

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 BP AMERICA PRODUCTION)
COMPANY FOR SURFACE COMMINGLING AND)
PRODUCTION FROM ALL FORMATIONS AND/OR)
POOLS IN THE GALLEGOS CANYON UNIT FROM)
EXISTING AND FUTURE WELLS, SAN JUAN)
COUNTY, NEW MEXICO)

CASE NO. 13,842

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: WILLIAM V. JONES, JR., Hearing Examiner

December 13th, 2006

Santa Fe, New Mexico

2006 DEC 27 PM 2 54

This matter came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, JR., Hearing Examiner, on Wednesday, December 13th, 2006, 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

December 13th, 2006
 Examiner Hearing
 CASE NO. 13,842

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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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Santa Fe, New Mexico 87504-2208
By: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 8:25 a.m.:

3
4 EXAMINER JONES: Okay, let's start out with
5 case -- this morning, Case Number -- on page 4, Case Number
6 13,842, Application of BP America Production Company for
7 surface commingling and production from all formations
8 and/or pools in the Gallegos Canyon Unit from existing and
9 future wells, San Juan County, New Mexico.

10 Call for appearances.

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

15 EXAMINER JONES: Any other appearances?

16 Will the witness please stand to be sworn?

17 (Thereupon, the witness was sworn.)

18 BILL HAWKINS,

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

21 DIRECT EXAMINATION

22 BY MR. CARR:

23 Q. Would you state your name for the record, please?

24 A. Bill Hawkins.

25 Q. Mr. Hawkins, where do you reside?

1 A. I reside in Golden, Colorado.

2 Q. By whom are you employed?

3 A. BP America Production Company.

4 Q. And what is your position with BP America
5 Production Company?

6 A. I'm a petroleum engineer, I'm responsible for
7 regulatory affairs in Colorado and New Mexico.

8 Q. Mr. Hawkins, have you previously testified before
9 the New Mexico Oil Conservation Division and had your
10 credentials as an expert in petroleum engineering accepted
11 and made a matter of record?

12 A. I have.

13 Q. Are you familiar with the Application in this
14 case?

15 A. Yes, I am.

16 Q. Are you familiar with the status of the lands
17 that is the subject of this Application?

18 A. Yes.

19 MR. CARR: Are the witness's qualifications
20 acceptable?

21 EXAMINER JONES: They are.

22 Q. (By Mr. Carr) Mr. Hawkins, would you briefly
23 summarize for Mr. Jones what it is that BP America
24 Production Company seeks in this case?

25 A. BP is asking for an exception to the provisions

1 of Rule 303.A to authorize surface commingling from all of
2 the pools that are producing in the Gallegos Canyon Unit.
3 We're also asking to allow this commingling to be approved
4 for existing wells or future wells that are drilled in the
5 unit.

6 Q. In bringing this to the Division, is BP proposing
7 to commingle at the surface all unit production?

8 A. No, we are going to selectively pick wells that
9 are on the same well pads as other wells or close proximity
10 to wells that have an existing compressor and try to
11 utilize the same compressor for more than one well.

12 Q. And that's basically the reason for this
13 Application?

14 A. That's correct.

15 Q. Let's go to what has been marked BP Exhibit
16 Number 1, your exhibit book and would you just go to Tab 1
17 and review -- identify for Mr. Jones what is contained
18 behind that tab?

19 A. Tab 1 has the Application that was filed by
20 Holland and Hart for us. It has a cover letter, the
21 Application, and there's a notice letter that was sent out
22 to all of the owners in the Gallegos Canyon Unit.

23 Q. Does the notice letter contain the time of the
24 hearing and the location of the hearing room?

25 A. Yes.

1 Q. All right. Let's go to the first page behind Tab
2 2. Would you identify and review that, please?

3 A. Certainly. This is an orientation map of the San
4 Juan Basin. You can see about halfway in the page, there's
5 a state line between Colorado and New Mexico, and down in
6 the left-hand corner in dark blue the City of Farmington.
7 And then the Gallegos Canyon Unit is outlined in green.
8 It's immediately south of the City of Farmington, and in
9 fact a little bit of the unit actually falls over into the
10 city limits.

