

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

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: )  
 ) CASE NO. 10306  
APPLICATION OF CONOCO, INC., FOR )  
SURFACE COMMINGLING, EDDY COUNTY, )  
NEW MEXICO )

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner  
May 16, 1991  
10:25 a.m.  
Santa Fe, New Mexico

This matter came on for hearing before the Oil  
Conservation Division on May 16, 1991, at 10:25 a.m.  
at Oil Conservation Division Conference Room, State Land  
Office Building, 310 Old Santa Fe Trail, Santa Fe,  
New Mexico, before Paula Wegeforth, Certified Court  
Reporter No. 264, for the State of New Mexico.

FOR: OIL CONSERVATION DIVISION BY: PAULA WEGEFORTH  
Certified Court Reporter  
CSR No. 264

I N D E X

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

May 16, 1991  
Examiner Hearing

CASE NO. 10306

APPEARANCES PAGE  
3

APPLICANT'S WITNESS  
JAMES D. ALLEN 4  
Direct Examination by Mr. Kellahin 14  
Examination by Examiner Catanach

REPORTER'S CERTIFICATE 19

\* \* \*  
E X H I B I T S

APPLICANT'S EXHIBIT ADMTD  
1 through 9 14

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

A P P E A R A N C E S

FOR THE DIVISION:           ROBERT G. STOVALL, ESQ.  
                                  General Counsel  
                                  Oil Conservation Commission  
                                  State Land Office Building  
                                  310 Old Santa Fe Trail  
                                  Santa Fe, New Mexico 87501

FOR THE APPLICANT:         KELLAHIN, KELLAHIN & AUBREY  
                                  Attorneys at Law  
                                  BY: W. THOMAS KELLAHIN, ESQ.  
                                  117 North Guadalupe  
                                  Santa Fe, New Mexico 87501

\* \* \*

1 EXAMINER CATANACH: Call the hearing back to order at  
2 this time and call Case 10306.

3 MR. STOVALL: Application of Conoco, Inc., for surface  
4 commingling, Eddy County, New Mexico.

5 EXAMINER CATANACH: Are there appearances in this  
6 case?

7 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of the  
8 Santa Fe law firm of Kellahin, Kellahin & Aubrey appearing  
9 on behalf of Conoco, Inc., and I have one witness to be  
10 sworn.

11 EXAMINER CATANACH: Are there any other appearances in  
12 this case?

13 Will the witness please stand and be sworn in?

14 (Whereupon the witness was duly sworn.)

15 JAMES D. ALLEN,

16 the Witness herein, having been first duly sworn, was  
17 examined and testified as follows:

18 DIRECT EXAMINATION

19 BY MR. KELLAHIN:

20 Q. Mr. Allen, would you please state your name and  
21 occupation?

22 A. My name is James David Allen. I am currently  
23 employed as production engineer with Conoco, Inc.

24 Q. Mr. Allen, where do you reside?

25 A. I live in Midland Texas.

1 Q. Summarize for us your educational experience.

2 A. I received a B.S. in petroleum engineering from  
3 the University of Oklahoma in 1984, and I'm currently a  
4 registered professional engineer in the State of Texas.

5 Q. Describe for us your current duties for Conoco  
6 insofar as this particular project in the North Daggar  
7 Draw-Upper Penn Pool in Eddy County, New Mexico, is  
8 concerned.

9 A. My current responsibilities include economically  
10 maintaining and facilitating the producing wells which are  
11 drilled for Conoco in the North Dagger Draw Pool.

12 MR. KELLAHIN: Mr. Examiner, we tender Mr. Allen as a  
13 petroleum engineer.

14 EXAMINER CATANACH: He is so qualified.

15 Q. (By Mr. Kellahin) Let me have you take what is  
16 marked as Exhibit No. 1, this first display, and before we  
17 talk about the specific details, help us understand what it  
18 is that we're looking at.

19 A. Mr. Examiner, Exhibit 1 is a map of the North  
20 Dagger Draw-Upper Pennsylvanian Pool, showing the Conoco  
21 acreage that we operate in that pool.

22 Q. When we look at the display and see the three  
23 red squares and then the identification of three different  
24 facilities, what does that represent?

25 A. These represent regional facilities which have

1 been established to surface commingle the production from  
2 all the wells that we have drilled in this pool.

3 Q. Also on the display it shows wells and Conoco's  
4 acreage position in the area?

5 A. Yes, sir. The hatched area shows Conoco acreage  
6 with the 15 160-acre proration units also shown and labeled  
7 with "Conoco."

8 Q. This is 160-acre oil spacing in the Dagger Draw?

9 A. Yes, sir.

10 Q. What has Conoco done with regards to handling  
11 the commingling of production from these various wells and  
12 transporting that production to these various facilities?

