

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 RB OPERATING COMPANY FOR)
A CENTRALIZED FACILITY WITH A COMMON)
TANK BATTERY INCLUDING SURFACE)
COMMINGLING AND OFF-LEASE MEASUREMENT)
AND STORAGE, EDDY COUNTY, NEW MEXICO)

CASE NOS. 13,473

APPLICATION OF RB OPERATING COMPANY FOR)
A CENTRALIZED FACILITY WITH A COMMON)
TANK BATTERY INCLUDING SURFACE)
COMMINGLING AND OFF-LEASE MEASUREMENT)
AND STORAGE, EDDY COUNTY, NEW MEXICO)

13,474

APPLICATION OF RB OPERATING COMPANY FOR)
A CENTRALIZED FACILITY WITH A COMMON)
TANK BATTERY INCLUDING SURFACE)
COMMINGLING AND OFF-LEASE MEASUREMENT)
AND STORAGE, EDDY COUNTY, NEW MEXICO)

and 13,475

(Consolidated)

REPORTER'S TRANSCRIPT OF PROCEEDINGS
EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

April 21st, 2005
Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, April 21st, 2005, 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.

* * *

STEVEN T. BRENNER, CCR
(505) 989-9317

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I N D E X

April 21st, 2005
Examiner Hearing
CASE NOS. 13,472, 13,473 and 13,475 (Consolidated)

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| Applicant's (13,474) | Identified | Admitted |
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* * *

(Continued...)

E X H I B I T S (Continued)

| Applicant's (13,475) | Identified | Admitted |
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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

* * *

1 WHEREUPON, the following proceedings were had at
2 10:07 a.m.:

3 EXAMINER CATANACH: Okay, call the hearing back
4 to order, and at this time I'll call Case 13,473, the
5 Application of RB Operating Company for a centralized
6 facility with a common tank battery including surface
7 commingling and off-lease measurement and storage, Eddy
8 County, New Mexico.

9 Call for appearances.

10 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of
11 the Santa Fe law firm of Kellahin and Kellahin, appearing
12 on behalf of the Applicant.

13 In association with this case we would like to
14 present the same witness and similar exhibits for the next
15 two cases and would like to present them as a single
16 presentation.

17 EXAMINER CATANACH: Very good. At this time I'll
18 call Case 13,474, the Application of RB Operating Company
19 for a centralized facility with a common tank battery
20 including surface commingling and off-lease measurement and
21 storage, Eddy County, New Mexico.

22 And call Case 13,475, which is the Application of
23 RB Operating Company for a centralized facility with a
24 common tank battery including surface commingling and off-
25 lease measurement and storage, Eddy County, New Mexico.

1 Let me call for appearances, additional
2 appearances, in any of these cases.

3 Let the record show there are no additional
4 appearances.

5 And has this witness been sworn in yet?

6 MR. KELLAHIN: No, sir.

7 (Thereupon, the witness was sworn.)

8 MR. KELLAHIN: Mr. Examiner, to keep the case
9 files straight, I have provided the court reporter with
10 individual packages of the exhibits so that in each of the
11 three case files he'll have a complete set.

12 For purposes of the presentation, you have before
13 you a foldout map. It's the same Exhibit 1 in each of the
14 three cases. It also shows the three project areas. In
15 addition, it shows information that RB Operating -- other
16 properties that RB Operating operates in the area, so you
17 can see the entire area that's involved. So that will be
18 Exhibit Number 1 in all three cases.

19 Mr. Frey will go through with me the background
20 and the basic concept using Exhibit 1, and then we'll move
21 to his exhibits for each of the three cases, which are
22 constructed and presented to you in substantially the same
23 way. He will identify for you any points of major
24 differences as he moves from one case to the next.

25 And when we get to the end, there will be a

1 certificate of notification for hearing. At the time these
2 were sent out there was a separate application in each case
3 sent to everybody, so the master notice list, I think, was
4 maybe 80 people. And so each of those people got an
5 application for each of the three cases.

6 When we go through the presentation of the cases,
7 Mr. Frey has presented us with a tabulation of the owners
8 affected by that case, so as we go through it you'll see
9 how to subdivide the notice list.

10 And with that explanation, we're ready to
11 proceed.

12 EXAMINER CATANACH: Go ahead.

13 WILLIAM FREY,
14 the witness herein, after having been first duly sworn upon
15 his oath, was examined and testified as follows:

16 DIRECT EXAMINATION

17 BY MR. KELLAHIN:

18 Q. Mr. Frey, for the record, sir, would you please
19 state your name and occupation?

20 A. My name is William Frey and I'm a consulting
21 engineer for RB Operating.

22 Q. You spell your last name F-r-e-y?

23 A. Yes, sir.

24 Q. Have you testified before the Division Examiners
25 on prior occasions?

1 A. No, sir.

2 Q. Summarize for us your education.

3 A. I graduated with a bachelor of science degree in
4 petroleum engineering from Texas A&M University in December
5 of 1981. Since that time I've been employed in the
6 petroleum industry, working in various locations in Texas
7 and California, and I'm a registered professional engineer
8 in the States of Texas and California.

9 Q. And you reside in Fort Worth, you said?

10 A. Yes, sir.

11 Q. Is the work product we're about to present and
12 the displays and engineering conclusions you're about to
13 give Mr. Catanach your conclusions and your displays and
14 exhibits?

15 A. Yes, sir.

16 Q. Have you familiarized yourself with the Division
17 Rule 303?

18 A. Yes, sir, I have.

19 Q. And you're familiar with the Division Form
20 C-107B?

21 A. Yes, sir.

22 Q. And have you also analyzed all the available data
23 necessary for you to reach your conclusions about the
24 information in this case?

