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

JASON KELLAHIN (RETIRED 1991)

February 25, 1999

TO: NOTICE OF THE HEARING OF THE FOLLOWING  
NEW MEXICO OIL CONSERVATION DIVISION CASE:

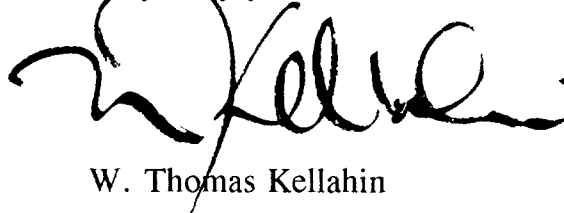
*Re: Application of Phillips Petroleum Company for a downhole  
commingling reference case for its San Juan 29-6 Unit,  
Pursuant to Division Rule 303.E,  
Rio Arriba County, New Mexico*

On behalf of Phillips Petroleum Company, please find enclosed our application which has been set for hearing on the New Mexico Oil Conservation Division Examiner's docket now scheduled for March 18, 1999. The hearing will be held at the Division hearing room located at 2040 S. Pacheco, Santa Fe, New Mexico.

As an interest owner who may be affected by this application, we are notifying you of your right to appear at the hearing and participate in this case, including the right to present evidence either in support of or in opposition to the application. Failure to appear at the hearing may preclude you from any involvement in this case at a later date.

Pursuant to the Division's Memorandum 2-90, you are further notified that if you desire to appear in this case, then you are requested to file a Pre-Hearing Statement with the Division not later than 4:00 PM on Friday, February 26, 1999, with a copy delivered to the undersigned. Please direct any questions to Mr. Scott Prather (505) 599-3410.

Very truly yours,



W. Thomas Kellahin

cc: Phillips Petroleum Company  
Attn: Scott Prather

**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 PHILLIPS PETROLEUM  
COMPANY FOR DOWNHOLE COMMINGLING  
REFERENCE CASE FOR ITS  
SAN JUAN 29-6 UNIT  
PURSUANT TO DIVISION RULE 303.E  
RIO ARriba COUNTY, NEW MEXICO.**

**CASE NO. \_\_\_\_\_**

**APPLICATION**

Comes now PHILLIPS PETROLEUM COMPANY, by and through its attorneys, Kellahin and Kellahin, and applies to the New Mexico Oil Conservation Division for the establishment of a downhole commingling reference case pursuant to Division Rule 303.E for its San Juan 29-6 Unit and the adoption of special administrative rules therefore, San Juan County, New Mexico. Applicant, in the above-styled cause, in accordance with Division Rule 303.E seeks to establish a downhole commingling reference case to provide for (a) marginal economic criteria, (b) pressure criteria, (c) allocation formulas, and (d) modification of notification rules on an area-wide basis authorization for downhole commingling of Dakota, Mesaverde, Fruitland-Coal and Pictured Cliffs gas production in the wellbores of existing or future wells drilled anywhere within the San Juan 29-6 Unit located in Township 29 North, Range 6 West, NMPM, Rio Arriba County, New Mexico.

In support of its application, Phillips Petroleum Company ("Phillips"). states:

(1) Phillips is the operator of the San Juan 29-6 Unit which currently includes 37 Dakota wells, 143 Mesaverde wells, 59 Fruitland-Coal wells and 2 Pictured Cliffs wells all located within an area known as the "San Juan 29-6 Unit" consisting of 22,510 acres, more or less of acreage, as identified on Exhibit "A" attached.

(2) In the absence of the establishment of a "reference case" as provided in Rule 303.E, Division general state-wide Rule 303.C requires that administrative applications for downhole commingling of gas production be submitted, processed and approved on a well by well basis including submittal of the following:

- (a) economic criteria to support that at least one zone to be commingled is marginal.
- (b) pressure criteria to demonstrate that the bottomhole pressure of all zones to be commingled is less than the original bottom hole pressure of the lowest pressures zone,
- (c) allocation formulas,
- (d) notification by certified mail return receipt to each interest owner where ownership is not common in the zones to be commingled, and
- (e) notification by certified mail return receipt to each offset operator

(3) Sufficient data is now available from existing wells in this unit to support the Division approving the downhole commingling of Dakota, Mesaverde, Fruitland-Coal and Pictured Cliffs gas production within this unit on an "area-wide" basis rather than on a "well-by-well basis."