13 A. Conoco has established these three regional  
14 production facilities and currently operates them based on  
15 three independent orders which have been issued. Flow  
16 lines were laid from each individual well to their  
17 respective facilities under which they've approved for  
18 commingling.

19 Q. Without these past commingling orders, what are  
20 you required to do as the operator of these various  
21 160-acre spacing units?

22 A. It would be required, based on very complex  
23 ownership in each 160 proration unit, to establish 15  
24 individual batteries to facilitate each individual 160-acre  
25 proration unit.

1 Q. What are you seeking to accomplish before the  
2 examiner today?

3 A. Today we are seeking at the suggestion of the  
4 OCD that they issue an order which will allow us to surface  
5 commingle our production at any current or future  
6 constructed facility. This will simplify the routinely  
7 approved practice of surface commingling and off-lease  
8 storage.

9 Q. Let's turn to Exhibit No. 2. Would you identify  
10 that and describe that display?

11 A. Exhibit 2 is a listing of the commingling orders  
12 which have been approved to date. The first one that's  
13 shown there is the Lodewick facility which was approved  
14 under Order CTB-338 and has been amended four times.

15 Second, we have the Dagger Draw facility. It  
16 was approved under Order CTB-332, has two amendments; and  
17 the Dee State facility, approved under Order CTB-346.

18 Q. Let's turn now to Exhibit 3. Would you identify  
19 and describe that exhibit?

20 A. Exhibit 3 is the same base map that we showed  
21 you in Exhibit 1. On this map we have superimposed an  
22 outline of each of the commingling orders in the areas that  
23 they cover.

24 In the red the order for the commingling of the  
25 Lodewick facility for Order CTB-338 is shown. In the blue,

1 this outlines the acreage that was approved for commingling  
2 at the Dagger Draw facility under Order CTB-332, and  
3 likewise in the green, the order for the Dee State  
4 facility.

5 Q. Let's take the smallest just for simplicity and  
6 look at the Dee State facility. To the facility you've got  
7 a green line from either three producers in two locations.  
8 Is that what that shows?

9 A. Yes, sir.

10 Q. All right. What are you asking the examiner to  
11 write in terms of an order approving the commingling of  
12 production from existing wells and future locations for the  
13 Dee State facility?

14 A. There would be no additional requirement at this  
15 time. The Dee State facility in its simplest form will  
16 handle all of the proposed producers and existing producers  
17 in that area. This facility is sized properly for all of  
18 the development that's shown and proposed.

19 Q. When we look at the Dee State facility, how many  
20 of those wells currently have received commingling order  
21 approvals?

22 A. None at this time.

23 Q. You would envision having the examiner give you  
24 orders for each of the facilities or a simple generic order  
25 allowing an administrative -- allowing an order approving

1 the existing wells in future expansion?

2 A. If I understand your question correctly, what we  
3 are seeking is a comprehensive order which will allow  
4 Conoco to, at its own will, commingle wells at the most  
5 convenient facility, whether it be the Lodewick, Dagger  
6 Draw or even the Dee State, to facilitate wells and  
7 maintain our aggressive drilling schedule that we do have  
8 out here and a possible one in the future.

9 Q. The current boundaries of the acreage in which  
10 you want the authority to commingle on the surface  
11 production from these wells would be described and shown on  
12 which of these displays?

13 A. It would be shown on Exhibit 2.

14 Q. I'm sorry; Exhibit 1?

15 A. I'm sorry; Exhibit 1, yes. Exhibit 1, the map,  
16 the base map of the --

17 Q. All right. If the examiner initially describes  
18 for approval all that acreage shown in the hatched area --

19 A. Yes, sir.

20 Q. -- and gives you an administrative procedure for  
21 the expansion or inclusion of additional acreage, is that  
22 what you're seeking to do?

23 A. We are seeking all the acreage that is included  
24 in the hatched area. That is -- that is all that we are  
25 seeking in this.

1 Q. You do not need, then, a procedure for expansion  
2 of the acreage?

3 A. Not expansion of the acreage as shown in the  
4 hatched area in Exhibit 1.

5 Q. All right.

6 A. If you look at Exhibit 3, part of that acreage,  
7 the northwest quarter of Section 18, is not included in any  
8 order.

9 Q. I understand. So if we describe the area for  
10 approval for surface commingling for production out of  
11 these wells in this pool and use the area shown in the  
12 hatched area on Exhibit 1, that will include all the area  
13 you need to have under the jurisdiction of this commingling  
14 order?

