STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED BY THE OIL CONSERVATION DIVISION FOR THE PURPOSE OF CONSIDERING:	
APPLICATION OF RB OPERATING COMPANY FOR A CENTRALIZED FACILITY WITH A COMMON TANK BATTERY INCLUDING SURFACE COMMINGLING AND OFF-LEASE MEASUREMENT AND STORAGE, EDDY COUNTY, NEW MEXICO	CASE NOS. 13,473
APPLICATION OF RB OPERATING COMPANY FOR A CENTRALIZED FACILITY WITH A COMMON TANK BATTERY INCLUDING SURFACE COMMINGLING AND OFF-LEASE MEASUREMENT AND STORAGE, EDDY COUNTY, NEW MEXICO	13,474
APPLICATION OF RB OPERATING COMPANY FOR A CENTRALIZED FACILITY WITH A COMMON TANK BATTERY INCLUDING SURFACE COMMINGLING AND OFF-LEASE MEASUREMENT AND STORAGE, EDDY COUNTY, NEW MEXICO	and 13,475
	(Consolidated)

2005 MAY 5 AM 7:32

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS
EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

April 21st, 2005
Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, April 21st, 2005, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, 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 21st, 2005
Examiner Hearing
CASE NOS. 13,472, 13,473 and 13,475 (Consolidated)

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E X H I B I T S

Applicant's (13,473)	Identified	Admitted
Exhibit 1	6, 9	33
Exhibit 2	16	33
Exhibit 3	17	33
Exhibit 4	24	33
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Applicant's (13,474)	Identified	Admitted
Exhibit 1	6, 10	33
Exhibit 2	27	33
Exhibit 3	28	33
Exhibit 4	29	33
Exhibit 5	-	33
Exhibit 6	29	33
Exhibit 7	29	33
Exhibit 8	30	33
Exhibit 9	30	33

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(Continued...)

E X H I B I T S (Continued)

Applicant's (13,475)	Identified	Admitted
Exhibit 1	6, 11, 31	33
Exhibit 2	31	33
Exhibit 3	31	33
Exhibit 4	31	33
Exhibit 5	31	33
Exhibit 6	32	33
Exhibit 7	32	33
Exhibit 8	32	33
Exhibit 9	-	33

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A P P E A R A N C E S

FOR THE APPLICANT:

KELLAHIN & KELLAHIN
117 N. Guadalupe
P.O. Box 2265
Santa Fe, New Mexico 87504-2265
By: W. THOMAS KELLAHIN

* * *

WHEREUPON, the following proceedings were had at 10:07 a.m.:

EXAMINER CATANACH: Okay, call the hearing back to order, and at this time I'll call Case 13,473, the Application of RB Operating Company for a centralized facility with a common tank battery including surface commingling and off-lease measurement and storage, Eddy County, New Mexico.

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.

In association with this case we would like to present the same witness and similar exhibits for the next two cases and would like to present them as a single presentation.

EXAMINER CATANACH: Very good. At this time I'll call Case 13,474, the Application of RB Operating Company for a centralized facility with a common tank battery including surface commingling and off-lease measurement and storage, Eddy County, New Mexico.

And call Case 13,475, which is the Application of RB Operating Company for a centralized facility with a common tank battery including surface commingling and off-lease measurement and storage, Eddy County, New Mexico.

Let me call for appearances, additional appearances, in any of these cases.

Let the record show there are no additional appearances.

And has this witness been sworn in yet?

MR. KELLAHIN: No, sir.

(Thereupon, the witness was sworn.)

MR. KELLAHIN: Mr. Examiner, to keep the case files straight, I have provided the court reporter with individual packages of the exhibits so that in each of the three case files he'll have a complete set.

For purposes of the presentation, you have before you a foldout map. It's the same Exhibit 1 in each of the three cases. It also shows the three project areas. In addition, it shows information that RB Operating -- other properties that RB Operating operates in the area, so you can see the entire area that's involved. So that will be Exhibit Number 1 in all three cases.

Mr. Frey will go through with me the background and the basic concept using Exhibit 1, and then we'll move to his exhibits for each of the three cases, which are constructed and presented to you in substantially the same way. He will identify for you any points of major differences as he moves from one case to the next.

And when we get to the end, there will be a

certificate of notification for hearing. At the time these were sent out there was a separate application in each case sent to everybody, so the master notice list, I think, was maybe 80 people. And so each of those people got an application for each of the three cases.

When we go through the presentation of the cases, Mr. Frey has presented us with a tabulation of the owners affected by that case, so as we go through it you'll see how to subdivide the notice list.

And with that explanation, we're ready to proceed.

EXAMINER CATANACH: Go ahead.

