

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 CHEVRON U.S.A., INC.,)
FOR SURFACE COMMINGLING, LEA COUNTY,)
NEW MEXICO)
)

CASE NO. 12,102

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

December 17th, 1998

Santa Fe, New Mexico

OIL CONSERVATION DIV
99 JAN -7 AM 11:32

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, December 17th, 1998, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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December 17th, 1998
 Examiner Hearing
 CASE NO. 12,102

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<u>LLOYD V. TRAUTMAN</u> (Engineer)	
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A P P E A R A N C E S

FOR THE DIVISION:

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FOR THE APPLICANT:

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Santa Fe, New Mexico 87504-2208
By: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 8:15 a.m.:

3 EXAMINER CATANACH: At this time we'll call Case
4 12,102.

5 MR. CARROLL: Application of Chevron USA, Inc.,
6 for surface commingling, Lea County, New Mexico.

7 EXAMINER CATANACH: Call for appearances in this
8 case.

9 MR. CARR: May it please the Examiner, my name is
10 William F. Carr with the Santa Fe law firm Campbell, Carr,
11 Berge and Sheridan. We represent Chevron in this matter,
12 and I have one witness.

13 EXAMINER CATANACH: Additional appearances?
14 Will the witness please stand to be sworn in?
15 (Thereupon, the witness was sworn.)

16 LLOYD V. TRAUTMAN,
17 the witness herein, after having been first duly sworn upon
18 his oath, was examined and testified as follows:

19 DIRECT EXAMINATION

20 BY MR. CARR:

21 Q. Would you state your name for the record, please?

22 A. My name is Lloyd Vernon Trautman.

23 Q. And where do you reside?

24 A. I reside in Midland, Texas.

25 Q. By whom are you employed?

1 A. I work for Chevron.

2 Q. And what is your position with Chevron?

3 A. My position now is senior petroleum engineer.

4 Q. Mr. Trautman, have you previously testified
5 before this Division and had your credentials as a
6 petroleum engineer accepted and made a matter of record?

7 A. Yes, I did. It was October 15th of 1992.

8 Q. Are you familiar with the Application filed in
9 this case on behalf of Chevron?

10 A. Yes, I am.

11 Q. And are you familiar with the status of the lands
12 and the area that is the subject of this Application?

13 A. Yes, I am.

14 Q. Have you conducted a technical study of the wells
15 in the area which is the subject of this Application?

16 A. Yes, sir, I have.

17 Q. And are you prepared to share the results of that
18 study with the Examiner?

19 A. Yes, I am.

20 MR. CARR: May it please the Examiner, at this
21 time we tender Mr. Trautman as an expert in petroleum
22 engineering.

23 EXAMINER CATANACH: Mr. Trautman is so qualified.

24 Q. (By Mr. Carr) Would you briefly summarize for
25 Mr. Catanach what it is that Chevron seeks with this

1 Application?

2 A. Chevron would like an exception to Division Rules
3 303.A and 309.A for authority for lease surface commingling
4 of the hydrocarbon production from the Abo formation of the
5 Monument North-Abo Pool and Monument-Abo Pool within nine
6 State of New Mexico leases from all existing wells and the
7 wells to be drilled in that area, which include acreage in
8 parts of Section 1, 12, 13, 14 and 23, Township 19 South,
9 Range 36 East, in Lea County, New Mexico.

10 Q. Mr. Trautman, let's refer to what's been marked
11 for identification as Chevron Exhibit Number 1. Would you
12 identify that and review it for Mr. Catanach?

13 A. Okay, it's a map showing the locations of all
14 existing Abo wells and deeper. The working interest owner
15 unit covers the south half of Section 1, all of Section 11,
16 12, 13 and 14, and in Section 23 it includes all of Section
17 23 except for five Texaco wells that are identified on your
18 map. And so excluded from the unit are those five 40-acre
19 tracts?

20 A. Right, those five 40-acre tracts are excluded.

21 Q. Is the name of the unit the North Monument Unit?
22 Is that what you call it?

23 A. It's the North Monument-Abo Unit, yes, sir.

24 Q. And the operators of other wells in the area are
25 also indicated on this map?

1 A. Right, the operators are listed above the well
2 names. There's Arrington, Marathon, Amerada Hess, are the
3 biggest ones.