15 A. Yes, sir.

16 Q. And you want authority to commingle in any  
17 combination, then, at these various facilities the  
18 producers shown on this display within the hatched area,  
19 plus the opportunity to add additional producers when  
20 drilled on the hatched acreage?

21 A. Yes, sir.

22 Q. Describe for me what Exhibit 4 is.

23 A. Exhibit 4 is a battery schematic of the Lodewick  
24 facility, which is outlined in the green acreage on  
25 Exhibit 3. And as you can see, shown in the capsules are

1 separators from the individual wells that are currently  
2 facilitated at the Lodewick battery.

3           Each well as it is drilled does have its own  
4 separate separator, and these separators are equipped with  
5 positive displacement oil meters and temperature  
6 compensated gas meters to protect the correlative rights of  
7 the interest owners.

8           Q.     Do you have a similar display for the other two  
9 facilities?

10          A.     Yes, I do. They are shown in Exhibits 5 and 6,  
11 similarly.

12          Q.     Exhibit 5 represents what facility?

13          A.     That is the Dagger Draw facility.

14          Q.     And Exhibit 6 represents what?

15          A.     The Dee State facility.

16          Q.     Does Conoco as the operator still have the  
17 ability to go out to the individual wells and to measure  
18 and test those wells to determine production coming from  
19 that well?

20          A.     Yes, sir, we do.

21          Q.     Do you have an agreement of all the interest  
22 owners to commingle the production on surface?

23          A.     Yes, we do.

24          Q.     How do you allocate that production back to the  
25 individual owners?

1           A.     That's allocated through daily tests that are  
2 taken through a positive displacement meter on the oil side  
3 and a temperature compensated gas meter on the gas side.

4           Q.     Has Conoco written to all the interest owners  
5 involved in the production and shared with them the  
6 proposal for commingling and storage of the production off  
7 lease?

8           A.     Yes, sir, we have.

9           Q.     How is that shown?

10          A.     We've shown that in Exhibit 7. It's a copy of  
11 the letter sent to the interest owners in each of the 15  
12 160-acre proration units.

13          Q.     From the 123 interest owners that received  
14 notice of this proposed procedure, has Conoco received any  
15 objection from any interest owner?

16          A.     No, sir, we have not.

17          Q.     Do you have an opinion as to whether or not  
18 there is an economic savings to the interest owners to have  
19 the production commingled on the surface as you've  
20 proposed?

21          A.     Yes, sir. There is an economy in commingling  
22 the production to regional storage facilities. It not only  
23 lowers Conoco's operating costs for maintaining 15 separate  
24 individual facilities, but it also lessens the  
25 environmental impact that 15 batteries would have in this

1 area as opposed to the three that we operate.

2 Q. By reducing the costs of operations, do you  
3 correspondingly lengthen the period of time in which it's  
4 economic to operate and produce these wells?

5 A. Yes, sir.

6 Q. Would it be your opinion that results in the  
7 production of oil and hydrocarbons that might not otherwise  
8 be produced by these wells?

9 A. Yes, sir. It will maximize our recovery  
10 reserves in this pool.

11 Q. The facilities have the capacity to handle  
12 surface commingling of production from these wells?

13 A. Not in their current state. The Lodewick  
14 facility is currently at capacity. That's one of the  
15 reasons we are seeking this order. There is excess  
16 capacity at the Dagger Draw facility. However, our current  
17 drilling program is in the vicinity of the Lodewick  
18 facility, and the wells that we're drilling now would  
19 currently have to be facilitated at that battery.

20 Simply, if we got this order, we would reroute  
21 the production lines down through the Dagger Draw facility  
22 with no additional capital cost to the interest owners.

23 Q. What is Exhibit No. 8?

24 A. Exhibit No. 8 is a list of the interest owners  
25 that received the letter displayed in Exhibit No. 7 for

1 ownership in the North Dagger Draw--Upper Pennsylvanian  
2 Pool.

3 Q. And Exhibit No. 9?

4 A. Exhibit No. 9 is a copy of each of the certified  
5 mail receipts that were received by each of the 123 --  
6 125 -- excuse me -- letters that were sent out.

7 MR. KELLAHIN: That concludes my examination of  
8 Mr. Allen. We move the introduction of his Exhibits 1  
9 through 9.

10 EXAMINER CATANACH: Exhibits 1 through 9 will be  
11 admitted as evidence.

12 (Whereupon Applicant's Exhibits 1 through 9 were  
13 admitted into evidence.)

14 EXAMINATION

15 BY EXAMINER CATANACH:

16 Q. Mr. Allen, on your Exhibit No. 3, does that  
17 show -- that shows all the proposed wells that Conoco is  
18 going to drill in this area?

