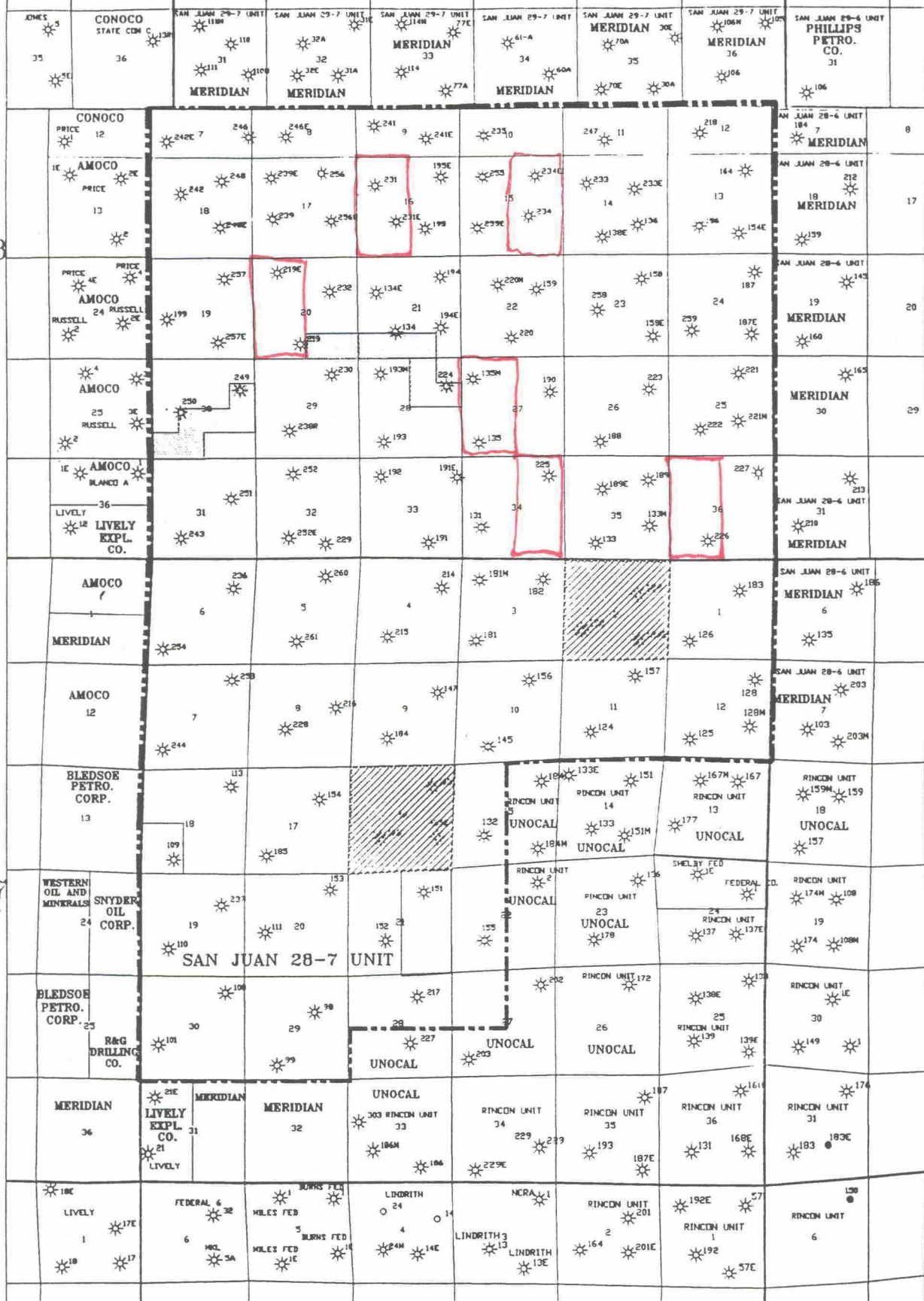
Respectfully submitted

A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', with a stylized, flowing script.

W. Thomas Kellahin  
KELLAHIN and KELLAHIN  
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Santa Fe, New Mexico 87501  
(505) 982-4285  
Attorneys for Applicant

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☆ DAKOTA COMPLETIONS

□ FEDERAL LAND

▨ STATE OF NEW MEXICO LANDS

□ FEE LAND

--- 28-7 UNIT BOUNDARY

CONOCO

SAN JUAN 28-7 UNIT  
RIO ARRIBA COUNTY, NEW MEXICO

EXHIBIT

A