

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, LP, FOR THE)
ESTABLISHMENT OF A DOWNHOLE COMMINGLING)
REFERENCE CASE FOR ITS SAN JUAN 28-4)
UNIT, RIO ARRIBA COUNTY, NEW MEXICO)

CASE NOS. 13,987

APPLICATION OF BURLINGTON RESOURCES)
OIL AND GAS COMPANY, LP, FOR THE)
ESTABLISHMENT OF A DOWNHOLE COMMINGLING)
REFERENCE CASE FOR ITS SAN JUAN 30-6)
UNIT, RIO ARRIBA COUNTY, NEW MEXICO)

13,988

APPLICATION OF BURLINGTON RESOURCES)
OIL AND GAS COMPANY, LP, FOR THE)
ESTABLISHMENT OF A DOWNHOLE COMMINGLING)
REFERENCE CASE FOR ITS SAN JUAN 27-4)
UNIT, RIO ARRIBA COUNTY, NEW MEXICO)

and

(Consolidated)

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REPORTER'S TRANSCRIPT OF PROCEEDINGS
EXAMINER HEARING

BEFORE: WILLIAM V. JONES, Jr., Technical Examiner
DAVID K. BROOKS, Jr., Legal Examiner

September 20th, 2007
Santa Fe, New Mexico

These matters came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, Jr., Technical Examiner, DAVID K. BROOKS, Jr., Legal Examiner, on Thursday, September 20th, 2007, 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.

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CCRM

I N D E X

September 20th, 2007
Examiner Hearing
CASE NOS. 13,987, 13,988 and 13,989 (Consolidated)

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A P P E A R A N C E S

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By: W. THOMAS KELLAHIN

* * *

1 WHEREUPON, the following proceedings were had at
2 10:34 a.m.:

3 MR. KELLAHIN: Mr. Examiner, if you'll call the
4 three Burlington cases collectively, we'll have a composite
5 presentation to take care of those.

6 EXAMINER JONES: Okay, at this time let's call
7 Case 13,987, 13,988 and 13,989. All are the Application of
8 Burlington Resources Oil and Gas Company, LP, for the
9 establishment of a downhole commingling reference case.

10 13,987 is for the San Juan 28-4 unit, 13,988 is
11 for the San Juan 30-6 unit, and both of those are in Rio
12 Arriba County. 13,989 is for the San Juan 27-4 unit, and I
13 think that one might be in several different counties, but
14 maybe not.

15 MR. KELLAHIN: It should be, it's supposed to be
16 in four counties, I think.

17 EXAMINER JONES: Four counties.

18 So with that, call for appearances.

19 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of
20 the Santa Fe law firm of Kellahin and Kellahin, appearing
21 on behalf of the Applicant, and I have one witness to be
22 sworn.

23 EXAMINER JONES: Any other appearances?

24 Will the witness please stand to be sworn?

25 (Thereupon, the witness was sworn.)

1 you participated on behalf of Burlington in prior reference
2 cases dealing with downhole commingling?

3 A. Yes, I have.

4 Q. What are you seeking to do in these three cases?

5 A. We're seeking to get an order that would exempt
6 us from having to send out hundreds of notices in cases
7 where we want to commingle the Mesaverde formation and the
8 Dakota formation in these three federal units.

9 Q. Has that happened in prior units?

10 A. It has.

11 Q. And does our exhibit book contain a list of all
12 those prior orders and decisions affecting other units?

13 A. It does.

14 Q. When you look at the various components of
15 reporting information for a downhole commingling
16 application, they have other criteria that you're required
17 to file. How is that currently being satisfied for each of
18 these three units in terms of pressure, allocation, that
19 kind of thing.

20 A. The Mesaverde and the Dakota are preapproved
21 pools under the commingling order, and so those things have
22 been taken care of. We still, of course, go ahead and file
23 our allocations for the production on a case-by-case basis.

24 Q. So at this point for these three units, the
25 change you're seeking is to have a reference order to

1 eliminate the need to send notice to the parties that would
2 otherwise be entitled to notice under the commingling
3 rules?

