

STATE OF NEW MEXICO  
 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIV.

95 MAY 13 AM 6:30

## OIL CONSERVATION DIVISION

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

CASE NO. 12,170

APPLICATION OF TEXACO EXPLORATION )  
 AND PRODUCTION, INC., FOR SURFACE )  
 COMMINGLING, LEA COUNTY, NEW MEXICO )

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGSEXAMINER HEARING

BEFORE: MARK ASHLEY, Hearing Examiner

April 29th, 1999

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MARK ASHLEY, Hearing Examiner, on Thursday, April 29th, 1999, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

\* \* \*

STEVEN T. BRENNER, CCR  
 (505) 989-9317

## I N D E X

April 29th, 1999  
Examiner Hearing  
CASE NO. 12,170

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\* \* \*

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

## FOR THE DIVISION:

RAND L. CARROLL  
 Attorney at Law  
 Legal Counsel to the Division  
 2040 South Pacheco  
 Santa Fe, New Mexico 87505

## FOR THE APPLICANT:

CAMPBELL, CARR, BERGE and SHERIDAN, P.A.  
 Suite 1 - 110 N. Guadalupe  
 P.O. Box 2208  
 Santa Fe, New Mexico 87504-2208  
 By: WILLIAM F. CARR

\* \* \*

1 WHEREUPON, the following proceedings were had at  
2 8:30 a.m.:

3 EXAMINER ASHLEY: The Division calls Case 12,170.

4 MR. CARROLL: Application of Texaco Exploration  
5 and Production, Inc., for surface commingling, Lea County,  
6 New Mexico.

7 EXAMINER ASHLEY: Call for appearances.

8 MR. CARR: May it please the Examiner, my name is  
9 William F. Carr with the Santa Fe law firm Campbell, Carr,  
10 Berge and Sheridan. We represent Texaco Exploration and  
11 Production, Inc., in this matter, and I have two witnesses.

12 EXAMINER ASHLEY: Call for additional  
13 appearances.

14 Will the witnesses please rise to be sworn in?  
15 (Thereupon, the witnesses were sworn.)

16 EXAMINER ASHLEY: Mr. Carr?

17 RONALD W. LANNING,  
18 the witness herein, after having been first duly sworn upon  
19 his oath, was examined and testified as follows:

20 DIRECT EXAMINATION

21 BY MR. CARR:

22 Q. Would you state your full name for the record,  
23 please?

24 A. Ronald W. Lanning.

25 Q. Mr. Lanning, where do you reside?

1 A. Midland, Texas.

2 Q. By whom are you employed?

3 A. Texaco Exploration and Production, Inc.

4 Q. And what is your position with Texaco?

5 A. I'm a landman on the Hobbs asset team.

6 Q. Mr. Lanning, have you previously testified before  
7 this Division?

8 A. I have.

9 Q. At the time of that testimony, were your  
10 credentials as an expert in petroleum land matters accepted  
11 and made a matter of record?

12 A. Yes.

13 Q. Are you familiar with the Application filed in  
14 this case on behalf of Texaco?

15 A. Yes, I am.

16 Q. Are you familiar with the status of the lands in  
17 the area which is the subject of this Application?

18 A. Yes.

19 MR. CARR: May it please the Examiner, we would  
20 tender Mr. Lanning as an expert witness in petroleum land  
21 matters.

22 EXAMINER ASHLEY: Mr. Lanning is so qualified.

23 Q. (By Mr. Carr) Initially, would you summarize for  
24 Mr. Ashley what it is that Texaco seeks with this  
25 Application?

1           A.    We would like an exception to Division Rule 303  
2   and 309.A for authority to surface commingle production  
3   from the Eumont-Yates-Seven Rivers-Queen Prorated Gas Pool,  
4   the Monument-Tubb Pool, the Skaggs-Drinkard Pool and the  
5   Skaggs-Abo Gas Pool from our E.H.B. Phillips Lease, our  
6   E.H.B. Phillips "B" Lease, and our E.H.B. Phillips "C"  
7   Lease, all in Section 10 of Township 20 South, Range 37  
8   East, Lea County.

