

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 PREAPPROVAL OF) ORIGINAL
 DOWNHOLE COMMINGLING 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

December 21st, 2000

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, December 21st, 2000, 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.

* * *

STEVEN T. BRENNER, CCR
(505) 989-9317

I N D E X

December 21st, 2000
Examiner Hearing
CASE NO. 12,520

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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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 By: WILLIAM F. CARR

ALSO PRESENT:

CARROLL E. CRAWFORD
 83 Road 5295, NBu 3026
 Farmington, New Mexico 87401-1532

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

* * *

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1 WHEREUPON, the following proceedings were had at
2 9:40 a.m.:

3 EXAMINER STOGNER: At this time I will call
4 hearing back to order and call Case Number 12,520, which is
5 the Application of BP Amoco for establishment of a downhole
6 commingling reference case and preapproval of downhole
7 commingling for formations and pools in the Gallegos Canyon
8 Unit pursuant to Division Rule 303 and the adoption of
9 special administrative rules therefor, San Juan County.

10 At this time call for appearances.

11 MR. CARR: May it please the Examiner, my name is
12 William F. Carr with the Santa Fe law firm Campbell, Carr,
13 Berge and Sheridan. I represent BP Amoco. I do not have
14 a witness today.

15 EXAMINER STOGNER: Okay, any other appearances.

16 MR. CRAWFORD: Carroll Crawford, and I represent
17 myself and my mother, Dyvena Crawford, and I'll be my only
18 witness.

19 EXAMINER STOGNER: Any other appearances?

20 MR. DEMBOWSKI: Richard Dembowski, petroleum team
21 leader, Bureau of Land Management.

22 EXAMINER STOGNER: I'm sorry, what was your name
23 again, sir?

24 MR. DEMBOWSKI: Richard Dembowski, D-e-m-b-o-w-s-
25 k-i.

1 EXAMINER STOGNER: And you're out of the
2 Farmington office or Santa Fe?

3 MR. DEMBOWSKI: Farmington, yes, sir.

4 EXAMINER STOGNER: Farmington.

5 Any other appearances?

6 Okay, we commenced this case on October 19th --
7 Why don't you two gentlemen move up here and take these
8 blue chairs?

9 This hearing commenced on October the 19th, in
10 which I heard this case, and I continued it at that time to
11 November for review of a draft order in consultation with
12 our District Office in Aztec. Due to an unfortunate death
13 in the family of Mr. Chavez, we continued this case until
14 today.

15 So at this time I've recalled this case for any
16 additional testimony, for any additional items on the
17 record, which between that time Mr. Carroll Crawford has
18 entered his appearance and is here today to present some
19 additional testimony.

20 But Mr. Carr, since this is your case and we
21 don't have any additional witnesses today from Amoco, would
22 you wish to make a statement at this time?

23 MR. CARR: I can make it now or later, but Mr.
24 Examiner, as you stated, the case was heard in October and
25 was continued so Amoco, or BP Amoco, could file a proposed

1 order, and it was our understanding that then if additional
2 testimony was required after review, we would come back and
3 present that.

4 It's our understanding that Mr. Crawford
5 expressed some concern and has written the Division and has
6 a presentation to make today. We don't have any additional
7 testimony to present, and we think it's appropriate that
8 Mr. Crawford be able to present his concerns to the
9 Division. The BLM may have a statement, and at the
10 conclusion of the hearing, then the case can be taken under
11 advisement, based on the October 19 record.

12 EXAMINER STOGNER: Okay. Thank you, Mr. Carr.
13 Mr. Crawford?

14 MR. CRAWFORD: Yes, sir.

15 EXAMINER STOGNER: You may proceed in what manner
16 you've prepared today.

17 MR. CRAWFORD: I have two issues I'd like to
18 focus on. One is the technical issue of downhole
19 commingling and removing the tubing from Dakota wells and
20 what will happen in the event that that happens, and the
21 other issue is the situation where BP Amoco's accounting
22 division is in violation of Oil and Gas Section 7-2-18, and
23 the Gas Proceeds Payment Act of 70-10-5 and 70-10-3, and
24 our own lease terms.

25 EXAMINER STOGNER: You may proceed.

1 MR. CRAWFORD: I'd like to give you the two
2 exhibits, which are my letters, if I may.

3 EXAMINER STOGNER: You may.

4 MR. CRAWFORD: Frank said bring lots of copies.
5 Let me take up the --

6 EXAMINER STOGNER: Mr. Crawford, it appears that
7 in representing yourself today you're going to be making
8 some testimony.

9 MR. CRAWFORD: Yes.

10 EXAMINER STOGNER: So to make this record clear,
11 I'm going to have you stand, and let's swear you in.

12 (Thereupon, Mr. Crawford was sworn.)

13 CARROLL E. CRAWFORD,

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

16 MR. CRAWFORD: Mr. Stogner, the exceptions I take
17 to their proposed order for removal of the tubing from the
18 Dakota wells and other deep formations such as the Gallup
19 formation that produce gas condensate or water, based on my
20 experience of 40 years of natural gas measurement with El
21 Paso Natural Gas and the last ten years as director of
22 measurement technical operations, I've had the opportunity
23 to review what used to be known as the chart production.

