

ORIGINAL

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

APPLICATION OF CONOCOPHILLIPS COMPANY
FOR DOWNHOLE COMMINGLING, RIO ARRIBA
COUNTY, NEW MEXICO.

CASE NO. 14839

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID K. BROOKS, Chief Examiner
TERRY WARNELL, Technical Examiner

May 24, 2012

Santa Fe, New Mexico

This matter came on for hearing before the
New Mexico Oil Conservation Division, DAVID K. BROOKS,
Chief Examiner, and TERRY WARNELL, Technical Examiner,
on Thursday, May 24, 2012, at the New Mexico Energy,
Minerals and Natural Resources Department, 1220 South
St. Francis Drive, Porter Hall, Room 102, Santa Fe,
New Mexico.

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1 APPEARANCES

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1 (8:31 a.m.)

2 EXAMINER BROOKS: At this time, we call
3 Case Number 14839, the application of ConocoPhillips for
4 downhole commingling, Rio Arriba County, New Mexico.

5 Call for appearances.

6 MR. KELLAHIN: Mr. Examiner, Tom Kellahin
7 of the Santa Fe law firm of Kellahin and Kellahin. I'm
8 appearing today on behalf of the Applicant, and I have
9 two witnesses to be sworn.

10 EXAMINER BROOKS: Okay. Would you please
11 have your witnesses stand and identify themselves for
12 the record and be sworn.

13 MR. CORCORAN: Rich Corcoran.

14 MR. PERTUSO: Dryonis, D-R-Y-O-N-I-S,
15 Pertuso, P-E-R-T-U-S-O.

16 (Witnesses sworn.)

17 EXAMINER BROOKS: You may proceed,
18 Mr. Kellahin.

19 MR. KELLAHIN: Thank you, Mr. Examiner.

20 This case before you this morning is based
21 upon an objection by a Madalyn Joy Johnson. She's a
22 royalty interest owner within the spacing unit. Conoco
23 filed an administrative application for downhole
24 commingling for a wellbore that was going to be a
25 tri-mingle in the Mancos, the Basin Dakota and the

1 Gallup. And after sending out some 280 notices,
2 Mrs. Johnson filed an objection.

3 As a result of that objection, Mr. Corcoran
4 has been in contact with her and her attorney. At this
5 point, we have not been able to persuade her to withdraw
6 her objection, so with your permission, we'll go forward
7 and present to you our technical case. We're asking the
8 Division to go ahead and deny the objection and to
9 approve the application.

10 EXAMINER BROOKS: Very good.

11 RICHARD CORCORAN,
12 after having been previously sworn under oath, was
13 questioned and testified as follows:

14 DIRECT EXAMINATION

15 BY MR. KELLAHIN:

16 Q. Mr. Corcoran, for the record, please state your
17 name and occupation.

18 A. My name is Richard Corcoran, and I am a landman
19 with ConocoPhillips.

20 Q. And where do you reside, sir?

21 A. I reside in Farmington, New Mexico.

22 Q. On prior occasions, have you testified and
23 qualified an as expert petroleum landman for your
24 company?

25 A. I have.

1 Q. And on behalf of your company, have you
2 previously testified before the Division as a petroleum
3 landman?

4 A. Yes, I have.

5 Q. And has it been your responsibility to contact
6 the interest owners that would share in production in
7 this spacing unit for this infill well?

8 A. That is correct.

9 Q. As part of that effort, was one of the
10 individuals that you contacted Mrs. Johnson?

11 A. Yes.

12 Q. And was it your responsibility to try to
13 discuss with her your plans and how you propose to
14 proceed with those plans?

15 A. Correct, and try to answer any questions.

16 MR. KELLAHIN: We tender Mr. Corcoran as an
17 expert petroleum landman.

18 EXAMINER BROOKS: So accepted.

19 Q. (BY MR. KELLAHIN) Mr. Corcoran, would you turn
20 to the exhibit book and pass the cover sheet, and open
21 this up and find tab one?

22 A. I'm there.

23 Q. Did you organize this exhibit book?

24 A. I did.

25 Q. Can we use the first document after tab one,

1 which is marked Exhibit 1A, to help explain to the
2 Examiner the details about where this well is located?

3 A. Okay. This well is located in the San Juan
4 Basin, 29-5 Unit, which is approximately six miles west
5 of the Jicarilla Reservation and ten miles south of the
6 Colorado-New Mexico state line. It encompasses the
7 acreage identified in green.

