

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. 12,520
)
APPLICATION OF BP AMOCO FOR ESTABLISHMENT)
OF A DOWNHOLE COMMINGLING REFERENCE CASE)
AND PRE-APPROVAL OF DOWNHOLE COMMINGLING) ORIGINAL
FOR FORMATIONS AND POOLS IN THE GALLEGOS)
CANYON UNIT PURSUANT TO DIVISION RULE)
303.C.(4) AND THE ADOPTION OF SPECIAL)
ADMINISTRATIVE RULES THEREFOR, SAN JUAN)
COUNTY, NEW MEXICO)
_____)

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

January 25th, 2001

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, January 25th, 2001, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Pacheco, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

01 FEB - 7 PM 3:05
OIL CONSERVATION DIV

I N D E X

January 25th, 2001
Examiner Hearing
CASE NO. 12,520

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<u>J.W. "BILL" HAWKINS</u> (Engineer)	
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E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 19	6	13
Exhibit 20	13	13

* * *

Additional submission by BP Amoco:

	Identified	Admitted
Letter dated January 24, 2001, from Carroll Crawford to Steve Ross, OCD	14	14

* * *

A P P E A R A N C E S

FOR THE APPLICANT:

HOLLAND & HART, L.L.P.
Suite 1 - 110 N. Guadalupe
P.O. Box 2208
Santa Fe, New Mexico 87504-2208
By: WILLIAM F. CARR

ALSO PRESENT:

RICHARD K. DEMBOWSKI
Petroleum Management Team Leader
Bureau of Land Management
Farmington, New Mexico

* * *

1 WHEREUPON, the following proceedings were had at
2 9:45 a.m.:

3 EXAMINER STOGNER: Let's go back on the record,
4 and at this time I'm going to call Case Number 12,520,
5 which is the Application of BP Amoco for establishment of a
6 downhole commingling reference case and pre-approval of
7 downhole commingling for formations and pools in the
8 Gallegos Canyon Unit pursuant to Division Rule 303.C.(4)
9 and the adoption of special administrative rules therefor,
10 San Juan County, New Mexico.

11 MR. CARR: May it please the Examiner, my name is
12 William F. Carr with the Santa Fe office of the law firm
13 Holland and Hart, L.L.P. We represent BP Amoco in this
14 matter, and I have one witness.

15 EXAMINER STOGNER: Any other appearances?

16 MR. DEMBOWSKI: I'm Rich Dembowski, Petroleum
17 Team Leader with the Bureau of Land Management in
18 Farmington.

19 EXAMINER STOGNER: Will the witness please -- Oh,
20 okay. Is this witness -- Did he also appear previous?

21 MR. CARR: Mr. Examiner, as you'll recall, this
22 case was originally heard in October. It was continued,
23 and in December an interest owner, Mr. Carroll Crawford,
24 appeared. The case was then continued at the end of that
25 hearing to afford to Amoco an opportunity to meet with Mr.

1 Crawford and address his concern.

2 And so we are here today to refer to you on what
3 has occurred, and Mr. Hawkins was the engineering witness
4 in the original case, and he was placed under oath at that
5 time, and his qualifications were accepted and made a
6 matter of record at that time in this case.

7 EXAMINER STOGNER: Mr. Hawkins, let me remind you
8 that you're still under oath in this matter, and your
9 credentials are accepted as was on the previous record.

10 Mr. Carr, you may proceed.

11 J.W. "BILL" HAWKINS,

12 the witness herein, having been previously duly sworn upon
13 his oath, was examined and testified as follows:

14 DIRECT EXAMINATION

15 BY MR. CARR:

16 Q. Mr. Hawkins, are you familiar with the testimony
17 presented by Mr. Carroll Crawford and the letters that were
18 offered into evidence at the December 21st, 2000, Examiner
19 Hearing in this case?

20 A. Yes, I've spoken with Mr. Crawford and read his
21 letters, and I'm familiar with his testimony.

22 Q. Are you prepared to provide Examiner Stogner with
23 an update on the status of BP Amoco's negotiations with Mr.
24 Crawford and otherwise respond to his questions and
25 concerns?