4 Q. Is Chevron proposing to drill additional wells in
5 this working interest unit?

6 A. We have the possibility of drilling two to four
7 more locations in there, in Sections 14 and 23, as we're --
8 right now we believe they will be. We have not finalized
9 those locations. We're evaluating results of current wells
10 that were recently drilled and comparing that to our
11 seismic data.

12 Q. Let's go to Chevron Exhibit Number 2. Could you
13 identify and review that for the Examiner?

14 A. Okay, Exhibit 2 is a plat showing the location of
15 the wells, the county roads. And you can see from the
16 legend here, the flow lines are marked in red. Actual
17 fluid lines between the different satellites are in the
18 purple. And the roads are marked in the blue dashed line.
19 And this identifies county roads, lease roads to get to the
20 wells.

21 The wells in Section 23 go to a satellite in 23,
22 and from there the purple line goes up to our central
23 battery, labeled at 12-3. And in 14, all the wells in 14
24 go to the satellite in Section 14, and then to the central
25 battery. And we have some wells in Section 12 that go to a

1 satellite battery, and then that production is taken to the
2 central battery. Other wells in Section 23 go directly to
3 the central battery. And then in Section 1, all wells in
4 Section 1 go to the satellite, which then the satellite
5 takes the production to the central battery.

6 Q. Mr. Trautman, these facilities are in place at
7 this time; is that correct?

8 A. Yes, they are in place.

9 Q. And Chevron has previously received
10 administrative approval for the purpose of commingling of
11 certain leases within this working interest owner unit?

12 A. Yes, we have.

13 Q. Is Exhibit Number 3 copies of the administrative
14 orders that have been previously entered by the Division
15 approving surface commingling on certain leases?

16 A. Yes, sir.

17 Q. How many wells does Chevron currently operate in
18 this area?

19 A. We operate 26 wells at the current time.

20 Q. Let's go to Exhibit Number 4. Would you identify
21 and review that?

22 A. Okay, Exhibit 4 is a list of the wells by pool,
23 their location, the lease number that they're in, the state
24 lease number they're in, and then a production number for
25 what that well is producing. These production numbers are

1 a one-day number to give an estimate of the range that they
2 will produce.

3 They are also broken down by sections, the
4 Monument 1 State Lease, 12, 13, 14, 23. And there's one
5 well that's in the Monument-Abo Pool that's listed at the
6 bottom of page 2, on the Monument 23 state lease.

7 Q. All right, let's talk for a minute about the
8 ownership of the production that you propose to commingle
9 on the subject leases. Who operates each of these leases?

10 A. Chevron operates each of these leases.

11 Q. And what are the percentage ownerships within
12 each -- Is the ownership identical in each of the leases?

13 A. The ownership is the same in all of the leases.

14 Q. What is the working interest ownership throughout
15 this area?

16 A. Okay, Chevron has 56 percent and therefore is the
17 operator, Phillips Petroleum has 32 percent, Lead
18 Operating, Inc., has 6 percent, and Amerada Hess has 6
19 percent.

20 Q. These are all State of New Mexico leases?

21 A. Yes they are, State of New Mexico, with a one-
22 eighth royalty.

23 Q. So we have common royalty ownership, a hundred
24 percent State of New Mexico?

25 A. Yes, sir, that's right.

1 Q. Are there any overriding royalty interests within
2 this working interest unit?

3 A. There are no overriding royalty interests.

4 Q. If this Application is approved, what volumes of
5 production will actually be commingled?

6 A. There will be about 1300 barrels of oil a day,
7 about 3550 MCF of gas, and about 240 barrels of water.

8 Q. And what do you estimate to be the average daily
9 production on an individual well basis in this area?

10 A. The average production is about 52 barrels of
11 oil, 142 MCF per day, and 10 barrels of water per day, per
12 well.

13 Q. And if you add additional wells, you would
14 anticipate those figures would be fairly representative of
15 what they should produce?

16 A. That should be approximately what a new well
17 would make.

18 Q. Are these wells producing from a common source of
19 supply?

20 A. Yes, sir, all of the wells are producing from the
21 Abo formation.

22 Q. And you indicated they're in two pools. Could
23 you explain how that has come to pass?

24 A. The original boundary of the North Monument-Abo
25 Unit, or field, included all of Section 23. And as we

1 applied for permits for Wells 23 and 19 in Section 23, we
2 submitted them as North Monument-Abo Pools. And they were
3 changed by the OCD to be in the Monument-Abo Pool.

