

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 ) CASE NOS. 12,967  
COMPANY FOR SURFACE COMMINGLING, )  
EDDY COUNTY, NEW MEXICO )  
 )  
APPLICATION OF BP AMERICA PRODUCTION ) and 12,968  
COMPANY FOR SURFACE COMMINGLING, )  
EDDY COUNTY, NEW MEXICO )  
 ) (Consolidated)

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

ORIGINAL

BEFORE: DAVID R. CATANACH, Hearing Examiner

January 9th, 2003

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, January 9th, 2003, 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.

\* \* \*

STEVEN T. BRENNER, CCR  
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## I N D E X

January 9th, 2003,  
 Examiner Hearing  
 CASE NOS. 12,967 and 12,968 (Consolidated)

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## A P P E A R A N C E S

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FOR TRILOGY OPERATING, INC.; JERRY A. WEANT; BOB STEVENS;  
C.C. TULL, JR.; DOUG TULL; GEORGE KNOX; S. FAMILY PARTNERS,  
LTD., WESLEY K. NOE; CALMETTO II, LTD.; SCOTT MUEHLBRAD;  
SUTHERLAND FAMILY, L.L.C.; AVALON OIL COMPANY; MICHAEL G.  
MOONEY; POGAR PETROLEUM; and STEVENS AND TULL DEVELOPMENT,  
L.P. (Case 12,967) and WESLEY NOE; BOB STEVENS; DOUG TULL;  
GEORGE KNOX; POGAR PETROLEUM; SUTHERLAND FAMILY, L.L.C.;  
JERRY WEANT; C.C. TULL, JR.; S. FAMILY PARTNERS, LTD.,  
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INC. (Case 12,968):

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\* \* \*

1           WHEREUPON, the following proceedings were had at  
2   9:31 a.m.:

3           EXAMINER CATANACH:   Okay, at this time I will  
4   call Case 12,967, the Application of BP America Production  
5   Company for surface commingling, Eddy County, New Mexico.  
6           Call for appearances.

7           MR. FELDEWERT:   May it please the Examiner, my  
8   name is Michael Feldewert with the Santa Fe office of  
9   Holland and Hart.   I'm appearing on behalf of BP America  
10   Production Company.   I have one witness here today, and we  
11   would like to consolidate Case 12,967 with Case 12,968 for  
12   purposes of presenting testimony.

13           EXAMINER CATANACH:   Call for additional  
14   appearances in this case.

15           MR. OWEN:   May it please the Examiner, Paul R.  
16   Owen of the Santa Fe law firm of Montgomery and Andrews,  
17   appearing in Case Number 12,967 on behalf of Trilogy  
18   Operating, Inc.; Jerry A. Weant; Bob Stevens; C.C. Tull,  
19   Jr.; Doug Tull; George Knox; S. Family Partners, Ltd.,  
20   Wesley K. Noe; Calmetto II, Ltd.; Scott Muehlbrad;  
21   Sutherland Family, L.L.C.; Avalon Oil Company; Michael G.  
22   Mooney; Pogar Petroleum; and Stevens and Tull Development,  
23   L.P.

24           I have another list of parties on whose behalf  
25   I'm appearing in Case 12,968, and I concur in Mr.

1 Feldewert's request that it be consolidated.

2 EXAMINER CATANACH: You answered my question.

3 At this time I'll call Case 12,968, which is the  
4 Application of BP America Production Company for surface  
5 commingling, Eddy County, New Mexico.

6 And Mr. Owen, you're appearing in that case?

7 MR. OWEN: I am, on behalf of a slightly  
8 different list of parties. I'm appearing on behalf of  
9 Wesley Noe; Bob Stevens; Doug Tull; George Knox; Pogar  
10 Petroleum; Sutherland Family, L.L.C.; Jerry Weant; C.C.  
11 Tull, Jr.; S. Family Partners, Ltd., Scott E. Muehlbrad;  
12 JPAK, L.P.; and Westwood Lake Village, Inc.

13 EXAMINER CATANACH: Okay, any additional  
14 appearances?

15 Okay, these cases will be consolidated for the  
16 purpose of the hearing today.

17 MR. OWEN: Mr. Examiner, I have two witnesses in  
18 this matter.

19 EXAMINER CATANACH: Okay. And Mr. Feldewert, you  
20 have one witness?

21 MR. FELDEWERT: Yes, sir.

22 EXAMINER CATANACH: May I please get all three  
23 witnesses to stand and be sworn in?

24 (Thereupon, the witnesses were sworn.)

25 MR. FELDEWERT: Mr. Examiner, we'll call Bob

1 Manthei.

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

5 DIRECT EXAMINATION

6 BY MR. FELDEWERT:

7 Q. Mr. Manthei, could you please state your full  
8 name and address for the record?

9 A. My name is Robert Manthei, and I reside at 8  
10 Heritage Court, Andrews, Texas.

11 Q. By whom are you employed and in what capacity?

12 A. I'm employed by BP America Production Company as  
13 an operations supervisor.

14 Q. And have you previously testified before this  
15 Division?

16 A. No, I have not.

17 Q. Would you summarize your educational background  
18 for the Examiner after high school?

19 A. After high school I attended the Denver Institute  
20 of Technology in 1975 for motorcycle mechanics, and then I  
21 have approximately 24 hours of college credit towards an  
22 associate's degree in computer science.

23 Q. Mr. Manthei, how long have you been working in  
24 the oilfield?

25 A. I've been working in the oilfield since 1980.

1 Q. Okay, and why don't you summarize for the  
2 Examiner your experience in the oilfield since 1980?

3 A. In 1980 I was hired by Atlantic Richfield  
4 Corporation as a roustabout relief pumper. In 1981 I was  
5 promoted to lease pumper, and then in 1985 I was promoted  
6 to operations supervisor for southeast New Mexico.

7 Q. Who did you work for prior to ARCO in 1980?

8 A. Prior to ARCO I spent one year working for Alamo  
9 Pipe and Supply. Then I spent about three years working  
10 for Enron Southwest, which is a chemical plant. And then I  
11 spent one year for Bethlehem Steel as an oilfield mechanic.

12 Q. What did you do for the chemical plant? What  
13 were your job responsibilities?

14 A. My job responsibilities there were water  
15 treatment, compression and process operations. We took  
16 natural gas and converted it into ammonium nitrate and  
17 ammonia.

18 Q. Did you have experience at that time with chart-  
19 reading and other methods of measuring natural gas?

20 A. Yes, I did. We had chart meters, natural gas,  
21 and then we had various recorders throughout the plant that  
22 measured other flows.

23 Q. When you were a lease pumper for -- shortly  
24 between 1980 and 1985, what were your job responsibilities  
25 with respect to oilfield operations?

1           A.    As a roustabout relief pumper and lease pumper,  
2 we were responsible for well testing, reading charts and  
3 switching orifice plates.

4           Q.    Did you deal with allocation meters?

5           A.    We dealt with the allocation meters that we used  
6 on the test systems.

7           Q.    Okay.  In 1985 you said you were a production  
8 supervisor for ARCO.  What area of the country?

9           A.    That was in Eddy County.

10          Q.    And what were your job responsibilities as a  
11 production supervisor for ARCO in 1985?

12          A.    In 1985 I assumed responsibility for numerous gas  
13 wells that we had throughout Eddy County and some of the  
14 small oil leases that we had and one small waterflood unit.  
15 I supervised well workovers, production reporting, the  
16 tests and information that the pumpers turned in.

17          Q.    And did your job responsibilities change at some  
18 point after 1985?

19          A.    Yes, they did.  In 1987 we went from manual  
20 allocations to an automated system, and I became the field  
21 contact for our production allocating reporting system to  
22 develop the schematics and identify the allocation points  
23 and the drawings for the automation system.

24          Q.    And what about after 1987?

25          A.    In about 1989 we installed an automation system

1 where we started doing electronic gas measurement there in  
2 Eddy Count. We installed and programmed the RTUs that we  
3 use to calculate the gas.

4 Q. Did you supervise those operations?

5 A. Yes, I did.

6 Q. Okay. What did you do after -- That brings us up  
7 to 1989. What about after 1989?

8 A. After 1989 I continued to supervise there in the  
9 Artesia area, up until 1993. And then in 1993, because of  
10 divestitures, I was moved to the Hobbs office and assumed  
11 responsibilities as the production allocating reporting  
12 coordinator for all of southeast New Mexico.

13 Q. What was your title?

14 A. The title then was operations specialist.

15 Q. In that did you deal with -- I think you said  
16 allocation issues?

17 A. That's correct, we managed all the data that we  
18 collected electronically from the field, brought that into  
19 the system to be allocated, and we were also responsible  
20 for setting up the allocations in the system. And in 1994  
21 we assumed all responsibilities for filing the C-115 and  
22 the 3160 monthly report of operations.

23 Q. Now, how long did that job -- How long were you  
24 an operations specialist in Hobbs?

25 A. I was the operations specialist in Hobbs up until

1 the latter part of 1996 when I was assigned field duties  
2 again for the Lea County area.

3 Q. Did those field duties include gas allocation and  
4 measurement?

5 A. Yes, they did, it was similar to what I had had  
6 prior to -- in Eddy County, and it entailed supervising  
7 some of the leases where we had surface commingles.

8 Q. So you supervised commingling operations?

9 A. Yes, I did.

10 Q. Okay. And then how long did you hold your  
11 position as a production field supervisor?

12 A. That's -- I had the field responsibility duties  
13 up until about 1999.

14 Q. Then what happened?

15 A. And then in 1999 I assumed more of the regulatory  
16 compliance issues that we have.

17 Q. Do you supervise personnel dealing with the  
18 installation and calibration of the gas measurement and  
19 allocation devices?

20 A. Yes, I do. I received that responsibility in  
21 mid-2000, I became the measurement supervisor for our  
22 technician that does all of our calibration, our witnessing  
23 and meter installations for allocation meters and test  
24 meters.

25 Q. Over your career, have you received training in

1 the techniques associated with gas measurement and  
2 allocation of production?

3 A. Yes, I have. We used to have an annual oil and  
4 gas measurement training that we put all of our field  
5 personnel through, supervisors included. We continued that  
6 process up until about 1990. We did that for about ten  
7 years, and then we started doing what we called annual  
8 compliance training. And periodically, about every other  
9 year at that point, we would go back through and we would  
10 conduct gas measurement training on basic fundamentals and  
11 operations of gas meters and the installation and  
12 calibration of them.

13 And I've also attended some of the total flow  
14 seminars that give you the basic readouts and fundamentals  
15 of that. I've had a two-week training course in our Dallas  
16 office where we had operations supervisor training. It was  
17 a two-week course that covered everything from well work to  
18 allocations to gas measurement.

