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:	)	CASE NO. 12,120
APPLICATION OF UNIVERSAL RESOURCES CORPORATION FOR SURFACE COMMINGLING, RIO ARRIBA AND SAN JUAN COUNTIES, NEW MEXICO	)	ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

April 15, 1999

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, April 15th, 1999, 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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I N D E X

April 15th, 1999
Examiner Hearing
CASE NO. 12,120

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A P P E A R A N C E S

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By: W. THOMAS KELLAHIN

* * *

WHEREUPON, the following proceedings were had at 8:20 a.m.:

EXAMINER STOGNER: This hearing will come to order for Docket Number 11-99. Please note today's date, April 15th, 1999. I'm Michael Stogner, appointed Hearing Examiner for today's cases. And the first thing we will consider today will be Case Number 12,120.

MR. CARROLL: Application of Universal Resources Corporation for surface commingling, Rio Arriba and San Juan Counties, New Mexico.

EXAMINER STOGNER: Call for appearances.

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

EXAMINER STOGNER: Any other appearances?

Will the witness please stand to be sworn?

(Thereupon, the witness was sworn.)

MR. KELLAHIN: Thank you, Mr. Examiner. With your permission, I'd like to give you a short summary of why we're here this morning and the specifics of what we're asking you to approve for us. If you'll take a moment and look at what we propose to introduce as Universal Resources Corporation Exhibit Number 1, I can identify for you the project area.

This is a project that was originally consolidated by the prior operator, BCO, Inc. BCO, Inc., is the operating company for Mr. Harry Bigbee. Under his direction the properties were consolidated under a common gathering system, with, if you'll look on the far right of the display you'll find Section 26. In 26 there is a -- what he calls the South Lybrook Compressor.

Just to the east of that in the adjoining Section 25, you'll see an El Paso Natural Gas Sales Point.

What he created and what Universal Resources Corporation acquired in October of 1994 was a facility that consisted of six federal leases. The federal leases are outlined in yellow. The State of New Mexico leases, there are two of those and they're outlined in blue. The facility is the accumulation of production from some 38 wells. Those wells are all oil wells, and they are either producing in the Lybrook-Gallup Oil Pool or they're producing in the Alamito-Gallup Oil Pool.

The operating practice for the prior operator was to take the oil production, measure it and sell it at the lease. And so you're not faced with the typical approval under Rule 303 or 309 for the commingling of oil.

What occurs is, there is some gas in association with the oil, and it's the gas that's gathered, and the gas is gathered, and of total volumes that are measured at the

point of sale, after they go through the Lybrook compressor. These are very, very low producing wells. The gas volumes are extremely low. And as a consequence, it is not practical to individually measure and meter the gas at the wellhead.

Mr. Dennis Beccue is a petroleum engineer, and he's the operational manager for Universal Resources, and he'll explain what the prior operator did and what he now does for his company for the facility.

In order to allocate the gas back to the well, there is a method and a formula. That formula was previously approved by the BLM for BCO.

When Universal Resources acquired the properties, they made their annual filings with the BLM and were advised that the BLM was changing its procedures and practice for allocation. And so Universal Resources has finally obtained the Bureau of Land Management's approval under the new BLM allocation formulas for the practice that they are continuing in terms of allocation. In addition, Universal Resources has now obtained the approval of the Commissioner of Public Lands as to this allocation practice and procedure.

The Application was filed administratively before the Division back in September of 1998. It was processed by Mr. Mark Ashley. We have met with Mr. Ashley to clarify

why he's asked this matter be heard by you. When he and I and Mr. Beccue reviewed the rules and regulations in this Application, you could read the rules and come to different conclusions.

Mr. Beccue and I read the rules and thought this might be processed under Rule 403. Mr. Ashley tells me that the practice is to process this not under 403 but under 309.A.

EXAMINER STOGNER: Do you mean 303 or 403?

MR. KELLAHIN: I mean 403, sir. 403.

EXAMINER STOGNER: 403.