24 We still have some wells with charts on them, but
25 from all of the San Juan Basin formation, I've spent 20

1 years working for the gas company up there in a measurement
2 supervisory position, and had the opportunity to learn
3 regarding the formations' geological and production
4 characteristics related to volume measurement on thousands
5 of charts as it relates to time, pressure and the
6 coefficients that are used in the particular measurement
7 stations to measure production from those wells, and based
8 on that I would want to offer an exception to the proposed
9 order by Amoco.

10 And with all due respect to the Amoco witnesses
11 and their testimony in your November missal, take exception
12 to their conclusions which were based on average past flow
13 rates for the Dakota and Gallup formations. And I think
14 the Gallup was quoted as 51 MCF a day in that particular
15 instance, and they had proposed removing the tubing in
16 those deep formations, and I contend that if they do it
17 will contribute to the loss of the periodic higher flow
18 rates that are required to lift liquids to the surface.

19 All depending on the depth and tubing size, it's
20 been my experience it takes somewhere between 200 and 400
21 MCF a day flow rate to lift -- to clear liquids that are
22 free in the wellbore. The only liquid reaching the surface
23 would be those entrained liquids that are in the gas
24 string. This would result in the deep formations logging
25 off, and if they -- depending on what casing size on the

1 Dakota well or a Gallup well, the flow rates, if they
2 remove the tubings, would increase somewhere between four
3 and eight times, depending on the casing size.

4 And so you can see that that would take a very
5 high flow rate to lift the free liquids out of the well. I
6 don't believe they'll ever reach those flow rates to clear
7 the free liquids.

8 And since the production of many wells now are --
9 and especially in Amoco's case, they use electronic flow
10 measurement devices, called EFMs, that produce on the
11 average volume hourly and average daily flow rates, and my
12 concern is, how will Amoco determine if a Dakota or a
13 Gallup formation has logged off and is no longer producing?
14 Thus, if they commingled a Dakota well without the tubing,
15 it may result in the permanent loss of revenues due to
16 logging off and the value of the total remaining production
17 of the deeper wells of the unit.

18 The nature of the wellbore is a component of the
19 overburden pressures above the formations, and whereas they
20 result essentially in horizontal or downward fractures for
21 the Pictured Cliff or shallower formations, the Dakota
22 formations are essentially vertically inclined, as well as
23 the Gallup, which contributes to the rapid logging off of
24 production from the free liquid that's coming out of the
25 wellbore.

1 If the tubing is removed, the free liquids from
2 crossflow from the shallower formations will migrate to the
3 well bottom and contribute to the rapid logging off of the
4 Dakota or Gallup well production formations.

5 Thus, removal of the Dakota tubing will, in fact,
6 not protect the correlative rights of royalty and other
7 interest owners, where interests are not common due to the
8 loss of production from those deeper formations in
9 question.

10 It is problematic how Amoco would determine and
11 utilize their proposed allocations that they have mentioned
12 for commingling in wells in the Gallegos Canyon Unit when
13 tubing removal will contribute to eventual change in and
14 loss of production from the deeper formations logging off.
15 I question who would risk authorizing the pumping on of a
16 deep formation when they find difficulty in determining the
17 logged off conditions from average flow rates.

18 Attached to the exhibit dated December 6th, 2000,
19 that I gave you, I have given you six attachments there to
20 the memorandum.

21 The first one is called the Dakota Number 1, and
22 these were derived from either copies of charts or
23 depictions from my recollections of how the production
24 patterns of the Dakota wells in the San Juan Basin curve.

25 The first one is a typical high production flow

1 rate that never completely logged off, with the gas
2 continuing to bubble through the liquids in the formation
3 as the pressure builds up to unload the well.

4 And you can see where I've marked the
5 differential, it heads up, flows for a day or so, logs down
6 and bubbles through, the formation builds up enough
7 pressure to well through the tubing, heads up again,
8 there's a pressure change due to line pressure change,
9 never completely logs off, continues to flow for 12, 18, 20
10 hours, and then it is essentially partially logged off, but
11 never stops flowing while the wellbore pressure builds up
12 and then unloads the well.

13 Under depiction Number 2, this is a mid-range
14 flow rate Dakota. It eventually logs off -- I've coded it
15 29, which is a common code for coding a chart for wells not
16 flowing due to the fact that it's logged off.

17 And you can see on the Dakota 2, it's off, and
18 then the well finally builds up enough pressure to unload
19 the free liquids through the tubing, and the flow
20 differential then gradually returns down to zero when it
21 logs off again after that surge of gas, lifts the liquid
22 and allows the well to produce for a shorter period of
23 time, usually in the range of 6 to 12 hours. And then
24 again it unloads and goes through the same cycle on a
25 periodical basis, depending on the rate of pressure

1 increase at the bottom of the wellbore and the size of the
2 tubing it takes to lift the liquids.

3 And it used to be that if you had a separator on
4 the location and you had a chart, you could actually tell
5 by watching the separator dumps, on the differential it
6 would be real steady while it was lifting the liquid and
7 the flow was going, then it would miss one, it would hit
8 one more, and then it would quit.