19 Q. You've also been trained in manual allocation  
20 methods?

21 A. That's correct. In the period of time I was a  
22 roustabout relief person I was trained to do the manual  
23 hand calculations that we used prior to the automation  
24 system, where we would take the information off the  
25 allocation meters and balance back to the sales points.

1 Q. The age before computers?

2 A. That's correct.

3 Q. Have you been trained in compressor operations?

4 A. Yes, I have. We had several company courses that  
5 included reciprocal compressors, and also in prior job  
6 experience for Enron Southwest I was a compressor operator.

7 Q. Have you spent your entire career in southeast  
8 New Mexico?

9 A. Yes, I have.

10 Q. How long have you been responsible for or  
11 supervised natural gas measurement devices, field  
12 operations and production allocation techniques?

13 A. Actually, that's been part of my job duties  
14 throughout my career since 1985.

15 Q. And did that responsibility include the  
16 supervision and management of surface commingling  
17 operations?

18 A. Yes, it did.

19 Q. And are you familiar with the administrative  
20 applications that comprise the consolidated cases here  
21 today?

22 A. Yes, I am.

23 Q. And are you familiar with the facilities and the  
24 wells at issue in these consolidated cases?

25 A. Yes, I am.

1 MR. FELDEWERT: Mr. Examiner, at this time I  
2 would offer Mr. Manthei as an expert witness on oil and  
3 natural gas measurement, field operations and production  
4 allocation.

5 EXAMINER CATANACH: Any objection, Mr. Owen?

6 MR. OWEN: Well, I'd like to indicate that there  
7 has been no testimony at all indicating that Mr. Manthei is  
8 an expert in petroleum accounting and that he is not --  
9 that the tender of him as an expert witness does not  
10 include expertise in that area.

11 EXAMINER CATANACH: I don't think they attempted  
12 to qualify him in that area. We'll go ahead and qualify  
13 him as proposed by Mr. Feldewert at this point.

14 Q. (By Mr. Feldewert) Mr. Manthei, would you please  
15 briefly state what BP America seeks in these consolidated  
16 Applications? And I would -- Well, go ahead.

17 A. What we seek here is to cancel two existing  
18 surface commingle permits, Number PLC-184 and CBT-527  
19 [sic], that were previously issued by the Division. We  
20 wish to reconfigure those surface commingles to include the  
21 14 previously approved wells and the addition of two wells  
22 to the previously approved commingling.

23 Q. So your Application today seeks approval of  
24 surface and commingled production from 16 -- are they gas  
25 wells?

1 A. That's correct.

2 Q. Okay. Why don't you turn to what's been marked  
3 as BP's Exhibits 1 and 2, and would you please inform the  
4 Examiner how BP's Applications to reconfigure the surface  
5 commingling of 14 previously approved wells and to add two  
6 new additional wells -- how that effort is broken down  
7 between the two case numbers that have been assigned by the  
8 Division to your Applications?

9 A. Okay. In our Exhibit 1 we seek to combine the  
10 B&C 25 Federal Number 3 gas stream with seven of the  
11 previously approved wells by the Division, the commingle  
12 listed in that letter. That's Case Number 12,967.

13 And Exhibit 2, we seek to combine the Little Box  
14 State Number 6 with seven wells that were previously  
15 approved by the Division for commingling listed on that  
16 letter, and that letter is Case Number 12,968.

17 Q. Okay, and do each of these -- Does Exhibit 1 and  
18 Exhibit 2 identify the wells for which you are seeking  
19 approval to commingle?

20 A. Yes, they do.

21 Q. Why is BP asking the Division to reconfigure  
22 wells that were previously approved for surface  
23 commingling?

24 A. What we're trying to do is simplify our  
25 operations. We also want to reduce our greenhouse gas

1 emissions. It will also reduce our lease operating cost,  
2 and it will help prevent waste and protect correlative  
3 rights.

4 Q. How are you cutting down in your greenhouse gas  
5 emissions?

6 A. Greenhouse gas emissions will be reduced by the  
7 elimination of one compressor and consolidating into  
8 existing compressors that we have.

9 Q. Okay. Now, do each of these -- I'll call  
10 Exhibits 1 and 2 your Application letters. Do they have  
11 attached to them a C-103?

12 A. Yes, they do.

13 Q. And do these Application letters and their  
14 attachments, do they identify the affected wells, the  
15 affected leases and the pools?

16 A. Yes, they do.

17 Q. Okay. Is there a schematic of your commingling  
18 plan attached to each of these letter Applications?

19 A. Yes, there is.

20 Q. And where is that located?

21 A. It's located in the attachment. It's on page 5,  
22 and it's in Exhibits 1 and 2.

23 Q. Why don't you kind of briefly walk the Examiner  
24 through what else is attached to each of these letter  
25 Applications? You have your C-103, correct?

1 A. That is correct.

2 Q. Okay, and then what else -- What's the next  
3 attachment?

4 A. After the C-103, we have a breakdown that lists  
5 each well by lease name, well number, field name and pool  
6 code, and it gives the API numbers with the lease numbers.

7 Next we have an attachment that is a flow  
8 schematic of how the surface commingle is to be  
9 established, what the allocation points are and what the  
10 custody transfer point is for the sales.

11 We also have attached to that a division of  
12 interest breakdown of all the interest owners that are  
13 associated with these properties, both working interest,  
14 royalty interest and overriding royalty interest.

15 We also have attached to that a list of addresses  
16 for each one of those interest owners.

17 We have a notarized affidavit signed by our  
18 regulatory analyst, indicating that they were all notified  
19 of the commingling Application.

20 And we also have the C-102 plat for the acreage  
21 dedication for each well and lease. It's the same for both  
22 exhibits.

23 Q. Are the wells in each of these Applications, are  
24 they flowing gas wells?

25 A. Yes, they are.

1 Q. Okay, and what do you intend to do with any  
2 fluids produced by these wells?

3 A. There will be no commingling of any of the  
4 produced fluids from these wells. They will remain on  
5 lease, and they will remain separated in their respective  
6 facilities.

7 Q. Now, is the ownership in the affected leases and  
8 pools -- is it identical, or do you have different  
9 ownerships?

10 A. No, there is different ownership.

11 Q. Okay, and I think you indicated there is an  
12 affidavit in here giving notice to all the affected  
13 parties. Did that include the royalty owners?

14 A. Yes, it did, it included all the royalty  
15 interests, overrides and working interest.

16 Q. Okay. Now, using the schematic which is on page  
17 5 of each of these exhibits, would you explain to the  
18 Examiner how BP intends to measure and allocate the  
19 production under each of these Applications?

20 A. Under this Application, according to the  
21 schematic --

22 Q. Are you looking at the schematic which is page 5  
23 of Exhibit 1?

24 A. That is correct. On this schematic we have  
25 total-flow electronic flow meters set on each individual

1 well stream, and we will be metering that stream  
2 individually from those wells. That gas then will be  
3 combined into a common stream, and it will be sold through  
4 the sales point to El Paso. Each of this -- All of this  
5 gas will be metered prior to leaving the lease.

6 We will be conducting our calibration and testing  
7 of these meters according to the Rule 303 guidelines and  
8 BLM Onshore Order 5. We'll allocate the production based  
9 on those allocation meters by metered production.

10 Q. So you're using what is referred to as the  
11 metering method, I guess, in Rule 303?

12 A. That's correct.

13 Q. Now, you indicated you were going to be doing  
14 calibration. How often is that calibration required by BLM  
15 Offshore Order Number 5?

16 A. BLM Offshore Order Number -- or Onshore Order  
17 Number 5 stipulates that allocation meters will be  
18 calibrated at least quarterly.

19 Q. Okay. Now, how often are the sales meters  
20 calibrated?

21 A. Our sales meters are calibrated monthly.

22 Q. Do you have a check meter on those as well?

23 A. We have check meters on some of them. We don't  
24 have them on all of them, but we're in the process of  
25 getting check meters on all of those to verify that the

1 sales meter is correct.

2 Q. Okay, so you're going to have one sales meter for  
3 the configuration comprised in Case 12,967 and one sales  
4 meter for the case comprising 12,968?

5 A. That's correct.

6 Q. Okay. In your opinion, will BP's surface  
7 commingling plan reliably and accurately measure and  
8 allocate production from each of the affected pools and  
9 leases?

10 A. Yes, it will.

11 Q. And why is that?

12 A. We'll be using the most accurate method available  
13 for the meters that we have, which are the new electronic  
14 total flow meters. And we also plan to be metering the  
15 fuel usage for each compressor individually. And the  
16 allocation method, what was previously approved.

17 Q. So you're metering each well?

18 A. That is correct.

19 Q. You're using electronic flow meters rather than  
20 chart meters?

21 A. That's correct, we'll be using the new electronic  
22 flow meters. We'll actually be using a product designed by  
23 Total Flow.

24 Q. And you are measuring the gas that is used by the  
25 compressors for fuel?

1           A.    That's correct, we have meter runs set on the  
2 fuel that's being consumed by the compressors.

3           Q.    Okay.

4           A.    And it's metered by the same type of meter.

5           Q.    When did the Division most recently approve the  
6 surface commingling of 14 of the 16 wells that are the  
7 subject of the Applications today? Exhibit 3 and 4 are  
8 approvals of surface commingling. The most recent one was  
9 CBT-527 [sic], which was issued in July 26th of 2002, and  
10 then PLC-184, issued July 26th of 2001.

11          Q.    So PLC-184 comprises Exhibit Number 3?

12          A.    That's correct.

13          Q.    And CDB-527 [sic] comprises Exhibit Number 4?

14          A.    That's correct.

15          Q.    Are these the orders that should be canceled if  
16 the Division approves your Applications today?

17          A.    Yes, they are.

18          Q.    All right. Were these prior orders from the  
19 Division, were they based on the same metering and  
20 allocation plan that BP proposes to use with the addition  
21 of the two wells under the Applications today?

22          A.    It will be used under the same Application, the  
23 allocation method will be the same. However, we have  
24 improved on the system and eliminated any chart records  
25 that we have, and everything is now electronic.

1 Q. Were you metering the gas used by the compressors  
2 at the time that these orders were -- or these requests  
3 were approved by the Division?

4 A. No, we were not. They were based on theoretical  
5 estimates, based on the manufacturer's recommended design  
6 usage for the brake horsepower.

7 Q. So that's an additional improvement to your  
8 system that did not exist at the time the Division  
9 previously approved your surface commingling?

10 A. That's correct.

11 Q. Okay. Now, are you aware that at least what's  
12 been referred to me as the Avalon group and the Trilogy  
13 group, that they have objected to the Applications  
14 comprising the consolidated cases today?

