



Midland Division
Exploration and Production

Conoco Inc.
10 Desta Drive West
Midland, TX 79705-4514
(915) 686-5400

April 23, 1991

Dear Interest Owner:

**Application For Hearing to Approve Surface
Commingling and Off-Lease Storage of North
Dagger Draw Upper Pennsylvanian Production
from all Conoco Operated Leases in the North
Dagger Draw Upper Pennsylvanian Pool,
Eddy County, New Mexico**

Attached is a copy of Conoco's application requesting an NMOCD examiner hearing on the May 16, 1991 docket for approval of off-lease storage and surface commingling of North Dagger Draw Upper Pennsylvanian Pool production from all Conoco-operated leases in this pool.

Because of the complex ownership of mineral interests in the North Dagger Draw Upper Penn Pool, each 160-acre proration unit comprises a separate lease with unique royalty interests. Conoco operates 15 separate 160-acre leases in the North Dagger Draw Upper Pennsylvanian Pool. Without the granting of exceptions to the New Mexico Oil Conservation Division Rules, each of these 15 proration units would require its own separate battery. The building and operation of a large number of small facilities would be economically inefficient and would result in the premature abandonment of these wells due to higher operational costs.

In order to reduce operating costs for the interest owners and to extend the economic life of each well, Conoco has established three regional storage facilities for these 15 leases. It has been necessary to secure administrative orders for off-lease storage and surface commingling of these multiple leases at the three regional storage facilities. After the first order was issued for each of the three facilities, these orders had to be amended each time a new well was drilled on a lease not included in the initial order.

The economy of and justification for consolidating all storage facilities at these three regional sites have been repeatedly presented to and routinely approved by royalty owners and the Oil Conservation Division. In order to simplify this readily accepted practice of surface commingling in this pool, Conoco is proposing that the OCD issue one comprehensive off-lease storage and surface commingling order that will accommodate the oil and gas storage and handling requirements for its aggressive development drilling program and that will provide for future needs to either realign the current facility-lease groupings or to establish additional regional storage facilities.

As has been Conoco's practice in the past, each lease will continue to be equipped with its own production separator, positive displacement oil measurement meter, and individual, temperature compensated, gas meter. This practice will ensure that the production from every lease will be accurately measured and credited to the appropriate interest owners regardless of the facility used for surface commingling and storage.

EXHIBIT 7

BEFORE EXAMINER OIL CONSERVATION DIVISION
EXHIBIT NO. <u>7</u>
CASE NO. <u>10306</u>
Submitted by <u>Conoco Inc.</u>
Hearing Date <u>5-16-91</u>

It is at the Oil Conservation Divisions's suggestion that a hearing is being held to consolidate this routine practice of off-lease storage and surface commingling in this pool into one simplified order. This single order will provide for all future development needs and facility rearrangements that may be required to minimize costs to interest owners and maximize oil recovery without continual amendment of the three original administrative orders.

Conoco believes that this approach, as suggested by the OCD, will allow Conoco to prudently handle and store production from these leases without revenue loss to any of the interest owners and will avoid potential lengthy delays in beginning production sales from newly drilled wells while surface commingling orders are being processed. This will allow Conoco to efficiently continue its current aggressive drilling program and development of additional reserves.

As an interest owner who may be affected by this application, you may appear and present testimony in support or protest of this application. Any party desiring to appear must file a prehearing statement by the Friday prior to the date of the hearing.

If you have no objection to the issuing of a single order by the OCD to simplify the common practice of off-lease storage and surface commingling of North Dagger Draw Upper Pennsylvanian production from Conoco-operated leases, please sign the attached waiver and return it in the enclosed postage paid envelope. If you have any questions regarding this application, please call Jerry W. Hoover at (915) 686-6548.

Very truly yours,

A handwritten signature in cursive script that reads "Jerry W. Hoover". The signature is written in black ink and is positioned above the typed name and title.

Jerry W. Hoover
Regulatory Coordinator

JWH/tm

**CONOCO INC.
10 Desta Drive, Ste. 100 W
Midland, Texas 79705-4500**

Application for approval of off-lease storage and surface commingling of North Dagger Draw Upper Pennsylvanian production from all Conoco-operated leases in the North Dagger Draw Upper Pennsylvanian Pool.

WAIVER TO OBJECTION

We, the undersigned, as an interest owner, waive any objection to the above described application by Conoco for NMOCD approval of off-lease storage and surface commingling of North Dagger Draw Upper Pennsylvanian production from all Conoco-operated leases in the North Dagger Draw Upper Pennsylvanian Pool located in Eddy County, New Mexico

Company or Name: _____

Signature: _____

Title: _____

Date: _____