(4) Sufficient data is now available from existing wells in this unit to support the Division adopting a "reference case" for the downhole commingling of Dakota, Mesaverde, Fruitland-Coal and Pictured Cliffs gas production within this unit as to the following criteria:

- (a) **economic criteria:** to support that at least one zone to be commingled is marginal;
- (b) **allocation formulas:** to support that each interest owner shall receive its fair and equitable share of production;

- (c) **elimination of unnecessary notice:** such that any future or further notice concerning downhole commingling applications or orders within this unit shall not be required to (a) any owner (including royalty, overriding royalty or working interest owners) in instances where ownership are not common or percentages are not identical in the zones to be commingled or to (b) each offset operator who is also an interest owner in this unit; but
- (d) **notice to offset operators:** notification by certified mail-return receipt to each offset operator, except as provided in paragraph (c) above, will continue to be made provided those offset operators are operators other than applicant.

(5) Phillips seeks authorization pursuant to Division Rule 303.E that all administrative application for downhole commingling of Mesaverde, Dakota, Fruitland-Coal and Pictured Cliffs gas production within this unit submitted subsequent to the filing of this application in this case shall be authorized to refer to the order entered in this case and will not be required to submit evidence or data for the following criteria (a) marginal economic criteria, (b) pressure criteria, (c) allocation formulas, and (d) notice to owners of any production within spacing units where the ownership is not common and offset operators who also own an interest in this unit.

(6) Production from the various pools in this unit are now either marginal or uneconomic from existing wells within this unit and the economic life of that production is extended if it is downhole commingled with other production in the unit.

(7) The approval of downhole commingling of these formations within this unit will extend the economic life of the existing wells and thereby increase ultimate recovery from these formations.

(8) In addition, any new wells to be drilled or recompleted in this unit should be approved for downhole commingling because either the Dakota, Fruitland coal-gas, Mesaverde, or the Pictured Cliffs zones are marginal based upon criteria which the applicant will submit at the hearing of this case.

(9) It is anticipated that new wells, recompleted wells or existing wellbores in this unit will be most economically completed if there is a summary administrative procedure by which those wells may be downhole commingled.

(10) The processing of downhole commingling application for this unit in the absence of adopting a reference case will be an administrative burden to the Division and to the operator.

(11) Approval of downhole commingling reference case for this unit on an area-wide basis is in the best interest of conservation, the prevention of waste and the protection of correlative rights.

(12) Phillips requests the adoption of a summary administrative procedure with the necessary exceptions to the Division Rule 303.C so that the Supervisor of the Aztec District Office of the Division shall approve the downhole commingling of said production on an area-wide basis for this unit.

(13) The ownership is not common among these four formations within this unit because of differences in participating areas within the unit.

(14) In accordance with Division Rule 303.C(1)(b), the Applicant states and will demonstrate at hearing:

1. That the wells in this unit which are currently single or dual completions are now marginal and production cannot be economically continued nor further developed unless it is done so by downhole commingling that production.
2. That there will be no unrecovered production crossflowing between or among the zones commingled.
3. That the value of the commingled production will not be less than the sum of the values of the individual production.

(15) In order to salvage the remaining production from this unit, Phillips seeks approval to downhole commingle all Dakota, Mesaverde, Fruitland-Coal and Pictured Cliffs production from any existing wells where mechanically feasible and the adoption of a summary procedures for the downhole commingling of future wells to be drilled in the Unit.