15 A. Yes, I am.

16 Q. Are the principals in each of these groups  
17 basically the same?

18 A. From what I understand, yes, they are.

19 Q. Okay. And was the Avalon group and the Trilogy  
20 group -- were they notified of the applications that gave  
21 rise to the prior Division orders approving the surface  
22 commingling of 14 of the 16 wells we referred to as  
23 Exhibits 3 and 4?

24 A. Yes, they were.

25 Q. Did either of these groups object to your request

1 to surface commingle those wells?

2 A. No, they did not.

3 Q. Okay. Has the BLM conducted any recent audits in  
4 which it examined the measurement and allocation procedures  
5 that you have used for your commingling operations?

6 A. Yes, they did. They've conducted two audits, one  
7 in 2000 and one in 2001.

8 Q. Okay, why don't you turn to Exhibit 5A, identify  
9 that for the Examiner and review it, please?

10 A. Exhibit 5A is a letter request from BLM to  
11 conduct a production accountability inspection of the  
12 Leggett Federal. They requested gas-chart integrations,  
13 calibrations, purchaser statements.

14 Q. Now, is the Leggett Federal, is that one of the  
15 wells that is the subject of BP's Application under Case  
16 12,967?

17 A. Yes, it is.

18 Q. Okay. And what is -- Would you identify for the  
19 Examiner Exhibit 5B?

20 A. Exhibit 5B is another letter requesting a  
21 production accountability -- Oh, I'm sorry, 5B? 5B is my  
22 response to that audit where we provided the breakdown of  
23 all the wells affected by the surface commingling. For BLM  
24 to conduct their audit properly, they had to have all the  
25 allocation meters that were part of the surface commingle,

1 in order to verify that the correct allocation was used in  
2 reporting the volume for the Leggett Federal, and it had to  
3 balance throughout with the rest of the other meters.

4 Q. Okay, now you said 5B was your response. Were  
5 you involved in responding to this audit initiated by the  
6 BLM in 2000?

7 A. Yes, I was.

8 Q. In fact, you're referenced on the second page of  
9 that Exhibit 5B; is that correct?

10 A. That is correct.

11 Q. Okay. Were the wells that are listed on Exhibit  
12 5B, were they subject to surface commingling at the time of  
13 this BLM audit?

14 A. Yes.

15 Q. Now, and the first page, the second sentence  
16 indicates that you had a gas gathering system consisting of  
17 one El Paso Field Services master meter and then 12 ARCO  
18 allocation meters; is that correct?

19 A. That is correct.

20 Q. Okay. So at that time were you commingling  
21 production by use of allocation meters and then selling it  
22 through a single sales meter?

23 A. Yes, we were.

24 Q. Are the 12 wells that are included in this  
25 letter, are they part of BP's Applications here today?

1 A. Yes, they are.

2 Q. Okay. Now, I notice that there are flash gas  
3 meters listed on this letter, the last three listings. Are  
4 those flash gas meters part of the commingling operations  
5 under your consolidated Applications today?

6 A. No, they are not.

7 Q. Have they been eliminated from the system?

8 A. Yes, they have.

9 Q. Why is that?

10 A. The reason they've been eliminated from the  
11 system is, we can no longer utilize the flash gas due to  
12 the wellhead pressures and the compressor pressures. You  
13 can only subtract the flash gas when you have a pressure  
14 drop, and since all the wells now are on compression we no  
15 longer have that pressure drop, and we're no longer able to  
16 extract the flash gas from the liquids.

17 Q. Were these flash gas meters, were they on the  
18 wells or were they on the tank batteries?

19 A. No, they were on the tank batteries. The flash  
20 gas meters were used when the wells were originally  
21 drilled. They were high-pressure wells and they were  
22 producing into high-pressure lines. What we did is, we  
23 installed a line to a low-pressure suction side of a  
24 compressor that allowed us to capture the fugitive  
25 emissions that were escaping from the tank and being lost.

1 Q. So this is gas that was previously lost?

2 A. That's correct.

3 Q. Okay. Now, this audit that comprises Exhibits 5A  
4 and 5B, what exactly did the BLM do under this audit?

5 A. What they did under this audit was, they  
6 inspected our calibration records, they looked at our meter  
7 provings, they looked at our allocation methods or  
8 formulas, and from that they calculated what they assumed  
9 would be the correct reporting volume for the Leggett  
10 Federal and compared that to with what we had reported.

11 Q. Okay. Now, in order to make that determination  
12 on the Leggett Federal, did the BLM have to examine the  
13 measurement devices and the allocation techniques for all  
14 of the wells and meters listed on Exhibit 5B?

15 A. Yes, they did.

16 Q. After this audit, did the BLM identify any  
17 concerns to BP about the measurement and allocation devices  
18 or methodology used for these wells or issue any kind of  
19 noncompliance notices?

20 A. No, they did not, and subsequently they approved  
21 the addition of the additional wells that we added, in  
22 April of 2001.

23 Q. And does that comprise Exhibit 5C, that approval?

24 A. That is correct.

25 Q. And subsequently you added some additional wells

1 to the surface commingling operations?

2 A. That is correct.

3 Q. And the BLM approved those additions by virtue of  
4 -- as shown on Exhibit 5C?

5 A. That is correct.

6 Q. Okay. Now, you mentioned that the BLM did an  
7 audit in 2000. Did you also mention that they did an audit  
8 in 2002?

9 A. That is correct, in 2002 we had another audit --  
10 that's Exhibit 6A -- where they requested the same  
11 information for the Sweet Thing Federal Unit Number 1.

12 Q. Okay. Now, is this one of the wells that's  
13 involved in BP's Application under Case 12,968?

14 A. That is correct.

15 Q. Okay. What is Exhibit 6B?

16 A. Exhibit 6B is our response to BLM where we  
17 supplied the supporting documentation that they had  
18 requested.

19 Q. Okay, were you involved in this BLM audit in  
20 2002?

21 A. Yes, I was.

22 Q. In fact, you're again referenced on the last  
23 paragraph of 6B; is that correct?

24 A. That is correct.

25 Q. Okay. In connection with this audit, did BP

1 provide BLM allocation breakdowns and meter volumes for all  
2 of the wells that were commingled at the time with this  
3 audited well?

4 A. Yes, we did. We basically had to supply the same  
5 information that we supplied in the first audit that they  
6 performed on the Leggett. We had to supply all the  
7 calibration records, the meter documentation, the volume  
8 calculations for all the wells that were associated with  
9 the allocation and the surface commingle so that they could  
10 determine if the volume reported for the Sweet Thing  
11 Federal Unit Number 1 well was the correct volume.

12 Q. Now, the second paragraph references "Nasser CPD  
13 Allocation breakdowns." Do you see that?

14 A. Yes, I do.

15 Q. What is the Nasser CPD?

16 A. That is the sales point, it's the El Paso sales  
17 point that was referenced in the first audit.

18 Q. Okay, all right. After this audit did the BLM  
19 identify any concerns with the measurement and allocation  
20 devices utilized for these wells by BP?

21 A. No, they did not.

22 Q. Has the BLM ever indicated a concern about the  
23 method by which BP measures and allocates gas in your  
24 commingling operations that are the subject of the  
25 Applications today?

1 A. No, they have not.

2 Q. Now, has BP been informed of the basis for the --  
3 what I'll call the Trilogy Group's objection to BP's  
4 Applications to add two wells to the 14 wells previously  
5 approved for surface commingling?

6 A. Yes.

7 Q. And was that done by way of a prehearing  
8 statement?

9 A. Yes, it was.

10 Q. And what did they reference?

11 A. They referenced the Trilogy audit report.

12 Q. Have you reviewed that Trilogy audit report?

13 A. I've had that document since November the 14th,  
14 and I've had about three weeks to look at it.

15 Q. You've been on vacation?

16 A. I've been on vacation, yes, sir.

17 Q. What is the period of time that's covered by the  
18 Trilogy audit report?

19 A. The Trilogy audit report covers the period from  
20 February of 1999 through September of 2001.

21 Q. February, 1999, through September, 2001. Did it  
22 overlap with the BLM audit periods?

23 A. Yes, it did. It overlapped with the first BLM  
24 audit that was conducted on the Leggett Federal that was  
25 for the month of February, March and April of 2000, and the

1 last audit ended just shortly after the close of the  
2 Trilogy audit for the months of November and December of  
3 2001 for the Sweet Thing Federal Unit Number 1.

4 Q. All right, so the trilogy audit ended in  
5 September of 2001, and then the BLM audit covered the  
6 periods November and December of 2001?

7 A. That's correct.

8 Q. So after the Trilogy audit?

9 A. Yes, sir.

10 Q. Okay. Did the Trilogy audit and BLM audit, did  
11 it involve the same wells?

12 A. Yes, they did.

13 Q. Involve the same production measurement and  
14 allocation techniques?

15 A. Yes, it did.

16 Q. So is it true that the most recent audit of your  
17 measurement system was the 2002 BLM audit, which covered  
18 the period November through December, 2001?

19 A. That's correct.

20 Q. Okay, and BLM found no problems with your  
21 measurement and allocation system?

22 A. No, they did not.

23 Q. Now, the Trilogy audit report sets forth a number  
24 of objections. What do you understand to be the primary  
25 basis for Trilogy's objection to your Applications here

1 today?

2 A. From what I understand, it's based on Exception  
3 21.

4 Q. Okay, have you examined Exception 21?

5 A. Yes, I have.

6 Q. Okay, what do you understand to be the basis for  
7 this Exception 21?

8 A. The basis I understand to be the differences  
9 between the total volume of the allocation meters versus  
10 the volume of the El Paso sales point, the Nasser CPD  
11 meter.

12 Q. So they looked at the total volumes of the 12 or  
13 whatever it was allocation meters?

14 A. That's correct.

15 Q. And then they looked at the total volume of the  
16 sales meter?

17 A. That is correct.

18 Q. And found some differences?

19 A. That's correct.

20 Q. Did the BLM raise any concerns with BP about  
21 differences between the total volumes in the allocation  
22 meters and the total volume of the sales meter?

23 A. No, they did not.

24 Q. Is it common to have differences between the  
25 total volume of the allocation meter and the total volume

1 of the sales meter?

2 A. It is from what I've seen. All the allocation  
3 systems I've been involved with, there's always been some  
4 difference between the allocation meters and the sales  
5 point. It can either be greater than or less than.