4 Q. But they are from the same formation?

5 A. The same formation, Abo formation.

6 Q. Do you anticipate any compatibility problems
7 could result if this production is commingled?

8 A. No, sir, we do not.

9 Q. Have you been successfully commingling on the
10 surface of this production pursuant to these administrative
11 approvals you've already received?

12 A. Yes, sir, we have commingled them.

13 Q. Let's go to Exhibit Number 5, the schematic
14 drawing for the satellite battery. Would you explain to
15 the Examiner how this facility operates?

16 A. There's one schematic for all of the satellites,
17 and they're all the same. And essentially all of the wells
18 come in onto the left-hand side of your diagram, into a
19 well header. A well is tested approximately four to five
20 times a month for 24-hour tests, into the test separator.
21 And the other wells are -- bypass the test separator and
22 are joined together and go to the central battery.

23 Q. And all of the satellite batteries are configured
24 or structured in this fashion?

25 A. Yes, sir, they're all the same.

1 Q. What is Exhibit Number 6?

2 A. On Exhibit Number 6 is a schematic of the central
3 battery. It is a two-page -- And essentially, it shows the
4 well headers on the wells that come into that central
5 battery.

6 And then it shows the other satellite batteries
7 that come into it. They go through the various heater
8 treaters and scrubbers and are processed through here to be
9 separated into the oil and the water. And we have three
10 oil tanks for a total capacity of 1500 barrels, one water
11 tank for 500 barrels, and another slop tank for emergency
12 use, and when they have problems out there that holds
13 another 500 barrels.

14 Q. And Mr. Trautman, you will have adequate storage
15 capacity at all times to handle the production; is that
16 correct?

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

18 Q. You're not separately metering the wells, but
19 you're going to be allocating the production based on these
20 periodic tests that you're going to be taking?

21 A. Yes, sir. We plan to test every well four to
22 five times per month for 24 hours, and then it is allocated
23 back to those wells and we --

24 Q. And you just take the total production stream and
25 then allocate based on that recent test data?

1 A. Yes, sir.

2 Q. What benefits will result from the approval of
3 this Application?

4 A. We will have -- We will not have to build a
5 battery at every satellite location. We can save equipment
6 on separators, tanks, scrubbers, pumps and piping.

7 Q. Are there wells in 23 that are across the county
8 road from the rest of the unit?

9 A. Yes, sir, Well 19 is on the south side of the
10 County Road, and it, as it's classified as a Monument-Abo
11 Pool well, goes to a Monument-Abo battery to the south.

12 Q. Will approval of this Application facilitate the
13 marketing of the production from this working interest
14 owner?

15 A. Yes, sir. To produce this well at any other
16 battery, other than a separate battery, we'll have to bore
17 beneath the county road, and it will cost an additional
18 \$10,000, plus the flow line to go down into Section 26, to
19 the Monument-Abo Pool battery. That battery is classified
20 sour. It gives a lower price than the battery on the North
21 Monument-Abo Pool.

22 The oil on 23 is sweet, so if we would go to the
23 other battery, we would lose price on the production from
24 23.

25 Q. By having one sales point, or reducing your sales

1 point, is that also going to facilitate the marketing of
2 this production?

3 A. Yes, sir. It allows the -- Since the oil is
4 trucked out, it allows the trucking firm one point to come
5 collect the oil. They don't have to make four different
6 stops and tear up the roads, and we don't have to have four
7 separate metering facilities.

8 Q. Okay. So you're going to eliminate duplicate
9 facilities?

10 A. Yes, sir.

11 Q. What impact will that have on the ultimate
12 recovery of production from the unit?

13 A. That will lower our operating expense and allow
14 us to maximize our profit and our cash flow, and ultimately
15 we anticipate producing this to a lower economic limit.

16 Q. Would that, in effect, then, prevent waste of
17 hydrocarbons?

18 A. Yes, sir, it would.

19 Q. This Application was originally filed for
20 administrative approval, was it not?

21 A. Yes, sir, it was.

22 Q. And then the Division set the matter for hearing
23 here today?

24 A. Right, yes, sir.

25 MR. CARR: Mr. Examiner, we have provided notice

1 to the affected operators, but the notice, because of the
2 way the case came before you, the notice letters were not
3 sent out in time to have the 20-day period run prior to
4 today's date. The notice letter have been sent, and we
5 would request that at the conclusion of the hearing, the
6 case be continued to January 7th for the submission of a
7 notice affidavit.