9 And at that point you could calculate the
10 differential times, the static times, the coefficients, and
11 you could tell what the flow rate for that particular
12 arrangement of wellbore, tubing size, depth and pressures
13 and line pressures, at what flow rate it took to lift the
14 liquid. Anything above it would lift the liquid, anything
15 below it would quit lifting the free liquid, you'd only
16 have entrained liquids present, and at that point the well
17 would log off pretty rapidly and stay logged off until the
18 well was unloaded.

19 Under Dakota Number 3, this is a typical low
20 range flow rate, which rapid logs off, again code 29, it
21 tries to unload as the bottomhole pressure increases,
22 continues logged off until sufficient downhole pressure
23 finally increases, to periodically unload the wellbore
24 through the tubing.

25 And on this one you can see the different code

1 29's, where it tries to unload, doesn't make it, stays
2 logged off, takes another little pressure buildup, tries
3 again. After a while it finally builds up enough pressure
4 to unload, and then returns to a logged off situation
5 rather rapidly after the production flush has gone.

6 And this would be where I take exception to
7 Amoco's witnesses where they think that it just keeps
8 flowing. But it doesn't, it has to have a periodic high-
9 low rate surge to lift the liquid out of those wells. If
10 that tubing is removed, I fear that that's going to be very
11 detrimental to the Dakota formation in the San Juan Basin.

12 The Dakota Number 4 depicts a low-flow range that
13 utilizes the timed or pressure difference between the
14 tubing and casing to activate a downhole piston travel to
15 the surface, lifting the liquid with a burst of increased
16 bottomhole pressure to provide energy for liquid lift.
17 Commonly it flows 15 minutes, off three hours and 15
18 minutes to build up pressures.

19 And you can see the spikes of the differential.
20 That's where it brings up the piston and unloads the
21 liquids, and then the piston falls back to the bottom of
22 the well and no flow is occurring.

23 Under Dakota Number 5, this is a typical low-flow
24 -- And this is an actual chart picture on Dakota Number 4;
25 also Number 5 is an actual chart, currently in production.

1 It's a typical low-flow range well, and it utilizes the
2 timed surface on/off stopcock cycle equipment to shut in
3 and produce for short periods to lift free liquid, and in
4 this case on about 20 minutes and off an hour and 40
5 minutes. And it's also utilizing a surge of gas production
6 to lift the liquids, and then it shuts off and lets the
7 pressure build up in the bottom of the well, awaiting the
8 next cycle.

9 The methods 4 and 5 are important, because they
10 preserve a reservoir gas drive to increase the liquid
11 recovery over an extended period of time.

12 Under PC Number 6, the sixth example, this is a
13 typical low-flow Pictured Cliff formation production. And
14 these wells typically have horizontal-type well fractures,
15 and it does not lend itself to immediate well logging off,
16 which unload at lower flow rates through the tubing. And
17 again the fractures kind of go out horizontally, and they
18 may have liquid in the bottom parts of the fractures, but
19 the top are still flowing gas. And in this case you can
20 see that it sets there and more or less produces
21 continuously at a low rate.

22 And that is a depiction of what I fear, if you
23 take the tubing out, the Dakota is going to log off, the
24 liquid from it and the other formations are going to
25 continue to log off, it's going to be very difficult for

1 them to tell when it's logged off, and we will eventually
2 lose the Dakota and probably the Gallup formation.

3 In addition, several of the Gallegos Unit wells
4 are not 100-percent communitized and were drilled on a
5 leasehold basis, with the result of force-pooling that
6 occurred. I feel that the administrative notification
7 burden must remain for wells that have noncommitted royalty
8 and overriding royalty interests, to ensure proper
9 allocation is determined.

10 In regard to the technical part of it, I have
11 three recommends.

12 First, the allocation method adopted for each
13 unit with a noncommitted royalty owner should result in a
14 revised Division Order -- and, Frank tells me, and C-107 --
15 for each such well. Further, the Amoco Tulsa Royalty
16 Services Accounting Division should be ordered to utilize
17 such revised Division Order and the lease terms to settle
18 for royalty interests.

19 I say this, because since 1993 Amoco has utilized
20 shortcut unapproved interest ownership percentages that do
21 not match the Division orders or lease terms that are
22 enforced, which result in the violation of Oil and Gas Act
23 and Payment Act, Section 7-2-18, 70-10-3 and 70-10-5.

24 Second, removal of the production tubing on
25 Dakota or other deep formation wells should not be approved

1 for commingling.

2 Thirdly, BP Amoco should devise a commingling
3 plan for shallow formations that leaves deep formation
4 production tubing in place.

5 And I'm open to any questions regarding the
6 technical aspect of my concerns about removing the tubing
7 in Dakota and Gallup formations.

8 EXAMINATION

9 BY EXAMINER STOGNER:

10 Q. Mr. Crawford, before I open that up, just some
11 housekeeping points here. You alluded to the fact -- and I
12 think you've stated but I'd like to make the record clear
13 today, just your background, who you are and -- Where do
14 you live? Where do you live, Mr. Crawford?