4 A. That's correct.

5 Q. Let's start, then, with the exhibit book in which
6 you have compiled exhibits for each of the three cases --

7 A. Yes, sir.

8 Q. -- and let's go through each one of those.

9 Behind Exhibit Tab Number 1, what are we looking
10 at?

11 A. This is the Application for the San Juan 27-and-4
12 Federal Unit, and following that is a list of the owners of
13 interest in production for that unit.

14 Q. Let's stop at the notice list. The list of
15 owners, is this the list of owners that you sent notice to
16 for this particular case today?

17 A. That's correct.

18 Q. And when was that notice sent?

19 A. That notice was sent August 27th.

20 Q. Following the foldout tabulation behind Exhibit
21 Tab Number 1, there's a legal page foldout?

22 A. Yes.

23 Q. When you fold that out, are these two pages the
24 parties that you sent notice to for this hearing?

25 A. That's correct.

1 Q. So when we turn back behind the legal foldout,
2 there's a series of photocopies of what appears to be
3 return receipt cards?

4 A. That's correct.

5 Q. And this is your effort to send notice in
6 compliance with Division Rules to all these potential
7 parties?

8 A. That's correct.

9 Q. Have you received any objection from any of these
10 parties as to the Application in this unit?

11 A. We have not.

12 Q. To the best of your knowledge, is your list
13 accurate and current?

14 A. Yes, to the best of my knowledge.

15 Q. Let's turn past Exhibit Tab 1 and look at Exhibit
16 Tab 2. What are we seeing behind Exhibit Tab Number 2?

17 A. Exhibit Tab Number 2 is a reference map to kind
18 of locate us up in the northwest, in the San Juan Basin.
19 You'll see the three units that we're going to talk about
20 today, the San Juan 30-and-6 Unit, the San Juan 28-4 Unit
21 and the San Juan 27-4 Unit.

22 The other green-colored areas are the other
23 federal units in the areas, and off to the west you'll see
24 the outlines of Farmington, Aztec and Bloomfield. All of
25 these units, you will see, are in Rio Arriba County, New

1 Mexico.

2 Q. Following that first exhibit behind Tab 2, what
3 is the next display?

4 A. The next display is a display that shows, again,
5 the federal units that we would like to receive the notice
6 exemption on, plus the other federal units that are now
7 operated out of the Farmington office for both
8 ConocoPhillips and Burlington. They're shaded in green.
9 All of those units have exemption notices for those
10 particular units.

11 Q. These remaining three units are the only three
12 left units operated by Burlington or ConocoPhillips that do
13 not have an exemption from the notice rule?

14 A. I believe that's correct.

15 Q. Let's turn to the next display after that one,
16 and we're still behind Exhibit Tab Number 2. There's a
17 spreadsheet. What does this show us?

18 A. This is the -- We provided a spreadsheet. We
19 found all the orders for both the ConocoPhillips-operated
20 and the Burlington-operated federal units, and this
21 spreadsheet has the origin operator on it on the far left-
22 hand side, the order number, the order date, and the
23 formations that we have received exemption orders on those
24 particular units.

25 Q. And if there's a yes associated with a particular

1 formation, that's indicative of what?

2 A. That means that we have received exemption orders
3 on those federal units, and we no longer notify all the
4 interest owners for particular units that would be
5 commingled -- those particular formations that would be
6 commingled.

7 Q. And so we're trying to commingle Mesaverde and
8 Dakota in these three current units?

9 A. That is correct.

10 Q. And that would be consistent with the approvals
11 on all other units that had been approved by the Division?

12 A. For the units that we operate, that is correct.

13 Q. Okay. Let's turn now to Exhibit Tab Number 3 and
14 look at the display associated with the San Juan 27-and-4
15 Unit. What does this show us?

16 A. This exhibit shows us the current development
17 level between the Dakota and the Mesaverde wells in this
18 unit. The Mesaverde wells are color-coded in the blue
19 circles, and the Dakota wells are color-coded in the red
20 circles. That will be the same for the rest of the
21 presentations also.

22 Q. After this locator map, have you identified for
23 this unit the participating Dakota and Mesaverde areas,
24 portions of the unit?

