

**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:**

**CASE NO. 10510
Order No. R-9711**

**APPLICATION OF MERIDIAN OIL INC. FOR
DOWNHOLE COMMINGLING AND FOR AN
ADMINISTRATIVE DOWNHOLE COMMINGLING
PROCEDURE WITHIN THE HUERFANO SAND
UNIT AREA, SAN JUAN COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on July 23, 1992, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 2nd day of September, 1992, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) The applicant, Meridian Oil Inc., seeks approval to commingle gas production from the Undesignated Gallegos-Gallup Associated Pool and the Basin-Dakota Gas Pool within the wellbore of its Huerfano Unit Well No. 131 located 800 feet from the North line and 990 feet from the West line (Unit D) of Section 34, Township 26 North, Range 10 West, NMPM, San Juan County, New Mexico. The N/2 of Section 34, forming a standard 320-acre spacing and proration unit for both zones, is to be dedicated to the subject well.

(3) The applicant further seeks the adoption of an administrative procedure for authorizing the downhole commingling of Gallup and Dakota production in the wellbores of certain existing and subsequently drilled wells within the Huerfano Unit Area without additional notice to each affected interest owner within the Unit Area.

(4) The Huerfano Unit is a Federal exploratory unit comprising some 63,122 acres in portions of Townships 25, 26 and 27 North and Ranges 9, 10 and 11 West, NMPM, San Juan County, New Mexico. The unit was formed in 1950 and is currently operated by Meridian Oil Inc.

(5) The Huerfano Unit Well No. 131 was drilled in 1971 and completed as a producing well in the Basin-Dakota Gas Pool. Division records indicate that the subject well last produced in September, 1989.

(6) At the time the subject well was shut in, it was capable of low marginal production only from the Basin-Dakota Gas Pool.

(7) The Gallup interval is not yet completed in the subject well, however, the applicant expects initial production from said zone to be approximately 100-200 MCF gas per day.

(8) The proposed commingling is necessary in order to efficiently and economically produce the remaining gas reserves in the Dakota and Gallup formations.

(9) Although the interest is not common among the Dakota and Gallup zones in the subject well, the applicant notified all interest owners of its proposal to commingle. No interest owner and/or offset operator appeared at the hearing in opposition to the application.

(10) The proposed commingling should result in the recovery of additional gas reserves from each of the subject pools, thereby preventing waste, and will not violate correlative rights.

(11) The reservoir characteristics of each of the subject zones are such that underground waste would not be caused by the proposed commingling provided that the well is not shut-in for an extended period.

(12) To afford the Division the opportunity to assess the potential for waste and to expeditiously order appropriate remedial action, the operator should notify the supervisor of the Aztec District Office of the Division any time the subject well is shut-in for 7 consecutive days.

(13) The applicant should consult with the supervisor of the Aztec District Office of the Division upon completion of the subject well in order to determine a proper allocation of production from each of the commingled zones.

(14) The Basin-Dakota Pool has essentially been fully developed in the Huerfano Unit as evidenced by applicant's testimony which indicates that the Dakota Participating Area (PA) within the unit currently contains in excess of 44,000 acres.

(15) The Gallup Participating Area (PA) within the Huerfano Unit currently contains in excess of 10,000 acres.

(16) The applicant has identified substantial potential for new gas production from the Gallup formation within the Huerfano Unit.

(17) Further testimony by the applicant indicates that gas reserves in the Gallup formation on an individual well basis are not sufficient to economically justify the drilling of new wells to produce such reserves.

(18) The applicant has identified 20-50 wells within the Huerfano Unit currently completed in or producing from the Basin-Dakota Gas Pool which are candidates for downhole commingling.

(19) Applicant's Exhibit No. 7 Part (C) in this case is a list of over 400 interest owners in the Dakota and Gallup Participating Areas within the Huerfano Unit. All such interest owners were notified of the application in this case.

(20) By virtue of different Dakota and Gallup Participating Areas, interest ownership is generally not common among the Dakota and Gallup formations within any given drill tract in the Huerfano Unit.