15 A. Okay, I'm Carroll Crawford, I live in Farmington,
16 New Mexico, I was born and raised there. And my background
17 -- my educational experiences, I have an associate of arts
18 from San Juan College, I have a bachelor of science in
19 general business administration from New York University, I
20 have a bachelor of science of business management from Park
21 College, and I'm a graduate of the Command and General
22 Staff College of the United States Army.

23 I worked for El Paso 40 years, 20 years out in
24 the field. I started as a chart changer and worked up,
25 became a tester and became a supervisor, and they took me

1 off to El Paso where they could watch me closer. And the
2 last ten years I served as Director of Measurement,
3 Technical Operations, for El Paso Natural. That period was
4 -- total period was 1955 to 1995, and I was Director 1985
5 to 1995.

6 Q. What is your interest in the Gallegos Canyon Unit
7 area? Are you an owner, a mineral interest owner?

8 A. Yes, my mother and myself are royalty interest
9 owners in the noncommitted interests in the Gallegos Canyon
10 Unit.

11 Q. How much total acreage do you have in this area,
12 approximately?

13 A. I have royalty under 80 acres, and my mother has
14 royalty acreage under approximately 192 acres. But not all
15 of that 192 is in the Gallegos Unit.

16 Q. But now your 80 is under the Gallegos Unit?

17 A. Mine is under the Gallegos. 160 of hers are
18 under the Gallegos Unit.

19 Q. And this two hundred and -- approximately what,
20 240, 240 acres, is all noncommitted to the unit?

21 A. Yeah, and 80 of those acres -- I got half the
22 royalty from my mother and my dad, so that is the same
23 acreage that we're talking about.

24 Q. Oh, okay.

25 A. It's located primarily in Section 25 and Section

1 26, in 29 and 12. And then my first -- Those are spelled
2 out in the first letter I sent.

3 EXAMINER STOGNER: Thank you, Mr. Crawford.

4 At this time, Mr. Carr --

5 MR. CARR: I have no questions of Mr. Crawford.

6 MR. CRAWFORD: In my second exhibit, which was my
7 letter dated 10-16-2000, I was unable to attend and I was
8 advised to write a letter to Ms. Wrotenbery, but I also
9 understand the rules don't count unless you're here to tell
10 about it and be cross-examined by Mr. Carr.

11 I'd like to state at this time I'm very pleased
12 with our relationship with the Amoco personnel in the
13 field. They're very, very receptive to coming out and
14 cleaning the weeds off the location or working with you.
15 And it was the same way when we drilled a well, you know,
16 establishing a location for the wells. When I subdivided
17 the farm, well, they worked very closely.

18 I'm not quite so pleased with their accounting
19 division, but that's what the basis of this second one is.
20 And I lodged my protest based on the fact that we were
21 unhappy with their accounting division, primarily.

22 And we list our -- Amoco business associate
23 number for my mother is 135479-00 for Dyvena Crawford and
24 her life estate. And her current address is 1091 West
25 Murray Drive, Apartment 232, Farmington, New Mexico, 87401.

1 And mine and my wife's business associate number
2 is 687829-00 for Carroll E. and Bonnie J. Crawford, and our
3 address is 83 Road 5295, NBu 3026, Farmington, New Mexico,
4 87401.

5 And we protested essentially on the basis with
6 downhole commingling.

7 First of all, we feel that BP Amoco is in
8 violation of Oil and Gas Act, Section 70-2-18; they're in
9 violation of Oil and Gas Proceeds Payment Act, Section
10 70-10-5 and Section 70-10-3. BP Amoco, formerly Amoco, is
11 in violation of the oil and gas leases dated 25 May 1959 --
12 there's two of those -- and 27 August 1963, which are on
13 file at the San Juan County Clerk's Office in Aztec, New
14 Mexico, and copies of those two leases are attached.

15 Those leases included one-eighth royalty payable
16 by the lessee, overriding royalty of four percent on the
17 first two of those leases, royalties of market value at the
18 well of 100 percent of oil and gas produced and saved and
19 sold or used off the premises, a monthly accounting for 100
20 percent of production of oil or gas at the prevailing
21 market rate, royalties paid in proportion which his
22 interest bears to the whole and undivided fee, and non-
23 participating interest for all of our noncommitted interest
24 in the Gallegos Canyon Unit in Sections 25 and 26, Township
25 29 North, Range 12 West, San Juan County.

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1 First of all, we're concerned that our and other
2 interests are not properly entered in the BP Amoco
3 accounting system based on three different Division orders
4 that were sent to Mrs. Dyvena Crawford in error after Amoco
5 revised their accounting and payment section in March,
6 1993, for the following wells:

7 She was sent a Division order for Gallegos Canyon
8 Unit 159E Dakota; it's in Section 31.

9 She was sent a Division order for Gallegos Canyon
10 Unit 395 Pictured Cliff; it's in Section 30, 29 and 12.

11 She was sent a Division order for Government
12 Moncrief Federal Dakota Number 1 and E Number 1,
13 communitized 50 percent, and it's in Section 22, 29 and 12.