9           Q.    Let's go to what has been marked for  
10   identification as Texaco Exhibit Number 1, and I'd ask you  
11   to identify this and review it for the Examiner.

12          A.    It's a copy of a plat off a Midland Map Company  
13   map. Our E.H.B. Phillips Lease is outlined in red, and  
14   that's the totality of the acreage covered by our lease  
15   from Mrs. Phillips back in the 1940s.

16                The outline in red is the entire 280-acre lease,  
17   and that's the proration unit for the Eumont-Yates-Seven  
18   Rivers-Queen, and we refer to that as our E.H.B. Phillips  
19   Lease.

20                Our E.H.B. Phillips -- what we call our E.H.B.  
21   Phillips "B" Lease is the middle 160 in the north half of  
22   the section. It's outlined in blue, and that's the  
23   production from the Monument-Tubb and the Skaggs-Drinkard.

24                And then what we call our E.H.B. Phillips "C"  
25   Lease is the easternmost 80 in the north half of the

1 section, outlined in green on the plat, and it contains  
2 Skaggs-Abo gas production.

3 Q. And the purpose of this Application is to enable  
4 Texaco to utilize facilities on the "B" Lease and not have  
5 to construct duplicate facilities on the other properties  
6 that you have been discussing; is that correct?

7 A. That's correct.

8 Q. Is the ownership of the production that is  
9 commingled from these leases common?

10 A. It is not.

11 Q. Let's go to Exhibit Number 2, the ownership  
12 breakdown, and I'd ask you to review for the Examiner  
13 generally what this exhibit shows.

14 A. It shows the ownership of -- It shows a net  
15 interest breakdown of the ownership of all the working  
16 interest and all the royalty interest, with the same color  
17 code, the red being the E.H.B. Phillips Lease, the blue  
18 being the E.H.B. Phillips "B" Lease, and the green being  
19 the E.H.B. Phillips "C" Lease.

20 You might note that the same individuals own in  
21 each lease, but because of the way Mrs. Phillips doled out  
22 her minerals back in the 1940s, the interests of some of  
23 the parties differ in the three leases.

24 Q. Let's review the recent history of the lease, and  
25 I think what we should do is start with when Texaco

1 actually commenced commingling production from the "C"  
2 Lease on the facilities on the "B" Lease. When did that  
3 occur?

4 A. In the spring of 1998.

5 Q. And did Texaco receive a temporary authorization  
6 to commingle at that time?

7 A. Yes, we did.

8 Q. Is that what has been marked for identification  
9 as Texaco Exhibit Number 3?

10 A. It is.

11 Q. And then what happened after that?

12 A. Well, in the order we received a 30-day temporary  
13 permit. After that, a few months after we obtained this  
14 temporary approval, we ceased to produce liquids from the  
15 "B" Lease, and the only liquid production was from the "C"  
16 Lease, and we deferred any efforts to obtain a permanent  
17 approval for surface commingling.

18 Q. What is Exhibit Number 4?

19 A. Exhibit Number 4 is a copy of the appropriate  
20 pages from our February, 1999, C-115, again, marked with  
21 red, blue and green to denote the February production from  
22 each of the three leases.

23 Q. Can you just give us an estimate of the volumes  
24 we're talking about in terms of the commingling on these  
25 properties?

1           A.    Average production from February from all three  
2 leases was 350 MCF of gas and about .6 of a barrel of oil.

3           Q.    Is Exhibit Number 5 a copy of the application  
4 filed by Texaco seeking administrative approval of this  
5 Application?

6           A.    It is.

7           Q.    That was filed in February?

8           A.    Yes, sir.

9           Q.    And copies of this application were provided in  
10 accordance with Oil Conservation Division rules to all  
11 working interest owners and all royalty interest owners in  
12 these leases?

13          A.    That's correct.

14          Q.    Are return receipts attached to what is marked  
15 Exhibit 5, or at least copies of those receipts?

16          A.    Yes, they are.

17          Q.    Did the Division advise Texaco that this matter  
18 would have to go to hearing?

19          A.    Yes.

20          Q.    Have you received a response to this application  
21 from any of the interest owners to whom notice was  
22 provided?

