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STATE OF NEW MEXICO
DEPARTMENT OF ENERGY, MINERALS AND NATURAL RESOURCES
OIL CONSERVATION DIVISION

APPLICATION OF DEVON ENERGY PRODUCTION
COMPANY, LP, FOR LEASE COMMINGLING,
EDDY COUNTY, NEW MEXICO

CASE NO. 14087 and CASE NO. 14088

FEBRUARY 7, 2008

1220 South St. Francis
Santa Fe, New Mexico

EXAMINER: RICHARD EZEANYIM

LEGAL ADVISOR: David Brooks

ATTORNEY FOR APPLICANT:

JAMES BRUCE, ESQ.
P O Box 1056
Santa Fe, New Mexico 87545

WITNESSES: MEG MULLINGHOUSE and MARCOS ORTIZ

EXHIBITS: 1 - 6 Case No. 14087
1 - 6 Case No. 14088

REPORTED BY: JOYCE D. CALVERT, P-03
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1 EXAMINER EZEANYIM: Let's go to Page 7 of the docket.
2 I call Case No. 14087. Call for appearances. This is an
3 application of the Devon Energy Production Company for lease
4 commingling in Eddy County, New Mexico.

5 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe
6 representing the applicant. I have two witnesses.

7 EXAMINER EZEANYIM: Any other appearances?
8 Mr. Bruce, if you don't mind, I'm going to combine those cases,
9 Case No. 14087 and 14088 for the purposes of this morning
10 because I think they are similar.

11 MR. BRUCE: They are similar. I have two sets of
12 exhibits, but I think if we go through one set, you'll see what
13 we're getting at, and that's perfectly fine with us.

14 MS. MUNDS-DRY: And Mr. Examiner, if that's the case,
15 then I'm entering an appearance in Case No. 14088 on behalf of
16 Oxy USA Incorporated.

17 EXAMINER EZEANYIM: Do you have any witnesses?

18 MS. MUNDS-DRY: No witnesses.

19 EXAMINER EZEANYIM: Let the record reflect that both
20 Case No. 14087 and Case No. 14088 will be combined for the
21 purposes of testimony. Both of these applications are for
22 Devon Energy Production Company for lease commingling.

23 Will the witnesses now stand up and be sworn?

24 MR. BROOKS: Will both witnesses please state their
25 names for the record?

1 THE WITNESS: Meg Mullinghouse.

2 THE WITNESS: Marcos Ortiz.

3 [Note: The witnesses both took an oath.]

4 MR. BRUCE: Mr. Examiner, if it's okay, we'll start
5 with Case No. 14087 and go through the land matters on that.
6 And then briefly go through the land matters on the next case,
7 and see if there are any questions.

8 EXAMINER EZEANYIM: That would be fine.

9 MEGAN MULLINGHOUSE

10 after having been first duly sworn under oath,
11 was questioned and testified as follows:

12 EXAMINATION

13 BY MR. BRUCE:

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

15 A. Meg Mullinghouse.

16 Q. And where do you reside?

17 A. Edmond, Oklahoma.

18 Q. Who do you work for and in what capacity?

19 A. I'm a land advisor for Devon Energy.

20 Q. Have you previously testified before the Division
21 as a landman?

22 A. Yes.

23 Q. And were your credentials as an expert accepted
24 as a matter of record?

25 A. Yes.

1 Q. And are you familiar with the land matters
2 involved in these two cases?

3 A. Yes.

4 MR. BRUCE: Mr. Examiner, I tender Ms. Mullinghouse
5 and as an expert petroleum landman.

6 EXAMINER EZEANYIM: Ms. Mullinghouse, are you
7 certified as a public landman? Are you certified as a public
8 landman -- you are a landman, right?

9 THE WITNESS: Yes. I do not have a CPL.

10 EXAMINER EZEANYIM: Okay.

11 THE WITNESS: But I've been a landman for over
12 20 years.

13 EXAMINER EZEANYIM: Okay. Ms. Mullinghouse has
14 qualified.

15 Q. (By Mr. Bruce): Ms. Mullinghouse, can you
16 identify Exhibit 1 for the Examiner and briefly describe what
17 Devon seeks in this case?

18 A. Exhibit 1 is a land plat, highlighted parts of
19 Section 8 and 17 of Township 18 South Range 27 East, Eddy
20 County, New Mexico. Devon is seeking approval of lease
21 commingling of production from wells located on four different
22 federal oil and gas leases that are identified on that plat.

23 Q. Would you identify Exhibit 2 for the Examiner and
24 describe the wells involved in the formations the wells are
25 producing?

1 EXAMINER EZEANYIM: Before you go ahead, Mr. Bruce,
2 let me make this clear. The docket says application for lease
3 commingling, but I find here that you are producing from two
4 different pools, or different pool codes.

5 MR. BRUCE: Yes.

6 EXAMINER EZEANYIM: Actually, what we're doing here
7 is pool-lease commingling.

8 MR. BRUCE: And I think the witnesses could go into
9 that. The engineering witness can a little bit more, but I
10 would know that under the Division's general downhole
11 commingling rules that --

12 EXAMINER EZEANYIM: Which I think --

13 MR. BRUCE: This pool combination is pre-approved;
14 The Red Lake Queen-Grayburg-San Andres and the Red Lake
15 Glorieta-Yesa pool. So this hearing is only for the lease
16 commingling. If there is -- and I think the engineer can tell
17 you the situation on the wells -- and maybe -- and I -- but we
18 are not seeking downhole commingling in this application.

19 EXAMINER EZEANYIM: Yeah, I know. We're talking
20 about lease commingling. I'm talking about pool and lease
21 commingling because I saw two pools there that you are going to
22 produce from. Some of the wells are from different pools, and
23 then there are about four leases. Especially in Case No.
24 14087, there are four leases and two pools. So to me, I think
25 that would be characterized as pool-lease commingling.

1 THE WITNESS: But those have already been approved
2 and we're just adding two wells to the already approved; is
3 that not correct?