14 And I corresponded with Mr. Gary Wilson, the
15 Amoco Division order, on 12-30-96 and 5-10-97. Those
16 letters are attached. But what it told me was, their
17 accounting records for the Gallegos unit are a shambles.
18 And they don't know who owns property or where they're at.
19 And that's one of our issues. Their records are not going
20 to properly reflect proper production payments.

21 And Mr. Wilson, in his letter, agreed. He was
22 also concerned, and he was going to check in it. Of course
23 you're all aware, BP took over Amoco a couple of years ago,
24 and all examinations of this ceased. We have never owned a
25 property in that Section 22, 30 or 31 and have no

1 entitlement to royalties based on our noncommitted interest
2 regarding the Gallegos Canyon Unit, and I have advised my
3 mother not to sign those Division orders. And at that time
4 we contacted Amoco and told them it was in error.

5 Secondly, royalty interests were paid under their
6 new system through November, 1996, for September, 1996,
7 production. Without notice of any kind, Amoco suspended
8 royalty payments in December, 1996, for October, 1996,
9 production, to this present date.

10 In December, 1996, and February, 1997, we began
11 inquiries into the failure to pay royalties, overriding
12 royalty interest and treatment of uncommitted leases under
13 Amoco's new accounting. Ms. Shelly Wilhoite, Amoco
14 analyst, advised that the production royalties for gas and
15 natural gas were paid at 100-percent well volume to these
16 leases, as it should have been according to the lease, for
17 a period of 10-94 through 10-96, and should have been
18 multiplied by a noncommitted decimal resulting in an
19 overpayment for Amoco.

20 In later conversations, she backed off the NGLs
21 being improperly settled. I challenged her on the
22 noncommitted decimal Amoco was using for their lease
23 numbers 2904490, 29041200 and 19033700, and her letter for
24 March 20th is attached. She sent these negative deferred
25 detail and check detail summaries, which were not

1 sufficient to tie to the gas production 100-percent volumes
2 reported by the gathering pipeline company.

3 Amoco has provided no further accounting of
4 production or market values on the monthly basis requested
5 in the lease. I believe their "creative accounting" system
6 is inherently flawed. Other royalty owners adjoining our
7 lease property -- and in this case my cousins Mr. Hulan
8 Crawford and Mrs. Audrie Bennett -- advised that they have
9 not been able to get Amoco to pay their royalty interest
10 committed to the Gallegos Canyon unit due to estate
11 ownership changes. Their father died. They are paying
12 their brother, J. M. Crawford. My question is, who's
13 getting their royalties, and what is the status of
14 production taxes for these royalties?

15 My mother, Ms. Dyvena Crawford, did not receive
16 notice of hearing for the Gallegos Canyon Unit hearing, and
17 in conferring with Mr. Carr's office, it's obvious she had
18 changed addresses, and it wasn't delivered. So that would
19 not be an issue at that point.

20 The Amoco accounting system seems to be unable to
21 properly handle simple royalty interest and ownership, and
22 it's unlikely to be able to properly handle more
23 complicated downhole commingled interest without some
24 additional input and clearing up their records.

25 Thirdly, I'd make the following request, based on

1 what I've given you in this missal here, that the Oil
2 Conservation Commission deny Amoco's downhole commingling
3 request heard at the October 19th hearing; that the New
4 Mexico Oil Conservation Commission order that any wells
5 having a noncommitted interest not be allowed to downhole
6 commingle without a well-by-well hearing before the Oil
7 Conservation Commission that validates BP Amoco's
8 accounting and ownership records and systems as well as the
9 production matters; thirdly that the New Mexico Oil
10 Conservation Commission order that the following ten
11 noncommitted interest wells be shut in and locked by BP
12 Amoco until they have satisfied lease terms and full 100-
13 percent month volume and market value accounting since the
14 March, 1993, accounting system changes per validated
15 ownership interests. And I list these ten wells. Do you
16 want me to list them? You've got a list there.

17 EXAMINER STOGNER: It's so stated in your letter
18 of October 16 --

19 MR. CRAWFORD: Yeah, it's stated in paragraph 3.
20 There's ten of them.

21 EXAMINER STOGNER: So noted.

22 MR. CRAWFORD: Nine of those ten are in the
23 Gallegos Unit. The Crawford Gas Com B Number 1 is in
24 Section 24, not in the Gallegos Unit.

25 Fourth, that the New Mexico Oil Conservation

1 Commission order BP Amoco to utilize wellhead electronic
2 metering that displays pressures, temperatures, flow rates
3 and accumulated flow volumes on site.

4 Presently they use a system that, if you don't
5 have a computer that plugs into it, you can't tell what the
6 flow is, what the pressures are, how much has flown. And
7 most other companies have selected those that have on-site
8 devices that display those entities which are important to
9 know whether the well is flowing, not flowing, and what the
10 flow rates and temperatures are and the pressures are.
11 That's also important for safety element.

12 The present system lends itself to manipulation
13 and prevents royalty owners from reviewing production
14 parameters on site.

