

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:

ORIGINAL

APPLICATION OF BTA OIL PRODUCERS, CASE NO. 15178
LLC FOR APPROVAL OF A WATER
DISPOSAL WELL, LEA COUNTY,
NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

August 21, 2014

Santa Fe, New Mexico

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BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER

This matter came on for hearing before the
New Mexico Oil Conservation Division, Michael McMillan,
Chief Examiner, on Thursday, August 21, 2014, at the
New Mexico Energy, Minerals and Natural Resources
Department, Wendell Chino Building, 1220 South St.
Francis Drive, Porter Hall, Room 102, Santa Fe,
New Mexico.

REPORTED BY: Mary C. Hankins, CCR, RPR
New Mexico CCR #20
Paul Baca Professional Court Reporters
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1 APPEARANCES

2 FOR APPLICANT BTA OIL PRODUCERS:

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1 (8:49 a.m.)

2 EXAMINER McMILLAN: Now, if you will turn
3 to page 5, Case 15178, application of BTA Oil Producers
4 for approval of a water disposal well Lea County, New
5 Mexico.

6 Call for appearances.

7 MR. BRUCE: Mr. Examiner, Jim Bruce of
8 Santa Fe representing the Applicant. I just am here to
9 submit some documentation, make a brief statement and
10 respond to any questions of the Division.

11 EXAMINER McMILLAN: Okay.

12 MR. BRUCE: Mr. Examiner, as I think you're
13 aware, this case was filed as a saltwater disposal well
14 application. The case was filed administratively. Two
15 things happened. The surface owner objected to the
16 application, and also there was some claim by the State
17 Land Office for lost royalties.

18 What I've handed you, first of all, is
19 Exhibit 1, which is just some documentation from the
20 Division's file on the subject well, the Brian 8036 J-VP
21 Well No. 1, which was drilled 25 years ago and completed
22 in the Atoka Formation. It is still producing
23 marginally from the Atoka Formation.

24 The reason for this application, the
25 administrative application, is that BTA is in the

1 process of drilling Bone Spring wells in this area, and
2 obviously they produce a lot of water, and they need
3 disposal capability. And I'll get into that in a
4 minute.

5 Exhibit 2 is a letter from the State Land
6 Office to BTA -- and I think they did file something
7 with the Division -- where some guy named Terry Warnell
8 at the Land Office --

9 EXAMINER McMILLAN: Oh, that's funny.

10 MR. BRUCE: -- basically said, Well, if you
11 pay us what we consider to be the last royalties on the
12 well, then that's no problem. I would ask you to look
13 at the second page of that exhibit where Mr. Warnell
14 contains some production data. As you'll notice, the
15 well is a marginal producer. At most these days, it's
16 producing about 300 mcf, ten a day. I figure that the
17 State's lost revenue is about \$160 per month, assuming a
18 flat rate for the next five years. But the State
19 requested a payment of approximately \$10,000.

20 Exhibit 3 is simply the receipt -- a letter
21 and receipt -- a letter to the Land Office and a receipt
22 signed by them showing that they have paid that amount.
23 And so the State Land Office, which is the mineral
24 owner, does not object to this saltwater disposal well.

25 And Exhibit 4 is simply the letter from the

1 attorney for the surface owner, the lime stock --
2 Limestone Livestock, LLC withdrawing their objection.
3 They've come to terms regarding the operation of the
4 saltwater disposal well.

5 And I just wanted to make a few comments.
6 And certainly we will provide any more information the
7 Division wants, but as I said, this is a marginal well
8 being converted to reduce disposal costs for the Bone
9 Spring wells that will be drilled. We had one of these
10 here two months ago, and depending on the water
11 produced, if you don't have a saltwater disposal well
12 and you have to truck it, disposal costs can be anywhere
13 from 3- to \$6,000 a day. And so if you don't have a
14 disposal well, which cuts those disposal costs
15 massively, you're losing a lot of revenue. And, of
16 course, that revenue is also deducted from the royalty
17 share of income. And so I think the mineral owners,
18 looking at lost revenue, they should consider the whole
19 picture and economic loss.

20 So if the State's getting 160 bucks a
21 month, they will more than make that up by reducing the
22 disposal costs from this well -- or by converting this
23 well to saltwater disposal so that when BTA drills its
24 Bone Spring wells, instead of having disposal costs of
25 3-, 4-, 5,000 bucks a day, it'll probably be

1 substantially less than \$1,000 a day, and that, of
2 course, affects revenue not only to the working interest
3 owners but to the royalty owners.

4 So I think my point on these wells -- or
5 these marginal wells being converted, the State -- if
6 the conversion doesn't occur, the State's royalty, and
7 for that matter any other royalty owners' revenues, will
8 be reduced substantially more than that 160 bucks a
9 month that the State Land Office is supposedly losing
10 over shutting off the currently marginally productive
11 zone in this well. I think the BTA is acting as a
12 reasonable operator in doing this because it is, in
13 effect, making more money for everyone. And I don't
14 think you can look at prevention of waste by requiring
15 an operator to get every ounce of gas and teaspoon of
16 oil out of a reservoir before it's abandoned.