1 A. Yes.

2 Q. Our exhibit packet contains a copy of a letter
3 from Mr. Crawford dated January 24th, 2001, which was sent
4 to the Commission yesterday by Mr. Crawford. Are you
5 familiar with that letter?

6 A. Yes.

7 Q. I think it would be helpful if we first looked at
8 the technical issues which were raised by Mr. Crawford in
9 December, and in this regard I would direct your attention
10 to what has been marked as Amoco Exhibit 19, and I would
11 ask that you identify and review that for Mr. Stogner.

12 A. Yes, Exhibit 19 was prepared to address the
13 concerns that Mr. Crawford raised about well completion and
14 implementing of downhole commingling, and at that time he
15 was concerned with the potential for the Dakota wells to
16 load up and not produce, and I think he was mistakenly
17 believing that we were going to complete the wells without
18 any tubing.

19 On Exhibit Number 19, just the four points that I
20 wanted to make here are that the wells will be completed
21 with tubing, the liquid will be produced up the tubing, and
22 the gas will be produced up the tubing/casing annulus.

23 We're going to install pumping units to lift the
24 liquids, to make sure that the Dakota -- the deep zones can
25 stay on production and not load up.

1 We're going to install compression to reduce
2 backpressure on the well, increase production rate of gas,
3 and equip the wells with an automated electronic flow
4 measurement system so that we can monitor these things in
5 our office and determine if there's any well problem and
6 get out to the well to fix it as soon as possible.

7 Q. Have you reviewed this proposed implementation of
8 downhole commingling personally with Mr. Crawford?

9 A. Yes, I have.

10 Q. Now, Mr. Crawford outlined his understanding of
11 your communication and commingling procedures to be used by
12 BP Amoco on page 2 of his letter and stated that if your
13 testimony was in agreement with these procedures as set out
14 in that exhibit, that he would withdraw his exceptions to
15 the technical work. You have reviewed Mr. Crawford's
16 letter, have you not?

17 A. Yes, I have.

18 Q. Are the commingling procedures to be used by BP
19 Amoco in the Gallegos Canyon Unit in agreement with the
20 procedures both as presented by you and as outlined by Mr.
21 Crawford in his letter?

22 A. Yes, what Mr. Crawford has in his letter is
23 exactly what I discussed with him when we had our
24 conversation, and this is our testimony. We are in
25 agreement on this now.

1 Q. The next matter set forth in Mr. Crawford's
2 January 24th letter concerns administrative notification,
3 and Mr. Crawford requests that actual notification of
4 proposed commingling be given to noncommitted royalty
5 interest owners to ensure the allocation adopted is
6 properly determined.

7 What assurances are there that the allocation
8 adopted will, in fact, be accurate under the BP Amoco
9 proposal?

10 A. Well, first I wanted to have the Examiner recall
11 that we presented testimony in October on the allocation
12 methods that we plan on implementing: subtraction method
13 for wells that have been on production and have established
14 declines, and the fixed-percentage method for new wells
15 that are coming on and don't have any historical
16 production. And these are methods that have been routinely
17 used by industry in numerous downhole commingling wells in
18 the Basin.

19 In addition to that we're going to, you know,
20 gather the information, submit the allocation percentages
21 to both the BLM and the NMOCD for their approval.

22 Q. Now, these methods would be approved by the
23 District Office of the OCD, and the allocation would be
24 approved pursuant to the new commingling rule, 303?

25 A. That's correct.

1 Q. Now, this is also a federally supervised unit; is
2 that not correct?

3 A. It is. Yes, it is.

4 Q. As such, and based on the character of the lands
5 in this unit, is the BLM the largest royalty owner in this
6 unit?