23          A.    We received two waivers and no objections.

24          Q.    Who are the purchasers of the production from  
25 these lease?

1           A.   Versado purchases the gas and Equiva purchases  
2 the oil, and these are both affiliates of Texaco.

3           Q.   Will Texaco be calling an engineering witness to  
4 review the technical portions of this Application?

5           A.   Yes.

6           Q.   Were Exhibits 1 through 5 prepared by you or  
7 compiled at your direction?

8           A.   Yes, they were.

9           MR. CARR: At this time, Mr. Examiner, we would  
10 move the admission into evidence of Texaco Exhibits 1  
11 through 5.

12           EXAMINER ASHLEY: Exhibits 1 through 5 will be  
13 admitted into evidence.

14           MR. CARR: And that concludes my direct  
15 examination of Mr. Lanning.

16                                   EXAMINATION

17 BY EXAMINER ASHLEY:

18           Q.   Mr. Lanning, it's the same owners in the three  
19 leases, but just different percentages?

20           A.   In some cases, yes.

21           Q.   Okay. And the facility is in the "B" Lease,  
22 the --

23           A.   Correct.

24           Q.   -- the battery and --

25           A.   The battery is on the "B" Lease.

1 Q. Okay. And are the gas and the oil -- are the gas  
2 and liquids both commingled?

3 A. No, all of the gas is separately metered.

4 Q. At the well site, on lease?

5 A. I think our engineering witness might be --

6 Q. Okay.

7 A. -- better qualified for the specifics on that.

8 EXAMINER ASHLEY: Okay. Do you have any  
9 questions?

10 MR. CARROLL: No.

11 EXAMINER ASHLEY: I have nothing further. Thank  
12 you.

13 MR. CARR: Mr. Examiner, at this time we would  
14 call Alan Chase.

15 ALAN W. CHASE,  
16 the witness herein, after having been first duly sworn upon  
17 his oath, was examined and testified as follows:

18 DIRECT EXAMINATION

19 BY MR. CARR:

20 Q. Would you state your full name for the record,  
21 please?

22 A. Alan W. Chase.

23 Q. Where do you reside?

24 A. Hobbs, New Mexico.

25 Q. By whom are you employed?

1 A. Texaco Exploration and Production.

2 Q. Mr. Chase, what is your current position with  
3 Texaco?

4 A. I'm a production engineer.

5 Q. Have you previously testified before the Oil  
6 Conservation Division?

7 A. No, I haven't.

8 Q. Would you summarize for Mr. Ashley your  
9 educational background?

10 A. I received a bachelor of science degree in  
11 petroleum engineering from the University of Tulsa, 1993.

12 Q. Since 1993, for whom have you worked?

13 A. I've worked for ten years with Amerada Hess in  
14 Seminole, Texas, and also Oklahoma, and nearly two years  
15 with Texaco, in Hobbs, New Mexico.

16 Q. And in all of these jobs have you been employed  
17 as a petroleum engineer?

18 A. Yes.

19 Q. Are you familiar with the Application filed in  
20 this case on behalf of Texaco?

21 A. Yes, I am.

22 Q. And are you familiar with the Texaco-operated  
23 properties which are the subject of the Application?

24 A. Yes, I am.

25 MR. CARR: Mr. Ashley, we tender Mr. Chase as an

1 expert witness in petroleum engineering.

2 EXAMINER ASHLEY: Mr. Chase is so qualified.

3 Q. (By Mr. Carr) How many wells does Texaco operate  
4 within the subject area?

5 A. There's six wells.

6 Q. Do you have any further -- additional development  
7 plans in the area?

8 A. There's tentative plans to drill a Tubb well on  
9 the "C" Lease. The Phillips and the Phillips "B" Lease are  
10 marginal properties.

11 Q. Is it fair to say that the properties that are  
12 the subject of this Application at this time could be  
13 classified as marginal?

