

STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

99 NOV -2 PM 4:00

OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED BY )  
THE OIL CONSERVATION DIVISION FOR THE )  
PURPOSE OF CONSIDERING: )  
APPLICATION OF MARALO, L.L.C., FOR AN )  
EXCEPTION TO DIVISION RULES 305 AND 309 )  
TO PERMIT LEASE COMMINGLING AND APPROVAL )  
OF A CENTRAL DELIVERY POINT, LEA COUNTY, )  
NEW MEXICO )

CASE NO. 12,254

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

October 7th, 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, October 7th, 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

October 7th, 1999  
 Examiner Hearing  
 CASE NO. 12,254

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APPLICANT'S WITNESSES:	
<u>RICHARD GILL</u> (Engineer)	
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\* \* \*

## E X H I B I T S

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\* \* \*

A P P E A R A N C E S

FOR THE DIVISION:

RAND L. CARROLL  
Attorney at Law  
Legal Counsel to the Division  
2040 South Pacheco  
Santa Fe, New Mexico 87505

FOR THE APPLICANT:

JAMES G. BRUCE, Attorney at Law  
3304 Camino Lisa  
Santa Fe, New Mexico 87501  
P.O. Box 1056  
Santa Fe, New Mexico 87504

\* \* \*

1           WHEREUPON, the following proceedings were had at  
2 10:21 a.m.:

3  
4           EXAMINER STOGNER: I believe at this time we'll  
5 call Case Number 12,254; is that correct?

6           MR. CARROLL: Yes. Application of Maralo,  
7 L.L.C., for an exception to Division Rules 305 and 309 to  
8 permit lease commingling and approval of a central delivery  
9 point, Lea County, New Mexico.

10          EXAMINER STOGNER: Call for appearances.

11          MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,  
12 representing the Applicant. I have one witness to be  
13 sworn.

14          EXAMINER STOGNER: Any other appearances?  
15 Will the witness please stand to be sworn at this  
16 time?

17          (Thereupon, the witness was sworn.)

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

21                                 DIRECT EXAMINATION

22 BY MR. BRUCE:

23           Q.    Would you please state your name and city of  
24 residence for the record?

25           A.    My name is Richard Gill, and I live in Midland,

1 Texas.

2 Q. Who do you work for and in what capacity?

3 A. I work for Maralo, L.L.C. I'm a petroleum  
4 engineer.

5 Q. Have you previously testified before the  
6 Division?

7 A. Yes, I have.

8 Q. And were your credentials as an expert petroleum  
9 engineer accepted as a matter of record?

10 A. Yes, they were.

11 Q. And are you familiar with matters related to this  
12 Application?

13 A. Yes, I am.

14 MR. BRUCE: Mr. Examiner, I tender Mr. Gill as an  
15 expert petroleum engineer.

16 EXAMINER STOGNER: Mr. Gill is so qualified.

17 Q. (By Mr. Bruce) Mr. Gill, what does Maralo seek  
18 in this case?

19 A. Maralo's requesting approval to discontinue  
20 separately metering our gas production from the five wells  
21 in question and delivering them all to a central delivery  
22 point so we can meter with one meter.

23 Q. Why is Maralo making this request?

24 A. The gas purchaser, which is Conoco, has informed  
25 us they can no longer afford the upkeep on some of these

1 meters, and either they require we're going to have to do  
2 this or we'll change our contract.

3 Q. Okay. It would become very expensive under  
4 Conoco's proposal to continue separately metering that?

5 A. Yes, they -- Currently, we're getting -- our  
6 contract says we can get 76 percent of the residue, 76  
7 percent of the liquids.

8 If we can't change our setup out there, then  
9 they're going to drop that to a 65-65 contract, plus charge  
10 us a \$200 meter fee per month for any well that does not  
11 deliver at least 300 MCF per month.

12 Q. What is Exhibit 1, Mr. Gill?

13 A. Exhibit 1 is just the location plat for the five  
14 wells in question.

15 Q. And all of these are in Section 13, 18 South, 32  
16 East?

17 A. That's correct.

18 Q. What pool are the wells completed in?

19 A. They're all in the Corbin-Delaware West Pool.

20 Q. What is Exhibit 2?

21 A. Exhibit 2 is schematic of the tank battery, as  
22 proposed, which shows there are -- Each lease currently  
23 comes into this one central battery. Each lease -- or each  
24 well has a separate lease, has its own metering separator  
25 so we can measure the oil and gas. Currently there's a gas

1 meter at each of those.

2 Our proposal is to put just one meter -- which  
3 is, I think, Article Number 6 up there -- have one gas  
4 sales meter.

5 Q. How will the gas production be measured?

6 A. We propose to test the gas on these wells on an  
7 annual basis by basically venting the gas at four of the  
8 wells and running one through the meter on subsequent days  
9 so we can get a gas reading for each well and then  
10 allocating the gas based on a GOR, based on the monthly oil  
11 test.

12 Q. How much volume of gas do these wells produce?

13 A. It's really very little. We have -- Well, two of  
14 the five wells each make about 1 or 2 MCF a day, one of  
15 them makes maybe 10 a day, one makes 14 MCF a day and one  
16 makes 24 MCF a day.

17 Q. So those are below the minimums that Conoco wants  
18 under its proposal?

19 A. There's three of these that would probably fall  
20 below the minimum requirements to pay the \$200-a-month  
21 metering fee.

22 Q. Okay. Do you believe that your annual testing  
23 will accurately measure gas production from these wells?

24 A. I believe so. The minimum volume involved here  
25 is -- You know, 1 or 2 MCF a day won't change much over the

1 time, so I think that will be more than accurate.