4 EXAMINER EZEANYIM: What has been approved?

5 THE WITNESS: The pool commingling was already
6 approved.

7 EXAMINER EZEANYIM: For all the wells?

8 MR. BRUCE: Well, it's pre-approved.

9 EXAMINER EZEANYIM: Well, if they're pre-approved
10 pools -- is that what you are saying?

11 THE WITNESS: I believe so.

12 EXAMINER EZEANYIM: It isn't pre-approved because
13 they are different pools.

14 MR. BROOKS: Well, you said you would have the
15 production -- the engineering witness testify as to the
16 particulars of the production Mr. Bruce?

17 MR. BRUCE: Yes.

18 MR. BROOKS: What production stream is coming from
19 where, through which wells?

20 MR. BRUCE: Yes.

21 MR. BROOKS: Well, then let's just wait until we get
22 there and then we can address this issue.

23 THE WITNESS: It is listed here what production comes
24 out of each well.

25 MR. BRUCE: Yes.

1 MR. BROOKS: I take it -- well, I'll ask this witness
2 this question: Is there any difference in ownership between
3 the different pools in any of these leases? Is there any
4 debt severances that are material to this case?

5 THE WITNESS: There is a difference in the ownership
6 in the two wells that we're adding.

7 MR. BRUCE: Well, but he's talking about, is there
8 any difference in the Glorieta-Yeso and Devon-operated wells in
9 the Queen-Grayburg-San Andres. Not in the leases, or not in
10 the wells, but --

11 THE WITNESS: Let me look at my plat here. No.

12 MR. BRUCE: In other words, in those two zones,
13 ownership is the same.

14 MR. BROOKS: Yeah. That's what I said.

15 MR. BRUCE: -- and if it's pre-approved under
16 Rule 30 --

17 MR. BROOKS: Whatever it is, 303, whatever revision
18 it is. Like I said, I want to address those issues after we
19 know all the facts, but I gather the facts as far as the land
20 testimony is concerned, is that the ownership of the two
21 formations under each lease is the same under each lease,
22 although it may be different from one lease to another? There
23 is no lease as to which one formation is owned differently from
24 the other?

25 THE WITNESS: Correct.

1 MR. BROOKS: Okay. That's what I wanted to
2 establish. You may continue.

3 EXAMINER EZEANYIM: Go ahead.

4 Q. (By Mr. Bruce): Okay. And Ms. Mullinghouse,
5 what does Exhibit 2 do?

6 A. Exhibit 2 is a list of the wells on each lease
7 for which we seek commingling approval and the formations that
8 they produce from. The wells produce from the Red Lake
9 Queen-Grayburg-San Andres pool and the Red Lake Glorieta-Yeso
10 pool. And our next witness will discuss the commingling
11 proposal in detail.

12 Q. And are these all federal leases?

13 A. Yes.

14 Q. And so the royalty interest is common, correct?

15 A. Yes.

16 Q. Who are -- besides Devon, are there any working
17 interest owners in this application?

18 A. No. Devon is the only working interest owner.

19 Q. Okay. And what is Exhibit 3?

20 A. Exhibit 3 lists all the interest owners and all
21 of the leases, and other than Devon and the MMS, all the other
22 listed parties are overriding royalty interest owners.

23 Q. Okay. And notice of this application was given
24 to all of these interest owners; was it not?

25 A. Yes.

1 Q. And you have not heard or received any objection
2 from anyone?

3 A. No, I have not.

4 Q. Was notice also published -- well, take a step
5 back: These addresses and the people listed in Exhibit 3 and
6 then the people given notice in Exhibit 4, these are from
7 Devon's division order files; are they not?

8 A. Correct.

9 Q. And this area has been producing for quite some
10 time?

11 A. Yes, it has.

12 Q. So you would expect -- since you are paying
13 money, you would expect to have good addresses for those
14 individuals?

15 A. Correct.

16 Q. Now, with respect to this Case No. 14087, is
17 there a particular individual who either doesn't get her mail
18 or doesn't pick it up?

19 A. There was one, and I don't have that with this.

20 Q. And may I refer you to Exhibit 5.

21 A. Exhibit 5.

22 MR. BROOKS: Exhibit 5 or Exhibit 4?

23 Q. (By Mr. Bruce): If I would refer you to
24 Exhibit 5.

25 A. This is the notice.

1 Q. And Ms. Mullinghouse, is this a copy of the
2 notice that was to be published in the newspaper?

3 A. Yes.

4 Q. And who is the interest owner who you do not have
5 a valid address for?

6 A. I've got the two -- I'm sorry. Oh, I'm sorry. I
7 apologize. This is Joan A. Hudson. There was one for one and
8 one for the other. I wanted to make sure I didn't tell you the
9 incorrect one.

10 Q. Okay. And, actually, we've notified Ms. Hudson
11 of a number of types after applications over the years; have we
12 not?

13 A. Yes.

14 Q. And we have had trouble getting certified mail to
15 her.

16 A. Sometimes some of these people don't -- will not
17 pick up certified mail. She is in pay status, so she gets
18 paid. But, you know, sometimes people are older and don't pick
19 up certified mail.

20 Q. And were Exhibits 1 through 5 prepared by you or
21 under your supervision or compiled from company business
22 records?

23 A. Yes.

24 Q. And in your opinion, is the granting of this
25 application in the interest of conservation and in the

1 prevention of waste?

2 A. Yes, it is.

3 MR. BRUCE: Mr. Examiner, one thing on Exhibit 5.
4 This was the copy of the notice I sent to the newspaper to be
5 published. I haven't gotten the Affidavit of Publication back,
6 yet. And so in this case alone, I would ask that it be
7 continued for two weeks so that I can submit the Affidavit of
8 Publication when it comes in from the Carlsbad newspaper.

9 EXAMINER EZEANYIM: Okay.

10 MR. BRUCE: And with that, if you want me to run
11 through the other land testimony? Or do you have any questions
12 on this particular case?