7 A. Yes, they are.

8 Q. And it will be submitted to them, and the
9 allocation will be approved by them when you commingle?

10 A. Yes, it will be.

11 Q. In your opinion, do these assurances -- OCD
12 approval, BLM approval and the relatively standard methods
13 being utilized -- do these assure fairness of the
14 allocation to all royalty interest owners, whether
15 committed or noncommitted?

16 A. Yes, they do.

17 Q. Has the Oil Conservation Division granted relief
18 similar to the notice relief that's being -- or
19 modification of the notice rules being sought by BP Amoco
20 in this matter?

21 A. Yes, they have on a number of occasions.

22 Q. And they have been in the San Juan Basin,
23 correct?

24 A. That's correct.

25 Q. And there have been a number of units for which

1 the modified-notice rules have been approved?

2 A. That's correct. I've got a list here that I've
3 been able to research a little bit, and there are probably
4 some others out there, but the Burlington Canyon Largo Unit
5 was exempted from notification by Order Number R-10,786, in
6 1997.

7 Phillips Petroleum has had four of their federal
8 units exempted from notification for downhole commingling,
9 and those are the San Juan 32-and-8 Unit -- that's under
10 R-11,189 -- the San Juan 31-and-6 Unit in Order R-11,188,
11 the San Juan 29-and-6 Unit in Order R-11,187, and the San
12 Juan 32-and-7 Unit in Order R-11,1210. Those were all in
13 1999.

14 Q. And there also have been others, have there not?

15 A. Yes, I know Conoco has received an order for
16 their 28-and-7 Unit.

17 Q. In your opinion, will BP Amoco's recommended
18 methods of allocation protect the interest of all royalty
19 and overriding interest owners in the Gallegos Canyon Unit?

20 A. Yes, it will.

21 Q. Now, Mr. Crawford also expressed concern about
22 his royalty interest was being handled and paid by Amoco.
23 You're familiar with that?

24 A. Yes, I am.

25 Q. Initially, it would be helpful, I think, to just

1 state what interests Mr. Crawford and those he represents
2 -- what interests do they own?

3 A. Well, I know Mr. Crawford, and I've seen the
4 leases and discussed with our landman that he owns about 10
5 acres in either Section 25 or 26 in the unit, and 20 acres
6 in another section, and he owns 1/8 royalty plus 4-percent
7 overriding royalty. And so what that equates to on a 320-
8 acre spacing unit is generally about one percent, or maybe
9 a little less, on the ten-acre tract.

10 Q. Now, he has a small interest in these tracts.
11 The rest of the interests in these tracts have been
12 committed to the unit; is that correct, in both cases?

13 A. Yes, that's correct.

14 Q. At page 5 of his letter, Mr. Crawford summarizes
15 contacts between him and a representative of BP Amoco
16 concerning the status of royalty payments to him; is that
17 correct?

18 A. Yes.

19 Q. That's on page 5 of his letter, numbered page 5.
20 I think it's 6 of the handout, perhaps.

21 Have you reviewed with other BP Amoco people this
22 summary of the contacts with Mr. Crawford?

23 A. Yes, I've spoken with Mr. Max Eddington -- he's
24 our landman that handles the Gallegos Canyon Unit -- and he
25 has had a number of conversations and received letters from

1 Mr. Crawford and is working with him to address these
2 royalty issues.

3 Q. In your opinion, is Mr. Crawford's summary
4 accurate?

5 A. Yes.

6 Q. And as to the particular matter where he has
7 identified that you hold a \$3800 balance, is it your
8 understanding, then, that check is or has been drawn?

9 A. Yes.

10 Q. How will BP continue to pursue this matter with
11 Mr. Crawford?

12 A. Well, we're going to continue to work with him to
13 make sure that we address his concerns, review the, you
14 know, historical accounting and make sure that his
15 interests are fairly treated.

16 I would point out that the check for \$3800 or so
17 was originally sent to his mother at her address that we
18 had on record, and they had moved. And subsequently with
19 these conversations, we've been able to get their new
20 address and make sure that we can re-send that check to her
21 at her new address.