6 Q. Now, why wouldn't the volumes match?

7 A. Part of the reason on that is, the calibration  
8 frequencies and the contract guidelines for the sales point  
9 exceeds the minimum standards set forth by the regulations.  
10 Sales point meters in this case are calibrated monthly,  
11 inspected monthly. They use the latest formulas and  
12 calculations and equipment that's been approved by the AGA  
13 3.

14 Also what we have is, some of the lease fuel for  
15 beneficial uses estimated, there's not measurements on it.  
16 We also have 12 separate stream flows that are metered  
17 separately, and the sales meter then at that point is  
18 metering a homogenous flow that is combined.

19 Q. Do you tend to have shrinkage or expansion of the  
20 gas as it moves through the system between the allocation  
21 meters and the sales meter?

22 A. Yes, we do, depending on the flow rates. There's  
23 seasonal differences that you can detect on some of them  
24 due to temperature.

25 Q. Does it really matter, Mr. Manthei, does it

1 really matter whether the total volume in the allocation  
2 meter matches up to the total volume in the sales meter?

3 A. No, it doesn't, because everything is paid based  
4 on the sales volume meter alone.

5 Q. Okay, and what do the allocation meters do? Does  
6 that provide a basis -- Well, I guess by the name it  
7 provides a basis to allocate back?

8 A. They provide the basis to allocate back, based on  
9 contribution.

10 Q. So your percentage of contribution to the stream  
11 that is sold?

12 A. That's correct.

13 Q. Okay. What else have you determined about  
14 exception -- In your period of time that you've had to look  
15 at it, what else have you determined about exception 21 in  
16 the Trilogy audit report?

17 A. Based on the difference between allocation meter  
18 volumes and the CPD meter and also -- this is -- The CPD  
19 meter will be eliminated with the approval of the new  
20 commingles.

21 Q. Now, what CPD are you talking about? Are you  
22 talking about that Nasser --

23 A. The Nasser.

24 Q. -- CPD, which is referenced on Exhibit 6B?

25 A. That is correct.

1 Q. Okay, that is being eliminated?

2 A. That will be eliminated.

3 Q. Okay, and what are you -- adding to -- different  
4 sales meters?

5 A. What we'll be doing is, that system will be  
6 reconfigured, we will go to two sales points then at that  
7 time, and we'll be incorporating the other surface  
8 commingle, the CBT 527, in with that.

9 Q. Now, exception 21 of the Trilogy audit report  
10 does reference the fact that in some months there was a 21-  
11 percent difference between the sales meter and the  
12 allocation meter; did you see that?

13 A. Yes, I did.

14 Q. Is that type of difference -- Is that normal?

15 A. No, it's not.

16 Q. Did you investigate the possible reasons for this  
17 abnormal variation between the sales meter and the total  
18 volume of the allocation meters?

19 A. Yes, I did, I actually looked at July and August,  
20 and the Sweet Thing Federal Unit Number 2 Cisco meter, the  
21 error event log reports that it had a DP measurement pulse  
22 there that was intermittent throughout those two months for  
23 approximately 50 percent of the time. What this does is,  
24 it results in a volume calculation that's in excess of the  
25 actual volume, because the differential of the meter is

1 over-ranged and calculation is inaccurate.

2 Q. Has that been remedied?

3 A. Yes, it has.

4 Q. Was that an intermittent problem during the time  
5 that Trilogy was looking at your allocation system?

6 A. Yes, it was.

7 Q. How often did it occur, in your -- In the amount  
8 of time that you've had to investigate, how often did you  
9 see that occur?

10 A. In that particular meter it occurred  
11 approximately 50 percent of the time.

12 Q. Okay. And when you fixed that problem, did that  
13 account for the difference of -- the 21-percent difference  
14 the sales meter and the total volume of the allocation  
15 meters?

16 A. Yes, it did, when you look at the previous  
17 history and the past history, after the problem was  
18 corrected the volumes stayed approximately the same as they  
19 had before the error occurred.

20 Q. Okay. Now, the Trilogy audit that you looked at,  
21 you said that stopped in September of 2001, that was the  
22 end of the audit period?

23 A. That's correct.

24 Q. Okay. Have there been any changes to the  
25 allocation meters on these wells since September of 2001

1 when that Trilogy audit report stopped its examination?

2 A. Yes, there has.

3 Q. Would you describe those for us, please?

4 A. Over time, we have changed out all of the chart  
5 meters to the new total flow electronic meters, and we have  
6 added temperature recording devices to those.

7 Q. Is that a good thing?

8 A. Yes, it is.

9 Q. Is that a more modern measuring technique?

10 A. Yes, it is, it's more modern, more accurate.

11 Q. Now, when did that changeover of chart meters to  
12 electronic meters -- when was that completed?

13 A. That project was completed in March of 2002.

14 Q. So that was well after the close of the Trilogy  
15 audit?

16 A. That is correct.

17 Q. Okay. Now, did you complete that changeover?

18 A. Yes, we have.

19 Q. Okay. So the system that's before the Division  
20 today, is that a system in which you are using all  
21 electronic meters, rather than a mixture of electronic  
22 meters and chart meters?

23 A. That is correct.

24 Q. Okay. So is it correct to say that the Trilogy  
25 audit report addressed a different metering system for a

1 selected time period that preceded the metering and  
2 allocation system that BP intends to use under the  
3 Application before the Division today?

4 A. That is correct. We have, with the new system,  
5 exceeded the minimum standards that are set forth in the  
6 regulations.

7 Q. All right. Why don't you kind of quickly outline  
8 the differences between the system that was examined by the  
9 -- in the Trilogy audit report, and the allocation system  
10 that BP is going to be using under its consolidated  
11 Applications today?

12 A. Okay. What we had previously was five or six of  
13 the original meters that we assumed were chart meters, and  
14 they did not have temperature recorders on them. What we  
15 did was, we have since then replaced those with electronic  
16 flow meters that now have chart recorders. So what we have  
17 on this new system is, everything will be electronically  
18 metered. It will be measured with temperature recorders.

19 Q. Okay, and that's above what the BLM requires?

20 A. Yes, it is. BLM has a requirement based on  
21 volume. If a meter has a low flow -- I believe it's less  
22 than 100 MCF a day -- then it approved that you do not have  
23 to have continuous temperature recording, but you do have  
24 to have a monitoring point where you can periodically check  
25 the temperature.

1 Q. Okay, so you have more accurate meters, which I  
2 guess allows you to use a more accurate formula today,  
3 right?

4 A. That's correct. The accepted standard is AGA  
5 385, and with the new meters we're able to incorporate the  
6 new AGA 392 calculations.

7 Q. Okay. Now, and you mentioned that you eliminated  
8 the Nasser CDP?

9 A. Yes, it will be eliminated.

10 Q. And you're going to have two meters now?

11 A. We'll have two sales points, that's correct. And  
12 also we have added the fuel gas meters on the compressor  
13 fuel as well.

14 Q. Okay, that's been a change since the time of the  
15 Trilogy audit?

16 A. That's correct.

17 Q. Okay. Flash gas meters, you've eliminated those?

18 A. Yes, the flash gas meters have been eliminated  
19 because now all the production out there is on compression,  
20 and we don't have the pressure drop needed to operate those  
21 separators.

22 Q. And were those flash gas meters being used at the  
23 time of the Trilogy audit?

24 A. Yes, they were.

25 Q. Okay. Has there been a change in the takeout

1 point for the compressor fuel?

2 A. Yes, there has.

3 Q. Okay. And what was that change?

4 A. The change is that the compressor fuel comes out  
5 between the allocation meters and the final sales point.

6 Q. And that is going to be metered?

7 A. And it is -- will be metered.

8 Q. Okay. Now, you mentioned the fact that you took  
9 over operations and inherited some chart meters. When did  
10 BP's -- well, when did -- Was ARCO BP's predecessor?

11 A. That is correct.

12 Q. Okay. When did ARCO take over operations of the  
13 wells that are the subject of your present Application?

14 A. We assumed operatorship of those leases March 1st  
15 of 1999.

16 Q. And who did you assume those from?

17 A. We assumed those leases from Stevens and Tull.

18 Q. Is there a relationship between Stevens and Tull  
19 and the Trilogy-Avalon group?

20 A. From my understanding, yes, there is. From what  
21 I understand, the people that comprise the Avalon-Trilogy  
22 group are partners, co-owners or employees of the Stevens  
23 and Tull group.

24 Q. So at the time that ARCO or BP's predecessor took  
25 over the operations in March of 1999, was Stevens and Tull

1 surface commingling production from these wells?

2 A. Yes, they were.

3 Q. Okay. Was Stevens and Tull using the same  
4 allocation meters in place at the time of the Trilogy  
5 audit? We're talking about the dry flow chart meters with  
6 no temperature recorders.

7 A. That is correct.

8 Q. Did BP continue to use for a period of time the  
9 same metering and allocation system that Stevens and Tull  
10 had used prior to 1999?

11 A. Yes, we did.

12 Q. I'm sorry, pardon me, March of 1999?

13 A. Yes.

14 Q. And this period of time that -- where you had  
15 this changeover and you were using the same metering and  
16 allocation system, that is part of the period that's  
17 covered by the Trilogy audit report; isn't that right?

18 A. That is correct.

19 Q. In fact, did the Trilogy audit report begin in  
20 February of 1999?

21 A. That is correct.

22 Q. So you didn't even operate the wells at that  
23 time?

24 A. No.

25 Q. All right. Would you turn to Exhibit Number 9

1 and -- Well, hold on here a second. Yeah, we're going to  
2 go slightly out of order, and I apologize, Mr. Examiner.  
3 Exhibit Number 9 should be the last exhibit. We still need  
4 to go through 7 and 8.

5           Would you turn to Exhibit Number 9 and identify  
6 that for the Examiner, please?

7           A. Exhibit Number 9 is the allocation method used  
8 for measurement that was supplied to the BLM by Stevens and  
9 Tull, which was part of their application to surface  
10 commingle.

11          Q. Okay. And does this identify, in essence, the  
12 system that you inherited in March of 1999?

13          A. Yes, it does.

14          Q. And is this the -- This description on here, is  
15 that the same system that you continued to use during the  
16 period of the Trilogy audit?

17          A. Parts of it are, yes, it is.

18          Q. Okay, so you're using the same allocation  
19 measurement techniques and the same basic equipment, right?

20          A. That's correct.

21          Q. Okay. And then did you undertake -- Once you  
22 took over operations in March of 199, did you undertake  
23 efforts thereafter to try to improve on the metering and  
24 allocation system that was put in place by Stevens and  
25 Tull?

1 A. Yes, we did.

2 Q. What did you discover, and what did you do?

3 A. What we discovered was, one well, the Nasser  
4 Federal, was a multiple completion well, and the wellstream  
5 was being commingled and metered only through one meter  
6 point. What we did was, we separated those two strings so  
7 we could meter each zone separately.

