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November 20, 2002

Florene Davidson
Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

Dear Florene:

Enclosed for filing is a pre-hearing statement in Case Nos. 12967 and 12968. Thank you.

Very truly yours,

James Bruce

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

IN THE MATTER OF THE HEARING CALLED BY THE OIL CONSERVATION DIVISION FOR THE PURPOSE OF CONSIDERING:

APPLICATION OF BP AMERICA PRODUCTION COMPANY FOR SURFACE COMMINGLING, EDDY COUNTY, NEW MEXICO. **Case No. 12967**

APPLICATION OF BP AMERICA PRODUCTION COMPANY FOR SURFACE COMMINGLING, EDDY COUNTY, NEW MEXICO. **Case No. 12968**

PRE-HEARING STATEMENT

This pre-hearing statement is submitted by Trilogy Operating, Inc. as required by the Oil Conservation Division.

APPEARANCE OF PARTIES

Applicant
BP America Production Company

Attorney
Michael Feldewert

Opponent
Trilogy Operating, Inc.
P.O. Box 7606
Midland, Texas 79708

Attention: Jerry Weant
(915) 686-2027

Opponent's Attorney
James Bruce
Post Office Box 1056
Santa Fe, New Mexico 87504
(505) 982-2043

STATEMENT OF CASE

Applicant
BP America Production Company seeks approval to surface commingle gas production from certain leases.

Opponent
Applicant has had several problems with commingled production from leases in the area of the applications which are operated by applicant. Those issues are discussed in the audit report attached hereto as Exhibit A. Trilogy Operating, Inc. believes that approval of the above applications will aggravate the situation described in Exhibit A.

PROPOSED EVIDENCE

Applicant

Witnesses	Est. Time	Exhibits

Opponent

Witnesses	Est. Time	Exhibits
Jerry Weant	25 min.	Approx. six

PROCEDURAL MATTERS

-None-

Respectfully submitted,

James Bruce

James Bruce
Post Office Box 1056
Santa Fe, New Mexico 87504
(505) 982-2043

Attorney for Trilogy Operating, Inc.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing pleading was mailed to the following counsel of record this 20th day of November, 2002:

Michael Feldewert
Holland & Hart LLP
Post Office Box 2208
Santa Fe, New Mexico 87504
(505) 983-6043

James Bruce

James Bruce

Report on Review of
Gas Revenue Distributions
For:

B & C Federal #1	Little Box State #3
Bullseye Federal #1	Little Box State #4
Crooked Canyon 35 Federal #1	Nasser Federal
Hilltop Federal #1	Sweet Thing Federal Unit #1
Jaguar Federal #1	Sweet Thing Federal Unit #2
Leggett Federal #1	Sweet Thing State 36 #1
Little Box State #2	Sweet Thing State 36 #2

Operated by BP America Inc. (formerly ARCO Permian)
Accounting by PricewaterhouseCoopers LLP

We have completed our review of gas revenue distributions applicable to properties listed above for the production months from February 1999 through September 2001 made on checks dated April 1999 through November 2001. Our review procedures were performed to determine that the gross sales from production were allocated appropriately between the producing properties and distributed to the non-operators in full.

GENERAL INFORMATION

The leases are located in Eddy County, New Mexico with varied completion dates. Initially, gas production from 5 wells was purchased by Agave Energy Company: Little Box State #2, Little Box State #3, Little Box State #4, Sweet Thing State 36 #1, and Sweet Thing Fed Unit #2. Presently, only the gas production from the Little Box #2 and the Sweet Thing State 36 #1 is still purchased by Agave. The remainder has been gathered through the El Paso Field Services (EPFS) and marketed by ARCO Permian until its acquisition by BP, which commenced the marketing and distribution functions with the November 2000 production. The EPFS gas is purchased by a related BP marketing entity, BPETC, then sold to third parties. Owners are paid per a "netback" price that is the negotiated price of sales to third parties less transportation and gathering charges. According to industry sources, it is not unusual for large companies to use a separate company for marketing purposes. There are 4 different central point of delivery meters (CPD's) used for sales in the EPFS: Nasser (the largest), Little Box #2, Sweet Thing and Bullseye. All CPD's except the Bullseye, had production from various wells flowing through them during the audit period which required allocations between the wells. Only 5 wells (or producing zones) flowed through CPD's other than the Nasser.