11 Q. How large is the Gallegos Canyon Unit?

12 A. The Gallegos Canyon Unit is about 43,000 acres.
13 It covers parts of six townships there.

14 Q. Does the unitized interval in this unit include
15 all formations?

16 A. Yes, it does.

17 Q. Let's go to the pages -- the remaining pages
18 behind Tab 2, and identify those and explain to the
19 Examiner what they show.

20 A. Briefly, I wanted to show the participating
21 areas. This is a federal exploratory unit. Each of the
22 formations has participating areas. Some of those
23 participating areas cover the entire unit, like this -- on
24 the second page on the Dakota. Other participating areas
25 don't quite cover the entire unit, and we can look at those

1 if we look at the next page, it's the Pictured Cliffs.
2 It's -- there's still a portion of the unit that's not
3 included in the PA on the far western edge, but the bulk of
4 the unit is inside the PA there.

5 And then if we look to the third page, the
6 Fruitland Coal participating area has recently undergone a
7 revision, and now it's -- it used to be Participating Area
8 A and B, and now I think it's all joined together here. So
9 it's still got some holes in it, but it's expanding.

10 The remaining participating areas are very small.
11 We have four PAs in the Fruitland Sand. If we skip to the
12 next page we have four participating areas in the Gallup.
13 And we have one small PA in the Farmington sand.

14 Q. Mr. Hawkins, what rules currently govern surface
15 commingling in this unit?

16 A. The rules would be Rule 303.A and B. I think
17 that A -- let me look here, I think we've got -- 303.A
18 requires a pool segregation, and it also authorizes
19 exceptions to that. 303.B authorizes surface commingling
20 and provides for allocating production between the pools.

21 Q. Do these rules provide that if you are surface
22 commingling you provide notice to all interest owners who
23 share in the commingled production?

24 A. Yes.

25 Q. So if we look at the first two -- or the second

1 and third pages behind Tab 2, if you wanted to commingle
2 Pictured Cliffs production and Dakota production, you would
3 in fact have to provide notice to every interest owner
4 throughout the entire unit in each of those formations --

5 A. That's correct.

6 Q. -- is that correct?

7 A. That's correct.

8 Q. What does BP -- How is BP proposing to allocate
9 the production?

10 A. On the wells that we're going to be surface
11 commingling, we're going to continue to produce those wells
12 through a separator and then individually meter the gas
13 from those wells prior to commingling into the compressor.
14 So we will have a good metered method to account for the
15 production from each well before it goes through the
16 compressor and is commingled.

17 Q. Could you identify the material behind Tab 3 of
18 the exhibit book?

19 A. Tab 3 has some production curves from each of the
20 major horizons. I just wanted to give you a little
21 background on what the production looks like and how many
22 wells we've got there in the unit.

23 You can see this -- Well, this production goes
24 back to 1970, but the unit production actually goes back
25 beyond that. The Dakota is the primary producing horizon

1 in this area. It produced 400 BCF of gas. Currently have
2 171 wells producing. It's, you know, the latter stages of
3 maturity; the wells are producing less than 50 MCF on
4 average.

5 We turn the page, the next largest producing
6 horizon is the Pictured Cliffs. It's produced about 200
7 BCF. We have 149 wells producing the Pictured Cliffs.
8 This is under compression. The average well rate is a
9 little bit better than the Dakota under compression at 70
10 MCFD.

11 The Fruitland Coal is the third largest producing
12 horizon there. We've produced about 50 BCF from 88
13 producing wells. The average well rate is 64 MCFD.

14 And then if we go to the next sands -- the next
15 producing horizons, there's the Fruitland Sand, the Gallup,
16 and I think there's one well on the Farmington, I don't
17 have a curve for it. But those are substantially smaller
18 than the other three producing horizons with fewer wells.