8 Q. If you'll take a moment, let's look at the
9 hashed area in red. What does that show us?

10 A. That is the spacing unit for the proposed well.

11 Q. This is a new drill?

12 A. Yes, it is.

13 Q. And the plan for this well is to access
14 production in what three formations?

15 A. In the Mesaverde, Mancos and Dakota.

16 Q. In looking at the maps, is there a Dakota
17 participating area within this unit?

18 A. There is. If you'll turn to page --

19 Q. Don't turn yet. Okay?

20 A. Yes, there is.

21 Q. Is there also one for Mesaverde?

22 A. There is.

23 Q. And those two -- and the spacing unit is
24 located entirely within this federal unit?

25 A. Yes, that is correct.

1 Q. And the federal unit is identified as what, the
2 San Juan what?

3 A. 29-5 Unit.

4 Q. So when we look at Mrs. Johnson's interest
5 within the drill tract, how are you able to apportion
6 what her share is for each of the three spacing units?

7 A. By virtue of her interest in the particular
8 participating area. Each zone is -- or the Mesaverde
9 and the Dakota are dedicated to separate participating
10 areas within that unit.

11 Q. Within each unit, then, she would have a
12 different fractional interest?

13 A. That is correct.

14 Q. Does she have any interest in this wellbore, in
15 this spacing unit in the Mancos?

16 A. She has no interest in the Mancos.

17 Q. Is there a Mancos participating area?

18 A. There is no Mancos representing the first
19 Mancos well in this unit.

20 Q. This would be a new drill?

21 A. That is correct.

22 Q. When we look at Exhibit 1A, then, the green
23 outline represents what, Mr. Corcoran?

24 A. The unit boundary.

25 Q. And have you color-coded the Mesaverde and the

1 Dakota wells within the -- that area?

2 A. I have, as depicted on the plat in the corner.

3 Q. And Exhibit 1A is a depiction of the entire
4 information available for all these spacing units and
5 pools?

6 A. That's correct.

7 Q. When we turn to B1, what are we looking at
8 here?

9 A. We're looking at the participating area for the
10 Mesaverde Formation in that unit, in the San Juan 29-5
11 Unit.

12 Q. And when we turn to 1C, what are we looking at
13 in this exhibit?

14 A. The yellow in this particular exhibit indicates
15 the Dakota participating area within the San Juan 29-5
16 Unit.

17 Q. If you'll turn past Exhibit Tab 1, let's start
18 Exhibit Tab 2. What have you placed in the exhibit book
19 behind Exhibit Number Tab 2?

20 A. This is a copy of our application to the -- for
21 administrative approval of the proposed well -- the
22 downhole commingle at the proposed well.

23 Q. You are familiar with the procedures developed
24 by the Division for administrative approval of a well to
25 be downhole commingled?

1 A. I am.

2 Q. Prior to filing the actual application with the
3 district office, is there a method available by which
4 you send notice to the parties that are affected by your
5 application?

6 A. There is, and barring any objection.

7 Q. And when did that notice take place for this
8 case?

9 A. That one went out October of 2011.

10 Q. And the file will reflect that in a minute?

11 A. Correct.

12 Q. How many individuals or companies were sent
13 notice of your application?

14 A. Approximately 280.

15 Q. And how did you prepare that list?

16 A. By -- by all the participants in both -- the
17 participating areas affected and any other acreage
18 surrounding the proposed well.

19 Q. Did you receive an objection from any other
20 interest owner besides Mrs. Johnson?

21 A. We received one verbal objection, and after
22 talking to that party, they were satisfied.

23 Q. So hers was the only objection filed?

24 A. That's correct.

25 Q. And as a result of filing that application,

1 then, you initiated putting this case on the hearing
2 docket for today?

3 A. Yes.

4 Q. When we turn through the tab two documents,
5 let's turn past the administrative application. 2B
6 represents what, Mr. Corcoran?

7 A. That's a Form C-107A which sets out the various
8 questions the Commission wants answered in order to
9 administratively consider our application.

10 Q. Was this sheet also provided Mrs. Johnson when
11 you sent the notice letter of October 5th?

12 A. Yes. All parties were provided this letter --
13 or this form.

14 Q. If you'll turn, then, to what is marked as 2D,
15 it's a locator map, as I see it. Do you find that?

16 A. Yes. This is C-102. It's a form that depicts
17 where the proposed well was located, and it's submitted
18 along with our application for administrative approval
19 of downhole commingling.

20 Q. Passed Exhibit 2B is E, F and G, and those are
21 engineering plots of historical data for filing the
22 administrative application?