8 Q. How many zones was Stevens and Tull commingling  
9 at the time you took over in March of 1999?

10 A. At the time we took over, there were six zones  
11 being commingled with five meters.

12 Q. You only had five meters?

13 A. That's correct.

14 Q. And you added another meter?

15 A. Yes, we did.

16 Q. Okay. And I think you mentioned after that, at  
17 some point in time, you added flash gas meters from three  
18 well batteries; is that correct?

19 A. That's correct. In June of 1999 we added the  
20 flash gas meters for three leases off the tank batteries.  
21 They were the Little Box State for the Morrow wells, the 2  
22 and 3, and for the Sweet Thing State 36 Morrow Number 1  
23 well, and then for the Sweet Thing Federal Unit Number 2  
24 Morrow well.

25 Q. How is that flash gas -- How was that measured

1 and allocated under the existing system during the Trilogy  
2 audit?

3 A. What we did with this gas off the liquids was, we  
4 metered it separately at each facility, and then we took  
5 those volumes and we subtracted it from the total volume,  
6 and we used those volumes to allocate back to each  
7 respective well, based on its percent of contribution of  
8 the liquids.

9 Q. Okay. So basically the contribution to the flash  
10 gas?

11 A. That's correct.

12 Q. All right. And is that in light of the change --  
13 or the decline in liquids, is that -- those three meters  
14 are being eliminated under BP's Application before the  
15 Division today?

16 A. That is correct.

17 Q. All right. So is it accurate to say that  
18 basically the metering and allocation that BP inherited in  
19 1999 from Stevens and Tull -- was that the metering and  
20 allocation system that the Trilogy audit report examined?

21 A. Yes.

22 Q. Are there any -- Are there federal, indian or  
23 state lands involved in these Applications?

24 A. Yes, there are, there are federal lands.

25 Q. And have you obtained BLM approval for the

1 Application letters that are the subject of your  
2 consolidated cases here today?

3 A. Yes, we have.

4 Q. Does that comprise Exhibit Number 7?

5 A. Yes, it does.

6 Q. Okay, and that's -- Exhibit Number 7 contains the  
7 BLM approval for the Application under which you're adding  
8 the B&C Federal 25 Number 3. That's the first page, right?

9 A. That is correct.

10 Q. And it also contains the approval for the  
11 Application under which you're adding the Little Box State  
12 Number 6, and that's the second page of Exhibit 7; is that  
13 correct?

14 A. That's correct.

15 Q. All right. And has the State Land Office  
16 approved the Application letters that are the subject of  
17 these consolidated cases?

18 A. Yes, they have.

19 Q. Is Exhibit 8A the State Land Office approval for  
20 what comprises Case Number 12,967?

21 A. That is correct.

22 Q. And is Exhibit 8B the State Land Office approval  
23 for what comprises Case Number 12,968?

24 A. That is correct.

25 Q. And do these letters from the State Land Office,

1 do they identify your metering and allocation system that  
2 you propose to use under your consolidated Applications  
3 today?

4 A. Yes, they do.

5 Q. Okay. In your opinion, will the granting of  
6 these Applications result in the efficient production of  
7 natural gas reserves and accurately measure and allocate  
8 production amongst the interest owners?

9 A. Yes.

10 MR. FELDEWERT: Okay. Mr. Examiner, at this time  
11 I would move the admission into evidence of Exhibits 1  
12 through 9.

13 EXAMINER CATANACH: Any objection?

14 MR. OWEN: No objection.

15 EXAMINER CATANACH: Exhibits 1 through 9 will be  
16 admitted.

17 Mr. Owen?

18 MR. OWEN: Thank you.

19 CROSS-EXAMINATION

20 BY MR. OWEN:

21 Q. Mr. Manthei, is that how you pronounce your name?

22 A. That's correct, Manthei.

23 Q. I want you to turn to BP Exhibit Number 3,  
24 Commingling Order PLC-184. Can you tell me or show me  
25 where a well called the Jaguar 26 Federal Number 1 is

1 approved for commingling on that exhibit?

2 A. No, sir.

3 Q. Do you know if the Jaguar 26 has ever been  
4 approved for commingling?

5 A. Yes.

6 Q. Do you have anything to show that?

7 A. Not with me today, I do not.

8 Q. Do you know if there's anything in the Division  
9 files to evidence that the Jaguar 26 has ever been approved  
10 for commingling?

11 A. Yes, I do.

12 Q. It's in the Division files?

13 A. It was amended.

14 Q. Did BP apply for inclusion of the Jaguar 26 in  
15 Order Number PLC-184?

16 A. Yes, we did.

17 Q. And you provided notice to all the interest  
18 owners?

19 A. We provided notice to the interest owners of the  
20 Jaguar.

21 Q. And is that included in the Division files?

22 A. It should be, yes, as far as I know.

23 Q. Okay.

24 A. The Jaguar Federal was not drilled at the time  
25 the initial PLC-184 was authorized.

1 Q. Okay, I want you turn to Exhibit Number 1 and  
2 turn to the sixth page. That's the interest report  
3 indicating the interest owners that BP felt that it needed  
4 to notify; is that right? The sixth page of Exhibit 1.

5 A. That is correct.

6 Q. Now, that's just the B&C Federal Number 3 well;  
7 is that right?

8 A. Yes, the 2A and the 3.

9 Q. That doesn't cover the other eight wells that are  
10 covered by this Application; is that right?

11 A. No, it does not. They received previous notice.

12 Q. When PLC-184 was --

13 A. That's correct.

14 Q. And now you're asking that PLC-184 be rescinded;  
15 is that right?

16 A. Yes, that's correct.

17 Q. And you're asking that these parties' interests  
18 be included in a new order; is that right?

19 A. That's correct.

20 Q. And you did not provide those parties notice that  
21 you're asking that that previous order be rescinded and a  
22 new one be issued, have you?

23 A. I didn't follow that, so I'm not absolutely sure.

24 Q. You don't know if those parties were provided  
25 notice that the order, PLC-184, is going to be rescinded?

1 A. Excuse me?

2 Q. The interest owners in the Crooked Canyon Federal  
3 Number 1 well --

4 A. Yes.

5 Q. -- they were provided notice when PLC-184 was  
6 issued, right?

7 A. That's correct.

8 Q. Were they provided notice that PLC-184 was going  
9 to be rescinded?

10 A. The documentation supplied here does not support  
11 that, no.

12 Q. Did you send a copy of this Application to the  
13 interest owners in Crooked Canyon 35 Federal Number 1?

14 A. I did not, no.

15 Q. Did BP America?

16 A. I don't know if they did or not.

17 Q. Is there any indication that BP America has  
18 provided notice to those interest owners?

19 A. I do not have that information with me if it was.

20 Q. What about any of these other wells, with the  
21 exception of the B&C 25 Federal Number 2A?

22 A. That's all that's --

23 Q. That's the only well that showed that the  
24 interest owners were notified for; is that right?

25 A. That's what it appears, yes.

1 Q. Okay, let's turn to Exhibit Number 2, and let's  
2 turn to the sixth page of that document, or that exhibit.  
3 This division of interest report is only for the Little Box  
4 State Number 6 well; is that right?

5 A. It's for the Number 5 and the Number 6.

6 Q. It's for the Number 5 and the Number 6? And  
7 there are a number of other wells that are included in this  
8 commingling Application; is that right?

9 A. That is correct.

10 Q. Did you provide notice to any of the interest  
11 owners in those other wells of this Application?

12 A. That I do not know. I did not follow the  
13 paperwork.

14 Q. Has BP America filed any proof of notice to the  
15 interest owners of any of these other wells?

16 A. I do not know if they have or not.

17 Q. Is it in front of you?

18 A. The only thing in front of me that shows that was  
19 supplied notification for is for the Little Box 6.

20 Q. Okay. The BLM 's first audit covered one well;  
21 is that right?

22 A. That is correct.

23 Q. The Leggett Federal Well?

24 A. That is correct.

25 Q. How does that well's production compare to the

1 rest of the wells in this field?

2 A. It's one of the lower-volume wells.

3 Q. It's one of the lowest-volume wells, isn't it?

4 A. It may be.

5 Q. Okay. Do you reconcile volume rate readings from  
6 sales meters and the allocation meters on each well on a  
7 monthly basis?

8 A. I'm not sure I understand what you're -- Do we do  
9 it separate from the production reporting?

10 Q. At the end of every month, do you have a report  
11 which shows the total volumes recorded by the allocation  
12 meters and the total volumes recorded by the sales meters?

13 A. Yes, we do.

14 Q. Do you reconcile those to see whether they are  
15 consistent with one another, whether they're reporting the  
16 same amount of production?

17 A. We have a variance report that we look at that  
18 compares one month to the next. But as far as comparing it  
19 with everything in the system together, no.

20 Q. So you have a variance report that does reconcile  
21 those from month to month?

22 A. Just individual well to individual well.

23 Q. Individual well to individual well. What  
24 variance is that variance report showing?

25 A. For the individual wells?

1 Q. Right.

2 A. It just shows -- What that variance report shows  
3 is the variance from the previous month to the current  
4 month.

5 Q. But it doesn't compare it to the sales meter?

6 A. No.

7 Q. Okay. Now, I think you said that it doesn't  
8 really matter whether the total volumes reported by the  
9 sales meters are equal to the total volumes reported by the  
10 allocation meters; is that right?

11 A. That's correct.

12 Q. Now, you said that you went back -- you also said  
13 that you went back, and you found one month where there was  
14 a 21-percent difference between the volume reported on one  
15 well and the sales meter; is that right?

16 A. Repeat that again, please?

17 Q. You went back and you found a 21-percent  
18 difference on the Sweet Thing Federal Number 2; is that  
19 right?

20 A. Sweet Thing Federal Number 2 Cisco.

21 Q. Cisco?

22 A. But it was only -- It was a 21-percent variance  
23 based on the allocated volume back to the sales meter.

24 Q. So there was a variance between the allocated  
25 portion and the sales meter, right?

1 A. That's correct.

2 Q. So that was comparing the sales meter volume and  
3 the allocation meter; is that right?

4 A. Yes.

5 Q. And you found a 21-percent variance?

6 A. That is correct.

7 Q. And you investigated that?

8 A. Yes, I did.

9 Q. And you made changes to that meter, based on that  
10 investigation?

11 A. I don't understand what you mean, we made changes  
12 to the meter.

13 Q. You went back and recalibrated it?

14 A. Oh, no.

15 Q. What did you do to it?

16 A. The problem that the meter had exhibited was  
17 corrected in September of 1999.

18 Q. So --

19 A. We did not go back for my investigation and this  
20 current report to make any adjustments to it.

21 Q. I think you said --

22 A. The problem was corrected in September of 1999.

23 Q. I think you said that that 21-percent measurement  
24 error resulted in more production being reported for that  
25 particular well for that particular month; is that right?