19 Q. Why is blanket authorization for surface
20 commingling needed by BP?

21 A. You know, any time we want to surface commingle
22 two wells we have to provide notice to on the order of 800
23 working interest or royalty interest owners both in the
24 unit, certified mail. So it's a substantial mailing and
25 seems to be a little bit of -- you know, absurd, I guess,

1 at this point, to continue to do that for a well-by-well
2 case. If we had -- if we were just working off of a lease
3 by lease, we might have a handful of parties to notify each
4 time. 800 is an extreme notice burden, I think, for every
5 surface commingling that we might want to do in the unit.

6 Q. And by surface commingling you're, in fact, able
7 to more efficiently operate these properties; isn't that
8 right?

9 A. That's correct.

10 Q. Would that tend to increase the ultimate recovery
11 from the unit?

12 A. Definitely, we'll be able to bring gas into the
13 compressors and -- that isn't currently being compressed,
14 lower the abandonment pressure and be able to get more gas
15 out of the unit. We also will be able to avoid putting
16 more compression out there in the field, which, you know,
17 takes up more -- make more surface disturbance and more air
18 emission problems. So sharing the compression is certainly
19 the best way to go.

20 Q. Mr. Hawkins, would you identify what's behind Tab
21 4 in the exhibit book?

22 A. Tab 4, we have two examples of surface
23 commingling, just to give the Examiner an idea of what
24 we're looking at. These two have been prepared by our
25 office in Houston. They have not been submitted to the

1 Division yet. I asked them just to hold on to them, we'd
2 put them into our case for the hearing.

3 The first example -- What I wanted to do was just
4 briefly show you, there's four forms that we submit in an
5 administrative application for this, and that includes the
6 Form C-103, which is a notice of intent. We have a
7 duplicate type of notice of intent that goes to the BLM on
8 the second page. We also have the Form C-102 showing the
9 location of the wells, and a Form C-107, which is the
10 application for surface commingling showing the production
11 that -- the BTUs of the gas that's being commingled, and
12 check off some of the other boxes here that relate to which
13 pools, et cetera, are being commingled.

14 And finally, we have a schematic showing how the
15 wells are going to be commingled in the field. In this
16 case, the two wells we show with the separator and the
17 allocation meter prior to going into the compressor, and
18 then the sales meter.

19 And then the last page on this example is how we
20 would allocate the fuel use of gas. It would be based on
21 -- allocated back to each of the wells that goes through
22 the compressor, based on their individual production.

23 These are very similar for every well, or every
24 case, I guess, that we would want to surface commingle. We
25 would propose that under a blanket order that we continue

1 to submit this information to the Division and to the BLM
2 so they have records of which wells are surface commingled,
3 and they have a schematic of, you know, what it's going to
4 look like out in the field. But we are asking that we be
5 able to, you know, basically go ahead and surface commingle
6 with just the submittal of this information and referencing
7 the order that would come from this case, without any
8 further notice to the 800 working -- or royalty interest
9 owners in the field.

10 The second example here, you would be -- you're
11 seeking authority to commingle at the surface Dakota and
12 Pictured Cliffs production?

13 A. That's correct.

14 Q. And to get -- just meet the notice requirement on
15 this one application, you'd have to send over 800 certified
16 letters; is that right?

17 A. That's right.

18 Q. Now you're seeking prospective authorization for
19 future wells to commingle at the surface. Does Rule 303
20 provide for that?

21 A. Yes, it does.

22 Q. And what are the requirements in that Rule? Are
23 you familiar with that?

24 A. I think the requirement is simply that we submit
25 the same kind of information I've just shown or gone

1 through with you, and notify each of the owners, and if
2 there's no objections then it can be approved
3 administratively.

4 Q. The rule provides that notice must be provided if
5 you're seeking blanket authorization for future surface
6 commingling. Has BP notified all interest owners in the
7 Gallegos Canyon Unit of this Application?

8 A. Yes. Yes, we have.

9 Q. The rule also provides that that notice provide
10 the parameters for how you're intending to commingle and
11 allocate production. Does this Application and notice
12 letter provide that you will be metering production?