23 A. That is correct.

24 Q. Turn now with me to what is marked as 2H.

25 A. Yes.

1 Q. What does this represent?

2 A. This is a letter to the individuals, to all the
3 280 people, that would be impacted by what we're doing
4 and explain --

5 Q. And when you talk about a notice letter, this
6 is the notice letter that you had sent?

7 A. Exactly.

8 Q. Let's turn now to what is marked as tab three
9 of the exhibit book. And when we look behind tab three,
10 what does this document represent?

11 A. This is a certification mailing to this party
12 that we're seeking this order.

13 Q. And when you turn to the second page of that,
14 there is a letter dated April 11th?

15 A. 11th. Correct.

16 Q. And what does this represent?

17 A. This is the notice that we actually sent to the
18 party that was objecting.

19 Q. This is the Notice of Hearing?

20 A. Correct.

21 Q. Did this letter notify Mrs. Johnson of the time
22 and place and the hour for the hearing this morning?

23 A. It did.

24 Q. Did it also tell her and advise her how to
25 contact the Division?

1 A. It did.

2 Q. Does it describe to her the type of prehearing
3 statement she needed to file?

4 A. Specifically.

5 Q. Did the notice letter also include a copy of
6 the actual application filed with the Division?

7 A. It did.

8 Q. Do the subsequent attachments to the
9 certification show that Mrs. Johnson actually received
10 this letter?

11 A. She did receive it and signed for it.

12 Q. There was an additional party that was sent
13 notice of this hearing. There is a attorney located in
14 Albuquerque. Do you know that individual?

15 A. I do. I've had numerous -- a number of
16 conversations with him.

17 Q. And to your knowledge, who is that individual?

18 A. That is Clyde Worthen.

19 Q. And what was his relationship with
20 Mrs. Johnson?

21 A. He is her attorney, representing her in
22 answering questions for her in this matter.

23 Q. Did you talk, e-mail and write to Mr. Worthen?

24 A. No less than ten times.

25 Q. As a result of those conversations, what did he

1 tell you?

2 A. He told me that he had agreed -- basically, he
3 agreed what we were doing, and he would make a
4 recommendation to his client.

5 Q. Did he subsequently withdraw from contacts with
6 you on her behalf?

7 A. He did. He asked that I contact her directly.

8 Q. Did you attempt to do so?

9 A. Ten times.

10 Q. When we turn to tab four, would you identify
11 for the Examiner what you have summarized behind tab
12 four as this exhibit page?

13 A. This is simply where this party's,
14 Mrs. Johnson, interest stems from in this particular
15 unit. And it cites two leases. It cites the number of
16 acreages contained in each participating area, and it
17 cites her resulting interest in each of those
18 participating areas. And as you can see, there is a
19 point and four zeros before her number comes up.

20 EXAMINER BROOKS: So none of her interest
21 is within this drill bore?

22 THE WITNESS: No, sir.

23 Q. (BY MR. KELLAHIN) So this would be an infill
24 well for, basically, the Dakota?

25 A. Yes. Both the Mesaverde and Dakota would be

1 considered infill wells. Consequently, her interest is
2 not changed.

3 Q. And she derives an interest just because she
4 participates in the participating area?

5 A. That's correct.

6 Q. And the participating area is currently the
7 cover for this drill bore?

8 A. That is correct.

9 Q. And when we look at the percentage interest you
10 displayed in her interest --

11 A. Yes.

12 Q. -- to reduce this to a percentage, you have to
13 move the point to two positions to the right?

14 A. Which is -- in this case, for the Mesaverde,
15 it's .007236 percent.

16 Q. And for the Dakota?

17 A. It would be .021552 percent.

18 Q. Have you had your engineer estimate for you,
19 using some standard engineering assumptions in
20 calculating her share of production in this well, what
21 the dollar amount would be on a monthly basis for her
22 interest?

23 A. We did. I did. I asked them to prepare that,
24 and it resulted in approximately \$9 a month.

25 Q. And this would be additional income?

1 A. Correct.

2 Q. When we turn now to Exhibit Tab 5, some of
3 these documents are then repeated again?

4 A. Correct.

5 Q. Do you start with 5A and continue through the
6 pages?

7 A. Yes. And that's just to give you a sequence of
8 communication with this party; the first letter being
9 dated October 5th, directed to her, accompanied by our
10 application; her resulting response on October 20th just
11 saying she objects. No reason, just "I object."