19 A. That is what's on the current drilling schedule,  
20 Mr. Examiner. These wells will all be drilled by the end  
21 of this year. The open circles denote the remaining wells  
22 to be drilled this year.

23 Q. You're not aware of any other wells that are  
24 proposed or going to be proposed at a future time?

25 A. There are some, but they are currently under

1 study and are not included on this map.

2 Q. The -- up in Section 17, the Jenny Comm No. 1  
3 and the Barbara Federal No. 7 -- what's the status of those  
4 two wells?

5 A. Those two wells have been plugged and abandoned.  
6 They were drilled by the previous operator, Roger Hanks.  
7 Conoco bought this property from Roger Hanks, and we have  
8 since devised new technology for logging and completing  
9 these wells which allow us to produce them at a higher  
10 capacity than did Roger Hanks during his days of operation.

11 Q. And the Barber Federal Well No. 5 is also  
12 plugged and abandoned?

13 A. Yes, sir. That's a similar well, similar  
14 circumstances.

15 Q. Does Conoco anticipate drilling any additional  
16 wells on those three 160-acre tracts?

17 A. To my knowledge, no, but I would not -- I would  
18 not preclude that statement by saying that we will never  
19 drill there.

20 Q. But you want that acreage to be included in the  
21 order authorizing commingling?

22 A. Yes, sir. Yes, sir.

23 Q. And those will go into the Lodewick facility if  
24 they are ever drilled?

25 A. They would have to now as it stands, yes.

1 Q. Have you received any response from any interest  
2 owners, including the BLM and the State Land Office?

3 A. Yes, sir. We have received approximately 50  
4 waivers, and I don't have those handy to tell you who. We  
5 have -- I believe Mr. Hoover does have them handy.

6 EXAMINER CATANACH: We might want to put those in as  
7 additional exhibits, if you are so inclined, Mr. Kellahin.

8 Q. (By Examiner Catanach) Have you heard anything  
9 from the Bureau of Land Management or the State Land  
10 Office?

11 A. I don't believe we have. Jerry has those -- the  
12 listing of those, and I have not looked through them.

13 Q. Okay. Now, as I understand it, each well has  
14 its own separator and individual gas and oil meters?

15 A. Yes, sir.

16 Q. That's how everything is allocated?

17 A. Yes, sir.

18 Q. How about when there's two wells on a single  
19 lease? Do they still have their own meters and separators?

20 A. Yes, sir, they do; and there's a very good  
21 reason for that. There are instances in this area where  
22 ownership changes within the proration unit. All the  
23 parties that participate in the first well do not  
24 necessarily participate in the second well.

25 The only way we could ever commingle through a

1 common separator is that if we have common ownership within  
2 the proration unit, and as the total production declines to  
3 the capacity of the separator, we can commingle then  
4 through a common separator. And that is our prudent  
5 practice and intention.

6 Q. But the way it stands right now there are no  
7 common separators?

8 A. No, sir.

9 Q. Mr. Allen, you haven't received any objections  
10 from any of the interest owners on this proposal?

11 A. That's right.

12 Q. And all the production is from the -- from one  
13 common source supply, the North Dagger Draw-Upper  
14 Pennsylvanian Pool?

15 A. Yes, sir. It's a Cisco pool.

16 EXAMINER CATANACH: I have no further questions of the  
17 witness. He may be excused.

18 MR. KELLAHIN: Subsequent to the hearing,  
19 Mr. Examiner, we'd like to submit the waivers that we have  
20 received thus far, and we'll simply mark them as  
21 Exhibit 10, I believe.

22 EXAMINER CATANACH: Okay.

23 MR. KELLAHIN: We have not yet received letters from  
24 the BLM or the Commission of Public Lands. Mr. Hoover has  
25 met with them and continues to address their concerns. We

1 assume that their approves will be forthcoming.

2 EXAMINER CATANACH: I would -- when you receive  
3 something from either of those parties, I'd like to be --  
4 to receive a copy of those also.

5 MR. KELLAHIN: Okay.

6 MR. STOVALL: Mr. Kellahin, just to maintain the  
7 dignity of those, would you just attach a simple affidavit?

8 MR. KELLAHIN: Sure.

9 EXAMINER CATANACH: There being nothing further in  
10 this case, Case 10306 will be taken under advisement.

11

12 (The foregoing hearing was concluded at the  
13 approximate hour of 10:40 a.m.)

14

\* \* \*

15

16

17

18

19

I do hereby certify that the foregoing is  
a complete record of the proceedings in  
the Examiner hearing of Case No. 10306,  
heard by me on May 16 1991.

20

David L. Catanach, Examiner  
Oil Conservation Division

21

22

23

24

25

