

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 BURLINGTON RESOURCES OIL)
AND GAS COMPANY, L.P., FOR SURFACE)
COMMINGLING, SAN JUAN COUNTY, NEW MEXICO)

CASE NO. 13,314

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

August 5th, 2004

Santa Fe, New Mexico

2004 AUG 19 AM 10:27

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, August 5th, 2004, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

I N D E X

August 5th, 2004
 Examiner Hearing
 CASE NO. 13,314

	PAGE
APPEARANCES	3
APPLICANT'S WITNESS:	
<u>LEONARD J. BIEMER, JR</u> (Engineer)	
Direct Examination by Mr. Kellahin	5
Examination by Examiner Catanach	30
REPORTER'S CERTIFICATE	42

* * *

E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	6	29
Exhibit 2	7	29
Exhibit 3	7	29
Exhibit 4	11-12	29
Exhibit 5	17-18	29
Exhibit 6	28	29

* * *

A P P E A R A N C E S

FOR THE APPLICANT:

KELLAHIN & KELLAHIN
117 N. Guadalupe
P.O. Box 2265
Santa Fe, New Mexico 87504-2265
By: W. THOMAS KELLAHIN

FOR CONOCOPHILLIPS:

MILLER, STRATVERT P.A.
150 Washington
Suite 300
Santa Fe, New Mexico 87501
By: J. SCOTT HALL

* * *

1 WHEREUPON, the following proceedings were had at
2 8:16 a.m.:

3 EXAMINER CATANACH: First case on the docket this
4 morning is Number 13,314, which is the Application of
5 Burlington Resources Oil and Gas Company, L.P., for surface
6 commingling, San Juan County, New Mexico.

7 I will call for appearances in this case.

8 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of
9 the Santa Fe law firm of Kellahin and Kellahin, appearing
10 on behalf of the Applicant, and I have one witness to be
11 sworn.

12 EXAMINER CATANACH: Additional appearances?

13 MR. HALL: Mr. Examiner, Scott Hall of Miller
14 Stratvert, P.A., Santa Fe, appearing on behalf of
15 ConocoPhillips Company, and I have no witnesses this
16 morning.

17 EXAMINER CATANACH: Any additional appearances?

18 Okay, will the witness please stand to be sworn
19 in?

20 (Thereupon, the witness was sworn.)

21 MR. KELLAHIN: Mr. Examiner, we have one witness
22 this morning. Mr. Leonard Biemer is a petroleum engineer
23 with Burlington, and he's representing on behalf of the
24 technical group the presentation to you this morning. The
25 exhibits are in PowerPoint, and before you is a hard copy

1 of those exhibits. With your permission, then, we'll
2 proceed.

3 EXAMINER CATANACH: You may, proceed.

4 LEONARD J. BIEMER, JR.,

5 the witness herein, after having been first duly sworn upon
6 his oath, was examined and testified as follows:

7 DIRECT EXAMINATION

8 BY MR. KELLAHIN:

9 Q. Mr. Biemer, for the record, sir, would you please
10 state your name and occupation?

11 A. My name is Leonard Biemer. I'm a senior staff
12 reservoir engineer with Burlington Resources in Farmington,
13 New Mexico.

14 Q. On prior occasions, Mr. Biemer, have you
15 testified before the Division?

16 A. Yes, sir, I have.

17 Q. And have you qualified as an expert petroleum
18 engineer?

19 A. Yes, sir, I have.

20 Q. As part of your engineering responsibilities for
21 Burlington, are you part of the technical team that
22 examined this issue of surface commingling of production in
23 the San Juan Basin?

24 A. Yes, sir, I am.

25 Q. Are you familiar with Division Rule 303.B for

1 surface commingling?

2 A. Yes, I am.

3 Q. Are you seeking to establish with these wells a
4 procedure where you can commingle production of oil for
5 these wells?

6 A. Yes.

7 Q. Are you in addition seeking approval to use this
8 an example for preapproval of this method of allocation
9 between wells within the same spacing unit?

10 A. Yes, we are.

11 Q. Let's turn to the exhibits, Mr. Biemer. Are all
12 these exhibits documents that you're familiar with?

13 A. Yes, I am.

14 Q. Did you aid in the preparation of the technical
15 work?

16 A. Yes, sir.

17 MR. KELLAHIN: We tender Mr. Biemer as an expert
18 petroleum engineer.

19 EXAMINER CATANACH: Any objection?

20 MR. HALL: No objection.

21 EXAMINER CATANACH: Mr. Biemer is so qualified.

22 MR. KELLAHIN: Mr. Examiner, the exhibit book is
23 organized so that behind Exhibit Tab 1 is the Application
24 and a copy of the notice list and the green return receipt
25 cards. We're going to skip that and start behind Exhibit

1 Tab Number 2 and start, then, with the PowerPoint at that
2 point. If you'll skip by those for me, Mr. Biemer.

3 Q. (By Mr. Kellahin) Let's describe for Mr.
4 Catanach the current status of the commingling of oil
5 production in the San Juan Basin.

6 A. Currently Rule 303.C states that we can downhole
7 commingle oil and gas for common ownership and for diverse
8 ownership.

9 The second bullet point there shows that we have
10 preapproved allocation methods for surface commingling of a
11 gas with common ownership. Today here, we're -- under that
12 bullet point, we're here to seek approval to surface
13 commingle the oil when we have diverse ownerships under
14 Rule 303.B. We are limiting this to the northwest New
15 Mexico, and...