22 But we had attempted to pay that prior to this,
23 and they had not received it.

24 Q. Would you identify what has been marked as BP
25 Exhibit Number 20?

1 A. Yes, Exhibit Number 20 is just a summary of the
2 benefits that we see for downhole commingling for all of
3 the owners in the Gallegos Canyon Unit.

4 Our plan is to open up additional formations to
5 production, to increase rates and recovery from those
6 zones. We want to improve producing rates from the
7 existing wells using compression and artificial lift, and
8 we want to use the existing wellbores and well pads to
9 prevent additional disturbance in this unit.

10 Q. In your opinion, do you believe that approval of
11 the BP Amoco Application and the authorization for blanket
12 commingling and for the reference case that you're seeking
13 in the Gallegos Canyon Unit -- do you believe these would
14 be in the best interest of conservation, the prevention of
15 waste and the protection of correlative rights?

16 A. Yes, I do.

17 Q. Were Exhibits 19 and 20 prepared by you?

18 A. Yes, they were.

19 Q. Does that conclude your prepared report to the
20 Examiner this morning?

21 A. Yes, it does.

22 MR. CARR: And Mr. Stogner, at this time we would
23 move the admission of BP Exhibits 19 and 20.

24 EXAMINER STOGNER: Exhibits 19 and 20 will be
25 accepted.

1 MR. CARR: And I would also recommend that
2 although it is not our exhibit, that Mr. Crawford's letter
3 yesterday be made an official part of the record of this
4 case.

5 EXAMINER STOGNER: At this time I'll take notice
6 that the letter that Mr. Carr has referenced was also
7 provided us, via the fax machine, dated January 24th with a
8 cover page plus eight pages, and that was from Mr. Carroll
9 Crawford. This will be made part of the record in this
10 case also.

11 MR. CARR: And that concludes my examination this
12 morning of Mr. Hawkins.

13 EXAMINATION

14 BY EXAMINER STOGNER:

15 Q. Mr. Hawkins, in the unit that we're discussing,
16 other than Mr. Carroll Crawford, can you tell me how many
17 other interest owners out there that are noncommitted?

18 A. I believe there's about -- on the order of 12. I
19 don't know the exact number. And that may be 12 tracts
20 that are uncommitted, and some of those tracts may have
21 multiple owners. But I don't think there's a huge number
22 of uncommitted owners out there.

23 Q. Now, would Amoco's bookkeeping department have
24 that information readily available to them?

25 A. Well, I'm certain we can generate the list of

1 uncommitted owners.

2 Q. In some instances I'm sure they're getting
3 payments; is that correct?

4 A. I'm sure they are getting payments, if their
5 wells are on production.

6 Q. Well, how big of a problem would it be for Amoco
7 to notify those parties if a well is to be downhole
8 commingled in this unit that took in some of this
9 noncommitted interest?

10 A. Well, I think, you know, certainly it would be
11 some work to notify those parties. It's not going to be an
12 undue burden. However, we don't really see that the
13 uncommitted owners or uncommitted owners in the unit have
14 any differences in, you know, how their revenue is
15 distributed versus the unit owners. It simply is a
16 different calculation the well on what percentage of the
17 production do they receive, the same as many of the
18 committed owners have differences in ownership, in how
19 their ownership is calculated.

20 Q. But from Mr. Crawford's letter, he still has a
21 problem with this, this notification issue. Am I correct
22 in reading that into his letter, or are you reading the
23 same thing?

24 A. Well, what I'm reading is that he would like to
25 get notification in order to determine that the allocation

1 method is -- Let me look and see if I can find his wording.

2 MR. CARR: Page 3.

3 THE WITNESS: "...to ensure that the allocation
4 adopted is properly determined..." And we already have the
5 NMOCD as a regulatory agency looking at the allocation to
6 make sure it's properly determined, and we have the
7 federally supervised unit, you know, looking at the
8 allocation method that's being adopted to make sure that
9 it's properly determined.

10 And we -- I guess in my opinion, I believe that
11 those two agencies would be sufficient to ensure that all
12 of the owners are getting a proper allocation method.