EXHIBIT
Blumberg No. 5208
A

Gross revenue distributions for the period reviewed were approximately as follows:

B & C Federal #1	$1,730,000
Bullseye Federal #1	251,000
Crooked Canyon 35 Federal #1	50,000
Hilltop Federal #1	37,000
Jaguar Federal #1	20,000
Leggett Federal #1	10,000
Little Box State #2	50,569,000
Little Box State #3	410,000
Little Box State #4	5,838,000
Nasser Federal	2,749,000
Sweet Thing Federal Unit #1	171,000
Sweet Thing Federal Unit #2	26,683,000
Sweet Thing State 36 #1 & #2	50,219,000
Total	$138,737,000

SUMMARY OF REVIEW FINDINGS

Based on the examination completed, exceptions in the amount of $1,155,330.78 were identified as detailed in the following attachments. These may be summarized as below.

Undocumented adjustments	$844,529.08
Undocumented volume differences	198,514.08
Incorrect calculations or distributions	58,325.90
Non-payment of purchaser's revisions	47,570.41
Pricing differences	3,296.72
Loss of cash flow	3,094.59
Suspense documentation not provided	Undetermined
Total	$1,155,330.78

It is requested that the Operator respond to each exception in writing within 180 days, detailing the specific checks on which adjustments will or have been received.

Tutt & Company LLP

Midland, Texas
June 30, 2002

TRILOGY OPERATING, INC., ET AL PROPERTIES
SUMMARY OF REVIEW EXCEPTIONS

Review Exception	Description	Reference	Requested Credit Amount
1	Wrong BTU factors used on Nasser allocation & Bullseye	Attachment A	$3,930.18
2	Wrong BTU factors used on Nasser allocation & Bullseye	Attachment B	2,631.61
3	Wrong BTU factors used on Nasser allocation & Bullseye; Nasser CPD allocation incorrectly calculated	Attachment C	3,664.95
4	Nasser CPD allocation incorrectly calculated	Attachment D	To be Determined
5	Nasser CPD allocation incorrectly calculated and underpayment	Attachment E	To be Determined
6	Non-payment of purchaser's revised calculation for Sweet Thing State 36 #1 & Little Box #2	Attachment F	25,106.13
7	Non-payment of purchaser's revised calculation for Sweet Thing State 36 #1 & Little Box #2	Attachment G	22,464.28
8	Pricing difference on B&C Federal #1	Attachment H	522.91
9	Pricing difference on Little Box #3	Attachment I	2,773.81
10	Undocumented adjustment on Little Box State #4	Attachment J	28,831.61
11	Loss of cash flow from negative adjustment on Sweet Thing Fed Unit #2	Attachment K	3,094.59
12	Incorrect distribution for Little Box #4	Attachment L	47,234.56
13	Undocumented adjustment for Sweet Thing Fed. #2	Attachment M	628.20
14	Undocumented adjustment for Bullseye	Attachment N	413.10
15	Undocumented adjustments for Nasser CPD allocations	Attachment O	391.62

TRILOGY OPERATING, INC., ET AL PROPERTIES
SUMMARY OF REVIEW EXCEPTIONS

16	Undocumented adjustment for Sweet Thing Fed. #1	Attachment P	311.15
17	Incorrect distribution for Nasser Federal & B&C Federal 25 #1	Attachment Q	412.73
18	Incorrect distribution for Little Box State #2	Attachment R	451.87
19	Incorrect reversal of distribution for Sweet Thing Fed. Unit #2	Attachment S	813,953.40
20	Suspense report not received		Undetermined
21	Undocumented volume differences	Attachment T	198,514.08
	Total		$ 1,155,330.78

TRILOGY OPERATING, INC., ET AL PROPERTIES
EXCEPTION COMMENTS

EXCEPTION NO. 1

Wrong BTU factor used

05/99 production. The MMBTU calculations for the Nasser CPD used the Bullseye CPD BTU factor in error, resulting in underpayment on all properties in the allocation (7/27/99 check). Also, according to the gas volume statement, the incorrect BTU factor was used for the Bullseye CPD, resulting in underpayment for that CPD as well. Additional payment to the producers is requested for the difference in calculations (See Attachment A)

Credit due $3,930.18

EXCEPTION NO. 2

Wrong BTU factor used

04/99 production The MMBTU calculations for the Nasser CPD used the incorrect BTU factor in error (not the Bullseye factor), resulting in underpayment on all properties in the allocation (6/25/99 check). Also, according to the gas volume statement, the incorrect BTU factor was used for the Bullseye CPD, resulting in underpayment for that CPD as well. Additional payment to the producers is requested for the difference in calculations. (See Attachment B)

Credit due $2,631.61

EXCEPTION NO 3

Wrong BTU factor used and incorrect allocation

07/99 Production. There are 2 problems with this production month that caused incorrect allocations and payments:

1) 3 well volumes were included in the total at actual instead of being allocated, see note C on attachment.