12 Q. That's on 5D?

13 A. 5D.

14 Q. All right, sir. Then what's occurring?

15 A. Then after that, the next four pages are my
16 communications -- my written communications with
17 Mr. Worthen, the attorney that was representing her. In
18 addition to this, there were half a dozen phone calls to
19 this attorney. And as you can see, the last item is on
20 the very first page there, asking him that -- or saying
21 please feel free to contact her directly, that he's
22 advised her of what he thought, which he advised me was
23 to go ahead and withdraw her objection.

24 Q. In the last few weeks, were you successful and
25 able to communicate with Mrs. Johnson by e-mail?

1 A. One time -- or, no, more than once. Twice.

2 And that's the following pages, which is 5I.

3 Q. Are there any phone calls or e-mails from
4 either her or her attorney for which you did not
5 respond?

6 A. No.

7 Q. Among this group of e-mails and correspondence,
8 is there a summary page that you could direct the
9 Examiner's attention that sets forth the essence of what
10 you were trying to communicate to Mrs. Johnson?

11 A. There is, and that would -- let me get you the
12 right page. Go to 5G. It's an explanation to her
13 attorney of what we're attempting to do and how it might
14 impact her interest.

15 Q. Do the documents contained behind Exhibit Tab
16 Number 5 represent the essence of what you were trying
17 to explain to Mrs. Johnson and her attorney?

18 A. They do.

19 Q. Are you aware of anything else you could do to
20 satisfy her concerns?

21 A. Nothing that I -- nothing.

22 Q. At this point, are you asking the Examiner to
23 go ahead and grant your application?

24 A. I am.

25 Q. When we turn to tab number six, would you

1 summarize for the Examiner what he will see when he
2 turns to the documents behind tab number six?

3 A. This is our actual application to the
4 Commission to set the case for hearing.

5 Q. Finally, then, when we go to tab number seven,
6 there is a chronology that you have prepared. This is
7 your preparation, right?

8 A. This is --

9 Q. A document you prepared?

10 A. That's correct, all my attempts to communicate
11 with Mrs. Johnson and my -- my actual communications
12 with her attorney and the number of -- the date and what
13 transpired.

14 Q. Were the documents prepared and submitted
15 behind Exhibit Tabs 1 through 6 documents that either
16 you prepared directly, or they were prepared under your
17 direction and control?

18 A. They were.

19 MR. KELLAHIN: Mr. Examiner, we move for
20 the introduction of ConocoPhillips' Exhibits 1 through
21 7.

22 EXAMINER BROOKS: 1 through 7 are admitted.

23 MR. KELLAHIN: That concludes my
24 examination of Mr. Corcoran.

25 (ConocoPhillips Exhibit Numbers 1 through 7

1 were offered and admitted into evidence.)

2 EXAMINER BROOKS: Okay. Thank you.

3 CROSS-EXAMINATION

4 BY EXAMINER BROOKS:

5 Q. The \$9 a month that you indicated to
6 Mrs. Johnson that she would receive, that's in addition
7 to the interest that she's already receiving under the
8 participating areas and other wells; is that correct?

9 A. That is correct, sir. It should increase by
10 that much.

11 Q. Yeah. Based on what price?

12 A. We use the \$2 figure at that point.

13 Q. Okay.

14 A. So it's possible it could double.

15 Q. That would be nice.

16 A. Yeah (laughter). Hopefully.

17 Q. I think that's all of my questions.

18 EXAMINER BROOKS: Mr. Warnell?

19 CROSS-EXAMINATION

20 BY EXAMINER WARNELL:

21 Q. This is a vertical well?

22 A. Yes, it is.

23 Q. And when I look at one of the exhibits there,
24 it almost looks like, you know, the guy that logs this
25 into the database at OCD. There is -- on tab two --

1 A. Yes.

2 Q. -- underneath the downhole commingle, I'm
3 assuming Mr. Jones has written in "4480"?

4 A. Say it again.

5 Q. It looks like Mr. Jones has written in there
6 "4480." So this almost looks like this got approved
7 administratively.

8 A. Almost.

9 MR. KELLAHIN: I think so.

10 Q. (BY EXAMINER WARNELL) So we logged this into
11 the system on October 13th. When did we first know of
12 the objection? Did we know of the objection on that
13 date, when we --

14 A. You would have known -- let me refer you to her
15 response to us. You would have been notified at the
16 same time, and that would have been on tab 5D, which
17 would have been October 20th, that she wrote this
18 letter. We probably received it a couple of days later.

19 Q. Okay. No further questions.

20 EXAMINER BROOKS: Well, I do have another
21 question, but maybe this is for your second witness.

22 RECROSS EXAMINATION

23 BY EXAMINER BROOKS:

24 Q. How are you going to allocate -- what is the
25 method of allocation of this interest to the Mancos --

1 portion to the Mancos? How do you determine that?