MR. KELLAHIN: He says 403, to aid you very quickly, has to do with commingling and measuring gas production, and it allows the District Supervisor to do it for low-volume gas wells, less than 100 MCF a day, provided there's common ownership. And so there's not common ownership here, and I had assumed that's why we were here, under 403.

Mr. Ashley tells me no, that we're here because of 309. When you read 309, it appears at first impression that you're dealing with the commingling of oil production. In this instance, the oil is not commingled. The oil is measured, metered and sold on lease, and so the oil is accounted for correctly under that rule. And I was confused, quite frankly.

So I asked Mr. Ashley his preference, and he said he was asking that the Division continue apparently your practice of handling commingled gas in this kind of operation under Rule 309, and that's why we're here this morning. And Mr. Beccue is prepared to describe for you his facility and how it operates, how he's continued to do what BCO originally did.

I will tell you, we have searched for prior approvals by the Division, and we've asked BCO to look at their records. They are unable to find that the Division effort approved the allocation and the commingling. And so we're here today to rectify the fact that this has not been previously approved.

If it might aid you, I have a copy of the 303 and the 309 rules here available, if you'd like to check through them as we present our case.

DENNIS R. BECCUE,

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

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q. All right, sir. Mr. Beccue, for the record, sir, would you please state your name and occupation?

A. My name is Dennis Beccue, and I'm a petroleum engineer.

Q. And where do you reside, sir?
A. In Denver, Colorado.
Q. And for whom do you work?
A. For Universal Resources Corporation.
Q. In what capacity?
A. As a production operations engineer.
Q. When and where did you obtain your engineering degree?
A. University of Tulsa in 1979.
Q. Do your current duties and responsibilities for Universal Resources include the operational aspects of the facility I've described to Mr. Stogner just now?
A. Yes, it does.
Q. Are you familiar and aware of the operational practices and the construction and location of the various facilities and components that constitute this project?
A. Yes, I am.
MR. KELLAHIN: We tender Mr. Beccue as an expert witness.
EXAMINER STOGNER: Mr. Beccue is so qualified.
Q. (By Mr. Kellahin) Sir, let me have you turn your attention to Exhibit Number 1, and take a moment and identify that display for us.
A. It's the base map outlining the leases and gathering system for the South Lybrook Gas Gathering

System.

Q. When did Universal Resources acquire this facility and the operations?

A. It acquired it in October of 1994 from BCO, Inc.

Q. Describe for us at the time you acquired it what was the general composition of the project. What did it include?

A. It was basically, as shown on the map, consists of a compressor station and a trunk line and several lateral lines to gather gas from the leases in the South Lybrook area.

Q. At the time you acquired the facilities, was it configured as we now see it on Exhibit Number 1?

A. Yes, it was.

Q. And Universal Resources, then, has continued operating that facility?

A. Yes.

Q. Take a moment and describe for us approximately how many wells are hooked into this gathering system and facility.

A. There are currently 37 wells connected to the facility. As of right now there are only 33 wells producing. The average production is approximately 63 barrels a day and 700 MCF a day of gas, which is an average of 1.9 barrel a day and 21 MCF a day per well.

Q. When we look at the black dots on Exhibit Number 1 and look at the gathering lines that are dashed, are those the approximate location of the wells that you're describing?

A. Yes.

Q. And what kind of wells are these?

A. These are 5000- to 6000-foot Gallup oil producers. Most of them produce on plunger lift. There's a couple that produce on a conventional pumpjack.

Q. Let's set our locator map aside as a reference point and keep it available, and have you turn to Exhibit Number 2. Would you identify that for us, please?

A. Exhibit Number 2 is the pool map indicating the two pools that are in question for this Application, the Lybrook-Gallup Pool to the north and the Alamito-Gallup Pool to the South.

Q. Give us an example of how you handle production for an oil well in the Alamito-Gallup Oil Pool. How is that done?

A. The oil is produced through a separator into a tank battery located on the lease. The oil is saved and stored and sold on the lease. The gas production from the separators is gathered through the gathering system as described on the previous map.