25 A. Yes, sir, I have.

1 MR. KELLAHIN: We tender Mr. Frey as an expert
2 petroleum engineer.

3 EXAMINER CATANACH: Mr. Frey is so qualified.

4 Q. (By Mr. Kellahin) Mr. Frey, let's start with
5 what we've marked as Exhibit 1, and to orient the Examiner,
6 let's take a moment and show him the three project areas.
7 Let's start -- We'll just take the cases in the order
8 they're presented on the docket.

9 If we'll look at the first case, which is 13,473,
10 your project area, as I understand it, is the north half of
11 23; is that correct?

12 A. Yes, sir, that is correct.

13 Q. When we look at that project area, it is
14 internally subdivided into various configurations with a
15 different shading and apparently a different code as to
16 what those tracts are?

17 A. Yes, that's correct.

18 Q. Let's take a moment and look at the north half of
19 23, and explain to Mr. Catanach what you mean by these
20 three areas that have the different shadings.

21 A. Well, the different shadings represent different
22 interest ownerships and the wells that are in those. As
23 you can see, there's also a square that's colored in on
24 each of those, which represent the tank batteries. And
25 also the lines that are connecting the wells and those tank

1 batteries represent flow lines for each one of those areas.

2 Q. Let's start, then, in the north half of 23. Find
3 us the black square that we have associated with this
4 Application and have characterized as the centralized
5 facility.

6 A. That would be the black square right above the
7 well denoted as South Culebra Bluff 3 on this exhibit.

8 Q. It will be the black square on the exhibit that's
9 immediately above a green dot?

10 A. Yes.

11 Q. Okay. Let's turn now to the area associated with
12 Case 13,474. That area is contained in the southern
13 portion of Section 23, as well as a certain portion of
14 Section 26?

15 A. Yes, sir.

16 Q. Identify for the Examiner the acreage associated
17 with that project.

18 A. The acreage would be the southern half of 23, as
19 well as the northeast -- or actually the north half of the
20 northeast quarter of 26. And the tank battery that we talk
21 about would be the black square that's shaded in right next
22 to the well which is the green dot denoted on this as
23 Brantley Com Number 1.

24 Q. When we look at this project area, does it at
25 this point include any of what would be the north half of

1 the southeast quarter of Section 23?

2 A. No, sir.

3 Q. Yeah. So the area associated with this project,
4 then, is going to be the southwest quarter of Section 23
5 and the south half of the southeast quarter?

6 A. Yes, sir.

7 Q. And then you're going to move down into Section
8 26, and you're going to pick up the north half of the
9 northeast quarter?

10 A. Yes, sir, that's correct.

11 Q. When we turn to the final case, it's going to be
12 Case 13,475, and we'll find that over in Section 24, and
13 that area will then be the southwest quarter of that
14 section?

15 A. That is correct.

16 Q. When you look within that area of the display,
17 identify for us what we're characterizing as the
18 centralized facility location.

19 A. That would be the square that is not colored in,
20 since it is proposed, which would be just west on this map
21 of the well that is also proposed and thus not colored in,
22 that is denoted as Brantley 24 Number 1.

23 Q. Let's talk about all three cases generally,
24 starting off with what's your ultimate conclusion about
25 these three applications. What are you trying to achieve?

1 A. What we're trying to achieve is a situation where
2 we will be able to commingle the wells, despite the fact
3 that they have diverse interest ownership, that we would be
4 able to accurately measure those -- each well, through well
5 tests and a proposed facility, thereby reducing the capital
6 cost for RB Operating, as well as the operating costs
7 associated with the production of these wells, which will,
8 in turn, benefit the interest owners, as well as the State,
9 by, through time, allowing us to be able to produce more
10 oil, thereby -- because we'll be lowering the economic
11 limit of these wells.

12 Q. By reducing the costs associated as the operator,
13 then even if a royalty owner is being paid, the net effect
14 is, you can prolong the life of the wells, produce them for
15 a longer period of time, and the royalty owners will
16 receive a royalty on production that might not otherwise be
17 received?

18 A. That is correct.

19 Q. Can you give us a -- for this whole area, do you
20 have an estimate of the magnitude of savings that your
21 company be able to realize?

22 A. We've looked at the fieldwide --

23 Q. Yeah.

24 A. -- and it's about \$2.4 million.

25 Q. When you talk about fieldwide, you're talking

1 about the area contained within the display shown on
2 Exhibit Number 1?

3 A. Yes, sir.

4 Q. That would include projects other than the three
5 that we're talking about this morning?

6 A. Yes, sir, that would.

7 Q. When you look at these other areas, in many
8 instances this effort to save operating expenses by
9 centralizing facilities can be accommodated within the
10 context of the individual lease?

11 A. Yes, sir.

12 Q. For example, let's look at Section 12. In
13 Section 12 you have a plan for drilling wells and using a
14 centralized common tank battery, right?

15 A. That is correct.

16 Q. If that's accomplished here, you can do that
17 without further approvals of the Division, can you not?

18 A. Yes, sir.

19 Q. So it's all common ownership going into a common
20 tank and metered, measured and sold?

21 A. Yes, sir.

22 Q. And that would be true, in addition to the east
23 half of Section 11?

24 A. Yes, sir.

25 Q. So as you study your total project area within

1 this field area, we've identified three areas, or you have
2 identified three areas, in which your ability to take
3 production and move it off-lease, store it and sell it is
4 affected by that diverse ownership?