16 Q. Can you give us a locator map so you can orient
17 the wells that are the topic of the first part of your
18 presentation?

19 A. Mr. Examiner, you'll see in the blue dots there
20 that there's two locations. Each of those locations have
21 four wells on them. They are located in the 29-7 unit.

22 And on the next slide here, this is a development
23 area for the first well, or first wells, first location.
24 They are the San Juan 29-7, the 191 -- this is a PC-
25 Fruitland Coal well that currently has a downhole

1 commingling order -- and the 65A is a Mesaverde-Dakota well
2 that has a downhole commingling order.

3 Q. Why were these -- We're looking at -- we're going
4 to look at four wells?

5 A. We're looking at four wells and two locations.

6 Q. Why were these selected?

7 A. These are representative wells that -- talk about
8 as far as the GOR, environmental and safety issues.

9 Q. Would they result in a combination of oil
10 production from the type of wells for which oil is commonly
11 commingled?

12 A. Yes, sir, they would.

13 Q. When we look at the 191 and the 65A, what
14 formations do those wells produce from now?

15 A. Yes, the 191 is a PC and Fruitland Coal. There's
16 oil production from the PC well, and then there's a
17 Mesaverde-Dakota well with -- have oil production from the
18 Mesaverde. You'll see four symbols there in Unit letter J
19 of Section 22, in the center of this map. Those four
20 symbols are overlaying each other. That indicates that we
21 have two wells on a single location.

22 Q. For the 320-acre spacing unit, which way is the
23 section oriented, the spacing unit oriented in the section?

24 A. We have an east-west dedication on the PC, the
25 Fruitland and Mesaverde formations.

1 Q. Is the production in the 191 -- that's Pictured
2 Cliff and Fruitland?

3 A. Yes, sir, it is.

4 Q. Is that production currently downhole commingled?

5 A. Yes, sir, it is.

6 Q. And when we look at the 65A, that's the Mesaverde
7 and Dakota production?

8 A. Yes, sir.

9 Q. Is that production currently being downhole
10 commingled?

11 A. Yes, sir, we received that downhole commingling
12 order back in 1998.

13 Q. The other pair of wells in the other spacing
14 unit, let's turn to that slide and have you identify and
15 describe those.

16 A. We have a nine-section map here for the 29-7 93
17 [sic] and the 55A. The 93 is a Pictured Cliff well and the
18 55A is a single Mesaverde well. They are located in Unit
19 Letter P of Section 36, 29 and 7.

20 Q. What's the purpose of showing these two wells?

21 A. These are also two wells on a single location,
22 but they are not downhole commingled, they are single
23 wellbores.

24 Q. Let's turn to the next slide.

25 A. Mr. Examiner, what I have here in the blue is,

1 there's 306 locations out there that have twin wells on
2 them. In the red dots there, we have 11 locations which
3 have three wells on the same wellpad. These are
4 Burlington-operated wells across the San Juan Basin.

5 Q. Let me have you further explain what Burlington's
6 concept is. Within the spacing unit -- let's take the east
7 half of the first half-section, back in Section 22 for the
8 191 and the 65A, the east half of that section -- on that
9 pad there are two wells.

10 A. Yes, sir, and I'll show you a picture of those
11 wellbores -- of those wells, next.

12 Q. Your objective is not to have surface commingling
13 for wellbores that are outside of this GPU?

14 A. That's right.

15 Q. So it would be for wells within the same gas
16 proration unit?

17 A. That's correct.

18 Q. In fact, they would be within the same pad for
19 those wells collected?

20 A. That is correct.

21 Q. To your knowledge, has Burlington received any
22 objection from any of the individuals noticed for this
23 Application?

24 A. No, sir, we have not.

25 Q. When we look at this inventory of existing

1 locations where you have two and three wells, is
2 Burlington's initial plans one that involve going back into
3 existing wells as you've identified this, or is it to be
4 initially applied to future wells?

5 A. This is to be applied to future wells.

6 Q. Give me a general idea of how this happens.

7 A. In the future -- We're wanting to, as we drill
8 new wells, drill these new wells on the same wellpad. By
9 doing that, if we can commingle, we can reduce the amount
10 of surface equipment, which is an environmental and safety
11 and also complies with the BLM's best management practice
12 in the RMP.

13 Q. Are there cost savings associated with the
14 approval of this project?

15 A. Yes, sir, there is.

16 Q. For those inventory of existing wells, as the
17 opportunity arises and funds are available, you would go
18 back to those existing facilities and consolidate the
19 equipment so that there's less of an impact on the surface
20 and there's an economic savings realized?

21 A. Yes, sir, as we go forward and we have to go back
22 onto an existing well, whether it's a part of these 306
23 wells, and we have to go back and do some workover, at that
24 point in time we could consolidate that surface equipment.

25 Q. Mr. Biemer, let's turn to the next slide and

1 identify for Mr. Catanach what a typical facility would
2 look like under the current procedures that you're using
3 for these wells.

4 A. Mr. Examiner, you'll see here -- on the upper
5 right you'll see two wellbores. The one to the very
6 northeast is our PC-Fruitland Coal well. The second one is
7 our Mesaverde-Dakota. What we have currently is two tanks
8 here and we have one water pit. Now, normally we'll have
9 two water pits on a location like this. You'll see two
10 separators to your left in the southwest corner, and then
11 two meters.