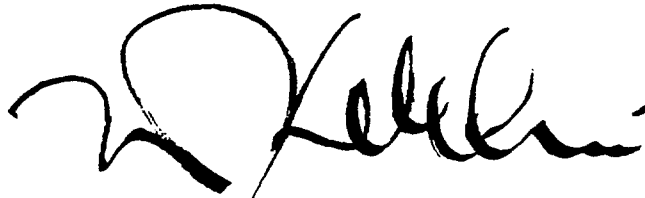
(16) Phillips will submit at hearing proposed formulas for the allocation of production to each of the commingled zones and a description of the factors or data used in determining such formulas.

(17) Applicant requests that this matter be docketed for hearing on the Division's Examiner docket now scheduled for March 18, 1999.

(18) Notice of this application has been sent to all interest owners entitled to receive production within the unit and to all offset operators as required by Division Rule 303.

WHEREFORE Applicant requests that this matter be set for hearing on March 18, 1999 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 large, stylized initial 'W' and a long, sweeping underline.

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

R-7-W

R-6-W

R-5-W



SAN JUAN 29-6 UNIT  
GWI/NWI/ORRI/RI OWNERS

Betty Adkins  
Alpine Resources, LLC  
American West Gas 1993, LLC  
Amoco Production Company  
Reece B. Anderson  
Georgia F. Anderson Living Trust  
Jerry J. Andrew  
ATNA/SJFC 1993-A  
B. H. Funds, Inc.  
Pamela Gray Baldwin  
Susan Hess Baumann  
Big Snowy Exploration Limited  
Theodore Blechar  
Bolack Minerals Company  
Ashley & Susan Bracken  
Anita Briggs  
Michael E. Brown  
Pamela Bruns  
Burlington Resources Oil & Gas Company  
Penelope H. Butler  
Jeff H. Callow  
Genevieve A. Candelaria  
Genoveva Juanita Gomez Candelaria  
John S Catron  
Thomas B. Catron, II & June Ellis Catron Revocable Trust  
Charter Royalty 96 Ltd.  
Delfinita G. Chavez  
Maria Delfinita Gomez Chavez  
Shirley Ann Chouteau Trust  
Pamela Ann Coats  
Timothy Coburn  
Conoco, Inc.  
Harold Richard Cooper  
W. E. Cooper  
Cross Timbers Production Company  
Loneta S. Curtis  
Jeromy S. Davis  
Walter S. Davis, III  
Mary Ann Isern Deen  
Jo Ann Denito  
Dan Dennis  
Jessie A. Dennis  
J. M. Dennis Trust  
Laura Dichter  
Barbara Reese Dinges  
Martha Dixon  
T. E. Duff Trust  
Duff-Leach Family Trust  
Estate of Robert Norman Dumble, Jr.  
Gail A. Durham



Barbara Evans  
Estate of Albert E. Fagan  
Manuel A. Ferran  
Deah N. Folk  
Frederking Trust  
Vera Beebe Fridley  
Trust A of Fritts Living Trust 2  
Ben J. Gardner, Jr.  
Shirley M. Gauldin  
Gerald F. Gaustin  
Corinne Miller Gay Trust  
Frank B. & Mae B. Gersbach  
Veva Jean Gibbard  
Walter R. & Florence L. Gibson  
Jose E. & Clara E. Gomez Living Trust  
Juan C. Gomez, Jr.  
Juan C. & Lila P. Gomez, Jr.  
Quadrant Gomez, LLC  
Jane C. Gordon  
Virginia M. Goret  
Thelma M. Graham Revocable Trust  
David H. Gray  
John L. Gray  
Gray Revocable Living Trust  
Edgar Clay Griffin, Jr.  
Kevin Giger  
Rosemary Warner Hall  
Robin Hampton  
Barbara S. Hannifin  
Patrick J. Hannifin  
Robert H. Hannifin  
C. A. Hanson  
Carloyn M. Harris  
Raymond C. Harris  
Virginia Oliver Hatfield  
David Henderson  
Catherine C. Hess  
Henry Crain Hess  
Farris Clark Hignett  
Luara Huggins  
Virginia Huggins  
William O. Huggins, III  
Mary Dol Ingram  
Donald S. Ironside  
Roderick A. Ironside  
Marion Isern Trust C  
Marion Isern Trust D  
Edward Isern, Jr.  
Joe C. & Gregorita G. Jaquez  
Richard A. Jinnings  
Barbara Johnson  
Gary Robert Johnson  
Pauline P. Johnson  
James J. Johnston