5 A. Yes, sir.

6 Q. And pursuant to Division Rule 303, you've gone
7 through the necessary process to accomplish that?

8 A. Yes, sir.

9 Q. Let's look more specifically, then, at the north
10 half of Section 23. Let's give Mr. Catanach an
11 illustration of what you're trying to achieve. If you'll
12 look at the north half of Section 23 and look over in the
13 west half of the northeast quarter, you'll see superimposed
14 a shaded red area within a red square? See that?

15 A. Yes.

16 Q. What does that red square and that shaded area in
17 red represent?

18 A. That is the proration unit around the SCB 23-15.

19 Q. That's that drilling-unit concept?

20 A. Yes, sir.

21 Q. Where Mr. Catanach earlier today heard RB
22 Operating's plan to have an increased-density well?

23 A. Yes, sir.

24 Q. Let's look at that well location. You intend to
25 take that production from that well and move it off-lease?

1 A. Yes, sir.

2 Q. And it will go, then, to a common centralized
3 facility and be measured?

4 A. That is correct.

5 Q. Why not put the battery facilities at that well
6 location itself?

7 A. Well, that was one option that was considered.
8 Another option that was considered was to take it over to
9 the SCB 23-4 battery, which is also a common ownership.
10 But we opted after discussions with the land owner -- at
11 his request -- we opted to honor his request, which was to
12 take that flow line along a road that was already built to
13 the location and move it over to the -- follow that road
14 and move it over to the SCB 3-B battery, which would
15 disturb less of his surface usage land, which is farmed
16 currently.

17 Q. Is it your belief that RB Operating and its
18 employees have good working relationships with the surface
19 owners?

20 A. Yes, sir.

21 Q. And you're doing your best to accommodate their
22 desires to utilize their land in a way that's not adversely
23 impacted by your operations?

24 A. Absolutely.

25 Q. And that's an example here?

1 A. Yes, sir.

2 Q. Let's talk about all these projects in terms of
3 your satisfaction as an engineer that you're accurately and
4 correctly measuring production and that it gets properly
5 attributed back to the owners of that production. Have you
6 come to that conclusion?

7 A. Yes, sir, we have.

8 Q. Set the locator map aside, and we'll keep it
9 available so you can help orient us if necessary, and let's
10 turn to what is marked as Exhibit Number 2, and it will be
11 Case 13,473, and let's start with that display. What are
12 you showing here, Mr. Frey?

13 A. We are showing the wells that are currently --
14 that are being proposed to be produced into the SCB 3-B
15 tank battery. We have the wells listed; they are all in
16 Section 23. We have the units that each well is in, as
17 well as the API number for each well. Also summarized on
18 this slide is the oil rate, gas rate and water rates that
19 we have currently, as well as the cumulative oil produced
20 for each well, the cumulative gas produced for each well
21 and the cumulative water produced for each well.

22 We also have the oil gravity in degrees API. And
23 one thing worth noting on this slide is that the API
24 gravity of the oil is very constant among all the wells
25 here, so that the value of the oil will be approximately

1 the same for each well.

2 Q. Have you looked at that issue with regards to the
3 other two cases?

4 A. Yes, I have.

5 Q. Is there any range of gravity for these fluids
6 that if they're commingled on the surface you have reduced
7 the value of your product?

8 A. No, sir, the ranges are close enough that there
9 won't be any change in value.

10 Q. Let's turn to Exhibit 3 in this exhibit set. Is
11 this Exhibit 3 a similar exhibit to the other exhibits in
12 the other two cases?

13 A. Yes, sir. There are some minor changes in terms
14 of tanks, number of tanks, but in general the concept is
15 the same.

16 Q. Let's use this display, and we'll go through it
17 in detail about how this is supposed to work, and when we
18 talk about the next two cases you can point out to Mr.
19 Catanach the points of difference that matter.

20 A. All right.

21 Q. Starting off with the display and looking, I
22 guess, at the southwest corner of the display in the lower
23 left, at this point you have your production coming into
24 the common facility?

25 A. Yes, that's correct.

1 Q. Start from that point and walk us through how
2 this is supposed to function.

3 A. Okay, the lower left-hand corner of the display
4 shows -- it's title "inlet" down there, there's a -- it
5 shows the flow lines coming in from each well where they
6 will come into a header. The purpose of this header is to
7 divert the flow of each well either into a pool line or a
8 test line.

9 Most of the time, most of the production, with
10 the exception of perhaps one well, will be going into a
11 pool separator, and I'll follow that flow through first.

12 As we go through into the pool separator, the gas
13 is driven off, gas will come out into a gas sales line
14 where it will be metered prior to sale. The oil and water
15 that is remaining will go from the pool separator into the
16 pool heater. And at this pool heater, again, there's some
17 separation. A little bit of gas will come out and will
18 also go through a gas meter and will be added to the gas
19 sales volume.

20 The oil and water will be split out in this
21 vessel with the oil [sic] proceeding out to the 500-barrel
22 water tank where it will be later disposed into our water
23 disposal system, and the oil will then travel to one of the
24 500-barrel tanks. And these will be sold through truck
25 sales.

1 Q. At this point, when you start to utilize the
2 three 500-barrel tanks, there's no reason to further
3 separate the product?

4 A. No, sir.

5 Q. Each of the three tanks is not necessarily unique
6 to that product?

7 A. That is correct.

8 Q. So once we get to that point, then, you simply
9 distribute it to the tanks for the purposes of providing a
10 facility for the sales trucks to gather the product and
11 move it off-lease or off --

12 A. That is correct.

13 Q. -- offsite? Okay, continue.

14 A. Okay. Now, typically one well will be going
15 through a test line, where it will undergo a 24-hour test.
16 And that particular well will go into a test separator
17 where again the gas will be driven off and go through a
18 meter and then will be combined with our sales stream.