13 EXAMINER EZEANYIM: Yeah, we need to admit the
14 Exhibits 1 through 5 before we get go to --

15 MR. BRUCE: Oh, yeah, yeah. I move the admission of
16 Exhibits 1 through 5, Mr. Examiner.

17 EXAMINER EZEANYIM: Exhibits 1 through 5 will be
18 admitted.

19 Before we go for that, I have a letter from one Ms.
20 Ronca-Washburn. I don't know if you guys got the letter. She
21 just stated that she wants to appear at the hearing for this
22 lease commingling. I want to get it on the record. If you
23 don't have it, we might want to make a copy. I don't know what
24 she's trying to say, but she wanted to appear. This case was
25 scheduled for the last two weeks, January 24, but it was

1 continued to today. And she says she will appear on
2 January 24, but the case was continued. But she didn't appear
3 today. So I'm going to admit this for the record into evidence
4 that we got it.

5 MR. BRUCE: And I did not receive a copy of that
6 letter, Mr. Examiner.

7 EXAMINER EZEANYIM: Let me make a copy and I'll give
8 it to you and you can have it for your records.

9 I would like to defer any questions until we go
10 through 14088.

11 Q. (By Mr. Bruce): And again, Ms. Mullinghouse,
12 what does Exhibit 1 reflect?

13 A. Exhibit 1 is a land plat highlighting parts of
14 Section 4 Township 18 South Range 27 East in Eddy County, New
15 Mexico. And Devon seeks approval of lease commingling of
16 production from wells located on two different federal leases
17 and gas identified on the plat.

18 Q. And what is Exhibit 2?

19 A. Exhibit 2 is a list of wells on each lease for
20 which we seek commingling approval and the formations that they
21 produce from. The wells produce from the Red Lake
22 Queen-Grayburg-San Andres pool and the Red Lake Glorieta-Yeso
23 pool. Our next witness will discuss the commingling proposal
24 in detail.

25 Q. And, again, these are both federal leases with

GAO 14088
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1 common royalty ownership?

2 A. Yes.

3 Q. Is there any other working interest owner in this
4 application besides Devon?

5 A. Burnett Oil, Incorporated is the other working
6 interest owner.

7 Q. And what is Exhibit 3?

8 A. Exhibit 3 lists all the owners in the leases
9 other than Devon, Burnett, and the MMS. Actually, they're on
10 that list as well.

11 Q. Okay. And notice was given to all of these
12 individuals?

13 A. Yes.

14 Q. And, again, this is from Devon's division order
15 files and Devon has been paying on these interests for quite
16 some time?

17 A. Yes.

18 Q. Is Exhibit 4 the Affidavit of Notice showing the
19 written notice that was given to the interest owners?

20 A. Yes, it is.

21 Q. And on this one was there, again, one interest
22 owner who refused to pick up the mail?

23 A. Yes.

24 Q. And was notice published in the newspaper as
25 against that interest owner?

1 A. Yes.

2 Q. And which interest owner was that?

3 A. And, I apologize, but my exhibit doesn't have --

4 Q. Okay.

5 A. This is Balwick Limited Partnership.

6 Q. And originally on both of these cases, Devon had
7 submitted them administratively and was informed they would
8 have to come to hearing; is that correct?

9 A. Yes.

10 Q. And notice was given for the administrative
11 application as well as for the hearing application?

12 A. Yes.

13 Q. And the notice came back for the hearing
14 application as against Balwick Limited Partnership?

15 A. Yes, it did.

16 Q. Okay. And Mr. Examiner, Exhibit 5 is the
17 Affidavit of Publication as against Balwick Limited
18 Partnership. Again, were Exhibits 1 through 5 prepared by you
19 or under your supervision or compiled with company business
20 records?

21 A. Yes, they were.

22 Q. And in your opinion, is the granting of this case
23 in the interests of conservation and prevention of waste?

24 A. Yes.

25 MR. BRUCE: Mr. Examiner, I move the admission of

1 Exhibits 1 through 5 in Case No. 14088.

2 EXAMINER EZEANYIM: Any objections?

3 MS. MUNDS-DRY: No objections.

4 EXAMINER EZEANYIM: Exhibits 1 through 5 are admitted
5 in Case No. 14088.

6 MR. BRUCE: And, Mr. Examiner, I'm just handing you a
7 portion of Rule 303, which shows the pre-approval for the
8 downhole commingling as to these two pools involved in both
9 cases.

10 EXAMINER EZEANYIM: Okay.

11 MR. BRUCE: I have no further questions of Ms.
12 Mullinghouse.

13 EXAMINER EZEANYIM: Do you have any questions for Ms.
14 Mullinghouse?

15 MR. BROOKS: On these notices, except for the people
16 that you published for, Ms. Hudson in Case No. 14087 and
17 Balwick Limited Partnership in Case No. 14808 -- 14087 and
18 14088, do you have in this Exhibit 4 copies of return receipts
19 from each of the other persons?

20 THE WITNESS: Yes.

21 MR. BROOKS: So there's nobody for whom you don't
22 have return receipts except as to the people to whom you
23 published?

24 THE WITNESS: Correct.

25 MR. BROOKS: Thank you. That's all I have.

1 EXAMINER EZEANYIM: No questions from me. Thank you.

2 MARCOS ORTIZ

3 after having been first duly sworn under oath,

4 was questioned and testified as follows:

5 EXAMINATION

6 BY MR. BRUCE:

7 Q. Would you please state your name and city of
8 residence for the record?

9 A. Marcos Ortiz. Tuttle, Oklahoma.

10 Q. Who do you work for and in what capacity?

11 A. I work for Devon Energy and I'm an operations
12 engineer in southern New Mexico.

13 Q. Have you previously testified before the
14 Division?

15 A. No, I have not.

16 Q. Would you please summarize your educational and
17 employment background for the Examiner?

18 A. In 1997 I earned a civil engineering degree at
19 Texas A&M University. From '97 to '01 I worked for Halliburton
20 Energy Services as a field engineer. From 2001 and 2005, I
21 worked as an engineering consultant for Schlumberger Oil Field
22 Services. From '05 to '06 I worked for Louis Petrol Properties
23 as an operations engineer. Presently I'm working for Devon
24 Energy.