12 What the purpose of this, as we add and go
13 forward, as we have more and more wells on the same wellpad
14 is, it would get very full, and what we would like to do is
15 reduce those number of surface tanks and pits, separators,
16 in the future.

17 Q. If Mr. Catanach approves this, then of the two
18 tanks we see on a typical pad, you would then be able to
19 remove one tank?

20 A. Yes, sir, if we were going forward and we were
21 drilling a third well on this location, we could remove
22 that tank and just have one tank with that surface oil
23 commingling, and all the fluid would be going into one
24 tank. And we'll be discussing later about safety and
25 environmental issues as a part of that.

1 Q. What happens to the fact that you have two
2 separators on this slide?

3 A. Well, if we could get surface gas commingling, we
4 could all have it go into one separator and then one meter,
5 and I'll show you a picture of what that wellsite would
6 look like in the future.

7 Q. When we look at the type of well in terms of
8 productivity of oil that you're seeking approval for
9 surface commingling, do you have a cap or a top oil in
10 terms of barrels of oil?

11 A. Yes, sir, the -- as long as the well doesn't make
12 more than 10 barrels an average on a yearly basis, which is
13 the vast majority of what we operate, less than 10 barrels
14 a day on a --

15 Q. So if we had two wells on the spacing unit within
16 this pad, each would produce less than 10 barrels a day or
17 less?

18 A. Yes, sir, that is correct.

19 Q. And then you would take that on an average annual
20 basis to determine?

21 A. (Nods)

22 Q. Let's turn to the next slide, Mr. Biemer.

23 A. Mr. Examiner, what we're showing here is our
24 second well that is the 193 -- that is a Pictured Cliff
25 well -- and the 55A. You can see the meter houses in the

1 northwest corner. We have two tanks in the foreground, and
2 then there's two wellheads just east and west of the large
3 tank. We have two separators on the east side of this
4 picture.

5 Again what we're trying to show here is that we
6 have a lot of surface equipment. By obtaining this surface
7 commingling we can reduce the amount of surface equipment.

8 Q. Let's turn to a schematic so that the Examiner
9 can see from an aerial point of view what a pad would look
10 like. First describe what kind of pad we're looking at
11 here.

12 A. This is our standard pad that we build on. What
13 I'm showing here is the compressors, water tanks, oil
14 tanks, separators that are on our potential location. You
15 can see it gets quite crowded as we stay on these
16 locations. We have also in that light green area -- that's
17 the area we could possibly re-seed. A very minimum area we
18 can re-seed, due to all the surface equipment that's on
19 location.

20 You also see with all the equipment on location
21 there is a safety issue, and our footprint will get larger
22 as we have several of these wells on one location.

23 Q. Is this display to scale?

24 A. Yes, sir, this is to scale.

25 Q. Within the pad you've got this dark outlined

1 rectangle. That dimension stays the same under the current
2 Rules, regardless of what Mr. Catanach may do?

3 A. That is correct, that's the area that we have our
4 pits, and that will take four to five years for those pits
5 to evaporate the moisture that's trapped in them.

6 Q. When we look at the area that's stippled with the
7 green dots or the coding, what does that area signify?

8 A. That is our re-seeded area after we've moved off
9 of a location.

10 Q. If you're allowed the surface commingling, what
11 do you do with that area? Does it continue to be re-
12 seeded, or are you allowed to disturb that area?

13 A. We're allowed to disturb that area as we have
14 different operations.

15 Q. If you're allowed to surface commingle, then, you
16 can lessen the impact on the area that's disturbed?

17 A. That is correct.

18 Q. Do you have a visual representation of the
19 difference?

20 A. Yes, I do, your next slide. We show if we're
21 able to surface commingle the gas and oil that you have one
22 set of facilities there on the east side of that location.
23 You also notice that there's a much larger area that's been
24 re-seeded, that -- we also improve some safety issues
25 there, there's less equipment on that we'll talk about

1 later, and then some environmental issues that we'll talk
2 about later.

3 Q. So the approval of surface commingling would
4 allow you to go from multiple facilities down to a single
5 facility --

6 A. Yes --

7 Q. -- the tank and -- the oil tank and the water
8 tank?

9 A. Yes, sir, that is correct.

10 Q. When we look at -- There's an area for the
11 reserve pits?

12 A. Again, this is the same as -- area that's not
13 usable for four or five years.

14 Q. Under either procedure, current procedure or what
15 Mr. Catanach would approve, the reserve pit area is not
16 available?

17 A. Yes, sir, that is correct.

18 Q. Let's turn to the next slide, Mr. Biemer.

19 A. Mr. Examiner, what we're showing here is what a
20 location would look like with just a single set of
21 facilities. It's much cleaner, much safer, there's a
22 larger area that can be re-seeded.

23 Q. Let's shift gears, Mr. Biemer. Let's talk about
24 your proposed -- or Burlington's proposed new allocation
25 method. Have you and others within your company concluded

1 that this plan, if approved, will be accurate and reliable?

2 A. Yes, sir, we have.

3 Q. When we look at the oil production in the San
4 Juan Basin, are there formations that you would associate
5 that production with?