13 A. Yes, it does.

14 Q. In your opinion, will approval of this
15 Application result in more efficient operations of this
16 unit?

17 A. Yes, it will.

18 Q. Will it otherwise be in the best interest of
19 conservation, the prevention of waste and the protection of
20 correlative rights?

21 A. Yes, it will.

22 Q. A minute ago you were explaining to Mr. Jones how
23 you propose this works. Are you in effect asking that this
24 be treated more like a reference case for downhole
25 commingling where when you would file, you would identify

1 this order as the authorization for surface commingling?

2 A. Yes.

3 Q. Is Exhibit Number 2 an affidavit confirming that
4 notice of this hearing has been provided in accordance with
5 the Rules of the Division?

6 A. Yes, it is.

7 Q. And attached to that we have a copy of the notice
8 letter, the hearing Application, and the legal
9 advertisement; is that right?

10 A. That's correct.

11 Q. The parties who have been notified are also
12 identified?

13 A. That's correct.

14 Q. And these are all owners in the Gallegos Canyon
15 Unit?

16 A. Yes.

17 Q. What response have you received to this
18 notification?

19 A. We've had a couple of phone calls from different
20 owners, one just trying to verify their ownership in the
21 unit. One gentleman, Carroll Crawford, had some concerns
22 about the way we were surface commingling. I explained to
23 him basically the same thing I've explained to you this
24 morning, and I did write a letter to him and send a letter
25 to you as well, confirming our conversation and explaining

1 that the wells will be metered prior to being commingled so
2 that we will have a proper way to account for the
3 production from each well. And Mr. Crawford seemed
4 satisfied with that.

5 Q. Is a copy of your letter to Mr. Crawford included
6 behind Tab 5 in the exhibit book?

7 A. Yes, it is.

8 Q. And who else contacted you, or who else has
9 responded to this Application?

10 A. Well, I contacted Jim Lovato with the Bureau of
11 Land Management, sent him a copy of our Application and
12 exhibits, and he has sent a letter to Mark Fesmire
13 supporting our Application, recommending approval of it.
14 We've included that as a copy under Tab 5.

15 Basically, the BLM states they support BLM's
16 request for reasons referenced above, which is efficient
17 operation of the unit, commingled production be separately
18 metered and allocated in accordance with appropriate rules.
19 This will allow BP to operate more efficiently and increase
20 ultimate recovery in the unit area; also, as we talked
21 about before, eliminate the unnecessary surface production
22 facilities, reduce surface disturbance and reduce emissions
23 from compression operations.

24 Q. Mr. Hawkins, was BP Exhibit Number 1 prepared by
25 you?

1 A. Yes, it was.

2 Q. And Exhibit 2 is the notice affidavit?

3 A. Yes.

4 MR. CARR: Now Mr. Jones, I have a copy. These
5 are the individual letters that were sent to each of those
6 individuals. I only have one copy that I'll leave with
7 you. I have another -- I have the originals back at the
8 office, that I guess I will also keep. But this is what
9 you have to do to commingle at the surface two wells when
10 you're metering both, and that's basically what we're
11 trying to avoid as we go forward.

12 And with that, I'd move the admission of BP
13 Exhibits 1 and 2.

14 EXAMINER JONES: BP Exhibits 1 and 2 will be
15 admitted to evidence.

16 MR. CARR: And that concludes my direct
17 examination of Mr. Hawkins.

18 EXAMINER JONES: Thank you, Mr. Carr. Yeah, I'm
19 lucky here, I've got three of you that have been on the
20 surface commingling committee, I think.

21 THE WITNESS: Oh, well, I was involved with that,
22 I don't know if I was -- I was on the downhole commingling
23 committee, and then I was involved with the surface
24 commingling committee, but yeah.

25 EXAMINER JONES: Yeah, that --

1 MR. CARR: I hope he's not disavowing his role --

2 (Laughter)

3 EXAMINER JONES: No, I can tell he's an expert
4 on --

5 MR. BROOKS: Well, I came into the committee
6 late, but I think I was involved in the whole process,
7 because I think about the time I joined the committee the
8 decision was made to ditch everything they'd done and start
9 over.