25 Q. Does your area of responsibility at Devon include

1 this part of southeast New Mexico?

2 A. Yes.

3 Q. And are you familiar with the operational matters
4 involved in the wells covered by this application?

5 A. Yes.

6 MR. BROOKS: Mr. Examiner, I'd submit Mr. Ortiz as an
7 expert operations engineer.

8 EXAMINER EZEANYIM: Mr. Ortiz, do you happen to be a
9 owner or official of for Devon Energy?

10 THE WITNESS: No, sir.

11 EXAMINER EZEANYIM: You said that you went to Texas
12 A&M?

13 THE WITNESS: Yes, sir.

14 EXAMINER EZEANYIM: Based on that fact, you're
15 qualified to testify.

16 Q. (By Mr. Bruce): Mr. Ortiz, could you identify
17 Exhibit 6 for the Examiner?

18 A. Exhibit 6 is form C-107-B for the surface
19 commingling request.

20 Q. And why couldn't this application be approved
21 administratively?

22 A. Because the wells will not be separately metered
23 and, under Division rules, the application had to be set for
24 hearing.

25 Q. Now, we submitted a list of wells involved in

1 this application. Are the wells in this application existing
2 wells?

3 A. One of them is an existing well, the Hawk 8D #46
4 is a re-entry that was going to be deepened into the Yeso pool
5 and that's in the middle of being completed as we speak.

6 EXAMINER EZEANYIM: And this is in Case No. 14087?

7 MR. BRUCE: Yes, 14087.

8 THE WITNESS: The other well has not been drilled
9 yet. That's the Condor 8 Federal #1H.

10 Q. (By Mr. Bruce): And, again, the one that hasn't
11 been drilled is the Hawk 8 Federal 46?

12 A. Yes.

13 MR. BRUCE: Okay. And, Mr. Examiner, that well is
14 listed on Page 2 of Exhibit 2 in case 14087.

15 EXAMINER EZEANYIM: Is this going to be a new drill?

16 THE WITNESS: It's a re-entry.

17 EXAMINER EZEANYIM: A re-entry?

18 THE WITNESS: And, I guess, to maybe clarify on this
19 particular well, the San Andres formation has been plugged --
20 squeezed off and isolated, so it will not be producing.

21 Q. (By Mr. Bruce): The Queen-Grayburg-San Andres
22 has been depleted in this well -- in that particular well?

23 A. Yes, yes, yes.

24 Q. Okay. Let's go back to Exhibit 6. Would you run
25 through that so that the Examiner understands the basis of your

1 request?

2 A. If you look on Page 3 of Exhibit 6, there's a
3 schematic of the battery. The fluids from each well will be
4 produced to a common header. The header is configured so that
5 individual wells can be tested separately. The oil would be
6 measured by means of a gauge in the test tank.

7 Gas from each well will be produced to a common
8 header, and it goes to a sales meter. The gas production tests
9 are done by a portable orifice meter that is pulled to each
10 individual well at the time of the test.

11 The water will be gauged with a water meter. And
12 each of the wells will be tested periodically or monthly.

13 EXAMINER EZEANYIM: Looking at the configuration, the
14 gas is not going to be commingled. It's just going to be oil,
15 right?

16 THE WITNESS: The gas is going to be commingled, but
17 it will be periodically tested at the well site, at the
18 location, with a portable orifice meter.

19 EXAMINER EZEANYIM: As well as the oil, too?

20 THE WITNESS: The oil, if you look at the schematic
21 the way that we routed or plumbed the battery, fluids coming
22 into the header will be separated at a test heater --

23 EXAMINER EZEANYIM: Okay.

24 THE WITNESS: -- individually. And then they'll be
25 gauged to a test tank for that particular well only so we'll be

1 able to isolate the production from that well both for the oil
2 and the water, on a periodic basis, on a monthly basis.

3 EXAMINER EZEANYIM: And this is what's --

4 THE WITNESS: For these particular wells. We have
5 multiple wells going to these batteries. That's how we conduct
6 our allocation for production, based on that test.

7 EXAMINER EZEANYIM: But on the Hawk Federal where are
8 you going to commingle -- you are going to commingle oil on the
9 Hawk Federal? Is that -- you are going to commingle -- my
10 question is: You are going to commingle the oil and the gas?

11 THE WITNESS: The gas is going to be produced from
12 the casing side, so it will be going to a gas line.

13 EXAMINER EZEANYIM: Okay. So you're not going to be
14 commingling --

15 THE WITNESS: No, no.

16 EXAMINER EZEANYIM: You are doing it with the oil?
17 That's exactly what I'm asking.

18 THE WITNESS: Yes, sir.

19 Q. (By Mr. Bruce): What is the duration of each
20 test?

21 A. 24 hours.

22 Q. And then the fluids will be allocated once a
23 month back from those tests?

24 A. Yes.

25 Q. And does your measurement also take into account

1 the number of days per month the well has produced?

2 A. Yes.

3 Q. Will Devon's proposal accurately allocate
4 production to each lease and to each well?

5 A. Yes.

6 Q. Now, in the absence of surface commingling
7 approval, how will the wells be metered?

8 A. What we've proposed is, without commingling, we
9 would temporarily flow to the frag tanks with the portable
10 orifice meter located at the well site on a permanent basis.
11 So we would be able -- and then we'll transport the oil from
12 the frag tanks. And the gas will be going into a sales line.

13 Q. But if you couldn't do this, you'd have to have a
14 battery on each lease, correct?

15 A. Correct.

16 Q. And what are the costs of those batteries?

17 A. Well, for the Hawk, we have estimated about
18 \$60,000.

19 Q. Okay. So there will be a cost savings involved
20 just from the tank battery alone.

21 A. Yes. And for the Condor well, we're looking a
22 much bigger volume, so it would be more of a \$150,000 price
23 range to get that battery built.

24 Q. How will the interest owners benefit from this
25 application, not only the working interest, but the royalty

1 interest owners?