WILLIAM FREY,

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

DIRECT EXAMINATION

BY MR. KELLAHIN:

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

A. My name is William Frey and I'm a consulting engineer for RB Operating.

Q. You spell your last name F-r-e-y?

A. Yes, sir.

Q. Have you testified before the Division Examiners on prior occasions?

A. No, sir.

Q. Summarize for us your education.

A. I graduated with a bachelor of science degree in petroleum engineering from Texas A&M University in December of 1981. Since that time I've been employed in the petroleum industry, working in various locations in Texas and California, and I'm a registered professional engineer in the States of Texas and California.

Q. And you reside in Fort Worth, you said?

A. Yes, sir.

Q. Is the work product we're about to present and the displays and engineering conclusions you're about to give Mr. Catanach your conclusions and your displays and exhibits?

A. Yes, sir.

Q. Have you familiarized yourself with the Division Rule 303?

A. Yes, sir, I have.

Q. And you're familiar with the Division Form C-107B?

A. Yes, sir.

Q. And have you also analyzed all the available data necessary for you to reach your conclusions about the information in this case?

A. Yes, sir, I have.

MR. KELLAHIN: We tender Mr. Frey as an expert petroleum engineer.

EXAMINER CATANACH: Mr. Frey is so qualified.

Q. (By Mr. Kellahin) Mr. Frey, let's start with what we've marked as Exhibit 1, and to orient the Examiner, let's take a moment and show him the three project areas. Let's start -- We'll just take the cases in the order they're presented on the docket.

If we'll look at the first case, which is 13,473, your project area, as I understand it, is the north half of 23; is that correct?

A. Yes, sir, that is correct.

Q. When we look at that project area, it is internally subdivided into various configurations with a different shading and apparently a different code as to what those tracts are?

A. Yes, that's correct.

Q. Let's take a moment and look at the north half of 23, and explain to Mr. Catanach what you mean by these three areas that have the different shadings.

A. Well, the different shadings represent different interest ownerships and the wells that are in those. As you can see, there's also a square that's colored in on each of those, which represent the tank batteries. And also the lines that are connecting the wells and those tank

batteries represent flow lines for each one of those areas.

Q. Let's start, then, in the north half of 23. Find us the black square that we have associated with this Application and have characterized as the centralized facility.

A. That would be the black square right above the well denoted as South Culebra Bluff 3 on this exhibit.

Q. It will be the black square on the exhibit that's immediately above a green dot?

A. Yes.

Q. Okay. Let's turn now to the area associated with Case 13,474. That area is contained in the southern portion of Section 23, as well as a certain portion of Section 26?

A. Yes, sir.

Q. Identify for the Examiner the acreage associated with that project.

A. The acreage would be the southern half of 23, as well as the northeast -- or actually the north half of the northeast quarter of 26. And the tank battery that we talk about would be the black square that's shaded in right next to the well which is the green dot denoted on this as Brantley Com Number 1.

Q. When we look at this project area, does it at this point include any of what would be the north half of

the southeast quarter of Section 23?

A. No, sir.

Q. Yeah. So the area associated with this project, then, is going to be the southwest quarter of Section 23 and the south half of the southeast quarter?

A. Yes, sir.

Q. And then you're going to move down into Section 26, and you're going to pick up the north half of the northeast quarter?

A. Yes, sir, that's correct.

Q. When we turn to the final case, it's going to be Case 13,475, and we'll find that over in Section 24, and that area will then be the southwest quarter of that section?

A. That is correct.

Q. When you look within that area of the display, identify for us what we're characterizing as the centralized facility location.

A. That would be the square that is not colored in, since it is proposed, which would be just west on this map of the well that is also proposed and thus not colored in, that is denoted as Brantley 24 Number 1.

Q. Let's talk about all three cases generally, starting off with what's your ultimate conclusion about these three applications. What are you trying to achieve?

A. What we're trying to achieve is a situation where we will be able to commingle the wells, despite the fact that they have diverse interest ownership, that we would be able to accurately measure those -- each well, through well tests and a proposed facility, thereby reducing the capital cost for RB Operating, as well as the operating costs associated with the production of these wells, which will, in turn, benefit the interest owners, as well as the State, by, through time, allowing us to be able to produce more oil, thereby -- because we'll be lowering the economic limit of these wells.

Q. By reducing the costs associated as the operator, then even if a royalty owner is being paid, the net effect is, you can prolong the life of the wells, produce them for a longer period of time, and the royalty owners will receive a royalty on production that might not otherwise be received?

A. That is correct.

Q. Can you give us a -- for this whole area, do you have an estimate of the magnitude of savings that your company be able to realize?

A. We've looked at the fieldwide --

Q. Yeah.

A. -- and it's about $2.4 million.

Q. When you talk about fieldwide, you're talking

about the area contained within the display shown on Exhibit Number 1?

A. Yes, sir.

Q. That would include projects other than the three that we're talking about this morning?

A. Yes, sir, that would.

Q. When you look at these other areas, in many instances this effort to save operating expenses by centralizing facilities can be accommodated within the context of the individual lease?