2 A. Well, the Mancos, because this is the first
3 spacing unit -- I'll attempt to answer, and you can
4 follow up, if you will.

5 Q. Okay.

6 A. Because it's the first attempt at the Mancos in
7 this unit --

8 Q. Right. That's what you indicated.

9 A. Yes.
10 -- it will be based on a 320-acre casing
11 unit --

12 Q. Right.

13 A. -- identified on the first plat, covering the
14 west half of Section 26 of this particular township and
15 range. And what will happen is, the owners of the
16 Mancos only in that 320 acres will share in production
17 from the Mancos zone, and she -- and this party has no
18 interest in the Mancos in that formation -- or in that
19 section.

20 Q. Right. Well, how are you going to determine
21 what portion of production on the well to the Mancos?

22 A. I'm going to defer that question.

23 Q. I assumed you might.

24 Thank you. That's all I have.

25 A. Thank you.

1 DRYONIS PERTUSO,

2 after having been previously sworn under oath, was
3 questioned and testified as follows:

4 DIRECT EXAMINATION

5 BY MR. KELLAHIN:

6 Q. Would you please state your name and
7 occupation?

8 A. Sure. Dryonis Pertuso. I'm a reservoir
9 engineer.

10 Q. You have to speak slowly for us.

11 Mr. Pertoso, right?

12 A. Yeah. P-E-R-T-U-S-O. Reservoir engineer,
13 ConocoPhillips.

14 Q. Mr. Pertuso, on prior occasions, have you
15 testified as a reservoir engineer before the Division?

16 A. Yes, I have.

17 Q. And have your qualifications been accepted as
18 an expert witness?

19 A. Yes.

20 Q. As part of your preparation for today's
21 hearing, have you reviewed the downhole commingling
22 application that your company has for this proposed
23 well?

24 A. Yes, I have.

25 Q. And you're prepared to answer the questions

1 that I have and the Examiner has about allocations and
2 methods of allocation?

3 A. Yes.

4 Q. Are the exhibits that we're about to see
5 exhibits that you prepared?

6 A. Yes.

7 MR. KELLAHIN: We tender Mr. Pertuso as an
8 expert petroleum reservoir engineer.

9 EXAMINER BROOKS: So accepted.

10 Q. (BY MR. KELLAHIN) To answer Mr. Brooks'
11 question, what is the method of allocation that you will
12 utilize for apportioning the production from the three
13 zones for this wellbore?

14 A. We're going to use the spinner method.

15 Q. Say it again?

16 A. The spinner.

17 Q. And has the spinner method been used and
18 approved by the Division before?

19 A. Yes.

20 Q. Let's turn to the exhibits that you have
21 available. If you turn behind Exhibit Tab Number 8,
22 there are two pages to this exhibit. What are we about
23 to see on these pages?

24 A. These are allocation forms that we have
25 submitted recently on new drills for tri-mingle wells

1 using the spinner method.

2 Q. Let's turn, then, to the presentation that
3 shows the Division and the Examiner how you went through
4 the various steps for the allocations and qualifying the
5 procedures and the criteria for downhole commingling
6 approval.

7 First of all, let's just start with the
8 cover sheet. You're looking at tab number nine, and
9 you're starting with tab 9A. That's just the cover
10 sheet, right?

11 A. Yeah.

12 Q. We're going to try to tie all these things back
13 to the Division, the Form C-107A?

14 A. Yeah.

15 Q. And in doing so, can you summarize for the
16 Examiner, on the next display, the various components of
17 your analysis to satisfy the commingling requirements?

18 A. Yes. Through these exhibits, we're going to go
19 over surrounding wells, similar wells we have in the
20 area where we have tri-mingled recently that have been
21 approved by the Division.

22 I'm going to show the water rates we're
23 observing in these wells. I'm also going to show some
24 precedent, some of the tri-mingle activity, we have had
25 in the recent past and some similar approvals that have

1 been done. I'm also going to talk about Mancos
2 production and how marginal it is, and if we don't
3 tri-mingle, probably this reserve won't be recovered
4 under the current gas prices. Then I'm going to touch
5 on the proposed allocation method.