2 A. The surface commingling will reduce operating
3 costs and extend the productive life of all the wells, thus
4 increasing revenue to all interest owners. In addition, this
5 area contains a huge number of wells, and it's difficult to add
6 additional surface facilities without affecting operations.

7 Q. As a matter of fact, a number of the wells in
8 this area are unorthodox, or you can't even find the location
9 because of surface obstructions; is that correct?

10 A. Correct. And environmental issues.

11 Q. What is done with produced waters from these
12 wells?

13 A. They're injected into a saltwater disposal
14 system.

15 Q. And have you had any objections from the BLM with
16 respect to any of the issues with this application?

17 A. No, we have not.

18 Q. Was Exhibit 6 prepared by you or under your
19 supervision?

20 A. Yes.

21 Q. And in your opinion, is the granting of this
22 application in the interest of conservation and prevention of
23 waste?

24 A. Yes, it is.

25 MR. BRUCE: Mr. Examiner, I move the admission of

1 Exhibit 6 in Case No. 14087.

2 EXAMINER EZEANYIM: Any objections?

3 MS. MUNDS-DRY: No objection.

4 EXAMINER EZEANYIM: Exhibit 6 in Case No. 14087 is
5 admitted.

6 Q. (By Mr. Bruce): Mr. Ortiz, what is Exhibit 6 in
7 Case No. 14088?

8 A. Exhibit 6 is a form C-107-B for surface
9 commingling request.

10 Q. And rather than go through this form like you did
11 with the last one, is the manner of handling the wells and
12 production the same as for the prior case?

13 A. Correct. Yes, it is.

14 Q. And in this particular application, are all of
15 the wells existing wells, or is there just one?

16 A. It's just one well, and it is an existing well.

17 EXAMINER EZEANYIM: So there are two of them.

18 THE WITNESS: There's one well in this case, the
19 Hondo 4K #49. It is an existing well.

20 EXAMINER EZEANYIM: Okay.

21 THE WITNESS: That well has been deepened and
22 completed and it is currently temporarily producing to frag
23 tanks with how I discussed earlier.

24 EXAMINER EZEANYIM: Okay.

25 MR. BRUCE: And, again, in this case, money, not only

1 money for tank batteries but also operating costs, will be
2 saved by the surface commingling?

3 A. Correct. In this case, it's about \$60,000.

4 Q. Again, have you had any issues with the BLM with
5 respect the this application?

6 A. No.

7 Q. And was Exhibit 6 prepared by you or under your
8 supervision?

9 A. Yes, it was.

10 Q. And in your opinion, is the granting of this
11 application in the interests of conservation and prevention of
12 waste?

13 A. Yes, it is.

14 MR. BRUCE: Mr. Examiner, I move the admission of
15 Exhibit 6 in Case No. 14088.

16 EXAMINER EZEANYIM: Any objections?

17 MS. MUNDS-DRY: Sorry, no objections.

18 EXAMINER EZEANYIM: Exhibit 6 in Case No. 14088 is
19 admitted.

20 MR. BRUCE: I have no further questions of the
21 witness.

22 EXAMINER EZEANYIM: Do you have any questions?

23 MR. BROOKS: Well, yeah. I'm trying to understand
24 what is going on here. And I don't really follow the diagrams
25 all that well.

1 THE WITNESS: Do you want me to go into further
2 detail of how the production flow occurs in the diagram?

3 MR. BROOKS: Well, let me ask the questions because
4 you can lose me very quickly.

5 THE WITNESS: Okay.

6 MR. BROOKS: The wells -- does each of the subject,
7 wells produce from both the San Andres and the Glorieta; is
8 that correct?

9 THE WITNESS: The wells that we're proposing to
10 commingle?

11 MR. BROOKS: Yeah.

12 THE WITNESS: Those wells will only be producing out
13 of the Yeso. There will not be any production coming from the
14 San Andres.

15 THE WITNESS: The ones that we're adding.

16 THE WITNESS: The ones -- new ones.

17 MR. BROOKS: The new wells.

18 THE WITNESS: Yes, sir.

19 MR. BROOKS: Okay. Now, what's -- let me see. Which
20 wells produce? Which wells are we talking about here?

21 MR. BRUCE: If you could look at Exhibit 2 from this.

22 MR. BROOKS: Exhibit 2, okay. From which case?

23 MR. BRUCE: 14088. Let's start with that, simply
24 because there are fewer wells.

25 MR. BROOKS: Yeah, there are two wells listed here.

1 MR. BRUCE: Two leases.

2 MR. BROOKS: Two leases. You said there was only one
3 well, correct?

4 MR. BRUCE: I think what he's saying, Mr. Examiner,
5 is there's an existing Windfohr tank battery, and they'll be
6 adding the Hondo 4K Federal 49 to it.

7 MR. BROOKS: Okay.

8 MR. BRUCE: And that well is only a Yeso well.

9 MR. BROOKS: And the -- does this list two wells or
10 two leases or no, it lists more wells than that. How many
11 wells are involved on this? I'm looking at Exhibit 2 in Case
12 No. 14088. How many wells are there?

13 THE WITNESS: There are eight wells that are in the
14 existing battery, those first eight wells that are on lease --
15 the first lease?

16 MR. BROOKS: Okay.

17 THE WITNESS: And one, two, three, four, five, six --
18 yes. And then this well down below -- that's Lease No. 7717 --
19 is being added to that.

20 MR. BROOKS: Okay. Now, these wells that are
21 producing from -- well, these eight existing wells that are
22 producing from both the Glorieta and the San Andres -- I mean,
23 both the Yeso and the San Andres?

24 THE WITNESS: Yes.

25 THE WITNESS: I believe so. There may be some that

1 are currently just producing from the San Andres, but I can't
2 give you a definitive answer.

3 MR. BROOKS: They being -- it's the production from
4 the two zones being commingled on the surface or downhole, in
5 these wells?