A. Yes, sir.

Q. For example, let's look at Section 12. In Section 12 you have a plan for drilling wells and using a centralized common tank battery, right?

A. That is correct.

Q. If that's accomplished here, you can do that without further approvals of the Division, can you not?

A. Yes, sir.

Q. So it's all common ownership going into a common tank and metered, measured and sold?

A. Yes, sir.

Q. And that would be true, in addition to the east half of Section 11?

A. Yes, sir.

Q. So as you study your total project area within

this field area, we've identified three areas, or you have identified three areas, in which your ability to take production and move it off-lease, store it and sell it is affected by that diverse ownership?

A. Yes, sir.

Q. And pursuant to Division Rule 303, you've gone through the necessary process to accomplish that?

A. Yes, sir.

Q. Let's look more specifically, then, at the north half of Section 23. Let's give Mr. Catanach an illustration of what you're trying to achieve. If you'll look at the north half of Section 23 and look over in the west half of the northeast quarter, you'll see superimposed a shaded red area within a red square? See that?

A. Yes.

Q. What does that red square and that shaded area in red represent?

A. That is the proration unit around the SCB 23-15.

Q. That's that drilling-unit concept?

A. Yes, sir.

Q. Where Mr. Catanach earlier today heard RB Operating's plan to have an increased-density well?

A. Yes, sir.

Q. Let's look at that well location. You intend to take that production from that well and move it off-lease?

A. Yes, sir.

Q. And it will go, then, to a common centralized facility and be measured?

A. That is correct.

Q. Why not put the battery facilities at that well location itself?

A. Well, that was one option that was considered. Another option that was considered was to take it over to the SCB 23-4 battery, which is also a common ownership. But we opted after discussions with the land owner -- at his request -- we opted to honor his request, which was to take that flow line along a road that was already built to the location and move it over to the -- follow that road and move it over to the SCB 3-B battery, which would disturb less of his surface usage land, which is farmed currently.

Q. Is it your belief that RB Operating and its employees have good working relationships with the surface owners?

A. Yes, sir.

Q. And you're doing your best to accommodate their desires to utilize their land in a way that's not adversely impacted by your operations?

A. Absolutely.

Q. And that's an example here?

A. Yes, sir.

Q. Let's talk about all these projects in terms of your satisfaction as an engineer that you're accurately and correctly measuring production and that it gets properly attributed back to the owners of that production. Have you come to that conclusion?

A. Yes, sir, we have.

Q. Set the locator map aside, and we'll keep it available so you can help orient us if necessary, and let's turn to what is marked as Exhibit Number 2, and it will be Case 13,473, and let's start with that display. What are you showing here, Mr. Frey?

A. We are showing the wells that are currently -- that are being proposed to be produced into the SCB 3-B tank battery. We have the wells listed; they are all in Section 23. We have the units that each well is in, as well as the API number for each well. Also summarized on this slide is the oil rate, gas rate and water rates that we have currently, as well as the cumulative oil produced for each well, the cumulative gas produced for each well and the cumulative water produced for each well.

We also have the oil gravity in degrees API. And one thing worth noting on this slide is that the API gravity of the oil is very constant among all the wells here, so that the value of the oil will be approximately

the same for each well.

Q. Have you looked at that issue with regards to the other two cases?

A. Yes, I have.

Q. Is there any range of gravity for these fluids that if they're commingled on the surface you have reduced the value of your product?

A. No, sir, the ranges are close enough that there won't be any change in value.

Q. Let's turn to Exhibit 3 in this exhibit set. Is this Exhibit 3 a similar exhibit to the other exhibits in the other two cases?

A. Yes, sir. There are some minor changes in terms of tanks, number of tanks, but in general the concept is the same.

Q. Let's use this display, and we'll go through it in detail about how this is supposed to work, and when we talk about the next two cases you can point out to Mr. Catanach the points of difference that matter.

A. All right.

Q. Starting off with the display and looking, I guess, at the southwest corner of the display in the lower left, at this point you have your production coming into the common facility?

A. Yes, that's correct.

Q. Start from that point and walk us through how this is supposed to function.

A. Okay, the lower left-hand corner of the display shows -- it's title "inlet" down there, there's a -- it shows the flow lines coming in from each well where they will come into a header. The purpose of this header is to divert the flow of each well either into a pool line or a test line.

Most of the time, most of the production, with the exception of perhaps one well, will be going into a pool separator, and I'll follow that flow through first.

As we go through into the pool separator, the gas is driven off, gas will come out into a gas sales line where it will be metered prior to sale. The oil and water that is remaining will go from the pool separator into the pool heater. And at this pool heater, again, there's some separation. A little bit of gas will come out and will also go through a gas meter and will be added to the gas sales volume.

The oil and water will be split out in this vessel with the oil [*sic*] proceeding out to the 500-barrel water tank where it will be later disposed into our water disposal system, and the oil will then travel to one of the 500-barrel tanks. And these will be sold through truck sales.