13 Q. (By Examiner Stogner) So everything that the
14 federal government and the OCD does, Amoco has no problem
15 with, no matter what it is?

16 A. Well, no, I'm saying their review of this
17 allocation method should be sufficient to protect all of
18 the owners.

19 Q. You referenced five other previous orders that
20 were issued in similar instances. I believe that was a
21 waiver of notification?

22 A. Yes, there were reference cases for downhole
23 commingling, and they asked for exceptions to a number of
24 the items in the rule, including relief from the
25 notification of all of the owners in their federal unit.

1 Q. Of those, since you obviously have looked at
2 them, were there any instances in those five cases where a
3 noncommitted interest owner objected?

4 A. Not that I'm aware of.

5 Q. But they had the opportunity to object --

6 A. Yes.

7 Q. -- is that your understanding?

8 EXAMINER STOGNER: Mr. Carr, I have no other
9 questions of this witness.

10 MR. CARR: Thank you, Mr. Stogner.

11 EXAMINER STOGNER: BLM, do you have a question?

12 MR. DEMBOWSKI: I'm sorry, I just have -- I'd
13 like to just make a general statement of support for
14 Amoco's position. We concur with Mr. Hawkins' testimony
15 concerning the technical aspects of the Gallegos Canyon
16 Unit. That's based upon my personal review of the BLM
17 records and the plan of development for the area.

18 I'd also like to make the Examiner aware that
19 neither Mr. Crawford nor his representatives attempted to
20 avail themselves of a review of the BLM unit nor PA records
21 as was offered to him at the last hearing in December and
22 as the Examiner recommended that he do.

23 As far as notification of nonparticipating
24 royalty interests and overriding royalty interests,
25 holders, our review of Mr. Crawford's letter suggests that

1 he may want to be notified in any case, of any downhole
2 commingling application. We think that's excessive. The
3 unit order, the exception, the test case, reference case,
4 will establish notification for all parties.

5 My staff conducts an extensive review, both on a
6 land basis and on an engineering and reservoir basis for
7 all downhole commingling, and we feel comfortable that our
8 review in addition to the OCD's is adequate.

9 I'd like to restate that we support very strongly
10 the establishment of this reference case.

11 EXAMINER STOGNER: Thank you, sir.

12 If there's nothing further from Mr. Hawkins, you
13 may be excused.

14 Mr. Carr, do you have anything further?

15 MR. CARR: Mr. Stogner, we believe that at this
16 point the record is complete, and we'd ask that the case be
17 taken under advisement.

18 EXAMINER STOGNER: At this time I'll ask you for
19 a draft order --

20 MR. CARR: Yes, sir.

21 EXAMINER STOGNER: -- in this instance.

22 When do you think you might have one available
23 for me?

24 MR. CARR: Two weeks.

25 EXAMINER STOGNER: Any time sooner?

1 MR. CARR: I will try to do it sooner. I have
2 another very complicated draft order I'm working on as a
3 result of a hearing two weeks ago. I will try and get both
4 of them to you as quickly as I can, hopefully next week.

5 EXAMINER STOGNER: I appreciate your position in
6 this matter. As you know -- you may not know -- I'm under
7 the similar instances --

8 MR. CARR: Sure.

9 EXAMINER STOGNER: -- and there are certain
10 members --

11 MR. CARR: Right.

12 EXAMINER STOGNER: -- of the NMOGA Regulatory
13 Practices Committee that regularly complain about -- I'm
14 late on that.

15 MR. CARR: I will go into high gear to stay ahead
16 of them and you on this and get them quickly to you.

17 EXAMINER STOGNER: Okay. So I expect it in one
18 week.

19 With that, Case Number 12,520 will be taken under
20 advisement.

21 (Thereupon, these proceedings were concluded at
22 10:12 a.m.)

23

24

25

25 January 2001 12520
Steven T. Brenner
Steven T. Brenner, CCR
(505) 989-9317

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 January 27th, 2001.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 2002