1 A. That is correct.

2 Q. So more production was being attributed to that  
3 well or allocated to that well for that particular month;  
4 is that right?

5 A. That is correct.

6 Q. So those royalty owners were receiving more  
7 proceeds from production for that particular month than  
8 they should have?

9 A. They have, yes, they have.

10 Q. And consequently, some of the other wells on this  
11 system probably had less allocation?

12 A. That is correct.

13 Q. And those royalty owners received less proceeds  
14 from production for that month; is that right?

15 A. That is correct.

16 Q. Have you gone back and adjusted those royalty  
17 payments?

18 A. This error and the cause of it was only  
19 identified by me approximately two weeks ago.

20 Q. Okay.

21 A. According to BLM Onshore Order 5, we will need to  
22 adjust according -- in that regulation, and what the state  
23 regs have, based on average production prior to and -- post  
24 and previous, and I will be getting with BLM to set down  
25 and look at those figures to see if they agree with the

1 numbers that I have come up with.

2 At that point, once we agree on a volume, then an  
3 adjusted report will be amended and sent in, and the  
4 royalty will be recalculated and readjusted amongst the  
5 interest overrides and royalty owners.

6 Q. So you are going to at some point have to  
7 readjust and reallocate the royalty payments for that  
8 particular month because of this 21-percent variance; is  
9 that right?

10 A. Yes, that is correct.

11 Q. But you also said that those variances between  
12 the sales meters and the allocation meters aren't  
13 important; is that right?

14 A. Repeat that again, please?

15 Q. You also said earlier that it doesn't really  
16 matter whether there's a difference between the sales meter  
17 volume and the allocation meter volume; is that right?

18 A. If the allocation volumes are correct, yes.

19 Q. If they are correct?

20 A. If they are correct, if there is not an error  
21 that has not been detected, then yes, it's --

22 Q. And that 21-percent difference that you found on  
23 the Sweet Thing Federal Number 2 was an error that you  
24 detected?

25 A. That is correct.

1 Q. And that is based on the audit report issued by  
2 Trilogy?

3 A. Yes.

4 Q. Okay, so sometimes a variance between a sales  
5 report or a sales meter volume and an allocation meter  
6 volume can be significant?

7 A. Yes, it can.

8 Q. Okay. But BP doesn't have a system in place to  
9 reconcile the sales meter volumes and the allocation meter  
10 volumes on a monthly basis, does it?

11 A. No.

12 Q. The only reason you caught this 21-percent  
13 variance is because of Trilogy's audit; is that right?

14 A. That is correct.

15 Q. Do gas prices fluctuate from month to month?

16 A. As far as I know, yes, they do.

17 Q. Some months they can be as high as ten dollars?

18 A. I suppose.

19 Q. Some months they can be as low as three dollars?

20 A. I suppose.

21 Q. And if a particular well meter is not metering  
22 correctly for a particular month, the interest owners in  
23 that particular well aren't being paid correctly for that  
24 particular month; is that right?

25 A. That could be true.

1 Q. But you don't have a system in place to check  
2 whether the sales meters are accurately measuring compared  
3 to the allocation meters on a month-to-month basis; is that  
4 right?

5 A. Not on that system, we did not, no.

6 Q. Do you have it on this system?

7 A. The two new proposed systems, yes, we do.

8 Q. You have a system whereby you are going to  
9 reconcile on a monthly basis the sales meter volumes and  
10 the allocation meter volumes?

11 A. Yes, we have.

12 Q. Is that included in your proposal?

13 A. It's not specifically identified, no.

14 Q. Where is that report going to be generated?

15 A. It will be generated in our office.

16 Q. Where is "our office"?

17 A. Eunice, New Mexico.

18 Q. Are you going to be responsible for reviewing  
19 that?

20 A. Yes, I am.

21 Q. If there is a variance between a sales meter  
22 volume and an allocation meter volume, will you investigate  
23 that on a monthly basis?

24 A. Yes, I will.

25 Q. And I think you said that shrinkage and expansion

1 is expected in some -- in most instances; is that right?

2 A. That's correct.

3 Q. Isn't a generally accepted figure for that  
4 variance 2 percent?

5 A. Excuse me?

6 Q. Isn't a generally accepted variance for that  
7 factor, shrinkage or expansion, 2 percent?

8 A. That I do not know.

9 Q. You don't know how much shrinkage or expansion  
10 usually takes?

11 A. I've seen variances up to 8 percent when you're  
12 looking at chart meters versus electronic flow meters.

13 Q. Okay. To the best of your knowledge has BP  
14 generated a response to Trilogy's audit report?

15 A. To the -- The entire report?

16 Q. To the audit, to Section 21 specifically.

17 A. To the audit report? I do know that the audit  
18 response from BP was supposed to be due by the end of the  
19 year. Whether or not that's been submitted, I'm not  
20 positive.

21 Q. Did you take part in the generation of any part  
22 of such a report?

23 A. I took part of Exception 21.

24 Q. Did you write a response to Exception 21?

25 A. Yes, I did.

1 Q. May I have a minute, Mr. Examiner?

2 Mr. Manthei, I asked you about this reconciling  
3 on a monthly basis, and you said you're going to be doing  
4 that on a point forward basis; is that right?

5 A. That is correct.

6 Q. Is that because of the installation of these new  
7 total flow meters?

8 A. Yes, it is. We've also installed a new satellite  
9 telemetry system out there that we get daily volumes in our  
10 office.

11 Q. Are you doing those reconciliations on a monthly  
12 basis right now?

13 A. Yes, I am.

14 Q. Are you reporting those reconciliations to the  
15 accounting departments within BP?

16 A. No, I'm not.

17 Q. Is the accounting department -- Who does the  
18 accounting and the royalty payments for BP?

19 A. I believe that is handled by a contract company,  
20 IBM, which used to be Price Waterhouse Cooper.

21 Q. And they don't have access to these monthly  
22 reconciliations that you're doing; is that right?

23 A. No, I have not supplied that information to them.

24 Q. But they're the ones that are paying the  
25 royalties; is that right?

1 A. That is correct.

2 Q. And if there are variances on a month-by-month  
3 basis with some royalty owners being underpaid and others  
4 being overpaid, they don't know that; is that right?

5 A. We -- If we detect an error where there has been  
6 an inaccurate volume calculated, then yes, they are  
7 notified.

8 Q. Did the Trilogy audit indicate that any other  
9 variances existed on a month-to-month basis during the  
10 audit period?

11 A. Any other variances? I'm not sure I understand  
12 your question.

13 Q. Any variances between the sales meter volumes and  
14 the allocation meter volumes?

15 A. Yes.

16 Q. Did you investigate any of those other variances?

17 A. Yes, I did.

18 Q. Which ones?

19 A. I examined the monthly variances by month,  
20 compared to the sales volume and also compared to our check  
21 meter. I examined the total flow reports from the  
22 electronic meters, I looked at the chart integrations from  
23 the chart meters on a month-by-month basis, and --

24 Q. When were those --

25 A. -- tried to identify if there had been any error

1 in measurement during those periods.

2 Q. When were those total-flow meters installed?

3 A. When we set the flash gas meters, they were  
4 originally chart meters. As the newer wells were drilled  
5 and were added to it, those wells were installed with total  
6 flows. In December of 2000 we changed out two of those  
7 chart meters with total flows, we --

8 Q. Was that the first time you installed total flow  
9 electronic meters on this system?

10 A. No, sir, that's the first time we changed out a  
11 chart meter with a total flow.

12 Q. The previous total flow meters that you installed  
13 were simply for the flash gas; is that right?

14 A. Excuse me?

15 Q. You mentioned that you installed some other total  
16 flow. When did you install total flow meters before that?

17 A. When the new wells were brought on, like the  
18 Crooked Canyon and some of the other wells as they were  
19 added to the surface commingle.

20 Q. When was the first total flow meter installed out  
21 there?

22 A. There were several total flow meters in that  
23 area. On that system would have been when we added the  
24 Crooked Canyon, and I'd have to look at the documentation  
25 to see just exactly when that was, but I want to say it was

1 approximately 1999, August, September maybe.

2 Q. So the Crooked Canyon was part of the original  
3 PLC-184 commingling authority; is that right?

4 A. That is correct.

5 Q. And that Crooked Canyon has always had this total  
6 flow electronic meter on it?

7 A. Yes, it has, as far as I know.

8 Q. Why don't we take a look at that PLC-184 again?  
9 Any of those other wells have those total flow meters on at  
10 the time this order was issued?

11 A. If you look at Exhibit 3, it's dated July 26th,  
12 2001. The Crooked Canyon 35 had a total flow meter, and  
13 the B&C Federal 25 Number 1 had a total flow.

14 Q. Any others?

15 A. The Little Box State Number 4, and --

16 Q. Well --

17 A. Excuse me?

18 Q. Go ahead.

19 A. And it's quite possible -- what we have listed  
20 here when you look at the Little Box State Number 3 -- The  
21 Little Box State Number 3, part of that gas was from the  
22 flash gas. And that flash gas meter during this time frame  
23 was a chart meter.

24 However, when the Little Box 3 wellstream gas was  
25 added, it was a total flow.

1 Q. Okay. The second BLM audit only covered one  
2 well; is that right?

3 A. That's correct.

4 Q. The Trilogy audit covered all of the wells that  
5 are being commingled; is that right?

6 A. That is correct.

7 MR. OWEN: Okay, that's all I have, Mr. Examiner.

8 EXAMINER CATANACH: Okay. Anything else, Mr.  
9 Feldewert?

10 MR. FELDEWERT: No, Mr. Examiner.

11 EXAMINER CATANACH: Okay, I just have a few.

12 EXAMINATION

13 BY EXAMINER CATANACH:

14 Q. Mr. Manthei, what we have here is two groups of  
15 eight wells that are being commingled separately through  
16 two different size meters, right?

17 A. That's correct.

18 Q. And all of the wells currently will have  
19 electronic overflow meters on them?

20 A. They do currently have --

21 Q. Okay. And is there one compressor per group of  
22 wells?

23 A. No, sir, there's not.

24 Q. So there's no compressor?

25 A. There's -- Exhibit 1, which is Case 12,967 --

1 Q. Uh-huh.

2 A. -- that surface commingle will actually have  
3 three different compressors in that commingle system.

4 Q. Okay.

5 A. We have a -- Compression is set at one well,  
6 which is the addition of the B&C Federal 25 Number 3.

7 We have another compressor set at the Little Box  
8 State Number 5, and it is compressing gas from the Little  
9 Box State Number 3.