14 A. Yes.

15 Q. How does Texaco account for the gas production  
16 from the wells on this property?

17 A. The gas production is separately metered. The  
18 Eumont wells are metered at location and the Phillips "C"  
19 well is metered on location.

20 Q. And all we are doing at this site is commingling  
21 the liquid hydrocarbons?

22 A. Yes.

23 Q. What volumes are being -- of liquids are being  
24 produced on these leases?

25 A. Approximately 20 barrels per month from the "C"

1 Lease.

2 Q. Are there any other leases at this time currently  
3 producing liquids?

4 A. No, there's not.

5 Q. Have liquids previously been produced from the  
6 "B" lease?

7 A. Yes, there has.

8 Q. How has Texaco accounted for this oil production  
9 when, in fact, there is more than one well on the property  
10 producing into this central facility?

11 A. By production test, we have -- At the facility  
12 there's a test vessel, and we allocate the production based  
13 on those tests.

14 Q. When did the C-2 well actually commence  
15 producing?

16 A. In March of 1998.

17 Q. And at that time was there production from the  
18 "B" Lease?

19 A. Yes, there was approximately ten barrels per  
20 month -- or, I'm sorry, ten barrels per day from the "B"  
21 Number 1 and Number wells.

22 Q. And that was combined --

23 A. Combined, yes.

24 Q. -- for the two wells?

25 And the production from both the C-2 and the two

1 wells on the "B" lease was all close to the central  
2 facility?

3 A. Yes.

4 Q. When did the wells on the "B" lease cease  
5 producing liquids?

6 A. In the summer, late summer.

7 Q. Of 1998?

8 A. Yeah, the liquid production ceased.

9 Q. So what we're really seeking today is authority  
10 to continue to move liquids from the "C" Lease into the  
11 facilities on the "B" Lease --

12 A. Yes.

13 Q. -- is that correct?

14 If there are additional -- if -- At a later date,  
15 if additional liquids are produced from the other leases  
16 involved, it would be Texaco's intention to commingle those  
17 in the existing facility?

18 A. Yes.

19 Q. From what formations has Texaco been commingling  
20 production from the E.H.B. Phillips Leases?

21 A. The prior Division Order PC-2626 authorized  
22 production from the Monument-Tubb and the Skaggs-Drinkard.

23 Q. And the purpose of this Application was to expand  
24 that authority to the other properties and also include  
25 potential liquid production from the Abo and the Eumont; is

1 that right?

2 A. Yes.

3 Q. Will compatibility problems result from the  
4 proposed commingling of production?

5 A. No.

6 Q. You've, in fact, been doing it, and you've not  
7 had any problems; is that correct?

8 A. No.

9 Q. No problems?

10 A. No problems.

11 Q. Okay. Let's go to what has been marked Texaco  
12 Exhibit Number 6. Would you identify that and review it  
13 for Mr. Ashley?

14 A. This is the color plat of the well locations and  
15 the flow lines, with the tank battery that's located in the  
16 center of this plat. The C-2 well takes -- it shows the  
17 flow line over to the tank battery, and -- point out  
18 something. The Number 1-E well, which is a Eumont well,  
19 takes -- There's no liquids from that well; it just takes  
20 water over to Rice Disposal.

21 Q. Let's go to Exhibit 7. Would you identify and  
22 review that?

23 A. This is a schematic of the tank battery showing  
24 the production from the wells coming into a test header,  
25 and the production is diverted to a test vessel or into the

1 production stream, over into the heater treater. When the  
2 "B" Lease made liquid production, the wells were tested  
3 once or twice a month, and one well was tested and the rest  
4 of the production was sent to the heater treater, and from  
5 that oil to the stock tanks and water to disposal and gas  
6 to the battery gas meter.

7 Q. Did the information you obtained from these tests  
8 enable you to accurately allocate the liquid hydrocarbon  
9 production to the respective leases being commingled in  
10 that central tank battery?

11 A. Yes.

12 Q. Could you just summarize the benefits that will  
13 result from the proposed surface commingling and testing  
14 procedures?