6 And that's pretty much what we'll be
7 touching on.

8 Q. Right. So if you'll turn now to 9C, let's
9 locate the Examiner as to how to find this wellbore.

10 A. This map, if you see -- if you go to unit -- to
11 29-5, the red star, that's the location of this well.

12 Q. This is going to be the new drill, the 77M?

13 A. Yes.

14 Q. All right, sir.

15 A. The green stars represent existing wells, which
16 are tri-mingled in the Mesaverde and Mancos.

17 Q. In those existing tri-mingles, have they all
18 been approved by the Division?

19 A. They have.

20 Q. Have they exhibited any kind of performance
21 problems?

22 A. No.

23 Q. Are there any kind of fluid incapability issues
24 that have arisen with the other six tri-mingles?

25 A. No.

1 Q. Are you aware of any water problems with any of
2 those?

3 A. No.

4 Q. Are there any components of the commingling
5 process associated with those six wells that are of
6 concern to you as a reservoir engineer?

7 A. No.

8 Q. Do you see any reason why the proposed new
9 drill, the subject well, is going to respond any
10 differently as to any of those issues?

11 A. No.

12 Q. Let's turn to the water rates question. If
13 you'll turn to tab 9D, do you see any problems
14 associated with water rates?

15 A. No.

16 Q. Summarize for us what the Examiner should see
17 of interest on this tabulation?

18 A. If you go to the circle -- the numbered circle
19 in red, what that shows is the water production absorbed
20 in the surrounding wells. It's only three barrels for
21 every million gas produced, cubic feet. It's fairly
22 low.

23 Q. The wellbores tabulated, then, how do -- are
24 they responding to being associated with the dry gas
25 production zones?

1 A. Yes.

2 Q. Let's turn to Exhibit Tab 9E. It's captioned
3 "Mancos Reservoir Pressures." What are you focusing on
4 here?

5 A. The point I want to convey here is that
6 pressure in the Mancos is very close to normal pressure,
7 hydrostatic. Sometimes even lower than that.

8 Q. When you're looking at pressure differentials
9 in the Mancos, what kinds of reservoir pressures are you
10 worried about in association with tri-mingling with
11 these other two zones, so you have a tri-mingling
12 wellbore?

13 A. The Mancos pressure is very close to the
14 Dakota, is what we have observed, measured in the Mancos
15 wells. We don't see any issues as far as reservoir
16 pressure is concerned by commingling the Mancos with the
17 Mesaverde and Dakota in this area.

18 Q. If you have an excessively overpressured zone,
19 what will that do, or how will that affect the other
20 zones being commingled?

21 A. That could, under long-showing pressures --
22 volume pressure of the other formations and therefore
23 jeopardize production from the other zones.

24 Q. And that's the kind of thing you look for?

25 A. Yes.

1 Q. And you don't see that here?

2 A. No.

3 Q. If you'll turn to tab 9F, before we start
4 looking at the point of the display, what have you
5 tabulated?

6 A. Here what I listed are a series of applications
7 we have submitted. Those highlighted in green have been
8 already approved by the Division.. And we have eight
9 more pending, and we haven't got any rejections.

10 Q. Now, these would be tri-mingles in the zones
11 that we're talking about tri-mingling for this wellbore?

12 A. Yes.

13 Q. Have you also looked to see what other
14 operators are doing for tri-mingles in the San Juan
15 Basin?

16 A. Yes. That chart, in the lower part of the
17 exhibit, shows the activity that various operators in
18 the basin have had over the past six years in
19 tri-mingling Mesaverde, Dakota and Mancos.

20 Q. And what's the total that you tabulate?

21 A. 144.

22 Q. Are you aware of any of those having any kind
23 of problems associated with those wellbores?

24 A. No.

25 Q. If you'll turn to -- if you'll turn to the next

1 display; it's not numbered, but it will appear in the
2 exhibit book after 9F. What are we seeing at this point
3 in the display book, Mr. Pertuso?

4 A. That's a similar application. Williams
5 Production Company, LLC filed an application to
6 commingle all formations in the Rosa Unit, which was
7 approved by the Division.

8 Q. So Williams, for their Rosa Unit, has the
9 approval you're seeking for the single wellbore?

10 A. Yes.

11 Q. And their approval is available for their
12 entire unit?

13 A. Yes.

14 Q. Turn with me now to what is marked as tab 9G.
15 What are you trying to convey to the Examiner at this
16 point?

17 A. The point I'm wanting to convey here is how
18 marginal the production from the Mancos is in this area.

19 Q. And how does this show that?

20 A. In that plug, what we're showing is individual
21 gas rates for all the wells in this area where we have
22 recently completed the Mancos. And the main point to
23 convey is that if we don't tri-mingle the Mancos with
24 the Mesaverde and Dakota, it won't be economic to
25 produce, and, therefore, that resource can be stranded.