Q. Is that true for all the oil wells within the

leases that are in the Alamito-Gallup Pool?

A. Yes.

Q. Is that also true for all the oil wells in the Lybrook-Gallup Oil Pool?

A. Yes.

Q. Are there any instances where there is an oil well -- or is there any instance where there is a lease that has oil wells on it from two separate pools that then is commingled?

A. No, there's not.

Q. Okay. Describe for us what happens to the gas.

A. The gas is gathered through the lateral lines into the trunk line and moved towards the South Lybrook Compressor where it is compressed and moved to the El Paso metering point.

Q. At what point is the total volume of gas produced measured?

A. It is measured at -- only -- at the El Paso meter central delivery point.

Q. Why is that gas not separately metered at the wellhead?

A. As I stated earlier, most of these wells are produced on a plunger lift, and a plunger lift makes it very difficult to use conventional chart integration to measure gas, due to the surges of gas from cycling a

plunger to the surface.

Q. As a consequence of not being able to use conventional wellhead metering to measure accurately the volumes of gas produced by each individual well, what was the methodology used by the prior operator?

A. They used a computational method which included the use of the volume of the tubing, the depth of the tubing, the shut-in pressure of the tubing, to compute a volume that the well would produce on a daily basis, multiplied by the number of days to come up with a monthly volume for that particular well or lease.

Q. Was that method of allocation ever approved by the Bureau of Land Management?

A. Yes, it was, in 1990.

Q. At the time that Universal Resources acquired the operations, did you modify or alter the method of allocation?

A. No.

Q. After you acquired the facility and made your reports to the Bureau of Land Management, were you ever advised that the Bureau of Land Management was changing its procedures and rules concerning allocations of commingled gas production?

A. I'm sorry, I missed the question.

Q. Yes, sir. After you acquired the facility, were

you ever advised by the Bureau of Land Management that the manner in which the allocations were made were subject to BLM rules that were being modified by the BLM?

A. Yes, I was.

Q. Have you now obtained the BLM's approval for the continuation of utilization of the method of allocation that was previously approved?

A. Yes, we have.

Q. Have you also obtained the approval of the Commissioner of Public Lands for the allocation method?

A. Yes, we have.

Q. Let's look at Exhibit Number 3 and have you identify and describe this display.

A. This is a spreadsheet listing the average monthly volumes for the year ending June 30th, 1998, for the South Lybrook Gas Gathering System. Column by column, it will list the state and federal lease number, the lease name and well number, the legal descriptions, average monthly oil production, sales production, and the oil gravities, and the average monthly gas production, average monthly fuel gas consumed and average monthly sales volumes.

Q. Let's turn past that exhibit and have you identify and describe the chart that's shown as Exhibit 4.

A. Exhibit Number 4 is a gas chart taken from one of the leases in the South Lybrook Gas Gathering System. It's

Federal -- contains two wells, the Federal I 5 and I Number 8.

Q. What do you want to illustrate to the Examiner about this chart?

A. First of all, of the existing 33 producing wells that are currently producing, all but two are produced on a plunger lift, which is set to operate on a pressure or a timed intermitter. The remaining two are operated with a conventional pumping unit because they don't produce enough gas to operate a plunger lift efficiently.

Operating a well on a plunger lift is a more cost-effective and efficient method to produce these wells. It uses a well's natural energy to lift the fluid to surface, and it retards gas channeling and will ultimately result in higher total oil recovery. Additionally, the lower cost to operate these wells will also extend the economic life of each well.

The plunger lift operation itself makes it very difficult to integrate charts. That's the purpose of this chart. The gas surges from each cycle or each trip, the chart will look like it spikes off the chart, or spike on the chart, and go right back down. And this differential reading makes it -- or when it does that, it makes it very difficult for an automatic integrator to read that as a certain volume. It will read it as no flow or, in the

alternative, it will read it as too high a flow.