6 THE WITNESS: They're being -- downhole.

7 MR. BROOKS: That's what I thought, but I was trying
8 to be sure that I was right about that. So the commingling of
9 the San Andres production and the Yeso production is occurring
10 downhole in each well in which the two zones are both being
11 completed?

12 THE WITNESS: And the ones in the well that we're
13 proposing to add to the list --

14 MR. BROOKS: Well, you said the wells that you're
15 proposing are producing only from the Yeso.

16 THE WITNESS: Yes, yes.

17 MR. BROOKS: But in the existing wells --

18 THE WITNESS: In the existing wells --

19 MR. BROOKS: -- they're completed in both the Yeso
20 and the San Andres.

21 THE WITNESS: Yes, sir.

22 MR. BROOKS: And the production is being commingled
23 downhole from the two zones; is that correct?

24 THE WITNESS: From the two zones.

25 MR. BROOKS: Now, is that also correct in Case

1 No. 14087?

2 THE WITNESS: Yes.

3 MR. BROOKS: Okay.

4 THE WITNESS: I have to have Megan answer that for
5 you.

6 THE WITNESS: And if you'll look at Exhibit 2, it
7 shows the pool names of the previous -- the other case.

8 MR. BROOKS: Yeah.

9 THE WITNESS: Well, you've got more leases and that's
10 organized by lease.

11 MR. BROOKS: And you've got more wells, also.

12 THE WITNESS: And we've got more wells, also. At the
13 very -- on the second page of that, are the Hawk 8 Federal #46
14 and the Condor Federal 1H, are the two that we're going to add
15 to that battery, and those are Yeso only.

16 MR. BROOKS: Okay.

17 THE WITNESS: They are going to be Yeso only wells.

18 MR. BROOKS: And, once again, the wells that are
19 completed in -- the existing wells that are completed in both
20 the San Andres and the Yeso, production is being commingled
21 downhole --

22 THE WITNESS: Yes, sir.

23 MR. BROOKS: -- in those wells?

24 THE WITNESS: Yes, sir.

25 MR. BROOKS: Okay. I guess that's probably -- I

1 think I probably won't ask you about the schematic in the way
2 in which you're commingling on the surface, because I imagine
3 that Mr. Ezeanyim understands that and I don't. So it's
4 probably more important that he understand it. It's not
5 important that I understand it. So I will let him ask whatever
6 questions he needs to ask on that issue. Go ahead, Mr.
7 Ezeanyim.

8 EXAMINER EZEANYIM: Let's continue with that. That's
9 a good question, now, because that's one of the points I was
10 trying to make when we started this case. Now, your testimony
11 today is -- okay, let's start with 14088. Is that what I'm
12 looking at? Of those eight wells, you said they are being
13 downhole commingled between the Queen-Grayburg and the Yeso,
14 right? Is that all of them, right?

15 THE WITNESS: Correct.

16 EXAMINER EZEANYIM: All of these, correct? And now
17 you want to add another well that is not producing from the
18 Yeso?

19 THE WITNESS: That's not producing from the San
20 Andres.

21 EXAMINER EZEANYIM: But from the Yeso, it says Yeso.

22 THE WITNESS: It's only -- the ones that we are
23 adding are only going to be producing from the Yeso.

24 EXAMINER EZEANYIM: Okay. Because I want you to tell
25 me exactly what you are asking. It is the condition that my

1 attorney is trying to ask you. Are you asking for only this
2 commingling, and if so, how? Or are you asking for lease-pool
3 commingling? That's really the question I'm trying to
4 understand. And when I was getting ready for that case, I
5 asked my question: What exactly do you want?

6 MR. BRUCE: Well, Mr. Examiner --

7 EXAMINER EZEANYIM: I wanted you to explain to this
8 board what exactly you want in this case.

9 MR. BRUCE: All we're asking for is lease
10 commingling. Because each well will be tested within each
11 lease, so it's accurately -- number one, so it's accurately
12 measured. But the production from the San Andres and the Yeso
13 is downhole commingled. That's taken care of by something else
14 already. And plus, there's no difference in the San Andres and
15 the Yeso. So all we are seeking is lease commingling.

16 EXAMINER EZEANYIM: Okay. It's hazy in my mind. I
17 want, before I continue with these questions, I want Mr. Ortiz
18 to explain why you are only asking for lease commingling. You
19 know, you are the engineer.

20 THE WITNESS: Yes, sir.

21 EXAMINER EZEANYIM: Tell me exactly what you want,
22 why you are asking for that.

23 THE WITNESS: The reason why we want -- basically, we
24 want to be able to produce to an existing battery and not have
25 to build one. And we were told -- I was told that we had to

1 provide a method of how we were going to accurately test the
2 well to be allowed to be given permission to produce to the
3 battery. I mean, it's a matter of just avoiding having to
4 build a battery separately for each well.

5 EXAMINER EZEANYIM: Okay. Let's assume that, on this
6 Exhibit No. 2, that you have those eight wells that are being
7 downhole commingled. Let's say that that's one pool, then you
8 want to commingle with a well in this Hondo 4 Federal, and this
9 is produced from the Yeso.

10 THE WITNESS: Yes, sir.

11 EXAMINER EZEANYIM: I mean, because where you look on
12 form C-107-B, we want the make sure that what you're requesting
13 from this commingled pool is not going to be quite different
14 from what you produce from the Yeso.

15 THE WITNESS: Okay. Can I explain how we
16 periodically test each well that's already in existence in the
17 battery?

18 EXAMINER EZEANYIM: That's one of the questions I was
19 going to ask you later, but go ahead.

20 THE WITNESS: Well, when a downhole commingling
21 occurs, okay, what happens is we complete the lower zone, the
22 Yeso zone first, and produce it by itself for a certain period
23 of time. And this is part of the, I'm assuming, pre-approved
24 permission to downhole commingle.

25 The way we allocate the production is, after that

1 well has been -- that Yeso zone has been producing for a period
2 of time, we will then plug it back with a retrievable plug and
3 come back and produce the San Andres for a certain period of
4 time. And after production falls, we then retrieve the plug
5 and they're commingled.