Q. At this point, when you start to utilize the three 500-barrel tanks, there's no reason to further separate the product?

A. No, sir.

Q. Each of the three tanks is not necessarily unique to that product?

A. That is correct.

Q. So once we get to that point, then, you simply distribute it to the tanks for the purposes of providing a facility for the sales trucks to gather the product and move it off-lease or off --

A. That is correct.

Q. -- offsite? Okay, continue.

A. Okay. Now, typically one well will be going through a test line, where it will undergo a 24-hour test. And that particular well will go into a test separator where again the gas will be driven off and go through a meter and then will be combined with our sales stream.

The oil and water will come out of the test separator and go into a test heater. We'll have a little bit of gas again being separated there, which will be combined with the gas that's driven off from the test separator.

The water in the test heater will be divided from the oil. The water will go and be dumped out through a

water meter into the water tank, where it will then be disposed later in our disposal system.

The oil will go directly into an oil test tank, and we feel like this oil test tank is the most accurate form of measurement. It's the industry standard for even selling oil, using tank and tank strippings.

Once we gauge that well's production for the day, we'll record that oil volume, as well as the water volume, as well as the gas volume, and use those tests -- those daily tests will be summarized for all the wells that are being tested, and at the end of the month that volume will be reconciled with our sales volume for the whole battery, and therefore we will be able to accurately allocate the production for each well, back to the well that it came from.

Q. This may repeat itself, Mr. Frey, but take me again at the oil test tank, and if I walk my way back through the diagram are you proposing that an individual well's production would go up to the oil test tank, or do we have multiple producing wells taking their production and taking it to the test tank?

A. Just one well each day will go to that test tank, and then the next day a different well will be put into the test tank, and we'll measure the difference in the oil levels to come out with exactly how much oil is produced

that day.

Q. So you're not commingling the production and, based upon something else, allocating it back to the individual wells? The individual well itself, that production is tested and allocated back to that well?

A. Yes, sir.

Q. Describe for us the rest of the display.

A. Okay, then the rest of the display will allow us just to take the oil test tank and be able to put it back into the sales arena, if you will, into the oil tanks, where it's simply taking a transfer pump, pumping the oil back out of the oil test tank and reintroducing it into the pool separator so that we can eventually put it into the oil tanks for sale.

Q. Mr. Frey, if your family had an interest in this production, would you be satisfied with the accuracy and the reliability of having your family receive proceeds based upon this matter?

A. Yes, sir.

Q. When we look at that portion of the Application where you've asked for an administrative procedure for adding pools or wells, are you describing that within the north half of Section 23 you want administrative procedure?

A. Yes, sir.

Q. Describe for us what you're attempting to

accomplish with an administrative procedure.

A. Well, an administrative procedure will allow us to easily apply for other wells that may perhaps be in a different zone, or also any subsequent wells that will be drilled --

Q. So long as they remain confined to the north half of Section 23?

A. Yes, sir.

Q. And would you accomplish that through a hearing process?

A. I'm not sure I understand your question.

Q. You don't want to have to have another Examiner Hearing if you add an additional well or complete in another pool, do you?

A. That's correct, sir.

Q. Have you examined Division Form C-107B?

A. Yes, sir.

Q. Do you believe you could utilize that as an operator, to notify the Division that you are adding additional wells or additional pools to your centralized facility in this case?

A. Yes, sir.

Q. Are you proposing to eliminate the need for providing additional notices to any of the owners in the north half of 23, to do this?

A. Yes, sir, I believe that if they would agree to having their oil measured by this method that it would also apply to other zones, or also new wells.

Q. Have you received any objection from any interest owner that objects to the current proposed method for the wells and the battery system that you now have applied for approval for?

A. No, sir, I haven't received any.

Q. You're aware that the Division has received some letters concerning the addition of future wells to the project?

A. Yes, sir, I have seen those.

Q. Do any of those letters describe for you what is the nature of their objection?

A. No, sir.

Q. Do you see any need to have further regulatory hearings in order to make additional wells eligible for this project area, or additional pools eligible?

A. No, sir, I don't think that would be necessary.

Q. Do you think there's anything achieved that's useful to require notice to additional -- to owners of the addition of additional wells?

A. No, sir.

Q. Let's turn now, at this point, Mr. Frey, and have you identify for the record Exhibit Number 4 in this case.

A. Exhibit 4 is basically a narrative of the description of the process flow through a typical battery, which we just kind of went over in the last exhibit.

Q. This is your written summary of what you just described in the last exhibit?

A. Yes, sir.

Q. Let's turn past that and look at Exhibit 5. What are you representing here?

A. On cost reduction, this summarizes some of the slides that I'm about to present, some of the exhibits that we'll be looking at. Basically talks about how much money we would save by not having to install extra tank batteries if an order to commingle was approved.