6 A. Yes, sir.

7 Q. Which ones might they be?

8 A. The Mesaverde produces the most amount of oil.
9 There is some Gallup production and some PC production.

10 Q. When we look at the range or the level of current
11 oil production out of those formations in the San Juan
12 Basin, what is Burlington's experience as to the range or
13 the level of that productivity?

14 A. Normally one barrel a day is a fairly common
15 value of liquids being produced. But it could range from a
16 quarter of a barrel up to two or three barrels a day.

17 Q. So if we peg the ceiling in terms of 10 barrels a
18 day per well, then that would be a sufficient cushion to
19 allow you to effectively reduce the cost and minimize the
20 use of the surface?

21 A. Yes, sir, it would.

22 Q. Well, let's turn specifically, then, to the
23 allocation method. You have a slide there. Start with the
24 first bullet point and describe for us what you're
25 recommending.

1 A. What we're recommending is, the allocation should
2 be determined 30 days after stabilized production is
3 established, that -- what we have is -- one of two methods
4 will be used, whether we have two new wellbores on a single
5 pad or we have an existing well with a new wellbore, a new
6 twin. If we have two new wells, we'll have to do an
7 allocation based on a single 24-hour direct measurement of
8 the liquids. What we would do is simply shut one well in,
9 produce the other, shut that well back in and produce the
10 first.

11 Most locations there will be 20. What we have
12 there is a history of what that established production is.
13 We simply take -- use a subtraction method. We know -- we
14 have one known, we have the new total, and we subtract the
15 difference, and that would be to the new wellbore.

16 Q. Let me give you an example, Mr. Biemer. If we
17 have a pad with an existing well on it and you want to add
18 a second or a third well, the plan is to produce the new
19 well for a period of time until that production is
20 stabilized?

21 A. Yes, sir, it is.

22 Q. Is there a general time frame in which you
23 believe that you would obtain stabilized production from
24 the new well?

25 A. Yes, sir, usually about 90 days we've seen that

1 flush production and we have some type of established,
2 stabilized production.

3 Q. So the indicator you're looking to define
4 stability is when that production continues to maintain the
5 same level over a period of time?

6 A. Yes, sir.

7 Q. Once that's happened, then, you're going to
8 within 30 days make the allocation?

9 A. Right, during that 30-day time period just gives
10 us some time to schedule that testing.

11 Q. On a new well, then, describe for us the test for
12 that production. You say you've achieved stabilized
13 production on the new well, and now you're going to
14 allocate based upon a single 24-hour direct measurement.
15 Describe what that means to me.

16 A. What that means is, we're going to actually go
17 out there and test and see how it will take a level, a
18 strap of that oil, we'll shut the other well in, the
19 existing well, produce the new well, take a second strap
20 and get an allocation -- and get a volume for that liquid.

21 Q. Once you've established that allocation
22 percentage, what then happens?

23 A. Then we'll be able to add those two together and
24 then come up with a proportionate share of liquids between
25 the two wellbores.

1 Q. Would you apply that apportionment back to the
2 date of first production of the well?

3 A. Yes, sir, we would go back and allocate back to
4 the first delivery of that new well.

5 Q. Have you satisfied yourself, Mr. Biemer, that
6 that's a fair and reasonable and accurate method to
7 allocate the production back to the owners of that
8 production?

9 A. Yes, sir, I have.

10 Q. We have talked about the next bullet point, the
11 commingling for wells that average 10 barrels a day or
12 less.

13 At the time this Application was filed -- and I
14 think the Application under paragraph 7 talks about a re-
15 testing in five years --

16 A. Yes, it did.

17 Q. Since filing the Application, has Burlington
18 developed new data concerning whether that would be
19 necessary?

20 A. Yes, sir, we have. We've since finished our
21 study of the GORs and what we've seen that is, the GORs are
22 very stable, there's not a lot of fluctuation. And in
23 order -- based on that and that would be inconsistent with
24 the current downhole commingling, we didn't see that it was
25 necessary. Also, the value of the liquids is not -- is

1 minimal, compared.

2 Q. At the time the Application was filed, then, the
3 concept of a test every five years was predicated on the
4 assumption that there might be a range of gas-oil ratios
5 that would require you to re-test and check your
6 allocation?

7 A. That's correct.

8 Q. Since then, have you compiled and done additional
9 testing to satisfy yourself about the gas-oil ratios?

10 A. Yes, we have.

11 Q. What's the general range of gas-oil ratios?

12 A. Usually they're at .002, .001.

13 Q. I don't know that you have a PowerPoint slide on
14 that, but if you --

15 A. I have that in the book.

16 Q. -- turn the next page and let's look at the slide
17 in the book.

18 A. The third one down you'll see is the San Juan
19 29-7 65A, the Mesaverde and Dakota. These two wells are
20 part of our Application. If you look at the 29-7 65A,
21 which is the last one, you can see from 1999 to 2003 that
22 the GOR has been fairly consistent, .0039, .0037, .0040,
23 .0038. This leads us -- and we've seen this in many other
24 wells, that that gas-oil ratio has been very steady and
25 constant. So if we were able to -- with that, and with

1 other wells being constant, that the ratio between them
2 would always be fairly steady.

3 Q. There's a second page to this.

4 A. Yes, that one is the 191. It's a PC well, we
5 have some oil production. This well was just first
6 delivered at the beginning of this year, and again you can
7 see that your volume of liquids in the barrels of oil per
8 day, and your GOR, is very consistent after stabilized
9 production.