Q. Let's turn to Exhibit 5 and show the Examiner what happens when you attempt to integrate a chart in the conventional way in order to meter gas at the wellhead. If you'll turn to Exhibit 5 and identify that for us.

A. This one is entitled "Chart Integrations - Wellhead/Battery Gas Orifice Meters", and this is an ongoing study that we have been conducting to try to confirm that the automatic integrators are not doing an accurate job of estimating volumes.

Q. Can you pick one of these wells as an example to illustrate to the Examiner your opinion about the inability of you to measure the gas production at the wellhead?

A. I would use -- The second lease down from the top would be Federal B 2, 3, 4, 5 and 6, where the volume in September was integrated at 3641 MCF. In February it was 3094. In April it dropped to 1949. In June, 1997, it jumped back up to 2573. And June 28 [*sic*] is up over 2840.

These wells are all really low, slow-decline-type producers, and these variances wouldn't occur on a normal basis, these wide a fluctuations wouldn't.

Q. If you're required to measure and meter gas at the wellhead in the conventional way, what will happen to the production?

A. The cost to operate would go up dramatically

because of the additional expense for integration, et cetera, and ultimately would shorten the economic life of the well.

Q. Let's turn to Exhibit 6 and have you identify and describe this display.

A. This is a chromatograph gas analysis report taken from the El Paso sales meter.

Q. All right, let's turn to Exhibit 7, and describe to the Examiner, then, the alternative method that the prior operator utilized and which Universal Resources continues to use to accurately allocate the gas produced from the project area to the individual wells in the leases.

A. This is the computation that we go through each month on each wellhead to estimate monthly gas volumes. On the left you'll have the well names and then the tubing size, tubing depth and tubing volume in cubic feet for the tubing volume. This is multiplied by the shut-in tubing pressures to come up with an MCF-per-trip-number. That number is multiplied by the number of trips per day to come up with a total volume per day.

In the event that well is strong enough to produce additional gas after the plunger cycles to the surface, there is an incremental flow we call afterflow, and that volume is computed by taking the minutes of

afterflow divided by the minutes per trip to compute that incremental flow, to come up with a new total daily flow. And that number is multiplied by the number of days that the well is produced to come up with a total MCF per month per wellhead.

Q. In your opinion, do you find this method of allocation to be accurate and reliable?

A. Yes, we do.

Q. And how are these various values and measurements monitored?

A. They're monitored daily.

Q. Do you have a pumper that goes out there on a daily basis and checks the accuracy of what you're doing for each of the wells?

A. Yes.

Q. Okay. Let me direct your attention now, Mr. Beccue, to Exhibit Number 8. What are we looking at here?

A. This is the summary letter of the Application to be sent to the State, to the BLM and to the State Land Office.

Q. All right. So if the Examiner desires to reaffirm your verbal testimony, then he can read through this Application and see the specific details of what you're seeking to do?

A. Correct.

Q. All right. Let's turn to Exhibit 9 and have you identify that display.

A. This is the US Department of Interior's approval letter for us to conduct our operations the way we just described.

Q. And this is dated March 8th of 1999?

A. Correct.

Q. Have you yet received the written approval from the Commissioner of Public Lands?

A. No, only verbal.

Q. Identify for us what is Exhibit 10.

A. The notices that were -- These are the notices that were sent out to the overriding royalty interest owners.

Q. Were individuals employed by Universal Resources under your direction and control responsible for sending out notice to the affected parties advising them of this hearing?

A. Yes.

Q. And were those notices set more than 20 days prior to the hearing today?

A. Yes.

Q. And did those notices include all of the overriding royalty owners within any of the leases for which this project may affect?

A. Yes.

Q. Are there any other working interest owners, other than Universal Resources?

A. No.

Q. And the base royalties are held either by the Bureau of Land Management or the Commissioner of Public Lands?

A. That's correct.

Q. And so except for the notices to those entities, all other parties shown are the, I believe, six overriding royalty owners for any of the leases affected?