1 Q. So it would be uneconomic?

2 A. Yes.

3 Q. And have you summarized for the Examiner on
4 page 9H the advantages to the tri-mingle?

5 A. Yes.

6 Q. And what are those?

7 A. By tri-mingling these three zones, we are
8 splitting the drilling costs among three formations.
9 We're increasing the amount of reserves to be recovered
10 from each formation by delaying the abandonment rate, as
11 operating costs will be split among the three
12 formations. And, of course, it allows the development
13 of the Mancos, which otherwise wouldn't be done.

14 Q. All right, sir. Now, if you'll go to 9I, let's
15 go back to Examiner Brooks' question about allocation.
16 Is this your allocation procedure and methodology?

17 A. Yes.

18 Q. You've displayed it in a cartoon fashion?

19 A. Yes.

20 Q. Walk us through how this is done.

21 A. As I said earlier, our recommended allocation
22 effort for this well is using the spinner method. What
23 we're going to do is run a spinner, and record the
24 production from each of the formations in the wellbore.
25 And then using the appropriate math, we're going to

1 calculate the allocation split for each one of those.

2 Q. As a result of the allocation, then, what is
3 your final percentage associated with each of the three?

4 A. If you turn to the left side of the exhibit, I
5 put an example. Let's assume we run the spinner, and we
6 measure that the Mesaverde is making 100 Mcfd a day.
7 The Mancos is making 50 Mcfd. The Dakota rate is making
8 80. Basically, a total well production will be the
9 summation of all those individual rates, and the gas
10 allocation from each formation will be the result of
11 dividing the individual formation by the total well
12 production.

13 For the Mesaverde, let's say we recorded
14 100 Mcfd a day, divided by 230, which is the total well
15 production. Then the Mesaverde will get an allocation
16 of 43 percent.

17 Q. At what point in the process do you run the
18 spinner allocation method?

19 A. After the completion is done.

20 Q. And have you commenced production?

21 A. We do the allocation before commencing
22 production.

23 Q. And when we reduce this to a tabulation of a
24 form, can you show us 9J and explain to us what this
25 page shows?

1 A. The 9J, again, is an allocation form. It is
2 the information that we submit to the Division after
3 running the spinner. If you turn to the information
4 highlighted in red, we submitted to the Division
5 individual rates recorded for each formation and then
6 the percentages calculation that we do use in the method
7 that I just explained in my previous exhibit.

8 Q. Now, would you turn with me to the last
9 display, which is 9K and describe for the Examiner how
10 you made the engineering judgment that all three of your
11 reservoirs are going to be in the dry gas area?

12 A. Based on literature and high gas [sic] ratios,
13 this well is located in the dry gas area of the Mancos.

14 Q. In summary, how did you go about doing this?
15 Is that a bubble map over on the left?

16 A. Well, what the map shows is based on a thermal
17 maturity analysis --

18 Q. Phase?

19 A. Yes.

20 Q. Okay. I think it's a phase map.

21 A. On the left or on the right?

22 Q. On the upper left.

23 A. On the left, yes. It just shows, yeah, a phase
24 diagram on dry gas reservoirs. If you go to point E,
25 these reservoirs are produced under the same

1 temperature, and, as you can see, the reservoir, there
2 are no changes in the composition of the hydrocarbons.

3 Q. And you're outside of the dew point ellipse
4 here. Therefore, as an engineer, you know you're in the
5 dry gas?

6 A. Yes, sir.

7 Q. And you've depicted that on the map, then,
8 that's shown on the right side?

9 A. Yes.

10 Q. Does that conclude your presentation and
11 explanation?

12 A. Yes.

13 MR. KELLAHIN: If the Examiner pleases, we
14 move the introduction of Mr. Pertuso's Exhibits 8 and 9.

15 EXAMINER BROOKS: 8 and 9 will be admitted.

16 (ConocoPhillips Exhibit Numbers 8 and 9
17 were offered and admitted into evidence.)

18 MR. KELLAHIN: That concludes my
19 examination of this witness.

20 CROSS-EXAMINATION

21 BY EXAMINER BROOKS:

22 Q. Okay. The spinner, I take it from your diagram
23 here, your drawing here, is that it's a device that is
24 lowered into the hole that is designed to measure the
25 actual amount of gas coming out of the formation at a

1 particular level; is that correct?