10 Q. You made a comment just a while ago about the
11 fact that if Mr. Catanach approves the surface commingling,
12 the value of that product is not diminished.

13 A. That is correct.

14 Q. What's the basis for that conclusion?

15 A. The value that we get from John, who is our --
16 who picks up all of our liquids, we have one value. They
17 see that the gravity is fairly consistent across the Basin,
18 that there's a minimal change, that as they pick up that
19 liquids it is actually commingled in their tanks if they
20 don't have a full load. And we'll talk about -- a little
21 bit more about that here in a minute.

22 Q. So the value that you receive from the purchaser
23 is pegged to a API gravity value?

24 A. Right.

25 Q. And the range that they find acceptable for that

1 value is far in excess of the actual real range of the
2 gravity of those liquids?

3 A. That is correct.

4 Q. So you don't find any basis upon which to believe
5 that the value of the product when commingled will be less
6 than the value if it's kept separate?

7 A. Right, that is correct.

8 Q. Let's talk about another point. It's in the hard
9 copies and not on the board here, in the PowerPoint. Let's
10 talk about your recommendation to Mr. Catanach about how to
11 communicate these requests to the Division. What form
12 would be used by Burlington and other operators to file
13 this request to surface commingle oil production when you
14 have diverse ownership?

15 A. We would use the C-103, Mr. Examiner. Down there
16 underneath "Other" we simply explain what we're trying to
17 do on this well.

18 Q. And that appears to be consistent with the
19 drafting of the current Division Rule 303.B, when it cites
20 the form --

21 A. That is --

22 Q. -- they cite to that form?

23 A. They cite to that form.

24 Q. So there's no need for Mr. Catanach to develop
25 and have approved an alteration to an existing form or to

1 create a new form?

2 A. No, we're following what was consistent in their
3 current Rules.

4 Q. Let's go to one of the topics you mention in your
5 opening. You said that Burlington had evaluated the
6 potential environmental advantages of having the Division
7 approve this process. Describe for us what you were
8 talking about.

9 A. What we're talking about here is, with fewer
10 equipment we have lower emissions that is on fewer tanks
11 from the heat, from the noxides, from the carbon monoxides,
12 with the fewer tank heaters, separators. That's what we're
13 talking about.

14 Also we have a reduced risk for oil and water
15 spills with fewer pieces of equipment out there. There's a
16 reduced visual impact with the excessive equipment, reduced
17 noise. That we're complying with the RMP for the
18 Farmington Division BLM and the nationwide BMP, which is
19 our best management practices. RCRA required the RMP for
20 40 percent of -- 46 percent of future locations to be on
21 twin locations. The RMP was adopted last year.

22 Also with the less equipment you have a smaller
23 footprint. This decreases the amount of potential for
24 erosion, and as you can see back on Exhibit 4, page 4,
25 where we talked about this single set of facilities on a --

1 one location.

2 Q. When you look at these potential admissions, in
3 the San Juan Basin for the oil production, is there any
4 type of H₂S problem?

5 A. There's only one spot up there on Barker Dome,
6 but 99 percent of the -- probably larger than that, does
7 not have H₂S.

8 Q. Have you met with personnel with the Bureau of
9 Land Management and reviewed this presentation and your
10 proposed plan?

11 A. Yes, sir, we met with the BLM and the NMOCD and
12 went through this and got their comments back on July the
13 29th, and they were in full agreement with what we're
14 trying to do, accomplish both statewide and federal.

15 Q. Let's turn to the next issue. You've tabulated
16 some of the safety points that you want to discuss
17 concerning this Application.

18 A. Right, the safety issue, as we reduce the amount
19 of surface equipment on there, reduce the amount of vehicle
20 location on there, it reduces the need for the backing up
21 on location, and less equipment, less problem for the
22 general public. There's fewer ignition sources such as
23 vehicles or surface equipment. Less equipment, safer
24 location.

25 Q. Let's go back and specifically talk about the

1 details for the value of the commingled liquids.

2 A. Right, there's no material reduction in the value
3 of the surface commingled oil to the owners. We're getting
4 that same price. Historically, the industry has allowed us
5 a downhole commingling of the oil with no adverse impact to
6 the owners. There are oil ranges from a gravity of 55 to
7 45 there in the San Juan Basin. And as I mentioned
8 earlier, as the oil is picked up -- by Giant in our case --
9 that oil between locations is already commingled or set in
10 one tank. And the only reason that wouldn't happen is if a
11 tank -- if a truck was -- came out to one location and was
12 filled at that location.

13 Q. So when we look at those wellbores in which the
14 production from that formation is downhole commingled, that
15 is currently allowed even under diverse ownership, where
16 you're not simply limited to direct metering?

17 A. That is correct.

18 Q. So if Mr. Catanach approves the surface
19 commingling of the oil production, it will be consistent
20 with the methods available for you to commingle that
21 production that's available downhole?

22 A. That is correct.

23 Q. Let's talk about the potential economic savings
24 to Burlington if the Examiner approves this method of
25 allocation?

1 A. The savings we'd have is less equipment. As we
2 reduce the amount of water, oil tanks and the labor and
3 materials to install those, it's roughly \$16,000 to us.

4 We also reduce the cost to operate. Less fuel
5 gas, less man hours and less maintenance.

6 This savings that we incur, also we translate
7 into potential development for additional projects. We
8 take that money and re-invest it.