8 Q. (By Mr. Carr) Mr. Trautman, to whom has notice
9 been provided?

10 A. Notice has been provided to all of the working
11 interest owners and the royalty owners.

12 Q. And the royalty owner is the State of New Mexico?

13 A. Yes, sir.

14 Q. The working interest owners are Phillips, Amerada
15 and Lead?

16 A. Yes, sir, that's --

17 Q. They're your partners in --

18 A. Yes, sir.

19 Q. And they're aware of what you're doing?

20 A. Yes, sir, they are.

21 Q. Do you anticipate any problems in terms of having
22 anyone object to the Application?

23 A. I do not anticipate any objections. They have
24 signed waivers of objection for the first two or three
25 commingling orders that we've submitted.

1 Q. Who are the purchasers of the production from
2 these leases?

3 A. Amoco purchases the oil, and Dynegy -- that's
4 changed, the name, from Warren to NGC to Dynegy -- buys the
5 gas. And I have waivers of objection from those two
6 producers.

7 Q. And are those waivers what has been marked as
8 Chevron Exhibit Number 7?

9 A. Yes, sir, they have.

10 Q. Has Chevron reviewed this Application with the
11 Commissioner of Public Lands?

12 A. We submitted it to them at the same time we
13 submitted the original Application to the OCD on October
14 12th.

15 Q. And have you received the Land Office approval as
16 of this date?

17 A. No, we have not.

18 Q. When that is received, will you provide a copy of
19 that to the Examiner?

20 A. Yes, sir, we will.

21 Q. And is Exhibit Number 8 copies of previous
22 approvals from the Commissioner of Public Lands for the
23 commingling of wells -- surface commingling of production
24 from wells within the unit area?

25 A. Yes, they are.

1 Q. Do you anticipate any problem in obtaining
2 approval from the Commissioner?

3 A. No, we do not. They have not objected to any in
4 the past, and they have reserved approval -- the final
5 approval for OCD approval.

6 Q. So once you have Land Office approval -- OCD
7 approval, you should have final approval from the Land
8 Office?

9 A. Yes, sir.

10 Q. Will approval of this Application and the
11 commingling on the surface of the production as represented
12 by Chevron be in the best interests of conservation and the
13 protection of correlative rights?

14 A. Yes, sir, we believe it does because of the lower
15 operating expense. We can maximize the value of the
16 production, and we can produce ultimately a longer time at
17 lower operating expense.

18 Q. Were Chevron Exhibits 1 through 8 either prepared
19 by you, or have you reviewed them and can you testify as to
20 their accuracy?

21 A. Yes, sir, they were all prepared either by me or
22 under my supervision.

23 MR. CARR: May it please the Examiner, at this
24 time we would move the admission into evidence of Chevron
25 Exhibits Numbers 1 through 8.

1 EXAMINER CATANACH: Chevron Exhibits 1 through 8
2 will be admitted as evidence.

3 MR. CARR: And that concludes my direct
4 examination of Mr. Trautman.

5 EXAMINATION

6 BY EXAMINER CATANACH:

7 Q. Mr. Trautman, this is a working-interest unit
8 that's been formed here?

9 A. Yes, sir, it has.

10 Q. And there is an agreement in place for that area?

11 A. Yes, sir, we have an agreement.

12 Q. Okay, and the acreage that's in that unit is,
13 again, the south half of Section 1, all of Sections 11, 12,
14 13 and 14 and a portion of 23?

15 A. Yes, sir.

16 Q. Excluding the 40-acre tracts that have a Texaco
17 well on them?

18 A. Right, yes, sir.

19 Q. Okay. I notice, for instance, on the Monument 1
20 State lease, there's a couple of different lease numbers.
21 Do you know what the situation is with that? Is it
22 actually the same lease?

23 A. No, sir, there are two leases there. One of them
24 is a lease called the J.R. Holt lease. It's another state
25 lease that has acreage scattered throughout southeastern

1 New Mexico, and it -- Most of them are small 40- or 80-acre
2 tracts that are scattered throughout. And that well just
3 happens -- or that lease happens to be on that, in Section
4 1.