6 Now, the last test that Yeso production -- the last
7 physical test that was done on the Yeso production before the
8 plug was set is used with the last test of the San Andres to
9 get a percentage of commingling so we can allocate production
10 by pool. And that's how that occurs for the existing wells.

11 And we -- and so there's a percentage there that's
12 used for allocation purposes, for accounting purposes, based on
13 those tests, the last known tests. And then each well at the
14 battery can be isolated and you can conduct a 24-hour well test
15 just for each individual well, which is done once a month, so
16 that you can physically determine or distinguish the production
17 between each individual well going to the battery.

18 And that's the same case that we're proposing with
19 these wells, is they're going to be able to be tested once a
20 month, also. But it will only be Yeso production.

21 EXAMINER EZEANYIM: Okay. Well, maybe, I'll get some
22 information later for some of the questions I have here. Okay.
23 You tested five of these. You know, we normally approve these
24 applications administratively. But you came to here because
25 you wanted to sell production, you wanted to use well tests.

1 THE WITNESS: Yes, which is already done right now
2 with the existing wells.

3 EXAMINER EZEANYIM: I know you are doing it. That's
4 why you came to here because you do well tests, I know.

5 THE WITNESS: Yes, sir.

6 EXAMINER EZEANYIM: But as you know, well tests are
7 not as accurate as if you metered them --

8 THE WITNESS: Yes, sir.

9 EXAMINER EZEANYIM: -- with a well-calibrated meter
10 to get -- especially when you have very diverse ownership here,
11 which is the case in these two cases.

12 So that's why you came to here. And I heard you said
13 that the costs would be \$60,000 to do it.

14 THE WITNESS: That's an estimated cost for the
15 vertical wells to build a new battery. Plus we're going to
16 have to build a battery and disturb the area there where the
17 wells are located.

18 EXAMINER EZEANYIM: Yes. Apart from replacing the
19 battery, how much would it cost for you to get a meter-to-meter
20 production from those wells?

21 THE WITNESS: Production --

22 EXAMINER EZEANYIM: From the wells, you know, you
23 need to meter it. Because that's what 203 says, you know, you
24 need to do a meter when there is diverse ownership. So, I
25 mean --

1 THE WITNESS: So --

2 EXAMINER EZEANYIM: Do you consider the cost, what it
3 costs to have those metered there so that we can meter the
4 production from those wells accurately?

5 THE WITNESS: Yes. But we'll still be commingling at
6 the battery.

7 EXAMINER EZEANYIM: I know that.

8 THE WITNESS: Yeah, yeah.

9 EXAMINER EZEANYIM: But my question is: Why don't
10 you use a meter to do that?

11 THE WITNESS: Because there's already --

12 EXAMINER EZEANYIM: I know what you want to
13 commingle, but why don't you want to use a meter? You could
14 have got this application approved a long time ago, in December
15 or November of last year. It came to here because you want to
16 utilize tests, you want to do well tests, which you say are
17 monthly?

18 THE WITNESS: Yes, sir.

19 EXAMINER EZEANYIM: Okay. So what is the advantage
20 of you doing these well tests monthly as opposed to starting a
21 meter on those wellheads?

22 THE WITNESS: Well, just the infrastructure is
23 already in place.

24 EXAMINER EZEANYIM: For?

25 THE WITNESS: At the battery to be able to

1 periodically test each well. You're talking about setting a
2 separator at the well and separating the fluids?

3 EXAMINER EZEANYIM: We want to know what you are
4 commingling so that you can then allocate production back after
5 you commingle.

6 THE WITNESS: So we would be talking the cost of a
7 separator and meters. I --

8 EXAMINER EZEANYIM: How much would that be? You
9 don't know?

10 THE WITNESS: I couldn't tell you.

11 EXAMINER EZEANYIM: I know the intention is to reduce
12 operating costs, you know.

13 THE WITNESS: Yes, sir.

14 EXAMINER EZEANYIM: Okay. Let me see. Okay, after
15 you commingle this production, how do you allocate production
16 back to each well? For purposes of your revenue, how do you do
17 that?

18 THE WITNESS: This is exactly what I was -- each --
19 if you look at the schematic, each well is isolated once a
20 month, on a monthly basis.

21 EXAMINER EZEANYIM: Yeah. That's what I was looking
22 at.

23 THE WITNESS: And so we're able to get total volume
24 per well on a monthly basis both for oil, water, and gas. The
25 gas is done with a mobile orifice meter at the wellhead, so

1 that's how we are metering the gas for a 24-hour period. And
2 at the battery, we send the production which is isolating just
3 for that well that we're testing at that point in time, and
4 then the water is then metered so we have a 24-hour test on the
5 water, and then the oil is routed to a test tank which is just
6 isolated for that well production. And that's how we allocated
7 production per well.

8 EXAMINER EZEANYIM: What about the commingle?

9 THE WITNESS: And then the commingling is how I
10 explained before. From what I understand, the pre-approved
11 downhole commingling specifies that we use the last known test
12 from the Yeso prior to coming to the next zone.

13 And then after the next zone is completed, and with
14 commingling, you have two separate volumes to come up with an
15 allocation percentage between the two zones.

16 EXAMINER EZEANYIM: Let's go back to that schematic
17 now. I don't know -- so you can run through the schematic on
18 that. You can take any of the 14088 or 87, whichever is -- any
19 way we can run through this.

20 Because I don't understand how you can allocate
21 production back to each well. Yeah, right. Here we go. Which
22 one are you looking at? I'm looking at Hawk 8.

23 THE WITNESS: Okay.

24 EXAMINER EZEANYIM: Do you have Hawk 8?

25 THE WITNESS: Yes, sir.

1 EXAMINER EZEANYIM: Can you run through that?

2 THE WITNESS: Yes, sir. The header is located on the
3 right side of the schematic where all the numbers are listed.

4 EXAMINER EZEANYIM: Yes.

5 THE WITNESS: You see the dark line?

6 EXAMINER EZEANYIM: Yes.

7 THE WITNESS: That's our test line. It goes through
8 a test heater, which is labeled "test heater."

9 EXAMINER EZEANYIM: Yeah.

10 THE WITNESS: And to the left of the test heater,
11 that's the test oil line, which is routed to a test tank that
12 is isolated.

