

NEW MEXICO OIL CONSERVATION COMMISSION

EXAMINER HEARING

SANTA FE, NEW MEXICO

Hearing Date OCTOBER 5, 1995 Time: 8:15 A.M.

NAME	REPRESENTING	LOCATION
Hal Gill	Tamarack Tech	Midland
Wendell	Y...	...
Brent May	Y...	...
Jerry Elger	Nearburg	Midland
Bob ...	Y...	...
Dennis ...	Empire Energy	Midland
Frank ...	ENRON	...
Randy ...	ENRON	...
P. C. ...	ENRON	...

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 TAMARACK PETROLEUM)
COMPANY, INC., FOR LEASE)
COMMINGLING, LEA COUNTY,)
NEW MEXICO)

CASE NO. 11,378

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

RECEIVED

OCT 19 1995

October 5th, 1995

Santa Fe, New Mexico

Oil Conservation Division

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, October 5th, 1995, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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October 5th, 1995
 Examiner Hearing
 CASE NO. 11,378

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E X H I B I T S

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Applicant's	Identified	Admitted
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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:

KELLAHIN & KELLAHIN
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 Santa Fe, New Mexico 87504-2265
 By: W. THOMAS KELLAHIN

* * *

1 WHEREUPON, the following proceedings were had at
2 8:15 a.m.:

3 EXAMINER STOGNER: Hearing will come to order for
4 Docket Number 29-95. Please notice today's date, October
5 5, 1995. I'm Michael Stogner, appointed hearing officer
6 for today's cases.

7 At this time I'll call Case Number 11,378.

8 MR. CARROLL: Application of Tamarack Petroleum
9 Company, Inc., for lease commingling, Lea County, New
10 Mexico.

11 EXAMINER STOGNER: At this time I'll call for
12 appearances.

13 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of
14 the Santa Fe law firm of Kellahin and Kellahin, appearing
15 on behalf of the Applicant, and I have one witness to be
16 sworn.

17 EXAMINER STOGNER: Are there any other
18 appearances in this matter?

19 Will the witness please remain standing to be
20 sworn?

21 (Thereupon, the witness was sworn.)

22 EXAMINER STOGNER: Mr. Kellahin?

23 MR. KELLAHIN: Mr. Examiner, my witness is Hal
24 Gill. Mr. Gill is a petroleum engineer with his company.
25 He resides in Midland, Texas.

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HAL GILL,

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. Gill, for the record, sir, would you please state your name and occupation?

A. I'm Hal Gill. I'm a district engineer for Tamarack Petroleum Company.

Q. And where do you reside, sir?

A. Midland, Texas.

Q. On prior occasions have you testified as a petroleum engineer before the Division and had your qualifications as an expert in that field accepted and made a matter of record?

A. Yes, sir, I have, several times.

Q. And as a district engineer for your company, are you responsible for the facts and the request by your company for authorization for commingling of production among the wells involved in the leases that are described in the Application?

A. Yes, I am.

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

EXAMINER STOGNER: Mr. Gill is so qualified.

1 Q. (By Mr. Kellahin) Mr. Gill, before we get into
2 the package of exhibits, let me have you generally describe
3 to Examiner Stogner what you're seeking to do.

4 A. We have a group of several leases that are
5 nearing their economic limit. The tank batteries are in
6 fairly bad mechanical condition due to the corrosive nature
7 of the produced fluids. We are not in a position
8 economically to be able to replace all the equipment that
9 needs to be replaced in order to maintain these batteries,
10 and we seek to get approval to commingle the production
11 from four wells -- actually five wells -- into one single
12 tank battery and measure this production for allocation
13 purposes by a monthly well test.

14 Q. You currently have an administrative order from
15 the Division that allows you to commingle this production,
16 subject, however, to the limitation that it must be
17 separately metered at the wellhead; is that not correct?

18 A. That is correct.

19 Q. And you're now seeking to remove that limitation
20 so that you can measure this production on a 24-hour
21 monthly test and make the allocation according to that
22 test?

23 A. That is correct.

24 Q. The leases involved, how many leases and of what
25 kind are they?

1 A. There are three leases, and they are all state
2 leases.

3 Q. Have you obtained the approval of the
4 Commissioner of Public Land, State of New Mexico,
5 authorizing and allowing Tamarack to commingle the
6 production of the three state leases on the surface with
7 the monthly test allocation procedure?

8 A. Yes, we have.

9 Q. In addition, have you received the written
10 consent of all other interest owners that are entitled to
11 share in this production?

12 A. Yes, we have.

13 Q. Let's turn to Exhibit 11, which is the plat, and
14 for purposes of orienting the Examiner, summarize for us
15 the kinds of wells you have in terms of where they produce,
16 what formation, and how they are configured in order to
17 store -- produce and store that production.