Q. Let's move past the written summary, and let's talk about the displays themselves. Starting, then, with Exhibit 6, what are you illustrating here?

A. Exhibit 6 lays the groundwork for what a typical battery, tank battery, would cost, including an itemization of each of the pieces of equipment that would be out there and also the estimated labor that it would take to put these batteries together.

Q. And what is meaningful about this in terms of Mr. Catanach's decision?

A. Well, this will allow the -- this particular item will show, in combination with the amount of tank batteries

that we would have for all proposed projects that we foresee at this time, would kind of give the magnitude of the overall cost savings.

Q. This, then, is the starting point for how you got your economic conclusion that this entire project can result in a savings of about $2.5 million?

A. Yes, sir.

Q. So this is the starting point for the individual costs of a battery system?

A. Yes, sir.

Q. Let's turn, then, and see how you've taken this information and reached a project-wide cost associated with it, starting with Exhibit 7.

A. Exhibit 7 gives an estimate of the number of projects that could be out there, the number of development wells in the Brushy Canyon, the number of development wells in the Bone Springs, and also some potential Morrow projects. These are potential projects that we see that could possibly happen, and I've used an estimated cost, which is on Exhibit 6, for the development wells that will produce the oil.

And then I've also got a different estimate for wells that just produce gas only. But when I take the number of projects and multiply it by the estimated cost for each of these types of batteries I come up with a total

in the right-hand column which the total for the project is approximately $2.4 million.

Q. Can you take this information now and relate it back specifically to the tank-battery project we're looking at in the north half of 23?

A. Yes, sir.

Q. Do you have that shown on Exhibit 8?

A. Yes, that is in Exhibit 8, which specifies the typical tank battery. As you'll notice, this number of the estimated cost of $132,600 is slightly different than we saw in the previous two exhibits of $123,200, because we have an extra oil tank at the SCB 3-B battery, so it's slightly higher.

But without commingling we would have to require tank batteries at the following locations, which relate to the wells that would enter into this proposed SCB 3-B tank battery, that is, SCB 23-4, SCB 23-13, the Donaldson Com A-1, the SCB 3-B well, and the SCB 23-15, for a total cost of $453,200.

So if we take the difference between those, we'd see a savings of $320,600, just for this SCB 3-B proposed tank battery.

Q. Following that is -- marked Exhibit 9, is the notification of this hearing. And attached to that exhibit is a two-page list of names and addresses. Are these the

interest owners associated with the project that's in the north half of Section 23?

A. Yes, sir, it is.

Q. Let's turn at this point, Mr. Frey, to the next case, which is 13,474, and look at what you call the Brantley tank battery.

A. Okay.

Q. Starting with what is Exhibit 2 in this case, what are you representing here?

A. Again, this is similar to what we saw in the first case. This shows the summary of wells that would be entering into a proposed tank battery at the Brantley.

And again, something to point out on this slide would be the API gravity for the oil in these various wells, ranging from 41.1 to 42.6. And again, this variation in gravity would not change the actual amount received for the oil that would be sold.

Q. And when we look back on Exhibit 1 for reference and look at this project area for the Brantley centralized facility, you see the facility itself located down in the southeast quarter section of the northwest quarter --

A. Yes, sir.

Q. -- of -- that's going to be down -- I'm sorry, it's the southwest of -- southeast of the southwest of 23?

A. Yes, that's correct.

Q. And now if you look at that facility and move down to the northeast northeast of 26, there is the Merland 26 Number 2 location?

A. Yes, sir.

Q. If you're not allowed to take the oil off-lease and measure it and store it off-lease, then you would have to put a battery facility at that well location?

A. That is correct.

Q. And that would be one of the examples where you would have to spend $123,000?

A. That is correct.

Q. And by allowing that production from that well to go to the centralized facility off-lease, you could realize a savings to the working interest owners of approximately that amount?

A. Yes, sir.

Q. Let's turn now to the details of the battery and look at Exhibit 3. Taking your basic facility that you described in the last case for Mr. Catanach, have you taken what you propose for the Brantley tank battery and adjusted the exhibit accordingly?

A. Yes, I have.

Q. Describe for Mr. Catanach what changes in this display are material to him when he compares he learned in the last case to this case.

A. They're very similar. The only difference would be an extra oil test tank and also an extra water tank.

Q. And why are you recommending those be installed?

A. Well, actually these three are an existing battery, and so we would just propose these other tanks to make it easier, instead of moving -- going to the expense of moving these tanks out to another location. So we're in essence building around a tank battery that already exists, in part.

Q. The add-ons that are to increase the capacity of this facility to take the additional production from the wells off-lease?

A. Yes, sir.

Q. Turn to Exhibit 4 in this exhibit set. Again, this is your written summary of what you describe to be a typical flow process through the battery system?