5 Q. Okay. But you're calling that whole lot the
6 Monument 1 State lease?

7 A. Yes, sir, it had -- That's the way it's been
8 identified in all of the Applications. We have used the
9 proper lease number to identify it. In Chevron's naming
10 convention, it's called the J.R. Holt lease.

11 Q. It's called the J.R. Holt lease, but the well
12 that was drilled on that lease is called the Monument 1
13 Number 20?

14 A. Yes, Monument 1 State Number 20.

15 Q. So we actually have more than six leases involved
16 here?

17 A. There are nine leases, yes.

18 Q. Nine leases, okay. And again, the interest
19 ownership is totally identical on those nine leases?

20 A. Yes, sir, it's identical through all nine.

21 Q. Okay, and the parties that were notified were the
22 other working interest owners?

23 A. Yes, sir.

24 Q. Okay. There are no royalty owners except for the
25 state?

1 A. Yes, sir, that is right.

2 Q. Okay. I think I missed -- On the Number 19 well
3 in Section 23, is that going to be commingled?

4 A. It is not going to be commi- -- It will go to a
5 battery in Section 26, which is a Monument-Abo battery.

6 Q. Okay. Is the production measured at the
7 satellite facilities?

8 A. Just on the well that is being tested.

9 Q. Okay. So you're not measuring the volume before
10 it leaves a satellite?

11 A. No, sir, the measuring would have -- would
12 include oil and water, because it leaves by a common line.
13 That avoids having the separator and the scrubbers and
14 everything on each site.

15 Q. Okay. So basically you're just testing each
16 well, again, four to five times per month?

17 A. Yes, sir.

18 Q. Twenty-four-hour?

19 A. Twenty-four-hour tests.

20 Q. And then just allocating back based on well
21 tests?

22 A. Yes, sir.

23 Q. The oil is commingled at a tank, central tank
24 battery, and that total volume is measured before sales; is
25 that right?

1 A. Yes, sir, it is.

2 Q. And --

3 A. We have a LACT unit there that measures the
4 volume.

5 Q. Okay. And the water -- Is the water also stored
6 at that facility?

7 A. The water is sold to Rice Engineering. There's a
8 line that goes to Rice Engineering System, to the -- goes
9 offlease to the north.

10 Q. From a central battery?

11 A. Yes, sir.

12 Q. Okay. What happens to the gas from these wells?

13 A. The gas is sold at each satellite site. There's
14 a meter and a line to the gas sales line at each satellite.

15 Q. There is a sales meter at each of the satellites?

16 A. Yes, sir.

17 Q. And who is that sold to?

18 A. That's Dynegy.

19 Q. And your facilities, your test facilities, you're
20 equipped to test for gas volumes?

21 A. Yes, sir. The separator gives us oil, water and
22 gas.

23 Q. Have there been any discussions with the State
24 Land Office about this proposal, or do you know of any
25 problems that they have with it?

1 A. I do not know of any problems. In talking to our
2 regulatory group that files and talks to them, they have
3 not had personal contact with them. But in the letters
4 they have had no objections to any of the commingling we
5 have done out there. And we have not heard from the letter
6 that we sent them October 12th.

7 MR. CARR: Mr. Examiner, we'll pursue that with
8 the Land Office, and on the 7th I'll attempt to have the
9 Land Office letter with the notice affidavit.

10 EXAMINER CATANACH: Okay, I have nothing further.

11 MR. CARR: We would request that the case be
12 continued to the 7th of January.

13 EXAMINER CATANACH: Okay, this case, Case 12,102,
14 will be continued to the January 7th hearing.

15 (Thereupon, these proceedings were concluded at
16 8:40 a.m.)

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I hereby certify that the above is a true and correct copy of the proceedings of the hearing held by me on 12/17/88 at the Conservation Division.

David R. Catnach
Conservation Division

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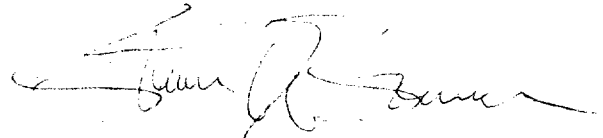
CERTIFICATE OF REPORTER

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 December 17th, 1998.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002