18 A. The wells produce from the Permo Upper Penn
19 reservoir. There are three leases shown here: the Lion
20 State; the Lion State "A", which has the Well Number 2-A on
21 it; and the Sanders State, which consists of Wells 1, 2 and
22 3.

23 The battery marked in the green color is the
24 battery that we propose to abandon and dismantle, and the
25 one shown in yellow is the one that we propose to use as

1 the commingled battery.

2 Q. Let's turn to the next exhibit, Exhibit 12.
3 Summarize for us your conclusions with regards to the cost
4 savings that are realized if you're allowed to commingle
5 the production and to monthly test for allocation purposes,
6 as opposed to what is currently authorized under the
7 administrative order issued for these properties.

8 A. Under the current order, we have estimated the
9 cost of the facilities that would be required to meter each
10 well's production according to what's shown on the top of
11 Exhibit 12, which amounts to a total of \$19,000. And of
12 course this includes the necessary repairs to the tank
13 battery that we will have to do, regardless.

14 And then at the bottom of the page, the estimated
15 cost to consolidate to a commingled battery using monthly
16 well tests for allocation, which, of course, the main
17 difference there being not being required to have separate
18 heater treaters and separate metering pods for each well.
19 And that total is \$6300.

20 Q. Having determined the cost of allocation under
21 the two methods, can you contrast that to the level of
22 production that you currently have for this property? And
23 perhaps you could go to Exhibit Number 3 and talk about the
24 level of production that remains on those wells.

25 A. Okay, Exhibit 3, as you will see, is just a

1 summary of the individual well tests for the four different
2 producing wells on these two leases for the 1995 year. And
3 as is shown in the last entry in September, these wells are
4 making anywhere from four to eight barrels of oil per day,
5 each well.

6 Q. In your opinion, is it economic for Tamarack as
7 the operator to go ahead and do this work and to separately
8 meter production from these wells in order to achieve an
9 appropriate allocation?

10 A. Yes. In fact, we feel it is necessary to be able
11 to do it that way in order to continue producing the wells,
12 because otherwise we would not be able to justify the
13 expense involved in allocating by metering. So...

14 Q. So the only way you keep this property in a
15 positive cash flow is to do it on a monthly allocation
16 basis?

17 A. That's correct.

18 Q. Do you have production decline curves for each of
19 these wells for the Examiner to review, and so he can see
20 your forecast of how these wells may produce in the future
21 and what they have done in the past?

22 A. I do have decline curves and tabular production
23 history for all of the wells.

24 Q. In addition, you have enclosed a copy of the
25 commingling order that allowed production to be commingled,

1 and it's Exhibit Number 1?

2 A. That's correct. And I do need to make a
3 correction to that.

4 In the last paragraph where it says "Remarks:
5 Commingled production shall be stored in the Saunders and
6 Lion State tank battery facility located in Unit P..." that
7 is actually located in Unit J, Section 9.

8 EXAMINER STOGNER: What document are we talking
9 about?

10 MR. KELLAHIN: Exhibit 1, the first page of
11 Exhibit 1.

12 Q. (By Mr. Kellahin) In the last paragraph it says
13 "Unit P"?

14 A. That's the commingling order.

15 EXAMINER STOGNER: That should be Unit J?

16 THE WITNESS: Yes, sir, as is shown on the
17 Exhibit 11.

18 Q. (By Mr. Kellahin) Exhibit 2 is a sample of the
19 type of letter requesting approval of surface commingling
20 with the monthly test allocation that you sent to all the
21 interest owners?

22 A. Correct. And I would call your attention to the
23 last paragraph that specifically says, "If you concur with
24 surface commingling these leases into one central battery
25 and the allocation of production and distribution of sales

1 revenue by a 24-hour test taken monthly, please sign..."
2 and so on.

3 Q. Have you attached as an exhibit copies of all the
4 waivers that you have received or the consents from the
5 interest owners?

6 A. Yes, we have attached all of the waivers, which
7 have been executed by all owners, including the State of
8 New Mexico.

9 Q. Turn to Exhibit 13 and summarize for me what the
10 significance is of that exhibit.

11 A. Exhibit 13 shows the revenue for the year 1995,
12 from each lease. The Lion State and the Lion State "A" are
13 combined at the top, and the Saunders State lease.

14 This simply shows that in the calendar year 1995,
15 the Lion State and Lion State "A" leases actually are in a
16 cash-loss position, due to a workover that was required on
17 one of the wells in March where the cost was over \$10,000
18 for that month.

19 But the total revenue for both leases in 1995, as
20 of July 1st, had been \$7184, and the monthly average
21 revenue during that period was \$1197. This is for both
22 leases.

23 And we are estimating monthly average net
24 revenue, assuming constant prices and current decline
25 rates, which is anybody's guess, but -- of \$900 a month for

1 the two leases during the period of October, 1995, through
2 October, 1997.