A. Right.

Q. As a result of sending notices, have you received any objection?

A. No, sir.

Q. In your opinion, will continuation of the facility under this alternate allocation method be one in the best interests of conservation, the prevention of waste and the protection of correlative rights?

A. Yes, it will.

MR. KELLAHIN: That concludes my examination of Mr. Beccue.

We move the introduction of his Exhibits 1 through 10.

EXAMINER STOGNER: Exhibits 1 through 8 will be

admitted into evidence.

MR. KELLAHIN: I'm sorry, it's 1 through 10, Mr. Examiner.

EXAMINER STOGNER: I'm sorry, 1 through 10.

EXAMINATION

BY EXAMINER STOGNER:

Q. Mr. Beccue, when I refer back to your Exhibit Number 1 there, you have a Badlands Compressor Station just a little bit south and west of the South Lybrook Compressor. What function does that compressor station have?

A. This Application has been going on for the last three or four years. That has since been taken out of service and is no longer there.

Q. So the South Lybrook Compressor is the only compressor station?

A. Correct.

Q. How long have these pools and wells been producing? What's the age?

A. The original wells, I think, were drilled in the 1960s.

Q. And when you say the original wells, the ones to the north or all of them, or --

A. Mainly the first one or two wells on each lease.

Q. And you said that the BLM, I believe, was it

1990, approved the allocation formula?

A. Correct.

Q. What was done prior to that?

A. I don't know, I was not -- I mean, this was five years before we acquired it.

Q. Okay, and there's no historical documents that would indicate to you how it was done?

A. I didn't -- I don't recall.

Q. Now, your Exhibit Number 9, that's -- this is the actual approval from the BLM; is that correct?

A. Correct.

Q. Okay, did you say the State Land Office also confirmed this?

A. Yes.

Q. Do you have their approval --

A. Only --

Q. -- by letter? Was it done by letter or --

A. Only verbal.

Q. Only verbal. Who was that verbal from?

A. Pete Martinez.

Q. Pete Martinez.

MR. KELLAHIN: Mr. Examiner, Mr. Martinez said he would have us a letter confirming the land office approval here in the next few days.

EXAMINER STOGNER: Okay, because I got to looking

at the ad.

Q. (By Examiner. Stogner) These wells are in Sandoval County for the most part, aren't they?

A. Correct.

EXAMINER STOGNER: Okay, the ad did not include Sandoval County, Mr. Kellahin.

MR. KELLAHIN: It did not.

EXAMINER STOGNER: So we'll continue this and readvertise it for May 13th. However, I don't suspect that will -- I don't suspect that it's going to slow down any of the process here, other than just getting an order out.

Q. (By Examiner. Stogner) Now, these wells are still producing, are they not?

A. Yes, they are.

EXAMINER STOGNER: And I don't see that there's any problem on that, if we continue it to that time.

So Mr. Kellahin, if you'll look over this ad and just make sure that the township and ranges are correct, and that way we'll have to send it to the Rio Rancho paper, Sandoval County, all that good stuff.

MR. KELLAHIN: Yes, sir, we'll be happy to --

EXAMINER STOGNER: And in the interim, if you can get me the State Land Office's approval --

MR. KELLAHIN: Yes, sir.

EXAMINER STOGNER: -- and go ahead and throw a

rough-draft order.

MR. KELLAHIN: All right, sir.

EXAMINER STOGNER: That way when May 13th comes, why, we can take care of it.

I don't have any other questions of this witness.

Any other questions?

Okay, you may be excused.

And this case will be continued and readvertised for May 13th.

(Thereupon, these proceedings were concluded at 8:48 a.m.)

* * *

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 12120 heard by me on 15 April 1999.

Examiner

Oil Conservation Division

CERTIFICATE OF REPORTER

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

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

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

WITNESS MY HAND AND SEAL April 15th, 1999.

STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002