10 And then we have a third compressor set at the  
11 B&C 2A which is compressing gas from the B&C 2A, the  
12 Crooked Canyon, the Leggett, the B&C Federal Number 1 and  
13 the Jaguar Federal Number 26.

14 Q. Okay. How about on the other system? Is there  
15 any compression on that system?

16 A. Yes, on the other system there's only one  
17 compressor.

18 Q. One compressor. Now, I believe you stated that  
19 you changed the way that -- you changed the takeout point  
20 for the compression gas?

21 A. Yes, we did.

22 Q. So it's now in between the allocation meters and  
23 the sales meter?

24 A. That is correct.

25 Q. And how is the compression gas tied back to the

1 wells or allocated back to the wells?

2 A. The meters -- We'll take the metered volume for  
3 the compressor fuel. That fuel will be allocated back to  
4 each well that is part of that compression based on the  
5 allocation meter at the well, the same percent of proceeds.

6 If one well has 10 percent contribution to that  
7 system, then it will be attributed with 10 percent of the  
8 fuel. The same percent factor for the contribution will be  
9 the same for the fuel.

10 Q. Okay, on the system where you have the three  
11 compressors, that -- the compressor gas will be allocated  
12 back to the wells in which it compresses?

13 A. That's true.

14 Q. Okay.

15 A. If the gas from that well is not being compressed  
16 by that compressor, then it will not be allocated to...

17 Q. Okay. And that's being measured with a total  
18 flow meter also?

19 A. That is correct.

20 Q. In your opinion, are these total flow meters --  
21 is it much more accurate than the old chart-type meters?

22 A. Yes, they are. The main reason is because the  
23 new electronic total flow, it takes measurements every  
24 second, and it records that, and then it computes an hourly  
25 average for that flow period. And that hourly average is

1 documented and logged in the total flow unit itself.

2           You do not have the lag and the response time  
3 difference between the mechanics of a chart meter. The  
4 mechanics will cause some lag in the measurement, and also  
5 the calibration techniques for the total flow meter  
6 incorporate new electronic calibration, and you're  
7 subjected to the error that you would have on a meter with  
8 a large range like a 1000-meter using a manual gauge.

9           So there's also an improvement in the calibration  
10 techniques that are applied to the total flow, that you  
11 don't have available with the chart.

12           Q.   Okay. In the absence of commingling, would  
13 additional compressors be necessary out here? If you  
14 weren't able to commingle these wells, what would be the  
15 difference?

16           A.   If we weren't able to commingle these wells, then  
17 we would have to set additional compression at each well  
18 site in order for it to be produced into the high-pressure  
19 line.

20           Q.   Which is going to be more cost to the working  
21 interest owners, and that's going to actually reduce the  
22 production for the royalty interest owners as well; is that  
23 right?

24           A.   That is correct.

25           Q.   Can you tell me briefly, is it my understanding

1 that you use -- the total flow meters for each well is  
2 summed up, and then you take a percentage for each well,  
3 based on the total flow meters?

4 A. That is correct.

5 Q. And then you use that percentage in regards to  
6 the total sales meter; is that correct?

7 A. That is correct.

8 Q. Okay.

9 A. We allocate back to the sales point, the sales  
10 meter which we consider the custody transfer point. And  
11 when we report, the reported volumes are audited against  
12 the revenue accounting side, and royalties are examined to  
13 see if we paid -- if the volume we paid royalties on is  
14 actually the volume that we reported on the reports.

15 Especially on the BLM side. There's two actual  
16 audits that do occur with NMMS. You have a production  
17 audit where BLM verifies that the volume reported was  
18 actual. And then they have an MMS revenue audit where MMS  
19 reviews what you paid royalties on to see if it was the  
20 same volume that you reported.

21 Q. Okay. And it's my understanding that you are now  
22 looking at, on a monthly basis, the allocation meter  
23 volumes, compared to the sales meter volumes?

24 A. That is correct.

25 Q. And if that's off -- Is there a certain

1 percentage that you allow for variations? Or when does it  
2 trigger you to look at something more closely?

3 A. When I look at that, if I see -- If there's a  
4 trend, I will trend and see what the variances have been  
5 running. And if there's a 5-percent trend and then there's  
6 a month where there's a greater variance that's over that  
7 or less than that, then I'll look at that. Or if the trend  
8 is 2 percent and I see one come in at 5 percent, then I  
9 look at that and I try to determine if there was a  
10 malfunction in the metering itself.

11 Q. Okay, now this is something that you just started  
12 doing, or have you been doing this for a while?

13 A. I've only just recently started it.

14 Q. Okay, and you plan on continuing this kind of  
15 self-audit --

16 A. Yes, I do.

17 Q. -- on a monthly basis?

18 A. Yes, I do.

19 Q. And when you notice a big discrepancy, you're  
20 going to investigate?

21 A. That is correct. We do have our own calibration  
22 and inspection technician, but I have also contracted two  
23 separate third-party companies to inspect to make sure that  
24 what we are doing is also correct. I've got two outside  
25 third parties looking at this as well.

1 Q. Now, the interest ownership between these wells  
2 is different on all these wells, right?

3 A. From what I've been able to determine, interest  
4 can be different from well to well even on the same lease.

5 Q. Do you anticipate adding more wells to these  
6 systems?

7 A. We anticipate at some point in the future to have  
8 one central compression station that will commingle all of  
9 the wells in that area.

10 Q. All the wells, you mean both of these groups of  
11 eight?

12 A. Yes, sir.

13 Q. At some point --

14 A. At some point in time.

15 Q. -- it's all going to be combined --

16 A. Yes, sir.

17 Q. -- at some point?

18 A. Yes, sir, reservoir completion and the decline in  
19 the reservoir pressure is going to be necessary to compress  
20 everything to get it into the sales point. Sales point  
21 line pressure can run up there from 500 to 1000 pounds, and  
22 without compression the wells will not be able to flow into  
23 the line.

24 Q. What kind of flowing pressures are these wells  
25 flowing at?

1           A.    Right now, on the inlets to the compressor,  
2 they're down around 100 pounds to 200 pounds, depending on  
3 the compressor. Shut-in pressures, only on the better  
4 wells will they reach the line pressure without  
5 compression.

6           Q.    So some wells aren't compressed at all at this  
7 point --

8           A.    No, sir, they --

9           Q.    -- because they have sufficient pressure?

10          A.    At this point now, everything is compressed --

11          Q.    Okay.

12          A.    -- in some form or fashion.

13          Q.    Now, the error that caused the 21-percent  
14 discrepancy that Mr. Owen has referred to, is that still  
15 possible with these new types of meters?

16          A.    Yes, it is.

17          Q.    So that can still occur?

18          A.    That can still occur if the monthly volumes  
19 aren't monitored.

20                    We've also initiated more training for the  
21 operator that reads these meters. We've had several  
22 different lease operators out there on that lease, and  
23 errors are detectible with the proper training.

24                    EXAMINER CATANACH: Okay, I have nothing further.

25                    Is there anything further?

## FURTHER EXAMINATION

1  
2 BY MR. FELDEWERT:

3 Q. Mr. Manthei, I think under the new Division Rule,  
4 and also you mentioned a BLM rule, you're going to be  
5 required to check these allocation meters quarterly, are  
6 you not?

7 A. That is correct.

8 Q. Okay. And secondly, greenhouse gases, is that a  
9 big issue in your area now?

10 A. Yes, it is out there, with the amount of  
11 compression that we have, there are greenhouse-gas emission  
12 concerns.

13 Q. And these commingling surface efforts,  
14 particularly the one you have by application today, is that  
15 an effort to cut down on compressors and thereby cut down  
16 on greenhouse gas emissions?

17 A. Yes, it is.

18 MR. FELDEWERT: Okay, that's all I have.

## EXAMINATION

19  
20 BY MR. BROOKS:

21 Q. Just a question about this notice issue that was  
22 raised. Is this Application in effect an addition of an  
23 additional well or wells to an existing commingling system?  
24 Is that what you're doing in this Application?

25 A. In which one? The --

1 Q. Well, either one of them. I thought the question  
2 was about both.

3 A. We have two current surface commingle approvals,  
4 and what we've determined is, since we're going to be  
5 changing one of them from just a lease commingle to a lease  
6 pool commingle --

7 Q. Okay.

8 A. -- that in an effort to make it more easy to  
9 understand the commingle it would be better to not amend  
10 the existing one because it's a CBT, which usually is a  
11 lease to lease, and it will become a pool to lease, and so  
12 therefore we need to cancel that one and create a new one.

13 Now, both new commingles will be comprised of  
14 production that is currently approved now for surface  
15 commingling. It's just restructuring.

16 Q. Is there an additional production stream being  
17 added to the commingling?

18 A. Yes, there will be two new wells.

19 Q. Okay. Now, as I understood your testimony, the  
20 only notice that you're prepared to testify was given was  
21 to the owners of the production string that's being added?

22 A. From what I understand, it looks like that that's  
23 the only notice that was given, yes.

24 Q. Okay. So the owners of the production stream  
25 that was -- of the existing commingles were not notified of

1 this Application in either case; is that correct?

2 A. I don't have any knowledge that they had been.

3 Q. To your knowledge?

4 A. From what I know, and from what we have on the  
5 exhibit here, no, they were not.

6 Q. And if this Application were granted, their  
7 production would be commingled with the additional  
8 production -- the additional streams that are being added?

9 A. That's correct.

10 EXAMINER CATANACH: Mr. Feldewert, I think that  
11 under the current Rules and even under the new Rules that  
12 are coming into effect for surface commingling, I think it  
13 says that all interest owners need to be notified, even  
14 when you're amending an application like this.

15 MR. FELDEWERT: You know, while we were going  
16 through some of what I considered joint operating agreement  
17 issues, I did was -- trying to flip through the Rules, and  
18 I was trying to examine that myself. And I quite frankly  
19 didn't see anything that indicated one way or the other.

20 But I think, Mr. Brooks, you are correct. What  
21 we have here is, we have apparently wells that were  
22 previously approved for commingling, and they are adding  
23 two new wells. And I've looked at the notice letters that  
24 have been admitted into evidence here, and it's pretty  
25 apparent to me that what they indicate is that notice was

1 provided to the interest owners in the two new wells that  
2 are being added to the previously approved production for  
3 surface commingling. Quite frankly, I'm not sure one way  
4 or the other whether the Rules require notice to those  
5 individuals or not, but -- I would have to consult with my  
6 client, but it would seem to me that we might want to  
7 consider leaving this matter open so that notice could be  
8 provided to the other interest owners in the other streams.