(21) Rule No. 303(C) of the Division Rules and Regulations provides that administrative approval for downhole commingling may be granted provided that the interest ownership, including working, royalty and overriding royalty interest, is common among the commingled zones.

(22) Applicant's proposed administrative procedure would provide for Division approval to downhole commingle wells in the Huerfano Unit Area without hearing, and without the requirement that each interest owner in the Dakota and Gallup Participating Areas be notified of such commingling.

(23) Applicant's evidence and testimony indicates that all interests in the Gallup and Dakota formations within the Huerfano Unit Area are fully committed to the unit by virtue of ratification of the Unit Agreement. The applicant further testified that all such interest owners, by virtue of such ratification, have contractually agreed how they will participate and share in unit production.

(24) The downhole commingling of wells within the Huerfano Unit Area will benefit working, royalty and overriding royalty interest owners. In addition, the downhole commingling of wells within the Huerfano Unit Area should not violate the correlative rights of any interest owner.

(25) The evidence in this case indicates that notice to each interest owner within the Dakota and Gallup Participating Areas of subsequent downhole comminglings within the Huerfano Unit is unnecessary and is an excessive burden on the applicant.

(26) No interest owner and/or offset operator appeared at the hearing in opposition to the application.

(27) An administrative procedure should be established within the Huerfano Unit for obtaining approval for subsequently downhole commingled wells without notice and hearing, provided however that, all provisions contained within Rule No. 303(C) of the Division Rules and Regulations, with the exception of Part 1 (b)(v), are fully complied with.

IT IS THEREFORE ORDERED THAT:

(1) The applicant, Meridian Oil Inc., is hereby authorized to commingle production from the Basin-Dakota and Undesignated Gallegos-Gallup Associated Pools within the wellbore of its Huerfano Unit Well No. 131 located 800 feet from the North line and 990 feet from the West line (Unit D) of Section 34, Township 26 North, Range 10 West, NMPM, San Juan County, New Mexico.

(2) The operator shall immediately notify the supervisor of the Aztec District Office of the Division any time the subject well has been shut-in for 7 consecutive days, and shall concurrently present to the Division a plan for remedial action.

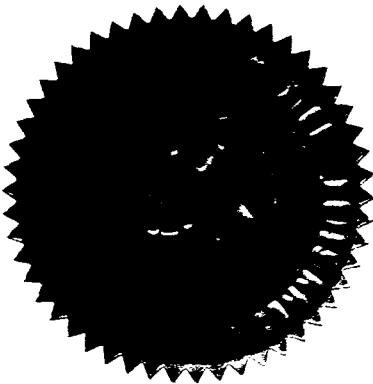
(3) The applicant shall consult with the supervisor of the Aztec District Office of the Division upon completion of the subject well in order to determine a proper allocation of production from each of the commingled zones.

(4) An administrative procedure for obtaining approval to downhole commingle additional wells within the Huerfano Unit, located in portions of Townships 25, 26 and 27 North and Ranges 9, 10 and 11 West, NMPM, San Juan County, New Mexico, is hereby established.

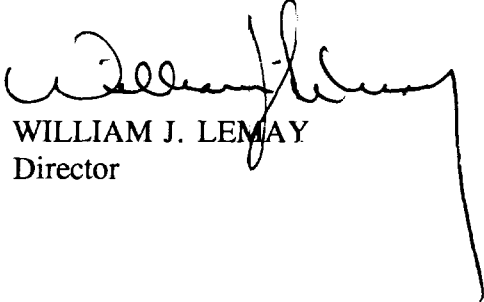
(5) In order to obtain Division authorization to downhole commingle wells within the Huerfano Unit, the applicant shall file an application with the Santa Fe and Aztec Offices of the Division. Such application shall contain all of the information required under Rule No. 303(C) of the Division Rules and Regulations, provided however that the applicant shall not be required to provide notice to all interest owners within the Dakota and Gallup Participating Areas in the Huerfano Unit of such proposed commingling. In addition, the application shall contain evidence that all offset operators and the United States Bureau of Land Management (BLM) have been notified of the proposed commingling.

(6) Jurisdiction is hereby retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


WILLIAM J. LEMAY
Director

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