9 But there is also a direct benefit to the State
10 and to the interest owners in that we're not burning that
11 fuel gas on location, but that gas is now being -- able to
12 be sold and people get revenue off of that.

13 And in the next five years we predict there's
14 approximately 250 more locations that we'll be able to do
15 this to, going forward.

16 Q. If Mr. Catanach will approve this plan that
17 Burlington has applied for, do you have an opinion as
18 whether approval would prolong the life of these wells and
19 allow you to recover oil that might not otherwise be
20 recovered?

21 A. Yes.

22 Q. If you're reducing the costs associated with that
23 production --

24 A. Right.

25 Q. -- you can then prolong the life of those wells,

1 can you not?

2 A. That is correct.

3 Q. And that would be to the benefit not only to the
4 interest owners, but it would ultimately result in the
5 production of additional oil?

6 A. That is correct.

7 Q. Summarize your conclusions for us, Mr. Biemer.

8 A. What we're trying to accomplish here is with
9 environmental, safety and economic. We're also going to be
10 -- try to be consistent with what's currently going on
11 downhole where we're able to commingle the oil with various
12 owners, and we're using that same allocation method or
13 methods to do that same process that we currently are
14 allowed to do downhole, to do it at the surface.

15 Q. Behind Tab 6 are the next slides on the screen.
16 You've summarized your meetings with the BLM and the OCD?

17 A. Yes, sir.

18 Q. And behind that, then, you have some additional
19 slides for Mr. Catanach's information about your
20 understanding of these BLM procedures with regards to the
21 surface management?

22 A. If you look on the second page of our -- and we
23 have it there in blue, what the BLM is asking is that we
24 reduce the sizes of the locations, that we re-seed more
25 area, we have a smaller footprint, we reduce the amount of

1 equipment which is also -- it's a visual impact.
2 Everything that we're asking here is also what the BLM is
3 -- under their best management practices, is asking us to
4 do. So we're in a line with what is being asked by the
5 federal government.

6 MR. KELLAHIN: Mr. Catanach, that concludes our
7 presentation of Mr. Biemer's testimony, and we would move
8 the introduction of Burlington's Exhibits 1 through 6.

9 MR. HALL: No objection.

10 EXAMINER CATANACH: Exhibits 1 through 6 will be
11 admitted.

12 Mr. Hall?

13 MR. HALL: I have no questions, Mr. Examiner.

14 EXAMINER CATANACH: Okay, I just want to make
15 sure I understand the nature of this Application. Mr.
16 Kellahin, with this specific Application, we're talking
17 about approving these two sets of wells --

18 MR. KELLAHIN: Yes, sir.

19 EXAMINER CATANACH: -- initially, but in addition
20 we are establishing a procedure where we can do this
21 administratively?

22 MR. KELLAHIN: I wanted you to recognize that by
23 this approval, then, it's our plan to cite this R order for
24 other wells for which we'll apply for downhole -- I mean
25 surface commingling approval. And we're going to use the

1 C-103, and when it goes to Aztec for approval we want to be
2 able to cite this R order to tell Mr. Chavez and others
3 that it's okay.

4 EXAMINER CATANACH: So you're essentially asking
5 for an exception to the Rule. The Rule, as I recall, if
6 you have diverse ownership and you want to do this type of
7 allocation, you would necessarily require a hearing?

8 MR. KELLAHIN: Yes, sir, and you could not do it
9 except by metering.

10 EXAMINER CATANACH: Right.

11 MR. KELLAHIN: So within Rule 303.B.(4) we're
12 asking you for approval of surface commingled production on
13 a preapproved allocation and measuring method. So within
14 the context of that Rule, we're asking that this particular
15 procedure be approved so that we can use it again.

16 EXAMINER CATANACH: Okay, and this would apply to
17 Burlington and it would be Basinwide?

18 MR. KELLAHIN: It would be any operator that
19 wanted to cite this R order.

20 EXAMINER CATANACH: Any operator?

21 MR. KELLAHIN: Sure.

22 EXAMINATION

23 BY EXAMINER CATANACH:

24 Q. Okay, as I understand it, this would only apply
25 to oil production at this time, right?

1 A. Yes, sir.

2 Q. And as I further understand, it would only apply
3 to wells that produce less than 10 barrels a day?

4 A. Yes, sir, that is correct.

5 Q. And a further stipulation would be that this
6 would only apply to wells drilled on the same pad?

7 A. That is correct.

8 Q. Okay. Mr. Biemer, currently is the oil from
9 these wells being metered, or is it just being gauged at
10 the tanks?

11 A. It's being gauged at the tanks.

12 Q. So there's no meters currently?

13 A. No, it's being gauged in the tanks. As the oil
14 is produced from separate wells it goes into separate tanks
15 and is metered in that method by being gauged.

16 Q. Okay. And you've established that the oil is
17 compatible from these formations and that the range of
18 gravity is similar and that you're not going to get any
19 price reduction?

20 A. That is correct.

21 Q. You mentioned that your oil is purchased -- or
22 picked up by --

23 A. -- Giant.

24 Q. -- Giant?

25 A. Yes, sir.

1 Q. Okay. And that's Basinwide?

2 A. That is who we have a contract with, Burlington,
3 and they are our only contact.

4 Q. Is that generally true for other operators?

5 A. I couldn't speak to it.

6 Q. So you don't know how it's going to affect -- you
7 may not know how it's going to affect other operators in
8 terms of price?