2 A. Yes. Yes.

3 Q. Can you kind of explain to a nontechnical
4 person how that works?

5 A. It's basically on a spinner. Based on the
6 amount of gas that is coming from a given formation, so
7 will be the velocity of the spinner, and that is
8 translated into a rate. As you move down -- if you
9 place -- if you place the -- if you place the spinner on
10 top of the Mesaverde, then you are recording the whole
11 production from the well. If you move down, then the
12 spinner will only be measuring the production from the
13 Mancos and the Dakota, and by subtraction, if you know
14 what the Mesaverde is making --

15 Q. That's what I was wondering, was how does it
16 distinguish what's coming out of the formation -- of one
17 formation versus what's coming from below? I can see
18 how it distinguishes, because what's coming from above
19 doesn't move through it.

20 A. (Indicating.)

21 Q. But you just subtract?

22 A. Yes.

23 Q. So when you get down to the Mancos, you're
24 actually measuring what's coming from the Mancos from
25 the Dakota?

1 A. Correct.

2 Q. And then you go down and you measure what's
3 coming in out of the Dakota, and you subtract. The
4 subtraction of those two establishes what you believe to
5 be coming out of the Mancos.

6 A. Correct.

7 Q. Okay. So you won't know what the allocation is
8 until you actually do run these tests, right?

9 A. Yes, which normally takes a couple of hours.

10 Q. And you haven't drilled the well yet?

11 A. No.

12 Q. But the estimates, then, that you have -- that
13 the previous witness gave with regard to Mrs. Johnson's
14 interest, was that based on other wells in the vicinity?

15 A. I don't think I understand your question.
16 We're talking interest or production allocation?

17 Q. We're talking about number of dollars.

18 A. That was --

19 Q. I mean, because you've got to know both in
20 order to get to dollars.

21 A. Yes. That was -- that was done using -- yeah,
22 using a volume, an assumed allocation based on offset
23 production, yes.

24 Q. And going back to your drawing -- to the map --
25 wait a minute. Let's see.

1 EXAMINER BROOKS: We had a map that showed
2 the location of this well in these last set of exhibits;
3 did we not, Mr. Kellahin?

4 MR. KELLAHIN: Yes, we did.

5 EXAMINER BROOKS: Where is that? Okay.
6 It's 9C.

7 Q. (BY EXAMINER BROOKS) Where is there any Mancos
8 production in this facility, or is it off the site of
9 this map? Because this is all the unit, right?

10 A. Yes. The Mancos production is on the green
11 stars. Those are Mancos wells, tri-mingles.

12 Q. The green wells, are they producing from the
13 Mancos?

14 A. Yes.

15 MR. KELLAHIN: They're all different units.
16 They're all on different scale.

17 EXAMINER BROOKS: Yeah. Okay. Yeah. I
18 see. They are different units.

19 THE WITNESS: Uh-huh.

20 EXAMINER BROOKS: Okay. Thank you. I
21 believe that's all I have.

22 Mr. Warnell?

23 CROSS-EXAMINATION

24 BY EXAMINER WARNELL:

25 Q. On these tri-mingled wells, how are you

1 fracking those? Are you fracking starting with the
2 bottom, doing an individual frack and then --

3 A. Yes. We start from the bottom and work our way
4 up.

5 Q. So you frack --

6 A. The Dakota.

7 Q. And then do you do an IPI and come on up, or do
8 you just --

9 A. Set a plug, do the Mancos. Set a plug,
10 perforate and do the Mesaverde.

11 Q. And then clean the well up?

12 A. Drill out all the plugs and then flow the well.

13 Q. Could you clarify for me what it is that
14 Mrs. Johnson is objecting to?

15 A. I'm going to have to probably defer you to my
16 land --

17 MR. KELLAHIN: Examiner Warnell, none of us
18 know. None of us know.

19 EXAMINER BROOKS: She's just objecting.

20 MR. KELLAHIN: For your point of
21 information, the exhibits will demonstrate that she was
22 withdrawing her objection but doing so under duress.
23 She would not tell us what that duress was, and we did
24 not want it to be associated with anything we had done;
25 so we decided to come here.

1 EXAMINER BROOKS: Of course, she is not
2 present here to explain that.

3 MR. KELLAHIN: We don't know.

4 EXAMINER BROOKS: Well, proceed as though
5 she's objecting, and we have -- --

6 MR. KELLAHIN: Thank you, Mr. Examiner.

7 EXAMINER BROOKS: Is there anything else?

8 MR. KELLAHIN: No, sir.

9 EXAMINER BROOKS: Case Number 14839 will be
10 taken under advisement.

11 (The hearing concluded, 9:13 a.m.)

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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 14839,
heard by me on 5-24-12.
David K. Brook Examiner
Oil Conservation Division

1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO
3

3

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