19 The oil and water will come out of the test
20 separator and go into a test heater. We'll have a little
21 bit of gas again being separated there, which will be
22 combined with the gas that's driven off from the test
23 separator.

24 The water in the test heater will be divided from
25 the oil. The water will go and be dumped out through a

1 water meter into the water tank, where it will then be
2 disposed later in our disposal system.

3 The oil will go directly into an oil test tank,
4 and we feel like this oil test tank is the most accurate
5 form of measurement. It's the industry standard for even
6 selling oil, using tank and tank strippings.

7 Once we gauge that well's production for the day,
8 we'll record that oil volume, as well as the water volume,
9 as well as the gas volume, and use those tests -- those
10 daily tests will be summarized for all the wells that are
11 being tested, and at the end of the month that volume will
12 be reconciled with our sales volume for the whole battery,
13 and therefore we will be able to accurately allocate the
14 production for each well, back to the well that it came
15 from.

16 Q. This may repeat itself, Mr. Frey, but take me
17 again at the oil test tank, and if I walk my way back
18 through the diagram are you proposing that an individual
19 well's production would go up to the oil test tank, or do
20 we have multiple producing wells taking their production
21 and taking it to the test tank?

22 A. Just one well each day will go to that test tank,
23 and then the next day a different well will be put into the
24 test tank, and we'll measure the difference in the oil
25 levels to come out with exactly how much oil is produced

1 that day.

2 Q. So you're not commingling the production and,
3 based upon something else, allocating it back to the
4 individual wells? The individual well itself, that
5 production is tested and allocated back to that well?

6 A. Yes, sir.

7 Q. Describe for us the rest of the display.

8 A. Okay, then the rest of the display will allow us
9 just to take the oil test tank and be able to put it back
10 into the sales arena, if you will, into the oil tanks,
11 where it's simply taking a transfer pump, pumping the oil
12 back out of the oil test tank and reintroducing it into the
13 pool separator so that we can eventually put it into the
14 oil tanks for sale.

15 Q. Mr. Frey, if your family had an interest in this
16 production, would you be satisfied with the accuracy and
17 the reliability of having your family receive proceeds
18 based upon this matter?

19 A. Yes, sir.

20 Q. When we look at that portion of the Application
21 where you've asked for an administrative procedure for
22 adding pools or wells, are you describing that within the
23 north half of Section 23 you want administrative procedure?

24 A. Yes, sir.

25 Q. Describe for us what you're attempting to

1 accomplish with an administrative procedure.

2 A. Well, an administrative procedure will allow us
3 to easily apply for other wells that may perhaps be in a
4 different zone, or also any subsequent wells that will be
5 drilled --

6 Q. So long as they remain confined to the north half
7 of Section 23?

8 A. Yes, sir.

9 Q. And would you accomplish that through a hearing
10 process?

11 A. I'm not sure I understand your question.

12 Q. You don't want to have to have another Examiner
13 Hearing if you add an additional well or complete in
14 another pool, do you?

15 A. That's correct, sir.

16 Q. Have you examined Division Form C-107B?

17 A. Yes, sir.

18 Q. Do you believe you could utilize that as an
19 operator, to notify the Division that you are adding
20 additional wells or additional pools to your centralized
21 facility in this case?

22 A. Yes, sir.

23 Q. Are you proposing to eliminate the need for
24 providing additional notices to any of the owners in the
25 north half of 23, to do this?

1 A. Yes, sir, I believe that if they would agree to
2 having their oil measured by this method that it would also
3 apply to other zones, or also new wells.

4 Q. Have you received any objection from any interest
5 owner that objects to the current proposed method for the
6 wells and the battery system that you now have applied for
7 approval for?

8 A. No, sir, I haven't received any.

9 Q. You're aware that the Division has received some
10 letters concerning the addition of future wells to the
11 project?

12 A. Yes, sir, I have seen those.

13 Q. Do any of those letters describe for you what is
14 the nature of their objection?

15 A. No, sir.

16 Q. Do you see any need to have further regulatory
17 hearings in order to make additional wells eligible for
18 this project area, or additional pools eligible?

19 A. No, sir, I don't think that would be necessary.

20 Q. Do you think there's anything achieved that's
21 useful to require notice to additional -- to owners of the
22 addition of additional wells?

23 A. No, sir.

24 Q. Let's turn now, at this point, Mr. Frey, and have,
25 you identify for the record Exhibit Number 4 in this case.

1 A. Exhibit 4 is basically a narrative of the
2 description of the process flow through a typical battery,
3 which we just kind of went over in the last exhibit.

4 Q. This is your written summary of what you just
5 described in the last exhibit?

6 A. Yes, sir.

7 Q. Let's turn past that and look at Exhibit 5. What
8 are you representing here?

9 A. On cost reduction, this summarizes some of the
10 slides that I'm about to present, some of the exhibits that
11 we'll be looking at. Basically talks about how much money
12 we would save by not having to install extra tank batteries
13 if an order to commingle was approved.

14 Q. Let's move past the written summary, and let's
15 talk about the displays themselves. Starting, then, with
16 Exhibit 6, what are you illustrating here?

17 A. Exhibit 6 lays the groundwork for what a typical
18 battery, tank battery, would cost, including an itemization
19 of each of the pieces of equipment that would be out there
20 and also the estimated labor that it would take to put
21 these batteries together.

22 Q. And what is meaningful about this in terms of Mr.
23 Catanach's decision?

24 A. Well, this will allow the -- this particular item
25 will show, in combination with the amount of tank batteries

1 that we would have for all proposed projects that we
2 foresee at this time, would kind of give the magnitude of
3 the overall cost savings.

4 Q. This, then, is the starting point for how you got
5 your economic conclusion that this entire project can
6 result in a savings of about \$2.5 million?