A. Yes, sir.

Q. And following that is the cost analysis?

A. Yes, sir.

Q. Let's pick up, then, with Exhibit 6 in this package set. Again, we're looking at the same display as we looked at in the last case?

A. Yes, sir.

Q. And then Exhibit 7 is the same?

A. Yes, sir.

Q. And then -- we're at Exhibit 8, and there's some differential here?

A. Yes, sir. Exhibit 8 shows the total cost savings for the Brantley tank battery if commingling was permitted. The total, because of the extra equipment there, was $142,000. Without commingling, tank batteries would be required at the SCB 23-2, the SCB 23-1, the SCB 23-14, the SCB 23-9, the Merland Number 1, and the Merland Number 2, both of those last wells being in Section 26, for a total cost of $576,400. The total savings, therefore, would be the difference between those two figures, which is $434,400.

Q. Turning to Exhibit 9, attached to the notice of hearing is a two-page list. Are these the interest owners associated with the Brantley tank battery that we've been describing here?

A. Yes, sir, they are.

Q. Again, for this project area you're seeking the same type of administrative procedure where you would not be required to send additional notices or have a hearing to add wells or add wells -- production from different pools within the area described within the Application for this case?

A. Yes, sir, that's correct.

Q. Let's turn to the last case then. We're dealing

with the southwest quarter of Section 24, and we're looking at Case 13,475. And going back to Exhibit 1, Mr. Frey, what is the current status of the wells for this project area?

A. These are currently proposed wells that have not been drilled.

Q. And part of the plan for the drilling and development would be the plan to utilize this common facility which you've identified as the Brantley 24 tank battery?

A. Yes, sir.

Q. Let's describe, after Exhibit Number 2 on this exhibit set, we're now looking at the schematic of the tank battery for the Brantley 24 that's Exhibit 3 to this case. Describe for Mr. Catanach if there are any material differences in this schematic for this battery as opposed to the other two.

A. There is a slight difference. There's only two oil tanks set at this one for sales. Everything else would be very much the same.

Q. Exhibit Number 4 in this case is the written summary of how the flow process through the battery was intended to function?

A. Yes, sir.

Q. And following that is Exhibit 5, the cost

discussion?

A. Yes, sir.

Q. And then 6 is the same display we saw in the other two cases?

A. That is correct.

Q. And Exhibit 7 is the total fieldwide cost advantage?

A. Yes, sir.

Q. And then finally, let's spend some time on Exhibit 8, which is unique to this tank battery.

A. Yes, sir. Exhibit 8 shows again the itemization of equipment that would be used for a proposed tank battery. Without commingling tank batteries, we'd be required at the Brantley 24-1 and then also at the Brantley 24-3 -- No, I'm sorry, 24-2. What I'm noticing too is, the number of wells should actually be a three instead of a two, but it will not change the overall economic analysis.

The total for this cost would be $205,700, versus the cost of a typical tank battery, which would be $123,200, which means that we'd have a total savings for this particular proposed tank battery of $82,500.

Q. Are your ultimate conclusions for this Application the same as you have for the other two?

A. Yes, sir, they are.

Q. That in each of the three cases the production

will be accurately metered and allocated back to the appropriate wells?

A. Absolutely.

Q. And that each of the appropriate owners will receive their fair and appropriate share of the value of that production?

A. Yes, sir.

Q. And that the value of the production is not compromised by the commingling?

A. That's correct.

Q. And you would be happy to have your money receive any share of production utilizing this method?

A. Absolutely.

MR. KELLAHIN: That concludes my examination of Mr. Frey, Mr. Catanach. We would move the introduction of all of his exhibits, and I've lost track of the numbers. I'm not so good with numbers.

EXAMINER CATANACH: Is it 1 through 9 in each case?

MR. KELLAHIN: I believe that's correct. Yes, sir, 1 through 9.

EXAMINER CATANACH: Okay, Exhibits 1 through 9 in each of these cases will be admitted.

For the record, in Case 13,473 I personally received correspondence from Claiborne M. Power. And the

other one -- What's the first name on that? Do you guys know? The Hayes?

THE WITNESS: Is it Mittie Beth Hayes?

EXAMINER CATANACH: Yes, Mittie Hayes. I did receive correspondence from those two parties. And I believe -- let me double-check, but I think in each of these cases -- Yes, in each of these cases I've received correspondence from these two parties, and essentially they note that they are not opposed to the commingling that you propose today. They are opposed to adding future wells to these facilities.

Okay.

EXAMINATION

BY EXAMINER CATANACH:

Q. Mr. Frey, these are all fee leases, right?

A. I believe that's correct.

Q. Now, if I want to know the different ownership between these leases, can I find that on Exhibit Number 1? For instance, if I look at the north half of Section 23, you've got what looks to be three different areas outlined?

A. Yes, sir.

Q. Now, can I assume that those are three different fee leases; is that correct?

A. I believe so. But what I would say to clarify that would be that there are different divisions of

interest. In other words, the areas that are common show common interest in the wells.