9 A. No, not for sure, no.

10 Q. Are there other oil purchasers in the Basin?

11 A. I don't even -- all I ever -- we've ever dealt
12 with is Giant.

13 Q. Okay. I'm not familiar with the RMP. It stands
14 for what?

15 A. The resource management plan.

16 Q. And that is a BLM document?

17 A. Yes, sir.

18 Q. And according to your testimony, they've asked
19 that 46 percent of future wells be located on the same pad?

20 A. Right, and that is Basinwide, that they have
21 asked that all operators make the effort to reduce the
22 footprints out there and to put second and third wells on a
23 single well pad. That 46 percent is Basinwide.

24 Q. Is that actually a requirement or is that a
25 guideline, or what is that?

1 A. Is that --

2 MR. KELLAHIN: Well, if you don't know, you don't
3 know.

4 THE WITNESS: I don't know if it's a requirement
5 or if it's a --

6 Q. (By Examiner Catanach) Okay, and as I understand
7 the method of allocation for new wells, test them for --
8 you test them until you get a stabilized rate, then you go
9 30 days past that --

10 A. Well, no, during that 30-day period is when we
11 schedule that testing. It could happen the first day or
12 the 29th day.

13 Q. After you establish stabilized production?

14 A. Yes, sir.

15 Q. And that's for new wells?

16 A. That's when you have two new wells -- that's for
17 any new well, that's correct. You have to get a stabilized
18 production before we try to determine an allocation.

19 Q. Okay, say you have a new well and an existing
20 well. For the existing well would you use production --

21 A. Yes, that --

22 Q. -- history from that well?

23 A. -- that is correct. We have a long history, and
24 we'll simply do a subtraction method. We have one known,
25 we now have a total, and we'll be able to subtract the one

1 from the other to get that for the new well.

2 Q. I'm sorry, you subtract which one from the other?
3 Which do you use? Do you use the production history as the
4 known or --

5 A. Yeah, as the known, right. The production
6 history is known, you have years of history on that one.

7 Q. So you wouldn't even test the new well in that
8 case?

9 A. Well, we'd have to wait till we have some
10 stabilized production on that well to determine that
11 allocation.

12 Q. You would test that well?

13 MR. KELLAHIN: Say it again, I think you
14 misspoke. The existing well would not be tested.

15 Q. (By Examiner Catanach) No, the new well. The
16 new well would be tested, right? Even if you have
17 production history on an existing well, which then would
18 allow you to use the subtraction method, you could use a --
19 you could forecast production from the existing well based
20 on historic data --

21 A. Right.

22 Q. -- and then you could just use the total to
23 subtract that and do -- I'm just trying to get at what
24 procedure you're going to use, is what I'm asking you. But
25 you would test the new well?

1 A. You would produce the new well, you'd get
2 stabilized production, and once you have stabilized
3 production, then you have -- yeah, you could test that new
4 well for 24 hours.

5 Q. You would then take the total and subtract the
6 known, which would be the new-well production?

7 A. Well, the known would be the existing well.

8 Q. See, I'm getting --

9 MR. KELLAHIN: Does this help you? If the parent
10 -- the original well has a history, it's going to be shut
11 in, and the new well then is tested.

12 EXAMINER CATANACH: Uh-huh.

13 MR. KELLAHIN: And when we get the new wells
14 level, then by subtraction you'll take that production and
15 delete it from the original well and get your allocation.

16 EXAMINER CATANACH: So you're not going to -- I
17 mean, the subtraction method will be used after you -- I
18 mean, after you've established what the production rate is
19 from the new well --

20 MR. KELLAHIN: Right, then you do the
21 subtraction.

22 EXAMINER CATANACH: -- you say this is what this
23 well is going to produce, so any total production is going
24 to be subtracted from that?

25 MR. KELLAHIN: Right, so then you can allocate

1 between the wells.

2 Q. (By Examiner Catanach) Okay, you've established
3 that you're now going to use a Form C-103 to apply for
4 these exceptions. How would that work on federal land, in
5 your plan of operation? Would you apply to both the OCD
6 and the BLM --

7 A. Yes, sir.

8 Q. -- on their respective sundry notices?

9 A. Right.

10 Q. And I assume you would require that you need
11 approval from both agencies to do that?

12 A. Definitely.

13 Q. What we haven't touched on at all, I don't
14 believe, is notice. What are you guys asking for in terms
15 of notice, or not having to notice, or -- What's the notice
16 issue? I mean, how are we going to deal with that?

17 A. We'd have to notify all the owners and royalty
18 owners and working interest owners in the property.

19 Q. Okay, so at the time you submit a Form C-103 to
20 us, you're also notifying all -- when there is diverse
21 ownership between the wells --

22 A. That is correct.

23 Q. -- you're going to notify all interest owners?

24 A. Yes.

25 Q. In a situation such as the San Juan 29-7 Unit,

1 you're going to have many, I assume, many, many different
2 working and royalty interest owners. You're going to do
3 that each and every time you apply for that, in that unit?

4 A. That's how we do it on downhole.

5 EXAMINER CATANACH: I believe downhole we got
6 around that, didn't we, by establishing a unitwide
7 procedure? Didn't we do that, Mr. Kellahin?

