

I. ZONE COMMINGLING (Common Royalty)

P. ZONES WITH TOP ALLOWABLE WELLS (all zones metered)

3. Zone Production Allocation

- a. A sampler installation will be required on zones producing fluid containing two percent or more BS&W at the point of commingling. Wherever a sampler is utilized, the net zone production shall be determined by correcting the gross meter reading for BS&W content and meter factor. Wherever a sampler is not utilized, the net zone production shall be determined by correcting the gross meter reading by the meter factor and reapportioning the summation of zone meter readings on a prorata basis to agree with net pipeline runs adjusted by opening and closing inventory.

II. LEASE OR ZONE COMMINGLING (Royalty no common)

A. GENERAL REQUIREMENTS

The word "lease" used hereinafter shall mean any lease or part thereof throughout which all interests are common. Metering facilities for the transfer of liquid hydrocarbons between individual leases or zones to a central tank battery shall provide proper means for quality determination (where required), net volume determination, fail-safe operation, and shall meet the requirements listed below. The overall accuracy of the system must equal or surpass the present hand-gauging methods used in oil custody transfer.

Gulf Oil Corporation

ROSWELL PRODUCTION DISTRICT

W. A. Shellshear
District Manager
F. O. Mortlock
District Exploration
Manager
M. J. Taylor
District Production
Manager
H. C. Vivian
District Leases Manager

August 11, 1961

P. O. Drawer 1938
Roswell, New Mexico

Oil Conservation Commission
State of New Mexico
Post Office Box 871
Santa Fe, New Mexico

Attention: Mr. A. L. Porter, Jr.

Re: Case No. 2356 Scheduled for Consideration
at the Statewide Hearing to be Held in
Santa Fe on August 16, 1961

Gentlemen:

The following are Gulf's comments in regard to the above referenced case.

The Industry Study Committee on Commingling of Crude Oil has done an excellent job in setting up standards to minimize the possibilities of failure and accidental or purposeful mismeasurements of commingled crude oil. However, it is our opinion that the standards which were set up to comply with the Commission's directive add to the cost of installations at a time when producers are attempting to reduce costs by commingling. The standards do tend to minimize the possibilities of purposeful mismeasurements; however, prudence on the part of the producer has been and still will be a prime factor.

Gulf desires the opportunity to commingle crudes from multi-pay leases having common royalty on top allowable zones as well as on marginal zones without prior metering, with allocation of production being made to the respective pays based on well tests. Based on increasing cost trends an operator must continually exploit all means of reducing or minimizing costs. By the elimination of individual measurement a great saving can be realized in investment, operating and maintenance costs and also a substantial reduction in reporting and keeping of records would result in further savings. It is our opinion that this approach is a practical one.

It is recommended that the new rules, if adopted, not require seals on metering facilities because of the burden of resealing that would be placed on the Commission and the operator.

It is further recommended that provided the new rules apply to installations already installed as approved by the Commission that the need for any modifications be determined after individual consideration.

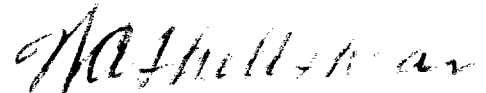


August 11, 1961

Reference is made to the portion of the proposed revision to Rule 309-B which reads, "All parties owning an interest in the leases and all operators of adjoining leases have consented in writing to the commingling of production from the separate leases". We feel that the obtaining of approval from offset operators of the adjoining leases is not necessary and only serves to add a paperwork burden upon the producer.

Yours very truly,

GULF OIL CORPORATION

A handwritten signature in dark ink, appearing to read "W. A. Shellshear", written in a cursive style.

W. A. Shellshear

JHH:bc



SHELL OIL COMPANY

PETROLEUM BUILDING

P. O. BOX 1509

MIDLAND, TEXAS

August 1, 1961

New Mexico Oil Conservation Commission
P. O. Box 871
Santa Fe, New Mexico

Attention A. L. Porter, Jr., Secretary-Director

Gentlemen:

It is noted that the final report by the Industry Study Committee on Minimum Standards for Commingling Crude Oil and Hydrocarbons in New Mexico has been submitted to the Oil Conservation Commission and that at the regular hearing on August 16, 1961 the Commission probably will consider incorporating such standards as part of Rules 303 and 309-B.

There is no doubt that the adoption of the Committee's study would be a big help to the Commission and to the operators in establishing uniform procedures. However, in cases where the interest ownership is diversified the commingling of crude oil from wells, zones, or leases presents a problem to the purchaser of the production insofar as proper allocation for payment is concerned. Due to difference in price the commingling of high gravity condensate with crude also presents another problem. It is our feeling that the purchaser has the right to refuse to purchase any commingled production if means or facilities are not available to properly determine quality and ownership at the time and place of receipt. In other words, the purchaser, in taking the commingled production, will not rely upon breakdown data compiled and furnished by the operator.

It is therefore recommended that even though the Commission may grant permission to commingle it should be with the understanding that the operator should not start commingling operations until he has first consulted and made satisfactory arrangements with the purchaser of the production.

In the case of diversified ownership one possible solution is for the purchaser to require that the operator assume the full responsibility of disbursing payments to all interest owners. For protection and indemnity to the purchaser this would require that the operator, in some cases, obtain approval from each interest owner whereby such interest owner would agree to look to

the operator for payment. This could possibly be done at the time the operator obtains consent to commingle as is now provided in Rule 309-B.

We respectfully call this to your attention so that our recommendation may be given proper consideration when the matter comes up for hearing on August 16, 1961.

Yours very truly,

A handwritten signature in dark ink, appearing to read "C. A. Nyhof", with a stylized, cursive flourish at the end.

BGC:JG

C. A. Nyhof
Crude Oil Department - Midland