

Cost Reduction

RB Operating is requesting a hearing to permit commingling of oil and gas production from leases with diverse ownership, and from pools with diverse ownership. An exception to 19.15.5.303 NMAC is necessary to prevent waste and promote conservation by utilizing existing tank batteries to process oil and gas, thereby reducing the incremental investment capital that would be needed to construct a tank battery for each new well. Also, an exception to 19.15.5.303 NMAC would prevent waste and promote conservation by reducing the number of operating tank batteries in the field, lowering the operating cost structure, and allowing the field to have a longer economic producing life, and ultimately recovering more reserves from the field. These enhancements of efficiency and reserves recovery would be accomplished without sacrificing the accuracy of measurement of the produced oil and gas, thereby protecting the value of the reserves for each individual interest owner.

Exhibit 1 summarizes the estimated twenty-one development projects that would require the construction of tank batteries without permission to commingle oil and gas production from leases with diverse ownership, and from pools with diverse ownership. The total cost to construct these twenty-one tank batteries would exceed \$2.44 million dollars. In addition to this investment cost, it would be necessary to increase the number of employees to operate the field, and maintenance costs for the additional equipment would negatively impact the project economics. The net effect of the required additional capital and operating expenses would be a decrease in the economic life of the field, and an increase in oil and gas reserves left in the ground.

An exception to 19.15.5.303 NMAC would prevent waste and promote conservation by utilizing existing tank batteries to process oil and gas. Utilizing existing tank batteries would benefit all of the working interest owners in the project by allowing them to recover reserves with less capital investment. Utilizing existing tank batteries would benefit all royalty interest owners by decreasing the operating expense structure in the field, extending the economic life of the field, allowing more reserves to be economically recovered, thereby increasing royalty payments. In summary, lower capital and lower operating expenses mean longer life and more royalties over the life of the field.

**BEFORE THE
OIL CONSERVATION DIVISION**
Case No. 13474 Exhibit No. **5**
Submitted By:
RB Operating Company
Hearing Date: April 21, 2005