Q. So the area, say, that -- with each stippled pattern, those would represent the same ownership?

A. Yes, sir, that's correct.

Q. And the same is true for the Brantley, you've got essentially -- Now, let me ask you about the Brantley. The area in the northwest quarter of Section -- I'm sorry, the southeast of the southwest of 23 --

A. Yes, sir.

Q. -- that green area, is there a well to be commingled from that area?

A. Currently there's a 23- -- SCB 23-14 is the well that's in that area right now.

Q. Okay. So within that Brantley tank battery there's going to be six different ownership tracts?

A. Yes, sir, that's correct.

Q. Okay, and then on the battery in Section 24, you're going to have again three different ownership tracts?

A. Yes, sir, that's correct.

Q. Okay. Do you know about the status of the working interest in that area? Is it all RB Operating?

A. I'll have to defer to the landman on that, but I believe that Chesapeake has an ownership in those too. I

think that's on our list. I can check that real quick.

MR. KELLAHIN: We have a witness that can verify it for you, Mr. Catanach, but I will represent to you his testimony will be that this is the same type of ownership between Chesapeake Permian and RB Operating as you saw in the first two cases this morning. Those are the two operators for these properties.

Q. (By Examiner Catanach) Is that true throughout the area?

MR. KELLAHIN: Yes, sir.

THE WITNESS: Yes.

EXAMINER CATANACH: I'll tell you what, Mr. Kellahin, after the hearing could you prepare some kind of a description of each lease on each of these things?

MR. KELLAHIN: We'll do that, we'll provide you with a breakout that will show you the interests for each of the tracts within the project area.

EXAMINER CATANACH: Okay, that will help.

MR. KELLAHIN: We'll do that.

Q. (By Examiner Catanach) Okay, on the -- I'm sorry, let me see -- the north half of Section 23, that's where you guys are proposing to drill that Number 17 well, right?

A. Yes, sir.

Q. Okay. What are we doing with that well, as far

as -- are we taking the production from that well into the tank battery, the common tank battery?

A. It will go to one of the two, and at this time I'm not sure which, but I would probably guess at this time it would go to the 3-B, which would be commingled there. And the reason I'm saying that is because to the south -- in other words, if it had to go to the Brantley battery to the south, that would cross farmland, and we don't want to disturb that.

I believe the path from 23-17 up to the SCB 3-B is not farmland currently, and so we would be less disruptive on our surface interest owners.

Q. Okay, that well is not included in your Application at this time; is that correct?

A. That is correct.

Q. Okay. So if you want to commingle that, you're going to have to add that later on, right?

A. Yes, sir.

Q. Okay. Let's go over a typical tank battery facility, Mr. Frey, and see -- I have a couple of questions.

When the production goes into the pool separator and then subsequently into the pool heater, that oil production is not metered after that process, right?

A. Well, it will go into an oil tank, so it will be

metered in the tank.

Q. So you're not metering anything, you're just gauging the tanks; is that correct?

A. Yes, sir, that's correct.

Q. Why is that? Do you prefer -- Why aren't you guys putting any oil meters in this facility?

A. Well, actually we believe that's the most accurate way, is to gauge the tanks, and that is acceptable and actually preferred industry status for selling the oil. So we believe that we can get a more accurate number through that.

The kind of meter that you would probably put there -- there's probably two types of meters that you may put there. One would be a turbine meter, which is inaccurate -- it's subject to inaccuracies if your flow through that meter is not at a constant speed. And by the nature of the dumps on the heater treaters you're going to see a variation in speed, and that's going to lead to inaccuracies in the turbine meter.

Also another source of problems in the turbine meters are any solids that carry through with the oil and/or water. If any sand gets stuck in that little turbine it will lock up, and then you'll have barrels that go through there that won't be counted.

So we felt like the most accurate way was to

actually test into a tank.

Q. And those are just gauged -- how often are they gauged?

A. Those are gauged daily.

Q. Okay, you've got a gas meter on the test separator for the gas, right?

A. Yes, sir.

Q. And you've got a separate gas meter measuring the pool gas?

A. Yes, sir.

Q. And then those go into a sales meter?

A. Yes, sir.

Q. Somewhere on this facility?

A. I'm not sure of the exact location, but it is on the lease.

Q. Okay.

A. I think a lot of our -- our gas-sales system out here is a little different in the fact that most of the meters are collected actually very close to the 3-B tank battery. So this one actually would be very close to the source of the production, whereas I believe some of the others may not be.

Q. Okay, you testified that at least one well -- I'm sorry, one well will be tested per day on a 24-hour basis?

A. Yes, sir.

Q. And that's every single day?

A. That's every single day.

Q. So typically during a month these wells may get tested what, six, seven times?

A. That's possible, that's certainly possible.

Q. And then you just take what, an average of that production?

A. Well, for production you'll reconcile that to the overall oil and gas that is sold from that facility.

So in other words, if you have your test, in fact, you would average that for the well, for each well. Then you would reconcile that total to the total that was sold. And then that would be allocated back to each individual well, to get an accurate representation of what each well is actually making.