2) The MMBTU calculations for the Nasser CPD used an incorrect BTU factor in error, resulting in underpayment on all properties in the allocation (9/28/99 check). Also the MMBTU for the Bullseye was incorrectly calculated, resulting in underpayment. Additional payment to the producers is requested for the difference in calculations. (See Attachment C)

Credit due $3,664.95

EXCEPTION NO. 4

Incorrect allocation

12/99 Production. 3 well volumes were included in the allocated volumes at actual volume instead of being allocated pro rata. This causes improper calculation of gross value distributions between the wells. The higher the price and volume, the greater the miscalculation. Over a period of months, differences of $500 to $1,200 could result in misallocations of between $6,000 to over $14,000 for which the Nasser would be underpaid and the Little Box #2 & 3, Sweet Thing 36 #1 and Sweet Thing Fed #2 would be overpaid. The same problem occurred in several other months, however, the differences in allocation were relatively immaterial. Reallocation between properties is requested. (See Attachment D)

Credit due Reallocation of Nasser CPD

EXCEPTION NO. 5

Incorrect allocation

5/00 Production. There were 2 errors in this production month that created a misallocation of volumes and gross values. First, the incorrect allocation volume was used. This created a small underpayment for the Nasser CPD as a whole. Second, 3 well volumes were included in the allocated volumes at actual volume instead of being allocated pro rata. This causes improper calculation of gross value distributions between the wells. The higher the price and volume, the greater the miscalculation. Over a period of months, differences of $500 to $1,200 could result in misallocations of between $6,000 to over $14,000 for which the Nasser would be underpaid and the Little Box #2 & 3, Sweet Thing 36 #1 and Sweet Thing Fed #2 being overpaid. The same problem occurred in several other months, however, the differences in allocation were relatively immaterial. Reallocation between properties and credit for underpayment is requested. (See Attachment E)

Credit due $179.18 and Reallocation of Nasser CPD

EXCEPTION NO. 6

Non-payment of purchasers revised price

05/00 Production. It appears that the increased gross value resulting from a revised price paid by Agave Energy Company for May 2000 production per the revised statement dated August 16, 2000, was not paid to the owners. (See Attachment F)

Credit due $25,106.13

EXCEPTION NO. 7

Non-payment of purchasers revised price calculations

04/00 Production. It appears that the increased gross value resulting from a revised price paid by Agave Energy Company for April 2000 production per the revised statement dated May 30, 2000, was not paid to the owners. (See Attachment G)

Credit due $22,464.28

EXCEPTION NO. 8

Pricing difference

09/00 Production. The MCF on the check dated 11/28/00 agrees with the allocations schedule for the B & C Federal #1. However, the price used for calculating the gross value for the B & C Federal #1 appears to be lower than that used on the other Nasser CPD allocations, causing the gross value to be lower than it should be. (See Attachment H)

Credit due $522.91

EXCEPTION NO. 9

Pricing difference

09/00 Production. The pricing for the allocated production on the Little Box #3 appears to be significantly lower than the price used for the Little Box #4 for September, 2000 production on the 11/28/00 check. These are both allocated from the same sales meter and the price should be the same. (See Attachment I)

Credit due $2,773.81

EXCEPTION NO. 10

Undocumented adjustment

11/00 Production. The correct volume but incorrect gross value for the Little Box State #4 (Little Box State #2, DOI 002) was reversed and a lesser volume and value input. However, there is no documentation for the change in the volume and the total gross value paid does not agree with the allocation calculations. It appears that the change was an attempt to correct the original incorrect price paid. The allocated volumes and gross values for the other Nasser CPD wells appear to be substantially correct. (See Attachment J)

Credit due $28,831.61

EXCEPTION NO. 11

Loss of cash flow

11/00 Production. A negative adjustment for over $1 million dollars in October 2001 on the Sweet Thing Federal Unit #2 left owners with a net loss in cash flow interest. Such a large negative adjustment gave the operator use of funds and denied producers rightful use of funds. (See Attachment K)

Credit due $3,094.59

EXCEPTION NO. 12

Incorrect distribution

12/00 Production. The volume and gross revenue for the Little Box #4 are significantly below the allocation amounts. There is no documentation for the difference in the allocation amounts. (This production month was the month given as an example for the method of allocation.) (See Attachment L)

Credit due $47,234.56

EXCEPTION NO. 13

Undocumented adjustment

12/00 Production. The Sweet Thing Federal #2 had numerous adjustments (as did most of the wells for this month). It appears that the final adjustment was short a few MCF's and allocation for Flash Gas was possibly not included. This resulted in an underpayment to the well. (See Attachment M)

Credit due $628.20

EXCEPTION NO. 14

Undocumented adjustment

01/01 Production. The Bullseye had a negative adjustment for which there is no documentation. Although the amount is not materially significant, undocumented negative adjustments are not acceptable. (See Attachment N)