15 And your assistance in this matter would be
16 greatly appreciated.

17 And that concludes my two presentations, my
18 objections to it. And this second one primarily is a
19 personal matter, because they're not paying as they should.
20 They had told us when they said they had overpaid, it would
21 take about two years. Well, the gas prices tripled over
22 the last year. It's been four years since they paid. You
23 can't get hardly any information out of them. And I called
24 one time and gave them my associate number and they said,
25 We don't have such an associate number. Maybe they've

1 changed it again, but I'll assure you that you'll want to
2 look at the leases that are attached, that we do have an
3 interest in those wells.

4 EXAMINER STOGNER: Mr. Carr, any questions
5 concerning this?

6 MR. CARR: No, I don't have any questions. I do
7 have a statement.

8 EXAMINER STOGNER: Let's hear your statement.

9 MR. CARR: Well, Mr. Stogner, I was aware of the
10 first letter that Mr. Crawford presented. I was unaware
11 until this morning of the issue concerning royalty, and so
12 I'm hitting it completely cold. But I will state and
13 assure you that I will immediately contact Amoco. The
14 people that have been addressed by Mr. Crawford, I frankly
15 do not know who they are.

16 MR. CRAWFORD: They're no longer in those
17 positions. I've tried to get ahold of them, since they --

18 MR. CARR: And I -- you know, Mr. Crawford, I
19 will immediately find out who are the appropriate people
20 that need to sort this sort of thing out. I mean, you get
21 a letter that says, We will get back to you with
22 information, and it's dated months or years ago, there
23 needs to be a follow-up on it. If Mr. Crawford can't get
24 into the system, I suspect I can, and I will immediately
25 pursue this issue. I can't do more than that with no more

1 warning than just a letter that's reviewed today, but I
2 will assure you and Mr. Crawford, I will take this as an
3 extremely serious matter, and immediately go back to Amoco
4 or BP, whoever it is, and start pursuing these issues.

5 EXAMINER STOGNER: Okay. How do you think we
6 should pursue with the Application today, or -- Do you
7 think that should be tied in, or do you want to continue
8 this case to address this issue and then come back, or how
9 would you like to proceed?

10 MR. CARR: Well, the question on straight payment
11 of royalty and the statutes that have been cited, there are
12 certain procedural remedies. But it requires an attorney
13 and going to court and all that sort of stuff. And I don't
14 think the people that I work with at Amoco would suggest we
15 should play some sort of a game and say, Well, hire a
16 lawyer and sue us, and get into that kind of a thing.

17 Not having any more contact with the issue than
18 this morning, all I can tell you is that I'll immediately
19 respond, and I'll write you and Mr. Crawford and let you
20 know what I can find out as quickly as possible. And if it
21 is your desire to continue the case so it can be reopened
22 and these matters addressed, I'd be happy to do that, Mr.
23 Stogner. I can follow your lead on that.

24 But my concern this morning was focusing on the
25 first letter; I was totally unaware of the second. These

1 are the kinds of issues that I'm aware do come up often
2 with oil and gas producers, but these are also questions
3 for which there need to be responses, and I'm willing to
4 commit to pursue the issue with you and Mr. Crawford as
5 quickly as I can.

6 EXAMINER STOGNER: I'll tell you what, I'm kind
7 of curious at this time, Mr. Dembowski, what's your
8 function in this here today? What do you -- I want to have
9 you --

10 MR. DEMBOWSKI: Yes, I'm here, sir, to -- I'm
11 representing the BLM, and we have a prepared statement in
12 support of Amoco. I've got some additional comments I'd
13 like to make also for the record.

14 EXAMINER STOGNER: I'll tell you what, at this
15 time I want to hear what the BLM has to say.

16 MR. DEMBOWSKI: Okay, first of all, the BLM isn't
17 able to comment in detail on Mr. Crawford's testimony at
18 this time without some further study on our part. However,
19 it appears to me that these issues are essentially
20 accounting or leasehold issues which should be resolved in
21 a forum other than the Oil Conversation Division.

22 It appears also to me -- I'm a degreed engineer
23 and qualified as an expert in federal court and three
24 different state courts and also in front of this Commission
25 previously -- that his allegations have little basis as far

1 as production and reservoir engineering is concerned.

2 Allocation factors are reviewed by the Bureau of
3 Land Management, my team. I have two people dedicated to
4 that, a geologist and a reservoir engineer, who review
5 those. The normal procedure is, there's an allocation
6 factor that's permitted for the operator to use at some
7 point in time, once they complete the well. After we have
8 adequate production data, then both the State and the BLM
9 review the production data, and then the allocation factors
10 are adjusted.

11 Not having any further information, and this
12 morning being the first time I've seen any of these
13 documents, I would suspect that's at least part of what's
14 happening to Mr. Crawford right now.

15 Any shut-in action, as recommended by Mr.
16 Crawford, may interdict not only federal but allottee and
17 tribal interests in the area, which falls under BLM
18 responsibilities. And the BLM, I would have to say, would
19 not view them as being viable options at this time, given
20 the apparent nature of the dispute right now.

21 The BLM holds approximately 65 percent of the
22 mineral acreage within the Gallegos Canyon Unit and also
23 provides administrative support for an additional 12
24 percent of the unit acreage managed under our Indian trust
25 responsibility.