3 Q. As a petroleum engineer, do you have an expert
4 opinion and conclusion concerning approval of this
5 Application in terms of prevention of waste?

6 A. It is my opinion that, should this Application
7 not be approved, that the wells will have to be prematurely
8 abandoned and cause waste, because of the loss of revenue
9 and recovery of oil for all parties.

10 Q. In terms of correlative rights, Mr. Gill, is the
11 24-hour test to monthly allocate production an appropriate
12 and equitable way by which the interest owners can share in
13 that production?

14 A. Yes, sir, I believe it is.

15 MR. KELLAHIN: That concludes my examination of
16 Mr. Gill.

17 We move the introduction of his Exhibits 1
18 through 24.

19 EXAMINER STOGNER: Exhibits 1 through 24 will be
20 admitted into evidence at this time.

21 EXAMINATION

22 BY EXAMINER STOGNER:

23 Q. Mr. Gill, in referring to Exhibit Number 17, this
24 is the Commissioner's -- Land Commissioner's preliminary
25 approval or approval?

1 A. Yes, sir.

2 Q. Is this for the administrative application that
3 was --

4 A. It is, yes.

5 Q. Okay. And have you been in contact with them
6 about the proposal for a testing method?

7 A. They received this same ballot letter that
8 everyone did and executed that ballot letter, and it says
9 in their letter here that, "It is our understanding that
10 the production from the above-mentioned wells will be
11 allocated based on monthly well tests."

12 Q. Okay, which exhibit is that?

13 A. That's in Exhibit 17 --

14 Q. Seventeen.

15 A. -- in the second paragraph. And they also
16 executed the ballot letter, which we sent out, which their
17 execution is Exhibit 16.

18 Q. Now, these are four separate state leases; is
19 that correct?

20 A. I believe --

21 Q. Or three, I'm sorry, three.

22 A. It's actually three separate leases, yes, sir.

23 Q. Do you know if the beneficiary is the same on
24 those leases?

25 A. The beneficiary, you're going to have to clarify

1 that for me.

2 Q. Do you know what the state beneficiaries are? If
3 you don't, just say no.

4 A. I don't believe so, no.

5 Q. On Exhibit Number 11, you have the existing
6 battery and the proposed battery.

7 Is there any facilities out there on that
8 proposed battery site now, or is that going to be a whole
9 new site?

10 A. That is an existing battery. It is in, as I
11 mentioned earlier, poor mechanical condition at this time.

12 And what we would propose to do is move the
13 equipment that is still usable from the one that is marked
14 in green to that yellow site. And by use of just
15 consolidating that equipment, we believe we can come up
16 with one battery that will be adequate operationally to
17 prevent the possibility of environmental damage and loss of
18 oil.

19 Q. What is currently your disposal method for water
20 there?

21 A. That water is trucked from location.

22 Q. To a surface or subsurface disposal site?

23 A. I believe it's a subsurface disposal site, but
24 I'm not positive of that.

25 Q. And prior to July of 1995 when Administrative

1 Order CTB-411 was filed, did each well have its own
2 battery, or each lease have its own battery?

3 A. The Lion State and the Lion State "A" were
4 previously approved for commingling, and have both produced
5 into the battery highlighted in yellow for several years.

6 Q. Now, you said the Lion State and the Lion State
7 "A" leases were two separate leases. Did that have an
8 administrative approval for the surface commingling of
9 those two wells?

10 A. Yes, sir, that's correct.

11 Q. Do you know what that order was, perchance?

12 A. I do not, no, sir.

13 Q. Could you perhaps provide me with that subsequent
14 to the hearing?

15 A. I certainly may.

16 EXAMINER STOGNER: Okay. Mr. Kellahin, if you
17 could just pass that information by a phone call or
18 whatever.

19 MR. KELLAHIN: All right, sir.

20 EXAMINER STOGNER: I'm sure we have it here. We
21 just need to make sure the records are all straight and
22 everything.

23 I have no further questions of Mr. Gill.

24 Do you have anything further?

25 MR. KELLAHIN: No, sir.

1 EXAMINER STOGNER: Does anybody else have
2 anything further in Case Number 11,378?

3 If not, then this case will be taken under
4 advisement.

5 THE WITNESS: Thank you, Mr. Examiner.

6 EXAMINER STOGNER: Thank you.

7 (Thereupon, these proceedings were concluded at
8 8:38 a.m.)

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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.

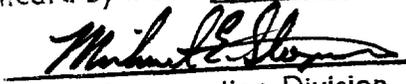
WITNESS MY HAND AND SEAL October 11th, 1995.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 1998

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 11328 heard by me on 5 October 1995.

, Examiner
Oil Conservation Division