Credit due $413.10

EXCEPTION NO. 15

Undocumented adjustment

02/01 Production. Nearly all properties included in the Nasser CPD allocation received adjustments on the 10/22/01 check for 02/01 production. There is no documentation as to why these adjustments were made. The original distributions appear to be correct. Although the amount of difference is not significant in terms of dollars, the percentage difference is as much as 18% on some of the wells with lower production. This results in incorrect payments up to several hundred dollars for some properties that may be significant for those properties. A correction of the allocation is requested. (See Attachment O)

Credit due $391.62 and reallocation of Nasser CPD

EXCEPTION NO. 16

Undocumented adjustment

02/01 Production. The Sweet Thing Federal #2 had a negative adjustment for which there is no documentation. Although the amount is not materially significant, undocumented negative adjustments are not acceptable. (See Attachment P)

Credit due $311.15

EXCEPTION NO. 17

Incorrect distribution

05/01 Production. It appears that the Nasser Federal #1 Morrow and the Nasser Federal #1 Upper Penn are combined on the checks. The aggregate distribution is short $200.28 of the allocation calculation. Also, the amount on the check for the B & C Federal 25 #1 is short $212.44 of the allocation calculation. (See Attachment Q)

Credit due $412.73

EXCEPTION NO. 18

Incorrect distribution

05/01 Production. The amount distributed on the 07/20/01 check for the Little Box #2 does not agree with the total per the Agave purchaser statement plus the Flash Gas allocation from the Nasser CPD. (See Attachment R)

Credit due $451.87

EXCEPTION # 19

Incorrect reversal of distribution

07/01 Production. Numerous adjustments were made on the 5/20/02 check for 07/01 production. It appears that the Nasser CPD allocations had previously been double posted and the adjustments were to correct this error. However, the Sweet Thing Federal #2, (identified as Sweet Thing #1 (BP) on check description), which is a separate CPD, was not previously double posted and there is no documentation that it should have had any adjustments. Now, it appears that almost all revenue for the 07/01 production month has been erroneously reversed. (See Attachment S)

Credit due $813,953.40

EXCEPTION # 20

Suspense amounts

A suspense report was requested from the operator on May 16, 2002 but was never received. Therefore, we were not able to review amounts held in suspense to determine if the suspensions were appropriate. During the course of the review, it was discovered that one of the interest owners was not receiving revenue due to his failure to return a signed agreement. Other correctible problems might have been discovered if the information had been available. We take exception to all amounts held in suspense up to and including December 2001 production until the report has been received and reviewed for appropriateness of suspensions.

Credit due Undetermined

EXCEPTION # 21

Undocumented volume differences

The operator could not document or explain significant differences between the well meter volumes and the Nasser CPD sales volume. From March 1999 through February 2001, the monthly allocated sales volume from the Nasser CPD was consistently and significantly less than the total meter reports for the associated wells. Some differences were as much as 21%. These high discrepancies between the volumes are not reasonable. Lease use gas could only account for a small portion of these differences. Examples:

Date	% Lease use on the C-115	CPD less than meters
May 1999	6%	12%
July 1999	0%	21%
Oct 1999	4%	7%
May 2000	3%	9%

Then, from March 2001 through September 2001, the monthly allocated sales volume from the Nasser CPD began to be 2% to 5% more than the meter volumes. This could indicate that there might be another producing well whose production volume is not being included in the allocation accounting. The sudden change in the differences could not be explained by the operator's personnel

A review of selected volumes reported to the New Mexico Oil Conservation Division indicated that the volumes produced were not being properly reported when compared to meter reports. The actual amount of gas produced at the well head should be reported in the production column The differences between what was produced and what was sold or used on the lease should be appropriately reported. However, through November 2000, production volumes reported on New Mexico Form C-115 were the allocated sales volumes for the CPD plus incidental lease use gas rather than the actual meter volumes. When PWC-BP assumed the reporting with December 2000 production, this method was no longer used until August 2001. But the review of selected production months from December 2000 through July 2001 still indicated significant differences between the meter volume and the volume reported on some wells. Since actual copies of Form C-115 were not made available by the operator for that period, summary production data from the OCD was downloaded and reviewed. These reports do not give the detail for dispositions of gas. The total lease use reported might account for some small portion of the differences between the total metered volumes and the total allocated volumes; however, there was not a history of significant lease use on the properties as reported on reviewed C-115's for production prior to November 2000.

The allocation volume method of reporting does not comply with the reporting requirement that volumes be reported for actual production at the wellhead. The significant differences between the Nasser CPD allocations and metered production are unaccounted for and the lack of proper accounting for actual production indicates a serious lack of control for the production itself. Numerous possible losses such as theft, diversions, leaks, incorrect meter calculations etc. could go undetected. Therefore, exception is taken to the value of the unexplained and undocumented differences between the metered volumes and the Nasser CPD allocation volumes.

Credit due $198,514.08