25 A. Yes, the next exhibit following the well display

1 is an exhibit that shows the participating areas for both
2 the Dakota and the Mesaverde. The Dakota is the red
3 hachmark, and the Mesaverde is the blue hachmark.

4 As you can see in this unit, neither the
5 Mesaverde nor the Dakota are fully participating at this
6 present time.

7 Q. In terms of notice to the parties within the
8 unit, did you limit your notices just to owners in the
9 participating area?

10 A. No, sir, we did not. We started with the
11 Division Order section in Bartlesville, Oklahoma. That's
12 where our records are now kept. We started with the
13 participating areas, and then we went on a manual search
14 for the Exhibit B's for each federal unit for these
15 formations and looked at each track and make sure that
16 those same people were either there, and if they weren't in
17 the participating area then we added them to the notice
18 list.

19 So to the best of my knowledge, the notice list
20 includes each tract in the federal unit for both the
21 Mesaverde and the Dakota formation, irregardless if they're
22 in the participating area or not.

23 Q. Did you do that for each of the three units that
24 are the subject of this hearing?

25 A. Yes, I did.

1 Q. Turn now to the next page behind Exhibit Tab
2 Number 3. What are we looking at here?

3 A. We wanted to show the full development in these
4 three federal units, and this map represents the full
5 development of all formations in the San Juan 27-and-4
6 Federal Unit.

7 Q. Let's turn to Tab 4 and look at the San Juan
8 28-and-4 Unit. What do we see behind Tab 4?

9 A. Again, we have provided the Application that we
10 use to send notices out to all of the interest owners in
11 the San Juan 28-and-4 Unit. The arrangement of the
12 exhibits is the same. Behind the Application we have
13 provided a foldout list.

14 As you can see, the 28-and-4 Unit, as we'll see
15 in the plats following, has been contracted. And it's a
16 very small unit to this point in time, so there's not very
17 many people involved in this particular unit.

18 And then behind the foldout sheet showing the
19 interest owners again are copies of the return receipts
20 that we received back from our notice.

21 Q. To the best of our knowledge, are the parties
22 that received notice for the San Juan 28-and-4 Unit all the
23 parties entitled to notice?

24 A. That's correct.

25 Q. And did you receive any objection?

1 A. We have not received any objections.

2 Q. And your mailings to those parties included not
3 only the Application but the notice letter telling them the
4 time and place of hearing?

5 A. That is correct.

6 Q. Let's turn now to Exhibit 5. What is the display
7 we're seeing behind Exhibit Tab 5 as the first display?

8 A. This will be the same arrangement as the prior
9 case that we were looking at where I've simply included a
10 locator map. It's the same locator map, just to locate
11 you, and you can see where the San Juan 28-and-4 Unit is in
12 that locator map.

13 Q. Followed by -- ?

14 A. And then it again is followed by the map you
15 previously looked at showing the federal units that we're
16 asking for exemption notices today for, plus all the other
17 federal units that we operate that currently have exemption
18 notices on them.

19 Q. And the last item?

20 A. And the last slide again is simply a table. It's
21 the same table that shows all of the orders, the formations
22 they cover, the order numbers and the dates.

23 Q. Let's turn to Tab 6 and look at the plats behind
24 Tab 6 as to the San Juan 28-and-4 Unit.

25 A. Yes, as you can see, and as I previously

1 mentioned, the San Juan 28-and-4 Unit was contracted on the
2 automatic elimination date five years after the unit was
3 developed, and so it originally consisted of all of the
4 28-and-4 township, but now it's been contracted back just
5 to the areas that are shaded in blue. So it's a fairly
6 small federal unit.

7 Q. The next display behind Tab 6?

8 A. This display is the map that we are showing the
9 participating areas again for the Mesaverde and the Dakota
10 formation, and they are hatched in the same manner as the
11 rest of the cases.

12 Q. And the next display?

13 A. The next display is a full development map
14 showing all the wells in the area, plus the wells that are
15 currently in the San Juan 28-and-4 Federal Unit.