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1 As a majority mineral owner in this federal unit,
2 the BLM has reviewed the BP Amoco proposal in detail and
3 concurs with the Application. This proposal will not
4 result in the waste of resources and will eliminate the
5 submission of duplicate applications for wells within the
6 cited unit. Therefore approval of this proposal is
7 supported.

8 There are over 500 working interests, royalty
9 interests and overriding interest owners within the various
10 participating areas within the unit. Notification is
11 lengthy and extremely costly. This approval will expedite
12 the process, with the order serving as notification to all
13 parties.

14 BP Amoco has pledged to continue to submit
15 individual well data and applications for downhole
16 commingling factors to the BLM and other government
17 agencies for review, verification and approval.

18 BP Amoco has been apprised of potential drainage
19 issues by the Bureau of Land Management, and we'll continue
20 to consult with the BLM on such matters. Drainage will be
21 evaluated adjacent to both the unit boundaries and to each
22 participating area boundary. The appropriate PAs will
23 continue to be evaluated and processed for expansion and
24 modification as required.

25 Based upon that, I'll reiterate that the Bureau

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1 of Land Management strongly supports approval of this
2 action.

3 EXAMINER STOGNER: We're going to take about a
4 ten-minute recess at this time.

5 (Thereupon, a recess was taken at 10:23 a.m.)

6 (The following proceedings had at 10:36 a.m.)

7 EXAMINER STOGNER: We're back on the record
8 again. Mr. Carr, do you have anything --

9 MR. CARR: Well, Mr. Stogner, during the break
10 we've talked very briefly with Mr. Crawford, I've talked
11 with Mr. Dembowski, and I think it's important that there
12 be some push to keep this on some sort of a track and some
13 sort of a time frame.

14 I have nobody to talk to, I want you to know,
15 from Christmas week, but it would seem to me that unless
16 you have some alternative plan, perhaps we should continue
17 this to January the 25th, and I'll commit in the meantime
18 to be in a position to respond. And I can get people in
19 gear with a time frame to take a look at these issues, get
20 the right people in contact with Mr. Crawford on the
21 royalty side of the matter, because it seems to me the
22 alternative is to leave it with not some definite time
23 frame and some definite push behind it, and I think that
24 it's important to do that if we can.

25 I'm tendering that as a suggestion, as a way to

1 perhaps keep something moving and get some information,
2 particularly on the accounting side, to Mr. Crawford.

3 EXAMINER STOGNER: During our discussion, I had
4 some issues that I was throwing around with Ms. Hebert
5 about -- in an instance here where royalty interest, but
6 where there are some royalty interests involved in the
7 wells in which their placements and their proration units
8 contain, how would that affect Amoco if the current rules
9 apply to those wells and those properties?

10 And if you have those, obviously the State's not
11 here, so if the State's interest will take that as even an
12 agreement, or at least a nonobjection, the BLM here is
13 supporting it.

14 But we have a royalty interest here that has a
15 problem, so I bring that to you.

16 MR. CARR: And Mr. Stogner, I didn't understand
17 what you said. Can you just --

18 EXAMINER STOGNER: Okay, in those instances where
19 you have a well that is to be downhole commingled, that
20 there is some royalty interest involved. And in this case
21 it's an uncommitted royalty interest that only participates
22 in the proration unit. How would that affect this
23 Application? In other words, admit those from your
24 proposal?

25 I'm reluctant to say any and all royalty

1 interests. In fact, you can look that up, perhaps. If you
2 have a royalty interest out there that has participated,
3 would it be a futile situation for them just to be
4 notified. Obviously, they're not here either, but Mr.
5 Crawford is.

6 I'm definitely concerned about his interest in
7 the Application as it is today, but how about the other
8 royalty interest owners? I think we've heard sufficiently
9 from both the feds, the federal royalty and the State
10 royalty. So I'd like you to address that issue.

11 Now, what I was going to propose is you
12 addressing that situation to myself, Mr. Crawford and the
13 BLM and then giving them adequate time to respond, keep the
14 record open just for that issue.

15 As far as some of the other issues that Mr.
16 Crawford has brought up, I think they go a little beyond
17 the scope of this particular Application. I've got to
18 focus just on the Application itself.

19 MR. CARR: Okay. I think that Proceeds Payment
20 Act and some of these things do go beyond the jurisdiction
21 here, but it does seem to me that it's appropriate to
22 respond to these inquiries. I think we should do that.
23 And so my thought would be that we will respond to this,
24 and I'll discuss with you, be sure I have the question
25 exactly right on the royalty issue, and be prepared to

1 respond to that.

2 Are you thinking of leaving the record open, Mr.
3 Stogner, until say the January 25th hearing, so that can be
4 addressed at that time?

5 EXAMINER STOGNER: I'll tell you what, with what
6 you have told me -- and I will take that as your request,
7 and we'll put this back on the January 25th docket.
8 However, I don't want to utilize that time unless it's
9 necessary for any additional testimony. But let's go ahead
10 and keep the record open until the 25th hearing, at which
11 time we can take it under advisement.

12 MR. CARR: And if any additional testimony is
13 going to be required on anything, I will write you, the BLM
14 and Mr. Crawford, and do that quickly, because it seems to
15 me that everybody's interest is served by getting this on
16 some sort of a track and a time frame so it can be brought
17 to a conclusion and the data that is needed can be gotten
18 to Mr. Crawford and that these issues can be explored.