9 MR. BROOKS: Well, I did not bring my Rule book  
10 down here. I'm always sorry when I didn't do that.

11 MR. FELDEWERT: And it's my -- I'm not sure which  
12 -- At the time these letters were filed, which was  
13 September, obviously, we did not have the new Rules. So  
14 I've been trying to flip through the old Rule --

15 MR. BROOKS: Well, we still don't have the new  
16 Rule because --

17 MR. FELDEWERT: That's my understanding.

18 MR. BROOKS: -- the new Rule has been adopted,  
19 but it has not yet gone into effect.

20 MR. FELDEWERT: So what I would like -- So I'm  
21 not sure one way or the other. What I'd like to do is have  
22 the opportunity, if I may -- and I can get back with you  
23 tomorrow -- to consult with my client and see how they want  
24 to proceed.

25 EXAMINER CATANACH: Well, I think -- You can

1 consult with your client, but I think we're going to  
2 probably make it a requirement that you notify these  
3 additional interest owners.

4 MR. FELDEWERT: And that would make it easier for  
5 me.

6 EXAMINER CATANACH: Yeah. Probably that would  
7 constitute continuing the case for four weeks to give them  
8 adequate time --

9 MR. FELDEWERT: I understand.

10 EXAMINER CATANACH: -- to review the Application.  
11 In effect, what we're going to be doing when we issue a  
12 hearing order on these cases anyway is superseding the  
13 administrative orders, I suspect. So these hearing orders  
14 will be the new commingling orders, in effect. So let's  
15 proceed on that note. And anything further, Mr. Feldewert?

16 MR. FELDEWERT: No, Mr. Examiner.

17 EXAMINER CATANACH: Okay. Let's take a break  
18 here before we continue.

19 MR. OWEN: Mr. Examiner, if we're going to  
20 continue this case for four weeks, I'd just as soon put on  
21 my testimony at the new hearing date in four weeks.

22 EXAMINER CATANACH: Why is that, Mr. Owen?

23 MR. OWEN: So that -- There's been some new  
24 information which has been brought to light involving new  
25 meters and new metering method. I'd like our accounting to

1 evaluate that in light of the audit that was issued before.

2 I've given Mr. Feldewert a copy of the exhibits  
3 which I intended to introduce at today's hearing, and I  
4 think that's -- and I don't know whether additional  
5 exhibits would be introduced or not.

6 MR. FELDEWERT: If I may comment, we have yet to  
7 understand the real basis for their objection to this  
8 surface commingling Application. I received today some  
9 exhibits for the first time. All we have is their  
10 prehearing statement. I quite frankly do not understand  
11 how exception 21 to the audit report, which deals with  
12 certain issues associated with the way the system was  
13 previously configured, what that has to do with anything,  
14 how that impacts a case where we are dealing with, in  
15 essence, a new type of system.

16 You know, my concern here is that we still don't  
17 know what the problem is, what they intend to testify to,  
18 and under Mr. Owen's scenario we're not going to know until  
19 four weeks from now. And we haven't known now since  
20 September 24th when they objected to their letter proposal.

21 MR. OWEN: If I might respond, Mr. Examiner,  
22 Exception 21 has been provided to Mr. Feldewert. It  
23 clearly indicates that the basis for the objection is that  
24 are variances between the sales meter volumes and the  
25 allocation meter volumes. The problem with that was

1 illustrated by Mr. Manthei, indicating that the interest  
2 owners are not being paid correctly.

3 Mr. Manthei for the first time today indicated  
4 that there is a new method of monthly reconciling these.  
5 We'd like to evaluate that in light of the audit and  
6 determine how we want to proceed.

7 EXAMINER CATANACH: It appears to me, Mr. Owen,  
8 that the new evidence may, in fact, help to alleviate any  
9 conflict that there might be, although I can't say that for  
10 certain.

11 MR. OWEN: There is some testimony on the record,  
12 Mr. Examiner, however we've seen no evidence of this new  
13 allocation method, we've got no reports that have been  
14 presented to the Examiner indicating that that -- not the  
15 allocation method but the reconciliation is actually  
16 occurring. We have no evidence that, in fact, the interest  
17 owners are being paid correctly now with the audit report  
18 and the exception, which has been provided to Mr.  
19 Feldewert, I believe, four weeks ago, clearly indicated  
20 that those interest owners were not being paid correctly.

21 EXAMINER CATANACH: Mr. Owen, are your clients  
22 seeking to have this Application not approved? Is that  
23 your position?

24 MR. OWEN: That is our position right now, Mr.  
25 Examiner, because of some basic accounting problems. Not

1 the allocation method itself, as a theory, but the way  
2 that, in fact, BP is applying that allocation method and  
3 failing to account for discrepancies which are indicated in  
4 that Exception Number 21.

5 We're not going to conduct another audit between  
6 now and then, we don't have time, and it's just not going  
7 to be done. But we'd like to see what evidence there is  
8 that this new reconciliation method is, in fact, being  
9 carried out. Perhaps there can be meetings between the  
10 parties to determine whether the concerns have been  
11 addressed.

12 MR. FELDEWERT: If I may, Mr. Manthei has  
13 testified to what BP is doing. There is evidence in the  
14 record.

15 To the extent that there are accounting issues  
16 between the parties, that is a matter that is subject to  
17 the contractual agreements between them under the joint  
18 operating agreement. I don't view the Commission's role  
19 here as being there to deal with accounting issues between  
20 the parties. They could audit now, they could audit six  
21 months from now under the joint operating agreement.

22 The issue is whether this system as set forth by  
23 BP is going to measure and allocate production from the  
24 affected pools and leases in a reasonable and effective  
25 manner. That's the issue.

1           Whether there are accounting issues between the  
2 parties, that's separate and apart from what's before the  
3 Division, and that's a matter under the joint operating  
4 agreement, and there are provisions under the joint  
5 operating agreement to deal with that.

6           EXAMINER CATANACH: Let me take five minutes and  
7 discuss that with counsel.

8           (Thereupon, a recess was taken at 11:07 a.m.)

9           (The following proceedings had at 11:20 a.m.)

10          EXAMINER CATANACH: Call the hearing back to  
11 order. Any new, startling revelations that you've got to  
12 report?

13          MR. OWEN: No new revelations, but we would be  
14 more than happy to meet with BP representatives between now  
15 and four weeks, assuming that they will send a field  
16 personnel like Mr. Manthei and somebody from the accounting  
17 department to try to resolve this before the next hearing.  
18 We're making ourselves available in Midland or -- That  
19 would probably be the easiest place to do it.

20          EXAMINER CATANACH: Mr. Owen, are you optimistic  
21 that that may happen?

22          MR. OWEN: I'm optimistic from my clients'  
23 perspective. We're more than willing to meet whenever BP  
24 is willing to meet.

25          The problem that we have had, and the problem

1 that our auditor had, is that because BP has outsourced all  
2 of its accounting they're somewhat less than responsive,  
3 and I -- They're hard to deal with because you've got to  
4 talk to five or six different people to get the answer you  
5 need. So I don't know whether Mr. Feldewert can arrange  
6 that or not. I assume that he can.

7 EXAMINER CATANACH: I think there's a couple of  
8 separate issues in here. One of them is the accounting  
9 that has taken place previously. And I think the other  
10 issue is the Application at hand today, which describes how  
11 they're going to do the new -- the commingling from here on  
12 forward.

13 I think, you know, if we can focus on working on  
14 addressing the present Application, I don't know that -- I  
15 don't know how the other accounting discrepancies are going  
16 to play into that, but I think it would be helpful for the  
17 parties to meet and discuss some of these issues. And to  
18 that end, I think if Amoco is willing to do that -- or BP  
19 is willing to do that in the next four weeks, I don't see  
20 how it can hurt.

21 MR. FELDEWERT: Neither do I. I think --

22 MR. MANTHEI: I've offered to do that.

23 MR. FELDEWERT: That's my understanding, we've  
24 offered to do that.

25 EXAMINER CATANACH: Is it conceivable that we

1 may -- I mean, they may have worked this whole thing out in  
2 four weeks, and then you guys may drop your objection. Is  
3 that conceivable?

4 MR. OWEN: That is conceivable. It's also  
5 conceivable that we won't, and I don't want to represent  
6 that we definitely will reach agreement because I don't --

7 EXAMINER CATANACH: I understand.

8 MR. OWEN: -- that is not a definite possibility,  
9 but it is conceivable that we will reach agreement on it,  
10 if we can get the parties who -- including Mr. Manthei, who  
11 know what is going on in the field and in the accounting  
12 department together and try to reach some sort of middle  
13 ground on this thing.

14 EXAMINER CATANACH: Okay, I think on that note, I  
15 think we'll go ahead and grant your request, Mr. Owen, and  
16 let you guys talk to BP about this and hopefully get some  
17 of it resolved within the next four weeks, and maybe we  
18 won't have to deal with it four weeks from now.

19 MR. OWEN: Mr. Examiner, would you like a copy of  
20 the exhibits that were to be introduced during the hearing  
21 at this time? I'm making those available if you want them,  
22 if -- Clearly, we're not introducing them into the record  
23 without testimony.

24 EXAMINER CATANACH: It might be helpful. I think  
25 it would be more helpful if Mr. Feldewert had a copy of

1 that.

2 MR. FELDEWERT: Yeah, I have a copy.

3 EXAMINER CATANACH: Okay, so he's got a copy. I  
4 don't know that I will spend a whole lot of time looking at  
5 them, but I might --

6 MR. OWEN: Okay.

7 EXAMINER CATANACH: -- and we'll go ahead and do  
8 that.

9 And Mr. Feldewert, I guess in that interim time  
10 you will notify the rest of the parties?

11 MR. FELDEWERT: I think it would make a lot of  
12 sense to do that, yes.

13 EXAMINER CATANACH: Okay. Well, let's do that,  
14 then. We'll continue the case for four weeks and see what  
15 happens. If you guys come back, we'll be here to listen to  
16 you.

17 MR. OWEN: Okay. Thank you, Mr. Examiner.

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

19 MR. MANTHEI: Thank you.

20 (Thereupon, these proceedings were concluded at  
21 11:23 a.m.)

22 \* \* \*

23 I hereby certify that the foregoing is  
24 a true and correct record of the proceedings in  
25 an Examiner hearing of Case No. 12967-12968  
held by me on April 9, 2003.  
David R. Likens, 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 January 11th, 2003.



STEVEN T. BRENNER  
 CCR No. 7

My commission expires: October 16th, 2006