2 Q. When, approximately, were these wells drilled?

3 A. Let's see. The first well was drilled -- Well,  
4 looks like approximately 1993, late 1993, when these wells  
5 were drilled.

6 Q. So these wells have declined so that their rate,  
7 current producing rate, is fairly flat?

8 A. Yes. They all make about -- Oilwise, they all  
9 make about 10 barrels a day. That's pretty flat.

10 Q. Okay. Now, these are oil wells, but you're only  
11 seeking this permission for the gas production?

12 A. That is correct, yes. We'll continue to meter  
13 the oil and water separate.

14 Q. What is Exhibit 3, Mr. Gill?

15 A. Exhibit 3 is the ownership list as provided to us  
16 by Conoco, who's the purchaser of the gas, of the working  
17 interests and the royalty interests involved.

18 Q. And the overriding royalty interests?

19 A. And the overriding, yes.

20 Q. And this contains information on each of the five  
21 wells, does it not?

22 A. That's correct.

23 Q. And were all of these persons notified of this  
24 hearing?

25 A. Yes, they were.

1 Q. Is Exhibit 4 the affidavit of notice regarding  
2 mailing to these persons?

3 A. That is correct.

4 MR. BRUCE: Mr. Examiner, I just noticed on  
5 Exhibit 4 I omitted the cover letter that went out with the  
6 Application. If it's okay with you, I will provide that  
7 later today.

8 EXAMINER STOGNER: I will leave the record open  
9 pending the submittal of that documentation.

10 Q. (By Mr. Bruce) Mr. Gill, all of these wells are  
11 located on federal land, are they not?

12 A. That is correct.

13 Q. And has the federal government approved the  
14 proposal for the -- to discontinue separately metering?

15 A. Yes, sir, they have. Exhibit 5 is an approval  
16 from the BLM to do just that.

17 Q. Have you or anyone at Maralo heard from any of  
18 the interest owners in the wells objecting to this  
19 Application?

20 A. No, sir, we have not.

21 Q. In your opinion, is the granting of this  
22 Application in the interests of conservation and the  
23 prevention of waste?

24 A. Yes, sir.

25 Q. And were Exhibits 1 through 5 prepared by you or

1 under your direction or compiled from company business  
2 records?

3 A. Yes, sir.

4 MR. BRUCE: Mr. Examiner, at this time I'd move  
5 the admission of Maralo's Exhibits 1 through 5.

6 EXAMINER STOGNER: Exhibits 1 through 5 will be  
7 admitted into evidence.

8 EXAMINATION

9 BY EXAMINER STOGNER:

10 Q. Okay, this is all from one pool; is that correct?

11 A. Yes, sir.

12 Q. The production?

13 Was this Application applied for administratively  
14 in the beginning?

15 A. Yes, sir.

16 Q. And why was it set to hearing?

17 A. We were informed that we couldn't get approval  
18 administratively.

19 Q. For what reason?

20 A. I don't know.

21 MR. BRUCE: I believe it's because of a variation  
22 in interest ownership, Mr. Examiner.

23 Q. (By Examiner Stogner) Would it be the variation  
24 in the working --

25 A. There is a difference in the working interest,

1 and there are some override interests that are different.

2 MR. BRUCE: The overrides are pretty much common  
3 if you look at --

4 THE WITNESS: Are they?

5 MR. BRUCE: -- Exhibit 3, Mr. Examiner, although  
6 they do vary from well to well.

7 Q. (By Examiner Stogner) But they have been  
8 notified?

9 A. Yes, sir.

10 EXAMINER STOGNER: Do you have a copy of that  
11 cover letter with you, Mr. Bruce?

12 MR. BRUCE: Maybe I do. I thought I had attached  
13 it to --

14 EXAMINER STOGNER: Can I just take a look at it,  
15 while we're still on the record?

16 MR. BRUCE: Yes.

17 EXAMINER STOGNER: Thank you, Mr. Bruce. Like I  
18 said, I'll keep the record pending submittal of that  
19 particular documentation.

20 Q. (By Examiner Stogner) Mr. Gill --

21 A. Yes.

22 Q. -- have you been in other -- or have you been in  
23 communication with any of these interest owners in this  
24 particular matter, either through other correspondence or  
25 anything?

1 A. No, sir.

2 Q. Do you have a figure or a handle on the average  
3 production for these wells? Are they all producing about  
4 the same?

5 A. They all make just about 10 barrels of oil a day.  
6 As I stated earlier on gas, one well makes about 24 MCF a  
7 day, one makes 14, one makes about 9, and the other two  
8 make about 1 or 2 a day each.

9 Q. And you propose to run, what, a test? Is that  
10 your allocation method?

11 A. Yes, sir, we'd like to just test the gas on an  
12 annual basis to set our GOR and allocate it by our monthly  
13 oil test.

14 Q. So an annual gas test and then a monthly --

15 A. -- oil test.

16 Q. -- oil test.

17 A. Actually, each well has its own separate meter.  
18 We actually get daily oil tests, but --

19 EXAMINER STOGNER: Okay, I don't have anything  
20 further of this witness.

21 Mr. Bruce, could you submit me a rough draft?

22 MR. BRUCE: Certainly.

23 EXAMINER STOGNER: I'd appreciate it. And the  
24 quicker the better, in this instance.

25 Is there anything further in Case Number 12,254?

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Then with the submittal of that additional information, or copies of the notification, then this matter will be taken under advisement.

(Thereupon, these proceedings were concluded at 10:31 a.m.)

\* \* \*

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. \_\_\_\_\_ heard by me on \_\_\_\_\_ 19\_\_\_\_.  
\_\_\_\_\_  
Off Conservation Division, Examiner

## 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 October 26th, 1999.



STEVEN T. BRENNER  
 CCR No. 7

My commission expires: October 14, 2002