19 EXAMINER STOGNER: And I must commend Amoco's
20 attitude that you have expressed today, is getting Mr.
21 Crawford's concerns taken care of. That will definitely go
22 a long way in acting as a good neighbor, and the Division
23 will always, always support such actions.

24 MR. CARR: And the issue that you are concerned
25 about is, how do we deal with a downhole commingled on a

1 tract where there are uncommitted royalty interests?

2 EXAMINER STOGNER: And even committed royalty
3 interests. Fee interests, I should say.

4 MR. CARR: I will explore that.

5 EXAMINER STOGNER: And then there were some
6 technical issues that he also brought up --

7 MR. CARR: That's correct, and --

8 EXAMINER STOGNER: -- if you can also take this
9 opportunity to expound upon.

10 MR. CARR: Okay, that's what we'll do. And I
11 will get -- I cannot represent to you I can get anything to
12 you before the first of the year because, simply, everyone
13 is on vacation. I mean, the truth of the matter is, they
14 have to take vacation or lose it, and everyone I have been
15 looking for is gone. But I will the first week of January
16 get something in writing to you, copy Mr. Crawford; I have
17 his card. Mr. Dembowski, I'll do the same. And so we'll
18 keep this moving.

19 EXAMINER STOGNER: Mr. Crawford, do you have any
20 comment on what you've heard today so far?

21 MR. CRAWFORD: What you've proposed is reasonable
22 and what Mr. Carr proposed is reasonable.

23 I don't completely agree with Mr. Dembowski. I'm
24 still concerned about pulling the tubing out of those deep
25 wells and then continue to produce, and since our interest

1 right now are ten Dakota wells, that that would very much
2 press on my mind, that -- I didn't use it as part of my
3 experience, but I've produced wells for ten years, and I've
4 worked with some of those Dakota and Pictured Cliff and I
5 feel like I know from first-hand experience that this is
6 very apt to happen, that those wells will log off, and when
7 you've got a commingle, you'll never know it.

8 Even taking a gas sample and trying to derive it,
9 it's going to be such a small percent of the total, you're
10 never going to know it, and that gas is going to just stay
11 down there.

12 EXAMINER STOGNER: Thank you.

13 Mr. Carr?

14 MR. CARR: I'll just commit to you to do my very
15 best to get this quickly resolved, data to Mr. Crawford,
16 the issues explored, and get back to you and keep you and
17 all parties fully involved and advised as I go forward.

18 EXAMINER STOGNER: Mr. Dembowski, is this the
19 first time that somebody hasn't agreed with you or the BLM
20 staff?

21 (Laughter)

22 MR. DEMBOWSKI: Probably can't say that, no.

23 EXAMINER STOGNER: Do you have anything to say?

24 MR. DEMBOWSKI: Yeah, I'd like to -- Just for the
25 record, I'd like to indicate that the BLM office is open.

1 I've already extended the invitation to Mr. Crawford. We
2 administer the participating areas. We have our own land
3 adjudicators, three of them. They work for me.

4 So any information we have that can be helpful to
5 either BP or to Mr. Crawford, you know, it's all public
6 record, and we'd be more than happy to help him out there.

7 As far as the wells logging off, I have a
8 reservoir engineer and operations engineer watching that
9 right now, looking at it. We've worked with BP and with
10 several other operators, and if the wells log up and it is
11 a problem as far as commingling is concerned, we're going
12 to require them on federal leases to put the tubing back in
13 the hole. We've already crossed that bridge.

14 So we're willing to let the operators try. We
15 don't want to be in a position where we dictate what to do,
16 because our interest lies as being the mineral owner and
17 putting money in the MMS's pocket. And that's where our
18 orientation is, so we're on your side.

19 EXAMINER STOGNER: Good, let's keep, between now
20 and then, keep the communications rolling, and even after
21 that.

22 At this point I will continue Case Number 12,520
23 to the January 25th docket. If it looks like there's going
24 to be any additional testimony from either Mr. Crawford or
25 Amoco, I would like something the Friday prior --

1 MR. CARR: You will have it.

2 EXAMINER STOGNER: -- so that we can manage that,
3 or avoid it, if at all possible.

4 MR. CARR: Well hopefully, we can resolve these
5 issues if David and Mr. Crawford avoid any kind of
6 jurisdictional question, I mean -- Because if there's a
7 legitimate concern, nobody's served by playing a game like
8 that.

9 EXAMINER STOGNER: Mr. Crawford, I commend you on
10 the professional manner you have come in today, very
11 prepared. Thank you. I wish more people, royalty interest
12 owners throughout the State, would come in and take an
13 active issue in the manner in which you have chosen today.

14 MR. CRAWFORD: Well, I hope that it provides
15 benefit for all parties.

16 EXAMINER STOGNER: I think it does.

17 With that, thank you, gentlemen.

18 (Thereupon, these proceedings were concluded at
19 10:45 a.m.)

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21 December 2000
Richard H. Stogner

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 22nd, 2000.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 2002