Q. Okay. And that has to be manually switched every day by someone?

A. Yes, sir, an operator will come by every day and do that. He will gauge the oil tanks and also the oil test tank.

Q. And the producing rates on these wells don't vary all that much at this point, right?

A. No, sir, they don't. We also keep track of days where a well is -- say, has a downhole failure or for some reason is not able to produce. We also keep track of the

amount of days that a well is off production for a month, and that will be also factored into the equation.

Q. Is there a process whereby if you add some bad numbers you would recognize that and you would somehow try and reconcile those numbers?

A. Yes, sir, every test that we take, the operator has the -- and also the engineer has the option to call it a good test or a bad test. And if for some obvious reason it's not an accurate test, then that would be discarded from the equation.

Q. Okay. Now, with regards to your cost savings, are you guys going to dismantle any existing tank batteries?

A. Absolutely, we're going to re-use that equipment and move it to other locations as we drill wells and as we need to.

Q. So currently, at this time, some of these wells have their own tank batteries; is that --

A. Yes, that's correct.

Q. And you're just consolidating everything?

A. That is correct.

Q. So how would that -- If a well has an existing tank battery, how would that figure into your cost savings if you don't have to build another battery? You counted that as cost savings, didn't you?

A. Yes. We will have to build tank batteries for other wells that we drill. So for instance, if you look in Section 13, in the western half, there's a tank battery right now, which we call the 5-B battery, that's being built to accommodate all those wells over there. We've essentially used recycled equipment and designated that to be assembled at that location, to service all those wells. And the out-of-pocket savings will be equivalent to the numbers that are set forth in Exhibit 6.

Q. Okay. Now, in terms of the areas that you've got outlined for each of these three different projects, is it possible that that's going to change, that you may add a well outside of the area?

A. No, sir, I don't believe so.

Q. So these are pretty much set?

A. Yes, sir.

Q. So all you're going to be doing in the future is adding wells, probably within the areas that you've got designated?

A. Yes, sir.

Q. Okay. So you're not -- if you add a well, you're not going to add an interest owner that has not been notified?

A. That is correct.

Q. Could the interest ownership change?

A. I'd have to let somebody else speak to that, but I guess that's possible if there's a sale of it.

Q. So the administrative process that you guys have planned would be simply to file the Form C-107A; is that your opinion?

A. I'm not familiar with --

Q. I'm sorry, the C-107B?

A. Yes, sir, C-107B would be the form that we would notify the Division on.

Q. Okay, and you're requesting that you not be required to give additional notice to any interest owners?

A. That's correct.

Q. And your reasoning behind that is because you've notified them of this case, and nobody had any objection?

A. That is correct.

Q. Do you know why these interest owners that have written the Division might have a concern about adding wells in the future?

A. No, sir, I believe that since they believe that the current proposed system is fair and accurate and would not materially harm their interest, that it would be a very logical extension to say that any future work that we do in terms of adding either zones or wells would also fit under those guidelines. So I can't see why they would approve the current situation and not approve any future changes.

Q. Do you guys consider that to be -- I guess unnecessary, is what you're saying?

A. Yes, sir.

Q. Is it unreasonable? I mean, it seems to me that you -- having -- knowing these interest owners, I mean, simply a matter of just providing them with something wouldn't be unreasonable.

MR. KELLAHIN: May I respond, Mr. Examiner? Here's the problem: They can't tell us what's wrong with our request for an expansion. They have no objection to what we're doing now. What happens under your process, if we file administratively, send them notice, they send you another letter saying they don't like it. We then are set for hearing and are exposed to the problem of having to come by for another hearing and find out that they have no meaningful objection.

So if they care, they should be here today. If we send them notice in the future, it's just an excuse for delay. They didn't call us, no one has talked to us, we have no understanding of what it is they care about. I think they've simply misunderstood the Application.

What we'd like -- what we're proposing to do is to utilize C-107B and have you remove the obligation to send further notice to this interest group. It's in the same area, same wells. If a new well is added, it's in the

same geographic area. I can't see that it matters one bit except to us, in that it exposes us to delay.

EXAMINER CATANACH: Okay. Well, we'll give it some consideration.

I think that's all I had. Yeah, that's all I have.

Anything further?

MR. KELLAHIN: That's all we have.

EXAMINER CATANACH: Okay, there being nothing further, Cases Number 13,473, 13,474 and 13,475 will be taken under advisement.

And with that, this hearing is adjourned.

(Thereupon, these proceedings were concluded at 11:06 a.m.)

* * *

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 13473, 13474, 13475 heard by me on April 21, 2005.

Daniel R. Catanach, 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 24th, 2005.

STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006