16 Q. Let's turn to Tab 7 and look at the documents
17 associated with the San Juan 30-and-6 Unit.

18 A. Yes, behind Exhibit Tab Number 1 -- or, I'm
19 sorry, behind Exhibit Tab Number 7, again we have the
20 Application and the notice that was sent out to all of the
21 interest owners in the San Juan 30-and-6 Unit.

22 Behind that you can see there's an extensive
23 list, some 341 persons that are entitled to that notice
24 under the commingle rules, unless we had an exemption
25 notice.

1 And then behind that you will see the copies of
2 the return receipts that we received back from that
3 mailout.

4 Q. And with regards to this mailout, have you
5 received any objections to the approval of this
6 Application?

7 A. No, sir, we have not.

8 Q. Let's turn to Tab 8 and go through these plats.

9 A. Again, the plat arrangements are the same under
10 Exhibit Tab 8. We are showing the locator map. You can
11 see where the San Juan 30-and-6 Unit is located with
12 reference to the San Juan Basin.

13 And then behind that is again the same map that
14 shows the San Juan 30-and-6 Unit that we're requesting this
15 morning, plus the remaining federal units that we already
16 have exemption notices on, that both Burlington and
17 ConocoPhillips now operate.

18 And then again behind that plat is a spreadsheet
19 listing of the orders that are currently in effect for all
20 of the federal units that both Burlington and
21 ConocoPhillips operate.

22 Q. If you'll turn now to Exhibit Tab 9, identify the
23 plats associated with Exhibit 9.

24 A. Exhibit 9 is a map showing the current
25 development level of the Mesaverde and Dakota formations in

1 the San Juan 30-and-6 Unit.

2 And then behind that plat is a plat showing the
3 current development of the participating areas for the
4 Dakota and Mesaverde formations. Again, you will see that
5 the Dakota formation is not fully developed for the
6 participating area, but that the Mesaverde formation is
7 fully developed for purposes of the participating area.

8 And then behind that plat, again we wanted to
9 show the extent of the development in the area for all of
10 the formations that have been developed to date.

11 Q. In your opinion, Mr. Alexander, is it appropriate
12 to eliminate the need for notification for downhole
13 commingling purposes of Mesaverde and Dakota production for
14 each of these three units?

15 A. Yes, I believe that it is.

16 MR. KELLAHIN: That concludes our examination of
17 Mr. Alexander. We move the introduction of his Exhibits 1
18 through 9 -- 1 through 9.

19 EXAMINER JONES: 1 through 9. Exhibits 1 through
20 9 will be admitted.

21 EXAMINATION

22 BY EXAMINER JONES:

23 Q. Mr. Alexander, the San Juan 30-6 Unit -- does
24 that extend over into 30-7?

25 A. The 30-7 township, it does.

1 Q. Oh, it does, okay.

2 A. Yes.

3 Q. So it is what's shown here?

4 A. Yes, sir.

5 Q. Okay. And are any of these ex-Phillips units, or
6 are these all Burlington -- ex-Burlington units?

7 A. No, there are ex-Phillips units.

8 Q. Okay, I remember --

9 A. I was trying to recall the difference between
10 Conoco and Phillips --

11 Q. Okay.

12 A. -- but in fact, they were not operated by
13 Burlington, they were operated by Conoco or Phillips.

14 Q. Okay. Because I do remember some from Phillips
15 that needed to be done this way, that really desperately
16 needed this.

17 So these are just -- you're just asking for
18 Dakota-Mesaverde; is that right?

19 A. That's correct.

20 Q. And so these are pre-approved pools, so they'll
21 just eliminate notice that you would have shown to Steve
22 Hayden; is that correct?

23 A. Well, for --

24 Q. -- for downhole commingling?

25 A. -- for downhole commingling. However, we would

1 have sent out the notices to the working -- to all of the
2 interest owners. But it would limit the amount of
3 information, you are correct, that Steve Hayden would
4 receive in the Aztec office, if they were not preapproved
5 pools.

6 Q. Okay. But they wouldn't -- None of these came
7 here for approval in Santa Fe anyway?

8 A. That's correct.

9 Q. Okay, so -- Steve needs to be here, lobbying for
10 this also.

11 A. Yes.

12 Q. You're only asking for these two formations,
13 because they're the only -- they only have participating
14 areas here? What about the Chacra and the other zones? Do
15 they not produce?