8 MR. KELLAHIN: I think so.

9 EXAMINER CATANACH: I'm just trying to make sure
10 I understand what the procedure is going to be or what you
11 guys are proposing. At this time you're proposing that
12 you're required to notify all interest owners?

13 MR. KELLAHIN: Let me answer that question after
14 the hearing. I don't want to misstate what I think we're
15 trying to do here, and I need to go back and look. We are
16 trying to do what we do for downhole commingling now under
17 that process, and I need to go back and look at that again.
18 We did put a copy of the 303 Rules in the exhibit book, but
19 I forgot to check on that part.

20 We need a continuance anyway, because our
21 publication in newspaper doesn't have the 20-day notice
22 associated for the purpose of today's hearing. So one of
23 the things we're going to ask you for is to continue this
24 case until the September 2nd docket, I think it is. That
25 will allow us to finish the Division's new notice procedure

1 where we publish the notice, and during that period of time
2 let me communicate in writing to you the concept that
3 handles the notice.

4 EXAMINER CATANACH: Okay. I don't think this --
5 the way you have it set up here, I don't think that it's
6 going to be sufficient to do what we did with the downhole
7 commingling situation.

8 MR. KELLAHIN: I think I agree with you, but I'm
9 not sure.

10 EXAMINER CATANACH: Okay, let's take a look at
11 that.

12 Q. (By Examiner Catanach) Okay, at this point we're
13 looking at going from this point forward and doing this
14 basically on new wells that are going to be drilled?

15 A. That is correct.

16 Q. At some point, however, you're going to go back
17 and start looking at existing wells?

18 A. If it warrants it. If we happen to move onto a
19 location of those 306 wells that have duals and we have to
20 do some type of workover, at that point in time we would
21 look at reducing the amount of surface equipment.

22 EXAMINER CATANACH: Okay, I think that's all the
23 questions I have. But I'm going to ask you also, Mr.
24 Kellahin, to maybe draw up a procedure on how you would
25 allocate in the event there's more than two wells, three or

1 four wells or whatever --

2 MR. KELLAHIN: Yes, sir.

3 EXAMINER CATANACH: -- I just want to be clear on
4 how you guys are going to allocate between the wells and
5 which wells you're going to test and which wells you're
6 going to use existing data, things like that.

7 MR. KELLAHIN: Yes, sir.

8 EXAMINER CATANACH: I just want to be clear on
9 that.

10 MR. KELLAHIN: We'll be happy to put that in
11 writing.

12 EXAMINER CATANACH: And you need a continuance
13 for what reason, again?

14 MR. KELLAHIN: The newspaper publication. Under
15 the change of Rules, the Division now requires us to
16 publish notice, and we were unable to serve by certified
17 mail all the interest owners for the production involved in
18 these wells.

19 EXAMINER CATANACH: Okay. Now, in terms of that
20 notice, who did we notify for this particular application?

21 MR. KELLAHIN: We sent notice to interest owners
22 in each of the two spacing units regardless of the
23 category. If they were override royalty, working interest
24 owner, BLM, whatnot, they all were sent the notice.

25 EXAMINER CATANACH: Okay, the interest owners in

1 each of the spacing units?

2 MR. KELLAHIN: Or each of the wells.

3 EXAMINER CATANACH: In each of the wells.

4 THE WITNESS: Yes.

5 EXAMINER CATANACH: Okay.

6 MR. KELLAHIN: There's a payout sheet on the
7 division of interest where they get their payment each week
8 and we pull those sheets. So it's all the owners that are
9 currently receiving production.

10 EXAMINER CATANACH: Being that these wells are in
11 a unit, though, don't we have more interest owners involved
12 than just the interest owners in that particular spacing
13 unit?

14 THE WITNESS: They're all --

15 MR. KELLAHIN: I don't think so.

16 EXAMINER CATANACH: I mean, they're --

17 THE WITNESS: -- well, I thought they were --
18 they're all part of that unit, federal unit.

19 EXAMINER CATANACH: I mean, you've got PA's,
20 you've got all sorts of things that make --

21 MR. KELLAHIN: My understanding is, this notice
22 that we use is inclusive of all those interest owners.

23 EXAMINER CATANACH: Okay. Can we verify that,
24 just to make sure we've done that?

25 Okay. I guess I don't have anything else at this

1 time.

2 Did you have anything, Mr. Hall?

3 MR. HALL: (Shakes head)

4 EXAMINER CATANACH: Okay, we want to continue to
5 September 2nd, Mr. Kellahin?

6 MR. KELLAHIN: Yes, please.

7 EXAMINER CATANACH: Okay, at this time we'll go
8 ahead and continue the Case 13,314 to the September 2nd
9 hearing.

10 (Thereupon, these proceedings were concluded at
11 9:07 a.m.)

12 * * *

13

14

15

16

17

18

19

20

21

22

23

24

25

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 13314,
heard by me on August 5, 2004.

David L. Catanach, Examiner
Oil Conservation Division

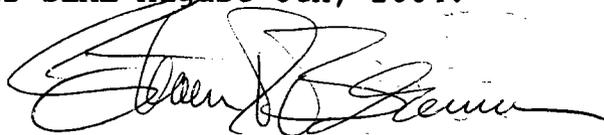
CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
 COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL August 6th, 2004.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 16th, 2006