13 EXAMINER EZEANYIM: Okay.

14 THE WITNESS: And then to the right is where the
15 water is metered to the disposal.

16 EXAMINER EZEANYIM: Okay.

17 THE WITNESS: And that's done monthly for each well.

18 EXAMINER EZEANYIM: It's done for each well?

19 THE WITNESS: Yes, sir. On a monthly basis.

20 EXAMINER EZEANYIM: Yeah. Now, the production is not
21 commingled. It's not that you want to -- I assume you want to
22 allocate this production back to each well, because you
23 commingle --

24 THE WITNESS: Yes, sir. Yes, sir.

25 EXAMINER EZEANYIM: How do you then allocate back the

1 production?

2 THE WITNESS: For the wells that are in existence
3 that have commingling that are producing both zones?

4 EXAMINER EZEANYIM: Yeah.

5 THE WITNESS: After the individual well, you have a
6 total volume for the well.

7 EXAMINER EZEANYIM: Okay.

8 THE WITNESS: The way it's allocated, from what I
9 understand, is from the pre-approved commingling, downhole
10 commingling, is that after, you know -- let me just explain
11 this to you from when you first complete the well.

12 You complete the well to the Yeso, to the deepest
13 zone. We produce that well for an extended period of time
14 until production falls to a certain volume that we know that we
15 can commingle with the San Andres. So then it's plugged back.

16 And there's a last test that's recorded from that
17 Yeso production -- the last test is recorded. Then that volume
18 is considered. And then when the San Andres is completed by
19 itself, it's producing by itself for a certain period of time.
20 And then when the production falls and from a pumping -- or
21 just from an engineering standpoint, we feel it's feasible to
22 commingle, then we release the plug and we use the last-known
23 production from the Yeso with the last-known production from
24 the San Andres to come up with an allocation percentage.

25 EXAMINER EZEANYIM: Okay. Okay.

1 THE WITNESS: And that's how we've, on our downhole
2 commingled approval well, that's the standard practice.

3 EXAMINER EZEANYIM: And some of those wells are
4 downhole commingled so that really --

5 THE WITNESS: Yes, sir.

6 EXAMINER EZEANYIM: So I'm not going to ask what are
7 the production rates in the last 60 days because they are
8 all -- is that right?

9 THE WITNESS: Yes, sir. For the Hawk battery, the
10 last production, it was making about 136 barrels of oil for
11 however many wells there are. I couldn't tell you each one,
12 but about 170 barrels of water.

13 EXAMINER EZEANYIM: For the wells that are there,
14 right?

15 THE WITNESS: For the wells that are existing. Now,
16 for the Windfohr battery, where the single well that we're
17 proposing to go in, there's about a total production of 40
18 barrels of oil.

19 EXAMINER EZEANYIM: Production on Case No. 14088?

20 THE WITNESS: You mean by case numbers?

21 EXAMINER EZEANYIM: Yes. And on your Hawk Federal,
22 how much is the total?

23 THE WITNESS: The Hawk battery, okay.

24 EXAMINER EZEANYIM: What's the production?

25 THE WITNESS: 136 barrels of oil.

1 EXAMINER EZEANYIM: For all those wells?

2 THE WITNESS: For 17 wells.

3 EXAMINER EZEANYIM: Okay. And for Windfohr Federal?

4 THE WITNESS: 40 barrels of oil.

5 EXAMINER EZEANYIM: And I don't know you have
6 whatever -- and this is 17. Okay. Is this all federal, no
7 state land involved here?

8 THE WITNESS: It's federal.

9 EXAMINER EZEANYIM: It's all federal?

10 THE WITNESS: Yes, sir.

11 EXAMINER EZEANYIM: After given this, I'm going to
12 ask you that question: Given that this is BLM land, they have
13 no objection to your commingling?

14 THE WITNESS: No, sir.

15 EXAMINER EZEANYIM: How do you -- these well tests
16 will be conducted monthly?

17 THE WITNESS: Monthly.

18 EXAMINER EZEANYIM: Monthly, right?

19 THE WITNESS: Monthly, yes. 24-hour tests on a
20 monthly basis.

21 EXAMINER EZEANYIM: And the reason why you use the
22 liquid is that the battery is set and you're going to reduce
23 costs. Is that your why you're doing that?

24 THE WITNESS: It's going to reduce a significant
25 amount of cost. To build a battery would probably make two of

1 these projects uneconomic. Well, all three. The third project
2 is a horizontal well, so we haven't done one of those in the
3 area yet, so we don't know what it's going to cost yet. It may
4 cost more than what we anticipate.

5 EXAMINER EZEANYIM: Okay. I have no further
6 questions.

7 MR. BRUCE: I have nothing further, Mr. Examiner.

8 EXAMINER EZEANYIM: At this point, first of all, Case
9 No. 14087 will be continued for two weeks so you can supplement
10 that information. And then Case No. 14088 will be taken under
11 advisement.

12 Let's have at least a 10-minute break, and we will
13 come back and continue.

14 [Hearing concluded.]

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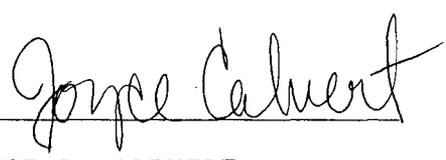
I do hereby certify that the foregoing is
a true and correct copy of the proceedings in
the case of 14087 and 14088
heard by 2/7/08
[Signature], Examiner
Oil & Gas Commission

REPORTER'S CERTIFICATE

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I, JOYCE D. CALVERT, Provisional Court Reporter for the State of New Mexico, do hereby certify that I reported the foregoing proceedings in stenographic shorthand and that the foregoing pages are a true and correct transcript of those proceedings and was reduced to printed form under my direct supervision.

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



JOYCE D. CALVERT
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