15 A. Approval of the Application will eliminate the  
16 duplication of facilities and equipment which we would  
17 require to -- would need to install at the "C" Lease. And  
18 the savings would thereby result in the increased ultimate  
19 recovery of hydrocarbons and the prevention of waste.

20 Q. What would occur, in your opinion, if the  
21 Application was denied?

22 A. Well, the Phillips Lease and the Phillips "B"  
23 Leases are very marginal, and the additional cost to put in  
24 separate facilities would complicate the operation of these  
25 properties.

1 Q. In your opinion, will approval of the Application  
2 otherwise be in the best interest of conservation and the  
3 protection of correlative rights?

4 A. Yes.

5 Q. Were Exhibits 6 and 7 prepared by you?

6 A. Yes.

7 MR. CARR: Mr. Ashley, at this time we would move  
8 the admission into evidence of Texaco Exhibits 6 and 7.

9 EXAMINER ASHLEY: Okay, Exhibits 6 and 7 will be  
10 admitted as evidence.

11 MR. CARR: And that concludes my direct  
12 examination.

13 EXAMINATION

14 BY EXAMINER ASHLEY:

15 Q. Mr. Chase, right now the commingling approval is  
16 for the Phillips Lease and the Phillips "B" Lease, and  
17 you're wanting to add the "C" Lease?

18 A. It's for the Drinkard-Abo and the -- I'm sorry,  
19 the Drinkard -- the Skaggs-Drinkard and for the Monument-  
20 Tubb. That's what the current commingling order is for.  
21 And we're wanting to add the Eumont and the Skaggs-Abo.

22 MR. CARR: And we want to expand it, Mr. Ashley,  
23 to all three leases.

24 EXAMINER ASHLEY: All three leases?

25 MR. CARR: Yes, in case we should encounter

1 liquid hydrocarbon production even on the original lease.

2 Q. (By Examiner Ashley) Okay, so what were the two  
3 you wanted to add?

4 A. The Skaggs-Abo and the Eumont.

5 Q. And the Number 1 well in the E.H.B. Phillips  
6 lease doesn't produce any liquids?

7 A. It just produces water.

8 Q. Just water?

9 A. And gas.

10 Q. Water and gas, okay.

11 A. The water is -- it actually doesn't go -- the  
12 battery goes behind the battery into the Rice Disposal.

13 EXAMINER ASHLEY: I have nothing further. Thank  
14 you, Mr. Chase.

15 MR. CARR: Mr. Examiner that concludes our  
16 presentation in this case.

17 EXAMINER ASHLEY: There being nothing further in  
18 this case, Case 12,170 will be taken under advisement.

19 (Thereupon, these proceedings were concluded at  
20 8:52 a.m.)

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22

23

24

25

\* \* \*  
I do hereby certify that the foregoing is  
a complete record of the proceedings in  
the Examiner hearing of Case No. 12170.  
record by me on 4-29 1999.

Mark Ashley, Examiner  
Oil Conservation Division

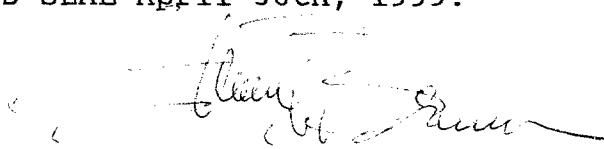
## CERTIFICATE OF REPORTER

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 April 30th, 1999.

  
\_\_\_\_\_  
STEVEN T. BRENNER  
CCR No. 7

My commission expires: October 14, 2002

## STATE OF NEW MEXICO

## ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

## OIL CONSERVATION DIVISION

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 COMMINGLING, LEA COUNTY, NEW MEXICO )  
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OFFICIAL EXHIBIT FILEEXAMINER HEARING

BEFORE: MARK ASHLEY, Hearing Examiner

April 29th, 1999

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MARK ASHLEY, Hearing Examiner, on Thursday, April 29th, 1999, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

\* \* \*

STEVEN T. BRENNER, CCR  
 (505) 989-9317