10 EXAMINATION

11 BY EXAMINER JONES:

12 Q. Yeah. I guess -- it looks like you've got the
13 Chacra, the Dakota, the Farmington in one well, and where's
14 the Farmington?

15 A. It's shallow, it's going to be above the
16 Fruitland sand.

17 Q. So it's a tertiary sand?

18 A. Right, and it's not very prolific. I mean, you
19 know, I think there's -- sometimes maybe confused with the
20 Fruitland sand, because it's in the same general shallow
21 horizon.

22 Q. And you've got the Fruitland sand, Fruitland
23 coal, the PC and then the Gallup. What happened with
24 Mesaverde?

25 A. You know, we're just too far west. The Mesaverde

1 is not productive over in this area.

2 Q. Okay, I didn't know that. It looks like your
3 Farmington and your Fruitland Coal and Fruitland PC -- you
4 haven't been reporting any oil production at all for those.

5 A. That's right.

6 Q. But the others, the Gallup, the Chacra, the
7 Dakota, makes a little bit of oil?

8 A. A little, yeah, condensate in the Dakota. The
9 Gallup, I guess you might call it oil -- I think it's still
10 condensate in this area, but --

11 Q. Now are they all downhole commingled nowadays?

12 A. There's a lot of downhole commingling out there
13 although, you know, in many cases what we're looking at are
14 still single producers, a Dakota well and a Pictured Cliffs
15 well that are close by, and so, you know, we're using both
16 wellbores.

17 Q. Okay, so these would be typically called a pool
18 commingle now, after --

19 MR. CARR: Yes.

20 EXAMINER JONES: -- this order? Okay, which
21 means you just do the sundry and the schematic. And as far
22 as the verification of identical ownership, we'll just use
23 the reference to the order.

24 MR. CARR: To the order in this case, because the
25 ownership is not identical in most circumstances.

1 THE WITNESS: Because of the differences in the
2 PA -- many times the PA in the Pictured Cliffs, for
3 instance, doesn't have all of the same owners that the
4 Dakota -- so that gives everybody a slightly different
5 percentage --

6 EXAMINER JONES: Yeah.

7 THE WITNESS: -- interest, so...

8 Q. (By Examiner Jones) Well, good luck keeping up
9 with all of that.

10 I like the way you're doing your commingles with
11 the allocation meters on all wells and then the sales
12 meter, but some people have argued that you don't need the
13 allocation meter on the last well, you use --

14 A. Right, you could do subtraction or something --

15 Q. Yeah. What do you think?

16 A. Well, I mean, I think we have the meters out
17 there now, and so we would go ahead and leave that out
18 there. We're basically just trying to share the
19 compression that's in the field, without putting more
20 compression out there.

21 Q. Okay. What kind of meters do you use for
22 allocation meters?

23 A. Well, I think they're going to be the same meters
24 that were, you know -- yeah.

25 Q. No more Barton meters or anything?

1 A. Not that I'm aware of, so --

2 Q. Okay. And so everything is automated out there?

3 A. Everything is automated.

4 EXAMINER JONES: Okay, that's -- David?

5 MR. BROOKS: No questions.

6 EXAMINER JONES: I think -- I really appreciate
7 you coming up here today.

8 MR. CARR: Thank you, that concludes our
9 presentation.

10 EXAMINER JONES: Thank you, Mr. Hawkins.

11 THE WITNESS: Thank you.

12 MR. CARR: And thanks for taking this out of
13 order.

14 EXAMINER JONES: Okay, we'll take Case 13,842
15 under advisement.

16 (Thereupon, these proceedings were concluded at
17 8:47 a.m.)

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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

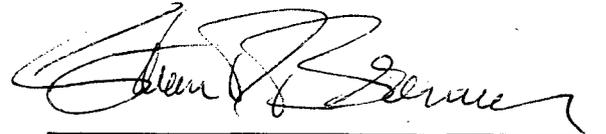
CERTIFICATE OF REPORTER

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 16th, 2006.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 16th, 2010