7 A. Yes, sir.

8 Q. So this is the starting point for the individual
9 costs of a battery system?

10 A. Yes, sir.

11 Q. Let's turn, then, and see how you've taken this
12 information and reached a project-wide cost associated with
13 it, starting with Exhibit 7.

14 A. Exhibit 7 gives an estimate of the number of
15 projects that could be out there, the number of development
16 wells in the Brushy Canyon, the number of development wells
17 in the Bone Springs, and also some potential Morrow
18 projects. These are potential projects that we see that
19 could possibly happen, and I've used an estimated cost,
20 which is on Exhibit 6, for the development wells that will
21 produce the oil.

22 And then I've also got a different estimate for
23 wells that just produce gas only. But when I take the
24 number of projects and multiply it by the estimated cost
25 for each of these types of batteries I come up with a total

1 in the right-hand column which the total for the project is
2 approximately \$2.4 million.

3 Q. Can you take this information now and relate it
4 back specifically to the tank-battery project we're looking
5 at in the north half of 23?

6 A. Yes, sir.

7 Q. Do you have that shown on Exhibit 8?

8 A. Yes, that is in Exhibit 8, which specifies the
9 typical tank battery. As you'll notice, this number of the
10 estimated cost of \$132,600 is slightly different than we
11 saw in the previous two exhibits of \$123,200, because we
12 have an extra oil tank at the SCB 3-B battery, so it's
13 slightly higher.

14 But without commingling we would have to require
15 tank batteries at the following locations, which relate to
16 the wells that would enter into this proposed SCB 3-B tank
17 battery, that is, SCB 23-4, SCB 23-13, the Donaldson Com
18 A-1, the SCB 3-B well, and the SCB 23-15, for a total cost
19 of \$453,200.

20 So if we take the difference between those, we'd
21 see a savings of \$320,600, just for this SCB 3-B proposed
22 tank battery.

23 Q. Following that is -- marked Exhibit 9, is the
24 notification of this hearing. And attached to that exhibit
25 is a two-page list of names and addresses. Are these the

1 interest owners associated with the project that's in the
2 north half of Section 23?

3 A. Yes, sir, it is.

4 Q. Let's turn at this point, Mr. Frey, to the next
5 case, which is 13,474, and look at what you call the
6 Brantley tank battery.

7 A. Okay.

8 Q. Starting with what is Exhibit 2 in this case,
9 what are you representing here?

10 A. Again, this is similar to what we saw in the
11 first case. This shows the summary of wells that would be
12 entering into a proposed tank battery at the Brantley.

13 And again, something to point out on this slide
14 would be the API gravity for the oil in these various
15 wells, ranging from 41.1 to 42.6. And again, this
16 variation in gravity would not change the actual amount
17 received for the oil that would be sold.

18 Q. And when we look back on Exhibit 1 for reference
19 and look at this project area for the Brantley centralized
20 facility, you see the facility itself located down in the
21 southeast quarter section of the northwest quarter --

22 A. Yes, sir.

23 Q. -- of -- that's going to be down -- I'm sorry,
24 it's the southwest of -- southeast of the southwest of 23?

25 A. Yes, that's correct.

1 Q. And now if you look at that facility and move
2 down to the northeast northeast of 26, there is the Merland
3 26 Number 2 location?

4 A. Yes, sir.

5 Q. If you're not allowed to take the oil off-lease
6 and measure it and store it off-lease, then you would have
7 to put a battery facility at that well location?

8 A. That is correct.

9 Q. And that would be one of the examples where you
10 would have to spend \$123,000?

11 A. That is correct.

12 Q. And by allowing that production from that well to
13 go to the centralized facility off-lease, you could realize
14 a savings to the working interest owners of approximately
15 that amount?

16 A. Yes, sir.

17 Q. Let's turn now to the details of the battery and
18 look at Exhibit 3. Taking your basic facility that you
19 described in the last case for Mr. Catanach, have you taken
20 what you propose for the Brantley tank battery and adjusted
21 the exhibit accordingly?

22 A. Yes, I have.

23 Q. Describe for Mr. Catanach what changes in this
24 display are material to him when he compares he learned in
25 the last case to this case.

1 A. They're very similar. The only difference would
2 be an extra oil test tank and also an extra water tank.

3 Q. And why are you recommending those be installed?

4 A. Well, actually these three are an existing
5 battery, and so we would just propose these other tanks to
6 make it easier, instead of moving -- going to the expense
7 of moving these tanks out to another location. So we're in
8 essence building around a tank battery that already exists,
9 in part.

10 Q. The add-ons that are to increase the capacity of
11 this facility to take the additional production from the
12 wells off-lease?

13 A. Yes, sir.

14 Q. Turn to Exhibit 4 in this exhibit set. Again,
15 this is your written summary of what you describe to be a
16 typical flow process through the battery system?

17 A. Yes, sir.

18 Q. And following that is the cost analysis?

19 A. Yes, sir.

20 Q. Let's pick up, then, with Exhibit 6 in this
21 package set. Again, we're looking at the same display as
22 we looked at in the last case?

23 A. Yes, sir.

24 Q. And then Exhibit 7 is the same?

25 A. Yes, sir.

1 Q. And then -- we're at Exhibit 8, and there's some
2 differential here?

3 A. Yes, sir. Exhibit 8 shows the total cost savings
4 for the Brantley tank battery if commingling was permitted.
5 The total, because of the extra equipment there, was
6 \$142,000. Without commingling, tank batteries would be
7 required at the SCB 23-2, the SCB 23-1, the SCB 23-14, the
8 SCB 23-9, the Merland Number 1, and the Merland Number 2,
9 both of those last wells being in Section 26, for a total
10 cost of \$576,400. The total savings, therefore, would be
11 the difference between those two figures, which is
12 \$434,400.