16 A. They only produce very marginally in these units,
17 and we don't expect to see much development in the Chacra
18 and some of the other minor zones.

19 We have waited to this point in time to do these,
20 because now we are beginning to go back in our inventory
21 and develop the Mesaverde and the Dakota further. Our
22 resource management team, we currently have in our budget
23 -- For the 27-and-4 Unit for the budget years '08 and '09
24 we would have 27 wells currently budgeted there for new-
25 drill wells, and then in the 28-and-4 Unit we will have

1 nine wells during that time period that are again new
2 drills that would develop the Mesaverde and Dakota in the
3 new drill wellbore, and then in the 30-and-6 Unit we have
4 two wells on budget.

5 Now they have not finished their budget work for
6 going into the existing Dakota wells and recompleting those
7 in the Mesaverde, which we have a great many opportunities
8 to do that, but we have not finished all the budget work on
9 that. We're asking for this notification exemption at this
10 point in time because we feel that we'll see a fairly heavy
11 development going forward, and this is the appropriate time
12 to be doing this kind of work.

13 Q. Are you happy with your -- with the amount of
14 science that's being done for the split assignment between
15 the two formations? I mean, what is Burlington -- or I
16 should say ConocoPhillips and Burlington, is that the new
17 -- that's the way we should say it?

18 A. Well, we're -- officially, the companies have not
19 been merged. That will probably be at least maybe 18 more
20 months. So we officially operate each of these federal
21 units in the operator name. Some of them are Burlington,
22 some of them are ConocoPhillips. So we keep those separate
23 for the time being until the two companies are officially
24 merged.

25 Q. Okay. I guess my question was, what is the --

1 what can you tell me about how they're trying to keep
2 production allocated correctly between the two zones?

3 A. Currently we -- we continue to look at that to
4 find the best way to allocate production. We've never
5 found any way that's absolutely foolproof. There's some
6 fairly good ways to do it. But currently Burlington would
7 complete these wells and have a combined flow up the back
8 side and take a measurement on those. Then we would put a
9 packer in the hole and flow the Mesaverde, and then we
10 would use the subtraction method to get our initial
11 allocation.

12 Q. Okay. Because you've got a lot of established
13 Dakota wells --

14 A. Yes, sir.

15 Q. -- production, so you can use subtraction and --

16 A. That's correct, when we go into those existing
17 wells we probably will be using the subtraction method to
18 do those.

19 Q. Just set it up on the computer and do it that
20 way?

21 A. We should be able to, yes, sir.

22 Q. Don't have pumpers anymore, like they used to
23 have?

24 A. Well, we still have quite a few in the field,
25 but --

1 Q. Okay. Well, I -- That's the main thing. I
 2 noticed Williams Companies has been proposing -- I think to
 3 Steve Hayden, mainly -- to use gas analysis between two
 4 commingled zones as -- they know the gas analysis at one
 5 zone, they know the gas analysis of another zone, and they
 6 take the combined flowstream and look at that and then do a
 7 percentage splitout that way.

8 A. We've also -- and are still looking at that
 9 method ourselves. We're not convinced -- There are some
 10 problems with that method, we're not convinced that it's
 11 foolproof. And like I said, we've not found anything yet
 12 we think is foolproof, but there are several good methods
 13 that will get us fairly close in the allocations.

14 EXAMINER JONES: Okay, David?

15 EXAMINER BROOKS: No questions.

16 EXAMINER JONES: Okay, thanks a lot. Thanks, Mr.
 17 Kellahin.

18 With that, we'll take Case 13,987 under
 19 advisement, and we'll take Case 13,988 under advisement and
 20 take Case 13,989 under advisement.

21 (Thereupon, these proceedings were concluded at
 22 10:56 a.m.)

23 I do hereby certify that the foregoing
 24 is a complete record of the proceedings in
 25 the Examiner hearing of Case No. _____
 heard by me on _____

Steven T. Brenner
 _____, Examiner
 Oil Conservation Division
 STEVEN T. BRENNER, CCR
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10/3/07