17 But I know Mr. Goetze had requested some
18 data regarding the last royalty, et cetera. That is no
19 longer an issue with the State. I believe you had
20 suggested leaving this on the docket because it might
21 get quicker attention than the five-foot tall pile of
22 SWD applications sitting somewhere inside the Division.

23 EXAMINER McMILLAN: Yes. That's all
24 Phillip Goetze does.

25 MR. BRUCE: But if the Division wants any

1 more backup information, I just ask that the
2 administrative file be incorporated in the record and
3 the case be taken under advisement, or if there is any
4 additional data that the Division may want after looking
5 at this, we can certainly continue the case for a couple
6 of weeks just to have it.

7 EXAMINER McMILLAN: So basically you paid
8 the -- or excuse me. Your client, BTA, paid the State
9 Land Office 9,800 bucks?

10 MR. BRUCE: Yes.

11 EXAMINER McMILLAN: Well, the question is:
12 How are you going to handle the \$78,000 total of lost
13 revenue without inducing waste and converting to the
14 saltwater disposal well? We understand what you're
15 saying, but we can't really make a ruling until we
16 actually see, you know, the economic justification of
17 what that well could make.

18 MR. BRUCE: Okay. And I will certainly
19 provide that. I could probably have the engineer do
20 that.

21 EXAMINER McMILLAN: Yeah. We want -- it
22 has to be from an engineer.

23 MR. BRUCE: That's fine. And Nick Eaton is
24 their engineer, and I will get him that data -- or I
25 will ask him to give me that data.

1 One thing I would note is that, you know,
2 this well is under a JOA. BTA has numerous working
3 interest owner partners, but it's governed by the JOA.
4 So all the working interest owners are in on this under
5 a JOA, so they're not complaining of any lost revenues.

6 EXAMINER McMILLAN: Okay. But our job is
7 to make sure we're not inducing waste.

8 MR. BRUCE: And that's what I said. There
9 was testimony as to this effect in the prior hearing.
10 And I don't have the case number, but I will give you
11 data on this. But like I said, in the prior case, it
12 was virtually the same. BTA was going to drill,
13 initially, four Bone Spring wells. Just the 1st Bone
14 Spring well alone had disposal costs of 4- to \$6,000 a
15 day. And so obviously they're drilling three more
16 wells. They're looking at \$20,000 a day in disposal
17 costs, which would go down to about \$2,000 a day, maybe
18 not even that, with a disposal well. So right there
19 you're looking at -- 18,000 times 30 days in a month,
20 you're looking at close to half a million bucks.

21 EXAMINER McMILLAN: Okay.

22 MR. BRUCE: So that's the basic economic
23 justification. But I will get that information.

24 EXAMINER McMILLAN: We need hard -- we
25 want -- we want an engineer's justification for it.

1 MR. BRUCE: Okay. Why don't we continue
2 the case for two weeks?

3 EXAMINER McMILLAN: Well, why can't you get
4 the engineer to give us the data?

5 MR. BRUCE: Oh, I will do that.

6 EXAMINER McMILLAN: Like I said, we want --

7 MR. BRUCE: We can give it to you in a
8 heartbeat.

9 EXAMINER McMILLAN: We want justification
10 from the engineer stating that.

11 MR. BRUCE: Okay.

12 EXAMINER McMILLAN: And with that in mind,
13 that case can be taken under advisement, and Exhibits 1
14 through 4 are now part of the record.

15 (BTW Oil Producers, LLC Exhibit Numbers 1
16 through 4 were offered and admitted into
17 evidence.)

18 MR. BRUCE: Thank you, Mr. Examiner.

19 EXAMINER McMILLAN: Thank you.

20 Okay. So with that in mind, Docket Number
21 26-14, on August 21st, 2014, is adjourned.

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

_____, Examiner
Oil Conservation Division

1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

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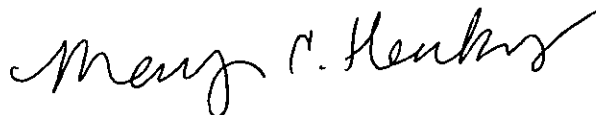
4 CERTIFICATE OF COURT REPORTER

5 I, MARY C. HANKINS, New Mexico Certified
6 Court Reporter No. 20, and Registered Professional
7 Reporter, do hereby certify that I reported the
8 foregoing proceedings in stenographic shorthand and that
9 the foregoing pages are a true and correct transcript of
10 those proceedings that were reduced to printed form by
11 me to the best of my ability.

12 I FURTHER CERTIFY that the Reporter's
13 Record of the proceedings truly and accurately reflects
14 the exhibits, if any, offered by the respective parties.

15 I FURTHER CERTIFY that I am neither
16 employed by nor related to any of the parties or
17 attorneys in this case and that I have no interest in
18 the final disposition of this case.

19



20

21 MARY C. HANKINS, CCR, RPR
22 Paul Baca Court Reporters, Inc.
23 New Mexico CCR No. 20
24 Date of CCR Expiration: 12/31/2014
25