13 Q. Turning to Exhibit 9, attached to the notice of
14 hearing is a two-page list. Are these the interest owners
15 associated with the Brantley tank battery that we've been
16 describing here?

17 A. Yes, sir, they are.

18 Q. Again, for this project area you're seeking the
19 same type of administrative procedure where you would not
20 be required to send additional notices or have a hearing to
21 add wells or add wells -- production from different pools
22 within the area described within the Application for this
23 case?

24 A. Yes, sir, that's correct.

25 Q. Let's turn to the last case then. We're dealing

1 with the southwest quarter of Section 24, and we're looking
2 at Case 13,475. And going back to Exhibit 1, Mr. Frey,
3 what is the current status of the wells for this project
4 area?

5 A. These are currently proposed wells that have not
6 been drilled.

7 Q. And part of the plan for the drilling and
8 development would be the plan to utilize this common
9 facility which you've identified as the Brantley 24 tank
10 battery?

11 A. Yes, sir.

12 Q. Let's describe, after Exhibit Number 2 on this
13 exhibit set, we're now looking at the schematic of the tank
14 battery for the Brantley 24 that's Exhibit 3 to this case.
15 Describe for Mr. Catanach if there are any material
16 differences in this schematic for this battery as opposed
17 to the other two.

18 A. There is a slight difference. There's only two
19 oil tanks set at this one for sales. Everything else would
20 be very much the same.

21 Q. Exhibit Number 4 in this case is the written
22 summary of how the flow process through the battery was
23 intended to function?

24 A. Yes, sir.

25 Q. And following that is Exhibit 5, the cost

1 discussion?

2 A. Yes, sir.

3 Q. And then 6 is the same display we saw in the
4 other two cases?

5 A. That is correct.

6 Q. And Exhibit 7 is the total fieldwide cost
7 advantage?

8 A. Yes, sir.

9 Q. And then finally, let's spend some time on
10 Exhibit 8, which is unique to this tank battery.

11 A. Yes, sir. Exhibit 8 shows again the itemization
12 of equipment that would be used for a proposed tank
13 battery. Without commingling tank batteries, we'd be
14 required at the Brantley 24-1 and then also at the Brantley
15 24-3 -- No, I'm sorry, 24-2. What I'm noticing too is, the
16 number of wells should actually be a three instead of a
17 two, but it will not change the overall economic analysis.

18 The total for this cost would be \$205,700, versus
19 the cost of a typical tank battery, which would be
20 \$123,200, which means that we'd have a total savings for
21 this particular proposed tank battery of \$82,500.

22 Q. Are your ultimate conclusions for this
23 Application the same as you have for the other two?

24 A. Yes, sir, they are.

25 Q. That in each of the three cases the production

1 will be accurately metered and allocated back to the
2 appropriate wells?

3 A. Absolutely.

4 Q. And that each of the appropriate owners will
5 receive their fair and appropriate share of the value of
6 that production?

7 A. Yes, sir.

8 Q. And that the value of the production is not
9 compromised by the commingling?

10 A. That's correct.

11 Q. And you would be happy to have your money receive
12 any share of production utilizing this method?

13 A. Absolutely.

14 MR. KELLAHIN: That concludes my examination of
15 Mr. Frey, Mr. Catanach. We would move the introduction of
16 all of his exhibits, and I've lost track of the numbers.
17 I'm not so good with numbers.

18 EXAMINER CATANACH: Is it 1 through 9 in each
19 case?

20 MR. KELLAHIN: I believe that's correct. Yes,
21 sir, 1 through 9.

22 EXAMINER CATANACH: Okay, Exhibits 1 through 9 in
23 each of these cases will be admitted.

24 For the record, in Case 13,473 I personally
25 received correspondence from Claiborne M. Power. And the

1 other one -- What's the first name on that? Do you guys
2 know? The Hayes?

3 THE WITNESS: Is it Mittie Beth Hayes?

4 EXAMINER CATANACH: Yes, Mittie Hayes. I did
5 receive correspondence from those two parties. And I
6 believe -- let me double-check, but I think in each of
7 these cases -- Yes, in each of these cases I've received
8 correspondence from these two parties, and essentially they
9 note that they are not opposed to the commingling that you
10 propose today. They are opposed to adding future wells to
11 these facilities.

12 Okay.

13 EXAMINATION

14 BY EXAMINER CATANACH:

15 Q. Mr. Frey, these are all fee leases, right?

16 A. I believe that's correct.

17 Q. Now, if I want to know the different ownership
18 between these leases, can I find that on Exhibit Number 1?
19 For instance, if I look at the north half of Section 23,
20 you've got what looks to be three different areas outlined?

21 A. Yes, sir.

22 Q. Now, can I assume that those are three different
23 fee leases; is that correct?

24 A. I believe so. But what I would say to clarify
25 that would be that there are different divisions of

1 interest. In other words, the areas that are common show
2 common interest in the wells.

3 Q. So the area, say, that -- with each stippled
4 pattern, those would represent the same ownership?

5 A. Yes, sir, that's correct.

6 Q. And the same is true for the Brantley, you've got
7 essentially -- Now, let me ask you about the Brantley. The
8 area in the northwest quarter of Section -- I'm sorry, the
9 southeast of the southwest of 23 --

10 A. Yes, sir.

11 Q. -- that green area, is there a well to be
12 commingled from that area?

13 A. Currently there's a 23- -- SCB 23-14 is the well
14 that's in that area right now.

15 Q. Okay. So within that Brantley tank battery
16 there's going to be six different ownership tracts?

17 A. Yes, sir, that's correct.

18 Q. Okay, and then on the battery in Section 24,
19 you're going to have again three different ownership
20 tracts?

21 A. Yes, sir, that's correct.

22 Q. Okay. Do you know about the status of the
23 working interest in that area? Is it all RB Operating?

24 A. I'll have to defer to the landman on that, but I
25 believe that Chesapeake has an ownership in those too. I

1 think that's on our list. I can check that real quick.