V. A. Johnston Family Trust  
Eula May Johnston Trust  
JRP San Juan, L.P.  
K & W Gas Partners, L.P.  
Koch Industries, Inc.  
Gloria Wynn Lankford  
Nida Rae Larson  
Leland Stanford University  
Estate of Erin Lockhart  
Andrea T. Lucero  
Estate of Pattie Beamon Lundell  
MAP 1992-C Partners, L.P.  
Maydell Miller Mast Trust  
Estate of G. T. McAlpin  
Lora B. McAlpin  
Charles W. McCarty Trust  
Kathryn McCormick  
McCormick & Company, Inc.  
Estate of Carle E. McElvain  
T. H. McElvain Oil & Gas Company  
Katherine McIntyre  
Douglas Cameron McLeod  
Cynthia Gray Milani  
Gail F. Moulton  
Willis R. Moulton  
MP San Juan, L.P.  
Carroll D. Myer  
Gregory E. Myer  
Joan E. Myer  
Nathan D. Myer  
Carroll D. Myer, II  
Susan Leigh Pierce Nelson  
Virginia L. New  
Commissioner of Public Lands - New Mexico Land Office  
Ralph A. Nix Partnership  
Estate of Pearl Nugent Nordan  
The Nordan Trust  
Estate of Mary Jane O'Shea  
Myra Palmer  
Tom D. Patterson  
Juanita V. Peterson  
Petrox Resources, Inc.  
Betty Pettus  
John Pettus  
PGP San Juan Limited Partnership  
Phillips - New Mexico Partners, L.P.  
Phillips - San Juan Partners, L. P.  
Phillips Petroleum Company  
David A. Pierce  
John B. Pierce  
Perry H. Pollock  
Thomas Pollock  
Harry D. Porter Trust  
Cathy J. Pound

Betty J. Preston Decedent's Trust  
R K C, Inc.  
James M. Raymond  
Red River Corporation  
Dirk Vanhorn Reemstma  
Lance BrewsterReemstma  
David Elbert Reese  
Elizabeth Goodwin Reese  
Catherine Gray Remenick  
Genevieve A. Rinerson  
Rogers-Gibbard Trust  
Dorothy T. Rutter Trust  
William A. Rutter Trust  
Sable Energy Ltd.  
San Juan 1990-, L.P.  
San Juan Basin Partnership  
IdaSchoser  
Sharbro Oil Ltd. Company  
David Walker Smith  
Marjorie Fisher Smith  
The Robert Smith & Patricia L. Smith Trust  
Lewis A. Soens  
Robert P. Soens  
I. H. Stewart  
E. Hunter Stone, II Trust  
Tipperary Oil & Gas Corp  
Melody Giger Toohey  
G. Eleanor Trujillo  
Joe P. Trujillo  
Robert Umbach  
Union Oil Company of California  
United States Department of Interior - MMS  
Vastar Resources, Inc.  
Vaughn-McElvain Energy, Inc.  
Ascencion T. Walker  
Gregory E. Wall  
John A. Wall  
San G. Wall, III  
Rebecca A. Reese Ward  
Gladys Watford Trust  
Priscilla H. Watson  
Archie Westfall  
Bessie L. Whelan Trust  
Carolynn Clark Wiggin  
Margaret H. Wigocki  
Wilco Properties, Inc.  
Williams Production Company  
L. Doris Williams Trust  
The Wiser Company  
Estate of Lottie Plummer Wooley  
Estate of Lillie M. Yates