2 MR. KELLAHIN: We have a witness that can verify
3 it for you, Mr. Catanach, but I will represent to you his
4 testimony will be that this is the same type of ownership
5 between Chesapeake Permian and RB Operating as you saw in
6 the first two cases this morning. Those are the two
7 operators for these properties.

8 Q. (By Examiner Catanach) Is that true throughout
9 the area?

10 MR. KELLAHIN: Yes, sir.

11 THE WITNESS: Yes.

12 EXAMINER CATANACH: I'll tell you what, Mr.
13 Kellahin, after the hearing could you prepare some kind of
14 a description of each lease on each of these things?

15 MR. KELLAHIN: We'll do that, we'll provide you
16 with a breakout that will show you the interests for each
17 of the tracts within the project area.

18 EXAMINER CATANACH: Okay, that will help.

19 MR. KELLAHIN: We'll do that.

20 Q. (By Examiner Catanach) Okay, on the -- I'm
21 sorry, let me see -- the north half of Section 23, that's
22 where you guys are proposing to drill that Number 17 well,
23 right?

24 A. Yes, sir.

25 Q. Okay. What are we doing with that well, as far

1 as -- are we taking the production from that well into the
2 tank battery, the common tank battery?

3 A. It will go to one of the two, and at this time
4 I'm not sure which, but I would probably guess at this time
5 it would go to the 3-B, which would be commingled there.
6 And the reason I'm saying that is because to the south --
7 in other words, if it had to go to the Brantley battery to
8 the south, that would cross farmland, and we don't want to
9 disturb that.

10 I believe the path from 23-17 up to the SCB 3-B
11 is not farmland currently, and so we would be less
12 disruptive on our surface interest owners.

13 Q. Okay, that well is not included in your
14 Application at this time; is that correct?

15 A. That is correct.

16 Q. Okay. So if you want to commingle that, you're
17 going to have to add that later on, right?

18 A. Yes, sir.

19 Q. Okay. Let's go over a typical tank battery
20 facility, Mr. Frey, and see -- I have a couple of
21 questions.

22 When the production goes into the pool separator
23 and then subsequently into the pool heater, that oil
24 production is not metered after that process, right?

25 A. Well, it will go into an oil tank, so it will be

1 metered in the tank.

2 Q. So you're not metering anything, you're just
3 gauging the tanks; is that correct?

4 A. Yes, sir, that's correct.

5 Q. Why is that? Do you prefer -- Why aren't you
6 guys putting any oil meters in this facility?

7 A. Well, actually we believe that's the most
8 accurate way, is to gauge the tanks, and that is acceptable
9 and actually preferred industry status for selling the oil.
10 So we believe that we can get a more accurate number
11 through that.

12 The kind of meter that you would probably put
13 there -- there's probably two types of meters that you may
14 put there. One would be a turbine meter, which is
15 inaccurate -- it's subject to inaccuracies if your flow
16 through that meter is not at a constant speed. And by the
17 nature of the dumps on the heater treaters you're going to
18 see a variation in speed, and that's going to lead to
19 inaccuracies in the turbine meter.

20 Also another source of problems in the turbine
21 meters are any solids that carry through with the oil
22 and/or water. If any sand gets stuck in that little
23 turbine it will lock up, and then you'll have barrels that
24 go through there that won't be counted.

25 So we felt like the most accurate way was to

1 actually test into a tank.

2 Q. And those are just gauged -- how often are they
3 gauged?

4 A. Those are gauged daily.

5 Q. Okay, you've got a gas meter on the test
6 separator for the gas, right?

7 A. Yes, sir.

8 Q. And you've got a separate gas meter measuring the
9 pool gas?

10 A. Yes, sir.

11 Q. And then those go into a sales meter?

12 A. Yes, sir.

13 Q. Somewhere on this facility?

14 A. I'm not sure of the exact location, but it is on
15 the lease.

16 Q. Okay.

17 A. I think a lot of our -- our gas-sales system out
18 here is a little different in the fact that most of the
19 meters are collected actually very close to the 3-B tank
20 battery. So this one actually would be very close to the
21 source of the production, whereas I believe some of the
22 others may not be.

23 Q. Okay, you testified that at least one well -- I'm
24 sorry, one well will be tested per day on a 24-hour basis?

25 A. Yes, sir.

1 Q. And that's every single day?

2 A. That's every single day.

3 Q. So typically during a month these wells may get
4 tested what, six, seven times?

5 A. That's possible, that's certainly possible.

6 Q. And then you just take what, an average of that
7 production?

8 A. Well, for production you'll reconcile that to the
9 overall oil and gas that is sold from that facility.

10 So in other words, if you have your test, in
11 fact, you would average that for the well, for each well.
12 Then you would reconcile that total to the total that was
13 sold. And then that would be allocated back to each
14 individual well, to get an accurate representation of what
15 each well is actually making.

16 Q. Okay. And that has to be manually switched every
17 day by someone?

18 A. Yes, sir, an operator will come by every day and
19 do that. He will gauge the oil tanks and also the oil test
20 tank.

21 Q. And the producing rates on these wells don't vary
22 all that much at this point, right?

23 A. No, sir, they don't. We also keep track of days
24 where a well is -- say, has a downhole failure or for some
25 reason is not able to produce. We also keep track of the

1 amount of days that a well is off production for a month,
2 and that will be also factored into the equation.

3 Q. Is there a process whereby if you add some bad
4 numbers you would recognize that and you would somehow try
5 and reconcile those numbers?

6 A. Yes, sir, every test that we take, the operator
7 has the -- and also the engineer has the option to call it
8 a good test or a bad test. And if for some obvious reason
9 it's not an accurate test, then that would be discarded
10 from the equation.

11 Q. Okay. Now, with regards to your cost savings,
12 are you guys going to dismantle any existing tank
13 batteries?

14 A. Absolutely, we're going to re-use that equipment
15 and move it to other locations as we drill wells and as we
16 need to.

17 Q. So currently, at this time, some of these wells
18 have their own tank batteries; is that --

19 A. Yes, that's correct.

20 Q. And you're just consolidating everything?

21 A. That is correct.

22 Q. So how would that -- If a well has an existing
23 tank battery, how would that figure into your cost savings
24 if you don't have to build another battery? You counted
25 that as cost savings, didn't you?

1 A. Yes. We will have to build tank batteries for
2 other wells that we drill. So for instance, if you look in
3 Section 13, in the western half, there's a tank battery
4 right now, which we call the 5-B battery, that's being
5 built to accommodate all those wells over there. We've
6 essentially used recycled equipment and designated that to
7 be assembled at that location, to service all those wells.
8 And the out-of-pocket savings will be equivalent to the
9 numbers that are set forth in Exhibit 6.

10 Q. Okay. Now, in terms of the areas that you've got
11 outlined for each of these three different projects, is it
12 possible that that's going to change, that you may add a
13 well outside of the area?

14 A. No, sir, I don't believe so.

15 Q. So these are pretty much set?

16 A. Yes, sir.

17 Q. So all you're going to be doing in the future is
18 adding wells, probably within the areas that you've got
19 designated?

20 A. Yes, sir.

21 Q. Okay. So you're not -- if you add a well, you're
22 not going to add an interest owner that has not been
23 notified?

24 A. That is correct.

25 Q. Could the interest ownership change?

1 A. I'd have to let somebody else speak to that, but
2 I guess that's possible if there's a sale of it.

3 Q. So the administrative process that you guys have
4 planned would be simply to file the Form C-107A; is that
5 your opinion?

6 A. I'm not familiar with --

7 Q. I'm sorry, the C-107B?

8 A. Yes, sir, C-107B would be the form that we would
9 notify the Division on.

10 Q. Okay, and you're requesting that you not be
11 required to give additional notice to any interest owners?

12 A. That's correct.

13 Q. And your reasoning behind that is because you've
14 notified them of this case, and nobody had any objection?

15 A. That is correct.

16 Q. Do you know why these interest owners that have
17 written the Division might have a concern about adding
18 wells in the future?

19 A. No, sir, I believe that since they believe that
20 the current proposed system is fair and accurate and would
21 not materially harm their interest, that it would be a very
22 logical extension to say that any future work that we do in
23 terms of adding either zones or wells would also fit under
24 those guidelines. So I can't see why they would approve
25 the current situation and not approve any future changes.

1 Q. Do you guys consider that to be -- I guess
2 unnecessary, is what you're saying?

3 A. Yes, sir.

4 Q. Is it unreasonable? I mean, it seems to me that
5 you -- having -- knowing these interest owners, I mean,
6 simply a matter of just providing them with something
7 wouldn't be unreasonable.

8 MR. KELLAHIN: May I respond, Mr. Examiner?
9 Here's the problem: They can't tell us what's wrong with
10 our request for an expansion. They have no objection to
11 what we're doing now. What happens under your process, if
12 we file administratively, send them notice, they send you
13 another letter saying they don't like it. We then are set
14 for hearing and are exposed to the problem of having to
15 come by for another hearing and find out that they have no
16 meaningful objection.

17 So if they care, they should be here today. If
18 we send them notice in the future, it's just an excuse for
19 delay. They didn't call us, no one has talked to us, we
20 have no understanding of what it is they care about. I
21 think they've simply misunderstood the Application.

22 What we'd like -- what we're proposing to do is
23 to utilize C-107B and have you remove the obligation to
24 send further notice to this interest group. It's in the
25 same area, same wells. If a new well is added, it's in the

1 same geographic area. I can't see that it matters one bit
2 except to us, in that it exposes us to delay.

3 EXAMINER CATANACH: Okay. Well, we'll give it
4 some consideration.

5 I think that's all I had. Yeah, that's all I
6 have.

7 Anything further?

8 MR. KELLAHIN: That's all we have.

9 EXAMINER CATANACH: Okay, there being nothing
10 further, Cases Number 13,473, 13,474 and 13,475 will be
11 taken under advisement.

12 And with that, this hearing is adjourned.

13 (Thereupon, these proceedings were concluded at
14 11:06 a.m.)

15 * * *

16
17
18
19 I do hereby certify that the foregoing is
20 a complete record of the proceedings in
the Examiner hearing of Case No. 13473/13474
heard by me on April 21, 2005. 13475
21 David Kellahin, Examiner
22 Oil Conservation Division
23
24
25

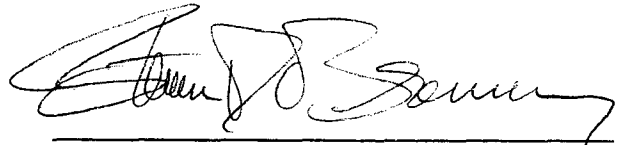
CERTIFICATE OF REPORTER

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 April 24th, 2005.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006